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Algonquin

Algonquin Mercantile Corporation
1990 Annual Report

THE COMPANY

Algonquin Mercantile Corporation is a diversified Canadian public company engaged directly or through subsidiaries in the retailing of drugs and related products, the wholesaling, packaging, and distribution of fresh fruits and vegetables; and limited merchant banking activities. Approximately 1,800 people are employed at locations across Canada which include four main plants and wholesale distribution centres, ten company-owned Jasco retail drug stores and medical dispensaries; and one hundred and seventeen pharmacy, health, and beauty aid outlets operated under license in Woolco/Woolworth department stores. The company has real estate holdings and maintains an investment portfolio.

FINANCIAL HIGHLIGHTS

For the Year Ended March 31	1990	1989
	$	$
Sales and Other Income	250,698,367	235,056,269
Operating Income	8,681,488	8,311,242
Unusual and Non-Recurring Expense	7,924,405	—
Earnings (Loss) Before Extraordinary Items	(5,859,330)	1,218,399
Shareholders' equity	43,138,833	30,104,831

The Annual and Special Meeting of Shareholders will be held in the Windsor Room, Four Seasons Hotel, 21 Avenue Road, Toronto, Ontario on Wednesday, July 25, 1990 at 10:00 in the morning.

REPORT TO THE SHAREHOLDERS

I welcome this as the first opportunity I have had to report fully to shareholders since purchasing a controlling position in Algonquin Mercantile Corporation in October, 1989.

The past few months have been a highly active period for Algonquin, during which a reorganization and restructuring of the Company's assets and operations has been carried out. Each segment of the business has been carefully reviewed and assessed against such basic criteria as return on invested capital, growth potential, management capabilities and future prospects.

As a result of this review, the initial business plan for Algonquin is to concentrate its activities on two historically profitable operating divisions comprising the long-established foundation of the Company. These are: food wholesaling through the Dominion Citrus Division and drug retailing through Austin Health Care Corporation. Expansion into new businesses will follow once core operations demonstrate their profit potential on a consistent basis. Redundant assets will be sold and expenses reduced at all levels. Corporate investment activities will be selective, emphasizing a high degree of liquidity and flexibility.

Results for the year ended March 31, 1990 reflect the restructuring plan. A $5 million book inventory shortfall discovered in the year end physical inventory taking was expensed to operations. An unusual and non-recurring charge totaling $7.9 million has been taken to fund restructuring and provide for contingencies, as detailed below:

Inventory Reserve	$2.0
Severance Expense	1.8
Provision for asset writeoffs	1.7
Provision for losses on exits	2.4
Total unusual and non-recurring charge	7.9

In implementing this restructuring plan, the Coupco and Skrow's Foods Ltd. divisions were sold and the unprofitable Phar Mor and Real Value retail stores have been closed. Within the drug retailing division, unprofitable stores are being carefully reviewed for turnaround potential and will be either restored to profitability or closed. Only those activities capable of generating sustained profitability will be retained.

DOMINION CITRUS

Through its several operating units, Dominion Citrus is one of the largest regional fresh fruit and vegetable wholesalers in Canada. This operation utilizes trading expertise within domestic and international networks which have been established over a period of approximately 50 years. Direction of the business has been continuous as management responsibility passed from the founders of the business down to the extremely capable, youthful and energetic team now serving area retailers with the highest quality fresh fruits and vegetables drawn from every corner of the globe. Performance of each operating unit comprising the division is satisfactory and future prospects are favourable.

AUSTIN HEALTH CARE CORPORATION

The Austin Health Care division was established over 25 years ago to operate pharmacy and health and beauty aid departments under license in Woolco stores across the country. The arrangements with Woolco have generated favourable returns which have been shared with the parties over many years. This important relationship holds new promise as Austin becomes a participant in significant expansion plans being developed within Woolco toward the extension of its leading position as one of Canada's foremost discount department stores.

Austin's diversified involvement with other ventures in recent years has diluted focus on the core Woolco business with attendant negative impact on the division's results. Management disciplines, operating controls and information systems have been inadequate with the result that financial statements for fiscal 1989 and subsequent interim periods overestimated both inventory levels and profit margins. Year end physical valuations revealed that gross margins for the year were well below levels used to report interim results. This was due to a failure to record a prior year book-to-physical shortfall, to amend accounting procedures, and to account for the lower profit margins being attained on an ongoing basis. A year end book-to-physical inventory shortfall of approximately $5 million resulted which was expensed to operations. A further inventory reserve of $2 million was also established. In parallel, weaknesses in procedures to collect and account for doubtful accounts were surfaced. Accordingly, additional provisions for doubtful accounts were taken. The division's financial results for the year were therefore a major disappointment against expected results and the experience of prior years.

A new president, a new vice-president of finance and a new controller were appointed in Austin Health Care, bringing first class talent to bear on the organization. Accounting provisions were taken at the division and corporate levels to provide fully for any anticipated or actual losses resulting from the weaknesses in procedures, and new procedures were developed to provide better control of inventories at all locations. Management training programs have begun to round out the correction process, enhancing business competence and protecting against future problems of this nature.

The future outlook for Austin is sound. Competent managers are in place and are working closely with senior executives of Woolco to establish mutually beneficial license renewal arrangements which will reinforce the harmonious and profitable relationship both parties have enjoyed for so many years. Austin's plans call for it to capitalize on its unique expertise to maintain a position as a leading operator of licensed pharmacy operations in Canada.

INVESTMENTS

Investment gains have traditionally generated a significant part of Algonquin's annual net income and this past year was no exception. Portfolio activities and other income contributed almost $9 million to the year's results, primarily reflecting gains on the sale of the Company's interests in Balfour Forest Products and Glenayre Electronics Ltd.

Algonquin's investment portfolio is now concentrated in shares of The Enfield Corporation Limited. Enfield sold its interest in Federal Pioneer Limited earlier this year, realizing approximately $157 million. Enfield now has two major holdings: a controlling position in Consumers Packaging Inc., one of Canada's largest packaging companies, and a 42 percent interest in Numac Oil & Gas Ltd., a successful medium-sized oil and gas producer.

LIQUIDITY AND CAPITAL RESOURCES

Algonquin's balance sheet was strengthened during the past year by the issuance of 2,540,000 common shares and 540,000 common share purchase warrants for proceeds of $25.4 million. At the same time, corporate debt was reduced. Algonquin currently has credit facilities totalling approximately $46 million, of which approximately $18 million are unused.

Disposal of surplus assets and improved inventory management are expected to improve Algonquin's liquidity further in the course of the current year, and plans are to retain a high degree of liquidity through what appears to be unsettled economic conditions in Canada. Year end balance sheet information incorporates reserves for the closure of unprofitable segments and the completion of the related restructuring, presenting a sound base for profitable future expansion.

ORGANIZATION

Changes in management and organization have taken place to position Algonquin for a profitable course in the 1990's. In addition to new operating management, the board of directors has been strengthened by the addition of Robert Peters, Peter Dale, Ben Webster and Henry Knowles. Candidates for election at the annual meeting of shareholders include Roland Jermyn and Barry Cracower. Each of these individuals brings to the Company extensive business and boardroom experience, and can be expected to make a meaningful contribution to the success of Algonquin in future years.

Algonquin is thankful to Messrs. Cecil Franklin, Robert Franklin, Arthur Walker, Francis Lace, and Edward Kernaghan for the contribution they made to the success of Algonquin in the past.

ADMINISTRATION

The corporation's fiscal year end has been changed from March 31st to the last Sunday in January of each year. This change has been made to have Algonquin's fiscal year coincide with the normal retail operating calendars of its two major subsidiaries — Austin Health Care Corporation and Dominion Citrus. As a result, the next interim report of Algonquin will be for the four months ended July 29, 1990.

* * *

Algonquin enters the 1990's with a positive outlook. The balance sheet of the company has been strengthened by recent equity issues totalling over $25 million, and corporate debt has been reduced. Algonquin's operations are now focused on areas where it has enjoyed a history of success. New managers have been appointed in key areas, bringing competence in areas well suited to the future plans of the Company. Programs of divestiture and disposal of unwanted assets are advanced, and opportunities for profitable expansion are evident. Algonquin's plan is to pursue these opportunities in a patient, disciplined way attempting to ensure that each existing business segment is on a stable and successful course before embarking on new activities.

On behalf of the Board,

Michael F. Blair
Chief Executive Officer

May 31, 1990

CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended March 31, 1990 and 1989

	1990	1989
	$	$
Sales	241,724,062	234,034,353
Other Income (note 9)	8,974,305	1,021,916
	250,698,367	235,056,269
Cost of Sales and Other Expenses	242,016,879	226,745,027
Earnings from operations before the following	8,681,488	8,311,242
Other Deductions		
Depreciation and amortization	1,573,913	1,969,659
Interest expense (note 7)	3,182,680	3,625,973
Unusual and non-recurring items (note 10)	7,924,405	—
Income taxes (note 13)	1,986,320	1,192,000
Share of (earnings) loss of affiliated companies	(126,500)	305,211
(Loss) Earnings Before Extraordinary Item	(5,859,330)	1,218,399
Extraordinary Item		
Reduction of income taxes resulting from utilization of prior years' losses	—	305,000
Net (Loss) Earnings for the Year (note 15)	(5,859,330)	1,523,399
Per Share:		
(Loss) earnings before extraordinary item	($1.39)	$ .36
Net (loss) earnings for the year	($1.39)	$ .45

The earnings per share have been calculated on the weighted average number of shares outstanding during the year — 4,209,787 shares (1989 — 3,367,354 shares).

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended March 31, 1990 and 1989

	1990	1989
	$	$
Retained Earnings — Beginning of Year		
As previously reported	23,070,773	21,840,855
Restatement of prior year's results, net of income taxes (note 11)	607,000	—
As restated	22,463,773	21,840,855
Excess of cost of shares repurchased over average paid-up capital	902,839	225,854
	21,560,934	21,615,001
Net (loss) earnings for the year	(5,859,330)	1,523,399
	15,701,604	23,138,400
Dividends	5,012,006	674,627
Retained Earnings — End of Year	10,689,598	22,463,773

CONSOLIDATED BALANCE SHEETS

as at March 31, 1990 and 1989

	1990	1989
ASSETS	$	$
CURRENT ASSETS		
Investments (trading value $4,807,028)	4,807,028	—
Accounts receivable	13,262,469	16,117,618
Inventories	39,040,154	52,303,548
Prepaid expenses	525,719	600,622
Income taxes recoverable	2,381,251	1,028,547
Loans and notes receivable	650,000	—
	60,666,621	70,050,335
INVESTMENTS (note 2)	38,681,455	12,707,690
LOANS AND NOTES RECEIVABLE (note 3)	979,904	—
FIXED ASSETS (note 4)	4,992,818	7,037,234
OTHER ASSETS (note 5)	947,415	1,708,157
	106,268,213	91,503,416

LIABILITIES

	1990	1989
CURRENT LIABILITIES		
Bank advances (note 6)	25,257,714	23,551,740
Accounts payable and accrued liabilities	33,571,114	28,707,606
Current portion of long-term debt	2,750,552	838,687
	61,579,380	53,098,033
LONG-TERM DEBT (note 7)	1,550,000	8,300,552
	63,129,380	61,398,585

SHAREHOLDERS' EQUITY

	1990	1989
CAPITAL STOCK (note 8)		
Authorized —		
Unlimited number of common shares		
Issued and fully paid —		
5,752,755 common shares (1989 — 3,356,697 common shares)	32,449,235	7,641,058
RETAINED EARNINGS	10,689,598	22,463,773
	43,138,833	30,104,831
	106,268,213	91,503,416

Signed on behalf of the Board

Director

Alan R. [illegible]

Director

CONSOLIDATED STATEMENTS OF CASH FLOW

For the Years Ended March 31, 1990 and 1989

	1990	1989
	$	$
Operations		
(Loss) earnings before extraordinary item	(5,859,330)	1,218,399
Items not requiring an outlay of funds —		
Unusual and non-recurring items	7,924,405	—
Depreciation and amortization	1,573,913	1,969,659
Gain on disposal of property, investments and fixed assets	(8,600,391)	(7,718)
Share of (earnings) loss of affiliated companies	(126,500)	305,211
	(5,087,903)	3,485,551
Cash provided by (invested in) operating working capital	8,270,262	(4,806,097)
Reduction of income taxes arising from utilization of prior years' losses	—	305,000
	3,182,359	(1,015,546)
Investments		
Proceeds on disposal of subsidiaries (in 1990 net of note financing of $950,000)	3,074,159	4,890,835
Add: Bank advances assumed by buyer	1,526,658	—
Acquisition of subsidiaries	—	(1,075,303)
Add: Bank advances assumed on acquisition	—	(923,244)
	4,600,817	2,892,288
Reduction in mortgages and loans receivable	94,521	2,842,500
Dividends from affiliated companies	162,500	105,091
Proceeds on disposal of investments	23,818,493	654,814
Purchase of investments (net of $20,000,000 of Algonquin Mercantile Corporation shares issued as partial consideration)	(26,162,326)	(3,450,000)
Proceeds on disposal of fixed and other assets	268,554	398,930
Purchase of fixed and other assets	(951,112)	(2,241,696)
	1,831,447	1,201,927
Financing		
Proceeds from issue of common shares net of costs of issuance and shares issued as partial consideration for purchase of investments	5,275,000	—
Long-term debt incurred	1,000,000	—
Retirement of long-term debt	(5,838,687)	(3,186,921)
Purchase of Algonquin Mercantile Corporation shares	(2,144,087)	(323,984)
	(1,707,774)	(3,510,905)
Dividends	(5,012,006)	(674,627)
Increase in Bank Advances	(1,705,974)	(3,999,151)
Bank Advances — Beginning of Year	(23,551,740)	(19,552,589)
Bank Advances — End of Year	(25,257,714)	(23,551,740)

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Algonquin Mercantile Corporation as at March 31, 1990 and 1989 and the consolidated statements of earnings, retained earnings and cash flow for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario
May 31, 1990

Coopers & Lybrand
CHARTERED ACCOUNTANTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended March 31, 1990 and 1989

1. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies at their respective year-ends. The acquisitions of subsidiaries are accounted for as purchases and the results of all subsidiaries are included from the dates of acquisition. The company's interests in affiliated companies are accounted for on the equity basis whereby the investment is stated at cost and adjusted for earnings, losses and dividends since acquisition.

(b) Inventories

Manufactured and warehouse inventories are valued at the lower of cost and net realizable value, with cost generally determined on a first-in, first-out basis. Retail store inventories are initially valued at normal selling prices and the amounts so determined are then reduced to the lower of cost and net realizable value by applying normal profit margins.

(c) Depreciation

Fixed assets are depreciated principally on the diminishing balance basis over their estimated useful lives as follows:

Buildings	—	20 to 40 years
Equipment	—	7 to 17 years

(d) Other assets

Other assets consist primarily of goodwill arising on acquisitions, prescription lists and leasehold interests. The goodwill and prescription lists are amortized over 10 years and the leasehold interests over lease life, both on a straight-line basis. Goodwill arising prior to April, 1974 is not being amortized so long as there is no evidence of impairment of value.

(e) Post employment benefits

At present, post employment benefits are not provided.

2. Investments

Investments are as follows:

	1990		1989	
	Cost	Trading value	Cost	Trading value
	$	$	$	$
Listed shares —				
The Enfield Corporation Limited				
(7,626,100 common shares)	38,015,859	28,597,875	—	—
Other	297,067	291,050	7,544,337	7,149,160
	38,312,926	28,888,925	7,544,337	7,149,160
Unlisted shares —				
Balfour Forest Products Inc.	—		5,000,000	
Other	368,529		163,353	
	38,681,455		12,707,690	

The investment in shares in The Enfield Corporation Limited of $38,015,859, which represents approximately 17% of the issued and outstanding common shares was acquired in the period from November 1989 to the year end. In the opinion of management, there has been no permanent impairment in the value of this investment.

3. Loans and Notes Receivable

Loans and notes receivable are as follows:

	1990		
	Current	Long-Term	Total
	$	$	$
Non-interest bearing note due August 15, 1990 (note 14(b))	500,000	—	500,000
Loan at an interest rate of 12% due January 31, 1993 payable $150,000 per annum	150,000	300,000	450,000
Non-interest bearing loans to employees to purchase common shares of the company (note 14(c))	—	679,904	679,904
	650,000	979,904	1,629,904

4. Fixed Assets

Fixed assets are as follows:

	1990	1989
	$	$
Buildings and equipment — at cost	14,287,077	15,455,229
Accumulated depreciation	9,802,262	9,008,257
	4,484,815	6,446,972
Land — at cost	508,003	590,262
	4,992,818	7,037,234

5. Other Assets

Other assets are as follows:

	1990	1989
	$	$
Goodwill — at cost	197,039	844,634
Prescription lists — at cost	995,234	978,234
Leasehold interests — at cost	618,234	781,234
Other — at cost	98,658	125,139
	1,909,165	2,729,241
Accumulated amortization	961,750	1,021,084
	947,415	1,708,157

6. Bank Advances

Shares in a subsidiary, book debts, inventories and fire insurance policies have been pledged as security for bank indebtedness, including advances and long-term loans.

7. Long-term Debt

Long-term debt is as follows:

	Current	Long-term	1990 Total	1989 Total
	$	$	$	$
Bank loan (note 6), at an interest rate of prime plus ½ of 1% due August 21, 1992	150,000	1,550,000	1,700,000	5,850,000
Debentures at an average rate of 12.96% due January 15, 1991 payable $56,000 per month (see below)	2,464,000	—	2,464,000	3,136,000
Sundry mortgage at an interest rate of 11.5% due October 15, 1990	136,552	—	136,552	153,239
	2,750,552	1,550,000	4,300,552	9,139,239

Repayments required on long-term debt in fiscal 1992 are $150,000 and in fiscal 1993 $1,400,000.

Interest on long-term debt for the current year amounted to $802,604 (1989 — $1,311,670).

Assets of subsidiaries having a carrying value of approximately $62,000,000 are pledged as security for the debentures by way of a fixed and floating charge which ranks second to the long-term loans and bank advances described in note 6.

8. Capital Stock

Issued capital stock is as follows:

	1990		1989	
	#	$	#	$
Balance — beginning of year	3,356,697	7,641,058	3,399,926	7,739,188
Issued as partial consideration for purchase of marketable securities	2,000,000	20,000,000	—	—
Issued for cash (net of expenses and income taxes)	540,000	5,275,000	—	—
Issued to exployees (note 14(c))	82,958	774,425	—	—
	5,979,655	33,690,483	3,399,926	7,739,188
Repurchased for cash	226,900	1,241,248	43,229	98,130
Balance — end of year	5,752,755	32,449,235	3,356,697	7,641,058

During the current year, the company issued 540,000 warrants entitling the holder to purchase 1 common share for $10.00 cash for each warrant held on or before December 14, 1990.

9. Other Income

Other income is as follows:

	1990	1989
	$	$
Net gain on disposal of investments	8,472,960	74,595
Gain on sale of property	140,731	34,448
Interest, dividends and royalties	360,614	912,873
	8,974,305	1,021,916

10. Unusual and Non-recurring Items

The company incurred costs and established provisions for restructuring its operations including the reduction in carrying values of certain assets and provisions for ongoing losses to the anticipated date of disposition or closure.

	$
Retail division (including inventory provision of $2,000,000)	6,564,899
Food wholesaling division	359,506
Corporate	1,000,000
	7,924,405

11. Prior Year Results

The 1989 financial statements have been restated to reflect reductions of primarily inventories, accounts receivable and fixed assets which were considered and not reflected in their original preparation. The net effect of the adjustments is to reduce net earnings for the year ended March 31 1989 as previously reported by $607,000 (net of income taxes of $530,000) and earnings per share by $0.18.

12. Contingent Liabilities

In the normal course of business the company and its subsidiaries are named as defendants in legal actions. Management is presently aware of two such actions, neither of which are for significant amounts.

13. Income Taxes

(a) The following amounts are available to reduce future income taxes for accounting purposes of subsidiaries, the benefits of which have not been recorded in these financial statements:

	$
— expiring in fiscal 1995	240,000
— expiring in fiscal 1996	1,505,000
— expiring in fiscal 1997	8,110,000
	9,855,000

13. Income Taxes (continued)

(b) The company's income tax provision differs from the provision that would result from using the statutory tax rate. The explanation for this difference is as follows:

	1990	1989
Statutory tax rate	44.3%	47.3%
	$	$
Income tax at statutory rate	(1,771,783)	1,284,484
Effect of:		
Manufacturing and processing deduction	(14,190)	(42,887)
Non-taxable dividends received	(51,874)	(22,005)
Non-taxable portion of capital gains	(1,282,270)	(16,771)
Unutilized losses of subsidiary companies	5,106,437	—
Other	—	(10,821)
Tax provision	1,986,320	1,192,000

14. Related Party Transactions

(a) During the year the company purchased 7,000,000 common shares in The Enfield Corporation Limited for a consideration of $35,490,000 from Renegade Capital Corporation, its parent company.

(b) During the year the company sold its Coupco division for the book value of $3,147,800 to a company controlled by a former director. The balance receivable in respect of this transaction as of the year end was $500,000 (note 3).

(c) During the year the company loaned $774,425 to certain officers and senior employees in connection with the employee stock purchase plan. These loans are interest free and are repayable from dividends paid in respect of these shares. During the year $94,521 was repaid and the balance outstanding at March 31, 1990 was $679,904.

(d) During the year the company paid a fee of $250,000 to a company controlled by a person who has since become a director in connection with the issue of shares referred to in note 8.

15. Pro-forma Financial Information

During the year ended March 31, 1990, the company decided to sell or close certain retail locations and other business segments. The operating results of these activities are as follows:

	Continuing Operations		Operations Sold, Closed Or To Be Closed		Consolidated	
	1990	1989	1990	1989	1990	1989
	$	$	$	$	$	$
Sales	186,925,380	175,032,933	54,798,682	59,001,420	241,724,062	234,034,353
Cost of sales and other expenses	184,691,455	168,034,453	57,325,424	58,710,574	242,016,879	226,745,027
Depreciation and amortization	1,175,276	1,257,833	398,637	711,826	1,573,913	1,969,659
	185,866,731	169,292,286	57,724,061	59,422,400	243,590,792	228,714,686
Earnings (loss) from operations before the following	1,058,649	5,740,647	(2,925,379)	(420,980)	(1,866,730)	5,319,667
Other income					8,974,305	1,021,916
Interest expense					(3,182,680)	(3,625,973)
Unusual and non-recurring items					(7,924,405)	—
Income taxes					(1,986,320)	(1,192,000)
Share of earnings (loss) of affiliated companies					126,500	(305,211)
(Loss) earnings before extraordinary item					(5,859,330)	1,218,399
Extraordinary item					—	305,000
Net (loss) earnings for the year					(5,859,330)	1,523,399

16. Commitments

The minimum total annual rentals payable by a subsidiary under licence and lease agreements amount to approximately $10,000,000.

17. Subsequent Events

(a) On May 31, 1990 the company declared a special dividend of one common share of The Enfield Corporation Limited (note 2) for every ten shares of the company, payable on June 30, 1990 to shareholders of record on June 12, 1990. The company anticipates that the dividend will aggregate approximately 573,525 common shares of The Enfield Corporation Limited.

(b) Subsequent to the year end, the company changed its year end to the last Sunday in January. The next year end will therefore be January 27, 1991.

18. Segmented Information

The company operates in three business segments as follows:

(a) Drug retailing
The operation of retail drug stores and the operation of drug, health and beauty aid departments in Canadian Woolco and Woolworth stores west of the Maritimes.

(b) Food wholesaling
The wholesaling of local and imported fresh fruit and produce.

(c) Other

	Drug retailing 1990	Food wholesaling 1990	Other 1990	Consolidated 1990
	$	$	$	$
Sales to third parties	148,954,766	59,097,704	33,671,592	241,724,062
Segment operating profit (loss)	(2,493,312)	1,558,172	1,188,519	253,379
Other income				8,974,305
General corporate expenses				(2,120,109)
Earnings from operations before interest				7,107,575
Interest expense				(3,182,680)
Unusual and non-recurring items				(7,924,405)
Income taxes				(1,986,320)
Share of earnings of affiliated companies				126,500
Net (loss) for the year				(5,859,330)
Identifiable assets	51,913,533	6,366,247	1,418,670	59,698,450
Corporate assets				46,569,763
Total assets				106,268,213
Capital expenditures	179,112	265,198	506,802	951,112
Depreciation and amortization	883,043	232,358	458,512	1,573,913

	Drug retailing 1989	Food wholesaling 1989	Other 1989	Consolidated 1989
	$	$	$	$
Sales to third parties	147,610,145	51,497,456	34,926,752	234,034,353
Segment operating profit	3,217,195	1,653,354	1,866,897	6,737,446
Other income				1,021,916
General corporate expenses				(1,417,779)
Earnings from operations before interest				6,341,583
Interest expense				(3,625,973)
Income taxes				(1,192,000)
Share of loss of affiliated companies				(305,211)
Extraordinary item				305,000
Net earnings for the year				1,523,399
Identifiable assets	64,684,759	4,282,618	9,840,144	78,807,521
Corporate assets				12,695,895
Total assets				91,503,416
Capital expenditures	1,314,408	407,199	520,089	2,241,696
Depreciation and amortization	1,205,448	239,395	524,816	1,969,659

MANAGEMENT DISCUSSION AND ANALYSIS

The following comments and analyses are presented to provide an overview of the Corporation's results of operations and financial condition and should be read in conjunction with the consolidated financial statements and accompanying notes.

GENERAL

Although management is disappointed with the financial results for the fiscal year, it recognizes that the restructuring, restaffing and realignment that has taken place within Algonquin Mercantile Corporation has come at the expense of substantial non-recurring costs.

Management believes that substantially all of such costs have been incurred or provided for in the current financial statements and that Algonquin is now poised to move forward in a more efficient manner to meet the challenges of the 1990's. The following is an analysis of some of the material factors that contributed to the year-end results.

1989/90 OPERATING RESULTS

Consolidated net income for the 1990 fiscal year showed a loss of $5,859,330 versus a profit of $1,523,399 in the prior year ($1,218,399 before extraordinary item).

The decline of $7,382,729 is analyzed as follows:

Increase in Other Income		7,952,389
(primarily net investment gains)		
Unusual and Non-Recurring Charges		(7,924,405)
Extraordinary Item in 1989		(305,000)
Cost (Increases) Decreases		
Corporate Expenses	$ (702,330)	
Interest Expense	443,293	
Income Taxes	(794,320)	
		(1,053,357)
Reduced Operating Results		
Drug Retailing Division	$(5,282,314)	
Skrow's Foods Ltd.	(634,700)	
Other Operations	(135,342)	
		(6,052,356)
Net Reduction		(7,382,729)

The substantial increase in Other Income resulted primarily from the previously reported sale of Algonquin's equity interests in Balfour Forest Products Inc. and Glenayre Electronics Ltd.

Provisions for Unusual and Non-Recurring Charges in the 1989/90 financial results include:

$4,564,899 to cover termination costs, asset write-downs and operating losses related to store closures anticipated within the Drug Retail Division. The Phar Mor and Real Value retail stores have been closed and the discontinuation of unprofitable pharmacies and other retail locations is planned.

$2,000,000 as an inventory reserve established against retail inventories,

$359,506 as a loss on disposition of shares of Skrow's Foods Ltd., and

$1,000,000 to cover the costs of severances associated with terminations.

The extraordinary item was a recovery of prior years' tax in 1989 not duplicated in 1990.

Reduced operating results primarily reflect the decline in earnings from the Drug Retailing Division. This is attributed to the unanticipated $5.0 million shortfall in inventory revealed by year-end physical stock-taking which was expensed to current operations, and to related deficiencies described in the report of the Chief Executive Officer in this annual report. Management has instituted procedures and controls to ensure an early return to more satisfactory profit levels.

As detailed in Note 11 to the financial statements, prior year results were restated reducing earnings for that period by $607,000.

Sales from continuing operations were as follows:

	$	% Increase Over Prior Year
Drug retailing	115,974,939	2.7
Food wholesaling & other operations	70,950,441	14.2
	186,925,380	6.8

Contributions from continuing operations before other income, interest and income taxes were as follows:

	1990 $	1989 $
Drug retailing	4,532,137	5,413,285
Inventory write-down	(4,240,819)	(800,000)(1)
Net drug retailing	291,318	4,613,285
Food wholesaling & other operations	2,887,440	2,545,141
	3,178,758	7,158,426
Corporate expenses	2,120,109	1,417,779
	1,058,649	5,740,647

(1) included in restatement described in Note 11.

Cost increases reflect legal and other costs incurred largely with respect to equity financing, divestitures and organizational expenses. The partially offsetting decline in Interest Expense resulted chiefly from debt reductions related to investment realizations and operational divestitures.

Although a consolidated loss was sustained for the year, an Income Tax liability remains applicable with respect to results of Algonquin and its profitable subsidiaries. As a result, Algonquin incurred a current tax expense of $1,986,320 rather than a recovery of taxes of $3,120,117. A corporate reorganization will be undertaken in 1990/91 to maximize recovery of these taxes.

LIQUIDITY AND CAPITAL RESOURCES

As shown in the Consolidated Statements of Cash Flow, working capital used in operations in 1989/90 amounted to $5,087,903 compared to working capital of $3,485,551 provided from operations in 1989/90 with the difference being primarily attributable to the operating loss of $5,859,330 incurred in the current year. Overall cash flow from operations, however, improved to $3,182,359 from a deficit of $1,015,546 in 1988/89 reflecting reduced requirements for non-cash working capital.

Proceeds from the sale of the Skrow's and Coupco divisions contributed $4,600,817 to cash flow during the year.

Algonquin's substantial investment of $38,015,859 in shares of The Enfield Corporation Limited was financed to the extent of $20,000,000 by the issue of 2,000,000 common shares. The remaining cash investment of $18,015,859 was represented in the amount of $15,672,026 by proceeds from liquidation of previous portfolio investments and the balance of $2,343,833 was drawn against working capital. While the current trading value of Enfield shares is below Algonquin's cost, management is of the opinion that to date and subject to the recently announced Enfield rights offering there has been no permanent impairment in the value of this investment.

During the year, Algonquin's share capital was increased by $26,049,425 through the issue of 2,622,958 new common shares. Of this amount, $20,000,000 was an offset against the Enfield investment referred to above and $774,425 was offset by interest-free loans to employees covering their purchases of common shares of equivalent value. The remaining balance of $5,275,000 represented the net cash consideration realized from shares issued during the year. Under its Normal Course Issuer Bid, the Company acquired 226,900 common shares for cash of $2,144,087.

Dividends paid on common shares outstanding during the year increased from $674,627 to $5,012,006 reflecting a special dividend of $1 per common share and the doubling of the quarterly dividend to 10 cents per common share on September 29, 1989.

Long term debt was reduced by $4,838,687 during the year and current bank advances were increased by $1,705,974.

Working capital which stood at $16,952,302 at the beginning of the year declined by $17,865,061 during the year, reflecting the use of current bank advances to finance non-current assets. Steps have been taken since year end to correct the $912,759 year end working capital imbalance by converting $5,000,000 of current bank advances to long term debt.

Algonquin maintains credit facilities with various banks and has available lines of credit totalling $44,000,000 of which $18,000,000 is currently unutilized.

The Company's aggregate borrowings at year-end amounted to $29,558,266, a decrease of $3,132,713 from $32,690,979 at the end of the previous year. As a result of the higher issued capital stock and the reduction in debt, Algonquin's total debt to equity ratio at March 31, 1990 was 68.5% compared to 108.6% one year ago.

The Company is not currently planning to make any significant capital expenditures.

Algonquin is subject to the same vagaries of the marketplace and risk factors associated with companies operating in the several industries in which it carries on its business. Algonquin knows of no conditions which presently exist in these areas of business which will have any material adverse affect on its operations or on the prospects of such businesses.

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Trading Symbol: AM

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