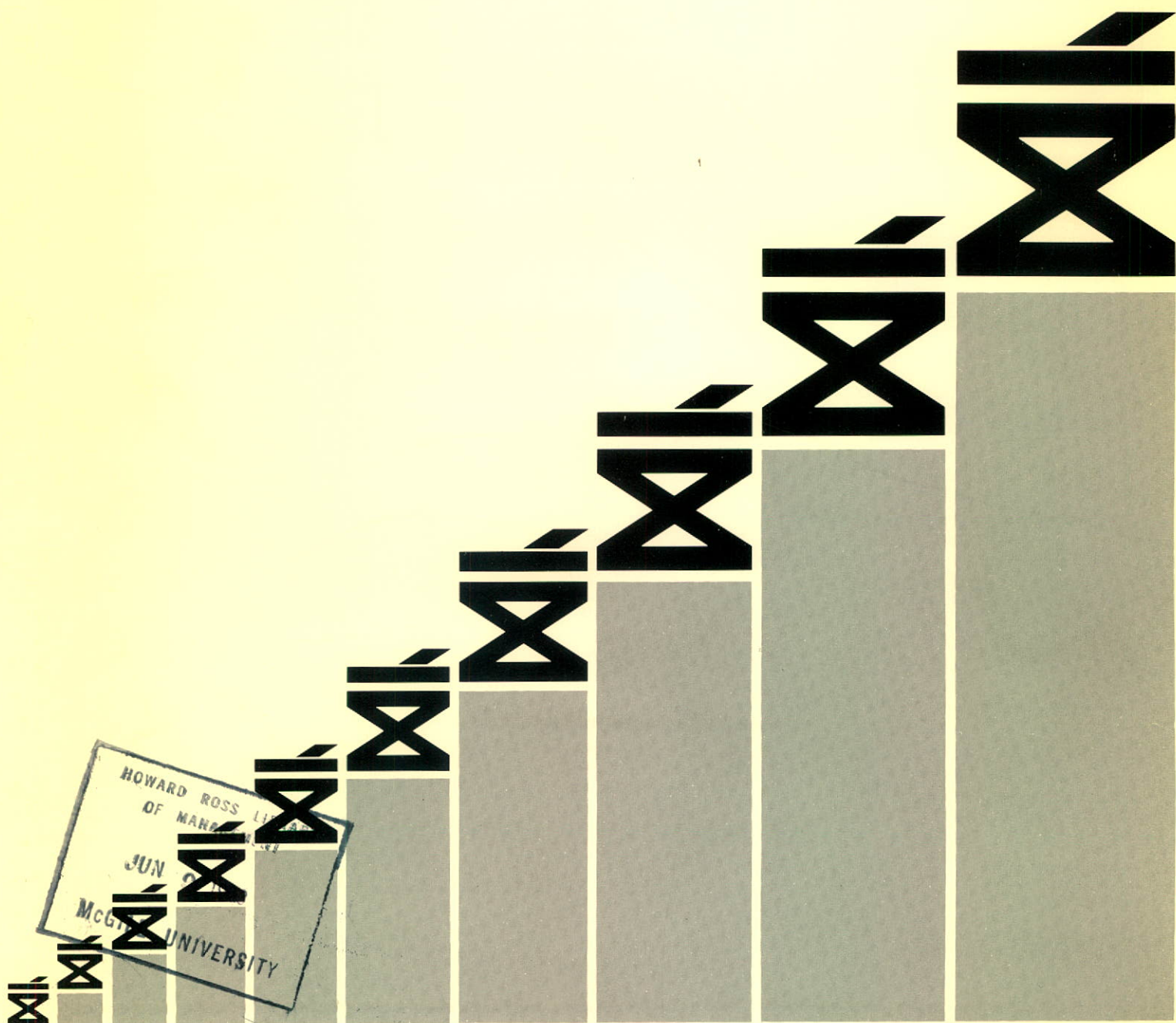


KOFFLER  
STORES  
LIMITED

annual  
report  
1978



A DYNAMIC DECADE

**Corporate Office**

Koffler Stores Limited  
255 Yorkland Boulevard  
Willowdale, Ontario M2J 1S4

**Western Region**

Koffler Stores (Western) Region  
601 - 100 Park Royal  
West Vancouver, B.C. V7T 1A2

**Prairie Region**

Koffler Stores (Alberta) Limited  
320 - 7330 Fisher St. E.  
Calgary, Alberta T2H 2A7

**Manitoba Region**

Koffler Stores Limited  
1112 Main Street  
Winnipeg, Manitoba R2W 3S2

**Central Region**

Koffler Stores Limited  
255 Yorkland Boulevard  
Willowdale, Ontario M2J 1S4

**Atlantic Region**

Koffler Stores (Atlantic) Region  
Suite 303, 860 Main Street  
Moncton, New Brunswick E1C 1G2

**Pharmaprix**

Pharmaprix Limitée  
410 - 5800 Cavendish Blvd.  
Montréal, Québec H4W 2T5

**Embassy Cleaners Division**

Embassy Cleaners Limited  
133 Wynford Drive  
Toronto, Ontario M3C 1K1

## KOFFLER STORES LIMITED

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that the annual and special meeting of the shareholders of Koffler Stores Limited (hereinafter called the "Corporation") will be held at the head office of the Corporation, 255 Yorkland Blvd., Willowdale, Ontario, on Wednesday, June 28, 1978 at the hour of 10:00 o'clock in the forenoon, local time, for the following purposes:

1. To receive and consider the financial statements of the Corporation for the fiscal year ended January 31, 1978 and the reports of the directors and auditors thereon.
2. To elect directors.
3. To appoint auditors and to authorize the board of directors to fix their remuneration.
4. To consider and, if thought advisable, confirm, with or without amendment, By-Law No. 101 relating generally to the transaction of the business and affairs of the Corporation.
5. To transact such further or other business as may properly come before the meeting or any adjournment or adjournments thereof.

DATED the 24th day of May, 1978.

By Order of the Board.

MARVIN GOLDBERG  
Secretary

NOTE: If you are the holder of Class A Common Shares or Class B Common Shares without par value of the Corporation and are not able to be present personally at the meeting, kindly fill in, sign and return in the envelope provided for that purpose the enclosed form of proxy.



# KOFFLER STORES LIMITED

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## Management Proxy Circular as of May 15, 1978

### Solicitation of Proxies

This management proxy circular is furnished in connection with the solicitation by the management of Koffler Stores Limited (the "Corporation") of proxies to be used at the annual and special meeting of shareholders of the Corporation to be held at the time and place and for the purposes set forth in the foregoing notice of meeting. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of solicitation by management will be borne by the Corporation.

### Appointment and Revocation of Proxies

The persons named in the enclosed form of proxy are directors of the Corporation. **A shareholder desiring to appoint some other person to represent him at the meeting may do so** either by inserting such person's name in the blank space provided in the form of proxy and striking out the names of the three specified persons or by completing another proper form of proxy and, in either case, delivering the completed proxy to the secretary of the Corporation or returning it in the envelope provided for that purpose.

A shareholder who has given a proxy may revoke it in the manner described in the proxy that accompanies this management proxy circular.

### Exercise of Discretion by Proxies

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted for the approval of the Directors' Report and Financial Statements, for the election of directors, for the appointment of Auditors and for authorizing the Board of Directors to fix their remuneration, and for confirming, without amendment, By-Law No. 101, as stated under those headings in this Circular.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting.

At the time of printing this Circular the management of the Corporation knows of no such amendment, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

### Voting Shares

On May 15, 1978, the Corporation had outstanding, in the aggregate, 7,239,870 Class A Common Shares and Class B Common Shares, which are hereinafter called the Equity Shares. At all meetings of shareholders, each Equity Share entitles the registered holder thereof to one vote, which may be given in person or by proxy. The only shareholder of the Corporation owning beneficially and of record more than 10% of the Equity Shares on May 15, 1978 is Imasco Limited, which holds 7,156,186 Equity Shares representing approximately 98.84% of the outstanding Equity Shares of the Corporation. Imasco Limited acquired control of the Corporation pursuant to its Offer dated March 29, 1978, the basis of which was a cash payment of \$55 (Canadian currency) plus one \$35 stated value Redeemable, Convertible Preference Share, Series A of Imasco Limited for ten Equity Shares. Imasco Limited has announced its intention to acquire all Equity Shares not owned by it or its associates or affiliates under the provisions of the Canada Business Corporations Act.

### **Appointment of Auditors**

The persons named in the enclosed form of proxy intend to vote for the reappointment of Wm. Eisenberg & Co., Chartered Accountants, as auditors of the Corporation, to hold office until the next annual meeting of shareholders. Wm Eisenberg & Co. have been auditors of the Corporation since its inception. It is also intended that the shareholders delegate to the board of directors the authority to fix the remuneration of the auditors.

### **Financial Statements**

The financial statements for the year ended January 31, 1978 and the auditors' report thereon will be placed before the shareholders. The said financial statements form part of the annual report which has been or will be mailed to the shareholders before the date of the meeting.

### **General**

Information contained herein is given as of May 15, 1978. The management knows of no matters to come before the annual and special meeting of shareholders other than the matters referred to in the notice of meeting.

## Remuneration of Directors and Officers

1.

### Nature of Remuneration Earned

	Directors' fees	Salaries	Bonuses	Non-accountable expense all.	Others (note 1)	Total
<b>Remuneration of Directors</b>						
(A) Number of directors: 12						
(B) <i>Body Corporate incurring the expense</i>						
Koffler Stores Limited	\$ 12,000	\$287,000	\$ 50,000	—	\$ 14,000	\$363,000
Koffler Stores (Western) Limited	—	51,000	10,000	—	2,000	63,000
<b>Remuneration of Officers (other than Directors)</b>						
(A) Number of officers: 6						
(B) <i>Body Corporate incurring the expense</i>						
Koffler Stores Limited	—	183,000	33,000	\$ 5,000	11,000	232,000
Koffler Stores (Western) Limited	—	32,000	8,000	—	1,000	41,000
Koffler Stores (Atlantic) Limited	—	43,000	4,000	—	1,000	48,000
<b>TOTALS</b>	<b>\$ 12,000</b>	<b>\$596,000</b>	<b>\$105,000</b>	<b>\$ 5,000</b>	<b>\$ 29,000</b>	<b>\$747,000</b>

(1) The nature of the remuneration conferred includes contributions to registered retirement savings plans, the taxable portion of automobile rentals and of life insurance and contributions to governmental medical plans.

2. Estimated aggregate cost to the Corporation and its subsidiaries in the fiscal year ended January 31, 1978 of all pension or retirement benefits proposed to be paid to the directors and senior officers of the Corporation under existing plans in the event of retirement at normal retirement age is..... nil

3. Maximum annual aggregate of all retirement allowances proposed to be paid in the future by the Corporation or any of its subsidiaries, pursuant to existing arrangements, to directors or senior officers of the Corporation (excluding payments under plans referred to in paragraph 2 and payments to be made for or benefits to be received from group life or accident insurance, group hospitalization or similar group benefits or payments) is..... nil

4. The Corporation loaned funds to the wife of H. Melvin Kochberg, an officer of the Corporation, to assist in the purchase of a residence. The amount of the loan outstanding as at May 15, 1978 is \$54,366 and is repayable on demand with interest payable monthly at the prime commercial lending rate from time to time in effect plus ½%.

### Confirmation of By-Law No. 101

The shareholders will be asked to confirm By-Law No. 101 previously enacted by the directors. By-Law No. 101 relates generally to the transaction of the business and affairs of the Corporation and requires confirmation by a majority of votes cast at the meeting. A copy of By-Law No. 101 may be obtained, if desired, from the Secretary of the Corporation upon request therefor in writing.



## Election of Directors

The board currently consists of twelve directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Management does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next annual meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Corporation.

The following table and notes thereto state the names of all the persons proposed to be nominated for election as directors, any other positions and offices with the Corporation now held by them, their principal occupations or employments for the past five years and the year in which they became directors of the Corporation (if they are directors of the Corporation) :

<u>Name</u>	<u>Became Director</u>
*Murray Bernard Koffler is Chairman of the Board and Chief Executive Officer of the Corporation. He is also a director of Four Seasons Hotels Limited and Canada Development Corporation.	June 18, 1968
*Philip William Goldman is the President of the Corporation and is Chairman of the Executive Committee. Mr. Goldman is a Past President of the Canadian Pharmaceutical Association.	June 18, 1968
*Jack Gwartz is the Executive Vice-President and Chief Operating Officer of the Corporation and is President of the Shoppers Drug Mart Division of the Corporation.	June 18, 1968
David Howard MacDonald is a Vice-President of the Corporation and is President of Koffler Stores (Western) Limited. He is a Past President of the Canadian Pharmaceutical Association.	April 14, 1970
*Malcolm G. Swartz, C.A., is the Treasurer of the Corporation.	June 5, 1974
*Irving Bain is a Senior Vice-President of the Corporation.	June 10, 1975
Harold Purdy Crawford, Q.C., is a partner in the law firm of Osler, Hoskin & Harcourt.	—
Marvin A. Goldberg is the Vice-President, Corporate Affairs, General Counsel and Secretary of the Corporation. Prior to May, 1974, Mr. Goldberg was a partner in the law firm of Borins, Goldberg & Birenbaum.	—
Emile Haick is the President of Embassy Cleaners Limited, a subsidiary of the Corporation.	—
Norman Latowsky is the President of Top Drug Mart Limited, a subsidiary of Imasco Limited. Prior to January, 1974, he was President of Westway Drugs Limited.	—
Jean H. Richer is Chairman of Canac Consultants Limited, Management Consultants. Prior to January, 1977 he was a senior officer of Canadian National Railways. He is also a director of Imasco Limited.	—
George Grierson Ross is a director and Vice-President of Imasco Limited and is President of Imasco Associated Products Limited.	—

\*Member of the Executive Committee.

The Corporation has been advised by each director that he does not own any shares of the Corporation directly or indirectly. Reference is also made to the heading "Voting Shares".





# KOFFLER STORES LIMITED

## Board of Directors (at January 31, 1978)

Irving Bain, Phm.B.\*  
*Senior Vice President of the Company*

Donald Carr, Q.C.  
*Partner, Goodman and Carr*

George A. Cohon, B.S., J.D.  
*President, McDonald's Restaurants of Canada Limited*

Seymour Friedland, B.S., M.B.A., Ph.D.\*\*  
*Professor of Finance and Economics, York University*

Bertrand Gerstein, B.A.\*\*  
*Chairman of the Board, Peoples Jewellers Limited*

Philip W. Goldman, Phm.B.\* \*\*  
*President of the Company*

Jack Gwartz, B.Sc.Phm.\*  
*Executive Vice President and Chief Operating Officer of the Company and President of the Shoppers Drug Mart Division*

James E. Kelley, B.Sc.  
*President, Columbia Commonwealth Limited*

Murray B. Koffler, CM, Phm.B., Ph.C., Ph.D. (Hon.)\*  
*Chairman of the Board and Chief Executive Officer of the Company*

David H. MacDonald, Ph.C.  
*Vice President of the Company and President of Koffler Stores (Western) Limited*

Malcolm G. Swartz, C.A.\*  
*Treasurer and Corporate Comptroller*

Hilda Wilson, APR\*  
*President, Investor Relations Canada Limited*

\* Member Executive Committee

\*\* Member Audit Committee

## Bankers

The Toronto-Dominion Bank  
Canadian Imperial Bank of Commerce  
The Royal Bank of Canada

## Officers

Murray B. Koffler, CM, Phm.B., Ph.C., Ph.D. (Hon.)  
*Chairman and Chief Executive Officer*

Philip W. Goldman, Phm.B.  
*President and Chairman of the Executive Committee*

Jack Gwartz, B.Sc.Phm.  
*Executive Vice President and Chief Operating Officer*

Malcolm G. Swartz, C.A.  
*Treasurer and Corporate Comptroller*

Irving Bain, Phm.B.  
*Senior Vice President*

David H. MacDonald, Ph.C.  
*Vice President*

Marvin Goldberg, B.A., LL.B.  
*Vice President Corporate Affairs, General Counsel and Secretary*

Jack Kirk, Phm.B.  
*Vice President Real Estate and Development*

Bernard Glazier, Phm.B.  
*Vice President Loss Prevention*

David R. Bloom, B.Sc.Phm.  
*Vice President*

N. Halley MacPherson, B.Sc.Phm.  
*Vice President*

H. Melvin Kochberg, C.A.  
*Assistant Corporate Comptroller*

## Auditors

Wm. Eisenberg & Co., Chartered Accountants

## Transfer Agents & Registrars

Canada Permanent Trust Company (shares),  
*Toronto, Montreal, Calgary and Vancouver*

The Canada Trust Company (debentures),  
*Toronto, Montreal, Winnipeg, Calgary and Vancouver*

# REPORT TO SHAREHOLDERS

Our tenth annual report to shareholders provides an opportunity to celebrate a dynamic decade in the progress of Koffler Stores Limited through the growth of the Shoppers Drug Mart concept and the Embassy Cleaners stores.

We are pleased to report on the results of a most successful year of operations. Total retail sales increased by 15.5% to \$352,668,000 compared to \$305,392,000 in the previous year. Retail sales by division were:

	<u>1978</u>	<u>1977</u>	<u>% Increase</u>
Drug Division	\$344,974,000	\$298,785,000	15.5
Embassy Cleaners Division	<u>7,694,000</u>	<u>6,607,000</u>	<u>16.5</u>
	<u>\$352,668,000</u>	<u>\$305,392,000</u>	<u>15.5</u>

In addition to the above are the sales of Pharmaprix subscribing drug stores in Quebec where retail volume increased by 29.3% to \$28,649,000 from \$22,158,000.

Net income from all sources increased 12.9% to \$7,144,000 from \$6,330,000 before the extraordinary item in the prior year. There were no extraordinary items in the year ended January 31, 1978. Net income, after tax, by division was:

	<u>1978</u>	<u>1977</u>	<u>% Increase</u>
Drug Division	\$ 6,647,000	\$ 5,884,000	13.0
Pharmaprix	88,000	79,000	11.4
Embassy Cleaners Division	<u>409,000</u>	<u>367,000</u>	<u>11.4</u>
	<u>\$ 7,144,000</u>	<u>\$ 6,330,000</u>	<u>12.9</u>

Earnings per Class A and B share in 1978 were 93 cents compared to 82 cents in the prior year.

It is gratifying to report that the working capital of the Company increased substantially during the fiscal year just ended. Up from the \$7,393,000 reported last year to \$10,380,000, it provides an increase in the current ratio from 2.6:1 to 4.2:1. Similarly, the debt-to-equity ratio has improved to 22.4% from 28% reported a year ago. Retained earnings grew to \$26,397,000 at January 31, 1978 from \$20,803,000 a year earlier.

At year end, there were 255 drug stores in Canada operating under the Shoppers Drug Mart concept, 27 subscribers to the Pharmaprix service in Quebec, and 2 Shoppers Drug Mart stores in Florida, for a net increase of 20 drug stores over the previous year. Embassy Cleaners increased in size by 5 depots for a total of 75 outlets.

As we enter the next decade of progress, plans for the current year include the opening of 17 new drug store locations in Canada, 7 in Florida, the addition of 6 new Pharmaprix subscribers and the opening of 5 new Embassy Cleaners locations. In addition, 10 drug stores have been earmarked for remodelling or expansion and the renovation program started last year by Embassy Cleaners will continue. Estimated capital expenditure for the Company in the current year is \$6,500,000.

The year ended January 31, 1978 was a significant one in the Embassy Cleaners' story; not only through the achievement of record sales and profits but also through the establishment of a strong, enthusiastic management team, increasing market penetration and wider public acceptance of that company as a major force in the dry cleaning service industry.

Growth in the professional services of the Shoppers Drug Mart stores is partly reflected in the number of prescriptions filled. In the year just ended our pharmacists dispensed 9,756,000 prescriptions, an increase of 479,000 over the previous year's total. Our Associate Pharmacists are playing an increasingly important role in the affairs of their professional associations. We congratulate our Associate Robert S. Yorston of Moncton, who was elected President of the Canadian Pharmaceutical Association in the year just ended.



On November 18, 1977, Imasco Limited announced its intention to make an offer to purchase all of the outstanding Class A and Class B common shares of Koffler Stores Limited, and on April 20, 1978 the condition of the offer relating to approval of the transaction under the Foreign Investment Review Act was satisfied by the issuance of the requisite Order in Council by the Federal Cabinet. As of May 3, 1978, the other conditions stipulated in the offer were satisfied and Imasco has now purchased and paid for all Class A and Class B common shares tendered under the offer. For Koffler Stores Limited, the transaction provided an opportunity for accelerated expansion including the integration and conversion of Imasco's successful chain of Top Drug Marts to the Shoppers Drug Mart image and franchising concept.

The decade just ended has been one on which the Company can look with justifiable pride. The Company has passed many milestones since 1968 when the Koffler and Plaza groups of drug stores merged and total retail sales were \$28,000,000. Among these were the acquisition of Cunningham Drug Stores in Western Canada and Lord's Supervalu Pharmacies in the Maritimes, the development of the Pharmaprix service for retail drug stores in Quebec, the opening of drug stores in Florida and the expansion of Embassy Cleaners into a major dry cleaning chain. At the close of our tenth year, retail sales had reached \$352,000,000.

Throughout the past decade the Shoppers Drug Mart concept has had a beneficial effect on drug retailing in Canada, on the profession of pharmacy, on the pharmacists' ability to maintain the status of independent businessmen, and on meeting the consumers' demand for conveniently-located drug store shopping at economical prices.

The years as a widely held public company have brought us to a position of leadership in the retail drug store industry. As we enter the next decade, our executives and Associates will continue to serve the public with a heightened sense of responsibility and dedication and a renewed determination to maintain the momentum of the Company's thrust into the future.

We are pleased to acknowledge the continuing efforts of the officers, staff, Associates and retail employees in the growth of Koffler Stores Limited, and are grateful for the loyalty and support of thousands of shareholders of the Company. We especially extend our deep appreciation to members of the Board of Directors, in particular the outside Directors, whose contributions have been an integral part of our successful record.



Murray B. Koffler  
Chairman and Chief Executive Officer

Philip W. Goldman  
President

May 8, 1978



# TEN YEAR FINANCIAL HIGHLIGHTS

Year Ended January 31 (in 000's)	1978	1977	1976	1975
Sales — Retail Drug Division				
Franchised stores . . . . .	\$ 337,356	\$283,686	\$236,064	\$117,736
Wholly-owned stores . . . . .	7,618	15,100	18,555	22,140
Total Retail Drug Sales . . . . .	\$ 344,974	\$298,786	\$254,619	\$199,876
Wholesale Drug Division (discontinued) . . . . .	—	—	—	9
Cleaning Division . . . . .	7,694	6,607	5,917	5,046
Total Sales . . . . .	<u>\$352,668</u>	<u>\$305,393</u>	<u>\$260,536</u>	<u>\$204,931</u>
Earnings from Continuing Operations — Retail . . . . .	\$ 13,625	\$ 12,242	\$ 9,941	\$ 6,501
Earnings from Discontinued Operations — Wholesale . . . . .	—	—	—	(588)
Earnings before taxes . . . . .	13,625	12,242	9,941	5,913
Income taxes . . . . .	6,569	5,991	4,979	3,112
Investment earnings (loss) Pharmaprix Limitée . . . . .	88	79	6	(167)
Extraordinary income, net of taxes . . . . .	—	1,136	—	—
Net earnings — Drug Division . . . . .	6,735	7,099	4,551	2,372
Cleaning Division . . . . .	409	367	417	262
Net earnings after extraordinary items . . . . .	<u>\$ 7,144</u>	<u>\$ 7,466</u>	<u>\$ 4,968</u>	<u>\$ 2,634</u>
Earnings per special share* (weighted average basis)				
— from continuing operations — Retail . . . . .	93¢	82¢	63¢	35¢
— from discontinued operations — Wholesale . . . . .	—	—	—	(4¢)
— before extraordinary items . . . . .	93¢	82¢	63¢	31¢
— for the year . . . . .	93¢	98¢	63¢	31¢
Dividends				
Total paid . . . . .	\$ 1,551	\$ 1,175	\$ 1,138	\$ 1,133
Per share				
Special . . . . .	15.8¢	10.6¢	10.0¢	10.0¢
First preference . . . . .	70.0¢	70.0¢	70.0¢	70.0¢
Second preference . . . . .	15.8¢	10.6¢	10.0¢	10.0¢
Working capital . . . . .	\$ 10,380	\$ 7,393	\$ 6,777	\$ 4,544
Shares Outstanding — year end				
First Preference . . . . .	561	561	575	575
Second Preference . . . . .	99	108	141	162
Special . . . . .	7,239	7,218	7,218	7,218
Number of Retail Stores				
Drug Division . . . . .	257	240	235	220
Cleaning Division . . . . .	75	70	66	63
Total Number of Retail Stores . . . . .	<u>332</u>	<u>310</u>	<u>301</u>	<u>283</u>

\* Adjusted for sub-division of special shares: four for one in May 1969 and two for one in June 1973.

## Valuation Day Value

For capital gains calculations for Canadian Residents, the value of the Class A special shares on December 22, 1971 ("V Day") was \$7.69 (after adjusting for the subdivision of two for one in June 1973). The value of the Class B special shares was the same, but has to be reduced by any tax deferred dividends received from 1975 to 1978 out of pre-1972 undistributed income or 1971 Capital Surplus to a maximum of 29.6¢ per share.

1974	1973	1972	1971	1970	1969
\$136,821	\$112,860	\$ 64,658	\$ 50,819	\$40,291	\$23,681
<u>10,069</u>	<u>14,645</u>	<u>35,500</u>	<u>5,423</u>	<u>4,458</u>	<u>10,019</u>
\$146,890	\$127,505	\$100,158	\$ 56,242	\$44,749	\$33,700
66	2,279	5,443	—	—	—
<u>4,130</u>	<u>3,569</u>	<u>3,237</u>	<u>2,838</u>	<u>1,873</u>	<u>—</u>
<u>\$151,086</u>	<u>\$133,353</u>	<u>\$108,838</u>	<u>\$ 59,080</u>	<u>\$46,622</u>	<u>\$33,700</u>
\$ 6,567	\$ 5,376	\$ 4,399	\$ 3,632	\$ 2,766	\$ 1,872
<u>(314)</u>	<u>28</u>	<u>22</u>	<u>—</u>	<u>—</u>	<u>—</u>
\$ 6,253	\$ 5,404	\$ 4,421	\$ 3,632	\$ 2,766	\$ 1,872
3,154	2,633	2,177	1,935	1,401	951
(14)	—	—	—	—	—
112	39	63	20	20	—
2,929	2,590	2,123	1,564	1,269	921
<u>268</u>	<u>220</u>	<u>184</u>	<u>153</u>	<u>116</u>	<u>—</u>
<u>\$ 3,197</u>	<u>\$ 2,810</u>	<u>\$ 2,307</u>	<u>\$ 1,717</u>	<u>\$ 1,385</u>	<u>\$ 921</u>
40¢	33¢	27¢	25¢	20¢	16¢
<u>(2¢)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
38¢	33¢	27¢	25¢	20¢	16¢
40¢	34¢	28¢	26¢	21¢	16¢
\$ 1,121	\$ 911	\$ 794	\$ 473	\$ 329	\$ 160
10.0¢	7.0¢	7.0¢	7.0¢	5.0¢	2.5¢
70.0¢	70.0¢	52.5¢	—	—	—
2.5¢	—	—	—	—	—
\$ 7,588	\$ 7,720	\$ 2,388	\$ 1,299	\$ 1,353	\$ 1,002
576	600	600	—	—	—
241	—	—	—	—	—
7,026	7,017	7,015	6,782	6,734	6,400
185	179	176	81	67	60
<u>61</u>	<u>58</u>	<u>54</u>	<u>46</u>	<u>44</u>	<u>—</u>
<u>246</u>	<u>237</u>	<u>230</u>	<u>127</u>	<u>111</u>	<u>60</u>

# KOFFLER STORES LIMITED

## CONSOLIDATED BALANCE SHEET

As at January 31, 1978

	1978	1977
<b>ASSETS</b>		
<b>CURRENT</b>		
Short-term investments	\$ 3,200,000	\$ 2,600,000
Accounts receivable — franchisees	4,926,213	5,221,449
— other	3,063,660	1,969,543
Inventories	1,739,529	1,659,346
Prepaid expenses	149,139	96,848
Deferred income taxes	498,259	540,000
	<u>13,576,800</u>	<u>12,087,186</u>
<b>LONG-TERM LOANS</b>		
Accounts receivable — franchisees (note 2)	8,127,379	6,198,114
— other	326,745	1,842,023
Trustees for share purchase plans (note 3)	1,510,053	1,498,419
	<u>9,964,177</u>	<u>9,538,556</u>
<b>INVESTMENT AND ADVANCES</b>		
Pharmaprix Limitée	<u>1,499,190</u>	<u>1,313,590</u>
<b>FIXED</b>		
Equipment	21,302,602	18,639,456
Leasehold improvements	<u>10,489,551</u>	<u>9,060,704</u>
Total at cost	31,792,153	27,700,160
Accumulated depreciation and amortization	<u>12,942,204</u>	<u>10,364,796</u>
	<u>18,849,949</u>	<u>17,335,364</u>
<b>OTHER, unamortized</b>		
Goodwill	8,233,424	8,234,049
Store opening and changeover costs	338,848	303,801
Cost of leases acquired	997,831	1,110,339
Debenture costs	237,231	270,550
	<u>9,807,334</u>	<u>9,918,739</u>
	<u><u>\$53,697,450</u></u>	<u><u>\$50,193,435</u></u>

The accompanying notes are an integral part of the financial statements.





## LIABILITIES

	<u>1978</u>	<u>1977</u>
CURRENT		
Bank indebtedness	\$ 570,215	\$ 393,943
Accounts payable and accrued charges	2,145,519	2,676,179
Long-term debt, due within one year (note 4)	97,781	86,640
Income taxes	383,349	1,537,472
	<u>3,196,864</u>	<u>4,694,234</u>
LONG-TERM DEBT (note 4)	<u>8,937,562</u>	<u>9,591,342</u>
DEFERRED INCOME TAXES	<u>1,620,707</u>	<u>1,608,739</u>

## SHAREHOLDERS' EQUITY

### SHARE CAPITAL (note 5)

Issued:			
560,700	7% cumulative, redeemable first preference shares, series A	5,607,000	5,607,000
98,906	Redeemable, convertible, second preference shares, series A (1977 - 108,177)	766,522	838,372
7,238,670	Class A and B special shares (1977 - 7,218,370)	7,118,536	6,997,186
CONTRIBUTED SURPLUS		53,152	53,152
RETAINED EARNINGS		<u>26,397,107</u>	<u>20,803,410</u>
		<u>39,942,317</u>	<u>34,299,120</u>
		<u>\$53,697,450</u>	<u>\$50,193,435</u>

ON BEHALF OF THE BOARD

M. B. KOFFLER, Director

P. W. GOLDMAN, Director

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended January 31, 1978

	<u>1978</u>	<u>1977</u>
INCOME		
Shoppers Drug Mart Division		
— Franchise fees (based on sales by franchised stores of \$337,356,000 in 1978 and \$283,686,000 in 1977) and other income	\$22,714,326	\$21,136,601
— Sales by wholly-owned stores	7,618,108	15,099,630
	<u>30,332,434</u>	<u>36,236,231</u>
Embassy Cleaners Division		
— Sales	7,693,864	6,606,811
	<u>\$38,026,298</u>	<u>\$42,843,042</u>
INCOME FROM OPERATIONS BEFORE THE FOLLOWING CHARGES	\$17,476,413	\$15,943,255
Depreciation and amortization	2,878,042	2,456,507
Amortization of store opening and changeover costs	116,938	156,867
Interest — long-term debt	856,540	1,087,507
INCOME FROM OPERATIONS	<u>13,624,893</u>	<u>12,242,374</u>
Income taxes	6,568,529	5,991,485
INCOME BEFORE INVESTMENT AND EXTRAORDINARY ITEM	7,056,364	6,250,889
Investment earnings — Pharmaprix Limitée	88,000	79,000
INCOME BEFORE EXTRAORDINARY ITEM	<u>7,144,364</u>	<u>6,329,889</u>
Gain on sale of land and building, net of tax of \$412,560	—	1,136,483
NET INCOME FOR YEAR	7,144,364	7,466,372
RETAINED EARNINGS, BEGINNING OF YEAR	20,803,410	14,503,825
	<u>27,947,774</u>	<u>21,970,197</u>
DIVIDENDS (note 5f)	1,550,667	1,166,787
RETAINED EARNINGS, END OF YEAR	<u>\$26,397,107</u>	<u>\$20,803,410</u>
EARNINGS PER SPECIAL SHARE (note 5g)		
Before extraordinary item	\$ .93	\$ .82
Extraordinary item	—	.16
Net for year	<u>\$ .93</u>	<u>\$ .98</u>

The accompanying notes are an integral part of the financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended January 31, 1978

	<u>1978</u>	<u>1977</u>
<b>FUNDS WERE PROVIDED FROM:</b>		
Operations:		
Earnings before extraordinary item	\$ 7,144,364	\$ 6,329,889
Items not affecting working capital:		
Depreciation, amortization and recovery of store opening costs	3,220,657	2,836,751
Deferred income taxes	11,968	458,873
Investment earnings — Pharmaprix Limitée, net of tax	(88,000)	(79,000)
	<u>10,288,989</u>	<u>9,546,513</u>
Issue of Special shares	121,350	—
Sale of land and building, net of realty mortgage of \$1,450,000	—	532,995
Realty mortgage due within one year	1,450,000	—
	<u>11,860,339</u>	<u>10,079,508</u>
<b>FUNDS WERE USED FOR:</b>		
Retirement of long-term debt	653,780	3,900,200
Purchase of fixed assets, net of disposals	4,264,337	3,531,401
Dividends paid including tax paid on 1971 undistributed income	1,550,667	1,166,787
Increase in long-term receivables, franchisees and other	1,863,987	393,329
Store opening and changeover costs	359,500	64,653
Redemption and cancellation of second preference shares	71,850	254,378
Loans re share purchase plans, net of repayments	11,634	(271,141)
Investment and advances—Pharmaprix Limitée	97,600	127,836
Purchase and cancellation of first preference shares	—	107,862
Leases acquired	—	188,015
	<u>8,873,355</u>	<u>9,463,320</u>
<b>INCREASE IN WORKING CAPITAL</b>	<b>2,986,984</b>	<b>616,188</b>
<b>WORKING CAPITAL, BEGINNING OF YEAR</b>	<b>7,392,952</b>	<b>6,776,764</b>
<b>WORKING CAPITAL, END OF YEAR</b>	<b><u>\$10,379,936</u></b>	<b><u>\$ 7,392,952</u></b>
<b>CHANGES IN WORKING CAPITAL COMPONENTS:</b>		
Short-term investments	\$ 600,000	\$ (300,000)
Accounts receivable	798,881	(880,773)
Inventories	80,183	(1,313,223)
Prepaid expenses	52,291	(92,914)
Deferred income taxes	(41,741)	540,000
Bank indebtedness	(176,272)	806,504
Accounts payable and accrued charges	530,660	1,090,020
Long-term debt, due within one year	(11,141)	14,560
Income taxes	1,154,123	752,014
	<u>\$ 2,986,984</u>	<u>\$ 616,188</u>

The accompanying notes are an integral part of the financial statements.



# KOFFLER STORES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1978

### 1. Summary of Significant Accounting Policies

#### a. Consolidation

The consolidated financial statements include the accounts of all the subsidiaries of the Company from their date of acquisition, accounted for by the "purchase method". The Company accounts for its 50% investment in Pharmaprix Limitée, a corporate joint venture with Steinberg's Limited, by the "equity method", being cost adjusted for the Company's share of accumulated profit or loss since inception.

#### b. Goodwill

Goodwill acquired prior to April 1, 1974 was recorded and carried at cost and is not being amortized because, in the opinion of management, its value has not been impaired. Goodwill on acquisitions after March 31, 1974 is being amortized to income by the straight-line method over its estimated useful life.

#### c. Depreciation and Amortization

<u>Asset</u>	<u>Basis</u>
Equipment	10% straight-line
Leases acquired and leasehold improvements	10% straight-line or term of leases straight-line
Store opening and changeover costs, deferred	Straight-line to a maximum of four years.

#### d. Income Recognition

Franchise fees are based on a variable percentage of retail store sales and are recorded as earned.

#### e. Inventories

Inventories are valued at the lower of approximate cost and net realizable value on a first in, first out basis.

### 2. Accounts Receivable — Franchisees

These amounts, which are due on demand without interest from franchisees, are repayable on the termination of the franchise agreements.

### 3. Share Purchase Plans

Loans were made to trustees for the benefit of certain employees and senior officers concurrent with the issuance of Series A second preference shares and Class A special shares respectively. The balances outstanding are as follows:

	<u>1978</u>	<u>1977</u>
Employees' share purchase plan	\$ 695,903	\$ 777,069
Senior officers' share purchase plan	814,150	721,350
Trustees for share purchase plans	<u>\$1,510,053</u>	<u>\$1,498,419</u>

These non-interest bearing loans are receivable in varying amounts with final balances becoming due prior to January 31, 1987. As security, the Trustees are holding the shares of the respective plans.

### 4. Long-Term Debt

	<u>1978</u>	<u>1977</u>
	<u>Total Outstanding</u>	<u>Due Within One Year</u>
Sinking Fund Debentures (see below)		
7% due July 15, 1984	\$ 688,000	\$ 88,000
9% due July 2, 1992	8,318,000	—
Other - 8½% to 10% due 1978 to 1980	29,343	9,781
	<u>\$9,035,343</u>	<u>\$9,778,781</u>
Due within one year	97,781	86,640
	<u>\$8,937,562</u>	<u>\$9,591,342</u>

The 7% sinking fund debentures are repayable \$100,000 annually until July 15, 1984. The 9% sinking fund debentures are repayable \$500,000 in each of the years 1979 to 1991 inclusive, at which time the balance of \$2,300,000 becomes due.

The Company has purchased for cancellation the following debenture amounts:

<u>Debenture</u>	<u>Requirement Year</u>	<u>Amount</u>
7%	July 15, 1978	\$ 12,000
9%	July 2, 1978	200,000
9%	July 2, 1979	482,000
		<u>\$694,000</u>

The trust indentures contain certain restrictions upon the payment of dividends, the reduction of capital and the mortgaging of assets.

## 5. Share Capital and Dividends

### a. Authorized Share Capital

	1978	Redeemed During Year	1977
First preference shares with a par value of \$10 each, issuable in series	2,960,700	—	2,960,700
Second preference shares without par value issuable in series (note 5c)	2,858,206	9,271	2,867,477
Class A and B special shares, without par value (note 5e)	16,000,000	—	16,000,000
Common shares without par value	1,000	—	1,000

### b. Issued Share Capital

Date	Special Shares Issued	
	Number	Value
January 31/77 Class A & B Special shares outstanding	7,218,370	\$6,997,186
October 19/77 Class A Special shares issued under senior executives share purchase plan at \$6.00	20,000	120,000
July 28/77 Options exercised — at \$4.50	300	1,350
January 31/78 Class A & B special shares outstanding	7,238,670	\$7,118,536

### c. Second Preference Shares

The second preference shares, redeemable at \$7.75 per share at the option of the shareholder, bear dividends at the same rate as the Class A special shares (after declaration of dividends on the first preference shares) and are convertible on a one-for-one basis into Class A special shares.

### d. Options

The company has reserved 1,200 Class A special shares for issuance under options at \$4.50 per share granted in July 1970, exercisable 10% per year for ten years on a non-cumulative basis.

### e. Class A and B Special Shares

These shares which are interchangeable on a one-for-one basis, are identical in all respects except as outlined below:

Where dividends on Class B shares are paid out of pre-1972 undistributed income, the dividends are 15% less than the

corresponding dividends on the Class A shares because the Company will have paid a tax equal to this 15% difference. Where dividends are paid out of 1971 capital surplus, they will be equal on both classes.

The dividends received by the Class B shareholders resident in Canada must be applied by them to reduce the cost base of their investment for capital gains tax purposes. At January 31, 1978 there were 3,187,470 Class B special shares outstanding (1977 — 2,923,966), the balance being Class A special shares.

### f. Dividends

Dividends paid during the year, together with the related tax as described in (5e) above are as follows:

	1978	1977
Class A Special 15.8¢ per share (1977 - 10.6¢)	\$ 814,021	\$448,117
Class B Special 15.8¢ per share including tax of \$25,164 paid on 1971 undistrib- uted income (1977 - 10.6¢ including tax of \$47,554)	328,416 1,142,437	317,029 765,146
First Preference — 70¢ per share (1977 - 70¢)	392,490	397,460
Second Preference — 15.8¢ per share (1977 - 10.6¢)	15,740	12,735
	1,550,667	1,175,341
Tax applied on 1971 undistributed income applicable to future dividends on Class B special shares	—	(8,554)
	\$1,550,667	\$1,166,787

### g. Earnings per Share

Earnings per special share were calculated after deducting dividends on preference shares.

The conversion of all the second preference shares (note 5c) together with the exercise of the options (note 5d) would result in dilution of earning of less than 1¢ per Class A and B special share in each of 1978 and 1977.

## 6. Remuneration of Directors and Senior Officers

During the year, the aggregate direct remuneration paid or payable to the directors and senior officers of the Company as defined by the Ontario Business Corporations Act was \$738,000.



## 7. Long-Term Leases

The minimum annual rentals payable under long-term leases in effect at January 31, 1978, for store locations (exclusive of occupancy charges and additional rent payable, based on a percentage of gross sales), will be as follows for the year ending January 31, 1979:

Total rent obligations	\$9,457,000
Rental obligations assumed by franchisees	<u>8,437,000</u>
Net rental obligations (regional offices and wholly-owned stores)	<u>\$1,020,000</u>

## 8. Contingent Liabilities

The Company has provided guarantees to various banks in respect of borrowings by franchisees. The total of these guarantees at January 31, 1978 was \$11,700,000 of which the outstanding indebtedness of the franchisees was \$5,855,000.

The Company is jointly and severally liable, together with Steinberg's Limited, as guarantor of leases for subscribers to Pharmaprix Limitée, as follows for the year ending January 31, 1979:

Total minimum annual rental	\$1,212,000
Subscribers' expected annual rental	<u>1,193,000</u>
Net minimum annual rental (Quebec Office)	<u>\$ 19,000</u>

The Company has guaranteed the bank loan of Pharmaprix Limitée to a maximum of \$1,000,000.

## 9. Anti-Inflation Program

Koffler Stores Limited and its subsidiary companies are subject to and have complied with controls on profit margins, dividends and compensation instituted by the Federal Anti-Inflation Act and Regulations, effective October 14, 1975.

The Company is presently paying the maximum dividends permitted under the Anti-Inflation controls for the twelve months ending October 13, 1978.

## 10. Subsequent Events

On March 29, 1978 Imasco Limited made an offer to purchase all of the outstanding Class A and Class B common shares of the Company. The basis of the offer is a cash payment of \$55 plus one redeemable, convertible preference share of Imasco Limited having a stated value of \$35 for any combination of 10 Class A or Class B common shares of the Company. Pursuant to this offer, an application was made to continue under the Canada Business Corporations Act and approval was received on February 21, 1978. Pursuant to The Certificate of Continuance, the Class A and Class B special shares were designated as Class A and Class B common shares.

The acquisition of control of the Company by Imasco Limited was subject to approval by the Foreign Investment Review Agency, which approval was granted on April 20, 1978. The Board of Directors has unanimously recommended acceptance of the offer.

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## AUDITORS' REPORT

To the Shareholders of Koffler Stores Limited:

We have examined the consolidated balance sheet of Koffler Stores Limited as at January 31, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. For Koffler Stores Limited and for those other companies of which we are the auditors and which are consolidated, 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. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1978 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.

Toronto, Canada  
April 20, 1978

Wm. Eisenberg & Co.  
Chartered Accountants





