Silcorp Limited

Annual Report 1996

Becker's Mac's mike's mart

Corporate Profile

Silcorp Limited, headquartered in Scarborough, Ontario, is the largest convenience store operator in Canada, with over 1,000 convenience stores in Ontario and Western Canada operating under the **Mac's** and **Mike's Mart** banners, and the **Becker's** and **Daisy Mart** banners acquired in November 1996. The Company's Ontario convenience store network was also strengthened by the addition of the Becker's dairy operations in Scarborough, Cornwall and St. Thomas and **Gee & Jay Distributors** which, together with **Northmar Distributors**, play an important role in the wholesale distribution of merchandise. Until January 1997, the Company also operated a chain of 51 convenience stores in Michigan under the **Hop-In** banner as well as **Gal Corp**, a distributor of gasoline, home fuel oil and related products.

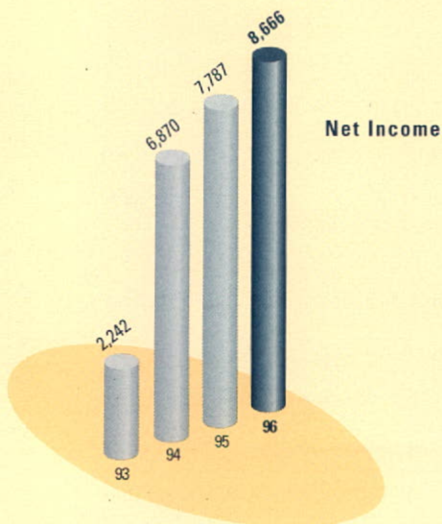
Corporate Vision

Our corporate purpose and governing direction for the future is:

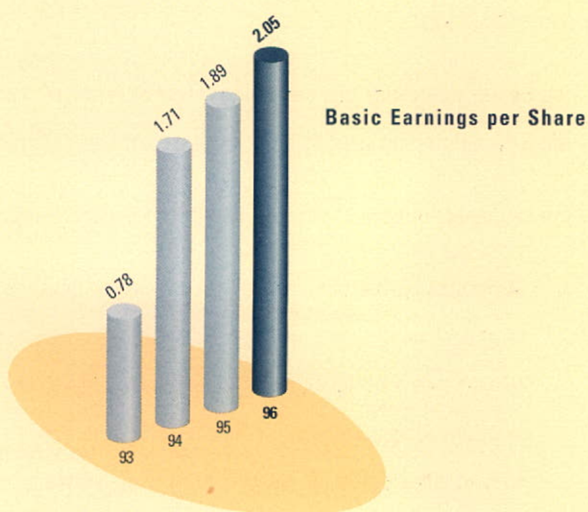
"To create a customer focused network where every retail associate is a success story."

Financial Highlights

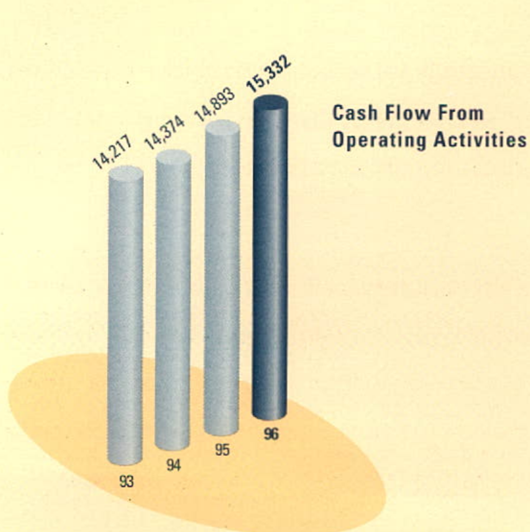
($000's except per share data)	1996 (52 weeks)	1995 (53 weeks)	1994 (52 weeks)	1993 (52 weeks)
Sales	**$ 633,819**	$ 590,788	$ 573,986	$ 601,546
Income before unusual items and income taxes	**8,666**	7,787	6,870	5,242
Net income	**8,666**	7,787	6,870	2,242
Basic earnings per share	**$ 2.05**	$ 1.89	$ 1.71	$ 0.78
Fully diluted earnings per share	**$ 1.86**	$ 1.79	$ 1.60	$ 0.77
Cash flow from operating activities	**15,332**	14,893	14,374	14,217
Capital expenditures	**13,209**	9,052	8,288	4,759
Debt	**24,000**	7,000	20,590	37,847
Shareholders' equity	**69,687**	42,903	36,284	14,162



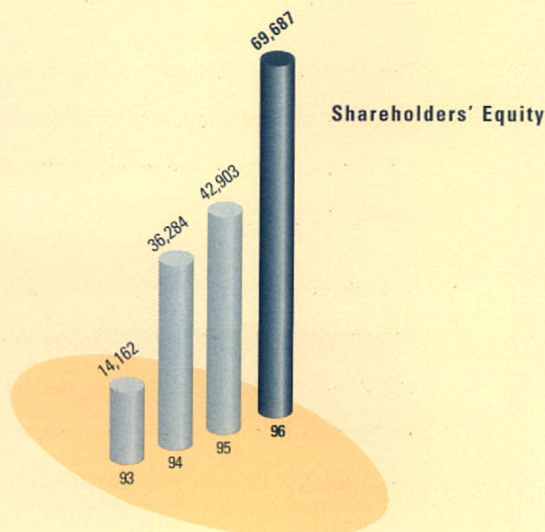
Net Income



Basic Earnings per Share



Cash Flow From Operating Activities



Shareholders' Equity

Silcorp is a transformed Company poised to provide its shareholders with significantly accelerated earnings for the next two years.

The basis for our optimism lies in the three extremely positive transactions that took place in the fall of 1996 and the early winter of this year - (i) the purchase in Ontario of the 525 store Becker Milk Company chain, including its dairy and distribution assets, for $38.8 million; (ii) the sale of the 51 store Hop-In Michigan chain, including the gasoline wholesale and home heating oil business (Gal Corp) for approximately $24 million, and; (iii) a share repurchase program under which 889,310 shares were purchased for cancellation at $19.00 per share for a total cost of approximately $17 million.

These three transactions were accomplished during a relatively short (six month) timeframe against the backdrop of an unsolicited takeover offer of $16.50 per share by Alimentation Couche-Tard Inc. announced on August 26, 1996.

The Becker's purchase had been the subject of extensive negotiations that began in the late summer of 1995 when the controlling shareholders advised us of their intention to exit the retail business.

The net impact of each of these value-added transactions can best be summarized as follows:

- Strategically, the purchase of the 525 store Becker's chain (including 115 Daisy Mart and franchise locations) along with their dairy and distribution assets, clearly positions Silcorp as the leader in the chain convenience store business in Canada with almost 900 locations under our direct control and over 1,000 locations when we include the Daisy Mart and franchise programs. Silcorp now manages approximately 40% of the traditional chain convenience business in Ontario with more than 700 locations serving Canada's largest retail marketplace.

  This important in-channel acquisition, in combination with the sale of Michigan, clearly re-focuses Silcorp's C-store business back to Canada and provides us with the opportunity to single-mindedly address the significant task of integrating Becker's retail and distribution businesses into our operations over the next twelve months.

- The sale of Michigan, although a difficult decision, was made easier by the very attractive price we were able to negotiate - over eight times operating earnings. It is important to note that exiting Michigan also significantly reduces the Company's exposure to the constant and significant fluctuations in gasoline margins. Furthermore, recent experience suggested that our Company faced a tough up-hill struggle to secure quality new sites in contiguous or fill-in territories against competing deep-pocketed petroleum marketers.

- Finally, the share buy-back at $19.00 per share provided liquidity for those of our shareholders having a shorter term investment objective while demonstrating the Board of Directors' confidence in the intrinsic value of Silcorp's common shares. It is our belief that the success of this buy-back program will stabilize our shareholder base going forward, ideally creating a stronger balance of longer-term investors, focused on the Company's value-added, wealth creation strategies for the next three to five years.

The events referred to above were regularly and widely chronicled in the press during the period from September 1996 through February 1997. Additionally, a special meeting of shareholders was held on January 30, 1997 as part of a requirement to receive shareholder approval for a reduction in stated capital prior to moving forward with our share buy-back program. During that meeting, we presented a detailed summary of the transactions referred to above, as well as our core objectives going forward for 1997 and 1998.

What has not been discussed as thoroughly is the progress of our base business. During 1996, our core Canadian business continued solidly ahead, lead by a same store sales increase of 4% versus year-ago, paced by a 6% increase in Western Canada.

These increases, in combination with rigorous margin management and cost reduction initiatives in Canada, helped fuel an 11% increase in net income to $8,666,000 or $2.05 per share.

The core strategies that dictate our top effort priorities continue to stress the importance of *re-imaging*, evidenced by our Store 2000 test program, particularly in Western Canada; *innovation*, through branded and proprietary food service programs; and *productivity improvements*, driven by leadership in category management, new initiatives in distribution and cost reductions. These effort priorities have all been back-stopped by our continuing major commitment to state-of-the-art information systems. Technology and processing enhancements have contributed significantly to our ability to initiate major productivity gains in our financial administration and store operations as well as our understanding of customer behaviour at each of our retail locations.

Silcorp is now, more than ever, armed with the resources to excel as a Canadian convenience retailer. Our objective is to serve the wants and needs of more than four million weekly Canadian quick visit shoppers with leading trademark products and services complemented by high quality, fresh, proprietary food service menu items.

Our vision is focused on delivering value to consumers on a local basis, which at first blush can seem contradictory. It has much less to do with store count numbers or new geography ... and much more to do with our commitment to develop a strong network of highly productive locations where *each* retail operator is a success as measured by their ability to earn a reasonable income, their knowledge of their local customer base

and their contribution to the communities they serve. *Success to Silcorp is a site by site issue* and this philosophy drives many of our merchandising and community activity programs.

Outlook

The key to our success over the next three years will be the ability to crystallize the integration synergies relating to the Becker's transaction, including the new dairy and distribution businesses, and our ability to move the base business ahead through the success of our Store 2000 program.

In particular, the Becker's integration plan, once fully implemented, envisions $13 million in annual savings (1998) through overhead reductions, improvements in product margin through better buying, closing both competing and non-productive locations, and improved efficiencies in both the dairy and distribution businesses as we combine the volumes of our four Ontario controlled retail trademarks (Mac's, Becker's, Daisy Mart and Mike's Mart).

Our decision to extend our current leading edge scanning based retail management systems in 400 Becker's locations by June 1997 will quickly contribute to achieving acquisition synergy targets. These systems, available to the store dealer for the first time, provide new tools to manage "their business" and strengthen our dealer network. A top management priority will be the integration of distribution facilities and systems across Ontario. This will encompass store ordering and inventory management as well as supplying Becker's dairy products to our Mac's and Mike's stores from our dairy operation in Toronto.

Our shareholders should be aware that there has been a great deal of rigorous planning behind the development of the steps we are now taking to realize these important synergies between Becker's and Silcorp. Progress on these initiatives are tracked on a regular, weekly basis with adjustments to timetables or program specifics as required.

While the priority is clearly one of wrapping our arms around this new, much larger business base in Ontario, there is a great deal of effort also going into the development of new programs from store re-imaging to the introduction of an exciting array of branded and proprietary food service programs, right through to innovative new category management programs as we expand our scanning initiatives. This balance between "making new things happen" and integrating a major new business, represents a great challenge for the senior management team at Silcorp who are now even more experienced in moving the business ahead in difficult situations. This particular team has had its skills honed through the challenges of CCAA and now under the pressures of pursuing significant shareholder value maximizing initiatives in the face of an unsolicited takeover bid at a price which your Board of Directors concluded offered inadequate value.

Our commitment going forward is to continue to build shareholder wealth through the combination of innovation and productivity improvements enabled by our commitment to leadership in systems re-engineering as well as a dramatically expanded customer information base on a site-by-site basis, all complemented by a continuing commitment to in-channel acquisitions on a timely, opportunistic basis.

With respect to the Board of Directors, there has been a change in its composition since last year. During the last half of 1996, Silcorp welcomed three new Board members including Shirley Dawe, who has extensive board experience as well as a strong background in retail. In addition, the Board was expanded by two additional positions occasioned by the acquisition of Becker's with the appointment of Dr. Geoffrey Pottow, President and C.E.O. of The Becker Milk Company Limited and Stephens Lowden, President of SBL Capital Corporation and former partner with Ernst & Young.

On behalf of the Board of Directors and management, we would like to express our sincere appreciation to William Livingston who served as a Director for three years to his retirement in July, 1996.

For the second time in less than five years, Silcorp's Board of Directors and special advisory team have "answered the bell" in uniquely challenging circumstances. The first, in 1992 when the Company's very survival was threatened, leading to a massive financial and corporate re-organization under CCAA. The most recent

This Victoria, B.C. Mac's store received an attractive make-over under the Company's Store 2000 Program.

involved a lengthy and involved effort to pursue shareholder value maximizing initiatives to provide shareholders with an alternative to Alimentation Couche-Tard's inadequate offer. The Board made a significant commitment of time and energy in the analysis and planning for the highly accretive transactions in Ontario and Michigan and most recently the share buy-back program, completed in late February of this year. This is an exemplary Board and continues to serve our shareholders extremely well in both the tough times and the good times.

Finally, a closing comment on Silcorp's greatest competitive strength - its people, now more than 7,000 system-wide. For more than ten years, we have stated both privately and publicly that our success depends on our ability to deliver superior customer service. We have espoused the concept of customer intimacy - that special relationship that our store environment can and must deliver, one that puts a "heart" in the typically cold, confusing world of box-store retailing which now dominates our retail landscape.

To accomplish this, we have developed a passion for recognizing individual contributions. This starts with thorough hiring and training practices and continues with a commitment to providing the best tools of the trade, specifically the finest information technology available. Our decision to install leading edge scanning based retail management systems throughout the store network is not just about efficiency and productivity. It is just as much a statement about caring about our people, in particular their ability to satisfy their customers' wants and needs and in so doing ensure themselves economic success. The final piece is about teamwork. Team Silcorp is all about linkages. These interactions that collectively translate to providing extra measures of value to our four million customer visits weekly must be carefully nourished, constantly renewed and championed at everything from route meetings to staff BBQ's, to regional and national conferences.

Our business has dramatically increased in size and complexity with the addition of the Becker's retail, dairy and distribution business. The challenge of fully integrating this important new asset is enormous, and we are confident that the outstanding team at Silcorp will, once again, deliver for our shareholders.

Robert W. Martin
Chairman of the Board

Derek M. Ridout
President and Chief Executive Officer

Introduction

The following analysis compares the results of operations for the year ended December 29, 1996 with the results of operations for the year ended December 31, 1995. The 1996 and 1995 fiscal years comprised 52 weeks and 53 weeks respectively. The inclusion of the operating activity of the assets acquired from The Becker Milk Company Limited ("Becker's Acquisition") for the month of December 1996 has also affected comparisons to 1995. The impact of this activity is disclosed where appropriate.

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

Net income of $8.7 million in fiscal 1996 was $0.9 million (11.3%) higher than the fiscal 1995 level of $7.8 million. This improvement was the result of a reduction and productivity improvements in general, administrative and operating expenses in Canada (excluding incremental costs for Becker's) and the continued development and maturity of the branded food and service programs. The financial results in Michigan, which were at approximately the same level as 1995, were negatively impacted by lower petroleum margins and higher operating costs which were offset by a gain on the settlement of an insurance claim.

Sales

Sales for the fiscal year 1996 were $633.8 million, an increase of 7.3% from 1995. This increase is primarily the result of the inclusion of the Becker retail and dairy sales for the month of December (approximately $28.2 million or 66% of the total sales increase), an increase in gasoline sales (result of higher retail prices in Michigan) and the expansion of the branded food program. The increase was limited by the loss of sales due to the closure of 31 Mac's and Mike's Mart locations during the year and having one less sales week in 1996 as compared to 1995.

On November 30, 1996, the Company acquired the 410 retail locations (operating under the name "Becker's") and 115 franchise and banner locations (operating primarily under the name "Daisy Mart") of The Becker Milk Company Limited in Ontario. Two additional locations were opened during the year, one of which sells gasoline. The Company closed 41 locations during the year (10 Becker's, 2 of which were converted to Daisy Mart). There were 1,089 stores open at December 29, 1996, a net increase of 488 (81%) from 601 at the end of fiscal 1995.

The number of locations by trade name are as follows:

	1996	1995
Mac's	**404**	430
Mike's Mart	**86**	90
Becker's	**400**	-
Hop-In	**51**	50
Corporate and dealer operated locations	**941**	570
Daisy Mart	**83**	-
Becker's franchise	**34**	-
Other franchise (Manitoba)	**31**	31
Daisy Mart/franchise operated locations	**148**	31
Total	**1,089**	601

The Daisy Mart program allows an independent operator to own and manage the retail location under the banner "Daisy Mart". The Company receives a small monthly fixed royalty and has a contract to supply dairy products. The franchise program typically has a higher fixed royalty, as certain services are provided by the Company, and operates under the Mac's or Becker's banner. Each franchisee also has a contract with the Company for the supply of dairy products. Under both operating structures, the store operator has ownership of the inventory and other assets at the location and in most cases, is responsible for the lease. The Company only records the royalty income in its consolidated operating results.

Consolidated Sales Summary

($ millions)	**1996**	1995	Percent Change
Gasoline Revenue			
Retail	**$ 181.9**	$ 167.1	8.9%
Wholesale	**38.8**	31.5	23.2%
	220.7	198.6	11.1%
Merchandise Sales	**398.8**	378.4	5.4%
Service Revenue	**14.3**	13.8	3.8%
	$ 633.8	$ 590.8	7.3%

Merchandise sales include retail sales through corporate and dealer operated stores, while service revenue includes royalty and franchise income from the franchise and Daisy Mart programs, rental of video tapes, commissions on the sale of lottery and break-open tickets and revenue from automated banking machines. Sales of dairy products to the franchisees and Daisy Mart independent operators are included in the merchandise sales category at the wholesale values.

Tobacco products is the largest merchandise category comprising approximately 33% of the Company's merchandise sales in 1996 (1995 - 33%). Tobacco sales increased 5% over 1995 levels, in large part, due to the Becker's Acquisition and the implementation of a more competitive pricing strategy in the Western Canada market.

In 1996, management continued its efforts to diversify its sales mix through the introduction of new products and services such as Subway™. During the year, the Company remodelled 15 of its convenience stores to introduce a branded concept, nine of which were Subway™. By year end, with the addition of 33 branded Becker locations, the Company had 97 branded locations in operation, 80 of which were Subway™. Sales in the branded food service category increased approximately 54% over the 1995 level and had a positive impact on overall merchandise sales, through increased customer traffic.

On a comparable store basis (adjusted to eliminate the impact of the extra week in 1995), merchandise sales increased 4%, reflecting the growth in tobacco products and branded food services, as well as the positive impact of improved promotional and customer service programs.

In 1996, gasoline revenue increased $22.1 million or 11.1% compared to 1995 which was the result of the Becker's Acquisition (accounting for approximately $7.8 million of the increase) and higher retail prices in the State of Michigan (approximately 10% higher than the average 1995 price), the result of higher crude oil prices in the second half of 1996. Retail gasoline volume increased by 3% resulting from the addition, in the month of December, of 69 gasoline locations included in the Becker's Acquisition, partially offset by the closure of ten gasoline locations during 1996.

Gasoline Volumes

(millions of litres)	**1996**	1995	Percent Change
Retail	**418.9**	406.7	3.0%
Wholesale	**111.9**	121.0	(7.5)%
	530.8	527.7	0.6%

At the end of 1996, 170 locations sold gasoline compared with 110 locations at the end of 1995. The percentage of the Company's convenience stores selling gas declined marginally at the end of 1996 as compared to the end of 1995.

Gross Margin

Total gross margin dollars increased $7.9 million or 5.0% from $158.2 million in 1995 to $166.1 million in 1996. The primary reasons for the increase are the inclusion of Becker's operating results for the month of December and the growth of the branded food service category. The increase in gross margin dollars was limited by the impact of closing 31 locations during the year and having one less sales week in 1996 as compared to 1995. Gross margin, as a percentage of sales, decreased to 26.2% in 1996 from 26.8% in 1995, the result of lower gasoline margin rates, both in Canada and Michigan.

Consolidated Gross Margin Summary

($ millions)	**1996**		1995	
		Gross Margin Rate		Gross Margin Rate
Gasoline Margin	**$ 21.2**	**9.6%**	$ 21.0	10.6%
Merchandise Margin	**131.4**	**33.0%**	124.4	32.9%
Service Margin	**13.5**	**94.5%**	12.8	92.8%
	$ 166.1	**26.2%**	$ 158.2	26.8%

The relatively high service margin percentage is the result of accounting for the majority of service revenue on a commission rather than a gross sales basis.

On a segmented basis, the 1996 gross margin was $31.1 million in the United States and $135.0 million in Canada. The U.S. operations contributed 18.7% (1995 - 18.8%) of the total gross margin. Compared with the Canadian operations, the U.S. operations are more dependent on petroleum sales to generate gross margin dollars. Of the $31.1 million gross margin earned by the U.S. operations in 1996, $10.0 million was contributed by gasoline revenue

from the 42 gasoline outlets in Michigan and $4.5 million was contributed by the petroleum wholesale business. The U.S. convenience store operations produced 12% (1995 - 11.7%) of the total merchandise gross margin dollars from approximately 10% of the store count (excluding the locations purchased as part of the Becker's Acquisition).

General, Administrative and Operating Expenses and Depreciation and Amortization

The total of general, administrative and operating expenses and depreciation and amortization increased $7.1 million (4.8%) to $156.9 million in 1996 from $149.8 million in 1995. This increase was attributable to the addition of the Becker's retail, dairy and warehouse operating costs (accounting for $8.1 million) for the month of December and general inflation and wage increases. The positive impact of closing 31 locations during the year, having one less sales week in 1996 as compared to 1995, the gain realized on the settlement of an insurance claim in Michigan and productivity improvement initiatives, such as the centralization and consolidation of certain support groups, partially reduced the overall increase.

As a result of the foregoing, operating income in 1996, before the allocation of corporate overhead, was $3.0 million in the United States and Canadian operating income, after fully absorbing the cost of corporate overhead, was $6.2 million.

Interest Expense

Total interest expense in 1996 declined $0.1 million from the 1995 level. This reduction was the result of lower debt levels and interest rates during the year, partially offset by the cost of incurring an additional $17.0 million in debt in the month of December as a result of the Becker's Acquisition.

Income Taxes

At December 29, 1996, the potential benefit related to accounting losses for Canadian operations from prior years of $53.2 million (1995 - $58.6 million) has not been recorded in the consolidated financial statements. The potential benefit related to the losses, subject to such losses not being disallowed, will be realized in future years when taxable income is reduced by the application of these losses. This benefit has not been recorded for accounting purposes since, at the time the losses were incurred, it was not certain that there would be future taxable income sufficient to fully utilize them.

Included in the $53.2 million of losses are $21.3 million that have been claimed for income tax purposes and expire over the period 1999 to 2003. The Company expects to utilize the losses that have been claimed for income tax purposes prior to their expiration.

Accumulated losses for income tax purposes and losses for accounting purposes relating to the Company's U.S. operations amounted to $28.9 million at December 29, 1996. No tax benefit has been recorded in the consolidated financial statements in respect of such losses. Such losses will be utilized in 1997 to offset the gain resulting from the sale of the Company's operations in the State of Michigan. To the extent there will be no

further income in the U.S., the remaining losses, which would have expired over the period 2004 to 2008, will not be available to the Company.

Foreign Currency Translation Adjustment

The foreign currency translation adjustment balance of $0.7 million, which is included in shareholders' equity, increased marginally in 1996, the result of slightly higher U.S. exchange rates at the end of fiscal 1996.

Analysis of Fourth Quarter Results -16 Weeks Ended December 29, 1996 Compared With 17 Weeks Ended December 31, 1995

Consolidated sales for the 16-week period ended December 29, 1996 (fourth quarter) were $215.5 million versus $184.6 million in the 17-week period ended December 31, 1995. This represented an increase of $30.9 million (16.7%) and is primarily attributable to the addition of the Becker retail locations for the month of December. Comparable store merchandise sales (adjusted to eliminate the impact of the extra week in 1995) increased 1.8% in the fourth quarter over the same period in 1995.

Net income for the fourth quarter of 1996 was $2.8 million as compared to $2.1 million for the same period in 1995. The increase was applicable to the Canadian operations with virtually no impact from the Becker's operating results which are included from November 30, 1996. The operating results of the U.S. operations in Michigan, which were negatively impacted by lower gasoline margins and higher operating costs in the fourth quarter, benefited from a gain on the settlement of an insurance claim during the period, resulting in U.S. operating income at approximately the same level as 1995 for the quarter.

Environmental Matters

Environmental matters associated with the petroleum business in both Canada and the United States continue to be significant as regulatory authorities continue to impose standards with respect to contamination detection and remediation. Due to the complexities involved, estimating the extent of any underground contamination and the potential cost of remediation requires significant time and analysis and even the most careful estimate involves a significant degree of uncertainty. The Company utilizes the services of outside consultants to assist in this process and consults in a co-operative capacity with regulatory authorities. During 1997, the Company, with the assistance of an outside consultant, will review and, if necessary, make adjustments to its Environmental Management System.

The Company has established a reserve for environmental costs of $6.0 million (1995 - $7.2 million) which it believes is adequate to satisfy all known environmental remediation costs.

Pursuant to Canadian provincial legislative requirements, owners of underground storage tank systems are required to upgrade facilities by the end of 1998. The Company has estimated that the capital expenditures required to the end of 1998 will amount to approximately $0.8 million. The Company has committed, as part of its annual capital budget, to upgrade the underground storage tank systems in Canada.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Funds

The major sources of funds over the last two years have been cash flow from operating activities, the issuance of common shares 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, as inventories and most accounts receivable are rapidly converted to cash. Historically, a high percentage of inventories has been financed from normal trade credit. The Company, over the past three years, has significantly improved its capital structure in order to provide a more stable environment for growth and risk management. Cash flow from operating activities is anticipated to increase significantly over the next two years, primarily the result of the incremental operating income and synergies from the Becker's Acquisition. The Company believes that the cash generated from operations will be sufficient to satisfy the Company's expected future capital expenditure and debt service requirements.

Credit Agreement

On December 18, 1996, the Company entered into an agreement with the Canadian Imperial Bank of Commerce which provided a committed operating and term facility totalling $40.0 million which was utilized, in part, to finance the cash consideration for the Becker's Acquisition. The credit agreement provides for net cash proceeds in excess of $200,000 in any one year, from disposals of any fixed or non-operating assets out of the ordinary course (excluding fixed assets which are being replaced), to be used to reduce the term facility. In addition, 100% of the net proceeds of the issuance of debt securities, 25% of the net proceeds of the issuance of equity securities and 50% of specified excess cash flow, in any one year, are to be used to reduce the term facility. The Company has negotiated as part of the new agreement, subject to ongoing satisfaction of certain financial tests, the ability to pay dividends up to a maximum of $1.1 million per quarter.

Acquisition of the Operating Assets of The Becker Milk Company Limited (the "Becker's Acquisition")

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 has accrued $2.7 million in transaction and restructuring costs associated with this purchase.

The Company had, as part of its strategic plan, identified the Becker's Acquisition as a primary driver to enhance shareholder value. Management's current estimate of the incremental benefit as measured by earnings before

interest, taxes, depreciation and amortization (EBITDA), exceeds $13.0 million. This incremental EBITDA will be realized fully in 1998 after the transition and integration plans have been fully implemented. On a strategic level, the purchase of the Becker trade name and related strong dairy product category, will enhance the productivity of the entire network in Ontario.

The terms of the purchase/sale agreement requires The Becker Milk Company Limited to upgrade and remediate to current provincial standards, all gasoline and dairy locations for which they have responsibility. This program, to which Silcorp will contribute a maximum of $750,000, is expected to be completed over the next two years.

Capital Expenditures

Capital expenditures of $13.2 million in 1996 were financed by cash flow from operating activities of $15.3 million. Capital expenditures in 1997 are planned to total approximately $15.0 million to continue the expansion of the branded food concepts, support the introduction of new technology, upgrade gasoline equipment, enhance the image of Becker locations and, most importantly, support the ongoing implementation of a re-imaging initiative, under the program name "Store 2000". The Store 2000 program is a significant change in the design and image of the Company's convenience stores to better satisfy the changing expectations of its customers. The Company renovated 25 locations in 1996 at a total cost of $2.5 million. The number of locations targeted to be renovated will increase to approximately 50 per year in 1997 and 100 per year in future years. The Company is encouraged by the early positive signs of success, both in terms of customer acceptance and financial returns.

Subsequent Event
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 program (see Subsequent Event - Share Repurchase). 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.

Under the terms of the purchase/sale agreement, Silcorp Limited is responsible for environmental upgrade and remediation costs to a maximum of $4.6 million (U.S. $3.4 million). Silcorp will reimburse Clark for 100% of the first $4.1 million (U.S. $3.0 million) and for 50% of the next $1.1 million (U.S. $0.8 million) of the upgrade and remediation costs. Any costs in excess of $5.2 million will be paid entirely by Clark.

Capital Structure

The Company's capital structure at the end of 1996, 1995 and 1994 was financed by:

	1996		1995		1994	
($ millions)	**$**	**%**	$	%	$	%
Current liabilities	**$ 3.5**	**3.5%**	$ 0.0	0.0%	$ 12.1	19.8%
Long-term liabilities	**25.8**	**26.1%**	9.6	18.3%	12.6	20.7%
Shareholders' equity	**69.7**	**70.4%**	42.9	81.7%	36.3	59.5%
	$ 99.0	**100.0%**	$ 52.5	100.0%	$ 61.0	100.0%

Based on the Company's business plan for 1997, there is adequate borrowing capacity to meet its needs. The Company will continue to rely on reasonable trade terms with its suppliers to finance a portion of its inventory.

Subsequent Event
Share Repurchase

Subsequent to year end, the Company repurchased for cancellation, 889,310 shares at $19.00 per share ($16.9 million in aggregate) financed by a portion of the net proceeds from the sale of the Michigan operations. The purpose of the share repurchase program was to provide liquidity to shareholders who had a short-term investment objective, and to provide an alternative to the now withdrawn takeover bid of $16.50 by Alimentation Couche-Tard Inc. Shareholders' equity will be reduced to approximately $52.0 million, and the number of outstanding shares will be approximately 4,265,700, after giving effect to the share repurchase program. The debt to total capital ratio will increase to approximately 32% (26% at year-end), which continues to be below the maximum benchmark of 40% as outlined in the Company's strategic plan. The Company expects this ratio to decline to 25% by the end of 1997.

Potential uses of the remaining net proceeds from the sale of the Michigan operations (approximately $7.0 million) will be reviewed by the Company's Board of Directors during the first half of 1997.

OUTLOOK

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 benefits from the Becker's Acquisition and the continued introduction of the Store 2000 re-imaging and repositioning program will provide a competitive advantage over traditional and non-traditional competitors.

The Becker's Acquisition will result in significant growth in earnings and cash flow over the next two years as value, primarily from the reduction of store operating, overhead and product cost, is realized. Management has targeted to earn in excess of $13.0 million in incremental EBITDA in 1998 ($8.3 million in 1997) which will more than offset the $5.0 million in EBITDA earned by the Michigan operations in 1996.

The crystallization of this incremental value is primarily dependent on the successful planning and implementation of the transitional and integration plan. This multi-dimensional plan outlines an aggressive timetable to:

1. introduce new point of sale/scanning technology to all Becker's locations to improve the quality of information and provide a stronger control environment;
2. consolidate to two internally managed distribution centres the delivery of tobacco, confectionery and sundry products to all Ontario retail locations;
3. introduce new food service programs and improve the image of the stores, both from a merchandising and physical perspective;
4. renegotiate vendor and supply/service contracts based on new economics and store count;
5. introduce Becker's milk products into approximately 250 Mac's/Mike's Mart locations in Ontario; and
6. rationalize store locations and costs at both store and office level.

Management has planned for the majority of these actions to be completed by the fall of 1997.

The Store 2000 program has been researched and developed during the past year through ongoing consumer feedback and the testing of several different retail modules. The program, which has been introduced to 25 locations during 1996, focuses on two primary objectives (1) the re-imaging of the store leaseholds and equipment, utilizing different and more attractive colours that appeal to a broader demographic base and (2) the positioning and tailoring of product categories to meet local tastes. Western Canada management has focused on delivering both objectives and has been successful, both from a financial and consumer acceptance perspective. Western Canada will continue to advance and expand the program during 1997 while Ontario management will focus on the integration of the Becker's operations. Management expects to convert 50 locations in 1997 and increase in 1998 and beyond to over 100 per year. The average cost of conversion is expected to be approximately $85,000 per location.

Both Western Canada and Ontario face uncertainty regarding new federal legislation on tobacco (Bill C-71). The Company's concern is centred on proposed legislation to limit the display of tobacco in retail locations. Under current supplier contracts, income is realized for the shelf space dedicated to tobacco products.

The Company has established the concept of being a "host retailer" to brands which meet customer needs. The aggressive expansion of our branded food service program, featuring Subway™ kiosks, was an initiative to satisfy the "host retailer" concept. Innovative food service programs, both proprietary and third party branded, are now part of the Store 2000 program.

An additional focus of the Company over the near term is to strengthen the Ontario and Western Canada markets by acquiring small chains. A longer term strategy (three to five years) will be to examine markets outside Ontario and Western Canada.

The Company expects the consolidated financial performance to significantly improve in both 1997 and 1998, the result of the Becker's Acquisition and the continued introduction of the Store 2000 program.

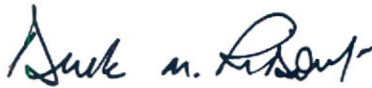
Management's Responsibility for Consolidated Financial Statements

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.

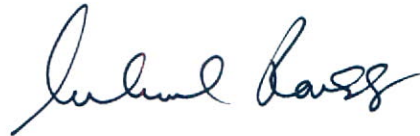
Management of Silcorp Limited and its operating divisions has developed and maintains accounting systems and internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable.

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

To the Shareholders of Silcorp Limited

We have audited the consolidated balance sheets of Silcorp Limited as at December 29, 1996 and December 31, 1995 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 29, 1996 and December 31, 1995 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 28, 1997.

Consolidated Balance Sheets

As at December 29, 1996 and December 31, 1995

($000's)	**1996**	1995
ASSETS		
Current assets:		
Cash	**$ 4,956**	$ 3,855
Accounts receivable	**18,408**	14,526
Inventories	**54,616**	33,129
Prepaid expenses and other assets	**4,681**	2,285
Assets subject to sale *(note 13 (a))*	**21,910**	-
	104,571	53,795
Fixed assets, net *(note 3)*	**59,945**	38,260
Other assets	**7,447**	8,120
	$ 171,963	$ 100,175
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 62,742**	$ 42,880
Liabilities subject to sale *(note 13 (a))*	**5,565**	-
Current portion of note payable *(note 2)*	**1,500**	-
Current portion of term bank loan *(note 4)*	**2,000**	-
	71,807	42,880
Long-term liabilities:		
Term bank loan *(note 4)*	**18,000**	7,000
Note payable *(note 2)*	**2,500**	-
Reserve for environmental costs *(note 10)*	**4,649**	4,781
Other	**5,320**	2,611
	30,469	14,392
Commitments and contingencies *(notes 6, 10 and 11)*		
Shareholders' equity:		
Capital stock *(note 5)*	**43,400**	25,317
Retained earnings *(note 5)*	**25,565**	16,899
Foreign currency translation adjustment	**722**	687
	69,687	42,903
	$ 171,963	$ 100,175

(See accompanying notes)

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings

Years ended December 29, 1996 and December 31, 1995

($000's except per share data)	1996 (52 weeks)	1995 (53 weeks)
Sales	**$ 633,819**	$ 590,788
Less:		
Cost of sales	**467,666**	432,545
General, administrative and operating expenses	**148,726**	142,084
Depreciation and amortization	**8,200**	7,695
	624,592	582,324
Operating Income	**9,227**	8,464
Interest expense, net *(note 9)*	**561**	677
Income before income taxes	**8,666**	7,787
Income taxes *(note 7)*	**-**	-
Net income	**$ 8,666**	$ 7,787
Earnings per share		
Basic	**$ 2.05**	$ 1.89
Fully diluted	**$ 1.86**	$ 1.79

(See accompanying notes)

Consolidated Statements of Retained Earnings

Years ended December 29, 1996 and December 31, 1995

($000's)	1996 (52 weeks)	1995 (53 weeks)
Balance, beginning of year	**$ 16,899**	$ 9,112
Net income	**8,666**	7,787
Balance, end of year	**$ 25,565**	$ 16,899

(See accompanying notes)

Consolidated Statements of Cash Flows

Years ended December 29, 1996 and December 31, 1995

Cash provided by (used in) ($000's)	**1996** *(52 weeks)*	1995 *(53 weeks)*
Operating activities:		
Net income	**$ 8,666**	$ 7,787
Depreciation and amortization	**8,200**	7,695
Gain on sale of Baskin-Robbins	**-**	(1,000)
Other	**-**	625
Funds provided from operations	**16,866**	15,107
Net change in non-cash working capital balances related to operations	**285**	(70)
Increase (decrease) in environmental liabilities	**(1,197)**	1,087
Other	**(622)**	(1,231)
Cash flow from operating activities	**15,332**	14,893
Investing activities:		
Acquisition of The Becker Milk Company Limited's assets *(note 2)*	**(38,829)**	-
Long-term liabilities associated with the Becker's Acquisition	**3,100**	-
Additions to fixed assets	**(13,209)**	(9,052)
Proceeds on disposal of fixed assets	**974**	646
Proceeds on sale of Baskin-Robbins	**-**	1,000
Repayment of notes receivable	**1,117**	5,161
Proceeds on disposal (purchase) of properties held for sale	**(355)**	1,755
Change in foreign currency translation adjustment	**35**	(1,373)
Other	**(2,147)**	-
Cash flow from investing activities	**(49,314)**	(1,863)
Financing activities:		
Issue of common shares *(note 2)*	**18,083**	205
Net change in term bank loan	**13,000**	(3,000)
Issue of note payable *(note 2)*	**4,000**	-
Repayment of accounts payable under the Plan of Arrangement and Compromise	**-**	(11,213)
Cash flow from financing activities	**35,083**	(14,008)
Net increase (decrease) in cash during the year	**1,101**	(978)
Cash, beginning of year	**3,855**	4,833
Cash, end of year	**$ 4,956**	$ 3,855

(See accompanying notes)

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 all subsidiaries are included only from the dates of their respective acquisitions.

(b) Definition of fiscal year

The fiscal years of the Company ended on December 29, 1996 and December 31, 1995. The 1996 fiscal year comprised fifty-two weeks and the 1995 fiscal year comprised fifty-three 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 rates of 2 1/2% for buildings, 10% for 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 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".

(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. 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 has accrued $2.7 million in transaction and restructuring costs associated with this purchase.

Under the terms of the agreement, the Company has agreed to pay on behalf of Becker's, certain severance and environmental remediation costs which are expected to total approximately $2.0 million. These expenditures will be applied to reduce the note payable. The Company expects that expenditures in 1997 on behalf of Becker's will reduce the note payable by $1.5 million and has, therefore, recorded this amount as a current liability.

3. Fixed assets

	1996		1995	
	Book value	**Net book value**	Book value	Net book value
Land	**$ 200**	**$ 200**	$ 1,953	$ 1,953
Buildings	**2,342**	**1,601**	3,529	2,747
Equipment	**53,927**	**41,714**	36,957	21,337
Leasehold improvements	**25,171**	**16,430**	17,203	12,223
	$ 81,640	**$ 59,945**	$ 59,642	$ 38,260

4. Bank indebtedness and term bank loan

On December 18, 1996, the Company entered into an agreement with the Canadian Imperial Bank of Commerce which provided for a committed operating facility of $20 million and a committed term facility of $20 million. The agreement provides for interest at 1.5% over the prime lending rate or 2.5% over the bankers' acceptance rate, both of which interest rate spreads will be reduced by 0.25% increments to nil and 1% respectively based on attainment of certain specified coverage ratios relating to fixed charges. Virtually all of the Company's assets are pledged as collateral against the facilities. Under the terms of the agreement, the Company is obliged to comply with various covenants including financial tests relating to the operating results. The term facility is repayable in consecutive quarterly instalments on the last banking day of each quarter as follows:

1997	-	$ 500,000 each quarter
1998 and 1999	-	$ 1,000,000 each quarter
2000 and 2001	-	$ 1,250,000 each quarter

In addition, a defined portion of certain cash inflows must be used to reduce the term facility.

The Company has entered into an agreement with the Canadian Imperial Bank of Commerce which establishes minimum and maximum bankers' acceptance rates of 3.85% and 5% respectively for the term facility for the period to December 29, 2000.

5. Capital Stock

(a) The share transactions relating to the period December 25, 1994 through December 29, 1996 are summarized below:

	Number of common shares	Paid up capital
December 25, 1994	4,120,394	$ 25,112,000
Issue of shares pursuant to stock option plan	26,100	205,000
Other	16	-
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 Becker's Acquisition	1,000,000	18,000,000
Other	(13)	-
December 29, 1996 (issued and outstanding)	5,154,997	$ 43,400,000

b) The total number of common shares set aside under the Company's share option plan, after the exercise of options to purchase 8,500 common shares in 1996, is 652,388, of which 387,209 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
141,090	July 26, 1993	$ 7.88	2001
10,000	September 27, 1993	$ 9.25	2001
30,650	March 16, 1994	$ 11.50	1998
69,235	August 8, 1994	$ 8.50	2002
115,234	August 2, 1995	$ 12.50	2003
21,000	June 3, 1996	$ 13.00	2004

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 29, 1996, the legal stated capital of the Company was $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 lenders, the Company may pay quarterly dividends not to exceed $1.1 million and may repurchase shares at a cost not to exceed $25.2 million.

6. 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 noncancellable term of the leases in effect at December 29, 1996 are as follows:

Year ending	Amount
December 28, 1997	$ 31,641
December 27, 1998	$ 23,795
December 26, 1999	$ 17,308
December 31, 2000	$ 12,629
December 30, 2001	$ 7,792

Net lease commitments to the year 2016, aggregating $113.1 million, have been reduced by amounts totalling $28.9 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.

7. Income taxes

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

	1996	1995
Basic rate	**44.6%**	44.6%
Recovery of tax loss carryforwards	**(42.4)**	(41.6)
Impact of lower U.S. taxes	**(3.1)**	(3.7)
Other permanent differences	**0.9**	0.7
	0.0%	0.0%

(b) The Company has accumulated losses for income tax purposes that, subject to such losses not being disallowed, are available in future years. The potential tax benefit of these losses has not been recorded in the consolidated financial statements. Such losses related to Canadian operations amounting to $21.3 million expire over the period 1999 to 2003. In addition, there are losses for accounting purposes for which no benefit has been recorded in these consolidated financial statements, amounting to $31.9 million at December 29, 1996.

Accumulated losses for accounting purposes relating to the Company's U.S. operations amounted to $28.9 million at December 29, 1996. Of this total amount, $19.8 million of losses have accumulated to date for income tax purposes. No tax benefit has been recorded in these consolidated financial statements in respect of such losses. Under U.S. Federal income tax rules, certain income tax losses will be subject to annual utilization limitations due to the change in ownership in 1993. The utilization of unrestricted losses and any of the restricted income tax losses will be up to a maximum of $6.6 million available in 1997 to offset the gain incurred on the sale of the Company's assets and business operations in the State of Michigan. To the extent there is no further income in the U.S. after this sale, then the remaining losses, which expire over the period 2004 to 2008, could not be utilized by the Company.

8. Pension plans

At December 29, 1996, actuarial estimates indicate that the present value of accrued pension benefits is approximately $26.7 million (1995 - $23.1 million) and the market related value of pension fund assets is approximately $33.1 million (1995 - $34.4 million).

9. Interest expense

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

	1996 *(52 weeks)*	1995 *(53 weeks)*
Long-term debt	**$ 564**	$ 474
Interest expense related to discounted accounts payable under the Plan of Arrangement and Compromise	**-**	625
Interest income from notes outstanding	**(107)**	(320)
Other expense (income)	**104**	(102)
	$ 561	$ 677

10. 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 programs, determined that soil and/or groundwater contamination in excess of present 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 standards and in co-operation with regulatory officials, the Company has embarked upon a program of continued testing and remediation.

The consolidated balance sheets include a reserve for environmental costs of $6.0 million (1995 - $7.2 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 $1.3 million will be incurred during 1997 and therefore, this amount is included in accounts payable and accrued liabilities (1995 - $2.4 million).

Canadian legislation requires certain upgrades to underground storage tanks by the end of 1998. The Company estimates that the total capital expenditures to comply with this legislation will aggregate approximately $0.8 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.

11. Legal proceedings

The Company has been named defendant in a number of lawsuits and is involved in judicial proceedings regarding specific environmental matters (note 10). While the nature of the contingency makes the liability judgmental, 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.

12. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1996 consolidated financial statements.

13. Subsequent events

(a) The Company's operations in the State of Michigan were sold in January 1997 for net proceeds of approximately $23.9 million, including $2.3 million for net working capital. These proceeds have been reduced by estimated selling costs and by an amount that the Company will reimburse 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 will result in a gain on sale of approximately $6.0 million which will be recognized in the first quarter of 1997. Accumulated losses for income tax purposes are sufficient to offset the gain in 1997.

(b) As at year-end, 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, totalling approximately $3.0 million incurred during the period the takeover bid was outstanding, will be charged to earnings as an unusual item in the first quarter of 1997.

(c) 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, 889,310 shares at $19.00 per share ($16.9 million in aggregate). The share repurchase program was financed by a portion of the proceeds from the sale of the Michigan operations.

14. Segmented information

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

	1996 *(52 weeks)*	1995 *(53 weeks)*
Total sales:		
Canada	**$ 446,782**	$ 423,973
U.S.A.	**187,037**	166,815
Consolidated	**$ 633,819**	$ 590,788
Segment operating income:		
Canada	**$ 6,228**	$ 5,553
U.S.A.	**2,999**	2,911
Consolidated	**9,227**	8,464
Interest expense	**561**	677
Income before income taxes	**8,666**	7,787
Income taxes	**-**	-
Net income	**$ 8,666**	$ 7,787
Total assets:		
Canada	**$ 143,408**	$ 74,024
U.S.A.	**28,555**	26,151
Consolidated	**$ 171,963**	$ 100,175
Depreciation and amortization:		
Canada	**$ 6,285**	$ 5,882
U.S.A.	**1,915**	1,813
Consolidated	**$ 8,200**	$ 7,695
Additions to fixed assets:		
Canada	**$ 8,436**	$ 6,410
U.S.A.	**4,773**	2,642
Consolidated	**$ 13,209**	$ 9,052

Five Year Review

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

	1996	1995	1994	1993	1992
Sales	**$ 633,819**	$ 590,788	$ 573,986	$ 601,546	$ 668,601
Gross margin	**166,153**	158,243	153,194	155,815	176,895
General, administrative & operating expenses	**148,726**	142,084	137,241	140,268	167,521
Depreciation and amortization	**8,200**	7,695	7,214	8,127	11,431
Operating income (loss)	**9,227**	8,464	8,739	7,420	(2,057)
Income (loss) before unusual item and income taxes	**8,666**	7,787	6,870	5,242	(8,232)
Net income (loss)	**8,666**	7,787	6,870	2,242	(63,739)
Cash flow from operating activities	**15,332**	14,893	14,374	14,217	(23,553)
Capital expenditures	**13,209**	9,052	8,288	4,759	2,486
Total assets	**171,963**	100,175	107,909	104,037	112,170
Debt	**24,000**	7,000	20,590	37,847	48,125
Shareholders' equity	**69,687**	42,903	36,284	14,162	10,912
Common shares outstanding (at year end)	**5,155**	4,147	4,120	2,870	2,870
Common shares outstanding used in per share calculations	**4,233**	4,130	4,013	2,870	3,025
Earnings (loss) per share	**$ 2.05**	$ 1.89	$ 1.71	$ 0.78	$ (21.07)
Fully diluted earnings (loss) per share	**$ 1.86**	$ 1.79	$ 1.60	$ 0.77	$ (21.07)
Number of locations at year end (Corporate and dealer operated)	**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**	
	1996	1995	**1996**	1995	**1996**	1995	**1996**	1995
Sales	**$ 114,784**	$ 111,254	**$ 145,725**	$ 139,725	**$ 157,830**	$ 155,190	**$ 215,480**	$ 184,619
Operating income (loss)	**(1,300)**	(998)	**2,166**	2,328	**5,365**	4,968	**2,996**	2,166
Net income (loss)	**(1,459)**	(1,315)	**2,013**	2,145	**5,317**	4,904	**2,795**	2,053
Earnings (loss) per share								
Basic	**$ (0.35)**	$ (0.32)	**$ 0.49**	$ 0.52	**$ 1.28**	$ 1.19	**$ 0.63**	$ 0.50
Fully diluted	**$ (0.35)**	$ (0.32)	**$ 0.46**	$ 0.50	**$ 1.19**	$ 1.10	**$ 0.58**	$ 0.47
Common shares								
High	**$ 14.38**	$ 12.25	**$ 13.50**	$ 12.00	**$ 18.15**	$ 13.50	**$ 20.00**	$ 14.75
Low	**$ 11.50**	$ 9.25	**$ 12.00**	$ 11.00	**$ 12.00**	$ 10.50	**$ 17.50**	$ 12.50
Close	**$ 12.00**	$ 12.00	**$ 13.00**	$ 11.13	**$ 18.15**	$ 13.00	**$ 18.60**	$ 14.00
Trading volume	**424,000**	589,000	**381,000**	194,000	**1,646,000**	425,000	**2,031,000**	555,000

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,
Monsanto Canada Inc.

Stephens B. Lowden
President,
SBL Capital Corporation

Robert F. MacLellan
Senior 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 Service Group,
Cara Operations Limited

Board of Directors

The Board's responsibilities include protecting and enhancing the assets of the Company in the best interest of all Shareholders; selecting management; participating in and approving strategic direction and policies; monitoring the Company's progress towards achieving strategic goals and objectives and taking action when necessary; ensuring full and timely disclosure of financial and other material information; ensuring the Company complies with all applicable laws and regulations and operates the business with the highest ethical and moral standards. The Board met 31 times in 1996, including 24 special meetings in respect of activities related to the takeover bid, purchase of Becker's, the sale of Michigan operations, the issuer bid (share buy-back) and other value maximizing considerations.

Peter C. Maurice
(Chairman)

John F. Bankes
Robert F. MacLellan
Dr. Geoffrey W.J. Pottow
Donald J. Taylor

Audit Committee

The Audit Committee's responsibilities include reviewing and making recommendations relating to annual and interim financial statements and public disclosure documents, including the annual report, annual information form and Management's Discussion and Analysis; assessing the performance of external and internal auditors; reviewing fees of and expenses for audit services; and recommending qualified auditors for appointment by the Shareholders. The committee met four times in 1996.

William A. Dimma
(Chairman)

Shirley A. Dawe
Stephens B. Lowden
James B. Williams

Human Resource Committee

The Human Resource Committee's responsibilities include reviewing and making recommendations regarding compensation strategy and policies; performance and compensation of senior management; stock plans and incentive plans; the Corporation's Pension Plan structure and pension fund results; and reviewing appropriate management succession planning. The committee met five times in 1996.

Robert W. Martin
(Chairman)

William A. Dimma
Peter C. Maurice
Derek M. Ridout

Executive Committee

The Executive Committee's responsibilities include recommending to the Board of Directors qualified candidates for election as Directors; reviewing and advising on the size and composition of the Board and its committees; considering requests by individual Directors to engage outside advisors; and the compensation of and evaluation process of the Board. The committee met two times in 1996.

Corporate Directory

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

James S. Reynolds
Vice-President, Corporate Information Services

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

Corporate Information

Head Office

10 Commander Boulevard
Scarborough, Ontario M1S 3T2

Tel: (416) 291-4441
Fax: (416) 291-4947

Transfer Agent

The R-M Trust Company
Montreal, Toronto, Calgary and Vancouver

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

Annual Meeting

The Annual Meeting of Shareholders will be held on Thursday, May 29, 1997 at 11:00 a.m. at the Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Ontario.

Printed on recycled paper using low-solvent environmentally friendly ink. This report has been produced in a manner to make it completely recyclable.

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