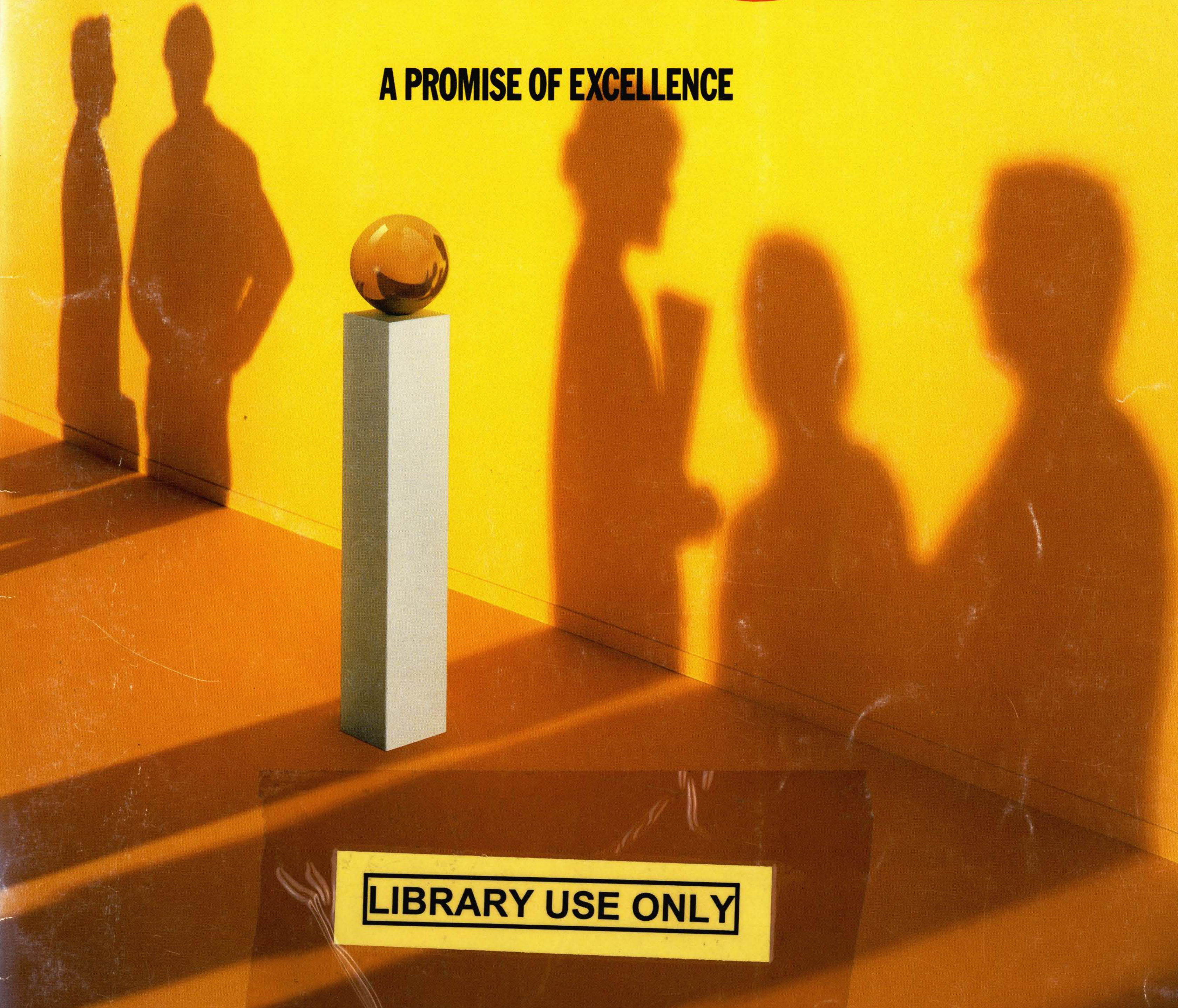
ANNUAL REPORT 1987

The ANNUAL

A PROMISE OF EXCELLENCE



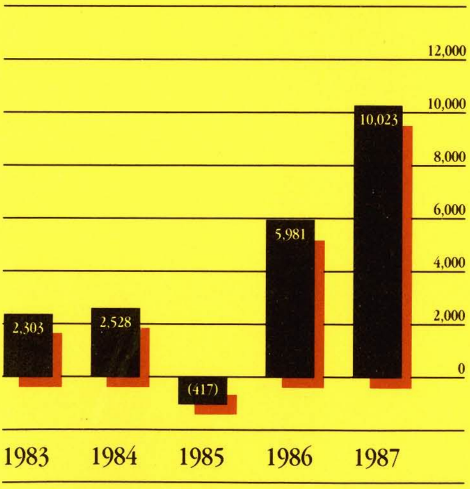
METRO-RICHELIEU

HIGHLIGHTS

	1987	1986
Operating Results ($000)		
Sales	**1,915,417**	1,659,413
Earnings before extraordinary item	**8,737**	5,981
Net earnings	**10,023**	5,981
Funds derived from operations	**26,241**	19,546
Capital expenditures	***14,975**	16,566
Earnings per share, before extraordinary item	**$0.58**	$0.73
Earnings per share, after extraordinary item	**$0.67**	$0.73
Financial Structure ($000)		
Working capital	**24,585**	19,783
Total assets	**533,165**	257,533
Long-term debt	**188,968**	73,945
Shareholders' equity	**145,775**	44,404
Financial Ratios		
Working capital	**1.13**	1.15
Total debt/shareholders' equity	**2.59**	4.68
Long-term debt/shareholders' equity	**1.30**	1.67
Common Shares		
Number of outstanding shares at year-end	**16,669,233**	9,112,560
Weighted number of shares	**13,676,276**	7,997,840
Book value	**$6.75**	$4.76

*Excluding capital expenditures arising from businesses acquired during the year and totalling $52,342,000.

NET INCOME
(in thousands of dollars)



SALES
(in millions of dollars)

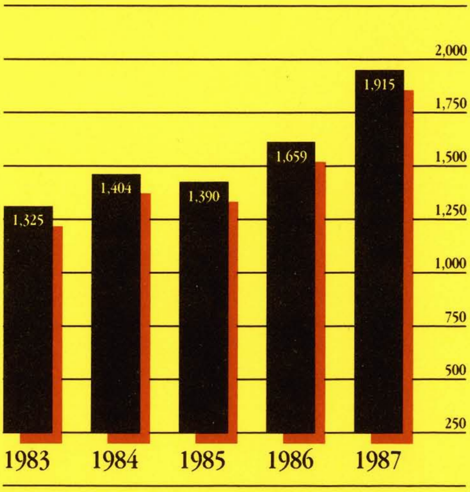
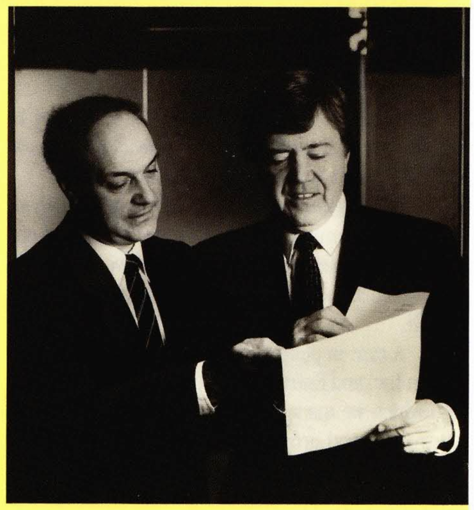


TABLE OF CONTENTS

Métro-Richelieu inc. owes its success to the expertise, commitment and concern for excellence of its employees.

In this age of increasingly fierce competition, excellence has become the true mark of a winner. For nearly forty years, excellence has been the watchword at every level of Métro-Richelieu's operations, from business transactions with suppliers and clients to everyday dealings with consumers.



MESSAGE OF THE CHAIRMAN OF THE BOARD

Fiscal year 1986-87 will be remembered as a turning point in Métro-Richelieu's history. While the 1976 and 1982 amalgamations enabled us to increase the Company's purchasing power, reorganizing our financial structure and diversifying our activities have given us a solid foundation for continued, unabated growth.

These major changes were made possible by the support of our shareholding merchants and their determination to forge ahead. I am deeply grateful for their confidence throughout the year.

Diversifying into rapidly growing sectors

I need hardly remind you that we needed to reorganize our financial structure. In light of the prevailing market demands, it was essential for the Company to acquire financial tools capable of providing access to sufficient capital for unimpeded expansion.

Furthermore, owing to the slow growth of our traditional market, we saw the need to extend our activities to sectors other than food. By diversifying, we have taken significant steps toward ensuring future growth.

A case in point is the acquisition of McMahon Essaim Inc. and Entreprises Gilles Cloutier (1977) Inc. with which we made our debut in the distribution of pharmaceutical products. As a result of the Quebec population's rapidly increasing average age, this sector is experiencing unprecedented growth. While sales in the pharmaceutical industry have been inconsistent in Quebec over the past ten years, from 1980 to 1985 they showed an average annual growth of approximately 20%.

On another front, we acquired a 50% interest in Restaurants Giorgio (Amérique) Ltée. As 25% of the food dollar now goes to meals eaten outside the home, we found it opportune to invest in the restaurant industry, thus indirectly gaining access to a sector of the food market which is steadily growing.

Finally, the acquisition of André Lalonde Sports Inc., a retailer and wholesaler of sporting goods and a leader in ski equipment sales in Quebec, had all the earmarks of an excellent opportunity. Higher disposable income, increased leisure time and the increasing importance placed on open-air recreation should continue to foster the growth of this industry in the coming years.

Our corporate mission

Although it is diversifying, Métro-Richelieu Inc. (Métro-Richelieu) remains committed to its fundamental role of wholesaler at the service of retailers. In every activity, the Company continues to adhere to its philosophy of giving merchants the best service and expertise possible to support their commercial growth while respecting their independence.

Market conditions have changed to a considerable extent in the recent past. While remaining Canada's largest food distributor controlled by independent grocers, we must, in the food business no less than in other sectors, adopt new formulas aimed at preserving the Company's market shares and ensuring continued growth. Our basic motive and fundamental principle throughout was to continue increasing the Company's profitability, so that Métro-Richelieu remains a sound investment for its shareholders and, equally important, so that we can continue to maintain high-quality standards as we expand.

Messrs. Jean-Claude Messier, **Aimé Gagnon** and **Bernard Bélair**, respectively, Secretary, Vice-President of the Board of Directors and Treasurer of Métro-Richelieu Inc.

An attractive level of profitability

Our entry into new market sectors had a positive impact on the Company's results. The distribution of pharmaceutical products in particular, in which we have been active since the beginning of the fiscal year, has had a marked influence on sales and profits. Keeping the management teams of each of the acquired companies enabled us to benefit from their experience and undeniably contributed to achieving these results.

For their part, the companies which have recently joined the Métro-Richelieu group are today in a position to gain from our considerable purchasing power and the expertise of the staff in our various departments. The advantages of this new membership are particularly evident in the case of McMahon-Essaim Inc.: within a year, the number of Essaim banners has more than doubled in Quebec.

By enhancing its presence in these new sectors, Métro-Richelieu will be able to develop greater interaction between its various divisions. In addition, diversification should enable the Company to maintain an attractive level of profitability in spite of possible adverse economic factors in a given sector of our activities.

Increasing growth in the food sector

Diversification has not prevented us from making every effort to enhance our position in the food sector, which remains our foremost area of activities.

In spite of negligible market growth, the past year's achievements prove that there are still attractive opportunities for expansion in the food industry. Our exclusive supply contract with Alimentation Couche-Tard Inc., in the rapidly developing convenience sector, along with our recent acquisition of La Ferme Carnaval Inc. and its prestigious Super Carnaval banner, have given us access to a considerable additional volume. It should be noted that our Mérite 1 facilities now enable us, without appreciably increasing our costs, to process a substantially higher volume with efficiency and take care of our needs for several years to come.

The purchase of wholesalers such as Pêcheries Atlantiques du Québec Inc. and Salaison Rivard Ltée, as well as the acquisition of a one-third interest in Abattoir Dubé Inc., represent a further addition to our sales volume.

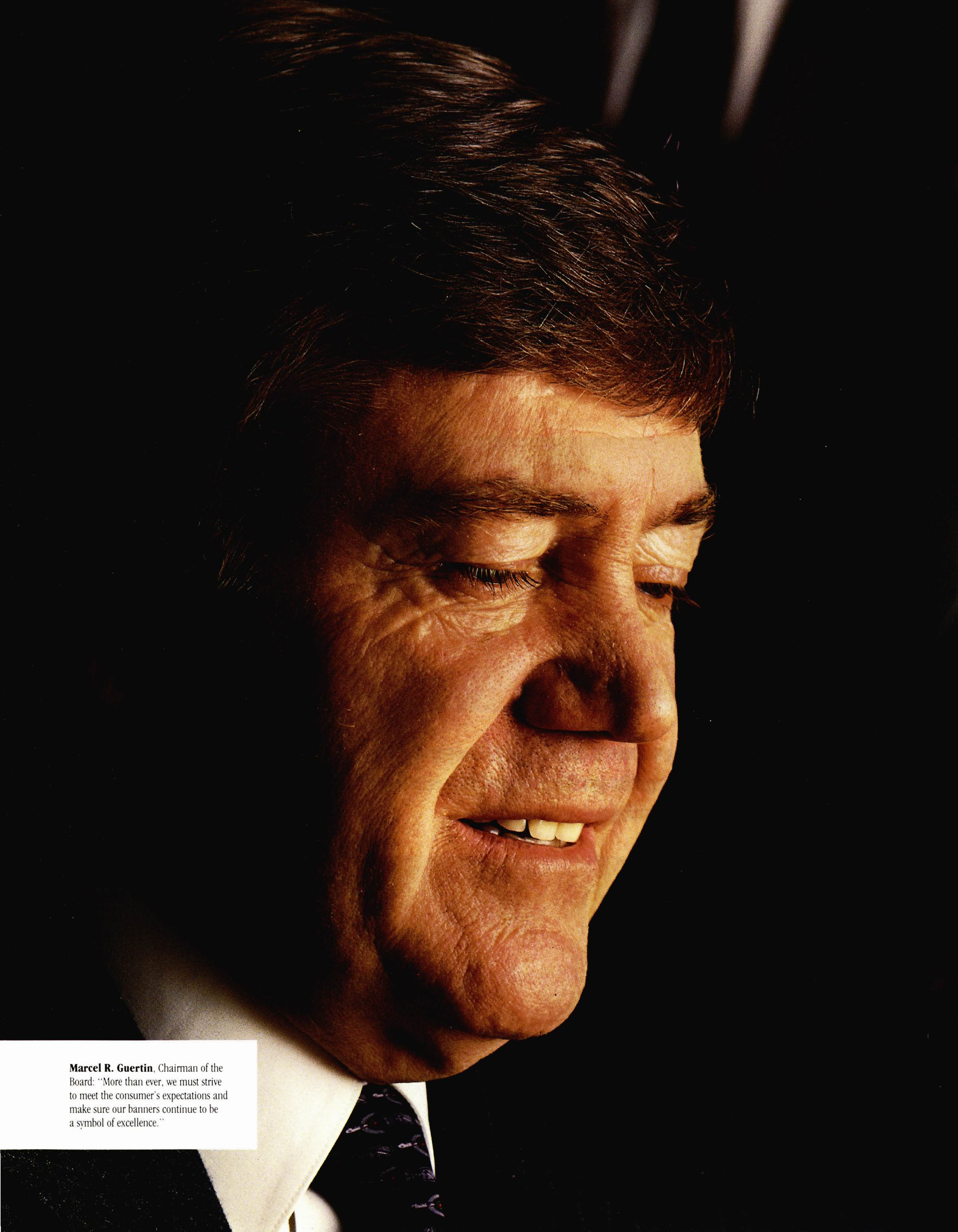
Finally, with the expansion of our Éconogros Division in Montreal and Quebec City and the acquisition of Distagro Ltée and Service Alimentaire de Québec Inc. we have increased our share of the institutional market which is also experiencing considerable growth.

A changing market

As we all know, demographic growth is at a virtual standstill in Quebec and the results of the last census go so far as to indicate that the balance of migration cannot compensate for a low birth rate. As a result, our traditional market is not only stagnant but, if the current trend persists, will actually decline in the next few years.

Moreover, eating habits are constantly changing, due to diverse factors such as an aging population, higher income, lack of time to prepare meals, and a growing concern for wholesome eating habits.

This combination of factors has resulted in appreciable changes in the value and make-up of the



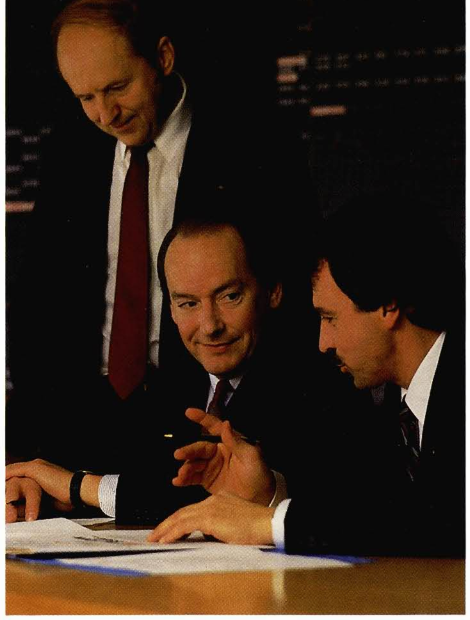
Marcel R. Guertin, Chairman of the Board: "More than ever, we must strive to meet the consumer's expectations and make sure our banners continue to be a symbol of excellence."

food basket, leading consumers to shop for an ever-increasing number of food specialties. They also encourage the climate of lively competition which prevails in the industry, as evidenced by redoubled efforts to take over the greatest possible number of sites and the proliferation of price wars and retail promotions.

This situation prompted us to implement aggressive marketing projects combined with ongoing efforts to renovate our merchants' premises. We also continued to improve our Métro stores by introducing the "5-Star Métro" designed to offer consumers the widest possible array of specialties in an environment well suited to the imminent 90s. Given the intense competition in this industry, it is more important than ever to fulfill the expectations of increasingly demanding consumers and see to it that our banners, currently at the forefront of neighbourhood food markets in both traditional supermarkets and superstores, continue to stand for excellence.

Métro-Richelieu: A team of specialists

Maintaining the high quality standards on which Métro-Richelieu's reputation is based would not have been possible without the support of our employees. I wish to thank them for the work they have accomplished and their unflagging efforts to make the Company a success. I also wish to thank the members of our management team for their valuable contribution. Our repeated successes speak volumes on the quality of their achievements.



Directors **Roger Lévesque**, **James S. Parsons** and **Réal Brouillette**.

Directors **Maurice Jodoin**, **Pierre Shooner** and **Roland Ferland**.

In every activity, the Company continues to adhere to its philosophy of giving merchants the best service and expertise possible to support their commercial growth while respecting their independence.

Directors **Benoît Gadoury** and **Jacques Laliberté**.

My heartfelt gratitude also goes to the directors of sectors other than food; their experience, particularly in financial areas, where they can be objective about our traditional activities, was invaluable in our decisions throughout the year.

Before closing, allow me to welcome all management and staff members of companies who joined Métro-Richelieu during the year. Together, we form a team of specialists, each in his own field. As consumers, we also represent a formidable economic force. By buying from stores displaying our banners and urging our friends and relatives to do likewise, we can make a substantial contribution to the growth of our Company.

Marcel R. Guertin

Marcel R. Guertin

Chairman of the Board

MESSAGE OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fiscal year 1986-87 was marked by momentous events for Métro-Richelieu's operations as well as its organization.

From an underfunded company working primarily in the food sector, Métro-Richelieu Inc. (Métro-Richelieu) became, during the past year, a public enterprise, with a financial structure capable of sustaining growth and being active in various sectors of retail and wholesale distribution of mass consumption products.

A growth strategy

In the wake of several market studies, we established a development strategy in keeping with our primary mission of wholesaler and enabling us to make full use of our various forms of expertise, particularly in distributing and merchandising mass consumption products. As a result, we ventured into sectors which we saw as among the most promising in Quebec, namely pharmaceutical products, restaurants, and retail and wholesale distribution of sporting goods.

We chose companies that met our criteria for each of these sectors. We were looking for companies active in sectors related to the distribution of mass consumption products, with a leading edge in their respective markets and efficiently managed. We then acquired all or part of their shares and/or assets, depending on which formula was likely to yield the greatest degree of profitability.

Nearly a third of the food industry

In the food sector, the Company continued to strive for increased volume. In May, our purchase of 12 Super Carnaval stores located in Quebec and the Merit Provincial Fruit warehouse in Ottawa enabled us to further strengthen Métro-Richelieu's purchasing power and become the leader in Quebec superstores. As a result, Métro-Richelieu now controls nearly a third of Québec's wholesale and retail food industry.

In addition, we stepped up our efforts to gain the greatest possible share of the institutional market by expanding the range of products and improving the quality of services aimed at that particular clientele.

The sale of the assets and operations of the Sept Jours network of convenience stores to Alimentation Couche-Tard Inc., along with the resulting exclusive supply contract for the Couche-Tard/Sept Jours network enabled us to concentrate our activities in a field where the Company excels, namely distribution, while strengthening the presence of Métro-Richelieu in the rapidly expanding convenience market.

At the service of retailers

Aware that the success of a wholesaler is directly related to the well-being of its retail units, the Company expended unprecedented efforts in repositioning the Métro and Marché Richelieu banners to ensure that they meet the new consumer expectations and become leaders in their respective segments of the market. Our efforts were rewarded in February, when the Quebec Chamber of Commerce awarded Métro-Richelieu the Mercure award for marketing in the large enterprise category.

In keeping with its customer-oriented philosophy, Métro-Richelieu continued to improve the quality of its services throughout 1986-87. Maintaining competitive business policies and improving the store renovation program resulted in a more advantageous position and greater profitability for our merchants and, consequently, a positive impact on our own sales.

In addition, considerable investments were made to improve the efficiency of the Company's central divisions. A new warehouse was built for the Boeuf Mérite Division, for direct delivery of packaged meats. By offering its customers, everywhere in Quebec and in whatever type of store they operate, direct delivery of a complete range of products, Métro-Richelieu has asserted its leadership in the distribution of meats and meat products.

The Montreal-based Econogros Division now has a renovated warehouse and is in a position to offer its institutional clientele a complete range of grocery products, meats, frozen products, and produce.

Finally, by closing the Buanderie Mérite Division towards the end of the fiscal year and acquiring a substantial interest in the capital stock of Gestion de Textile Laverdure Inc., Métro-Richelieu was able to withdraw from a sector which is relatively remote from its primary mission, while maintaining a service much appreciated by its merchants.

Financing all these activities was undertaken with a view to maintaining the Company in sound financial health by constantly increasing its profitability and shareholders' equity.

All Métro-Richelieu activities are financed with a view to preserving the financial health of the Company and increasing profitability and shareholders' equity.

Best performance ever

The Company's efforts have not been in vain, as evidenced by the 1986-87 results which attest to the best performance in Métro-Richelieu's history.

Total sales came to $1.92 billion, an increase of 15% over the previous year's $1.66 billion. These figures take into account sales reported by the companies acquired during the year, for periods which vary depending on the date of their integration into Métro-Richelieu operations.

Profits for 1986-87 are also the highest to date. Net income, in particular, rose from $5.98 million to $10.02 million, an increase of 68%, representing .52% of our sales, compared with .36% the previous year. Earnings per share, for their part, stood at $0.67 at year end.

Claude Brunetta, Vice-President, Expansion and Real Estate Development, **Guy Piuze**, Vice-President, Human Resources, and **Réjean Bouchard**, Assistant to the President.

The Company's assets nearly doubled during the year, exceeding the $500 million mark.

Worthy of note and further proof that the Company is in sound financial health is the fact that shareholders' equity, which stood at $44 million as at September 27, 1986, had reached a total of $145 million by the end of the 1986-87 fiscal year.

Finally, the ratio of long-term liability to shareholders' equity, which has been improving steadily since fiscal year 1983-84, was 1.30 at the end of 1986-87, compared with 1.67 at the end of the previous year. A capital structure composed in equal parts of long-term liability and shareholders' equity is the objective of our financial policy.

Métro-Richelieu: A promise of excellence

In the wake of the many changes which occurred throughout the year, the Company adopted, towards the end of the fiscal year, an organizational structure more in keeping with the new reality governing its operations. The Company's Divisions are now divided into four main sectors. The Epiciers Unis Métro-Richelieu Inc. subsidiary comprises the operational food divisions of the Company and distribution. Le Groupe Méridev Inc. sees to development and management of the Métro-Richelieu subsidiaries active in areas other than food. La Ferme Carnaval Inc. is an independent subsidiary. In the institutional sector, we find the Montreal and Quebec City Econogros Divisions.

Jacques L. Maltais, President and Chief Executive Officer: ''Métro-Richelieu has defined a development strategy in keeping with its primary mission of wholesaler to enable the Company to make full use of its wide-ranging expertise.''

"To ensure the growth of Métro-Richelieu Inc. in the food industry and in all newly undertaken activities."
Gaétan Frigon, Vice-President, Marketing and Head of Retail Operations, **L. G. Serge Gadbois**, Vice-President, Finance and **Denise Martin**, Vice-President, Information Systems, Messrs. **Raymond Bachand**, Vice-President, Corporate Development and President and Chief Executive Officer of Le Groupe Méridev Inc. and **André Roy**, Vice-President, Administration.

By bringing together the various forms of expertise needed to develop all these activities, Métro-Richelieu is placing the collective benefits of cooperation at the service of each.

It goes without saying that no amount of consolidation or expansion of our divisions would have been possible without the support of divisional employees.

Employees are pleased with the work climate prevailing throughout the divisions. A 52% participation in the employees share purchase program during the November 1986 public offering, speaks highly of the existing relations between the Company and its employees. The quality of these relations was amply demonstrated by the climate of open cooperation which prevailed throughout the renewal of the 11 collective agreements which expired during the year and were renewed to the satisfaction of all concerned.

Outlook

In the coming year, emphasis will be placed on integration, consolidation and development of the Company's new activities, and increasing its market shares, sales and profits.

In the food sector, we will continue to work towards maintaining, if not increasing our volume. Today, no less than in the past, regardless of what changes occur within the Company, volume is a crucial factor with regard to profitability.

Despite the recent achievements, management will continue over the next few months to cut down expenses in every sector of activity. While this cautiousness is dictated in part by the uncertain economic climate which prevails, it also reflects our constant concern to increase the Company's profitability. To that end, a permanent committee to reassess expenses was set up and given the mandate to reexamine all Company expenses periodically and ensure that efficient control mechanisms are in place.

Our aim is to represent an attractive investment for our shareholders by continuously working towards increasing the Company's profitability. Among our objectives is achieving a 15% minimum return on each of our investments, and improving our liability/equity ratio, so that each long-term liability dollar is eventually matched by a shareholders' equity dollar. In addition we want to reach a net profitability rate of 1% on our sales.

The World of Métro-Richelieu

Métro-Richelieu could not have made such progress during the past fiscal year without the combined efforts of the men and women who see to its daily operations. To all of them, employees, managers, merchants, members of management and the Board of Directors, business partners and shareholders, many thanks for your confidence, commitment and perseverance.

Aware of the serious employment problems facing young people today, we have developed courses given by our experts, complete with on-the-job training in our stores. Out of the 40 students who completed the 1986-87 training program in Montreal and Quebec City, I am happy to report that 80% now have jobs in the food industry.

This contribution to the community is our way of thanking all those who have made our growth possible.

Jacques L. Maltais

President and Chief Executive Officer

ÉPICIERS UNIS MÉTRO-RICHELIEU INC.

"To continue being the best wholesaler at the service of independent retailers."
Messrs. **Pierre Charron**, Vice-President, Grocery, **Paul Laporte**, Vice-President, Distribution, **Robert Sawyer**, Vice-President, Produce, **Lawrence Timmons**, Vice-President, Meat and Frozen Products and **Jacques Obry**, Group Vice-President.

Distribution of food products is the main Métro-Richelieu Inc. area of activities, representing 74% of its total sales.

To further increase profitability, the Company's subsidiary, Epiciers Unis Métro-Richelieu Inc. (EUMR), continued to develop and rationalize its role of wholesaler and distributor. Aware that the success of a wholesaler depends in large part on the success of its merchants, Métro-Richelieu continued to support the growth of its retailers so as to strengthen its share of the Quebec food market.

A major power in food distribution

EUMR is first and foremost one of Quebec's leading food distributors.

The considerable purchase power generated by the Company is reflected in prices that allow its clients to remain competitive. Moreover, flexibility and efficiency of operations make it possible to offer them a service capable of meeting their requirements.

• Grocery sector: Record productivity

In the grocery sector, EUMR operates three distribution warehouses located in Montreal, Quebec City and Mont-Joli, totalling nearly three quarters of a million square feet.

During the year, the number of units shipped from these three warehouses increased by 2.4% from a weekly average of 700,000 to 717,000.

The Mérite 1 distribution centre located in Montreal is one of the most modern in North America. Productivity at this centre continued to increase, reaching the objective set at the time of its construction.

To offer its clientele the widest possible range of products, the Grocery Division stores and distributes over 7,000 different products and deals with some 500 suppliers.

• Produce sector: Continued growth

Although the food market has reached maturity in Quebec, sales of fresh fruit and vegetables continue to rise year after year. The weekly average number of units shipped rose from 163,000 in 1986 to 170,000 in 1987, proof positive of increasing demand in this sector.

Freshness and variety of produce are determining factors in the consumer's choice of a food store. That's why EUMR makes a special effort to offer its customers high-quality products from its Jardin Mérite Division in Montreal and Marché Rougemont Division in Quebec City.

The most significant event of the year in this area was the acquisition of the Merit Provincial Fruit company in Ottawa, concurrently with the purchase of La Ferme Carnaval Inc. Over the coming months, EUMR will integrate the operations of Provincial Fruit with those of the Jardin Mérite and Marché Rougemont. By co-ordinating operations between the three divisions, this integration will increase their profitability and further improve the variety of products and quality of services offered, in the interest of meeting the needs of increasingly demanding retailers and consumers.

• Meat and Frozen Products: A complete range of products

The Boeuf Mérite Division continued to expand its range of products to give customers, wherever they are located, access to a reliable source of supplies and a complete selection of guaranteed-fresh meats and meat products. Agreements were signed with various manufacturers of delicatessen products, making direct distribution from the Boeuf Mérite warehouses possible; merchants can now obtain all their meat products with a single order.

To offer retailers in the Abitibi region and northeastern Ontario services similar to those enjoyed by merchants who deal with the Montreal and Quebec City warehouses, Métro-Richelieu, in partnership with Achille de La Chevrotière Limitée, acquired Salaison Rivard Ltée, a distributor of meats, meat products and frozen products.

ami

In addition, to ensure long-term reliability of its supply sources in the Quebec City region, EUMR acquired one-third of the capital stock of Abattoir Dubé Inc., which specializes in slaughtering. With this acquisition, the Company is actively contributing to the development of the Quebec beef industry.

Changes in consumers' eating habits have affected the meat sector, as well as other sectors of the food industry. For a number of years now, the demand for certain kinds of meat has dropped, while consumption of fresh and frozen fish has increased steadily.

To satisfy these new trends, the Boeuf Mérite Division made the acquisition of Pêcheries Atlantiques du Québec Inc. The Division now has access to recognized expertise in wholesale distribution of fish, and the ability to supply retailers with a product which is increasingly popular with consumers.

These changes make Boeuf Mérite the largest and most complete warehouse of its kind in the Quebec meat and meat product sector.

At Métro-Richelieu, one of our main objectives is to increase traffic, sales and profitability of our retail stores and keep the Company's banners in the position of leadership each has earned in its own segment of the market.

A tailor-made network of retailers

EUMR's mission is to serve independent retailers and encourage their growth by providing solid support.

In keeping with this philosophy, EUMR continued to tailor its business policies to the requirements of the market, thus maintaining competitiveness among retailers. The project to encourage renovation of the Company's banner stores surpassed all expectations. During the year, 58 Métro and 39 Marché Richelieu stores renovated or expanded their premises. Store owners' investments totalled $7.9 million dollars for Métro and $2.8 million dollars for Marché Richelieu.

In addition, EUMR developed a number of aggressive marketing programs. During the year, the Company identified various market areas where it wanted to increase its presence and reach the largest possible number of consumers through one of its banner stores. The new positioning of our Marché-Richelieu banner combined with a concept specifically developed for these stores resulted in substantial traffic increase.

EUMR also organized a series of activities intended to maintain its merchants' reputation for excellence and stocked their stores with specialties to meet their customers' expectations. The Métro stores' "5-Star" formula was developed and introduced during the year; its application will confirm our Métro merchants' reputation as specialists. Courses designed for retail employees were maintained in an effort to continue improving the quality of their retail operations and customer services.

Finally, the Company restructured its organization in the eastern part of the province, to allow the divisions greater independence as they strive to meet the specific expectations of retailers and consumers in that region.

EUMR received the Mercure marketing award in the large enterprise category, a tribute to the Company's achievements and the quality of its programs.

In the coming year, EUMR will continue to develop programs designed to meet the expectations of consumers and retailers. Our objective is to increase traffic, sales and profitability of the retailers' stores and keep the Company's banners in the position of leadership each has earned in its own segment of the market.

Corporate stores

Although the primary role of the Company is that of a wholesaler serving independent retailers, it has a responsibility to prevent available sites from falling into the hands of competitors. With this in mind, EUMR purchased a number of such stores during the year.

Sound management of corporate stores is an essential function which must be entrusted to professionals capable of maintaining and, wherever possible, increasing their profitability before reselling. As a result, the Corporate Store Division set up a separate, permanent structure capable of handling the development of such businesses.

Sales progression* ($000,000)

	1983	1984	1985	1986	1987
Grocery, produce and meat and frozen products	1,251.3	1,294.1	1,243.5	1,480.5	1,585.5

*Before inter-sectorial eliminations

Specialty sections introduced in stores (at September 26, 1987)

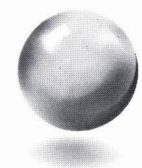
	Métro	Marché Richelieu
Baked goods	200	41
Bulk	199	22
Buffet	147	37
Prepared meals	80	33
Fish and seafood	51	1

EUMR's short and medium-term objective is to ensure development of the stores under its responsibility and find buyers for them. A number of corporate stores will be used as testing grounds for some of EUMR's new marketing concepts, as well as to provide on-the-job training for retail-sector employees. They may also be used to provide in-store training for retail employees.

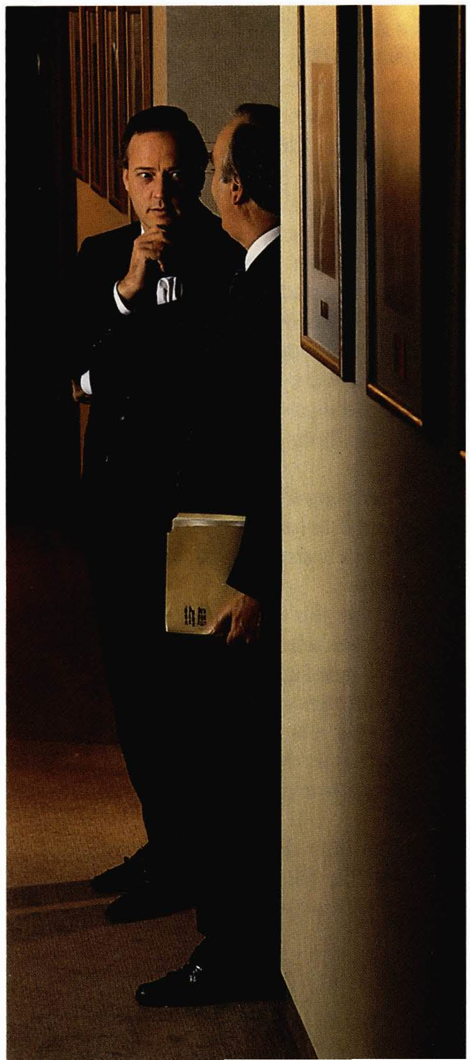
Équipement Mérite

All stores displaying the Métro or Marché Richelieu banner must project a consistent image so that consumers can easily identify them. Renovation, outfitting of new premises, installation of new boutiques, and purchase of equipment are the main services offered by the Équipement Mérite Division to merchants upon their request.

During the fiscal year, the Division modified its role, putting greater emphasis on its "consultant" role to ensure that its retailers' premises are as functional and attractive as possible. Rather than selling equipment directly to the retailers, the Division now acts as a link between the retailer and the supplier most likely to satisfy the merchant's needs at the best possible price.



"To meet the specific expectations of retailers and consumers in Eastern Quebec."
Messrs. **Marc Cassidy**, General Manager, Eastern Quebec and **Jacques Obry**, Group Vice-President.



LA FERME CARNAVAL INC.

As part of its expansion, Métro-Richelieu Inc. (Métro-Richelieu) acquired on May 31 the operations, goodwill and leases in connection with the activities of La Ferme Carnaval Inc., a company showing annual retail sales of over $375 million. As a result, Métro-Richelieu now owns 12 Super Carnaval stores in Quebec, in addition to Provincial Fruit, a produce distribution centre located in Ottawa. The 13th Super Carnaval store opened on October 12, 1987.

By purchasing its supplies from the Company's division, Super Carnaval generates an additional volume of some $100 million, thus ensuring better use of the existing facilities. This contribution is particularly important in an industry such as food, where revenues from supplies depend largely on volume growth.

Moreover, this transaction puts Métro-Richelieu in the forefront of Quebec superstores, a rapidly growing segment of the market not only in Quebec but throughout North America.

The consumer comes first

Super Carnaval is a success story. The Company opened its first store on January 12, 1983, in the Quebec City region of Beauport. It was an instant hit. Within a few months, space had become insufficient and 20,000 square feet had to be added.

The following year, two more Super Carnaval stores opened in the Quebec City region, one in Lévis and the other in Neufchâtel.

In September 1984, the Super Carnaval banner was introduced in the Montreal region with the opening of a store in St-Léonard and one in Longueuil. From January 1985 to March 1987, six new stores opened in the Montreal region and one in Drummondville. The most recent Super Carnaval store opened in Trois-Rivières on October 12, 1987, bringing the total to 13.

Attractiveness has not been sacrificed for the sake of efficiency. Each department has retained a personal touch in spite of its size. Merchandise in bulk, baked goods and produce attract a vast clientele, as do various specialized boutiques which offer a tremendous selection of home-made items. This new concept is all the more attractive as the type of management it involves makes it possible to keep costs to a minimum and still offer thrifty shoppers prices which they can appreciate.

Superstores offering a wide variety of products under one roof also appeal to today's busy people who have little time to shop and wish to find everything in one location.

Another plus is the variety of specialized boutiques and wide selection of fresh products in bulk, which are increasingly popular with consumers who, as a result of better information, have become more discriminating and demanding in terms of quality and variety of local and imported products.

With their displays of bulk merchandise, superstores offer the atmosphere of a public market without the inconvenience of having to pay at each counter, bulk merchandise, the low prices of a warehouse store and the sophistication of specialized boutiques, all elements which are in keeping with new trends in consumer tastes.

Equally important is the quality of Super Carnaval's human resources. Although they are now part of Métro-Richelieu, Super Carnaval stores have kept their independence of operations, as well as their own Board of Directors and management team. As a result, Métro-Richelieu now has the added advantage of the experience these people have acquired in developing superstores.

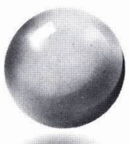
Super Carnaval has succeeded in cultivating among its employees a concern for quality service and an attentive ear to the consumer's needs, thus developing a strong rapport with its clientele and a better awareness of prevailing tastes. The stimulating work environment resulting from this approach made it possible to renew all collective agreements between Super Carnaval management and employees of every Super Carnaval store in a climate of cooperation and to the satisfaction of all concerned.

A winning formula

More and more, it seems that in the retail food sector, the future belongs to independent merchants and superstores, the former because they have the flexibility needed to adapt to rapid changes and can offer personalized services, the latter because they are particularly well suited to the demands of today's consumers in terms of prices and variety.

There is nothing to be gained by tampering with a winning formula. However, we can continue improving the "everything under one roof" concept for which Super Carnaval is justly famous, in order to keep up with changing consumer tastes.

Given the growing volume of meals eaten outside the home and diminishing time to cook, Super Carnaval will continue to expand its range of prepared meals, as an increasingly attractive alternative to eating out.



Super Carnaval will also continue to offer its customers variety and low prices as it expands in an effort to reach all of Quebec's major population basins.

The acquisition of La Ferme Carnaval Inc. has placed Métro-Richelieu in the forefront of superstores, a rapidly growing segment of the market not only in Quebec but throughout North America.

"To stay in the forefront of superstores, a rapidly expanding sector of the food industry."
From left to right: Messrs. **Jean-Paul Hurteau**, Vice-President, Merchandising, **Guy Jodoin**, Vice-President, Operations and **Michel Robin**, President and Chief Executive Officer.

LE GROUPE MÉRIDEV INC.

During fiscal year 1986-87, Métro-Richelieu Inc. (Métro-Richelieu) started diversifying to develop new sources of revenue in an attempt to compensate for the negligible rate of growth in the food industry.

The first phase in this diversification process was guided by very specific criteria with respect to choosing new venues. The Company decided to pursue areas related to retail distribution and merchandising of mass consumption products which would offer attractive possibilities of interaction with existing operations. In addition, they had to show a strong potential for growth. In the final analysis, Métro-Richelieu prefers to acquire soundly managed businesses and benefit from their management experience, rather than develop new businesses itself.

During the year, Métro-Richelieu made its debut in the pharmaceutical industry, restaurants, and sporting goods. It also acquired interests in companies such as Gestion de Textile Laverdure Inc., Alimentation Couche-Tard Inc. and Métro-Na Inc., where a strategic association should result in increased profitability due to the combined size of the companies and their management expertise.

To ensure the independence and the efficient, dynamic development of these companies, Métro-Richelieu created Le Groupe Méridev Inc., which brings together all these investments for the purpose of enhancing Métro-Richelieu's presence in the areas selected for diversification. The companies are governed by their own Board of Directors, which allows Métro-Richelieu to take advantage of the experience and expertise they have developed over the years.

In fiscal year 1986-87, Métro-Richelieu made its debut in sectors as varied as pharmaceuticals, restaurants and sporting goods. In addition, the Company acquired interests in Gestion de Textile Laverdure Inc., Alimentation Couche-Tard Inc. and Métro-Na Inc., where a strategic association should result in increased profitability due to the combined size of the companies and their management expertise.

Pharmaceutical products: A breakthrough in the two major segments of the industry

With the acquisition of McMahon-Essaim Inc. in September 1986, Métro-Richelieu made its debut in the distribution of pharmaceutical products in Quebec.

Created in 1949, McMahon-Essaim Inc. has, over the years, become one of the three wholesalers serving the entire network of Quebec pharmacies. From its warehouses in Sherbrooke and Quebec City, the company serves a large clientele made up primarily of some 100 pharmacies operating under the Essaim banner. These are small and average-sized neighbourhood pharmacies, where the emphasis is on health and the presence of specialists on the premises. They offer a personalized service along with highly competitive prices and weekly specials, in keeping with the type of philosophy which has always prevailed at Métro-Richelieu. The number of pharmacists displaying the Essaim banner rose from 64 to 107 during the past twelve months.

Still in the pharmaceutical industry, on August 30, Métro-Richelieu acquired Entreprises Gilles Cloutier (1977) Inc., which supply and franchise 13 pharmacies under the Cloutier banner, and are located primarily in the Montreal area. This transaction enabled McMahon-Essaim Inc. to expand its activities from the pharmaceutical sector to the superstore market and gain a solid foothold in the Montreal area.

Through this acquisition, McMahon-Essaim Inc. has become a significant presence in the two largest segments of the market for distribution of pharmaceuticals.

"To diversify Métro-Richelieu activities into fast-growing sectors."
Messrs. **Georges Dépatie**, President, Restaurants Giorgio (Amérique) Ltée, **Guy M. Papillon**, President and Chief Executive Officer, McMahon-Essaim Inc., **Pierre André Gendron**, President and Chief Executive Officer, André Lalonde Sports Inc., **Pierre Dépatie**, Vice-President, Marketing and Finance, Restaurants Giorgio (Amérique) Ltée and **Raymond Bachand**, President and Chief Executive Officer of Le Groupe Méridev Inc.

This market is experiencing considerable growth in Quebec, due for the most part to an aging population. Over the past 5 years, the average annual rate of growth of this industry was 20%, with retail sales for all pharmacies now exceeding $1.8 billion.

In the coming year, McMahon-Essaim will penetrate the market even further, by extending its network of Essaim and Cloutier banners to include every region of the Quebec market. In early 1988, the Company will open a new distribution centre in the Montreal area, to sustain its growth and provide pharmacists with one of the best services in the industry.

Specialized stores – Sports and Leisure: Sales of half a billion dollars in Quebec

Retail and wholesale distribution of sporting goods and recreation equipment and clothing is another sector in which Métro-Richelieu has diversified. In June, Métro-Richelieu acquired André Lalonde Sports Inc., a leading company with a strong image in this sector.

Founded in 1966, it gradually increased its network of corporate stores and franchises over the years. In September 1987, it had 25 sales outlets. Sales of ski equipment and clothing, an area where André Lalonde Sports Inc. is recognized as the leading specialist in Quebec is experiencing vigorous growth in an equally fast-growing industry characterized by a proliferation of independent stores. In Quebec alone, the market is estimated at half a billion dollars.

Le Groupe Méridev Inc. plans to continue developing this area of activities, in addition to expanding the range of its most popular sporting goods, all the while keeping in mind the aim of a specialized store, which is to offer customers personalized service and expert advice. Finally, André Lalonde Sports Inc. intends to increase the number of its stores in an effort to reach all Quebec consumers.

Restaurants: A natural for diversification

The part of the food dollar spent on eating in restaurants has almost doubled over the past 25 years, making the restaurant industry another fast-growing sector which is not expected to slow down in the foreseeable future.

In March 1987, Métro-Richelieu made a significant breakthrough in the restaurant market with the purchase of 50% of Restaurants Giorgio (Amérique) Ltée, a company firmly established in Quebec, which offers Italian specialties in a pleasant atmosphere and at highly competitive prices. At the time of this acquisition, Restaurants Giorgio (Amérique) Ltée had just purchased the Pastelli Restaurants, and the Giorgio and Pastelli banners ranked first and second respectively in the Italian restaurant segment of the Quebec market.

Since March, the number of Giorgio restaurants has been growing steadily; by year end, there were 37.

In addition to being a natural choice in the Company's decision to diversify, the acquisition of Restaurants Giorgio (Amérique) Ltée enabled Métro-Richelieu to add a prestigious name to the list of its Econogros Division clients.

Le Groupe Méridev Inc. will continue to develop and increase the number of Giorgio restaurants over the next few years.

Real Estate: Preserving retailers' sites

Le Groupe Méridev Inc. also owns Société Immobilière Devimont Inc., a real estate company created in 1981, whose activities to date have centred mainly on managing a number of buildings acquired through various transactions.

Le Groupe Méridev Inc. has undertaken a development policy aimed at increasing its presence in the real estate market and ensuring Métro-Richelieu of an ongoing presence or interest in real estate projects under the company's banners.

Le Groupe Méridev Inc.

	Interest held by Métro-Richelieu Inc.	Number of banners as at September 27, 1987
McMahon-Essaim Inc.	100%	–
Pharmacies Essaim	–	107
Pharmacies Cloutier	–	13
André Lalonde Sports Inc.	100%	25
Restaurants Giorgio (Amérique) Ltée	50%	37
Métro-Na Inc.	50%	–
Gestion de Textile Laverdure Inc.	50%	–
Alimentation Couche-Tard Inc.	20%	120

Other sectors: Joining forces with fast-growing companies

Over the years, Métro-Richelieu had developed a number of divisions which offered services to retailers or operated independently. During fiscal year 1986-87, the Company divested itself of some of these divisions to become associated with companies which possess outstanding expertise and a significant share of the market in their sector.

• Alimentation Couche-Tard Inc.

Métro-Richelieu has strengthened its presence in the rapidly growing convenience food market through a February 1987 agreement with Alimentation Couche-Tard Inc. Under this agreement, Métro-Richelieu transferred its Dépanneur Sept Jours network to Alimentation Couche-Tard Inc. in return for an interest in the latter and a long-term supply agreement which makes Métro-Richelieu the exclusive supplier of convenience store operators who belong to the Couche-Tard/Sept Jours network, thus increasing its annual volume to nearly $18 million.

The Couche-Tard network of convenience stores has experienced tremendous growth since its creation in 1980. With the acquisition of Sept Jours, it has become the second largest network of franchised convenience stores in Quebec. In September 1987, its sales outlets numbered 120. Alimentation Couche-Tard Inc. management has set its sights on increasing this number to 200 by 1990.

Métro-Richelieu currently owns close to 20% of Alimentation Couche-Tard Inc., a public company with shares listed on the Montreal Exchange.

• Gestion de Textile Laverdure Inc.

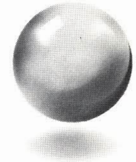
In September 1987, Métro-Richelieu bought 50% of the participating shares of Gestion de Textile Laverdure Inc., a company which enjoys an excellent reputation and prominent place in the Quebec sector of rental and maintenance of linen and uniforms for commercial and industrial companies.

This acquisition followed the shutdown of the Buanderie Mérite Division which served the Métro and Marché Richelieu stores in addition to the Company's central divisions and a number of outside clients. Closing Buanderie Mérite became necessary because of the considerable investments required for its continued maintenance and development.

Through its association with the owners of Gestion de Textile Laverdure Inc., Le Groupe Méridev Inc. can expect highly attractive returns while sustaining Laverdure's growth in its market.

• Métro-Na Inc.

A large company like Métro-Richelieu must constantly seek to increase its purchasing power, reduce operation costs and rationalize some activities. The creation of Métro-Na Inc., a joint venture between Métro-Richelieu and Groupe Ro-Na Inc., is a first in Quebec for this type of network. The newly formed company enhances the purchasing power of both partners in order to achieve economies of scale and increase the negotiating power of each. Some interesting and profitable experiences have already resulted from this association.



ÉCONOGROS (FOOD SERVICES)

Among the most significant changes to occur in the food industry, the growth of the convenience market and the steadily increasing number of meals eaten outside the home have had a considerable impact on food retailers in the past few years.

Every effort of the divisions in the institutional sector of Epiciers Unis Métro-Richelieu Inc. (EUMR) is aimed at expanding the Company's market by enhancing its presence in the main segments of a market which represents a steadily growing part of the consumer's food dollar.

To take advantage of the resulting additional volume from convenience store operators and various institutions serving meals, such as hospitals, schools, and restaurants, EUMR intensified its efforts to develop the Éconogros Divisions in Montreal and Quebec City.

Éconogros: One call does it all

A major project to reoutfit the Montreal Éconogros distribution centre was completed during the year, enabling us to improve existing services and offer new ones. Following an investment of more than 2.5 million dollars, we added a refrigerated warehouse to the existing facilities and renewed the Division's fleet of trucks. We can now store and distribute greater quantities of grocery, meat and frozen products, as well as produce. The Montreal Éconogros Division is now in a position to offer its clients a complete range of products and single-delivery service, which makes their management tasks considerably easier.

Éconogros Quebec also continued to widen its range of services and products. With the acquisition of Distagro Ltée, it is now in a position to increase its market share and sales volume by integrating frozen products into its distribution network. In addition, following the purchase of Service Alimentaire de Québec Inc., a company with solid expertise in distribution to independent restaurants, the Division is now able to increase its volume, particularly in the distribution of grocery products.

Sales progression of the Éconogros Division ($000,000)

1983	1984	1985	1986	1987
42.4	70.1	94.0	115.4	148.8

By offering its clients a wider selection of products and developing services well suited to the needs of small food businesses and institutions, Éconogros is setting its sights on becoming the leading Quebec distributor in these areas of the market.

To take advantage of the resulting additional volume from convenience store operators and various institutions serving meals, such as hospitals, schools, and restaurants, EUMR intensified its efforts to develop the Éconogros Divisions in Montreal and Quebec City.

"To enhance the presence of Métro-Richelieu in the main segments of the institutional food sector".
Charles Roy, Vice-President, Food Services and Corporate Stores.

FINANCIAL REVIEW

Sales

Consolidated sales for fiscal year 1986-87 stood at $1,915,417,000, a 15% increase over the previous year. This average annual growth rate of 10% since 1983 can be attributed in part to an increase in sales in the traditional sector of wholesale food distribution, as well as to the operations of various companies acquired as part of the diversification process.

It should be noted that these acquisitions took place throughout the fiscal year and that, consequently, only part of the annual sales are included in the consolidated sales of the Company; these sales correspond to the periods following the acquisition by Métro-Richelieu Inc. Sales reported by La Ferme Carnaval Inc., for instance, are those accumulated since May 31, 1987. In all, total sales from acquisitions account for $200,000,000.

Operating income

Operating income for 1986-87 was $44,849,000, compared to $30,318,000 the previous year, or an increase of 48%. The operating income represents 2.3% of sales, compared with 1.8% in 1986. This increase is due to rationalization of operations and contributions from new activities undertaken by the Company.

Net income

At year-end, the Company's net income stood at $10,023,000, an increase of $4,042,000 or 68% over the previous year's net income. This represents a ratio of 0.52% of sales (0.36% in 1986). The Company's net income includes an extraordinary item of $1,286,000 from the sale of the network of Sept Jours convenience stores and pharmacy franchises acquired at the time of purchase of Entreprises Gilles Cloutier (1977) Inc.

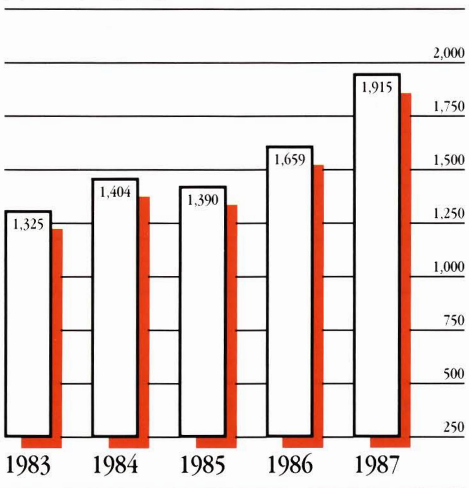
Earnings per share before the extraordinary item amount to $0.58 and $0.67 after the extraordinary item, or respectively $0.15 and $0.06 less than the previous year. This drop can be explained by the issue of capital stock during the year, which increased the weighted average number of the Company's shares from 7,997,840 in 1986 to 13,676,276 in 1987.

Depreciation expense and interest expense increased respectively to $5,195,000 and $3,293,000 during the year. These increases stem from the Company's expansion and diversification activities. Despite this rise in interest expense, the previous year's interest coverage ratio rose from 1.9 to 2.1 this year.

Income tax represents 45.2% of income before taxes, compared with 39.6% the previous year. This increase is due, in part, to the abolition of final inventory tax allowance.

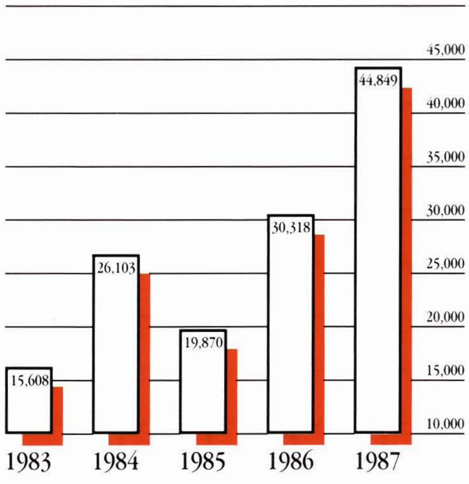
Sales

(in millions of dollars)

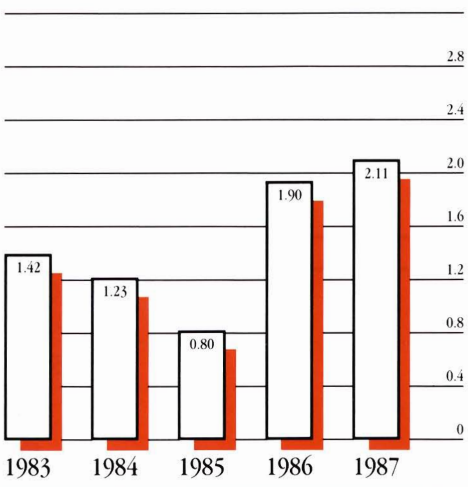


Operating income

(in thousands of dollars)

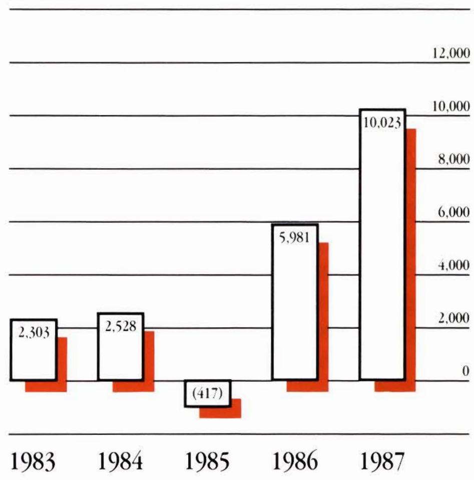


Coverage of interest



Net income

(in thousands of dollars)



Financial structure

Total assets of the Company rose to $533,165,000, an increase of $275,632,000 over the previous fiscal year. Financing these assets was achieved through a first public offering of $30,360,000 in November 1986, the issue of $32,499,000 in Class A subordinate shares and $32,500,000 in preferred shares during the acquisition of La Ferme Carnaval Inc., and long-term loans for a total of $115,000,000. The balance arises from short-term financing for an amount of $55,000,000 and the reinvestment of earnings for an amount of $10,000,000.

Capitalization of the Company improved during the fiscal year, with shareholders' equity rising from $44,404,000 in 1986 to $145,775,000 in 1987. The long-term debt to equity ratio stood at 1.30 at year-end, compared to 1.67 for the previous year.

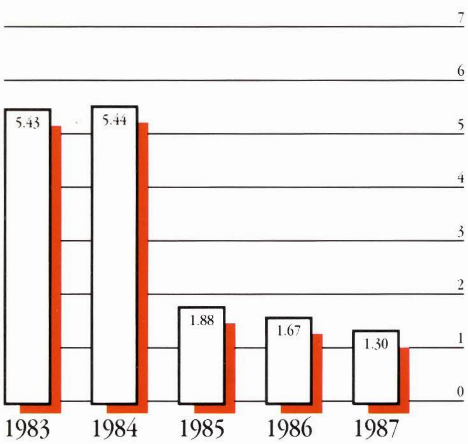
Capital expenditures

Capital expenditures over the fiscal year rose to $14,975,000, compared to $16,566,000 the previous year. Moreover, a sum of $52,342,000 in fixed assets comes from businesses acquired during the year.

Working capital

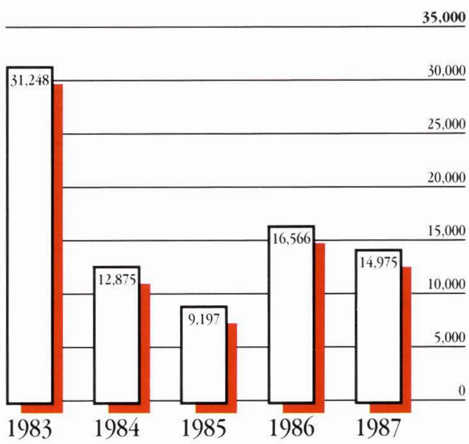
At year-end, the Company's working capital stood at $24,585,000, compared to $19,783,000 the previous year. The working capital ratio dropped slightly, from 1.15 to 1.13 at year-end, following a number of investments financed by short term debts.

Long-term debt/Shareholders' equity

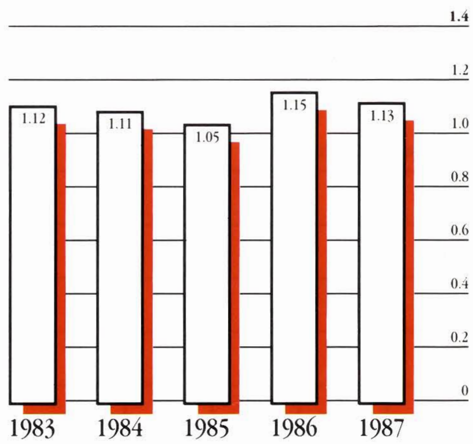


Capital expenditures

(in thousands of dollars)



Working capital ratio



Quarterly results

Fiscal year ended September 26, 1987	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Year
Sales ($000)	449,760	394,199	577,888	493,570	1,915,417
Earnings before extraordinary item ($000)	1,676	1,588	3,328	2,145	8,737
Net earnings ($000)	1,676	2,052	3,328	2,967	10,023
Earnings per share before extraordinary item	$0.13	$0.12	$0.19	$0.14	$0.58
Earnings per share after extraordinary item	$0.13	$0.16	$0.19	$0.19	$0.67
Quoted market price					
High	7½	8⅛	13¼	10	13¼
Low	6⅛	6⅛	7¾	7¼	6⅛
Volume of transactions	415,307	1,044,518	3,546,704	625,461	5,631,990

Fiscal year ended September 27, 1986	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Year
Sales ($000)	388,291	354,111	509,283	407,728	1,659,413
Earnings before extraordinary item ($000)	823	1,117	2,585	1,456	5,981
Net earnings ($000)	823	1,117	2,585	1,456	5,981
Earnings per share before extraordinary item	$0.11	$0.14	$0.31	$0.17	$0.73
Earnings per share after extraordinary item	$0.11	$0.14	$0.31	$0.17	$0.73

FINANCIAL STATEMENTS

MANAGEMENT REPORT

On the Company's consolidated financial statements

The consolidated financial statements of Métro-Richelieu Inc. and financial information contained in this Annual Report are the responsibility of Management. These consolidated financial statements were prepared according to the accounting principles generally accepted in Canada and were approved by the Board of Directors.

Métro-Richelieu Inc. maintains accounting and administrative control systems which, in the opinion of Management, ensure reasonable accuracy of financial information and well-ordered, efficient management of the Company's affairs.

The Board of Directors is responsible for approving the consolidated financial statements included in this Annual Report, principaly through its Audit Committee. This Committee, which holds periodic meetings with members of Management, the internal auditor and external auditors, reviewed the consolidated financial statements of Métro-Richelieu Inc. and recommended their approval to the Board of Directors.

The enclosed financial statements were audited by Mallette, Benoit, Boulanger, Rondeau & Associés, chartered accountants and their report indicating the extent of their audit and their opinion on the consolidated financial statements is set out below.

Jacques L. Maltais

Jacques L. Maltais
President and Chief Executive Officer

L.G. Serge Gadbois

L.G. Serge Gadbois, c.a.
Vice-president, Finance

AUDITORS' REPORT

To the Shareholders of Métro-Richelieu Inc.

We have examined the consolidated balance sheet of MÉTRO-RICHELIEU INC. as at September 26, 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at September 26, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mallette, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants

Montréal, November 13, 1987

CONSOLIDATED STATEMENT OF EARNINGS

year ended September 26, 1987

	1987	1986
	(in thousands of dollars)	
Sales	**$1,915,417**	$1,659,413
Cost of sales and operating expenses	**1,870,568**	1,629,095
Earnings from operations	**44,849**	30,318
Other expenses		
Financial –		
Short-term	**2,186**	2,617
Long-term	**11,600**	7,326
Loans from shareholders	**522**	1,072
Depreciation and amortization (note 4)	**14,604**	9,409
	28,912	20,424
Earnings before income taxes and extraordinary item	**15,937**	9,894
Income taxes (Note 5)		
Current	**4,266**	330
Deferred	**2,934**	3,583
	7,200	3,913
Earnings before extraordinary item	**8,737**	5,981
Extraordinary item (Note 6)	**1,286**	–
Net earnings	**$ 10,023**	$ 5,981
Earnings per share		
Before extraordinary item	**$ 0.58**	$ 0.73
After extraordinary item	**$ 0.67**	$ 0.73

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

year ended September 26, 1987

	1987		1986
		(in thousands of dollars)	
Balance, beginning of year	**$ 8,085**		$ 2,764
Add:			
Net earnings	**10,023**		5,981
Transfer of the excess of appraised value of fixed assets over cost	**13**		12
	18,121		8,757
Deduct:			
Share issue expenses less income taxes	**1,437**		–
Excess of redemption price of shares over their stated value	**920**		566
Dividends on preferred shares	**645**		106
	3,002		672
Balance, end of year	**$ 15,119**		$ 8,085

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

year ended September 26, 1987

	1987	1986
	(in thousands of dollars)	
Operating activities		
Earnings before extraordinary item	**$ 8,737**	$ 5,981
Depreciation and amortization	**14,604**	9,409
Loss (gain) on disposal of fixed assets and other assets	**(34)**	573
Deferred income taxes	**2,934**	3,583
	26,241	19,546
Net change in other items	**(23,212)**	21,465
Cash provided from operating activities	**3,029**	41,011
Financing activities		
Increase in long-term debt	**145,498**	20,760
Repayment of long-term debt	**(23,038)**	(5,003)
Increase in loans from shareholders	**1,863**	2,270
Repayment of loans from shareholders	**(7,027)**	(5,930)
Minority interest	**830**	–
Issuance of capital stock	**97,640**	6,478
Share issue expenses	**(1,437)**	–
Redemption of capital stock	**(4,057)**	(1,573)
Cash provided from financing activities	**210,272**	17,002
Investing activities		
Increase in fixed assets	**(67,317)**	(16,566)
Disposal of fixed assets and other assets	**6,237**	857
Net change in investments	**(10,408)**	2,710
Net change in other assets	**(156,955)**	(7,659)
Cash applied to investing activities	**(228,443)**	(20,658)
Dividends	**(645)**	(106)
Cash increase (decrease)	**(15,787)**	37,249
Cash position, beginning of year	**(37,833)**	(75,082)
Cash position, end of year	**$ (53,620)**	$ (37,833)

Cash includes outstanding cheques and bank loans.

CONSOLIDATED BALANCE SHEET

September 26, 1987

Assets	1987	1986
	(in thousands of dollars)	
Current assets		
Accounts receivable	**$ 95,908**	$ 71,354
Income taxes	**–**	459
Inventories	**110,773**	77,306
Prepaid expenses	**6,241**	3,989
Current portion of investments (Note 7)	**400**	578
	213,322	153,686
Investments (Note 7)	**11,435**	895
Fixed assets (Note 8)	**142,668**	91,404
Other assets (Note 9)	**165,740**	11,548
	$ 533,165	$ 257,533

On behalf of the board

Marcel R. Guertin
Chairman of the Board

Bernard Bélair
Treasurer

Liabilities	1987	(in thousands of dollars) 1986
Current liabilities		
Outstanding cheques	$ 47,143	$ 34,226
Bank loans	6,477	3,607
Accounts payable and accrued liabilities	123,992	88,204
Income taxes	986	–
Current portion of long-term debt and loans from shareholders (Notes 10 and 11)	10,139	7,866
	188,737	133,903
Long-term debt (Note 10)	186,927	68,350
Deferred income taxes	8,855	5,281
Loans from shareholders (Note 11)	2,041	5,595
Minority interest	830	–
Shareholders' equity		
Capital stock (Note 12)	129,926	35,540
Retained earnings	15,119	8,085
Contributed surplus	157	193
Excess of appraised value of fixed assets over cost	573	586
	145,775	44,404
	$ 533,165	$ 257,533

1. Statutes of incorporation:
The Company is governed by Part 1A of the Quebec Companies Act.

2. Summary of the principal accounting policies:
These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the principal accounting policies used to prepare the consolidated financial statements.

a) Consolidation –
The consolidated financial statements include the accounts of the Company and its subsidiaries.

b) Foreign currency translation –
Monetary items expressed in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end and non-monetary items are translated at their historic rates. Items appearing in the consolidated statement of earnings are translated at the rates prevalent at the time of the transactions. All exchange gains and losses are included in the consolidated statement of earnings.

c) Inventory valuation –
Inventory is valued at lower of cost (generally determined on a first in, first out basis) and net realizable value.

d) Investments –
Investments in companies subject to significant influence are accounted for using the equity method. Other investments are accounted for at cost.

e) Fixed assets, capital leases and depreciation –
Fixed assets and fixed assets under capital leases are accounted for at cost, except for a land and a building which were appraised in 1968.
Depreciation of fixed assets and fixed assets under capital leases are recorded using the straight-line method at the following rates:

Land improvements	2½% to 5%
Buildings	2½%
Machinery and equipment	2½% to 25%
Rolling stock	10% to 25%
Leasehold improvements	term of the leases

f) Other assets and amortization –
Other assets are accounted for at cost.
Amortization is recorded using the straight-line method at the following rates:

Goodwill	2½% to 5%
Leasehold rights	term of the leases
Other	20% to 33⅓%

g) Excess of appraised value of fixed assets over cost –
The excess is transferred to retained earnings when realized through depreciation or sale of appraised fixed assets.

3. Acquisitions:
During the year, the Company acquired all the shares of various companies, amoung which are:

McMahon-Essaim Inc., a wholesaler of pharmaceutical products, acquired on October 2, 1986.

La Ferme Carnaval Inc., engaged in the food industry, acquired on May 31, 1987.

André Lalonde Sports Inc., engaged in the sporting goods industry, acquired on June 23, 1987.

Les Entreprises Gilles Cloutier (1977) Inc., engaged in the pharmaceutical industry, acquired on August 31, 1987.

The Company also acquired all the shares or assets of certain other companies engaged in the wholesale or retail sale of food products.

The earnings from operations of the acquired companies are included in the consolidated statement of earnings since their acquisition date.

These acquisitions which are accounted for using the purchase method are summarized as follows:

		(in thousands of dollars)	
	La Ferme Carnaval Inc.	**Other acquisitions**	**Total**
Total assets	**$ 60,495**	**$ 41,803**	**$ 102,298**
Liabilities assumed	**60,495**	**30,509**	**91,004**
Net assets acquired	**–**	**11,294**	**11,294**
Goodwill	**64,999**	**15,895**	**80,894**
Acquisition cost	**$ 64,999**	**$ 27,189**	**$ 92,188**
Consideration:			
Cash	**$ –**	**$ 22,543**	**$ 22,543**
Long-term notes	**–**	**3,816**	**3,816**
32,500 first preferred shares, Series 1	**32,500**	**–**	**32,500**
3,000,000 Class A subordinate shares	**32,499**	**–**	**32,499**
830,000 Class A preferred shares of a subsidiary	**–**	**830**	**830**
	$ 64,999	**$ 27,189**	**$ 92,188**

Following its acquisition by the Company, La Ferme Carnaval Inc. acquired leasehold rights totalling $70,000,000.
The acquisition cost of a subsidiary could be increased by a maximum amount of $2,133,000, should certain conditions be met.

4. Earnings:

The consolidated statement of earnings includes the following items:

	1987	1986
	(in thousands of dollars)	
Depreciation and amortization		
Fixed assets	**$ 11,841**	$ 8,553
Other assets	**2,763**	856
	$ 14,604	$ 9,409
Interest in companies subject to significant influence	**$(46)**	$ –

5. Income taxes:

The actual income tax rates of the Company are as follows:

	1987	1986
Statutory income tax rates	**42.92%**	42.71%
Inventory allowance	**–**	(3.71)
Other	**2.26**	0.55
	45.18%	39.55%

6. Extraordinary item:

The extraordinary item represents a gain of $1,286,000 on the sale of assets, after deducting income taxes of $640,000.

7. Investments:

	1987	1986
	(in thousands of dollars)	
Loans and advances to shareholders, repayable over a four year period, bearing interest at variable rates	**$ 408**	$ 1,198
Investments in companies subject to significant influence	**9,307**	–
Investments in private companies	**574**	–
Other	**1,546**	275
	11,835	1,473
Current portion	**400**	578
	$ 11,435	$ 895

8. Fixed assets:

	1987			1986
	Cost	Accumulated depreciation	Net value	Net value
		(in thousands of dollars)		
Land and land improvements	$ 6,460	$ 260	$ 6,200	$ 4,638
Buildings	60,642	8,968	51,674	46,851
Machinery and equipment	40,056	16,821	23,235	24,777
Rolling stock	17,077	11,886	5,191	5,660
Leasehold improvements	2,599	1,046	1,553	1,130
	126,834	38,981	87,853	83,056
Fixed assets under capital leases	63,657	8,842	54,815	8,348
	$ 190,491	$ 47,823	$ 142,668	$ 91,404

9. Other assets:

	1987	1986
	(in thousands of dollars)	
Goodwill – amortized cost	$ 88,905	$ 9,933
Leasehold rights – amortized cost	70,127	–
Other – amortized cost	6,708	1,615
	$ 165,740	$ 11,548

10. Long-term debt:

	1987	1986
	(in thousands of dollars)	
Loans, secured by first mortgages, bearing interest at rates ranging from the prime rate to 13.5%, maturing up to 1995	$ 38,797	$ 37,599
Loans, secured by first and second collateral mortgages and by a commercial pledge, bearing interest at rates ranging from 1% over the prime rate to 13.395%, maturing in 1997	6,788	7,500
Loans, secured by liens on equipment, bearing interest at rates ranging from 1% over the prime rate to 14%, maturing up to 1997	3,696	3,872
Notes, bearing interest at rates ranging from 1% below the prime rate to the prime rate plus 1½%, maturing up to 1991	23,065	16,772
Notes, secured by the shares of subsidiaries, bearing interest at rates ranging from the prime rate to 0.5% over the prime rate, maturing in 1997	70,000	–
Sinking Fund Bonds	–	150
	142,346	65,893
Obligations under capital leases, bearing interest at rates ranging from 9.19% to 14.75%, maturing from 1987 to 1997	54,659	8,652
	197,005	74,545
Current portion	10,078	6,195
	$ 186,927	$ 68,350

Capital repayments of the long-term debt, payable during the next five years, and minimum payments under capital leases are as follows, assuming that loans subject to renewal are renewed under the same conditions:

Long-term debt		Capital leases	
1988 –	$ 3,536	1988 –	$ 12,408
1989 –	18,001	1989 –	11,741
1990 –	14,660	1990 –	9,857
1991 –	18,832	1991 –	9,547
1992 –	17,974	1992 and following –	40,574
			84,127
		Less interest included in instalments	29,468
			$ 54,659

11. Loans from shareholders:

	1987	1986
	(in thousands of dollars)	
Loans redeemable after five and ten years of their respective instalments, bearing interest at rates ranging from 1% below to 1½% above the average prime rate	$ 688	$ 5,230
Notes, without interest, converted quarterly into Class A subordinate shares	285	853
Other loans, without repayment conditions, bearing interest payable semi-annually at the rate of 1½% below the average prime rate	1,129	1,183
	2,102	7,266
Current portion	61	1,671
	$ 2,041	$ 5,595

Capital repayments of loans from shareholders over the next five years are as follows:

1988 – $ 61 1989 – $137 1990 – $ 16 1991 – $ 19 1992 – $ 70

The shareholders of the company have subordinated their past and future loans to the rights of the lending institutions which have agreed to finance Centre Mérite I and have also subordinated their loans to the rights of lenders which granted or will grant loans to the company or its subsidiaries.

12. Capital stock

During the year, the capital stock of the company was reorganized in order to:

(i) limit the authorized number of first preferred shares to 12,000 and redesignate them as "second preferred shares";

(ii) create an unlimited number of first preferred shares;

(iii) subdivide each Class A common share into 20, and redesignate them as "Class B shares";

(iv) subdivide each Class B subordinate share into 20, and convert them into Class B shares on the basis of one to one; and

(v) subdivide each Class C subordinate share into 20, and redesignate them as "Class A subordinate shares";

so that the authorized capital stock of the company consists of:

Unlimited number of first preferred shares, without par value, issuable in series:
Series 1, convertible into Class A subordinate shares, redeemable at $1,000 per share, cumulative dividend equal to 50% of the prime rate plus 1¾% up to a maximum of 8%

12,000 second non-voting and non-participating preferred shares, convertible in May 1988 into Class A subordinate shares, cumulative dividend of 75% of bank prime rate plus 1½%, redeemable, with a par value of $100 each

Unlimited number of Class A subordinate shares without par value

Unlimited number of Class B shares without par value

For comparison purposes, the capital stock as at September 27, 1986 was considered as restructured following the above-mentioned reorganization.

	1987	1986
	(in thousands of dollars)	
Issued:		
32,500 first preferred shares, Series 1	**$ 32,500**	$ –
9,305 second preferred shares (1986 – 11,219)	**931**	1,122
15,389,193 Class A subordinate shares (1986 – 7,367,020)	**92,948**	29,824
1,280,040 Class B shares (1986 – 1,745,540)	**3,700**	4,594
Deduct:		
Shares held by wholly-owned subsidiaries	**(153)**	–
	$129,926	$ 35,540

The change in capital stock is summarized as follows:

	1987 Number of shares	1987 Stated value	1986 Number of shares	1986 Stated value
		(in thousands of dollars)		(in thousands of dollars)
Issuance of capital stock:				
First preferred shares, Series 1	**32,500**	**$ 32,500**	–	$ –
Class A subordinate shares	**8,324,853**	**64,638**	1,431,420	6,081
Class B shares	**64,800**	**502**	94,500	398
		Price paid		Price paid
Redemption of shares:				
Second preferred shares	**1,914**	**$ 191**	1,253	$ 125
Class A subordinate shares	**531,980**	**2,468**	140,220	592
Class B shares	**301,000**	**1,398**	164,240	984
Conversion of shares:				
Class B shares converted into Class A subordinate shares	**229,300**	**640**	–	–

The company has issued notes convertible until December 31, 1990 into 200,000 Class A subordinate shares for a consideration of $2,000,000, and 300,000 warrants entitling their holders to purchase until December 31, 1990 a number of 300,000 Class A subordinate shares at a price of $10 per share.

The company has granted Class A subordinate share options to certain officers, entitling them to subscribe for 331,892 shares at a price ranging from $4.75 to $6.125 until December 1, 1991.

13. Contingent liabilities:

a) Endorsements –

The Company assumes a contingent liability for certain of its shareholders and other firms with which business relationships are established, as endorser of lease contracts extending over a period of five to twenty years and maturing from 1991 to 2001. The annual minimum lease payments excluding escalator clauses amount to $610,000. The amount of contingent liability under these endorsements as of September 26, 1987 is $7,037,000.

The Company has endorsed loans granted by financial institutions to certain shareholders with whom business relationships are established. The maximum amount of the guarantee is $2,945,000.

The Company has endorsed an operating loan granted by a financial institution to a firm with which it has business relationships. The maximum amount of the guarantee is $5,000,000.

b) Guarantees –

The Company has a limited contingent liability as guarantor of conditional sales contracts. As at September 26, 1987, the outstanding contracts amounted to $11,777,000, representing the capital balance of the contracts.

14. Contractual obligations –

(a) The Company has undertaken to lease certain premises under leases with terms varying from three to twenty-five years and extending up to the year 2007 for annual minimum payments totalling $11,189,000. The total commitments excluding escalator clauses are $174,997,000. The balance of these commitments as at September 26, 1987 amounts to $147,110,000.

(b) Under lease agreements and lease offers with terms varying from five to twenty-five years extending until 2010, the Company has undertaken to lease premises for minimum annual payments totalling $7,003,000. The total commitments excluding escalator clauses amount to $146,090,000. The balance of these commitments as at September 26, 1987 amounts to $120,159,000.

In return, the Company sublets these premises under the same terms and conditions and for the same considerations as in the above-mentioned lease agreements and lease offers.

(c) The Company has undertaken under a business agreement to pay during the next five years an aggregate amount in the order of $1,800,000. This agreement concerns site development and a contribution to rental payments with respect to retail food outlets.

15. Related party transactions:

The major portion of the sales of the Company and its subsidiaries results from transactions concluded with shareholder customers.

FINANCIAL RETROSPECTIVE

	1987	1986	1985	1984	1983
Summary of earnings ($000)					
Sales	1,915,417	1,659,413	1,389,704	1,404,203	1,325,307
Operating income	44,849	30,318	19,870	26,103	15,608
Depreciation	14,604	9,409	8,745	8,473	4,920
Interest	14,308	11,015	13,873	14,278	7,548
Income taxes	7,200	3,913	(1,682)	824	837
Earnings before extraordinary item	8,737	5,981	(1,066)	2,528	2,303
Net earnings	10,023	5,981	(417)	2,528	2,303
Earnings per share, before extraordinary item	0.58$	0.73$	(0.53$)	S/O	S/O
Earnings per share, after extraordinary item	0.67$	0.73$	(0.34$)	S/O	S/O
Changes in financial position ($000)					
Funds derived from operations	26,241	19,546	5,856	13,366	7,295
Capital expenditures*	14,975*	16,566	9,197	12,875	31,248
Financial structure ($000)					
Working capital	24,585	19,783	7,305	12,333	12,995
Current assets	213,322	153,686	143,567	119,635	120,818
Current liabilities	188,737	133,903	136,262	107,302	107,823
Fixed assets	142,668	91,404	84,456	85,665	84,130
Total assets	533,165	257,533	234,835	211,147	211,529
Long-term debt	188,968	73,945	63,251	85,050	86,443
Shareholders' equity	145,775	44,404	33,624	15,626	15,915
Financial ratios					
Operating income/sales	2.34%	1.83%	1.43%	1.86%	1.18%
Net earnings/sales	0.52%	0.36%	(0.03%)	0.18%	0.17%
Yield on shareholders' equity	12.26%	18.04%	S/O	S/O	S/O
Long-term debt/shareholders' equity	1.30	1.67	1.88	5.44	5.43
Total debt/shareholders' equity	2.59	4.68	5.93	12.31	12.21
Working capital	1,13	1.15	1.05	1.11	1.12
Coverage of interest	2.11	1.90	0.80	1.23	1.42

* Excluding capital expenditures arising from businesses acquired during the year and totalling $52,342,000.

MANAGEMENT

Board of directors

□ Marcel R.Guertin
Chairman of the Board

□ Aimé Gagnon
Vice-Chairman of the Board

□ Jean-Claude Messier
Secretary

□ Bernard Bélair
Treasurer

○ Maurice Jodoin
Director

○ Réal Brouillette
Director

○ Roland Ferland
Director

● Benoît Gadoury
Director

● Jacques Laliberté
Director

* Roger Lévesque
Director

* Pierre Shooner
Director

James S. Parsons
Director

□ Member of the Executive Committee
○ Member of the Audit Committee
● Member of the Marketing Committee
* Member of the Human Resources Committee

Management

Métro-Richelieu Inc.

Jacques L. Maltais
President and Chief Executive Officer

Réjean Bouchard
Assistant to the President

Raymond Bachand
Vice-President, Corporate Development

Claude Brunetta
Vice-President, Expansion and Property Development

Gaétan Frigon
Vice-President, Marketing and Head of Retail Operations

L.G. Serge Gadbois
Vice-President, Finance

Denise Martin
Vice-President, Information Systems

Guy Piuze
Vice-President, Human Resources

André Roy
Vice-President, Administration

Épiciers Unis Métro-Richelieu Inc. (EUMR)

Jacques Obry
Group Vice-President

Marc Cassidy
General Manager, Eastern Quebec

Pierre Charron
Vice-President, Grocery

Paul Laporte
Vice-President, Distribution

Robert Sawyer
Vice-President, Produce

Lawrence Timmons
Vice-President, Meat and Frozen Products

Charles Roy
Vice-President, Food Services and Corporate Stores

La Ferme Carnaval Inc.

Michel Robin
President and Chief Executive Officer

Jean-Paul Hurteau
Vice-President, Merchandising

Guy Jodoin
Vice-President, Operations

Le Groupe Méridev Inc.

Raymond Bachand
President and Chief Executive Officer

Guy M. Papillon
President and Chief Executive Officer
McMahon-Essaim Inc.

Pierre-André Gendron
President and Chief Executive Officer
André Lalonde Sports Inc.

Transfer Officer and Registrar:
Montreal Trust
Bankers:
National Bank of Canada
Royal Bank of Canada
Caisse centrale Desjardins du Québec
Securities listed on the Montreal Stock Exchange:
Class A Subordinate Shares
Share symbol: MRU, A

Auditors:
Mallette, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants

Les actionnaires peuvent se procurer la version française de ce rapport en s'adressant à :
Métro-Richelieu Inc.
a/s Vice-President, Finance
11,011, boul. Maurice-Duplessis
Montreal, Qc
H1C 1V6
(514) 643-1000

Annual Meeting:
The annual shareholders' meeting will be held on January 25, 1988 at 2:30 p.m., at the Sheraton Centre, 1201 Dorchester Blvd. West in Montreal, Canada.

METRO-RICHELIEU