Silcorp: on target

focus
innovation
teamwork

Silcorp Limited 1997 Annual Report

Silcorp is...

becoming Canada's neighbourhood host retailer. Under the corporate banners of Mac's, Mike's and Becker's, our 897 stores provide their neighbourhoods in Ontario and Western Canada with a new definition of retail convenience, from fresh milk to meal solutions. The Company also operates dairy and distribution centres in Ontario. Silcorp is the largest retail network of its kind in Canada.

Our Vision

"To create a customer focused network where every retail associate is a success story."

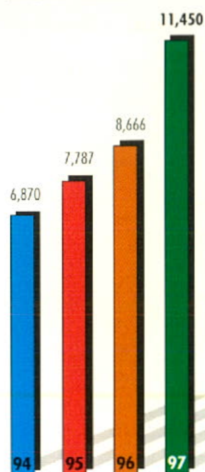
on target

- ✔ improve earnings per share
- ✔ strong balance sheet
- ✔ integrate Becker's operations
- ✔ accelerate our Store 2000 programme
- ✔ broaden our customer base and satisfaction
- ✔ expand and improve our product offerings

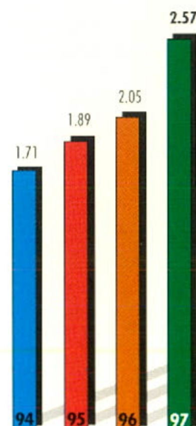
Financial Highlights

($000's except per share data)	1997 (52 weeks)	1996 (52 weeks)	1995 (53 weeks)	1994 (52 weeks)
Sales	**$742,586**	$633,819	$590,788	$573,986
Income before unusual items and income taxes	**11,450**	8,666	7,787	6,870
Net income	**14,450**	8,666	7,787	6,870
Basic earnings per share before unusual items and income taxes	**$ 2.57**	$ 2.05	$ 1.89	$ 1.71
Fully diluted earnings per share before unusual items and income taxes	**$ 2.46**	$ 1.86	$ 1.79	$ 1.60
Basic earnings per share	**$ 3.25**	$ 2.05	$ 1.89	$ 1.71
Fully diluted earnings per share	**$ 3.08**	$ 1.86	$ 1.79	$ 1.60
Debt	**17,000**	24,000	7,000	20,590
Shareholders' equity	**67,544**	69,687	42,903	36,284
Book value per share	**$ 15.32**	$ 13.52	$ 10.35	$ 8.81

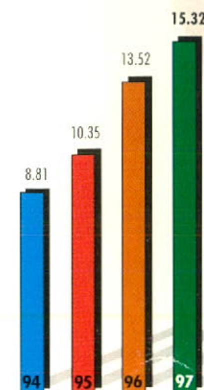
Income Before Unusual Items and Income Taxes



Basic Earnings per Share Before Unusual Items and Income Taxes



Book Value per Share



Letter to Shareholders

In January 1997, we made a promise: to *double our EPS* by the end of 1998. Today, Silcorp Limited ***is right on target***.

A year ago in January 1997, Silcorp held an important meeting. Our purpose was to inform our shareholders about our dramatic progress in building shareholder wealth—through a major acquisition, sale of a significant non-core asset, and a share buy-back programme. We also made a bold prediction: that, as a result of these actions, by the end of 1998 we would double our EPS. That was our goal; and today we are right on target. Last year, we promised our shareholders "significantly accelerated earnings for the next two years". This year, we are proud to report that Silcorp Limited is well on its way to fulfilling that promise.

We have met and, in some cases, exceeded our objectives for the year. Income before unusual items and income taxes increased by 32% to 11.5 million from $8.7 million in 1996. For continuing operations in Canada, comparable net income increased by 102% over 1996. These figures reflect the successful integration of the new Becker's retail, dairy and distribution assets in Ontario as well as performance in Western Canada that continues its strong turnaround.

The new, larger Silcorp now includes 897 stores from Ontario to Vancouver Island. Revenues in this network increased by $109 million or 17.2%.

Our goal for 1998 is to further improve upon our earnings growth rate. Two factors will make this possible. First, we will have benefited from a full year of synergies from our Becker's

Robert W. Martin, Chairman of the Board (left) and Derek M. Ridout, President and CEO

Our ***improved income statement*** accompanies a *strong* balance sheet

integration, including a streamlined head office organization, a more competitive portfolio of store locations, improved purchasing economies and a dairy operation with greater productivity.

Next year, we will also feel the growing positive effects of our new Store 2000 roll-out. This is already producing incremental impact on individual store contribution in Western Canada, where Store 2000 conversions are more advanced. We expect this to continue as our conversion programme expands in Ontario. Across the country, we now have 67 Store 2000 installations. We plan to accelerate this at a rate of at least 100 stores per year.

Silcorp is equally proud that the improvements in our income statement accompany a strong balance sheet. At year end, our long-term debt was well in line with our strategic plan targets, at $17 million against an equity of $67.5 million and a total market capitalization of $141 million. These ratios reflect our desire to be aggressive, leading-edge merchants, with a conservative approach to the management of our balance sheet. Taking this approach will enable us to advance quickly on new opportunities.

Lessons from the past have been learned, and learned well. This is mirrored in the confidence shown within the investment community, which now includes research coverage by three leading retail analysts on Bay Street.

Our latest strategic plan sets out three new platforms for growth and change, all of them customer focused:

- To evolve as a neighbourhood host retailer;
- To place more emphasis on females 25+ in our target customer profile; and
- To become, over time, a destination store, not just an emergency fill-in centre.

We segment our business first by local customer characteristics on a neighbourhood basis, secondly by products and services targeted to those customers, and thirdly by needs that change with time of day. For our customers, the most visible change will be the $50 million, three-year capital investment programme under the Store 2000 umbrella. We are redefining the C-store shopping experience by providing our customers with brighter, more attractive ambiance, streamlined core

category shelf sets and a dramatically expanded foodservice presence, particularly in meal solutions, both fresh and heat-and-serve.

However, it takes more than financial resources to realize these new objectives. It takes a top-notch team with breadth and depth of experience. In this, we are fortunate to have among the best in the business. Our corporate and field staff have performed at high levels under trying circumstances for much of the past five years. As one investment analyst put it, our team has been "forged by fire".

Still, our vision remains centred most squarely on the front lines—where more than 7,000 retail associates and staff serve four million customers every week, from east to west. What we see in their future is a customer focused network where every retail associate is a success story. We know that their success is the key to ours. Besides the significant capital invested to upgrade and transform our stores, we are investing in better recruiting and training, and in new store security packages.

We are improving the efficiency and effectiveness of our distribution and delivery systems to free up more associate and staff time for customer contact. We are also investing to automate front-end and back-end systems through scanning, EDI and category management, to save time for our people, to make information more accurate and more instantly available, and to support even greater efficiencies tomorrow.

Our strategic plan also identifies the need for us to be vigilant in identifying opportunities for long-term growth through acquisitions and joint ventures. While it is hard to predict when discussions will bear fruit, we are in active pursuit of a number of alternatives.

Silcorp has re-emerged as a leading merchandising presence in Canada. We have learned hard lessons about what it takes to succeed in retailing as we enter the next millennium. While we have recently become a much larger company, it is perhaps more important that we are becoming a much better company. And we will continue to be tested—by challenges such as ongoing legislative change within the tobacco category, for example. We are also facing a class action suit by former Becker's dealers who claim that they were not independent contractors, but employees. The Company is vigorously contesting this action.

In dealing with the future, we continue to be guided by our in-depth strategic planning process that reinforces, in our minds, that Silcorp has tremendous opportunities for future profitable growth in the North American convenience store industry.

Finally, may we take this opportunity to state how fortunate we have been in our Board of Directors. This dedicated group of experienced professionals is acutely aware of the need for governance-related stewardship. The saying goes that the right balance is a healthy, creative tension, and Silcorp benefits regularly from the productive exchange between our talented Board and very capable executive management team.

Robert W. Martin
Chairman of the Board

Derek M. Ridout
President and
Chief Executive Officer

focus

Silcorp has a clear definition of our *business* and our *customers*

Being on target means, first of all, that we have targets. Setting them has been Silcorp's first step: to define our business more strategically and develop a clearer picture of our target customer. From this, we're being driven by an equally clear mission: to create a "chain of one", an organization that builds its success on a store-by-store basis.

The traditional convenience store segment is facing broader competition: from petroleum gas bars, drugstore chains, specialty coffee houses and better donut chains, even from supermarkets. We've responded with a thorough analysis of our company, our sector, our competition and our customer. We now have a game plan, and have challenged ourselves to make tough choices about our business and customers in order to execute it.

Our business is now focused in Canada. In this undercapitalized, highly competitive market, we are making capital investments to carve out a strong, differentiated position, one based on tangible opportunities. The Becker's integration is helping us achieve this by strengthening the critical mass and market coverage of our retail network in Ontario.

We have set clear three-year objectives for profitable revenue and net income growth, and clear targets for cash flow and return on investment. We apply the same diligence to

our dairy and distribution strategies, and to our evaluation of their progress, ensuring their fit within the total Silcorp framework.

For example, we significantly improved throughput at the Becker's dairy by supplying product to the majority of our Ontario retail network. This strengthened our profit margin at the same time as it gave us an important new profit centre. Similar benefits are being realized at our Peterborough and North Bay distribution centres.

Silcorp, as a neighbourhood host retailer, is focusing on each neighbourhood, tailoring each store to its unique character and needs. Playing host to that neighbourhood means offering all the inviting ambiance that the word "host" suggests. It means predicating each of these positions on customer intimacy—knowing what our customers want, and making them feel at home. As we transform ourselves with this vision, we are tracking our progress with continual customer research—focus groups, telephone surveys and in-store questionnaires—and benchmarking our success.

We know who we are, and where we're headed. We also know who our customer is—and this, too, has changed. No longer just males, 18 to 24; more and more, our focus will be females 25+ and seniors.

innovation

Our *focus* has helped us *reinvent* the concept of convenience

Being on target also means that we possess the skills and the tools required to hit the target. In today's market, both factors depend on innovation—a prime example of which is Silcorp's Store 2000.

The Store 2000 concept grew out of the consumer research that was part of our strategic planning process. We saw that "convenience" today was not only about providing milk and other basic staples for a mass market, it was about filling a lifestyle gap for our broadening customer base. It was also about making each store a destination.

Store 2000 is the most visible reflection of this strategic goal. While there are new colours, window, lighting, floor and ceiling treatments—and all of these help to make the store more inviting—the real differences are in the retail strategies behind these outward changes, including product line extensions, particularly in foodservice.

With new hot and cold beverages, "ready to heat and eat" frozen and refrigerated home meal solutions, fresh-daily pastries and breads, as well as places to sit and eat them, we are committed to doubling foodservice sales within the next three years. Product selection in each Store 2000 will be tailored to local neighbourhood needs, and will range from branded foodservice partners such as Subway,

Pizza Hut and Taco Bell to locally sourced and recognized brand names.

Store 2000 is delivering strong results after two years of testing and refinement, and we will be rolling it out aggressively in 1998 and beyond. These results continue to support our projections of double-digit sales and margin increases, with a five-year payback.

Innovative ideas go beyond foodservice initiatives. They range from proprietary long-distance phone cards and creative display fixtures, to the testing of an on-line electronic catalogue kiosk. Through our category management disciplines, we are constantly challenging ourselves to reinvent our core business and look for new products and services to add to our merchandise mix.

This innovation challenge applies equally to our information base. We are committed to roll-out scanning not only to improve operational efficiency, but also to enhance the consumer research that will give Silcorp a better understanding of our customer base and, in turn, improve customer service.

Being a "chain of one" means thinking as one, but with the tools and resources of many.

David Rodgers, VP, Ontario Operations (left) and Kim Trowbridge, VP, Western Canada Operations inspecting a new Store 2000 site in Toronto

teamwork

We are *building* the network to *support* our *"chain of one"*

Acting like a "chain of one" has required a complete turnabout in thinking, away from overall store numbers and toward individual store health. We will measure the overall success of the Company by the success of our retail associates. The implication at the corporate level is that everything we do must offer our retail associates a competitive edge. Our staff is focused on bringing added value programmes to our store associates, to give them competitive advantage and improve customer service.

Teamwork is a traditional strength at Silcorp; the future is making it ever-more important. Tailored merchandising demands that each store reflect the image of its neighbourhood. This requires that we not only introduce new merchandising products and new support systems, but that we develop a culture of innovation.

It is only part of the picture to provide people with access to information through modern information systems. One must also help those people learn how to identify patterns in the information and plot new opportunities. Team skill building, from store through corporate office, continues as a high priority for our Company.

Silcorp has always recognized the entrepreneurial spirit in our retail associates and staff—the value of entrepreneurial autonomy balanced by the strength of our "franchise". We continue to complement this spirit with the classroom and hands-on training programmes that give our merchants superior skill sets for success.

Teamwork was never more evident than during the recent ice storm in Quebec and

Tom Waller, a Silcorp Area Rep (left) meets to review merchandising plans with Bill Ibrahim, a retail associate who manages the Mac's store in Maple, Ontario

Eastern Ontario. In the Ottawa area, our 40 store associates and their staff continued to work without heat or lights to supply food and emergency products to their customers. We are very proud of these associates and staff, who truly went above and beyond by answering the call from their community.

Teamwork continues as our store associates, staff and supply chain plan together to provide superior foodservice brands, proprietary programmes and services for our 200 million annual customer visits. Our ability to search out and deliver high quality new products with superior local, regional and national vendor partners is paying significant dividends in our new Store 2000 models.

It is noteworthy that teamwork also expresses itself in charitable causes for our neighbourhoods. In 1997, regular store operations, such as our break-open ticket programme, and additional community activities by our store associates and staff have resulted in benefits of more than $4 million for local charities. Silcorp is also honoured to have received a Corporation of the Year Award, one of only two in Canada, from the Big Brothers/Big Sisters organization, a worthwhile local volunteer group.

Our philosophy aims at working together to enrich the lives of our customers and our communities. In this, too, we are gratified to be on target.

Discussing revamped store layouts are Derek Ridout, President and CEO (left), Joe Lewis, Senior VP and COO, Judy Cushing, Director of Human Resources, Mike Rousseau, VP and CFO, Scott Findlay, VP, Marketing and Distribution and Dale Pettit, VP and Secretary-Treasurer

Jeff Faria, VP, Dairy Operations (left) and Grant Devereaux, Director of Manufacturing at the Becker's dairy facility in Scarborough, Ontario

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following analysis compares the results of operations for the year ended December 28, 1997 with the results of operations for the year ended December 29, 1996. Both fiscal years were comprised of 52 weeks.

On November 30, 1996, Silcorp acquired the retail, dairy and wholesale operating assets of The Becker Milk Company Limited (the "Becker's Acquisition"). The results of operations of this acquisition have been included from that date. Additionally, the Company sold the assets of its Michigan retail and wholesale operations on January 24, 1997 and utilized a portion of the proceeds to finance a special share repurchase completed in February 1997. These transactions will affect year over year comparisons. Where appropriate, the impact of this activity is discussed.

This discussion and analysis should be read in conjunction with the Letter to Shareholders, Review of Operations and the Consolidated Financial Statements and related notes.

In 1997, the Company reported net income of $14.5 million, which included a $3.0 million unusual net gain recorded in the first quarter.

Income before unusual items and income taxes of $11.5 million for fiscal 1997 was $2.8 million or 32% higher than the 1996 fiscal year level of $8.7 million. The primary reasons for the significant improvement were the productivity gains from the integration of the Becker's Acquisition and the benefits from several key corporate strategies, including the re-imaging and re-merchandising of stores under the programme name "Store 2000".

Description of Business

The Company's principal business is the operation of retail convenience stores under the Mac's, Mike's and Becker's banners in Ontario and Western Canada. Additionally, in the Province of Ontario, the Company operates three dairy processing plants and two wholesale distribution centres. A significant portion of both the dairy and wholesale distribution business relates to supplying the Company's Ontario based convenience stores with dairy products, tobacco, groceries, confectionary and store supplies. The store network in Western Canada utilizes third party suppliers for all merchandise categories.

Each of the four business groups (Ontario retail, Western Canada retail, dairy and wholesale distribution) operate on a decentralized basis with the corporate head office located in Scarborough, Ontario, providing services such as strategic planning, treasury, payroll, training, accounting, MIS and internal audit.

The number of retail locations at year end by trade name and jurisdiction are as follows:

By Trade Name	1997	1996
Mac's	**418**	435
Mike's Mart	**85**	86
Becker's	**394**	434
Hop-In (Michigan)	**-**	51
Total	**897**	1,006
Number of gasoline locations	**128**	170
By Jurisdiction		
Ontario	**687**	739
West	**210**	216
Michigan	**-**	51
	897	1,006

The Company has various forms of franchise arrangements in the provinces of Ontario and Manitoba. The Company typically receives a fixed monthly royalty payment and for the Ontario based locations, has a supply contract with the franchisees for dairy products. There were 56 locations at the end of 1997 operating under these various arrangements (1996 - 65).

Additionally, the Company has a dairy supply and licensing arrangement with 97 locations (1996 - 83) in Ontario under the Daisy Mart banner in which a fixed monthly fee is received in consideration of certain limited services provided by the Company. Only the franchise location count is included in the above table.

Sales

Consolidated sales in 1997 increased 17.2% to $742.6 million from $633.8 million in fiscal 1996. The principal reason for this increase was the addition of the Becker's retail locations and dairy operations for the entire year (1996 - 1 month), offset in part by the absence of the Michigan retail and petroleum activity for 1997.

Consolidated Sales Summary

($ millions)

By Category	**1997**	1996	% Change
Gasoline Revenue			
Retail	**$ 146.1**	$ 181.9	(19.7)%
Wholesale	–	38.8	(100.0)%
	$ 146.1	220.7	(33.8)%
Merchandise Sales	**571.5**	398.8	43.3 %
Service Revenue	**25.0**	14.3	74.8 %
	$ 742.6	$ 633.8	17.2 %

By Jurisdiction	**1997**	1996	% Change
Canada	**$ 742.6**	$ 446.8	66.2 %
Michigan	**-**	187.0	(100.0)%
	$ 742.6	$ 633.8	17.2 %

Gasoline revenue declined significantly due to the sale of the higher average volume Michigan based gasoline sites and wholesale operations, which in part was offset by the addition of 69 gasoline locations acquired in the Becker's Acquisition.

Merchandise sales, on a same store basis (those stores under the Company's administration throughout the past two years) increased 5.4%, reflecting the success of key strategic initiatives such as Store 2000, new product development and customer service and training initiatives.

Service revenue, which includes the commission on lottery and break-open tickets, video rental and banking machines, increased substantially due to the addition of the Becker's locations and the successful marketing of the Ontario based Nevada break-open ticket programme. This programme, benefits of which support local charities, has now been introduced to the majority of the Ontario based retail locations.

Gross Margin

Consolidated gross margin dollars increased $70.2 million, or approximately 42.3% from $166.1 million in 1996 to $236.3 million in 1997. The primary reason for the increase is the addition of the Becker's operating assets for fiscal 1997, offset in part by the loss of the Michigan retail and wholesale operations.

Consolidated Gross Margin Summary

($ millions)

By Category	**1997**		1996	
		Gross Margin Rate		Gross Margin Rate
Gasoline Margin	**$ 13.6**	**9.3%**	$ 21.2	9.6%
Merchandise Margin	**200.5**	**35.1%**	131.4	33.0%
Service Margin	**22.2**	**88.8%**	13.5	94.4%
	$ 236.3	**31.8%**	$ 166.1	26.2%

By Jurisdiction	**1997**		1996	
		Gross Margin Rate		Gross Margin Rate
Canada	**$ 236.3**	**31.8%**	$ 135.0	30.2%
Michigan	**-**	**-**	31.1	16.6%
	$ 236.3	**31.8%**	$ 166.1	26.2%

Gasoline gross margin rate declined due to the sale of the higher average margin Michigan based gasoline sites. Gasoline sales represented approximately two-thirds of the total sales in Michigan, which accounted for the much lower overall gross margin percentage of 16.6% in 1996 as compared to the overall Canadian gross margin of 30.2%, where gasoline sales accounted for less than 20% of total sales in 1996.

Merchandise margin rate increased, the result of the shift toward a higher proportion of the higher margin dairy sales resulting from the Becker's Acquisition being reflected for the entire year, offset in part by competitive pressures in certain categories. Inter-company sales from the dairy to the retail network were eliminated upon consolidation, however, the gross margin of the sales remain, which has the effect of increasing overall margin rates. The Company has identified and continues to execute a specific role for each product category, a key element of which is the benchmarking of local competitive retail price points for key products.

General, Administrative and Operating Expenses and Depreciation and Amortization

The total of general, administrative and operating expenses and depreciation and amortization increased $66.6 million (42.4%) to $223.5 million in 1997 from $156.9 million in 1996. This increase was attributed to the addition of the Becker's operating assets for fiscal 1997 (1996 - 1 month), offset in part by the impact of the sale of the Michigan locations.

Additionally, substantial synergies were realized during the year as a result of the integration of the Becker's retail store network and head office infrastructure. These synergies were realized principally in the elimination of duplicate support groups (such as accounting and MIS services), the harmonization of store level contracts (such as banking services) and the elimination of unproductive and competing redundant locations.

Interest Expense

Total interest expense in 1997 increased $0.8 million from the 1996 level of $0.6 million to $1.4 million. This increase was the result of higher debt levels incurred to finance the Becker's Acquisition on November 30, 1996.

Analysis of Fourth Quarter Results - 16 Weeks Ended December 28, 1997 Compared with 16 Weeks Ended December 29, 1996

Consolidated sales for the 16-week period ended December 28, 1997 were $221.2 million, a 2.6% increase versus the $215.5 million achieved in the similar period ended December 29, 1996. The increase was due to the greater average number of locations in operation in 1997 versus 1996. Same store sales increased 5.5%, reflecting the ongoing success of several key strategic initiatives such as Store 2000 and the introduction of new products and services.

Net income for the fourth quarter of 1997 was $2.3 million as compared to $2.8 million in 1996. The 1996 net income level included a non-recurring insurance gain realized by the Michigan operations of approximately $1.2 million. Operating income from Canadian operations, before interest expense, for the fourth quarter of 1997 was $2.7 million compared to $1.5 million in 1996.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

The major sources of funds during the past two years have been cash flow from operating activities, the issuance of common shares in connection with the Becker's Acquisition, the proceeds from the sale of the Michigan operations and the increase in long-term debt.

On an ongoing basis, it is the nature of the Company's business that cash requirements for working capital are relatively low in comparison to sales or inventories. Historically, a high percentage of inventory has been financed from normal trade credit. The Company believes that cash generated from operations, which is expected to increase in 1998 as a result of the incremental synergies from the Becker's Acquisition, will be sufficient to satisfy future capital expenditures and debt service requirements. Acquisitions will be financed from a combination of internally generated cash flow and incremental debt and equity where appropriate.

Credit Agreement

During the year, the Company re-negotiated significant terms of its credit agreement with its banker, which was signed in February 1998. The total committed operating and term facility was reduced to $30 million. Additionally, interest rates for both facilities were reduced and several covenants were eliminated or modified to reflect the significant success the Company has demonstrated in achieving its objectives relative to the Becker's Acquisition.

Acquisition of the Operating Assets of The Becker Milk Company Limited

On November 30, 1996, the Company acquired the retail, dairy and wholesale operating assets of The Becker Milk Company Limited for total consideration of $38.8 million. As consideration for this acquisition, the Company issued 1,000,000 common shares at $18.00 per share, assumed a pension liability of $3.1 million, issued an 8% note payable for $4.0 million due on November 30, 2001 and paid cash amounting to $11.0 million. In addition, the Company paid $2.7 million in transaction and restructuring costs associated with the purchase.

The Company had, as part of its strategic plan, identified the Becker's Acquisition as a primary driver to enhance shareholder value. The financial benefits of approximately $13 million, measured primarily as incremental cash flow (EBITDA), was planned to be realized over a two-year period.

Sale of Michigan Assets

On January 24, 1997, the Company sold its retail and wholesale assets in the State of Michigan to Clark Refining and Marketing, Inc. ("Clark") for net proceeds of $23.9 million. A portion of the proceeds were then utilized to finance a share repurchase programme (see Share Repurchase). The remaining portion of the proceeds was applied to bank borrowings. The decision to sell the profitable Michigan operation also took into consideration the opportunity to focus management's attention on the Canadian core business (with the Becker's Acquisition) and that expansion in Michigan was becoming increasingly expensive.

Share Repurchase

On February 21, 1997, the Company repurchased for cancellation, 888,267 shares at $19.00 per share ($17.2 million including related costs) financed by a portion of the net proceeds from the sale of the Michigan operations. The purpose of the share repurchase programme was to provide liquidity to shareholders who had a short-term investment objective, and to provide an alternative to the withdrawn takeover bid of $16.50 by Alimentation Couche-Tard Inc.

Capital Expenditures

The Company has developed a more aggressive capital expenditure programme to support key strategic initiatives over the four-year period beginning in 1997. The following table summarizes the Company's planned capital initiatives:

($ millions)

Strategic Initiative	1997 Expenditures	1998 - 2000 Range of Total Expected Expenditures
Store 2000	$ 4.8	$ 45 - $ 55
Store & office computer systems	$ 1.2	$ 8 - $ 12
Foodservice programme	$ 3.1	$ 6 - $ 12
Retail network growth	$ 0.3	$ 8 - $ 12
Other	$ 6.3	$ 12 - $ 16
Total	$ 15.7	$ 79 - $107

The Other category includes maintenance, security, gasoline equipment upgrades, dairy and wholesale capital requirements. The 1997 total capital expenditures of $15.7 million was financed primarily by cash flow from operating activities. The Company expects the majority, if not all of the future capital requirements, to be financed from the same source. Acquisitions beyond the retail network growth objective identified in the above table will be financed from a combination of cash flow from operating activities and incremental debt and equity.

Capital Structure

The Company's capital structure at the end of 1997, 1996 and 1995 was financed by:

($ millions)	1997 $	1997 %	1996 $	1996 %	1995 $	1995 %
Current liabilities	**$ –**	**0.0%**	$ 3.5	3.5%	$ –	0.0%
Long-term liabilities	**22.7**	**25.2%**	27.7	27.5%	9.6	18.3%
Shareholders' equity	**67.5**	**74.8%**	69.7	69.0%	42.9	81.7%
	$ 90.2	**100.0%**	$ 100.9	100.0%	$ 52.5	100.0%

The Company's existing capital structure is well below the Company's maximum strategic target of a 40/60 debt to total equity ratio and, if required, allows for additional borrowing to finance acquisitions and other capital programmes.

RISK AND UNCERTAINTIES

The Company faces several risks and uncertainties common to other retailers in similar business segments.

Environmental

The Company operates 128 gasoline locations and three dairy facilities in Canada. Additionally, it has certain obligations to remediate properties in North Carolina and Virginia. Regulatory authorities in these jurisdictions continue to impose standards with respect to contamination and remediation. The Company believes that its environmental policies and procedures, which

include the use of outside consultants, minimize the risk of material environmental exposure. Additionally, the Company has established a reserve for environmental remediation costs of $4.9 million (1996 - $6.0 million) which it believes is adequate to satisfy all known environmental remediation costs. Capital expenditures of approximately $1.0 million have been planned for in 1998 to upgrade gasoline systems, including underground storage tanks.

Under the terms of the purchase/sale agreement with Clark relating to the sale of the Michigan assets on January 24, 1997, the Company originally assumed responsibility for certain environmental upgrade and remediation costs to a maximum of US$3.4 million. The Company has since settled its liability to Clark under such provision in return for cash payments to Clark in 1997 totaling US$2.9 million.

The terms of the purchase/sale agreement entered into in connection with the Becker's Acquisition require The Becker Milk Company Limited to upgrade and remediate to current provincial standards, all gasoline and dairy locations for which they have responsibility. This programme, to which Silcorp will contribute a maximum of $750,000, is expected to be completed over the next several years.

However, despite such reserves and other precautions, the Company continues to be exposed to a degree of risk in this area including the potential costs of remediation of future leaks and spills as well as expenditures that could be required if materially more stringent regulations relating to the handling and storage of gasoline were to be adopted.

Competition

The convenience store industry in Canada continues to operate in a highly competitive retail environment as non-traditional competition, such as drug stores, supermarkets, discount clubs, gas bars and dollar stores, aggressively market traditional convenience store merchandise products.

Management believes that the development and, in particular, the execution of key strategic initiatives, such as the Store 2000 programme and the expansion of foodservice, will provide a competitive advantage over traditional and non-traditional competitors. The size and network profile of the retail network, especially in Ontario, will also provide opportunities and advantages that certain competitors may not enjoy.

Tobacco

Tobacco products represent the largest single merchandise category of the Company's portfolio. In 1997, sales of tobacco were 23.2% of total sales (1996 - 20.9%).

As widely chronicled in various media formats, there are significant political, social and potentially legal factors that may impact this product category. The Company has continued to improve its procedures and policies to ensure compliance with all provincial and federal regulations regarding the sale of tobacco. In fact, management believes the Company is an industry leader for compliance procedures. Western Canada and Ontario have in recent years faced a degree of uncertainty regarding proposed new federal legislation and regulations with respect to tobacco, including proposals to limit the display and promotion of tobacco in retail locations. Under current supplier contracts, the Company earns income based in part on shelf space dedicated to tobacco products. The Tobacco Act, Canada (formerly Bill C-71) provides for the enactment of regulations respecting such displays and signage. To date, however, no such regulations have been formally put into effect under this Act.

At a strategic level, management has introduced initiatives, such as the foodservice growth strategy to attempt to minimize the reliance on tobacco for both sales and profit contribution. However, given the continuing importance of tobacco sales to the Company, any material new restrictions on the ability of convenience stores to retail tobacco could reduce the Company's profitability.

Class Action

In November 1997, a former store operator of The Becker Milk Company Limited brought against both the Company and The Becker Milk Company Limited, a claim under the Ontario Class Proceedings Act, 1992. The relevant class identified in the class action is claimed to include all persons who served as Becker's store dealers since November 3, 1991 and the action asserts that the dealers have been, at all times, employees rather than independent contractors. Damages claimed of $75 million are alleged to represent wages, overtime pay, statutory holiday pay, vacation pay, termination pay and severance pay, plus accrued interest. An additional $5 million for punitive damages was also claimed.

The Company believes the action is without merit and will vigorously defend its position that the dealers are in fact independent contractors and not employees. However, if the court finds them to be employees, the Company believes its actual liability will be within its financial capacity.

Year 2000 Business Systems Conversion

As is the case with many businesses, the Company faces certain risks and uncertainties associated with the so-called "Year 2000 Problem", specifically the problem that until recently computer hardware and software systems have been designed to recognize dates based on the last two digits of the year assuming the first two digits to be 19 and, accordingly, will treat the date 2000 as 1900, the year 2001 as 1901 and so on. This involves certain potential negative implications to the Company's financial reporting and other business systems, since systems that do not properly recognize date information could generate erroneous data or cause a system to fail.

The Company, utilizing both internal and external resources, is developing a plan to investigate, test and correct deficiencies in its business systems. A steering group has been formed, headed by a senior MIS director, reporting directly to the CFO and the COO of the Company. The plan addresses the three distinct areas of risk to the Company that have been identified, specifically: (1) internal computer systems (such as financial reporting and other management information systems), (2) internal business systems (such as dairy manufacturing equipment systems), and (3) external relationships with product and service suppliers. Internal computer systems, which are integral to financial reporting and control, have been investigated and corrective action, including testing, are scheduled to be substantially completed by the end of 1998. Internal business systems are currently being investigated on a priority basis to determine the existence and severity of potential problems and the steps needed to rectify such problems. The Company is currently working with all key suppliers to ensure the current quality and quantity of information continues to be provided up to and after year 2000. Contingency plans will be developed in 1999 when it becomes more apparent which suppliers, if any, will not be Year 2000 compliant. However, there can be no assurance that the systems of other companies, on which Silcorp's own systems rely, will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's own systems. The total costs of Year 2000 conversion cannot be readily estimated at this time, however, the Company does not expect the amounts to be expensed over the next two years to have a material effect on its financial position or results of operations.

Other

The Company is also subject to various other business and financial risks including: (1) the seasonality of convenience store sales and the effect of summer weather patterns on sales levels, (2) the Company's reliance on a relatively small group of key management personnel to implement its strategic plan, (3) the risk of disallowance of prior year losses for tax purposes (see note 8 to the consolidated financial statements), (4) risks to the Company's dairy operations associated with potential changes in the regulatory regime for milk marketing in Ontario, and (5) general economic risks associated with levels of employment and consumer spending in the Canadian economy.

OUTLOOK

The Company believes its key strategic initiatives are carefully designed to provide value to all stakeholders. The addition of both the Becker retail locations and dairy plants have and will continue to support earnings increases, both in 1998 through the completion of the integration, and in future years as improvements in average store profit are realized.

The key strategic initiatives of the Company are:

1. Remodel, remerchandise and re-image traditional retail locations to the Store 2000 format. This programme has already proven, primarily in Western Canada, to enhance both dealer and corporate income. At the end of fiscal 1997, 67 retail locations have been remodeled. The Company plans to remodel at least 375 additional locations over the next three years.

2. Expand the foodservice selection, in part to take advantage of our convenient location and the demographics and social trends which favour just-in-time quality meal solutions.

3. Acquire small to medium size chains of retail locations in which we can add value with both our strategic initiatives and internal economy.

4. Improve both store and office automation to better understand customer needs and eliminate unproductive infrastructure costs.

5. Become a more significant part of each community in which we operate in order to act as a "host" to the neighbourhood.

The Company expects its consolidated financial performance to improve in 1998 as the benefits of the Becker's Acquisition are fully realized.

Management's Responsibility for Consolidated Financial Statements

The preparation of the consolidated financial statements of Silcorp Limited is the responsibility of management. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable and accurate estimates in accordance with generally accepted accounting principles applied on a consistent basis and as appropriate in the circumstances. Financial information shown elsewhere in this Annual Report is consistent with that contained in the consolidated financial statements.

Management of Silcorp Limited and its operating divisions has developed and maintains accounting systems and internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable.

The Board of Directors approves these consolidated financial statements and carries out its responsibility in this regard principally through the Audit Committee of the Board, all members of which are outside directors. The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements, the external auditors' report, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young, Chartered Accountants. Their report stating the scope of their audits and their opinion on the consolidated financial statements is presented on the following page.

Derek M. Ridout
President and
Chief Executive Officer

Michael S. Rousseau
Vice-President and Chief
Financial Officer

Auditors' Report

To the Shareholders of Silcorp Limited

We have audited the consolidated balance sheets of Silcorp Limited as at December 28, 1997 and December 29, 1996 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 28, 1997 and December 29, 1996 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.

Chartered Accountants

Toronto, Canada,
February 20, 1998.

Consolidated Balance Sheets

As at December 28, 1997 and December 29, 1996

($000's)	**1997**	1996
ASSETS		
Current assets:		
Cash	**$ 1,414**	$ 4,956
Accounts receivable	**23,281**	18,408
Inventories	**56,254**	54,616
Prepaid expenses and other assets	**2,638**	4,681
Assets subject to sale *(note 2(a))*	**-**	21,910
	83,587	104,571
Fixed assets, net *(note 4)*	**64,872**	59,945
Other assets	**8,479**	9,323
	$ 156,938	$ 173,839
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 63,507**	$ 62,742
Liabilities subject to sale *(note 2(a))*	**-**	5,565
Current portion of note payable *(note 3)*	**-**	1,500
Current portion of term bank loan *(note 5)*	**-**	2,000
	63,507	71,807
Long-term liabilities:		
Term bank loan *(note 5)*	**15,000**	18,000
Note payable *(note 3)*	**2,000**	2,500
Reserve for environmental costs *(note 11)*	**3,143**	4,649
Other	**5,744**	7,196
	25,887	32,345
Commitments and contingencies *(notes 7, 8, 11 and 12)*		
Shareholders' equity:		
Capital stock *(note 6)*	**37,227**	43,400
Retained earnings *(note 6)*	**30,317**	25,565
Foreign currency translation adjustment	**-**	722
	67,544	69,687
	$ 156,938	$ 173,839

(See accompanying notes)

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings

Years ended December 28, 1997 and December 29, 1996

($000's except per share data)	1997	1996
Sales	**$ 742,586**	$ 633,819
Less:		
Cost of sales	**506,261**	467,666
General, administrative and operating expenses	**213,709**	148,726
Depreciation and amortization	**9,756**	8,200
	729,726	624,592
Operating Income	**12,860**	9,227
Interest expense, net *(note 10)*	**1,410**	561
Income before unusual items and income taxes	**11,450**	8,666
Unusual items *(note 2)*	**3,000**	–
Income before income taxes	**14,450**	8,666
Income taxes *(note 8)*	**–**	–
Net income	**$ 14,450**	$ 8,666
Earnings per share		
Basic	**$ 3.25**	$ 2.05
Fully diluted	**$ 3.08**	$ 1.86

(See accompanying notes)

Consolidated Statements of Retained Earnings

Years ended December 28, 1997 and December 29, 1996

($000's)	1997	1996
Balance, beginning of year	**$ 25,565**	$ 16,899
Share buy-back *(note 6(f))*	**(9,698)**	–
Net income	**14,450**	8,666
Balance, end of year	**$ 30,317**	$ 25,565

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 28, 1997 and December 29, 1996

Cash provided by (used in) ($000's)	**1997**	1996
Operating activities:		
Net income	**$ 14,450**	$ 8,666
Depreciation and amortization	**9,756**	8,200
Unusual items *(note 2)*	**(3,000)**	–
Funds provided from operations	**21,206**	16,866
Net change in non-cash working capital balances related to operations	**(8,681)**	285
Decrease in environmental liabilities	**(1,095)**	(1,197)
Other	**(1,220)**	(622)
Cash flow from operating activities	**10,210**	15,332
Investing activities:		
Proceeds on sale of Michigan business *(note 2(a))*	**23,912**	–
Additions to fixed assets	**(15,714)**	(13,209)
Proceeds on disposal of fixed assets	**935**	974
Repayment of notes receivable	**85**	1,117
Change in foreign currency translation adjustment	**(722)**	35
Acquisition of The Becker Milk Company Limited's assets *(note 3)*	**–**	(38,829)
Long-term liabilities associated with the Becker's Acquisition	**–**	3,100
Other	**623**	(2,502)
Cash flow from investing activities	**9,119**	(49,314)
Financing activities:		
Issue of common shares	**1,306**	18,083
Repurchase of common shares *(note 6(f))*	**(17,177)**	–
Net change in term bank loan	**(5,000)**	13,000
Issue (repayment) of note payable	**(2,000)**	4,000
Cash flow from financing activities	**(22,871)**	35,083
Net increase (decrease) in cash during the year	**(3,542)**	1,101
Cash, beginning of year	**4,956**	3,855
Cash, end of year	**$ 1,414**	$ 4,956

(See accompanying notes)

Notes to the Consolidated Financial Statements

December 28, 1997 and December 29, 1996 (Tabular amounts in $000's except for notes 5, 6 and 8)

1. Summary of significant accounting policies

The consolidated financial statements present the financial position, results of operations and cash flows of Silcorp Limited (the "Company") in accordance with generally accepted accounting principles. The significant accounting policies are summarized as follows:

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiary companies. Intercompany accounts and transactions have been eliminated.

The results of operations of subsidiaries are included from the dates of their respective acquisitions.

(b) Definition of fiscal year

The fiscal years of the Company ended on December 28, 1997 and December 29, 1996. Both fiscal years comprised fifty-two weeks.

(c) Inventories

Inventories are valued at the lower of cost and estimated net realizable value. Cost is determined by the retail method (retail price less normal margin) for convenience store inventories and the first-in, first-out method for other inventories.

(d) Fixed assets

Fixed assets are carried at depreciated cost less write-downs required to reflect an impairment in net recoverable value. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets, generally at annual rates of 2 1/2% for buildings, 10% for equipment, 20% for computer equipment and over the term of the lease plus one renewal period for leasehold improvements.

(e) Income taxes

The Company follows the deferral method of tax allocation accounting. Under this method, future income tax recoveries relating to losses are provided for only when there is virtual certainty, in the year of the loss, that income in future years will be sufficient to make such recoveries possible.

(f) Pension plans

The Company participates in various defined benefit pension plans. The difference between the funding contributions and the amounts recorded as pension expense or credit is reflected as a deferred pension asset or liability. Pension expense or credit includes the amortization, on a straight-line basis, of the difference between the pension fund's assets and the estimated actuarial present value of the accrued pension benefits attributed to services rendered over the expected average remaining service life of the employee groups covered by each plan. Pension fund assets are valued at average market values determined over a three-year period.

(g) Earnings per share

Earnings per share are calculated using the weighted daily average number of shares outstanding during the year. Fully diluted earnings per share give effect to the exercise of stock options and the issue of shares effective the first day of the respective fiscal year. The imputed interest rate used to calculate fully diluted earnings per share is 8%.

(h) Translation of foreign operations

The accounts of self-sustaining subsidiaries in the United States have been translated into Canadian dollars as follows: assets and liabilities at the year end exchange rates; revenue and expenses at the average exchange rate for each accounting period. Foreign exchange gains or losses arising from translation of assets and liabilities are deferred and

included in a separate component of shareholders' equity as "Foreign currency translation adjustment". For other assets and liabilities, foreign exchange gains or losses arising from translation are included in the determination of net income for the year.

(i) Environmental liabilities

Environmental liabilities are defined as the estimated future costs associated with returning surface and subsurface conditions to applicable government standards at locations for which the Company has responsibility for remediation. Liabilities are recognized at the earlier of the discovery of contamination or the cessation of operation of the location. Estimates of future environmental liabilities are reviewed regularly based on current information and, if the expected future liabilities, less anticipated recoveries from third parties, exceed current provisions, a charge to earnings is recorded in the year in which the shortfall is identified.

2. Unusual items

Unusual items consist of the following:

	1997	1996
Gain on sale of Michigan business	$ 6,000	$ –
Advisor fees and other costs	(3,000)	–
	$ 3,000	$ –

(a) Sale of Michigan business

The Company's operations in the State of Michigan were sold in January 1997 for net proceeds of $23.9 million, including $2.3 million for net working capital. These proceeds have been reduced by selling costs and by an amount that the Company reimbursed the purchaser in connection with certain future environmental remediation and upgrade costs.

At December 29, 1996, the assets and liabilities of the Michigan operations to be sold were as follows:

Current assets	$ 7,510
Fixed assets	14,400
	21,910
Current liabilities	5,565
Net assets	$ 16,345

The transaction resulted in a gain on sale of $6.0 million which was recognized in the first quarter of 1997. Accumulated U.S. losses for income tax purposes are sufficient to offset the gain in 1997.

(b) Advisor fees and other costs

As at year end 1996, there was a bid outstanding from Alimentation Couche-Tard Inc. to purchase all the outstanding shares of the Company. On January 24, 1997, Alimentation Couche-Tard Inc. announced that they would not extend this bid beyond the expiry date of January 27, 1997. Advisor fees and other costs related to providing advice to the directors and information to shareholders, totalling $3.0 million, were charged to earnings as an unusual item in the first quarter of 1997.

3. Acquisition of The Becker Milk Company Limited's assets

Effective November 30, 1996, the Company acquired the assets (excluding real estate) and operations associated with the retail, dairy and wholesale business of The Becker Milk Company Limited ("Becker's") operating under

the name Becker's in the province of Ontario. Details of the acquisition accounted for using the purchase method are as follows:

Working capital	$ 7,529
Fixed assets	31,300
	$ 38,829

As consideration for this acquisition, the Company issued 1,000,000 common shares at $18.00 per share, assumed a pension liability of $3.1 million, issued an 8% note payable for $4.0 million due on November 30, 2001 and paid cash amounting to $11.0 million. In addition, the Company paid $2.7 million in transaction and restructuring costs associated with this purchase.

Under the terms of the agreement, the Company paid on behalf of Becker's, certain severance and environmental remediation costs totalling $2.0 million which were applied to reduce the note payable. The balance of this note is payable on November 30, 2001 and therefore is classified as long-term.

4. Fixed assets

	1997		1996	
	Book value	**Net book value**	Book value	Net book value
Land	**$ 200**	**$ 200**	$ 200	$ 200
Buildings	**2,342**	**1,416**	2,342	1,601
Equipment	**67,802**	**45,302**	58,777	42,573
Leasehold improvements	**24,928**	**17,954**	20,321	15,571
	$ 95,272	**$ 64,872**	$ 81,640	$ 59,945

5. Credit Agreement

On February 20, 1998, the Company entered into an agreement with a Canadian chartered bank which amended certain terms and conditions set forth in the credit agreement dated December 18, 1996. The amended agreement provides for a committed operating facility of $15 million with interest at the prime lending rate or 1% over the banker's acceptance rate and for a committed term facility of $15 million with interest at 0.75% over the prime lending rate or 1.5% over the banker's acceptance rate. The December 18, 1996 agreement originally provided for a committed facility of $40 million with interest at 1.5% over the prime lending rate or 2.5% over the banker's acceptance rate. Virtually all of the Company's assets are pledged as collateral against these facilities. Under the terms of the agreement, the Company is obliged to comply with various covenants including financial tests relating to operating results. The term facility is repayable in semi-annual instalments on the last banking day in June and December of each year as follows:

1998 - No repayments required
1999 - $1,500,000 at the end of June and December
2000 - $2,500,000 at the end of June and December
2001 - $3,500,000 at the end of June and December

The Company has entered into a further agreement with a Canadian chartered bank which established minimum and maximum banker's acceptance rates of 3.85% and 5%, respectively, for the term facility for the period prior to December 29, 2000.

6. Capital stock

The Company is authorized to issue an unlimited number of shares.

(a) The share transactions relating to the period December 31, 1995 through December 28, 1997 are summarized below:

	Number of common shares	Paid up capital
December 31, 1995	4,146,510	$ 25,317,000
Issue of shares pursuant to stock option plan	8,500	83,000
Issue of shares resulting from the Becker's Acquisition	1,000,000	18,000,000
Other	(13)	–
December 29, 1996	5,154,997	43,400,000
Issue of shares pursuant to stock option plan	142,653	1,306,000
Share repurchase	(888,267)	(7,479,000)
Other	23	–
December 28, 1997 (issued and outstanding)	4,409,406	$ 37,227,000

(b) The total number of common shares set aside under the Company's stock option plan, after the exercise of options to purchase 142,653 common shares in 1997, is 509,735, of which 328,597 have been granted under options to management and directors of the Company.

At year end, the following share options are outstanding:

Number of shares subject to option	Date granted	Exercise price per share	Expiry date
62,482	July 26, 1993	$ 7.88	2001
2,500	September 27, 1993	$ 9.25	2001
53,031	August 8, 1994	$ 8.50	2002
100,434	August 2, 1995	$ 12.50	2003
21,000	June 3, 1996	$ 13.00	2004
6,000	April 8, 1997	$ 19.50	2005
56,750	May 29, 1997	$ 25.00	2005
26,400	July 28, 1997	$ 28.00	2005

These options are exercisable after vesting periods and, in certain cases, when other conditions are met.

(c) On January 9, 1995, the Company's Board of Directors adopted a Shareholder Rights Plan (the "SRP") for a three-year period, expiring not later than June 30, 1998, which was approved by shareholders at the Annual Shareholders' Meeting in May 1995. The SRP provides for the issuance of one right for each common share held. These rights will not be exercisable and will not trade separate and apart from the common shares unless certain events in connection with a takeover bid, as specified in the SRP, occur. If such an event occurs, the rights allow certain shareholders to acquire common shares of the Company at 50% of the prevailing market price.

(d) As at December 28, 1997, the legal stated capital of the Company was $87.5 million (1996 - $122.9 million). On January 30, 1997, by special resolution of the shareholders, the stated capital was reduced to $103.1 million.

(e) Under the terms of the credit agreement with the Company's lender, the Company may pay quarterly dividends in any quarter not to exceed the greater of $1.1 million and 7.5% of the prior year's net income.

(f) On February 21, 1997, pursuant to an offer to purchase common shares made by the Company on January 27, 1997, the Company repurchased, for cancellation, 888,267 shares at $19.00 per share ($17.2 million including related costs). The share repurchase programme was financed by a portion of the proceeds from the sale of the Michigan operations.

7. Operating lease commitments

The Company and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 2016. Certain of the leases provide for additional rent based on sales. Minimum annual net rental commitments for the non-cancellable term of the leases in effect at December 28, 1997 are as follows:

Year ending	**Amount**
December 27, 1998	$ 26,559
December 26, 1999	$ 20,395
December 31, 2000	$ 15,205
December 30, 2001	$ 9,948
December 29, 2002	$ 6,452

Net lease commitments to the year 2016, aggregating $93.9 million, have been reduced by amounts totalling $27.3 million for which the Company is to be reimbursed by subtenants of the Company or paid by third parties directly to the lessors as a result of the sale of locations to such third parties.

8. Income taxes

(a) A reconciliation of the basic income tax rate in Canada to the effective tax rate for the Company is as follows:

	1997	1996
Basic rate	**44.6%**	44.6%
Recovery of tax loss carryforwards	**(39.8)**	(42.4)
Impact of lower U.S. taxes	**(5.7)**	(3.1)
Other permanent differences	**0.9**	0.9
	0.0%	0.0%

(b) In prior years, the Company accumulated losses available to offset future income for tax purposes, subject to such losses not being disallowed. Approximately $23.5 million of these losses have been applied, resulting in a reduction of income tax expense in 1997 and prior years.

As at December 28, 1997, $14 million of the accumulated losses are available in the form of non-capital loss carryforwards which expire over the period 1999 to 2003. The benefit of these loss carryforwards will be recognized in future years as income is earned. In addition, net capital losses totalling $7.9 million may be carried forward indefinitely to apply against net taxable capital gains and will be recognized when realized. There are also losses for accounting purposes related to timing differences totalling $28.1 million.

The benefit of these losses will be recognized as deductions are taken for tax purposes in excess of those taken for accounting purposes. As well, the Company has accumulated tax losses in its U.S. subsidiaries that are not considered to have any value since the operations in the U.S. were disposed of in 1997.

9. Pension plans

At December 28, 1997, actuarial estimates indicate that the present value of accrued pension benefits is approximately $26.8 million (1996 - $26.7 million) and the market related value of pension fund assets is approximately $36.5 million (1996 - $33.1 million).

10. Interest expense

Interest expense includes the following charges (credits) to earnings:

	1997	1996
Long-term debt	$ 964	$ 564
Interest on note payable to Becker's	261	25
Interest income from notes outstanding	(20)	(107)
Other expense	205	79
	$ 1,410	$ 561

11. Environmental matters

As an owner and/or operator of convenience stores, many of which sell gasoline and related products, the Company and its subsidiaries are subject to various federal, provincial, state and local laws and regulations governing the storage, handling and sale of such products. While the Company is unable to predict the extent or timing of future requirements, it believes that it is in substantial compliance with the requirements imposed under existing environmental regulations.

The Company has, pursuant to contractual obligations associated with the disposal of certain assets and pursuant to ongoing tank replacement and upgrade programmes, determined that soil and/or groundwater contamination in excess of present allowable standards exists at certain sites. Also, in connection with the closure of stores, certain equipment related to the sale of gasoline is being removed. In some instances, contamination has been detected in excess of present allowable standards and, in co-operation with regulatory officials, the Company has embarked upon a programme of continued testing and remediation.

The consolidated balance sheets include a reserve for environmental costs of $4.9 million (1996 - $6.0 million) to cover the estimated costs of remediating sites with known contamination for which the Company is responsible. The Company expects that expenditures of approximately $1.8 million will be incurred during 1998 and, therefore, this amount is included in accounts payable and accrued liabilities (1996 - $1.3 million).

Canadian legislation requires certain upgrades to underground storage tanks by the end of 1998. The Company estimates that the future capital expenditures to comply with this legislation will aggregate approximately $0.3 million. The Company has planned, as part of its annual capital budget, to upgrade the storage tanks.

In addition, a number of other environmental matters may exist which could result in future claims against the Company. Given that the estimate of environmental liabilities is based on a number of assumptions, actual expenses will vary and the variance could be material.

12. Legal proceedings

The Company has been named defendant in a number of lawsuits and is involved in judicial proceedings regarding specific environmental matters (note 11). While the nature of the contingency makes the liability judgemental, management believes that adequate provision has been made for these claims. However, should any additional loss result from the resolution of these claims, such loss would be accounted for as a charge against earnings in the year that such loss is determined.

In November 1997, a former store operator of The Becker Milk Company Limited brought against both the Company and The Becker Milk Company Limited, a claim under the Ontario Class Proceedings Act, 1992. The relevant class identified in the class action is claimed to include all persons who served as Becker's store dealers since November 3, 1991 and the action asserts that the dealers have been, at all times, employees rather than independent contractors. Damages claimed of $75 million are alleged to represent wages, overtime, statutory holiday pay, vacation pay, termination pay and severance pay, plus accrued interest. An additional $5 million for punitive damages was also claimed. The Company believes the action is without merit and will vigorously defend its position that the dealers are in fact independent contractors and not employees. Accordingly, no provision for damages has been recorded in the accounts.

13. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1997 consolidated financial statements.

14. Segmented information

The Company operates in one industry segment and, in 1996, two geographic segments, deriving its revenue primarily from sales of convenience items, fast food and gasoline. The following sets out the segmented information:

	1997	1996
Total sales:		
Canada	**$ 742,586**	$ 446,782
U.S.A.	**–**	187,037
Consolidated	**$ 742,586**	$ 633,819
Segment operating income:		
Canada	**$ 12,860**	$ 6,228
U.S.A.	**–**	2,999
Consolidated	**$ 12,860**	$ 9,227
Total assets:		
Canada	**$ 154,621**	$ 145,284
U.S.A.	**2,317**	28,555
Consolidated	**$ 156,938**	$ 173,839

Six Year Review

(000's except for per share data and number of locations)
(1995 - 53 weeks; all other years - 52 weeks)

	1997	1996	1995	1994	1993	1992
Sales	**$ 742,586**	$ 633,819	$ 590,788	$ 573,986	$ 601,546	$ 668,601
Gross margin	**236,325**	166,153	158,243	153,194	155,815	176,895
General, administrative & operating expenses	**213,709**	148,726	142,084	137,241	140,268	167,521
Depreciation and amortization	**9,756**	8,200	7,695	7,214	8,127	11,431
Operating income (loss)	**12,860**	9,227	8,464	8,739	7,420	(2,057)
Income (loss) before unusual items and income taxes	**11,450**	8,666	7,787	6,870	5,242	(8,232)
Net income (loss)	**14,450**	8,666	7,787	6,870	2,242	(63,739)
Capital expenditures	**15,714**	13,209	9,052	8,288	4,759	2,486
Total assets	**156,938**	173,839	100,175	107,909	104,037	112,170
Debt	**17,000**	24,000	7,000	20,590	37,847	48,125
Shareholders' equity	**67,544**	69,687	42,903	36,284	14,162	10,912
Common shares outstanding (at year end)	**4,409**	5,155	4,147	4,120	2,870	2,870
Common shares outstanding used in per share calculations	**4,453**	4,233	4,130	4,013	2,870	3,025
Earnings (loss) per share before unusual items and income taxes	**$ 2.57**	$ 2.05	$ 1.89	$ 1.71	$ 1.82	$ (2.72)
Fully diluted earnings (loss) per share before unusual items and income taxes	**$ 2.46**	$ 1.86	$ 1.79	$ 1.60	$ 1.80	$ (2.72)
Earnings (loss) per share	**$ 3.25**	$ 2.05	$ 1.89	$ 1.71	$ 0.78	$ (21.07)
Fully diluted earnings (loss) per share	**$ 3.08**	$ 1.86	$ 1.79	$ 1.60	$ 0.77	$ (21.07)
Number of locations at year end (Corporate and dealer operated)	**897**	941	570	579	601	676

Earnings per share and common shares outstanding for 1993 and 1992 are based on total shares issued in connection with the restructuring plan and consolidated on a 1 for 10 basis as at the beginning of the respective periods.

Quarterly Comparison

(000's except per share data, common share information and trading volume)
(4th quarter 1995 - 17 weeks; all other quarters - 16 weeks)

Quarter	1		2		3		4	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996
Sales	**$158,280**	$114,784	**$174,751**	$145,725	**$188,345**	$157,830	**$221,210**	$215,480
Operating income (loss)	**(2,511)**	(1,300)	**4,331**	2,166	**8,380**	5,365	**2,660**	2,996
Net income (loss)	**121**	(1,459)	**3,955**	2,013	**8,066**	5,317	**2,308**	2,795
Earnings (loss) per share								
Basic	**$ 0.03**	$ (0.35)	**$ 0.92**	$ 0.49	**$ 1.86**	$ 1.28	**$ 0.53**	$ 0.63
Fully diluted	**$ 0.00**	$ (0.35)	**$ 0.85**	$ 0.46	**$ 1.72**	$ 1.19	**$ 0.51**	$ 0.58
Common shares								
High	**$ 22.00**	$ 14.38	**$ 27.00**	$ 13.50	**$ 35.00**	$ 18.15	**$ 37.25**	$ 20.00
Low	**$ 17.55**	$ 11.50	**$ 18.55**	$ 12.00	**$ 25.85**	$ 12.00	**$ 30.00**	$ 17.50
Close	**$ 20.00**	$ 12.00	**$ 27.00**	$ 13.00	**$ 31.25**	$ 18.15	**$ 31.95**	$ 18.60
Trading volume	**2,157,672**	424,000	**200,990**	381,000	**333,604**	1,646,000	**506,225**	2,031,000

Report on Corporate Governance

In December 1995, the Board reconstituted its Executive Committee to fulfil a new mandate for certain corporate governance activities. The Board also reviewed and expanded the mandate of the Human Resource Committee and the Audit Committee at that time. The Board has recently reviewed and reaffirmed the mandate of each of the committees and has created an Environmental/Safety Committee to address issues in the areas of environmental compliance and compliance with occupational health and safety regulations. A description of the composition and mandate of each of the committees of the Board is set out below.

The Board of Directors and senior management of the Company consider effective corporate governance to be crucial to the efficient operation of the Company. The Board's review and disclosure of its governance procedures is consistent with the requirements of The Toronto Stock Exchange ("TSE") as contained in the December 1994 report of the TSE Committee on Corporate Governance in Canada (the "TSE Report").

Board Composition

The TSE Report emphasizes the importance of the independence of corporate boards. The TSE Report describes an "unrelated" director as a director who is free from any interest and any business or act in the best interests of the Company, other than an interest arising from shareholdings. The current Board of Directors of the Company as well as the proposed Directors include only two Directors who would or may be considered related: (i) Mr. Derek M. Ridout who is the Company's Chief Executive Officer, and (ii) Dr. Geoffrey W.J. Pottow who could be considered related by virtue of his position as President and Chief Executive Officer of The Becker Milk Company Limited, which is the landlord for approximately 10% of the Company's leased convenience stores.

As of March 5, 1998, the Board was comprised of 11 directors. The Board is of the view that a board of directors of its current size strikes an appropriate balance between the competing objectives of ensuring a wide diversity of skills, experience and points of view, and ensuring that the Board can function effectively and as a cohesive group. Any reduction in the size of the present Board would not, in the Board's view, serve to appreciably enhance the effectiveness of the Board.

Responsibilities of the Board, CEO and Chairman

In accordance with the requirements of the Business Corporations Act (Ontario), the articles and by-laws of the Company, and obligations otherwise imposed by law, the Board is entrusted with the duty to direct the management of the business and affairs of the Company. Although the Board does delegate some functions to senior management and committees, the Board ultimately retains its supervisory function. Any responsibility which has not been delegated remains with the full Board.

The Board, in addition to its six regularly scheduled meetings, will hold additional meetings when warranted to consider particular issues as required. In 1997, the Board met nine times.

The Board annually adopts a strategic plan for the ensuing three years. The Board meets once a year, usually in the second quarter, to consider the goals, objectives and issues to be addressed in the strategic plan. Management is then instructed to develop a detailed strategic plan, which incorporates the views of the Board. The Board then considers management's detailed strategic plan and, if such plan is approved, formally adopts the strategic plan, usually in the third quarter of the year. As well as approving the three-year strategic plan, the full Board annually considers a detailed and comprehensive business plan for the year which incorporates operating budgets and proposed capital expenditure plans.

The CEO's mandate is to develop and, following Board approval, implement the Company's business plan and strategic plan. The CEO is also responsible for the annual preparation of a set of personal and corporate objectives which are reviewed both by the Board and the Human Resource Committee. The CEO's objectives are utilized both by the Board and the Human Resource Committee as a tool to assist in the appraisal of performance and in the consideration of appropriate levels of compensation for the CEO and management. The Board also provides the CEO with additional mandates and responsibilities as circumstances warrant.

The Chairman's role is central to the Board's ability to function independently of the Company's management. In this capacity, the Chairman serves to improve the quality of the interaction between management and the Board. While such interaction is vital to the Company, the Board has developed a practice of spending part of most directors' meetings without the presence of management and without management participation other than by the CEO and, where circumstances warrant, will meet independently without the presence of the CEO.

In order to ensure effective, relevant and responsible disclosure, the Board has developed a comprehensive communications policy. In this regard, the Board and the Audit Committee each review the Company's quarterly financial results prior to their dissemination by press release. In the event that an unusual development or material change occurs, the CEO or the CFO is responsible for the preparation and dissemination of a press release, unless the Board or the Chairman authorizes another individual. Finally, the CEO or, failing him, the CFO, or failing both, such person as the Chairman may designate has responsibility for responding to media and analyst inquiries.

Executive Committee

The Executive Committee was reconstituted in December 1995 to consider specific corporate governance issues and where impracticable for the Board to act in circumstances requiring action, to act on behalf of the Board. The mandate of the Executive Committee also includes a responsibility to monitor the quality of its relationship between management and the Board, and to recommend improvements. The corporate governance responsibilities of the Executive Committee also include:

(i) making recommendations to the Board with respect to nominees to the Board and candidates for filling any vacancies on the Board, after considering the experience and expertise of individuals and the needs of the Board;

(ii) making recommendations to the Board with respect to the composition and Chairpersons of the various Committees of the Board;

(iii) assessing the effectiveness of the Board and its Committees;

(iv) considering whether the level of director compensation is appropriate (in light of such factors as time commitment, responsibilities and comparable fees);

(v) providing orientation to new directors; and

(vi) considering any request by individual directors to engage outside advisors.

The Executive Committee is composed of four non-management, unrelated Directors (Messrs. Martin - Chairman, MacLellan, Maurice and Dimma) and the Chief Executive Officer of the Company. The Chief Executive Officer does not participate in the corporate governance activities of the Executive Committee but participates in all other matters.

Audit Committee

The Audit Committee reviews the Company's annual and interim financial statements and other financial publications (including Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Annual Report), and makes recommendations to the Board with respect to such statements and documents. The Audit Committee also reviews and makes recommendations to the Board regarding the audit plan of the Company's external auditors, the effectiveness of internal control programmes and the integration of the external audit and the internal control programme. In addition, the Audit Committee reviews with management certain of the risks inherent in the Company's business, principally in the area of management information systems, and implements, monitors and evaluates any necessary measures to address those risks.

The Audit Committee is composed of Messrs. Bankes, Lowden and MacLellan (Chairman), all of whom are non-management, and unrelated Directors of the Company.

Human Resource Committee

In addition to the responsibilities described in the Human Resource Committee Report included in the Management Information Circular and Proxy Statement for 1998, the Human Resource Committee has responsibility to: (i) review the objectives prepared annually by the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer in the context of the Company's Strategic Plan and Business Plan; (ii) monitor and report to the Board on the organizational structure of the Company's management and succession planning; and (iii) oversee the administration of the Company's pension plans, including monitoring the performance of the pension fund manager, monitoring the value of the pension fund assets and liabilities and reviewing the statements of investment policies and goals of the pension plans.

The Human Resource Committee is composed of Mrs. Dawe and Messrs. Dimma (Chairman) and Taylor, all of whom are non-management and unrelated Directors.

Environmental/Safety Committee

On July 7, 1997, the Board authorized the formation of a new committee, the Environmental/Safety Committee to address environmental and safety issues relating to the Company's business. The mandate of the Environmental/Safety Committee includes the monitoring and evaluation of necessary measures in respect of the Company's environmental policies and procedures. As well, the Environmental/Safety Committee ensures that the Company's commitments to complying with environmental and occupational health and safety legislation and regulations are addressed at the most senior level by receiving and reviewing applicable reports with management and the Board.

The Environmental/Safety Committee is composed of Messrs. Maurice (Chairman), Pottow and Williams, all of whom are non-management and unrelated (other than Dr. Pottow) Directors of the Company.

Corporate Directory

Board of Directors

Robert W. Martin
Chairman of the Board,
Silcorp Limited

John F. Bankes
Managing Director,
Artemis Management Group Inc.

Shirley A. Dawe
President,
Shirley Dawe Associates Inc.

William A. Dimma
Chairman,
Swiss Reinsurance Company Canada

Stephens B. Lowden
President, SBL Capital Corporation

Robert F. MacLellan
Executive Vice-President, TD Bank, and
Chairman, TD Asset Management Inc.

Peter C. Maurice
Vice-Chairman,
CT Financial Services Inc.

Dr. Geoffrey W.J. Pottow
President and Chief Executive Officer,
The Becker Milk Company Limited

Derek M. Ridout
President and Chief Executive Officer,
Silcorp Limited

Donald J. Taylor
Chairman, IPL Energy Inc.

James B. Williams
President and Chief Operating Officer,
Food Services Group,
Cara Operations Limited

Officers

Robert W. Martin
Chairman of the Board

Derek M. Ridout
President and
Chief Executive Officer

Joseph E. Lewis
Senior Vice-President and
Chief Operating Officer

Michael S. Rousseau
Vice-President and
Chief Financial Officer

Scott F. Findlay
Vice-President,
Marketing and Distribution

Dale A. Pettit
Vice-President and
Secretary-Treasurer

Maureen I. Cook
Assistant Secretary

Operating Groups

Jeffrey S. Faria
Vice-President,
Dairy Operations

Donald M. Hand
Vice-President,
Customer and
Community Services

David R. Rodgers
Vice-President,
Ontario Operations

Kim J. Trowbridge
Vice-President,
Western Canada Operations

Annual Meeting

The Annual Meeting of Shareholders will be held on Friday, May 8, 1998 at 11:00 a.m. at the Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Ontario.

Corporate Information

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Scarborough, Ontario M1S 3T2

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Fax: (416) 291-4947

Transfer Agent and Registrar

Investors are encouraged to contact our Transfer Agent and Registrar, CIBC Mellon Trust Company, for information regarding their security holdings. They can be reached at:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9

AnswerLine™: *(416) 643-5500 or*
1-800-387-0825
(Toll Free throughout North America)
Facsimile: *(416) 643-5501*
Web site: *www.cibcmellon.ca*
Email: *inquiries@cibcmellon.ca*

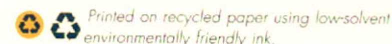
Listed - Sil

Common Shares

Former Class "A" Non-Voting Shares and Class "B" Shares were changed effective May 17, 1993 into Common Shares

Auditors

Ernst & Young
Chartered Accountants
Toronto, Ontario



Designed and produced by: Fraiman Design Inc.
Printed in Canada

Silcorp Limited
10 Commander Boulevard, Scarborough, Ontario M1S 3T2