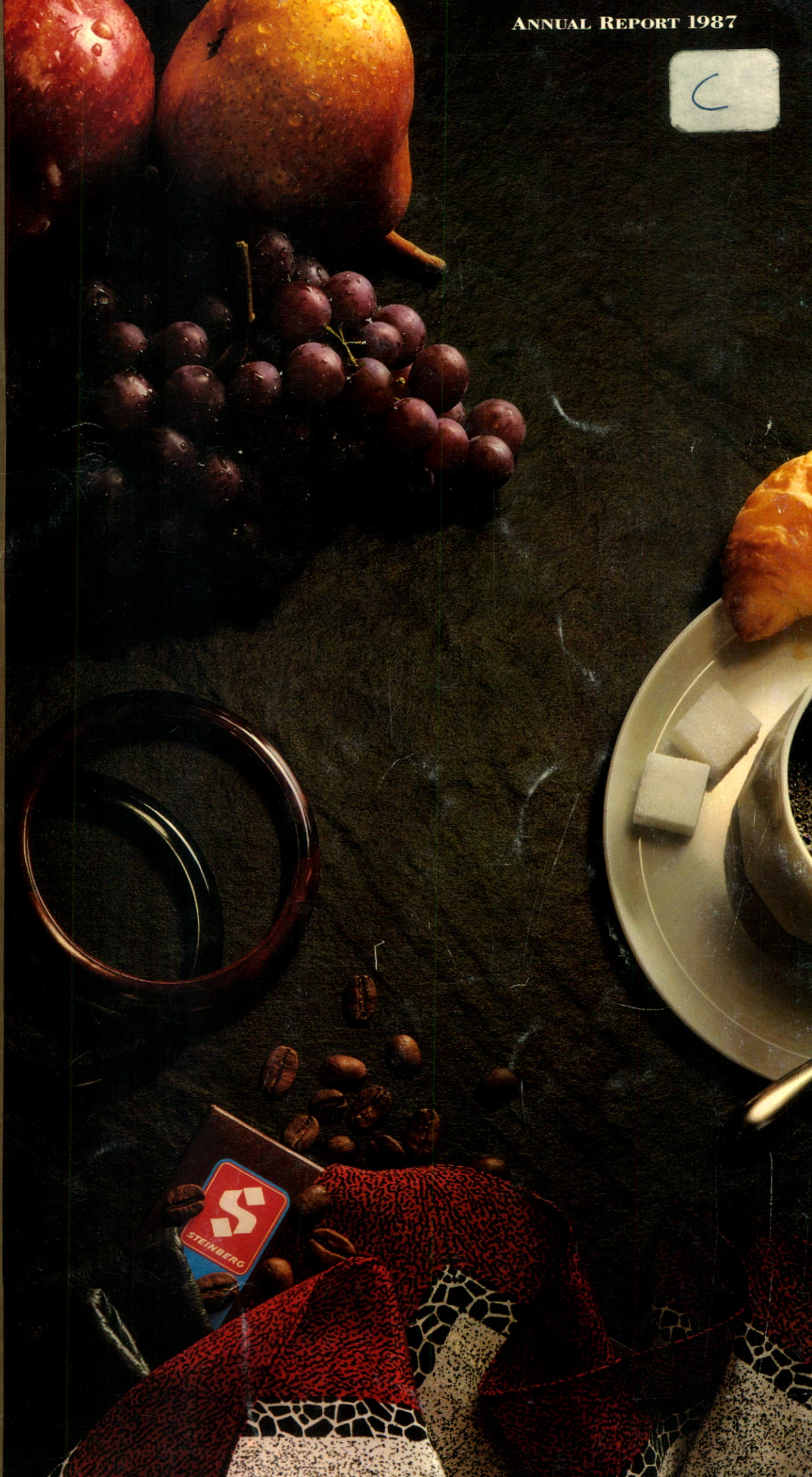


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COMPANY PROFILE

Since its beginnings 70 years ago as a small Montreal food store, Steinberg Inc. has become one of Canada's largest organizations involved in the wholesale and retail distribution of food and general merchandise. The Company operates supermarkets and a variety of other food store formats, department stores, combination stores, restaurants and a meat-processing plant.

Through a wholly-owned subsidiary, the Company owns and operates extensive real-estate holdings in Canada and the United States, including 35 shopping centres.

Steinberg also owns 50% of Lantic Industries Limited, Price Club Canada Inc., Caplan-Duval Gift Shoppes Inc., and Legault & Masse Limitée.

With its Head Office in Montreal, Steinberg is active throughout Quebec and Ontario, in New Brunswick, Manitoba and the U.S. Southwest.

The Company's shares are listed on The Montreal Exchange and The Toronto Stock Exchange.

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THIS YEAR'S COVER

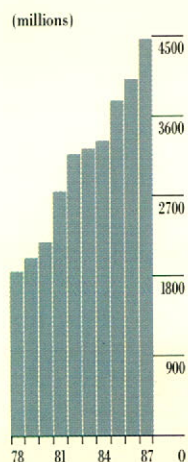
Steinberg's success depends on its 36,000 employees. They are represented on this year's cover by: (from top to bottom) David Gonzales, a Smitty's bagger in Phoenix; Janis Klaffen, a Salisbury House waitress in Winnipeg; Douglas Power, a Miracle Food Mart truck driver in Toronto; Michel Mailloux, a Steinberg supermarket fish and seafood clerk in Montreal; and Murielle Gilbert, an Aligro bakery counter clerk in Thetford Mines.

The Annual
General Meeting
of Shareholders
of Steinberg Inc.
will be held
at the Windsor
Building,
1170 Peel, Salon
Le Windsor,
Montreal,
Quebec,
on Friday,
November 20,
1987, at 10 a.m.

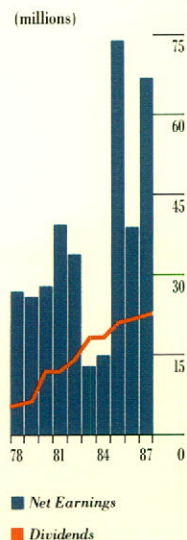
FINANCIAL HIGHLIGHTS

	1987	1986	1985
(in thousands of dollars except per-share items)	\$	\$	\$
Sales and Operating Revenue	4,491,355	4,041,948	3,801,347
Canadian retail food	2,872,242	2,787,310	2,630,691
Canadian wholesale food	355,939	—	—
American retail	915,252	924,053	831,070
general merchandise	198,828	204,913	203,659
processing (external sales)	42,973	27,822	17,022
restaurants	52,363	53,918	55,803
real-estate operations (external)	53,758	43,932	63,102
Net Earnings	66,926	38,938	73,634
retail, wholesaling and processing operations (before special charge)	40,154	41,916	46,201
special charge	—	(15,123)	(4,730)
real-estate operations	18,315	12,145	32,163
extraordinary item	8,457	—	—
per dollar of sales and operating revenue (before special charge and extraordinary item)	1.30¢	1.34¢	2.06¢
Cash Flow from Operations			
before special charge	118,627	99,826	113,798
after special charge	118,627	84,703	109,068
Working Capital	204,305	249,872	256,510
Shareholders' Equity (common and non-voting Class "A")	541,133	401,446	382,059
Per Common and Non-Voting Class "A" Share			
earnings (before special charge and extraordinary item)	2.42	2.41	4.52
extraordinary item	0.45	—	—
net earnings	2.87	1.51	4.19
cash flow from operations (after special charge)	5.65	4.24	6.65
dividends	0.50	0.50	0.50
book value	27.68	23.93	22.81
return on average equity	11.35%	6.45%	18.19%

Sales & Operating Revenue



Net Earnings & Dividends



HOWARD ROSS LIBRARY OF MANAGEMENT
MCGILL UNIVERSITY
1001 Sherbrooke St. W.,
Montreal, Quebec, Canada
H3A 1G5

NOV 04 1987



Irving Ludmer and Melvyn A. Dobrin, in the lobby of the Company's Corporate Offices in downtown Montreal. The Company moved to its present location in August, following a fire that destroyed its former quarters on October 26, 1986.

During fiscal 1987, we made steady progress in pursuit of the strategic goals established two years earlier. We are confident that the plan is a good one and that it will lead to profitable results. In terms of achieving our objective of repositioning the Company, we feel we were beyond the midpoint by year-end.

We are well advanced in our move to a variety of food store formats, each aimed at a well-defined target market. We also now operate a wholesale/retail distribution network in Quebec. All this has increased the complexity of our business, while opening the door to many new opportunities.

With increasing complexity has come the need for greater decentralization, improved controls and synergies. In response, we have established four main businesses: Food Group — Canada, General Merchandise Retailing, The Real Estate Group, and U.S. Operations.

Our 1987 annual report features each of these groups. There is also a special section on our affiliated companies: Lantic Industries, Price Club and Caplan-Duval.

Sales, operating revenue, and earnings improved somewhat this year, as we closed some stores, renovated, expanded and converted others, and integrated wholesale food distribution into our operations.

Capital expenditures, which totalled over \$156,000,000 this year, are budgeted for approximately a quarter of a billion dollars next year. This high level of investment reflects management's conviction about your Company's ability to adjust its asset base while pursuing growth and expansion.

— Consolidated sales and operating revenue for the year ended July 25, 1987 totalled \$4,491,355,000, an increase of 11.1% over last year's \$4,041,948,000.

— Consolidated net earnings this year were \$66,926,000 compared to \$38,938,000 last year. This year's earnings included an extraordinary item of \$8,457,000 relating to a reduction of deferred income taxes resulting from losses carried forward which were not tax affected in previous years. Last year's results were net of a special charge of \$15,123,000 related to the closure of 11 Miracle Mart department stores, the repositioning of the remaining 20 and withdrawal from the Jadis food-warehouse concept.

— Earnings per common and non-voting Class "A" share, after providing for preferred and preference dividends, were \$2.87 (\$2.63 fully diluted) compared with \$1.51 (\$1.47 fully diluted) last year.

During the year, we acquired Aligro Inc., a major food wholesaler serving clients in eastern Quebec and New Brunswick.

Aligro, along with Steinberg Distribution and our 50% equity interest in Legault & Masse Limitée, represents an important part of our plan to move aggressively into the growing wholesale food market. Aligro gives us strength in regional markets where we have not been represented.

We expect to see greater synergies materialize between Steinberg and Aligro in the coming year. Our 70 years of retail experience put us in a good position to understand and serve other retailers.

Subsequent to year-end, we also acquired Cultures Fresh Food Restaurants and finalized the acquisition of Fotoplus, a Quebec photo-finishing operation.

We have attacked all areas of our business in an effort to maximize the use and effectiveness of our assets. We have looked at our business geographically, in terms of store formats, customer service, staff and employees, logistics and technology.

We are repositioning existing formats and filling in gaps with new concepts to cover a broader spectrum of the food and general merchandise markets, both retail and wholesale. And, we are striving for excellence, particularly in our day-to-day execution.

Price Club is a good example of our overall strategy. Operated through a joint agreement with The Price Company, of San Diego, Price Club cash-and-carry warehouses offer food and general merchandise, on a membership basis, to both wholesale and retail buyers.

Some may think we are trying to be too many things to too many people. In fact, our variety of wholesale and retail formats are run by distinct management teams who each understand the peculiarities of their particular market niche. Our challenge now is to search for synergies while maintaining the integrity of each format.

By August 1987, 20 Miracle Mart department stores had been converted to our new M store concept. M's mass merchandising approach will be expanded if customer acceptance so warrants. Preliminary customer response has been favourable, although it is too early to forecast long-term sales and profits.

Ivanhoe, our wholly-owned real-estate subsidiary, is returning to its origins as a developer and moving away from its more recent, passive role as a property manager. It will seek to diversify geographically and will pursue new opportunities in office and industrial development as well as in its more traditional role as a shopping-centre developer.

We are mobilizing to make the best and fullest use of our entire asset base. We are achieving that through our people, their concern for our customers, increased professionalism and a developing entrepreneurial culture, all expressed through our multi-format approach and wholesale/retail orientation.

People, professionalism and productivity have been high on our agenda in the past year. We have added many experienced managers and executives to our ranks and continued our promotion-from-within policy.

Among senior management, Jean-Roch Vachon was appointed President, Food Group — Canada. M. William Cleman was named President, Real Estate Group and Chairman, Ivanhoe Inc.

An Employee Share Purchase Plan was established this year to give all of our people in Canada an opportunity to participate more fully in the Company's success. Almost 5,000 employees have joined that program, representing the purchase of some 100,000 non-voting Class "A" shares.

We will continue to encourage a high level of entrepreneurship. We will continue to move the power down into the hands of individual store managers, and we will continue to reinforce the primacy of the customer.


Exceptional execution is still the key to exceptional results.

We thank all our customers, employees, shareholders, affiliates and suppliers for their contribution in the past year, as we look forward to another year of continued progress.

On behalf of the Board,



Melvyn A. Dobrin
Chairman of the Board



Irving Ludmer
President &
Chief Executive Officer

October 29, 1987



Jean-Roch Yachon, President, Food Group — Canada, in the produce department of Les 5 Saisons in Outremont, Quebec.

When we look carefully at today's marketplace, we are convinced that our multi-format, wholesale/retail strategy is a sound one. No single type of food store can hope to appeal to the many lifestyles and shopping habits in North America. In fact, we are witnessing a retail renaissance.

With our portfolio of different retail units, we can win a substantial share of important market niches. Each of our store types, whether a huge Marché du Jour or a small La Maisonnée, has a clear target market and a management team dedicated to fulfilling its mission.

Our entry into wholesaling was also motivated by changing market conditions. Wholesaling enables us to grow by reaching new markets in ways that also support our traditional food retailing business.

No matter how good the strategy, success still depends on how well we make things work day by day. In everything we do, we are striving for excellence in delivery, quality and value.

The motivation and professionalism of our people are fundamental to superior execution. That's why we have improved employee education and communication, and are encouraging entrepreneurship.

The creation of Food Group — Canada, combining wholesale, retail, processing and restaurant operations, enables us to increase synergies among these related areas.

Food Wholesaling

Through our food wholesaling operations, Steinberg serves corporate and independent food stores, affiliates, restaurants, and institutional clients such as hotels.

Steinberg Distribution is responsible for overall procurement, logistics, development and support services to all operational areas of the group.

Aligro Inc., acquired in November 1986, supplies retailers and institutions, from its network of 13 warehouses and 14 cash-and-carry centres. Rounding out our wholesaling capability is Legault & Masse Limitée, whose hundreds of customers include the 71 La Maisonnée franchised stores.

In the coming year, we plan to expand our wholesaling activities into the Ontario market.

Quebec Supermarket Division

As a result of our on-going asset review, eight corporate supermarkets were either closed or converted to other formats. An additional 27 stores were upgraded to the Le Supermarché concept, at a cost of more than \$26,000,000.

Sales were slightly lower, because of the closure of stores, but the average weekly sales per store was up 6.5%. Considerable progress was made toward improving profitability.

A few of the Company's familiar banners.





Food Group — Canada Retail Outlets	Number of units in operation July 25, 1987/ July 26, 1986
Steinberg supermarkets	119/127
Miracle Food Mart	66/ 72
Miracle Ultra-Mart	6/ —
Valdi	66/ 66
Jadis/Basics	2/ 5
Marché du Jour	2/ 1
La Maisonnée	71/ 67
Les 5 Saisons	2/ 1
Restaurants and snack counters	154/162

Annual sales in our supermarkets, food-warehouse and combination stores averaged \$653 per square foot of selling area. Weekly sales averaged \$253,500 per store compared to \$235,000 last year.

We are stepping up the introduction of automated Direct Store Delivery Systems and point-of-sale electronic scanning equipment.

Near fiscal year-end, 21 Steinberg supermarkets were granted beer and wine permits. All Steinberg supermarkets in Quebec now carry these products.

Our emphasis on quality perishables and local marketing was continued. Our Local Marketing Department recognizes each supermarket as a small business that must respond to the needs of its primary trade area. This means carrying the right products, getting to know customers and participating in community events.

New programs were introduced to recognize entrepreneurship and to improve employee communications. In early spring, we discussed the Company's progress toward its strategic goals with Quebec supermarket employees.

Our concern for employees was recognized this year, by the Association of Human Resource Professionals, through the IRIS award for excellence in human-resource management.

In celebration of the Company's 70th anniversary, all division and Head Office personnel spent a day greeting and thanking customers in Steinberg stores.

Ontario Supermarket Division

Record sales and capital investment highlighted the year for Miracle Food Mart. Sales were up 8% and the average

weekly customer count was higher. Pressure on margins continued as more superstores and independents entered the Ontario market.

Two years ago, Miracle Food Mart began a major modernization and expansion program. Capital expenditures in fiscal '87 were about \$30,000,000 for the renovation of eight stores, the addition of four Miracle Ultra-Mart food/drug stores and the conversion of two stores to Ultra-Mart. These stores are among the avant-garde of food/drug stores in Canada. A similar concept is being introduced in Quebec, under the Steinberg Plus/Le Service Plus banners.

About \$36,000,000 has been earmarked for fiscal '88 to renovate nine stores, convert six to Ultra-Marts and build one Miracle Ultra-Mart. Some of these funds will also be used to upgrade electronic point-of-sale equipment, and introduce additional Direct Store Delivery Systems.

During the year, Ontario Division successfully introduced a Customer Service and Satisfaction Program that rewards employees for exceptional customer service.

Valdi Foods (1987) Inc.

Valdi Foods serves price-conscious shoppers through such specialized stores as Valdi, Jadis/Basics and Le Marché du Jour.

Valdi's sales increased 8.1% over the previous year.

During the year, all Valdi stores were either renovated to the new Valdi Plus format or to a modified version



of that format. Valdi limited-assortment grocery stores now offer a wider range of health and beauty aids. The concept will be introduced to Quebec in fiscal '88.

At year-end, two Marché du Jour stores were in operation: an 85,000 square-foot unit in Montreal, and a new 60,000 square-foot store in Quebec City. One new unit will open in December 1987 and two others are planned for fiscal '88.

One Jadis food-warehouse store was in operation at year-end, following last year's decision to withdraw from this concept. We plan to convert it to another format next year.

We are about to launch a new drug-warehouse concept in Ottawa and Quebec City, with the Ottawa opening scheduled for November 1987.

Le Groupe Franchise Plus Inc.

We added five new La Maisonnée franchised convenience stores in fiscal '87. Sales among all 71 stores were 14.4% higher than last year. In the coming year, a more rapid expansion is planned. La Maisonnée will continue to emphasize ready-to-eat foods.

In June, Franchise Plus acquired La Crémère, a Quebec dairy bar operation. Mini La Crémère dairy bars are being put in La Maisonnée stores to expand the product line.

Franchise Plus also acquired Fotoplus, a photo-finishing service. Fotoplus services have been installed in many Steinberg and Miracle Food Mart supermarkets, and Québec shopping centres.

In fiscal '88, Franchise Plus plans to test a combination mini-convenience store/gas bar, under the name Le Relais 24.

Franchise 5-16-11 (1987) Inc.

Superior service, quality perishables and fashionable decor distinguish Les 5 Saisons franchised stores from other supermarkets.

One new Les 5 Saisons was opened in Outremont, Quebec. Two stores, planned for fiscal '88, will round out the testing of this format.

Food-Processing Operations

Trillium Meats is now Steinberg's official meat wholesaler. Operating efficiencies were significantly improved through centralized meat buying for Ontario and Quebec Divisions.

More boneless cuts and more case-ready packaged meats were added to Trillium's product line. State-of-the-art Cryovac vacuum packaging, and other measures to increase product shelf life, were also introduced.

Restaurant Operations

Shortly after year-end, the restaurant group acquired Cultures Food Services, a Canada-wide chain of 49, principally franchised, restaurants. Cultures fast-food menu of salads and light, fresh foods adds a new dimension to the group's restaurant mix.

With Cultures, we can win more of the "food-away-from-home" market through synergy with La Maisonnée and the prepared food sections of our supermarkets.

Multi Restaurants, which operates 131 units under the Pik Nik, Burger Supreme, Viva Pasta and Salad Patch banners, and Salisbury House, with 23 restaurants, reported increased sales, on a comparative basis, and a satisfactory return on investment. Renovations and the conversion of units to self-service and semi-service continued during the year.

Throughout Food Group — Canada, our 25,000 employees continue to work toward improving performance through dedicated attention to excellence in the day-to-day execution of our business.

Jean-Roch Vachon
President
Food Group — Canada



M Stores President Michael P. Kershaw in M's low-priced hard-goods section.

Shortly after year-end, the transformation of Miracle Mart to the new M store concept was completed. Only one Miracle Mart, in Cambridge, Ontario, remains to be sublet. Unlike the former chain, M is a forward-looking, regional mass merchandiser of family apparel, combined with a limited assortment of hard goods at very low prices.

M stores offer an attractive, innovative shopping environment that emphasizes visual merchandising and cash check-out counters integrated into departments. Despite the large size of M stores, their design and layout provide the atmosphere and service of boutique shopping.

To maintain a high level of customer service and satisfaction, all M store employees have received special training in salesmanship, customer service and visual merchandising. All M store managers are also involved in an 18-month management training course.

As stores were renovated, with concurrent changes in merchandise mix, normal operations were severely disrupted. For part of the year, we bore the additional cost of operating two chains, M stores

and the remaining Miracle Mart stores. This led to operating losses for the continuing stores of \$9,900,000, before taxes, during the year. An additional \$4,900,000 was incurred for remodelling and other conversion expenses. Twelve stores have now been fully converted, while eight still require further renovations.

All overhead expenses were carefully examined and reduced during the past year. Improvements in productivity were also achieved.

Now that the transformation from Miracle Mart to M is complete, our challenge is to make the chain profitable.

A handwritten signature in black ink, appearing to read 'Michael P. Kershaw'.

Michael P. Kershaw
President
M Stores Inc.



Smitty's



C. Thomas Hickey, President of Smitty's Super Valu, Inc., at one of Smitty's 22 stores in Phoenix, Arizona.

Smitty's Super Valu, Inc., with 7,000 full- and part-time employees, operates 22 stores. Fifteen of these are large combination supermarket/department stores of up to 110,000 square feet.

At Smitty's, customers can find in-store bakeries, service and self-serve meat, delicatessen and fish counters, liquor departments, and snack bars. They can also shop for everything from clothes to cameras, hardware to health and beauty aids. All Smitty's stores provide banking facilities and 18 have on-premises pharmacies.

Sales (in U.S. dollars) for Smitty's were up 3% on a 52-week comparison basis.

Food competition remained intense in the Phoenix, Arizona market. Major competing chains and numerous independents opened stores in the area during the past year. Competitive factors have negatively affected both sales and margins.

Through our U.S. real-estate subsidiary, Smitty's acquired the store of a former competitor, in a well-established area of Phoenix. The store is being converted to a Smitty's, for an April '88 opening.

Two other Phoenix sites were acquired during the year. On one of these, construction of a shopping center, which will include a Smitty's store, is planned to start in January '88. Opening is scheduled for Fall '88.

Major renovations to three stores were completed during the year. Nine stores are scheduled for major renovations in fiscal '88.

We installed electronic point-of-sale scanning equipment in seven stores. By the end of fiscal '88, all Smitty's stores will have such equipment.

These developments should further strengthen our position as leader in the Phoenix marketplace.

C. Thomas Hickey
President &
Chief Executive Officer
Smitty's Super Valu, Inc.

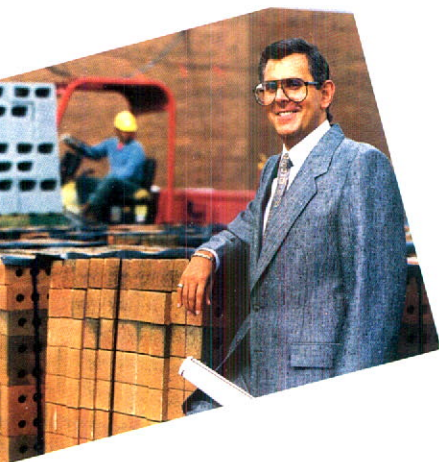
INTERNATIONAL OPERATIONS

Steinberg B.V., a wholly-owned, international holding company, coordinates overseas buying, shipping, insurance

and finance for the Steinberg group of companies. Its head office is in Rotterdam, Holland.



IVANHOE inc.



M. William Cleman, President, Real Estate Group, at Montreal's West Island Mall during its expansion.

The Real Estate Group was established this year to improve our ability to manage the Company's extensive real-estate assets and to develop greater synergy between real estate and other areas of the Company.

The new Real Estate Group is comprised of four main operating entities:

- 1) Ivanhoe Inc.;
- 2) The Real Estate Department;
- 3) The Architecture and Construction Department;
- 4) The Supply, Contracts and Central Services Department.

Ivanhoe Inc.

Ivanhoe Inc. was established in 1953 to diversify the fast-growing activities of Steinberg Inc. Its mandate was to create a bank of future supermarket locations, and to capitalize on the flexibility, financial leverage and growth that real estate affords.

Today, this wholly-owned subsidiary is one of Canada's most important real-estate companies.

As of this year, Ivanhoe holds virtually all the Canadian real-estate assets of Steinberg Inc. As part of the Company's objective of consolidating all real-estate ownership under Ivanhoe, 27 properties owned by Aligro Inc. were transferred to Ivanhoe in fiscal '87.

Ivanhoe owns and operates 126 developed properties, with a gross leasable area of nearly 9,000,000 square feet. These include 35 shopping centres. Other properties include warehouses, two office buildings, a meat-processing plant and 95,000,000 square feet of land in both Canada and the United States. Ivanhoe is also involved in joint ventures with other major Canadian developers in a number of regional and community shopping centres.

Although no formal appraisal survey was conducted in fiscal '87, higher cash flow from operations and higher Quebec and Ontario property values indicate that the appraisal surplus of Ivanhoe's real-estate holdings has definitely improved since last year.

Ivanhoe is committed to a course of active real-estate acquisition and development. This involves the revitalization of our shopping centres, and the acquisition of land and income-producing properties to meet the future expansion needs of Steinberg Inc.

Every Ivanhoe asset is regularly evaluated in terms of its cash flow, market niche, future potential, and highest and best use in relation to its viability and fit within the Ivanhoe portfolio. Those assets that cannot meet cash flow and growth expectations are earmarked for divestment. It is this kind of rational and strategic asset management that leads to a constantly improving Ivanhoe portfolio.

Some of Ivanhoe's 35 shopping centres.





In suburban areas, strip centres are becoming increasingly popular. Working hand in hand with Steinberg's many formats, Ivanhoe has successfully developed such centres. For example, Bamburgh Gardens, in Scarborough, was completed in fiscal '87 with a Miracle Ultra-Mart store as its anchor.

In downtown areas, La Maisonnée or Les 5 Saisons can be joined by other retail stores to create small service and convenience strip centres in high-density locations. We could also create large, mass-merchandising centres made up almost entirely of major anchor tenants, such as the Company's own Marché du Jour, M stores and Price Club.

Ivanhoe also plans to diversify into real-estate sectors other than shopping centres. We are now looking at office and industrial opportunities. The development of a mixed-use asset base will lead to high, stable returns for the Company in the future. Eventually, we plan to broaden our base through expansion into the United States. Designated U.S. market areas have already been identified. These, and other areas, will be actively pursued in the coming years.

In fiscal '88, Ivanhoe will invest a record \$90,000,000 in renovation and expansion projects as a first step in achieving the goal of rejuvenating our entire asset base.

Projects begun in fiscal '87 included: a major expansion and renovation of Champlain Mall, a regional shopping centre on Montreal's South Shore; expansion of West Island Mall, in suburban Montreal; redevelopment of St. Martin Shopping Centre, in suburban Montreal; construction of Hillside Plaza, a strip centre in Ottawa; and renovations to Fairlawn Plaza, in Ottawa and Place Belvedere, in Sherbrooke, Quebec.

Nine other projects will be in various stages of renovation and expansion in fiscal '88, including: redevelopment of Montreal's Greenfield Park Shopping Centre; and expansion and renovation of Place Ste. Foy, in Quebec City.

Ivanhoe's success is closely linked to the success of its tenants. To ensure that both parties profit from such a relationship, all efforts are being made to keep Ivanhoe shopping centres and other properties in optimal condition. Keeping shopping centres bright, warm and inviting is crucial to attracting shoppers and generating greater revenues for tenants. This is consistent with Ivanhoe's strategy of improving its existing asset base through timely renovations, expansions, remerchandising and improvements in tenant mix.

Ivanhoe is a customer-driven developer. This means supporting our tenants in many different, effective ways. A pilot project started this year is aimed at helping tenants maximize their sales potential through cash-flow management, market positioning, customer service and community involvement. This is only one example of how we are constantly striving to improve our position by strengthening our customer base — our tenants.

To lead Ivanhoe in the achievement of its new ambitions, Ronald M. Kirshner was appointed President and General Manager of Ivanhoe Inc., in September 1987. He brings 20 years of experience in real-estate development to his new position.

The Real Estate Department

This corporate function represents the Company's operating divisions in all their real-estate dealings with landlords, including Ivanhoe. The department is responsible for spearheading the Company's growth and advancement through prudent and strategic management of the asset base, and through seeking new locations and opportunities for all Steinberg wholesale and retail vehicles.

The department handles all leasing activities, site and location research, and the management and administration of lease documentation for all Canadian retail and wholesale divisions and subsidiaries.

The Architecture and Construction Department

This department oversees the planning, design, construction and implementation of all Steinberg wholesale, retail, manufacturing and office requirements. The Architecture and Construction Department is also responsible for the expansion, renovation and modernization of existing locations. The department also ensures that the Company's high standards of design and execution are maintained and further refined.

The Supply, Contracts and Central Services Department

This purchasing area is responsible for the procurement of all non-resale merchandise and services. As such, it supports the Company's capital equipment investment program and fulfills the supply and services needs of all the Company's Canadian operating divisions. It is also responsible for identifying and sourcing new kinds of equipment to ensure that our stores remain at the forefront of their respective industries.

Creation of The Real Estate Group reflects the importance of strategic real-estate growth and management to the overall success of the Company. Through this new structure, we can take better advantage of a key intangible asset: the ability of Ivanhoe and Steinberg to support each other in building a profitable future.



M. William Cleman
President
Real Estate Group



CLUB PRICE



Lantic Industries Limited

Our equity investment in Lantic performed well this year. Lantic Industries owns

Lantic Chairman and Chief Executive Officer Léo E. Labrosse, with one of Lantic's liquid sugar tankers.

Lantic Sugar Limited, Canada's largest sugar refiner, with operations in Saint John, Montreal and Oshawa. The company sells a wide range of industrial and consumer sugar products in both domestic and international markets.

In September, 1986, Lantic acquired the Raffinerie de Sucre du Québec from the Quebec government.



Price Club Canada Inc.

Through a joint agreement with The Price Company, of San Diego, we opened our first Price Club cash-and-carry warehouse, in November 1986. A second Price Club store is to be opened, in Montreal, in Fall

President Pierre Mignault in the first 100,000 square-foot Price Club cash-and-carry warehouse.

1987 and a third is scheduled for mid-1988.

Aimed primarily at small- and medium-size businesses, Price Club offers fast-moving food and general merchandise. Products are sold by the case, the unit, or in institutional sizes at low wholesale prices.

A mixed wholesale and retail customer base is achieved through the controlled distribution of membership cards to business and group members.



Caplan-Duval Gift Shoppes Inc.

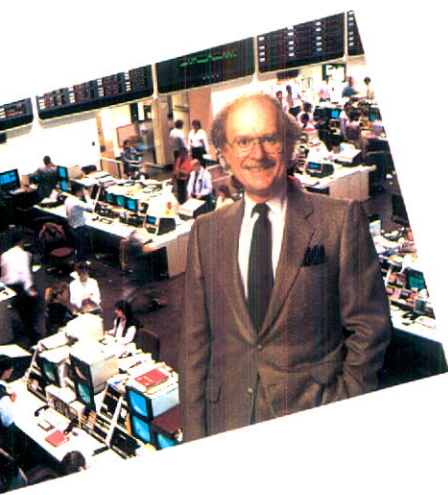
Steinberg Inc. has a 50% interest in Caplan-Duval, a

Caplan-Duval's Vice-President, Finance Bernard Isenberg and President Frances Isenberg, in the fine china section of the Cavendish Mall store, in Montreal.

specialty general-merchandise chain with two stores in Montreal.

Caplan-Duval offers premium-quality housewares, with special emphasis on top-quality china, glassware and flatware. Caplan-Duval also features designer linens, bathroom and kitchen accessories, specialty leather goods and many imported items.





H. Arnold Steinberg, Executive Vice-President, Finance and Development, at the Montreal Exchange.

SBG, A SBGpB SBGpC SBGpD SBGpE

While sales, earnings and cash flow from operations increased this year, the ongoing asset review program, consisting of closing, renovating, expanding or converting units as well as the integration of wholesale food operations, exerted pressure on operating results.

Sales and Operating Revenue

Consolidated sales and operating revenue totalled \$4,491,355,000, an increase of 11.1% over the \$4,041,948,000 achieved last year. This performance primarily reflects the acquisition of Aligro Inc. in the second quarter. Canadian retail food operations registered sales of \$2,872,242,000, an increase of 3.0% over fiscal 1986. On a fifty-two week comparison basis, sales (in U.S. dollars) of Smitty's Super Valu, Inc. were up 3.0%.

Buoyant real-estate markets, leading to higher gains from the sales of property, were largely responsible for a 22.4% increase in real-estate operating revenue.

Net Earnings

Consolidated earnings for the year before an extraordinary item were \$58,469,000, or, after provision for preferred and preference dividends, \$2.42 per common and non-voting Class "A" share (\$2.23 fully diluted). An extraordinary item of \$8,457,000 relates to a reduction of deferred income taxes as a result of losses carried forward which were not tax affected in previous years. Therefore, consolidated net earnings for the year amounted to \$66,926,000 compared with \$38,938,000 in 1986. Last year's earnings

were net of a special charge of \$15,123,000 after tax related to the closure of 11 Miracle Mart department stores, the repositioning of the remaining 20 and withdrawal from the Jadis food-warehouse concept. Consolidated net earnings per common and non-voting Class "A" share, after providing for preferred and preference dividends were \$2.87 (\$2.63 fully diluted) compared with \$1.51 (\$1.47 fully diluted) last year. This year's basic earnings-per-share calculation is based on 18,634,995 common and non-voting Class "A" shares and, on a fully diluted basis, 21,480,005 compared to 16,758,124 and 18,817,476 shares respectively the previous year.

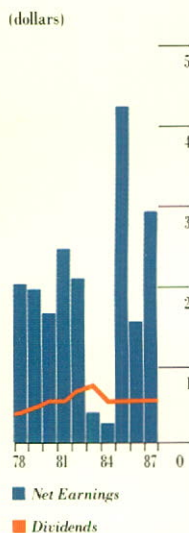
Cash flow from operations was \$118,627,000 compared with \$84,703,000 the previous year, or \$5.65 and \$4.24 respectively per common and non-voting Class "A" share (after provision for preferred and preference dividends).

Results were favourably affected by improved profitability of the food-retailing segments and Ivanhoe real-estate group, as well as substantially higher earnings on our equity investment in Lantic Industries Limited.

As Miracle Mart stores underwent major renovations with concurrent changes in merchandise assortment to complete the conversion of the chain to the new M store format, normal operations were severely disrupted. This resulted in losses in excess of those provided for in last year's special charge of \$24.5 million before tax (\$13.1 million after tax). Operating losses for continuing stores amounted to

Stock Symbol	Fiscal '87 High/Low
	\$ / \$
SBG, A -Non-Voting Class "A" Shares	44.25/33.50
SBGpB -5 1/4 % Preferred Shares	80.00/72.00
SBGpC -\$1.95 Second Preferred Shares	24.00/22.75
SBGpD -\$2.9375 Series A Second Preference Shares	28.75/26.75
SBGpU -U.S. \$2.875 Series B Second Preference Shares	28.50/25.75
SBGpE -Fourth Preferred Series I	3.60/3.10

Net Earnings & Dividends Per Common & Non-Voting Class "A" Share



Earnings per share, after provision for preferred and preference dividends increased to \$2.87 from \$1.51 last year. The dividend paid per common and non-voting Class "A" share was \$0.50, unchanged from the previous year, resulting in a compounded average growth of 3.7% over ten years.

\$9.9 million before tax and \$5.5 million after tax. An additional net charge of \$4.9 million before tax and \$2.2 million after tax was incurred to cover non-recurring remodelling and other conversion costs. Preliminary customer response to the new M concept is favourable although it is still too early to forecast long-term results.

Ivanhoe's earnings from operations totalled \$47,575,000 compared with \$38,604,000 last year. After adjusting for the gains arising from real-estate transactions of \$9,691,000 this year and \$2,896,000 last year, earnings from operations were up 6.1%. Net earnings were \$20,996,000 compared with \$14,626,000 in 1986 reflecting the above gains, lower net financial expenses and the impact of new shopping centre development projects.

Smitty's Super Valu, Inc. contributed U.S. \$21,274,000 before intercompany interest expense and income taxes, a decrease of \$3,363,000 compared to last year. Competition remains particularly intense in the Phoenix market both in terms of pricing and store openings.

Previous reports to shareholders referred to proposed assessments by the Internal Revenue Service (IRS) which would result in tax deficiencies of Smitty's of approximately U.S. \$42.0 million plus interest for the period since the acquisition of Smitty's by Steinberg B. V. to the end of fis-

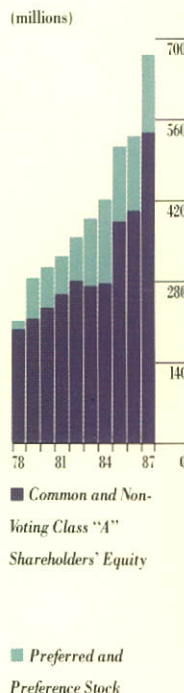
cal 1985. In this connection, Smitty's had provided approximately U.S. \$6.8 million as an increase in goodwill and \$4.9 million for interest. In August 1987, a settlement was reached with a representative of the Appellate Division of the IRS (subject to final approval by the IRS) resulting in an assessment for taxes in the amount of U.S. \$5.1 million. The difference of U.S. \$1.7 million has been applied to reduce intangible assets. Furthermore, the settlement included interest of U.S. \$2.6 million, U.S. \$2.3 million less than had been provided for in 1985 and 1986. This reduction in interest has been credited to Smitty's earnings. Under the settlement, the IRS will no longer assert that a 15% withholding tax should apply to all interest payments made by Smitty's to Steinberg B. V.

Net investment income of \$20,687,000 was almost equal to last year. The Company's share of net earnings in non-controlled companies was \$16,149,000, which is \$7,233,000 or 81.1% higher than in the preceding year. This substantial increase is primarily related to record earnings on our equity investment in Lantic Industries Limited.

Assets and Liabilities

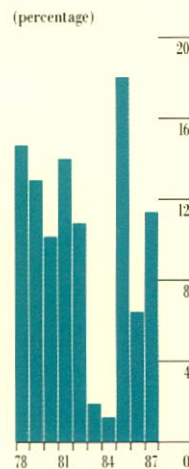
Consolidated assets increased by \$247,600,000 to \$1,469,353,000 at July 25, 1987. This includes an increase of \$114,091,000 in fixed assets reflecting the

Book Value of Shareholders' Equity



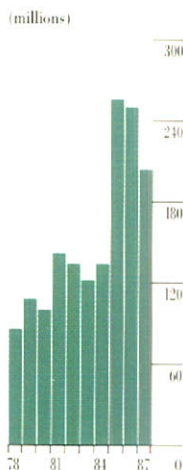
Total shareholders' equity increased by 27.8% to \$689,789,000 this year. Common and non-voting Class "A" shareholders' equity increased by 34.8% to \$541,133,000. The book value per common and non-voting Class "A" share outstanding increased to \$27.68 from \$23.93 last year.

Return on Average Common and Non-Voting Class "A" Equity



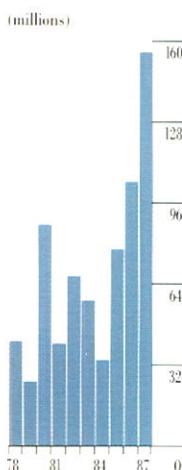
Return on average common and non-voting Class "A" equity increased to 11.35% from 6.45% last year. The return on common and non-voting Class "A" equity averaged 10.18% for the past ten years.

Working Capital



Working capital decreased by \$45,567,000 and the company's working capital ratio was 1.49:1 compared with 1.72:1 for the previous year.

Capital Expenditures*



*Capital expenditures for 1981 and prior years are shown as net of disposals.

This year's capital expenditures in the amount of \$156,163,000 was \$52,309,000 or 50.4% higher than last year.

emphasis on development and modernization programs and an increase of \$29,591,000 in other assets with respect to the Company's interest in significantly influenced companies and partnerships. Capital expenditures amounted to a record level of \$156,163,000, exceeding last year's investment by \$52,309,000.

The ratio of current assets to current liabilities dropped from 1.72 to 1.49 partly due to the reclassification of maturing long-term debt as a current liability. The Company's balance sheet continued to strengthen as the ratio of long-term debt to shareholders' equity improved from 37:63 to 34:66. The improvement was achieved despite increased long-term financing related to the aggressive capital expenditure program. The long-term interest coverage ratio increased from 2.09 to 2.87.

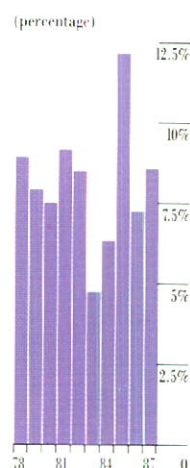
Shareholders' Equity

The book value per common and non-voting Class "A"

share rose from \$23.93 to \$27.68, representing an increase of \$3.75 or 15.7%. These figures do not reflect the appraisal surplus related to the Company's substantial real-estate holdings. Return on average common and non-voting Class "A" equity rose to 11.35% from 6.45% last year, while the broader profitability measure of return on average capital employed rose to 8.61% from 7.25% last year. Although these key profitability ratios improved during the year, their absolute level is considered unsatisfactory and will be the focus of continued management attention.

H. Arnold Steinberg
Executive Vice-President
Finance & Development

Return on Average Capital Employed



The return on average capital employed increased to 8.61% from 7.25% last year and averaged 8.09% for the past ten years.

Quarterly Performance

The Company's financial results on a quarterly basis (three quarters of 12 weeks each and a 16-week fourth quarter) for this fiscal year, with comparative data for the previous two years, are summarized here.

(unaudited)
(in thousands of dollars except per-share items)

Quarter I

	First 12 weeks		
	1987	1986	1985
	\$	\$	\$
Sales & Operating Revenue	925,062	895,471	829,766
Net Earnings	9,731	9,918	3,324
Earnings Per Share	0.39	0.40	0.01

Quarter II

	Second 12 weeks		
	1987	1986	1985
	\$	\$	\$
Sales & Operating Revenue	1,095,572	975,897	931,457
Net Earnings	15,192	12,495	35,804
Earnings Per Share	0.67	0.56	2.29

Quarter III

	Third 12 weeks		
	1987	1986	1985
	\$	\$	\$
Sales & Operating Revenue	1,062,530	927,486	879,869
Net Earnings	18,429	16,143	13,140
Earnings Per Share	0.81	0.77	0.72

Quarter IV

	Last 16 weeks		
	1987	1986	1985
	\$	\$	\$
Sales & Operating Revenue	1,408,191	1,243,094	1,160,255
Net Earnings	23,574	382	21,066
Earnings (Loss) Per Share	1.00	(0.22)	1.17

STEINBERG INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS

Steinberg Inc. and Subsidiary Companies
for the year ended July 25, 1987

EARNINGS	1987	1986
	(thousands of dollars)	
Sales and Operating Revenue		
Retail, wholesaling and processing (note 9)	4,437,597	3,998,016
Rentals and tenants' share of expenses	44,067	41,036
Gain arising from real estate transactions	9,691	2,896
	4,491,355	4,041,948
Expenses		
Cost of sales and expenses except those shown below	3,594,584	3,185,481
Wages and employee benefits	717,817	672,502
~ Rentals	40,230	43,214
~ Depreciation and amortization	54,391	49,966
~ Interest and amortization of discount on long-term debt	44,307	41,678
~ Other interest	1,028	3,568
Loss (gain) on disposal of fixed assets	(7,068)	1,476
	4,445,289	3,997,885
Earnings Before Other Income, Special Charge, Income Taxes, Minority Interest and Extraordinary Item	46,066	44,063
Other Income		
~ Investment income, partnership earnings and gain on redemption of long-term debt	20,687	20,787
~ Share of net earnings of significantly influenced companies (note 10)	16,149	8,916
	36,836	29,703
Earnings Before Special Charge, Income Taxes, Minority Interest and Extraordinary Item	82,902	73,766
Special Charge (note 9)	—	15,123
~ Income Taxes (note 11)	23,577	19,292
~ Minority Interest	856	413
	24,433	34,828
~ Earnings Before Extraordinary Item	58,469	38,938
Extraordinary Item		
~ Reduction of deferred income taxes on application of prior years' losses	8,457	—
~ Net Earnings for the Year	66,926	38,938
Basic Earnings Per Common and Non-Voting Class "A" Share		
Earnings before extraordinary item	2.42	1.51
Extraordinary item	0.45	—
~ Net earnings for the year	\$2.87	\$1.51
Fully Diluted Earnings Per Common and Non-Voting Class "A" Share		
Earnings before extraordinary item	2.23	1.47
Extraordinary item	0.40	—
Net earnings for the year	\$2.63	\$1.47

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Steinberg Inc. and Subsidiary Companies
for the year ended July 25, 1987

RETAINED EARNINGS	1987	1986
	(thousands of dollars)	
Balance — Beginning of Year	303,094	286,212
Net earnings for the year	66,926	38,938
	370,020	325,150
Dividends —		
Preferred and preference shares	13,417	13,677
Common and non-voting Class "A" shares	9,380	8,379
	22,797	22,056
Balance — End of Year	347,223	303,094

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Steinberg Inc. as at July 25, 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 July 25, 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.

Montréal, Québec
October 6, 1987



Coopers & Lybrand
Chartered Accountants

CONSOLIDATED BALANCE SHEET

Steinberg Inc. and Subsidiary Companies.
as at July 25, 1987

ASSETS	1987	1986
	(thousands of dollars)	
Current Assets		
Cash	25,903	32,052
Short-term securities — at cost, which is equal to market	136,304	152,931
Accounts receivable	90,912	53,772
Inventories	340,488	333,069
Prepaid expenses	24,450	23,662
Current portion of deferred income taxes	—	1,524
	618,057	597,010
Other Assets (note 2)	71,200	41,609
Fixed Assets (note 3)		
Real estate operations	211,401	185,978
Retail, wholesaling and processing operations	423,181	334,513
	634,582	520,491
Intangible Assets (note 4)	145,514	62,643
	1,469,353	1,221,753
<hr/>		
LIABILITIES		
Current Liabilities		
Notes payable	21,100	12,581
Accounts payable and accrued liabilities	361,101	329,383
Income taxes	1,356	1,485
Dividends payable	23	23
Current portion of long-term debt (note 5)	29,647	3,666
Current portion of deferred income taxes	525	—
	413,752	347,138
Long-Term Debt and Other Obligations (note 5)		
Real estate operations	111,495	123,275
Retail, wholesaling and processing operations	236,116	195,886
	347,611	319,161
Deferred Income Taxes	15,475	14,542
Minority Interest	2,726	1,281
	779,564	682,122
<hr/>		
SHAREHOLDERS' EQUITY		
Capital Stock (note 6)	335,815	226,676
Contributed Surplus (note 7)	2,516	2,429
Retained Earnings	347,223	303,094
Foreign Exchange Translation Adjustments (note 8)	4,235	7,432
	689,789	539,631
	1,469,353	1,221,753

Signed on behalf of the Board

 Mel Dobrin, Director

 Irving Linder, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Steinberg Inc. and Subsidiary Companies
for the year ended July 25, 1987

	1987	1986
	(thousands of dollars)	
Funds Provided by (Invested in) Operations		
Earnings before extraordinary item	58,469	38,938
Items not affecting funds		
Depreciation	51,928	49,899
Amortization of intangible assets	2,718	1,042
Deferred income taxes	20,033	(2,193)
Minority interest	856	413
Equity in earnings of significantly influenced companies and partnerships in excess of dividends received	(15,377)	(3,396)
	118,627	84,703
Capital expenditures —		
Real estate	(18,002)	(10,660)
Retail, wholesaling and processing	(138,161)	(93,194)
Proceeds on disposal of fixed assets —		
Real estate	3,893	4,343
Retail, wholesaling and processing	14,238	8,431
Accounts receivable	(16,110)	(6,739)
Inventories	30,141	10,467
Prepaid expenses	88	(251)
Accounts payable, accrued liabilities and dividends payable	5,567	23,164
Income taxes	(9,231)	566
Other assets and goodwill	(4,213)	629
Total Funds Provided by (Used in) Operations	(13,163)	21,459
Funds Provided by (Invested in) Investments		
Acquisition of Aligro Inc. (note 12)	(126,250)	—
Increase (decrease) of minority interest	589	(490)
Shares of significantly influenced companies	(7,589)	(6,253)
Change in foreign exchange translation	(3,197)	2,110
Total Funds Invested in Investments	(136,447)	(4,633)
Funds Provided by (Invested in) Financing		
Non-voting Class "A" and preference shares issued on acquisition of Aligro Inc. (note 12)	111,195	—
Non-voting Class "A" shares issued on exercise of options	241	—
Proceeds from long-term debt	91,260	52,687
Reduction of long-term debt	(85,355)	(26,784)
Retirement of preferred shares	(2,210)	(850)
Total Funds Provided by Financing	115,131	25,053
Increase (Decrease) During the Year	(34,479)	41,879
Dividends	(22,797)	(22,056)
	(57,276)	19,823
Cash and Short-Term Securities, Net of Notes Payable and Current Portion of Long-Term Debt		
Beginning of Year	168,736	148,913
End of Year	111,460	168,736

Steinberg Inc. and Subsidiary Companies
for the year ended July 25, 1987

1. ACCOUNTING POLICIES

These financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards relating to the presentation of historical cost financial information.

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. The results of Aligro Inc. are included from the date of its acquisition, November 15, 1986. Investments in significantly influenced companies and partnerships are accounted for on the equity basis.

Inventories

Canadian operations — Inventories are valued at the lower of cost and net realizable value using principally the retail method for retail stores and average cost for the remaining inventories.

United States operations — Merchandise inventories for retail stores are valued at last-in, first-out cost, which is lower than market and for the remaining inventories at the lower of first-in, first-out cost and market.

Fixed assets

Real estate operations — Income producing properties are recorded at cost (including development expenses). Land held for future development is recorded at cost including direct carrying charges up to the most recently appraised value. Construction in progress includes carrying charges until the official opening date of the project subject to a reasonable construction period.

Retail, wholesaling and processing operations — Land, buildings and equipment are recorded at cost. Leasehold improvements are recorded at cost less amortization. Store opening expenses are charged to operations as incurred.

Depreciation and amortization

(a) Depreciation of fixed assets is computed on the straight-line method over the following estimated useful lives:

Buildings and building improvements	40 years
Parking areas	13 to 25 years
Store equipment	10 years
Automotive equipment	4 to 12 years
Data processing equipment	5 years

Amortization of leasehold improvements is computed on the straight-line method over their estimated useful life which in no case exceeds the lesser of the term of the lease plus one option term or forty years.

(b) Long-term debt discount is amortized over the term of the issue.

(c) Goodwill represents the excess of the cost of shares in subsidiary companies over the fair value of assets acquired in transactions subsequent to April 1, 1974 and over the net book value of assets acquired in transactions prior to that date. Goodwill attributable to transactions subsequent to April 1, 1974 is amortized on a straight-line basis over its estimated life which, in all cases, is forty years. Goodwill prior to that date is carried at cost, subject to revision in the event of diminution in value.

(d) Amortization of deferred costs is computed on the straight-line method over three to five years.

Leases

For Canadian operations leases entered into after July 28, 1979 that transfer substantially all the benefits and risks incident to the ownership of property to the lessee have been classified as capital leases. For United States operations all such leases have been classified as capital leases. Where the company is the lessee this has resulted in certain leases being accounted for as if fixed assets had been purchased and an equivalent debt obligation incurred. Where the company is the lessor it has not resulted in any leases being accounted for as if fixed assets had been sold.

Assets recorded under capital leases are depreciated on a straight-line basis over the term of the lease. Obligations under capital leases are reduced by rental payments net of imputed interest and executory costs.

All other leases are accounted for as operating leases and the rental costs or income are accounted for as incurred or earned.

Foreign currency translation:

Integrated foreign operations — Foreign currency transactions and balances of Steinberg Inc. and its integrated foreign subsidiaries are translated using the temporal method. Under this method, monetary assets and liabilities are translated at year-end rates, non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses (other than depreciation and amortization which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current year except where they relate to long-term monetary items, in which case they are deferred and amortized over the remaining life of the item.

Self-sustaining foreign operations — All assets and liabilities of self-sustaining foreign subsidiaries and debt related thereto, are translated at year-end rates and revenues and expenses at the average rate for the year. Resulting gains or losses are deferred and included in a separate component of shareholders' equity described as "Foreign Exchange Translation Adjustments". Gains and losses resulting from a reduction of the net investment in self-sustaining foreign subsidiaries through the payment of dividends are included in earnings for the current year.

1. ACCOUNTING POLICIES (continued)

Income taxes

Deferred income taxes represent amounts deferred to future years due to the earlier deduction of certain expenses, principally depreciation, for tax purposes offset by the future tax benefit of losses.

Calculation of earnings per share

Net earnings per common and non-voting Class "A" share are calculated using the weighted average number of such shares outstanding during the year and are based on the net earnings for the year after deducting dividends on all preferred and preference shares. The difference between the retraction price and stated value of the Fourth preferred shares Series I is regarded as a capital obligation which does not enter into the determination of earnings per share. The calculation of fully diluted earnings per share assumes that common and non-voting Class "A" shares related to all conversions and options that have a dilutive effect had been issued at the beginning of the year and that all the Fourth preferred shares are converted on the basis of the quoted value of the non-voting Class "A" shares at the current year-end date. It is likely, however, for income tax reasons, that some corporate shareholders will choose to retract the Fourth preferred shares rather than exercise the conversion option.

2. OTHER ASSETS	1987	1986
	(thousands of dollars)	
Interest in significantly influenced companies and partnerships		
Shares and interests — at equity	50,155	27,189
Advances	2,449	2,821
	52,604	30,010
Advances and other recoverable amounts with respect to real estate transactions	6,105	2,803
Funds on deposit and other items	13,859	10,164
	72,568	42,977
Less: Current portion due within one year	1,368	1,368
	71,200	41,609

3. FIXED ASSETS	1987	1986
	(thousands of dollars)	
Real estate operations		
Income producing properties	270,479	238,296
Accumulated depreciation	88,628	84,204
	181,851	154,092
Land held for future development	29,550	31,886
	211,401	185,978
Retail, wholesaling and processing operations		
Land and buildings	135,221	102,717
Equipment	440,244	367,664
	575,465	470,381
Accumulated depreciation	243,385	226,692
	332,080	243,689
Leasehold improvements, at cost less amortization of \$54,207,000 (1986 — \$46,787,000)	56,290	51,853
Assets under capital leases, at cost less amortization of \$13,324,000 (1986 — \$10,280,000)	34,811	38,971
	423,181	334,513

4. INTANGIBLE ASSETS	1987	1986
	(thousands of dollars)	
Deferred costs	8,212	—
Discount on long-term debt	613	767
Goodwill	136,689	61,876
	145,514	62,643

These assets are presented net of accumulated amortization.

5. LONG-TERM DEBT AND OTHER OBLIGATIONS	1987	1986
	(thousands of dollars)	
Real estate operations —		
First mortgage sinking fund bonds —		
Ivanhoe Inc. —		
6%, due 1987	—	341
7½% Series A, due 1991	1,705	1,985
7% Series B, due 1991 (repayable in U.S. currency \$689,000; 1986 — \$837,000)	922	1,161
10¼% — 10½% Series 1978, due 1998 (or 1988 at option of holder)	24,219	24,755
10.62% Series 1986, due 2006	14,000	—
12.40% Series 1980, due 1995	11,070	11,850
15.25% Series 1984, due 2004	25,476	25,709
Steinberg's Shopping Centres Limited —		
8½% Series B, due 1994	1,469	1,491
Steinberg Realty Limited —		
9% Series A, due 1991	9,469	9,999
9¾% Series B, due 1993	16,111	16,917
	104,441	94,208
Other obligations —		
6% — 10% balances payable on land purchases		
to 1994 (repayable in U.S. currency \$2,256,364; 1986 — \$2,538,409)	3,021	3,521
10¾% — 16¾% mortgage loans, repayable in varying monthly instalments to 1998 (note 5(c))	20,920	21,266
13½% term bank loan due 1991	3,420	4,280
	27,361	29,067
	131,802	123,275
Less: 10¼% — 10½% Series 1978 included in current portion of long-term debt (note 5(b))	20,307	—
	111,495	123,275

5. LONG-TERM DEBT AND OTHER OBLIGATIONS (continued)1987
1986
(thousands of dollars)

	1987	1986
Retail, wholesaling and processing operations —		
Extendible term credit facility (repayable in U.S. currency \$80,000,000) (note 5(a))	107,104	110,968
Steinberg Inc. sinking fund debentures — (note 5(d))		
8¾% Series C, due 1992	—	8,287
10½% Series D, due 1994	—	744
Saint-Lawrence Holding Company Inc. —		
10½%, first mortgage sinking fund bond, due 2016 (repayable in U.S. currency \$13,000,000)	17,313	18,032
9¾% term bank loan due 1997	9,799	—
10½% term bank loan due 1996	9,655	—
10¾% term bank loan due 1996	9,710	—
10¾% term bank loan due 1990	2,030	2,610
12¼% term bank loan due 1995	3,125	3,375
Present value of obligations under capital leases (note 14)	32,281	34,492
Various mortgage loans (repayable in Canadian and U.S. currencies)	50,849	21,044
Notes payable and other loans	3,590	—
	245,456	199,552
Less: Current portion due within one year	9,340	3,666
	236,116	195,886
Total long-term debt	377,258	322,827
Less: Current portion	29,647	3,666
	347,611	319,161

(a) This credit facility has an initial period during which Steinberg Inc. is not required to make any repayments of principal. The initial period expires on December 17, 1988 unless extended annually for an additional twelve-month period by mutual agreement. Subsequent to the expiry of the initial period, the credit facility has a seven-year repayment period during which mandatory repayments of the principal amount outstanding are required by way of ten equal semi-annual payments commencing 30 months after the beginning of such repayment period.

During the initial period, the credit facility bears interest at a rate involving a margin of up to ½% over LIBOR, prime, U.S. base rate or ¾% over certificate of deposit rate depending on the company's option and the currency chosen; in addition, a banker's acceptance option is available should the credit facility be availed of in Canadian dollars, at a fee of up to ½% over the prime banker's acceptance fee.

An additional ¼% is added to the above rates during the repayment period.

During the year, an amendment to the credit facility agreement was obtained giving Steinberg Inc. the option to repay and reborrow during the initial period up to the full amount of U.S. \$80,000,000 and during the term period up to the amount outstanding after giving consideration to the mandatory repayments required. A standby fee of ¼% is charged on the unused portion of the credit facility. At year-end, the used portion of the credit facility represented U.S. \$32,000,000 with the balance, U.S. \$48,000,000, being financed through the commercial paper market.

The company has entered into interest rate swap contracts with third parties with the effect of setting a ceiling of 15.46% on the rate of interest on an amount of U.S. \$80,000,000 as follows: U.S. \$50,000,000 to 1987, U.S. \$15,000,000 to 1989 and U.S. \$15,000,000 to 1993.

In addition, during the year, the company entered into interest rate swap contracts with third parties effective September 1, 1987 with the effect of setting a ceiling of 10.20% on the rate of interest on an amount of U.S. \$50,000,000 as follows: U.S. \$25,000,000 to 1992, U.S. \$25,000,000 to 1994. The effect of these agreements will be to reduce the ceiling on U.S. \$80,000,000 to 11.60%.

5. LONG-TERM DEBT AND OTHER OBLIGATIONS (continued)

(b) At July 25, 1987 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity, by Steinberg Inc. and its subsidiaries for the next five fiscal years are as follows (not including any amounts with respect to redeemable preferred or preference shares described in notes 6(c) and (g)):

	1988	1989	1990	1991	1992
	(thousands of dollars)				
Real estate operations	26,359	11,135	6,621	13,313	6,026
Retail, wholesaling and processing operations	6,004	7,889	19,424	13,168	18,164
	32,363	19,024	26,045	26,481	24,190

The amount shown as payable in 1988 for real estate operations includes \$20,307,000 of the 10¼% — 10½% Series 1978 first mortgage sinking fund bonds for which the holders have exercised the early maturity option.

The excess of bonds cancelled or purchased for cancellation to date over the cumulative sinking and purchase fund requirements at July 25, 1987, amounting to \$1,392,000 in the case of real estate operations, may be applied against certain portions of the payment requirements set out above.

(c) An 11¼% mortgage of \$3,313,000 is secured by a property interest held through an interest in a partnership and an emphyteutic lease on that property.

(d) On September 30, 1986, the company redeemed all the 8¾% Series "C" and 10½% Series "D" debentures totalling \$9,031,000 at a premium of \$142,962. This redemption has been funded by the company from cash flow from operations.

6. CAPITAL STOCK

(a) This is comprised as follows:

	Authorized (number of shares)	Issued and fully paid			
		1987 (number of shares)	1986	1987 (thousands of dollars)	1986
Cumulative redeemable preferred shares of the par value of \$100 each					
— Series "A", 5¼%	21,660	17,587	17,687	1,759	1,769
Second preferred shares of the par value of \$25 each, issuable in series	unlimited				
— Series one, \$1.95 cumulative redeemable shares		1,395,500	1,461,000	34,888	36,524
— Series two, variable rate cumulative redeemable shares, 8.6563% to 1989 (being 52% of the GIC rate plus 2% — fixed every 5 years)		744,000	770,000	18,600	19,250
Second preference shares without par value, issuable in series	unlimited				
— Series "A" \$2.9375 cumulative redeemable retractable		1,425,000	1,425,000	35,625	35,625
— Series "B" U.S. \$2.875 cumulative redeemable retractable		650,000	650,000	20,143	20,143
Third preferred shares without par value, issuable in series	unlimited				
— Series I, \$2.72 cumulative redeemable third preferred shares, issued for \$30.24 a share and convertible at any time on a one for two basis into non-voting Class "A" shares		731,650	822,550	22,125	24,874
Fourth preferred shares without par value, issuable in series	unlimited				
— Series I, 2/100 of a cent commencing January 1, 1992, non-cumulative, redeemable and retractable preferred shares, convertible on or after November 15, 1991 into non-voting Class "A" shares on the basis of a formula reflecting the then market value of the non-voting Class "A" shares (note 12)	5,200,000	5,171,890	—	15,516	—
Non-voting Class "A" shares without par value (note 6(g))	unlimited	13,546,702	10,772,376	174,983	76,315
Common shares without par value	unlimited	6,000,000	6,000,000	12,176	12,176
				335,815	226,676

6. CAPITAL STOCK (continued)

- (b) During the year, the company purchased for cancellation 100 5¼% cumulative redeemable preferred shares, Series "A" and 65,500 \$1.95 cumulative redeemable second preferred shares, Series one, and 26,000 8.6563% variable rate cumulative redeemable second preferred shares, Series two. In addition, 90,900 \$2.72 cumulative redeemable third preferred shares, Series I were converted on a one for two basis into 181,800 non-voting Class "A" shares.
- (c) The cumulative redeemable retractable second preference shares, Series "A" and Series "B" are retractable at the option of the holder, the Series "A" on June 30, 1988 at \$25 per share and the Series "B" on December 31, 1987 at U.S. \$25 per share. The Series "B" shares are denominated in U.S. dollars, U.S. \$16,250,000 being outstanding at July 25, 1987.
- (d) The company has granted to a senior officer options to purchase 400,000 non-voting Class "A" shares during the period April 17, 1985 to May 16, 1991. Such options are exercisable, subject to certain conditions, in the amount of 57,144 shares a year on a cumulative basis, at an exercise price of \$13.125 per share. The closing market price of the non-voting Class "A" shares on The Montreal Exchange on the day prior to the date of the grant was \$12.063.
- (e) The company has reserved 900,000 non-voting Class "A" shares for allocation of options to senior employees at a price to be determined by the Board of Directors at the time of allocation. As at July 25, 1987, options had been granted to employees to acquire 442,850 shares at prices ranging from \$36.50 to \$38.00 per share. These options are exercisable during a four-year period starting one year after the grant of each option in the amount of 25% of the shares per year, on a cumulative basis. During the year, options were exercised to acquire 6,600 non-voting Class "A" shares.
- (f) During the year, the company reserved 600,000 non-voting Class "A" shares for an employee share purchase plan at a price to be determined by the Board of Directors. Qualified employees can contribute to the plan through a payroll deduction scheme. Contributions can be withdrawn at any time up to October 31 of a plan year, at which time the contributions, together with interest earned, are applied to the acquisition of shares. On April 1 and August 1 of the subsequent year, the company will subscribe to the plan, on behalf of each participant, 5% of the employee's contribution if at that date, the shares issued to the participant remain held in trust by the Trustee and no request for sale has been made.
- On July 25, 1987, the accumulated contributions in the trust represented a contingent issuance of approximately 103,871 shares based on the exercise price of \$31.388 a share.

(g) Non-voting Class "A" shares were issued during the year as follows:

	Number of shares	Thousands of dollars
Balance — beginning of year	10,772,376	76,315
Issued on conversion of 90,900 \$2.72 cumulative, redeemable third preferred shares, Series I	181,800	2,748
Issued to acquire shares of Aligro Inc. at \$37 per share (note 12)	2,585,926	95,679
Issued to employees on exercise of options at \$36.50 per share	6,600	241
Balance — end of year	13,546,702	174,983

(h) The preferred and preference shares have the following redemption features:

Preferred shares —

Series "A", 5¼% — redeemable at any time at their par value of \$100 each plus a premium of 1%.

Second preferred shares —

Series one, \$1.95 — redeemable at any time at varying amounts no less than \$25.

Series two, variable rate — commitment to offer to purchase on July 4 of each year a maximum of 5% of shares issued and to redeem all outstanding shares on July 4, 2004 at \$25. These shares are redeemable at any time at the option of the company at no less than \$25.

Second preference shares —

Series "A", \$2.9375 — redeemable at any time after June 30, 1988 at varying amounts no less than \$25.

Series "B", U.S. \$2.875 — redeemable at any time on or after December 31, 1987 at varying amounts no less than U.S. \$25.

Third preferred shares —

Series I, \$2.72 — redeemable at any time on or after May 24, 1989 at \$30.24. In addition, the shares may be redeemed between May 24, 1988 and May 24, 1989 at \$30.24 provided specific conditions are met.

Fourth preferred shares —

Series I, 2/100 of a cent commencing January 1, 1992. On or after November 15, 1991 the shares which are carried at their stated value of \$3, are retractable for \$5. In addition, the shares may be redeemed at any time, at which time the conversion feature becomes exercisable.

7. CONTRIBUTED SURPLUS

The contributed surplus as at July 25, 1987 consisted of gains on redemption of 5¼% cumulative redeemable preferred shares, Series "A" and \$1.95 cumulative redeemable second preferred shares, Series one, amounting to \$2,428,818 with respect to prior years and \$86,800 with respect to the current year.

8. FOREIGN EXCHANGE TRANSLATION ADJUSTMENTS

An analysis of the Foreign Exchange Translation Adjustments included in shareholders' equity is as follows:

	1987	1986
	(thousands of dollars)	
Balance — beginning of year	7,432	5,322
Translation adjustments for the year arising from change in foreign exchange rates	(2,754)	1,745
Exchange loss (gain) relating to dividends paid during the year	(443)	365
Balance — end of year	4,235	7,432

9. SPECIAL CHARGE

The special charge in 1986 related to the introduction of a programme to reshape the department store operations (the M store concept) involving the closure of 11 out of 31 stores and a significant reduction in the number of lines of hard goods carried, and to the closing of all but one of the food warehouse stores (Jadis). Losses from operations in 1986 of stores identified for closure were segregated and presented as part of the special charge, as follows:

	1986
	(thousands of dollars)
Sales	104,414
Expenses	110,977
Loss from operations before tax	6,563

In 1987 the store closures and reduction in the number of lines of hard goods carried were almost entirely accomplished at a cost which varied from the provision made in 1986 by an immaterial amount and which has been included in cost of sales and expenses in the statement of earnings. Sales of these stores in 1987, which have been excluded from sales and operating revenue in the statement of earnings, amounted to \$21,708,000.

10. SHARE OF NET EARNINGS OF SIGNIFICANTLY INFLUENCED COMPANIES

Includes an amount of \$4.9 million, being the company's share of the benefit realized by a significantly influenced company from losses carried forward for tax purposes.

11. INCOME TAXES

The company's income tax provision is made up as follows:

	1987	1986
	%	%
Combined basic federal and provincial income tax rate	46.35	45.93
(thousands of dollars)		
Earnings before share of net earnings of significantly influenced companies, income taxes, minority interest and extraordinary item	66,753	36,384
Provision for income taxes based on combined basic federal and provincial income tax rate	30,940	16,711
Increase (decrease) in taxes resulting from —		
Inventory allowance	—	(2,230)
Intercompany interest income taxed at reduced rates	(6,512)	(7,357)
Non-taxable portion of capital gains	(1,286)	(491)
Other	435	(684)
Income tax provision	23,577	5,949
Tax recovery allocated to special charge	—	13,343
	23,577	19,292
Allocated as follows:		
Current	3,544	8,142
Deferred	20,033	11,150
	23,577	19,292

At July 25, 1987 the amount of losses for which potential income tax benefits have not been recorded in the accounts amounted to approximately \$16,000,000 which may be carried forward in order to reduce income otherwise taxable until 1991.

12. ACQUISITION OF ALIGRO INC.

On November 15, 1986, the company acquired all of the outstanding shares of Aligro Inc., a food wholesaling company, under an agreement of amalgamation with a wholly-owned subsidiary of the company. Net assets acquired are as follows:

	(thousands of dollars)
Working capital — net of cash	33,743
Long-term assets	35,700
Goodwill	80,290
	149,733
Long-term liabilities	23,483
	126,250
Bank advances	14,270
	111,980
Consideration:	(thousands of dollars)
2,585,926 non-voting Class "A" shares at a stated value of \$37 per share	95,679
5,171,890 convertible Fourth preferred shares Series I at a stated value of \$3 per share	15,516
Expenses related to acquisition	785
	111,980

This acquisition was accounted for using the purchase method of accounting and accordingly, these financial statements include the results of operations of Aligro Inc. since the date of acquisition.

13. RETIREMENT PLANS

Substantially all employees of the company and its subsidiaries are covered by trustee retirement plans, most of which are non-contributory. Actuarial valuations dated January 1, 1985 and September 30, 1985 indicate that the pension plans are fully funded.

14. LEASE OBLIGATIONS AND COMMITMENTS

Future minimum lease payments relating to capital and operating leases are as follows:	Capital leases	Operating leases
	(thousands of dollars)	
Fiscal years ending July 1988	8,451	40,543
July 1989	8,191	36,712
July 1990	7,597	34,008
July 1991	5,757	31,993
July 1992	4,280	29,637
Subsequent years	66,179	275,937
Total future minimum lease payments	100,455	448,830
Less: Amounts representing imputed interest and executory costs	68,174	
Present value of obligations under capital leases (note 5)	32,281	
Less: Current portion due within one year	3,357	
	28,924	

The terms relating to long-term obligations under capital leases range substantially from 30 to 40 years, with related interest rates ranging from 10% to 17%.

For Canadian operations, the recommendations of the Canadian Institute of Chartered Accountants relating to accounting for leases have not been applied on a retroactive basis for those leases entered into prior to July 29, 1979. As a result, leases in existence on July 29, 1979 meeting the capitalization criteria have continued to be treated as operating leases. Had the recommendations been applied on a retroactive basis, assets and obligations of \$21,372,000 (1986 — \$24,755,000) and \$32,752,000 (1986 — \$36,280,000) respectively would have been included in the balance sheet, and net earnings for the current year would have been reduced by \$436,000 (1986 — \$563,000).

15. CONTINGENT LIABILITIES

- (a) Steinberg Inc. has guaranteed leases assigned to Consumers Distributing Company Limited in connection with the sale in a previous year of the retail operations of Cardinal Distributors Limited in the amount of \$1,463,638, payable over periods ranging from 1 to 12 years. In addition, the company has guaranteed a lease amounting to \$2,193,750 of a company in which it has an ownership interest.
- (b) A subsidiary of Steinberg Inc. has guaranteed loans amounting to \$6,860,000 of companies in which it has ownership interests. In addition, a subsidiary of Steinberg Inc. has given letters of guarantee to third parties in the amount of \$2,214,124.

15. CONTINGENT LIABILITIES (continued)

(c) Following the examination of the tax returns filed by Smitty's Super Valu, Inc. (Smitty's), for fiscal years 1981, the year of its acquisition by Steinberg B.V., through 1985, the United States Internal Revenue Service ("IRS") assessed additional taxes and penalties of U.S. \$42 million plus interest.

In August 1987, Smitty's and a conferee representing the Appellate Division of the IRS agreed to a settlement subject to final approval by the IRS. In accordance with the terms of the settlement, Smitty's is liable for additional taxes of approximately U.S. \$5.1 million arising from the tax effect of changes in the allocation of the acquisition purchase price. The remainder of the proposed deficiency was eliminated except for approximately U.S. \$90,000, which amount relates to several other non-acquisition issues arising in fiscal years after 1981.

Smitty's provided U.S. \$6.8 million in 1985 with respect to the proposed assessment which was reflected in the financial statements as an increase in goodwill. Interest in the amount of U.S. \$4.9 million was charged to expense through July 26, 1986. The 1987 financial statements reflect the reduction of amounts previously provided to U.S. \$5.1 million in additional tax liability and U.S. \$2.6 million in interest. In July 1987, Smitty's filed amended tax returns for its 1981 through 1986 fiscal years and remitted additional taxes and interest of U.S. \$4.2 million and U.S. \$1.8 million, respectively. The amounts not yet paid under the terms of the settlement are included in income taxes payable and accrued expenses at July 25, 1987.

In addition, the conferee representing the IRS is no longer asserting that a 15% withholding tax should apply to all interest payments made by Smitty's to Steinberg B.V.

(d) Steinberg Inc. has guaranteed, jointly and severally with another shareholder, debt of \$12,400,000 of a significantly influenced company maturing between June 1988 and April 1989.

16. SUPPLEMENTARY INFORMATION

Remuneration paid or payable to the ten (1986 — ten) directors, as director, and twenty-eight (1986 — twenty-five) officers amounted to \$113,100 (1986 — \$85,900) and \$3,888,000 (1986 — \$3,517,100) respectively. As at July 25, 1987 amounts owing to the company by fourteen (1986 — thirteen) of the officers of Steinberg Inc. amounted to \$1,159,300 (1986 — \$843,000) in respect of housing loans secured by mortgages.

17. SUBSEQUENT EVENT

On September 16, 1987, the company issued an aggregate of 157,895 non-voting Class "A" shares and 30 6% cumulative redeemable convertible Fourth preferred shares, Series II in satisfaction of the purchase price for the acquisition of the assets of John M. Gould Limited and Cultures Food Services Inc. This represents a total stated value of approximately \$9,000,000.

18. SEGMENTED INFORMATION

(a) Results by Business Segment

	Food retailing, wholesaling and processing		General merchandise retailing		Real estate		Consolidated	
	1987	1986	1987	1986	1987	1986	1987	1986
	(thousands of dollars)							
Sales and Operating Revenue								
Outside customers	4,238,769	3,793,103	198,828	204,913	53,758	43,932	4,491,355	4,041,948
Inter-segment	—	—	—	—	24,967	25,088	—	—
Total	4,238,769	3,793,103	198,828	204,913	78,725	69,020	4,491,355	4,041,948
Profit (Loss) Before the Following	66,824	68,384	(14,166)	(7,651)	43,086	29,574	95,744	90,307
Corporate Expenses , including special charge and income taxes, less income							28,818	51,369
Net Earnings							66,926	38,938
Assets								
Identifiable by segment	1,008,186	823,058	59,264	73,666	237,187	216,705	1,304,637	1,113,429
Corporate							114,561	81,135
Investment in affiliates							50,155	27,189
Total							1,469,353	1,221,753
Capital Expenditures — net	100,713	81,845	1,659	2,918	35,660	6,317	138,032	91,080
Depreciation	41,231	39,666	1,975	1,832	8,621	6,569	51,827	48,067

Food retailing, wholesaling and processing — merchandises a complete range of food and non-food products, through warehouses, supermarkets, limited assortment stores and restaurants.

General merchandise retailing — operation of self-service department stores in Quebec and Ontario.

Real estate — acquisition, development, operation and management of real estate, principally in Quebec and Ontario, with certain land held for future development in the United States.

Inter-segment transactions are carried out at approximate market values.

(b) Results by Geographic Area

	Canada		United States		Consolidated	
	1987	1986	1987	1986	1987	1986
	(thousands of dollars)					
Sales and Operating Revenue	3,576,103	3,117,895	915,252	924,053	4,491,355	4,041,948
Profit Before the Following	59,815	47,969	35,929	42,338	95,744	90,307
Corporate Expenses , including special charge and income taxes, less income					28,818	51,369
Net Earnings					66,926	38,938
Assets						
Identifiable	981,408	798,723	323,229	314,706	1,304,637	1,113,429
Corporate					114,561	81,135
Investment in affiliates					50,155	27,189
Total					1,469,353	1,221,753
Capital Expenditures — net	102,589	49,449	35,443	41,631	138,032	91,080
Depreciation	42,587	38,707	9,240	9,360	51,827	48,067

IVANHOE INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 25, 1987

EARNINGS	1987	1986
	(thousands of dollars)	
Revenue		
Rentals — Steinberg Inc. and subsidiaries	19,430	19,472
— Other	31,903	29,663
Tenants' share of expenses — Steinberg Inc. and subsidiaries	5,537	5,616
— Other	12,164	11,373
Gain arising from real estate transactions	9,691	2,896
	78,725	69,020
Expenses		
Operating and administrative — Steinberg Inc.	1,587	1,431
— Other	19,340	18,691
Wages and employee benefits	6,560	6,414
Depreciation and amortization	8,621	8,694
	36,108	35,230
	42,617	33,790
Other Income		
Share of net earnings of significantly influenced companies	1,850	1,679
Share of partnership earnings	3,108	3,135
	4,958	4,814
Earnings From Operations	47,575	38,604
Interest Expense (Income)		
Interest and amortization of discount on long-term debt —		
Steinberg Inc. and subsidiaries	4,082	6,919
Other	14,396	14,074
Other interest	222	181
Interest earned and gain on redemption of long-term debt	(1,530)	(2,703)
	17,170	18,471
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	30,405	20,133
Income Taxes (note 8)		
Current	2,884	4,421
Deferred	8,297	3,449
	11,181	7,870
Earnings Before Minority Interest and Extraordinary Item	19,224	12,263
Minority Interest	909	470
Earnings Before Extraordinary Item	18,315	11,793
Extraordinary Item		
Reduction of income taxes on application of prior years' losses	2,681	2,833
Net Earnings For the Year	20,996	14,626

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 25, 1987

RETAINED EARNINGS	1987	1986
	(thousands of dollars)	
Balance — Beginning of Year	20,847	6,225
Net earnings for the year	20,996	14,626
	41,843	20,851
Dividends —		
Common shares	4	4
Adjustment following reorganization (note 7)	751	—
	755	4
Balance — End of Year	41,088	20,847

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 25, 1987 and the consolidated statements of earnings, retained earnings and cash flow 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 July 25, 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.

Montréal, Québec
October 6, 1987

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants


CONSOLIDATED BALANCE SHEET

Ivanhoe Inc. and Subsidiary Companies
as at July 25, 1987

ASSETS	1987	1986
	(thousands of dollars)	
Property Interests		
Income producing properties (note 2)	282,415	295,240
Accumulated depreciation	88,524	94,541
	193,891	200,699
Land held for future development	32,179	34,515
	226,070	235,214
Other Assets		
Cash and short-term deposits	8,822	15,917
Receivables and investments (note 3)	39,432	4,335
Prepaid expenses	4,044	6,170
Unamortized discount on long-term debt	613	708
	278,981	262,344
<hr/>		
LIABILITIES		
Long-Term Debt and Other Obligations (note 4)		
Steinberg Inc. and subsidiaries	54,729	51,711
Other	131,802	129,260
	186,531	180,971
Other Liabilities		
Accounts payable and accrued liabilities (note 5)	17,224	33,336
Deferred Income Taxes	27,396	20,989
Minority Interest	1,642	1,101
	232,793	236,397
<hr/>		
SHAREHOLDERS' EQUITY		
Capital Stock (note 6)	5,100	5,100
Retained Earnings	41,088	20,847
	46,188	25,947
	278,981	262,344

Signed on behalf of the Board

 Director

 Director

CONSOLIDATED STATEMENT OF CASH FLOW AND CHANGES IN FINANCIAL POSITION

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 25, 1987

	1987	1986
	(thousands of dollars)	
Earnings Before Extraordinary Item	18,315	11,793
Items not requiring cash —		
Depreciation and amortization	8,716	8,803
Deferred income taxes	8,297	3,449
Minority interest	909	470
Reduction of income taxes on application of prior years' losses	2,681	2,833
Cash Flow From Operations	38,918	27,348
Financing		
Additional long-term debt	35,982	9,733
Repayment of long-term debt	(12,958)	(7,014)
Repayment of advances and subordinated notes from Steinberg Inc.	(17,464)	(6,955)
Proceeds on issue of preference shares	6,650	5,028
Redemption of preference shares	(6,650)	(5,118)
	5,560	(4,326)
Funds Obtained From (Used by) Other Assets and Liabilities	(44,060)	6,608
Payment of Dividends	(4)	(4)
Payment of Dividends to Minority Shareholders by a Subsidiary Company	(368)	(491)
Adjustment Following Reorganization	(751)	—
Increase (Decrease) in Funds Invested in Property Interests — net	(705)	29,135
Increase (Decrease) Represented by the Following:		
Additions to property interests	56,757	33,478
Proceeds on disposal of property interests	(18,504)	(7,239)
Gain arising from real estate transactions	9,691	2,896
Property interest disposed of on sale of subsidiary company to an affiliated company	(48,649)	—
	(705)	29,135

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 25, 1987

1. ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of all companies in which the parent company holds an interest in excess of 50%. The investments in significantly influenced companies and partnerships are accounted for on the equity basis.

Property interests

Income producing properties are recorded at cost (including development expenses). Land held for future development is recorded at cost including direct carrying charges, up to the most recently appraised value. Construction in progress includes carrying charges until the official opening date of the project subject to a reasonable construction period.

Depreciation is computed on income producing properties on the straight-line method over the following estimated useful lives:

Buildings	40 years
Parking areas	25 years
Equipment	5 - 10 years

Certain amounts included in equipment which represent costs incurred at the commencement of leases to tenants are being amortized over the terms of the leases.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated at year-end rates, non-monetary assets and liabilities at rates prevailing at the transaction dates. Revenues and expenses (other than depreciation and amortization which are translated at the rate applicable to the related assets) are translated at the average rate for the year. Gains or losses arising on translation are included in earnings for the current period except those relating to long-term debt which are deferred and amortized over the life of the debt.

Income taxes

Deferred income taxes represent amounts deferred to future years due to the earlier deduction of certain expenses, principally depreciation, for tax purposes.

Leases

The company, as a lessor, has retained substantially all the risks and benefits of ownership and accordingly accounts for all its leases as operating leases.

2. INCOME PRODUCING PROPERTIES

1987 1986
(thousands of dollars)

Included in income producing properties are the following assets which relate to the retail, wholesaling and processing operations of Steinberg Inc.:

Cost	1,949	46,781
Accumulated depreciation	334	10,776
	1,615	36,005

3. RECEIVABLES AND INVESTMENTS

1987 1986
(thousands of dollars)

Receivables

Due from Steinberg Inc. and subsidiaries	10,417	—
Due from tenants	1,143	894
Amounts recoverable from land transactions, funds on deposit and other items	9,688	5,445
Income taxes recoverable	83	—
	21,331	6,339

Investments

Interest in significantly influenced companies and partnerships —		
Shares and interests — at equity, less advance distributions	(4,928)	(6,029)
Advances	2,449	1,341
Investments in shares of affiliated companies—at cost	20,580	2,684
	18,101	(2,004)
	39,432	4,335

4. LONG-TERM DEBT AND OTHER OBLIGATIONS	1987	1986
	(thousands of dollars)	
Steinberg Inc. and subsidiaries —		
Due to Steinberg Inc. bearing interest at 1½% above prime —		
Advances	—	3,464
Subordinated notes	34,247	48,247
Due to Aligro Inc. bearing interest at 1½% above prime —		
Subordinated note	20,482	—
	54,729	51,711
Other —		
First mortgage sinking fund bonds —		
Ivanhoe Inc. —		
6%, due 1987	—	341
7½% Series A, due 1991	1,705	1,985
7% Series B, due 1991 (repayable in U.S. currency \$689,000; 1986 — \$837,000)	922	1,161
10¼% — 10½% Series 1978, due 1998 (or 1988 at option of holder, note 4(a))	24,219	24,755
10.62% Series 1986, due 2006	14,000	—
12.40% Series 1980, due 1995	11,070	11,850
15.25% Series 1984, due 2004	25,476	25,709
Steinberg's Shopping Centres Limited —		
8½% Series B, due 1994	1,469	1,491
Steinberg Realty Limited —		
9% Series A, due 1991	9,469	9,999
9¾% Series B, due 1993	16,111	16,917
Other obligations —		
6% — 10% balances payable on land purchases to 1994 (repayable in U.S. currency \$2,256,364; 1986 — \$2,538,409)	3,021	3,521
10¾% — 16¾% mortgage loans, repayable in varying monthly instalments to 1998 (note 4(b))	20,920	21,266
10½% term bank loan, due 1990	—	2,610
12¼% term bank loan, due 1995	—	3,375
13½% term bank loan, due 1991	3,420	4,280
	131,802	129,260
	186,531	180,971

(a) At July 25, 1987 the amounts of long-term debt payable, including purchase and sinking fund requirements and payments at maturity, by Ivanhoe Inc. and its subsidiaries for the ensuing five fiscal years, are as follows:

1988	1989	1990	1991	1992
(thousands of dollars)				
26,359	11,135	6,621	13,313	6,026

The amount shown as payable in 1988 includes \$20,307,000 of the 10¼% — 10½% Series 1978 first mortgage sinking fund bonds for which the holders have exercised the early maturity option.

The excess of bonds cancelled or purchased for cancellation to date, over the cumulative sinking and purchase fund requirements at July 25, 1987 amounting to \$1,392,000 may be applied against these requirements.

(b) An 11¾% mortgage of \$3,313,000 is secured by a property interest held through an interest in a partnership and an emphyteutic lease on that property.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1987	1986
	(thousands of dollars)	
Deferred income	2,167	1,752
Steinberg Inc. and subsidiaries	—	5,985
Demand note payable to a significantly influenced company, bearing interest at prime	3,265	12,581
Income taxes payable	—	64
Other	11,792	12,954
	17,224	33,336

6. CAPITAL STOCK

(a) Capital stock is comprised as follows:	1987	1986
	(thousands of dollars)	
Authorized —		
20,000 cumulative redeemable preferred shares of the par value of \$1,000 each, issuable in series.		
The first series consists of 5,000 8% cumulative Series A shares redeemable at their par value of \$1,000 each		
992 cumulative redeemable preference shares of the par value of \$1 each, issuable in series		
2,000 common shares without par value		
Issued and fully paid —		
5,000 8% Series A cumulative redeemable preferred shares	5,000	5,000
1,001 common shares	100	100
	5,100	5,100

- (b) During the year, the company obtained supplementary letters patent to effect the following changes to its authorized capital stock:
- (i) On November 21, 1986, it was increased through the creation of two additional series within its existing preference share class, namely:
 - One 8.5% cumulative redeemable Series Eleven and one 8.5% cumulative redeemable Series Twelve preference share of the par value of \$1 each.
 - (ii) On July 17, 1987 it was increased through the creation of two additional series within its existing preference share class, namely:
 - One 8.5% cumulative redeemable Series Thirteen and one 8.5% cumulative redeemable Series Fourteen preference share of the par value of \$1 each.
 - (iii) On July 24, 1987 it was reduced through the cancellation of the following classes of shares within its existing preference share class, namely:
 - Four 8.5% cumulative redeemable preference shares, namely one Series Eleven, Twelve, Thirteen and Fourteen, of the par value of \$1 each.
- (c) During the year, the following transactions affecting the company's issued and fully paid capital stock occurred:
- (i) The company issued, in exchange for property interests valued at \$6,650,002, four 8.5% cumulative redeemable preference shares, namely one Series Eleven, Twelve, Thirteen and Fourteen preference share, of the par value of \$1 each redeemable at its issue price.
 - (ii) The company redeemed four 8.5% cumulative redeemable preference shares, namely one Series Eleven, Twelve, Thirteen and Fourteen preference share for a total cash consideration of \$6,650,002. These Series of preference shares were subsequently cancelled, as described in note 6(b)(iii).

7. ADJUSTMENT FOLLOWING REORGANIZATION

During the year, the company had sales and purchases of assets with companies within the Steinberg group at values that were greater or lower than recorded book values. An adjustment has been made to retained earnings to reflect this difference so that these assets and liabilities are carried at their original book values in these accounts.

8. INCOME TAXES

The company's income tax provision is made up as follows:	1987	1986
	%	%
Combined basic federal and provincial income tax rate	44.6	44.7
Earnings before share of net earnings of significantly influenced companies, income taxes, minority interest and extraordinary item	(thousands of dollars) 28,555	18,454
Provision for income taxes based on combined basic federal and provincial income tax rate	12,735	8,248
Increase (decrease) in taxes resulting from —		
Non-taxable portion of capital gains	(735)	(126)
Gain on real estate transactions taxed at reduced rates	(866)	(302)
Other	47	50
	11,181	7,870

9. FUTURE INCOME TAXES

As a result of acquisitions during the year and the prior year of affiliated companies, the company has accumulated losses for tax purposes of \$9,570,000. Of this amount, \$3,883,000 represents losses for which a future tax benefit has been recognized as deferred income taxes in the accounts and \$5,687,000 represents losses for which no future benefit has been recognized in the accounts. These losses may be applied against future taxable income commencing in the year ending July 25, 1987 and may be claimed no later than:

Year ending July 1992	389,000
1993	6,181,000
1994	3,000,000
	\$9,570,000

10. CONTINGENT LIABILITIES

Ivanhoe Inc. has guaranteed secured loans amounting to \$6,860,000 of companies in which it has ownership interests.

ACCGT TREATMENT?

11. RELATED PARTIES

Ivanhoe Inc. is a wholly-owned subsidiary of Steinberg Inc. All transactions relating to capital stock are with the parent company. Other transactions with the parent company are identified separately in these financial statements. Ivanhoe Inc. has guaranteed secured loans amounting to \$29,163,000 of Steinberg Leasing (1987) Inc., an affiliated company. Steinberg Inc. has entered into deficiency agreements regarding the first mortgage sinking fund bonds of Steinberg's Shopping Centre Limited and Steinberg Realty Limited, subsidiaries of Ivanhoe Inc.

↳ does it portion of net.

TEN-YEAR STATISTICAL REVIEW

Steinberg Inc. and Subsidiary Companies
(in thousands of dollars except where noted)

		1987	1986
		\$	\$
Summary	Sales and operating revenue	4,491,355	4,041,948
Income	Salaries, wages and employee benefits	717,817	672,502
Statement**	Rentals	40,230	43,214
	Depreciation and amortization	54,391	49,966
	Interest on long-term debt	44,307	41,678
	Earnings before special charge, income taxes, minority interest and extraordinary items	82,902	73,766
	Income taxes	23,577	19,292
	Earnings (before special charge and extraordinary items)	58,469	54,061
	Special charge	—	15,123
	Extraordinary items	8,457	—
	Net earnings	66,926	38,938
Selected	Inventories	340,488	333,069
Balance Sheet	Working capital	204,305	249,872
Items	Investments and other assets	71,200	41,609
	Fixed assets — net	634,582	520,491
	Total assets	1,469,353	1,221,753
Capital	Long-term debt	347,611	319,161
Employed	Deferred income taxes	15,475	14,542
	Minority interest	2,726	1,281
	Preferred and Preference Stock	148,656	138,185
	Common and non-voting Class "A" shareholders' equity	541,133	401,446
	Total capital employed	1,055,601	874,615
Cash Flow Items	Capital expenditures***	156,163	103,854
	Cash Flow from operations	118,627	84,703
	Dividends paid to shareholders	22,797	22,056
Key Financial	Return on average capital employed****	8.61%	7.25%
Ratios	Return on average common and non-voting Class "A" equity	11.35%	6.45%
	Earnings (before special charge and extraordinary items) as % of sales and operating revenue	1.30%	1.34%
	Long-term debt: equity ratio	34:66	37:63
	Long-term interest coverage ratio	2.87	2.09
	Working capital ratio	1.49	1.72
	Inventory turn-over ratio	10.39	9.49
Per Share Data	Earnings per common and non-voting Class "A" share		
	Before special charge and extraordinary items	\$ 2.42	\$ 2.41
	Before extraordinary items	\$ 2.42	\$ 1.51
	Net earnings for the year	\$ 2.87	\$ 1.51
	Dividend paid per common and non-voting Class "A" share	\$ 0.50	\$ 0.50
	Book value per common and non-voting Class "A" share	\$27.68	\$23.93
Retail Facilities	Supermarkets (including combination stores)		
Data	Canada — Number of units	195	205
	— Gross leasable area (thousands of sq.ft.)	6,867	6,991
	— Sales area (thousands of sq.ft.)	4,014	4,046
	United States — Number of units	22	22
	— Gross leasable area (thousands of sq.ft.)	1,899	1,899
	Limited-assortment grocery stores		
	— Number of units	66	66
	— Gross leasable area (thousands of sq.ft.)	512	512
	Department stores		
	— Number of units	21	31
	— Sales area (thousands of sq.ft.)	1,339	2,086
	Restaurants — Number of units	154	162

*53 weeks.

**Income statement items (except net earnings) have been restated for all years to eliminate sales and expenses relating to special charge.

***Capital expenditures for 1981 and prior years are shown as net of disposals.

****Definition of Return on Average Capital Employed: Net after-tax earnings before minority interest and extraordinary items plus after-tax interest expense on long-term debt as a percentage of average capital employed for the year. Capital employed is calculated by deducting current liabilities from total assets.

1985	1984	1983	1982*	1981	1980	1979	1978
\$	\$	\$	\$	\$	\$	\$	\$
3,801,347	3,341,580	3,248,058	3,210,300	2,750,492	2,192,178	2,032,875	1,872,281
612,165	562,288	549,764	522,866	433,054	342,498	303,530	273,637
43,670	41,220	38,225	36,618	32,108	28,973	27,185	23,027
46,328	42,722	44,213	39,965	32,589	27,099	24,497	22,439
34,418	35,225	37,361	47,614	32,795	16,733	15,483	18,124
91,168	35,288	5,387	39,107	60,702	45,589	48,579	46,133
12,425	14,589	(9,020)	1,306	18,128	16,068	20,028	17,926
78,364	20,364	13,603	37,132	41,751	28,890	27,992	27,657
4,730	5,343	1,524	3,029	1,109	929	1,141	475
—	—	1,313	—	(1,162)	—	—	—
73,634	15,021	13,392	34,103	39,480	27,961	26,851	27,182
343,536	314,765	310,559	289,138	267,506	204,378	159,885	156,863
256,510	134,426	121,481	133,866	142,628	98,926	106,780	84,054
34,213	37,594	34,344	39,709	37,360	24,539	31,338	13,209
478,310	467,048	482,807	498,710	479,687	373,100	313,461	312,716
1,146,658	1,012,954	998,374	998,196	1,041,332	760,750	648,294	572,541
293,258	265,930	292,555	347,450	350,531	186,648	160,600	206,929
15,989	8,102	4,874	28,934	34,467	26,826	23,264	19,003
1,358	1,266	931	4,321	3,946	3,365	3,309	2,950
139,430	141,708	117,939	64,008	65,196	67,760	69,435	5,472
382,059	276,250	275,799	281,073	260,406	232,086	215,222	195,099
832,094	693,256	692,098	725,786	714,546	516,685	471,830	429,453
77,941	34,210	57,875	66,511	41,111	87,567	26,208	41,922
109,068	62,431	33,988	69,575	82,255	60,082	57,103	53,367
21,129	18,321	18,242	14,119	12,060	12,126	6,240	5,233
12.21%	6.35%	4.75%	8.20%	9.16%	7.48%	7.89%	8.97%
18.19%	1.24%	1.84%	10.80%	14.02%	10.24%	13.00%	14.67%
2.06%	0.61%	0.42%	1.16%	1.52%	1.32%	1.38%	1.48%
36:64	39:61	43:57	50:50	52:48	38:62	36:64	51:49
3.40	1.85	1.07	1.70	2.72	3.65	3.99	3.49
1.81	1.42	1.40	1.49	1.44	1.40	1.61	1.59
9.24	8.94	9.17	9.19	9.11	9.76	10.48	10.46
\$ 4.52	\$ 0.61	\$ 0.38	\$ 2.26	\$ 2.59	\$ 1.68	\$ 1.97	\$ 1.96
\$ 4.19	\$ 0.24	\$ 0.27	\$ 2.05	\$ 2.51	\$ 1.62	\$ 1.89	\$ 1.93
\$ 4.19	\$ 0.24	\$ 0.36	\$ 2.05	\$ 2.43	\$ 1.62	\$ 1.89	\$ 1.93
\$ 0.50	\$ 0.50	\$ 0.70	\$ 0.65	\$ 0.50	\$ 0.50	\$ 0.43	\$ 0.36
\$22.81	\$19.38	\$19.35	\$19.72	\$18.30	\$16.38	\$15.22	\$13.94
219	221	222	226	227	224	218	209
7,418	7,466	7,488	7,561	7,543	7,380	6,889	6,517
4,283	4,302	4,313	4,335	4,324	4,214	3,883	3,593
20	20	20	20	20	—	—	—
1,679	1,679	1,679	1,679	1,679	—	—	—
66	88	85	70	44	28	6	—
512	616	610	509	311	205	—	—
31	32	32	32	32	32	34	32
2,086	2,208	2,208	2,208	2,255	2,255	2,350	2,178
173	189	198	196	200	200	194	164

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● Member of the Pension Advisory
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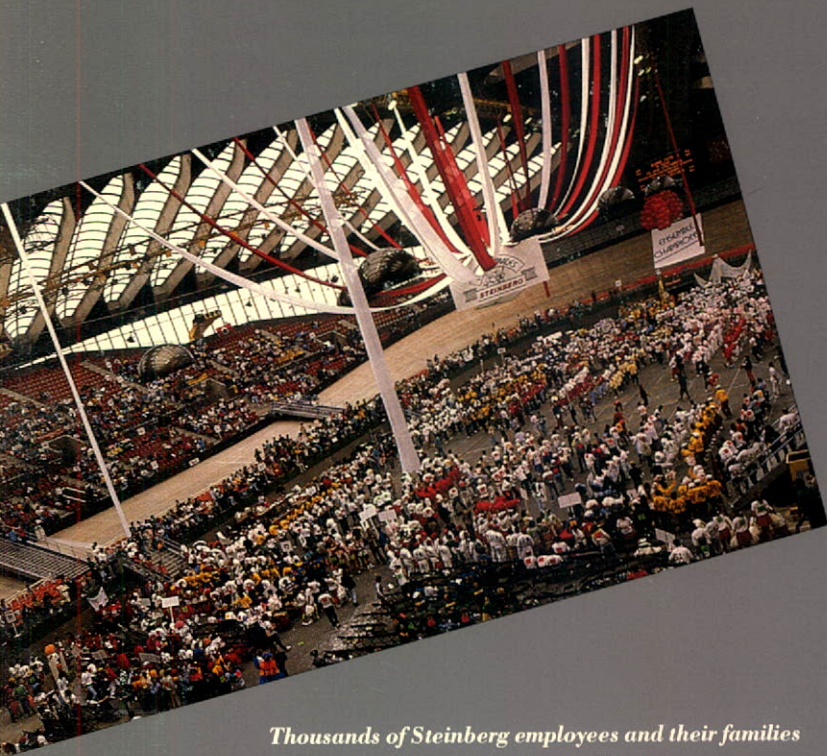
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Winnipeg, Regina, Calgary and
Vancouver**REGISTRAR**The Royal Trust Company
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Winnipeg, Regina, Calgary and
Vancouver**STOCK EXCHANGE
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- Non-Voting Class "A" Shares
- 5¼% Preferred Shares
- \$1.95 Second Preferred Shares
- \$2.9375 Series A Second Preference Shares
- U.S. \$2.875 Series B Second Preference Shares
- Fourth Preferred Shares Series I (The Montreal Exchange only)

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Inc., à l'adresse
suivante:2, Place Alexis Nihon
3500, boul. de
Maisonneuve ouest
Montréal (Québec)
H3Z 1Y3



Thousands of Steinberg employees and their families gathered at Montreal's Olympic Velodrome, on October 11, 1987, to participate in the first Steinberg Olympiad, in celebration of the Company's 70th anniversary.

OUR 70th YEAR

In 1917, Ida Steinberg opened one small grocery store in Montreal. She offered customers quality, variety, service and satisfaction. Based on her personal philosophy of always giving customers more than they expect, Steinberg flourished.

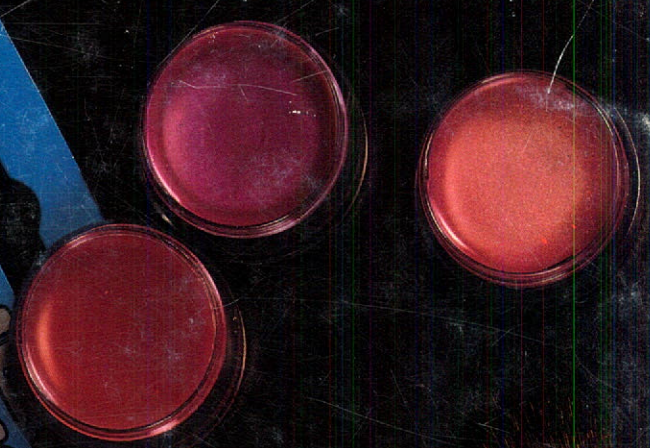
Under the direction of her five sons, led by Sam Steinberg, the Company became a giant in its field. It is now one of Canada's largest distributors of food and general merchandise, both wholesale and retail. Through its wholly-owned subsidiary, Ivanhoe Inc., the Company also owns, operates and develops extensive real-estate holdings in Canada and the United States.

Though large and diversified, Steinberg and its more than 36,000 employees still hold to Ida's founding principles. Today, those principles are expressed in the Company's "Customer First" policy and in the constant striving for excellence throughout the organization.

On this 70th anniversary, we offer a very special "Thank You" to our many customers and friends.

Corporate Offices

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Serving Canadian Families
Since 1917

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