



The store interior on this year's cover is typical of the attractive "new look" achieved by our continuing program of renovation and renewal. The "boutique" approach, which includes specialty cheese sections, bulk foods, and full-service meat and fish counters, is part of the successful formula adopted in response to changing consumer buying habits. In the past fiscal year, capital spending on new store concepts, modernizations and expansions totalled \$103,854,000, up from \$77,941,000 restated the previous year. The Company has budgeted more than \$180,000,000 for capital expenditures in fiscal 1987.

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COMPANY PROFILE

The Annual and Special General Meeting of Shareholders of Steinberg Inc. will be held in the Royal Bank Auditorium, 1 Place Ville Marie, Mezzanine 2, in Montreal, Québec, on Friday, November 28th, 1986, at 10:00 a.m.

Steinberg Inc. has grown in the past 69 years from a small food store in Montreal to one of Canada's largest organizations involved in the distribution and retailing of food products and general merchandise. The Company operates supermarkets and a variety of other food stores, department stores, combination stores, restaurant units and food-processing plants, and has recently established a wholesaling division. Through a wholly-owned subsidiary, the Company also owns and operates extensive real estate holdings.

With its Head Office in Montreal, Steinberg is active throughout Quebec and Ontario, in Manitoba and the Southwestern United States.

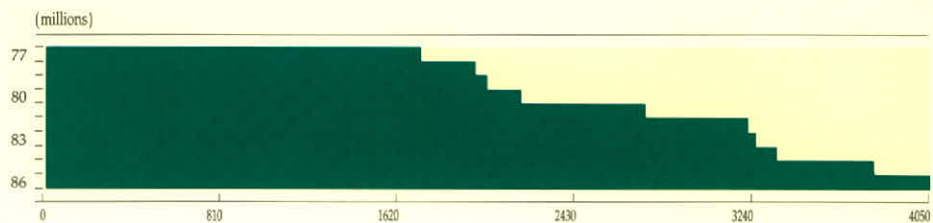
The Company's shares are listed on the Montreal Exchange and on the Toronto Stock Exchange.



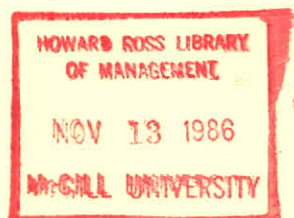
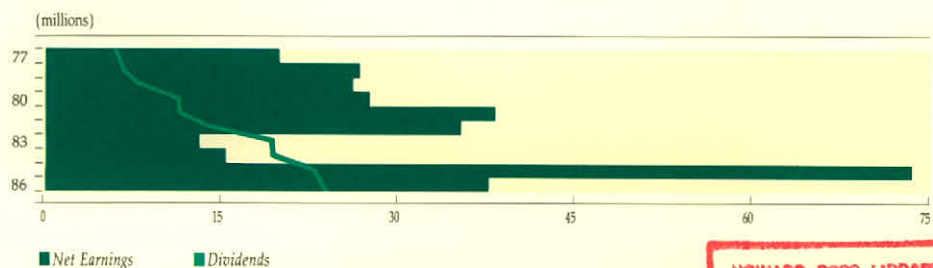
FINANCIAL HIGHLIGHTS

	1986	1985	1984
(in thousands of dollars except per share items)	\$	\$	\$
Sales and Operating Revenue	4,041,948	3,801,347	3,341,580
Canadian retail food	2,787,310	2,630,691	2,330,703
American retail	924,053	831,070	727,033
general merchandise	204,913	203,659	182,032
processing (external sales)	27,822	17,022	8,261
restaurants	53,918	55,803	54,013
real estate operations (external)	43,932	63,102	39,538
Net Earnings	38,938	73,634	15,021
retail and processing operations (before special charge)	41,916	46,201	9,559
special charge	(15,123)	(4,730)	(5,343)
real estate operations	12,145	32,163	10,805
per dollar of sales and operating revenue (before special charge)	1.34¢	2.06¢	0.61¢
Cash Flow from Operations			
before special charge	99,826	113,798	67,774
after special charge	84,703	109,068	62,431
Working Capital	249,872	256,510	134,426
Shareholder's Equity (common & non-voting Class «A»)	401,446	382,059	276,250
Per Common and Non-Voting Class «A» Share			
earnings (before special charge)	2.41	4.52	0.61
net earnings	1.51	4.19	0.24
dividends	0.50	0.50	0.50
book value	23.93	22.81	19.38
return on average equity	6.45%	18.19%	1.24%

SALES & OPERATING REVENUE



NET EARNINGS & DIVIDENDS



Progress was made during the year toward meeting strategic goals. Results reflect the Company's ongoing reorientation, which encompasses a comprehensive asset review, commitment to multi-format retailing and entry into wholesaling. Some elements of this process are the closure of 11 Miracle Mart department stores, repositioning the remaining 20 and withdrawing from the Jadis food-warehouse concept. Costs related to these elements have been treated as a special charge in the Company's financial statements.

- Consolidated sales and operating revenue for the year ended July 26, 1986 (excluding sales from stores closed and to be closed) totalled \$4,041,948,000, an increase of 6.3% over last year's restated \$3,801,347,000.
- Consolidated earnings, before the special charge, were \$54,061,000 compared with \$78,364,000 on a restated basis last year.
- Earnings per common and non-voting Class «A» share, after providing for preferred and preference dividends, were \$2.41 compared with last year's \$4.52 on a restated basis.
- The previous year's results included an after-tax gain of \$25,200,000, or \$1.77 per common and non-voting Class «A» share, realized from the sale of two parcels of land in the U.S. Net earnings after the special charge were \$38,938,000 or \$1.51 per common and non-voting Class «A» share compared to \$48,434,000 or \$2.42 last year, excluding the aforementioned gain.

Today's marketplace is characterized by increased competition and segmentation as companies seek to respond to a large number of fragmented and specialized markets. To meet these challenges, steps are being taken to improve performance in virtually every area of the Company. Some of these initiatives include: changing Miracle Mart from a discount department store chain to a regional, mass-merchandise; converting traditional self-serve supermarkets to more service-oriented ones and to other store types; opening new retail food outlets; and entering the wholesale business.

Wholesaling is one of the fastest growing sectors of the food business in North America. The establishment of Steinberg Distribution puts the Company in a good position to participate in that growth. This new division will be responsible for buying and distributing goods and supplying retail support services initially to our own stores in Quebec and Ontario, and then to large and medium-size affiliates and independents. Steinberg Distribution should enable the Company to profitably streamline the way it supplies its own supermarkets and other retail food stores.

As part of this wholesaling strategy, a subsidiary of the Company acquired an equity interest in Legault & Masse Limitée, in March 1986. This Montreal-based food wholesaler serves hundreds of convenience stores and small-to-medium-size grocery stores. To broaden the Company's reach within this market segment, an agreement in principle was reached, shortly after year-end, whereby Aligro Inc., a major Quebec food wholesaler, would join the Steinberg group of companies. This transaction is subject to approval by regulatory agencies and Aligro shareholders.

Our Canadian retail food operations are meeting the needs of their many different customers and markets through modernization, improved merchandising and a local marketing approach. These efforts have led to better profitability, which, however, is still below the industry average.

Our restaurant group, which continues to provide a satisfactory return on investment, is an effective response to the food-away-from-home trend.

Our Smitty's supermarket/general-merchandise chain, in Arizona, continued to be profitable, although results in the second half of the fiscal year were somewhat lower than anticipated. This resulted from pressures on margins as a large number of competing outlets opened in this fast-growing market.

To maximize Ivanhoe's contribution to Steinberg's profitability, we have been expanding, remerchandising and redeveloping a number of shopping centres and other properties.

Through a joint agreement with The Price Company, of San Diego, we will operate a number of Canadian cash-and-carry, wholesale outlets. These membership warehouse clubs will offer national brand items to independent businesses and group members. The Price Club formula of low costs and low markups has been very successful in the U.S. The first such warehouse, scheduled to open shortly in Montreal, will offer general merchandise and food products in more than 100,000 square feet of selling area.

The return on our equity investment in Lantic Sugar Limited, Canada's largest sugar refiner, was lower than last year, largely because of what we consider to be unfair competition between the United States and Canada. The Canadian sugar industry plans to file a complaint with Canadian authorities against the dumping of sugar by U.S. suppliers.



Irving Ludmer

Melvyn A. Dobrin

To add management strength and depth, a number of senior appointments were made during the year, particularly in Steinberg Distribution. We are also continuing to restructure the Company to encourage entrepreneurship. By motivating autonomous managers and providing rewards for all employees, we hope to create a stimulating and enjoyable workplace for everyone. For example, incentive plans now allow our store managers a greater share in the success of their stores. An Employee Share Purchase Plan was introduced shortly after year-end and a Share Option Plan for senior executives was established. These compensation vehicles give all Steinberg employees a real opportunity to participate, through the quality of their own work, in the financial growth of the Company. To increase managerial drive and customer service we are decentralizing at the retail level. At the same time, we are centralizing such support services as architecture and construction, purchasing, warehousing and transportation to make them more efficient. Our management information systems are being updated to meet the needs of individual stores and of the entire Company.

This combination of reorganization, technological innovation, and human-resource management is being applied to all our business activities. Diversification and a readiness to experiment are key features of our new orientation.

These developments, combined with a clearer understanding of our wholesale and retail customers, the role of each store format and good execution of fundamentals, will enable us to increase sales and service. We have already succeeded in repositioning some of our stores, and in improving sales and profitability in many of our markets. Ultimately, we hope to gain business by extending services to affiliates and independent retailers.

More importantly, we are laying foundations for greater changes and continued progress in becoming a highly diversified, truly customer-driven corporation — a renewed Steinberg.

On behalf of the Board,

Melvyn A. Dobrin
Chairman of the Board

Irving Ludmer
President &
Chief Executive Officer

November 4, 1986

Earnings per share, after provision for preferred and preference dividends decreased to \$1.51 from \$4.19 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 4.2% over ten years.

FINANCIAL REVIEW

Although consolidated sales and revenue for the fiscal year ended July 26, 1986 showed a satisfactory increase over the previous year, earnings were lower. Results include a special charge that relates to the introduction of a program to reshape the Miracle Mart department store operation, involving the closure of 11 of the 31 stores and a significant reduction in the number of hard-goods lines, and the withdrawal from the Jadis food-warehouse concept.

Sales and Operating Revenue

Excluding sales from stores closed or to be closed, consolidated sales and operating revenue were \$4,041,948,000, an increase of 6.3% over the \$3,801,347,000 achieved in fiscal 1985. Canadian retail food operations were up 6.0% despite 14 fewer supermarkets in operation at year-end. Sales of our American subsidiary, Smitty's Super Valu, Inc. grew 7.7% (in U.S. dollars), reflecting the addition of two stores last fall.

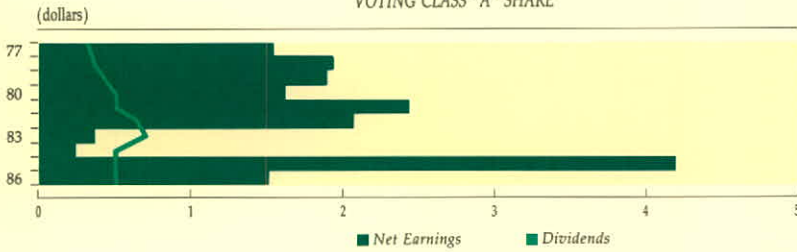
Real estate operating revenue, excluding last year's gain from the sale of two parcels of land in the U.S., was up 19.8%.

Net Earnings

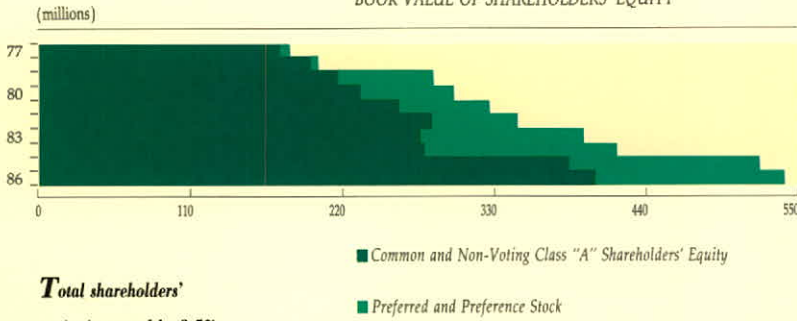
Consolidated earnings for the year before the special charge amounted to \$54,061,000 compared with \$78,364,000 on a restated basis last year.

Consolidated earnings per common and non-voting Class "A" share, after providing for preferred and preference dividends, were \$2.41 compared with \$4.52

NET EARNINGS & DIVIDENDS PER COMMON & NON-VOTING CLASS "A" SHARE



BOOK VALUE OF SHAREHOLDERS' EQUITY



Total shareholders' equity increased by 3.5% to \$539,631,000 this year. Common and non-voting Class "A" shareholders' equity increased by 5.1% to \$401,446,000. The book value per common and non-voting Class "A" share outstanding increased to \$23.93 from \$22.81 last year.

on a restated basis the preceding year. Last year's results included an after-tax gain of \$25,200,000 or \$1.77 per common and non-voting Class "A" share, realized from the sale of two parcels of land in the U.S. Net earnings after the special charge were \$38,938,000 or \$1.51 per common and non-voting Class "A" share compared to \$48,434,000 or \$2.42 last year excluding the aforementioned gain. This year's basic earnings per share calculation is based on 16,758,124 common and non-voting Class "A" shares and, on a fully-diluted basis, 18,817,476 compared to 14,286,917 and 16,351,817 shares respectively the previous year.

Return on average common and non-voting Class "A" equity declined to 6.45% from 18.19% last year. The return on common and non-voting Class "A" equity averaged 10.35% for the past ten years.

Canadian retail food operations were more profitable. Higher earnings from Valdi Foods and the significantly reduced losses of Franchise Plus contributed to this performance.

Earnings from the Ivanhoe real estate group were up 74.4%, excluding a \$2,481,000 reduction in income taxes and the impact of last year's gain on the sale of land. This reflects higher revenues generated from last year's expansion and modernization projects, and from growth in tenants' sales. In management's view, as evidenced by higher cash flow from operations and lower interest and capitalization rates, the appraisal surplus related to Ivanhoe's real estate holdings have improved significantly since last year.

Smitty's Super Valu, Inc. contributed \$24,637,000 (U.S.) before inter-company interest expenses and income taxes (based on 53 weeks), a decrease of 6.3% compared to last year. The rapidly-growing Phoenix market has encouraged competitors to open many stores, thereby exerting pressure on margins. Smitty's management believes this situation represents a cyclical over-response and fully expects to maintain its position as market leader.

Earnings were adversely affected by losses in the general merchandise group, caused largely by a three-week strike in 11 Miracle Mart stores; by a one-and-a-half day work stoppage in our Montreal-area

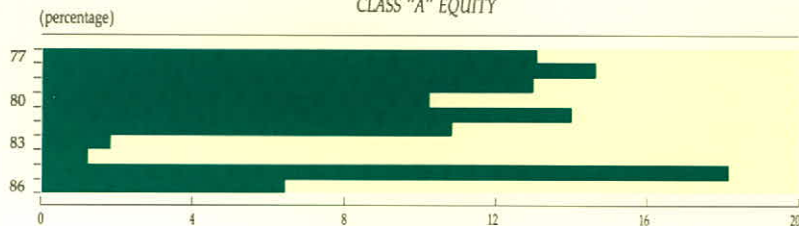
supermarkets, and by a labour conflict involving the franchised supermarkets in the Shawinigan, Saguenay and North Shore areas of Quebec. Expenses related to the Company's major store renovation program and development of its wholesaling division have been charged to earnings as incurred.

Net investment income amounted to \$17,652,000, a 13.4% increase over last year. The Company's share of net earnings in non-controlled companies was \$12,051,000, which is \$3,307,000 lower than in the preceding year. The decrease is primarily due to lower earnings from our equity investment in Lantic Sugar Limited.

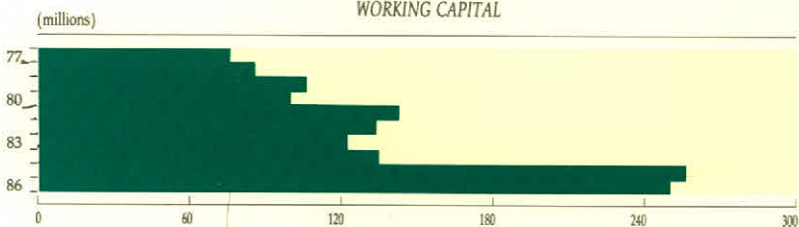
Assets and Liabilities

Consolidated assets increased by \$75,095,000 to \$1,221,753,000 at July 26, 1986. Current assets rose by \$25,936,000, with a substantial increase in liquidity. Cash flow from operations before the special charge was \$99,826,000 compared to \$113,798,000 the previous year. However, last year's amount included a \$25,200,000 land sale gain. Capital expenditures totalled \$103,854,000, an increase of \$25,913,000 over last year's \$77,941,000.

RETURN ON AVERAGE COMMON AND NON-VOTING CLASS "A" EQUITY



WORKING CAPITAL



Working capital decreased by \$6,638,000 and the Company's working capital ratio was 1.72:1 compared with 1.81:1 for the previous year.

This year's capital expenditures in the amount of \$103,854,000 was \$25,913,000 or 33.2% higher than last year.

The ratio of current assets to current liabilities dropped slightly from 1.81 to 1.72. The ratio of long-term debt to shareholders' equity remained virtually unchanged. Subsequent to year-end, the Company redeemed all the 8 5/8% Series C and 10 1/2% Series D sinking-fund debentures, totalling more than \$9,000,000.

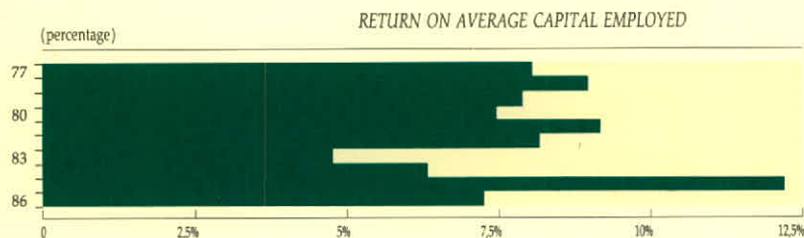
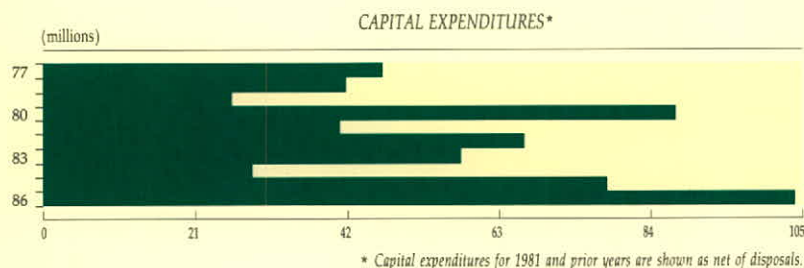
The Company's balance sheet continues to reflect a strong financial position.

Shareholders' Equity

The book value per common and non-voting Class «A» share rose from \$22.81 to \$23.93, an increase of \$1.12.

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 below.



The return on average capital employed decreased to 7.25% from 12.21% last year and averaged 8.03% for the past ten years.

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

Quarter I

	First 12 weeks		
	1986	1985	1984
	\$	\$	\$
Sales & Operating Revenue	895,471	829,766	729,115
Net Earnings	9,918	3,324	329
Earnings (Loss) Per Share	0.40	0.01	(0.16)

Quarter II

	Second 12 weeks		
	1986	1985	1984
	\$	\$	\$
Sales & Operating Revenue	975,897	931,457	786,663
Net Earnings	12,495	35,804	6,758
Earnings Per Share	0.56	2.29	0.30

Quarter III

	Third 12 weeks		
	1986	1985	1984
	\$	\$	\$
Sales & Operating Revenue	927,486	879,869	765,370
Net Earnings	16,143	13,440	249
Earnings (Loss) Per Share	0.77	0.72	(0.17)

Quarter IV

	Last 16 weeks		
	1986	1985	1984
	\$	\$	\$
Sales & Operating Revenue	1,243,094	1,160,255	1,060,432
Net Earnings	382	21,066	7,685
Earnings (Loss) Per Share	(0.22)	1.17	0.27

Industry beef sales were lower than last year, but not at Steinberg. With more emphasis on personalized service in its meat departments and a greater number of specialty cuts, Steinberg's retail beef sales increased by 6%.



Le Marché du Jour

features a wide variety of quality perishables in eye-catching displays and pleasant surroundings.

Shortly after year-end, the Company opened a second of these super food-warehouse stores, in Quebec City.

Canadian Food Group

Major food-industry trends were reflected in the Steinberg group of companies as sales increased, unprofitable stores were closed or reformatted and a wholesale/retail structure was adopted.

Sales were up 6% despite 14 fewer supermarkets in the Company's Canadian retail food operations.

Conversion of Company supermarkets to "The Super Market" concept continued with 54 stores converted to date and about 40 planned for the coming year. "The Super Market" provides quality, value and a high level of customer service at competitive prices. These stores feature attractive shopping environments, bulk foods, salad bars, in-store bakeries, prepared foods, service meat and fish counters, and a large assortment of fresh produce.

All of these features, plus in-store pharmacies and a wide array of non-food and health and beauty items, have been combined in a new food/drug store concept. Our first such units, opened shortly after year-end under the Miracle Ultra-Mart banner, are an effective response to today's «one-stop» shopping needs.

At year-end, the Canadian retail food operations included 199 supermarkets and combination stores, 66 limited-assortment grocery stores, five food-warehouse outlets, one super-warehouse food store and 67 convenience stores.

Annual sales in our supermarkets, food-warehouse and combination stores averaged \$623 per square foot of selling area. Weekly sales averaged \$235,000 per store compared to \$214,000 last year.

A reorganization within the Canadian Food Group included the franchising of some Quebec supermarkets, a restructuring of our specialty food stores and our entry into wholesaling.

Steinberg Distribution

In January, 1986, this wholesaling division was established to optimize the Company's existing Canadian distribution facilities and to develop efficient central support services. By buying centrally for all divisions, according to the needs of individual stores, Steinberg Distribution will increase the Company's buying power. Systems will be flexible enough that product deliveries can be made in the most efficient manner. The Company anticipates that this will lead to the development of outside wholesale business among medium to large stores, initially in Quebec, then in Ontario.

To help provide Company stores and other wholesale customers with a single source of supply for all their goods and services, Steinberg Distribution will initially manage the Company's six warehouses in central Canada (totalling about 1,460,000 square feet), and operate a fleet of 125 tractors and 390 trailers.

Quebec Supermarket Division

Despite flat market conditions and the closing of several stores, average weekly sales per store (on a comparable basis) were up 7.1% over last year. Although return on investment was below expectations, the Division showed slightly improved profitability. Cost controls and productivity programs initiated during the year will be vigorously pursued in fiscal 1987. Greater emphasis is also being placed on researching and meeting local market needs.

To develop a more entrepreneurial spirit, store managers have been given more responsibility and autonomy, and are being encouraged to view their stores as their own.

Capital expenditures totalled approximately \$15,000,000. Approximately \$36,000,000 has been





Customers appreciate the knowledgeable help and service they get at our fresh-fish and seafood counters.



earmarked for the current year — largely to convert conventional supermarkets to “The Super Market” concept. This new format, which offers a great variety of perishables, continues to appeal to customers.

Six stores were closed during the year, six were franchised, 13 were remodelled and renovations were begun in another 13. At year-end, the Division operated 127 supermarkets in Quebec and in eastern Ontario, 12 fewer than last year.

Ontario Supermarket Division

Miracle Food Mart achieved record sales and improved market share. Sales were up 14.2% despite intense competition, the growth of independents, the proliferation of “mega-stores”, downward pressure on margins and the closing of two stores.

Innovative marketing combined with an ongoing modernization and expansion program have helped enhance Miracle Food Mart’s position in the Ontario market. However, earnings were slightly lower than last year primarily because of major investments in store modernizations. Overall profits and return on investment require improvement.

In the coming fiscal year, the Division plans to invest about \$30,000,000 in the most ambitious capital program in its history. This will include the upgrading of conventional supermarkets, the installation of electronic point-of-sale equipment in many locations and the opening of Miracle Ultra-Mart food/drug stores. The first two, opened in Oakville and Scarborough shortly after year-end, have been well received by customers. A third is to be opened in Scarborough, a fourth in London. Four existing supermarkets will be enlarged and converted to the Ultra-Mart format.

During the year, 13 stores were renovated, three were closed and a new one was opened. At year-end, 72 Miracle Food Mart stores were in operation compared to 74 last year.

Valdi Foods (1986) Inc.

This subsidiary primarily serves price-conscious shoppers through such specialized food stores as Valdi Discount Foods, Jadis/Basics and Le Marché du Jour. Despite more competition, Valdi’s limited-assortment grocery stores have developed a loyal customer base. During the past fiscal year, Valdi Discount Foods strengthened its image and increased sales in its 66 Ontario stores by 8.2%.

Financial performance continues to improve in the areas of inventory turns and control of working capital.

Several new concepts are being developed to expand the Valdi operation. One of these involves the renovation of the two largest stores to broaden the assortment of health and beauty aids and other non-perishables.

A decision was made during the year to terminate the unprofitable Jadis food-warehouse concept. Two Jadis stores in Quebec were closed immediately following year-end. A third store will be closed in November and the remaining Jadis store will be converted to a different format.

The 85,000-square-foot Marché du Jour had a better year as customers continued to respond to the market atmosphere and specialty boutiques offered in the prototype Laval store. Average weekly sales were 12.7% higher than last year. Tighter operating and financial controls sharply reduced stock losses for the division. A 60,000-square-foot Marché du Jour was opened in Quebec City shortly after year-end. Initial results have been encouraging.

At the other end of the spectrum, the 8,500-square-foot Les 5 Saisons shows promise as an urban-core franchised, perishables store. The Montreal prototype offers a wide assortment of produce and delicatessen items, full-service meat, bakery and fish departments, and a limited

Steinberg is developing food/drug combination stores to provide cosmetics, health and beauty products, prescription drugs and a full range of supermarket products and services under one roof.

assortment of grocery items. Cost-control improvements, market research and product-mix adjustments are being implemented in an effort to make the trial unit profitable.

Franchise Plus (1986) Inc.

Sales were up 14.3% because of effective marketing, better operational management and more La Maisonnée convenience stores open 24 hours a day.

Reduced losses of Franchise Plus and improved performance by the majority of franchised La Maisonnée stores have led to expansion plans for the coming fiscal year. Expansion, supported by aggressive promotion and improved internal controls, should help this subsidiary's financial performance.

A new-concept La Maisonnée store, featuring self-service gasoline, is to be tested shortly.

To provide wholesale products and services to its convenience stores, and to other small-to-medium-size retailers, Franchise Plus acquired a 50% interest in Legault & Masse Limitée, a Quebec food wholesaler.

Near year-end, 17 of 25 company-operated stores were sold to franchisees. Forty-one units provided 24-hour service, up from 24 last year. At year-end, 67 La Maisonnée stores were in operation, compared to 73 last year.

Food-Processing Operations

Trillium Meats

This year, for the first time in its five-year history, Trillium Meats reported a profit. Sales to outside customers increased 63.4% over last year. Consolidation of the division's Quebec and Ontario operations, higher productivity and expansion of the product line (including the introduction of specialty meats) contributed to these results.

Capital investments will be made in fiscal 1987 so that Trillium can provide its customers with a wider variety of products.

International Operations

Steinberg B.V.

This wholly-owned subsidiary is an international holding company with its head office in Rotterdam, Holland. Its role has been expanded to coordinate the overseas activities of the Steinberg group in the areas of buying, shipping, insurance and finance.

Smitty's Super Valu, Inc.

Smitty's, in Phoenix, Arizona, celebrated its 25th anniversary in February. During its history, Smitty's has grown from a single supermarket to become the leading retail organization in the Phoenix area. Through its 22 stores, 15 of which are large combination supermarket/general merchandise stores of up to 110,000 square feet, the chain provides a full line of food products and services, in-store bakeries, service and self-service meat, delicatessen and fish counters, liquor departments, restaurants and snack bars.

Smitty's also offers a wide range of general merchandise including men's, women's and children's clothing, shoes, jewelry, sporting goods, hardware, housewares, toys, cameras and electronics, automotive products, cosmetics, and health and beauty aids. All Smitty's stores provide branch banking facilities and 18 have on-premises pharmacies.

During the year, Smitty's opened two of its largest stores, each in excess of 110,000 square feet. Competition intensified as 15 supermarkets were opened by various chains.



Our new M stores offer a full range of fashion items and accessories, with a limited assortment of best-selling, brand-name hard goods. These mass-merchandise stores are designed to appeal to fashion-conscious, middle-income families.

Sales of \$668,000,000 (U.S.) were 7.7% higher than last year, but fell short of expectations. Despite good expense control, reduced gross margins caused by competitive factors resulted in somewhat lower than anticipated earnings.

Canadian General Merchandise Retailing

In an effort to achieve profitability, Miracle Mart is being repositioned as a regional, full-line, mass merchandiser of apparel and fashion accessories, with a limited assortment of high-turnover hard goods at very competitive prices. This strategy is embodied in the new M store concept, which incorporates personal service and attractive visual merchandising techniques.

A prototype M store was opened during the first quarter in Laval. After year-end, four Miracle Marts were converted to M stores. Seven more M store conversions are scheduled for completion in the coming year.

M stores are designed for middle-income families who seek "fashion at a price". Two-thirds of an M store's selling area is devoted to apparel, accessories, cosmetics and footwear. The remaining third is occupied by best-selling, brand-name hard goods such as kitchenware and small appliances at very sharp prices. The variety of hard goods is being reduced from 16,000 different items to approximately 3,000.

At year-end, Miracle Mart was operating 31 department stores. During the year, the Company announced plans to close 11 unprofitable stores. Following year-end, six stores were closed. The remaining five are scheduled to close in fiscal 1987.

Restaurant Operations

Multi-Restaurants and Salisbury House continued to rationalize and improve their operations. The closing of 11 units and strict control of costs had a positive impact on earnings, although overall sales were slightly lower than last year.

Multi-Restaurants continues to test new concepts and emphasize shopping-center, fast-food units. Salisbury House, which operates four full-service and 18 semi-service restaurants, and one coffee-shop counter, continued to dispose of coffee-shop counters and concentrate on semi-service restaurants. Attention to better merchandising, the friendliness of staff and the addition of more "health-conscious" items to the menu, produced encouraging results.

At year-end, the restaurant group was operating 162 food-service outlets, including restaurants, snack counters and brasseries under such names as Pik-Nik, Burger Supreme, Le Quick, The Counter and, in Manitoba, Salisbury House.

Human Resources

Steinberg's future depends on attracting and keeping good people, putting them in the right jobs, providing effective training and incentives, and planning for succession.

During the year, an extensive review of human-resource policies was begun. This effort will result in policies, based on current human-resource practices, that reflect the needs of the Company and its people. Significant strides were made to contain costs through the establishment of a benefits cost-control committee, absenteeism programs and employee turnover reports.

A three-day conference, held this spring at Montebello, Quebec, gave senior management an opportunity to share and generate ideas about the best ways to make the Company's new wholesale/retail focus work. Follow-up workshops and information sessions were held throughout the Company.





Burger Supreme is one of several fast-food concepts introduced by Steinberg in response to the food-away-from-home trend.



Training in new technologies has become increasingly important as we upgrade in-store systems, replacing cash registers with electronic scanners, for example. Through proper training and staff development, our people will be well-equipped to deal with the complexities and new methods of our multi-format business.

We are also reemphasizing the fundamentals of store operations, and are encouraging a "sense of ownership" among store managers and staff.

Growth and our entry into new markets creates a greater need for skilled, experienced people. We are therefore taking innovative steps to attract bright, motivated employees. For example, our data-processing department held a recruitment "open house" after year-end, to introduce top computer people to the many challenges and opportunities available at Steinberg.

Labour relations were generally satisfactory during the year. Progress was made, despite some disruptions. The collective agreement covering Ontario food-store employees was renegotiated during fiscal 1986 and expires in June 1988. Three-year collective agreements to September 1988 cover food-store employees in Quebec and the Ottawa region.

In October 1985, there was a 1 1/2 day work stoppage in our Montreal-area supermarkets. Miracle Mart suffered a three-week strike in November. Beginning in January 1986, a labour conflict affected the Company's franchised supermarkets in the Saguenay, North Shore and Shawinigan areas. This dispute was settled after year-end, except in a Baie Comeau store where a settlement should be achieved shortly.

The Company employs about 28,000 full-time and part-time people in Canada, and about 6,500 in the United States.



CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Steinberg Inc. and Subsidiary Companies
for the year ended July 26, 1986

Earnings	1986	1985
	(thousands of dollars)	
Sales and Operating Revenue		
Retail and processing (note 8 (b))	3,998,016	3,738,245
Rentals and tenants' share of expenses	41,036	36,140
Gain arising from real estate transactions	2,896	26,962
	4,041,948	3,801,347
Expenses		
Cost of sales and expenses except those shown below	3,186,957	2,996,627
Wages and employee benefits	672,502	612,165
Rentals	43,214	43,670
Depreciation and amortization	49,966	46,328
Interest and amortization of discount on long-term debt	41,678	34,418
Other interest	3,568	7,900
	3,997,885	3,741,108
Earnings Before Other Income, Special Charge, Income Taxes and Minority Interest	44,063	60,239
Other Income		
Investment income and gain on redemption of long-term debt	17,652	15,571
Share of net earnings of significantly influenced companies and partnerships	12,051	15,358
	29,703	30,929
Earnings Before Special Charge, Income Taxes and Minority Interest	73,766	91,168
Special Charge (note 8)	15,123	4,730
Income Taxes (note 9)	19,292	12,425
Minority Interest	413	379
	34,828	17,534
Net Earnings for the Year	38,938	73,634
Earnings per Common and Non-Voting Class "A" Share		
Basic	\$1.51	\$4.19
Fully diluted	\$1.47	\$3.82
Retained Earnings	1986	1985
	(thousands of dollars)	
Balance — Beginning of Year	286,212	235,106
Net earnings for the year	38,938	73,634
	325,150	308,740
Dividends —		
Preferred and preference shares	13,677	14,003
Common and non-voting Class "A" shares	8,379	7,126
	22,056	21,129
Expenses relating to the issue of shares (net of applicable deferred income taxes of \$1,154,544)	—	1,399
	22,056	22,528
Balance — End of Year	303,094	286,212

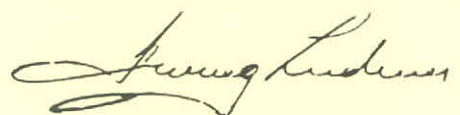
CONSOLIDATED BALANCE SHEET

Steinberg Inc. and Subsidiary Companies
as at July 26, 1986

Assets	1986	1985
	(thousands of dollars)	
Current Assets		
Cash	37,052	35,019
Short-term securities — at cost, which is equal to market	147,931	121,177
Accounts receivable	53,772	47,033
Inventories	333,069	343,536
Prepaid expenses	23,662	23,411
Current portion of deferred income taxes	1,524	898
	597,010	571,074
Other Assets (note 2)	41,609	34,213
Fixed Assets (note 3)		
Real estate operations	185,978	186,230
Retail and processing operations	334,513	292,080
	520,491	478,310
Intangible Assets		
Unamortized discount on long-term debt	767	910
Goodwill	61,876	62,151
	62,643	63,061
	1,221,753	1,146,658

Signed on behalf of the board

 , Director

 , Director

Liabilities	1986	1985
	(thousands of dollars)	
Current Liabilities		
Notes payable	12,581	—
Accounts payable and accrued liabilities	329,383	306,218
Income taxes	1,485	1,039
Dividends payable	23	24
Current portion of long-term debt (note 4)	3,666	7,283
	347,138	314,564
Long-Term Debt and Other Obligations (note 4)		
Real estate operations	123,275	126,541
Retail and processing operations	195,886	166,717
	319,161	293,258
Deferred Income Taxes	14,542	15,989
Minority Interest	1,281	1,358
	682,122	625,169

Shareholders' Equity

Capital Stock (note 5)	226,676	227,621
Contributed Surplus (note 6)	2,429	2,334
Retained Earnings	303,094	286,212
Foreign Exchange Translation Adjustments (note 7)	7,432	5,322
	539,631	521,489
	1,221,753	1,146,658

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Steinberg Inc. as at July 26, 1986 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 26, 1986 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.

Coopers & Lybrand

Montréal, Québec
October 1, 1986

Coopers & Lybrand
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Steinberg Inc. and Subsidiary Companies
for the year ended July 26, 1986

	1986	1985
	(thousands of dollars)	
Funds Provided by (Invested in) Operations		
Net earnings for the year	38,938	73,634
Items not affecting funds		
Depreciation and amortization	50,798	47,192
Amortization of discount on long-term debt	143	390
Deferred income taxes	(2,193)	(5,935)
Minority interest	413	379
Equity in earnings of significantly influenced companies and partnerships in excess of dividends received	(3,396)	(6,592)
	84,703	109,068
Capital expenditures —		
Real estate	(10,660)	(17,879)
Retail and processing	(93,194)	(60,062)
Disposal of fixed assets —		
Real estate	4,343	13,331
Retail and processing	8,431	8,022
Accounts receivable	(6,739)	(3,900)
Inventories	10,467	(28,771)
Prepaid expenses	(251)	(3,779)
Accounts payable, accrued liabilities and dividends payable	23,164	59,932
Income taxes	566	8,257
Other assets and goodwill	629	(3,004)
Total Funds Provided by Operations	21,459	81,215
Funds Provided by (Invested in) Investments		
Reduction of minority interest	(490)	(287)
Shares of significantly influenced companies	(6,253)	—
Redemption of preferred shares of significantly influenced company	—	2,010
Change in foreign exchange translation	2,110	1,321
Total Funds Provided by (Invested in) Investments	(4,633)	3,044
Funds Provided by (Invested in) Financing		
Net proceeds from issue of non-voting Class "A" shares	—	50,571
Proceeds from long-term debt	52,687	44,884
Reduction of long-term debt	(26,784)	(17,718)
Retirement of preferred shares	(850)	(2,020)
Total Funds Provided by Financing	25,053	75,717
Increase During the Year	41,879	159,976
Dividends	(22,056)	(21,129)
	19,823	138,847
Cash and Short-Term Securities, Net of Notes Payable and Current Portion of Long-Term Debt		
Beginning of Year	148,913	10,066
End of Year	168,736	148,913

Steinberg Inc. and Subsidiary Companies
for the year ended July 26, 1986

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%. 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 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	25 years
Store equipment	10 years
Automotive equipment	6 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.

1. Accounting Policies (continued)

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.

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 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.

2. Other Assets

	1986	1985
	(thousands of dollars)	
Interest in significantly influenced companies and partnerships		
Shares and interests — at equity	27,189	17,540
Advances	2,821	1,554
	30,010	19,094
Advances and other recoverable amounts with respect to real estate transactions	2,803	3,501
Funds on deposit and other items	10,164	12,986
	42,977	35,581
Less: Current portion due within one year	1,368	1,368
	41,609	34,213

3. Fixed Assets	1986	1985
	(thousands of dollars)	
Real estate operations		
Income producing properties	238,296	234,182
Accumulated depreciation	84,204	79,200
	154,092	154,982
Land held for future development	31,886	31,248
	185,978	186,230
Retail and processing operations		
Land and buildings	102,717	78,185
Equipment	367,664	335,285
	470,381	413,470
Accumulated depreciation	226,692	207,334
	243,689	206,136
Leasehold improvements, at cost less amortization of \$46,787,000 (1985 — \$43,918,000)	51,853	52,836
Assets under capital leases, at cost less amortization of \$10,280,000 (1985 — \$7,082,000)	38,971	33,108
	334,513	292,080

4. Long-Term Debt and Other Obligations	1986	1985
	(thousands of dollars)	
Real estate operations —		
First mortgage sinking fund bonds —		
Ivanhoe Inc. —		
6%, due 1987	341	445
7½% Series A, due 1991	1,985	2,340
7% Series B, due 1991 (repayable in U.S. currency \$837,000; 1985 — \$976,000)	1,161	1,319
10¼% — 10½% Series 1978, due 1998 (or 1988 at option of holder)	24,755	25,371
12.40% Series 1980, due 1995	11,850	12,540
15.25% Series 1984, due 2004	25,709	25,911
Steinberg's Shopping Centres Limited —		
8½% Series B, due 1994	1,491	1,663
Steinberg Realty Limited —		
9% Series A, due 1991	9,999	10,931
9¾%, Series B, due 1993	16,917	18,120
	94,208	98,640
Other obligations —		
6% — 10% balances payable on land purchases to 1994 (repayable in U.S. currency \$2,538,409; 1985 — \$2,820,455)	3,521	3,813
10¾% — 16¾% mortgage loans, repayable in varying monthly instalments to 1996 (note 4(c))	21,266	18,378
11½% term bank loan	—	1,000
13½% term bank loan due 1991	4,280	4,710
	29,067	27,901
	123,275	126,541

4. Long-Term Debt and Other Obligations (continued)

	1986	1985
	(thousands of dollars)	
Retail and processing operations —		
Extendible term credit facility (repayable in U.S. currency \$80,000,000) (note 4(a))	110,968	108,144
Steinberg Inc. sinking fund debentures (note 14(b)) —		
6% Series B	—	4,949
8% Series C, due 1992	8,287	10,806
10½% Series D, due 1994	744	754
Saint-Lawrence Holding Company Inc. —		
10½%, first mortgage sinking fund bond, due 2016 (repayable in U.S. currency \$13,000,000)	18,032	—
10% term bank loan due 1990	2,610	—
12½% term bank loan due 1995	3,375	—
Present value of obligations under capital leases (note 11)	34,492	27,050
Various mortgage loans	21,044	22,297
	199,552	174,000
Less: Current portion due within one year	3,666	7,283
	195,886	166,717

- (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, 1987 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.

During the repayment period, the credit facility bears interest at a rate involving a margin of up to ¾% over LIBOR, ¼% over prime, ¼% over 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 ¾% over the prime banker's acceptance fee.

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.

After the year-end, the company entered into interest rate swap contracts with third parties effective September 1, 1987 with the effect of setting a ceiling of 9.82% 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 11.83%.

- (b) At July 26, 1986 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 repayments which might be required on bonds in 1988 — \$24,300,000, nor any amounts with respect to redeemable preferred or preference shares described in notes 5(c) and (f)):

	1987	1988	1989	1990	1991
	(thousands of dollars)				
Real estate operations	6,776	6,813	11,814	7,350	14,187
Retail and processing operations	2,646	3,559	3,691	4,892	8,248
	9,422	10,372	15,505	12,242	22,435

The excess of bonds cancelled or purchased for cancellation to date over the cumulative sinking and purchase fund requirements at July 26, 1986, amounting to \$2,364,000 in the case of real estate operations and \$6,616,100 in the case of retail and processing operations, may be applied against certain portions of these requirements.

- (c) An 11% mortgage of \$3,327,000 is secured by a property interest held through an interest in a partnership and an emphyteutic lease on that property.

5. Capital Stock

(a) This is comprised as follows:

	Authorized (number of shares)	Issued and fully paid			
		1986 (number of shares)	1985 (number of shares)	1986 (thousands of dollars)	1985 (thousands of dollars)
Cumulative redeemable preferred shares of the par value of \$100 each					
— Series "A", 5¼%	21,660	17,687	18,187	1,769	1,819
Second preferred shares of the par value of \$25 each, issuable in series	unlimited				
— Series one, \$1.95 cumulative redeemable shares		1,461,000	1,496,800	36,524	37,419
— Series two, variable rate cumulative redeemable shares, 8.6563% to 1989 (being 52% of the GIC rate plus 2% — fixed every 5 years)		770,000	770,000	19,250	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		822,550	832,450	24,874	25,174
Fourth preferred shares without par value, issuable in series	unlimited				
Non-voting Class "A" shares without par value	unlimited	10,772,376	10,752,576	76,315	76,015
Common shares without par value	unlimited	6,000,000	6,000,000	12,176	12,176
				226,676	227,621

(b) During the year the company purchased for cancellation 500 5¼% cumulative redeemable preferred shares, Series "A" and 35,800 \$1.95 cumulative redeemable second preferred shares, Series one. In addition, 9,900 \$2.72 cumulative redeemable third preferred shares, Series I were converted on a one for two basis into 19,800 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 26, 1986.

5. Capital Stock (continued)

- (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. If the senior officer is required to pay income tax on the full amount of any benefit obtained from the exercise of any such option, the company has agreed to pay to the senior officer an amount sufficient to place the senior officer in the same after-tax position as if only one-half of such benefit had been taxable.
- (e) During the year, the company reserved 400,000 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 26, 1986 options had been granted to employees to acquire 315,000 shares at prices ranging from \$36.50 to \$45.00 per share, being the closing market prices on the day prior to the date of granting the option. 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.
- (f) 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.

6. Contributed Surplus

The contributed surplus as at July 26, 1986 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 \$2,333,843 with respect to prior years and \$94,975 with respect to the current year.

7. Foreign Exchange Translation Adjustments

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

	1986	1985
	(thousands of dollars)	
Balance — beginning of year	5,322	4,001
Translation adjustments for the year arising from change in foreign exchange rates	1,745	2,174
Exchange loss (gain) relating to dividends paid during the year	365	(853)
Balance — end of year	7,432	5,322

8. Special Charge

- (a) The special charge relates 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). It is made up as follows:

	1986	1985
	(thousands of dollars)	
Closing costs for 11 department stores and 3 food warehouse stores, including estimated future losses to date of closure	16,707	—
Cost of eliminating certain lines of hard goods in the remaining 20 department stores	5,196	—
Losses from operations for the year of stores closed during the year, or to be closed before the end of the following year (see note 8(b) below)	6,563	8,704
	28,466	8,704
Less: Income tax recovery	13,343	3,974
	15,123	4,730

The cost of closing stores includes lease terminations, severance payments, write-downs of store equipment and leasehold improvements and anticipated losses on disposal of inventory.

- (b) Losses from operations for the year of stores closed during the year, or to be closed before the end of the following year, are made up as follows:

	1986	1985
	(thousands of dollars)	
Sales	104,414	107,081
Expenses —		
Cost of sales and expenses except those shown below	95,975	100,553
Wages and employee benefits	12,692	12,479
Rentals	1,478	1,889
Depreciation and amortization	832	864
	110,977	115,785
Loss from operations	6,563	8,704

The presentation of certain accounts for 1985 has been changed to segregate the results of those stores closed during the current year or to be closed before the end of the following year.

9. Income Taxes

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

	1986	1985
	%	%
Combined basic federal and provincial income tax rate	45.9	44.4
	(thousands of dollars)	
Provision for income taxes based on combined basic federal and provincial income tax rate	20,806	36,592
Increase (decrease) in taxes resulting from —		
Inventory allowance	(2,230)	(3,336)
Intercompany interest income taxed at reduced rates	(7,357)	(6,369)
Share of net earnings of significantly influenced companies	(4,095)	(5,556)
Non-taxable portion of capital gains	(491)	(13,791)
Other	(684)	911
Income tax provision	5,949	8,451
Tax recovery allocated to special charge (note 8(a))	13,343	3,974
	19,292	12,425
Allocated as follows:		
Current	8,142	14,386
Deferred	11,150	(1,961)
	19,292	12,425

9. Income Taxes (continued)

At July 26, 1986 the amount of losses for which potential income tax benefits have not been recorded in the accounts amounted to approximately \$34,000,000 which may be carried forward in order to reduce income otherwise taxable until 1991.

10. 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 December 31, 1984, January 1, 1985 and September 30, 1985 indicate that the pension plans are fully funded.

11. 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 1987	8,107	37,699
July 1988	8,358	35,421
July 1989	8,060	32,373
July 1990	7,486	30,193
July 1991	5,657	28,340
Subsequent years	71,689	255,555
Total future minimum lease payments	109,357	<u>419,581</u>
Less: Amounts representing imputed interest and executory costs	74,865	
Present value of obligations under capital leases (note 4)	34,492	
Less: Current portion due within one year	2,611	
	<u>31,881</u>	

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 \$24,755,000 (1985 — \$26,483,000) and \$36,280,000 (1985 — \$37,290,000) respectively would have been included in the balance sheet, and net earnings for the current year would have been reduced by \$563,000 (1985 — \$623,000).

12. 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 \$1,631,221, payable over periods ranging from 1 to 13 years. In addition, the company has guaranteed a lease amounting to \$2,567,259 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.
- (c) The United States Internal Revenue Service ("IRS") has performed a tax audit for the period since the acquisition of Smitty's Super Valu, Inc. ("Smitty's") by Steinberg B.V. to the end of the 1982 fiscal year. In March 1986, the IRS assessed additional taxes and penalties of U.S. \$17,200,000 plus interest (the "proposed deficiency"). In June 1986, the company filed a formal protest taking exception to the proposed deficiency with the Appellate Division of the IRS. It is not possible at this time to determine the duration of the appeals process.

12. Contingent Liabilities (continued)

The proposed deficiency includes U.S. \$8,900,000 pertaining to adjustments in the tax treatment of assets acquired in the acquisition. In 1985, the company deemed it prudent to provide U.S. \$6,800,000 with respect to this aspect of the proposed deficiency as an increase in goodwill. Provisions for interest on this amount of U.S. \$1,200,000 and U.S. \$3,700,000 have been charged to earnings in 1986 and 1985, respectively.

The IRS has also asserted that a 15% withholding tax should be applicable to all interest payments made by the company to Steinberg B.V. since the acquisition and has included in the proposed deficiency an adjustment of U.S. \$5,800,000, including penalties. In addition, the IRS has asserted that the company's pre-acquisition LIFO reserve is subject to recapture and has proposed an adjustment of U.S. \$2,500,000. The company believes that it has meritorious defenses to these claims and no provision has been made for such amounts.

The IRS is currently examining the company's tax returns for the fiscal years 1983 through 1985. It is probable that the IRS will propose similar adjustments relating to the tax treatment of acquired assets and withholding tax on interest payments. The amount of this assessment, if any, cannot be reasonably estimated.

The company believes that its ultimate liability, if any, will be substantially less than the proposed deficiency and that the amount, if any, determined ultimately to be payable by it will not be materially different from the amount provided.

13. Supplementary Information

Remuneration paid or payable to the ten (1985 — ten) directors, as directors, and twenty-five (1985 — twenty-three) officers amounted to \$85,900 (1985 — \$61,900) and \$3,517,100 (1985 — \$2,454,100) respectively. As at July 26, 1986 amounts owing to the company by thirteen (1985 — thirteen) of the officers of Steinberg Inc. amounted to \$843,000 (1985 — \$673,000) in respect of housing loans secured by mortgages.

14. Subsequent Events

- (a) On August 9, 1986 the company entered into the following agreements with the objective of acquiring all the issued and outstanding shares of Aligro Inc. (Aligro):
- a letter of intent between the company and Aligro providing for the amalgamation of Aligro with a wholly-owned subsidiary of Steinberg Inc.;
 - an option agreement with eleven principal shareholders of Aligro under which the shareholders agree to vote their shares in favour of the amalgamation referred to above and also offer to sell their Aligro shares to the company. These principal shareholders own 2,817,007 Aligro shares representing approximately 54% of the issued and outstanding common shares.
- If the amalgamation is approved by the shareholders of Aligro at their special general meeting which is expected to be held before October 31, 1986, and subject to the approval of certain regulatory authorities and to certain other conditions, the company will issue to the eleven principal shareholders and to the other Aligro shareholders ½ of a non-voting Class "A" share and one convertible fourth preferred share Series I for each Aligro share. This represents a total of approximately 2,585,945 non-voting Class "A" shares and 5,171,890 convertible fourth preferred shares Series I at a total stated value of approximately \$114,000,000. No fractional non-voting Class "A" shares will be issued, a cash adjustment being payable in lieu thereof. The convertible fourth preferred shares Series I have the following characteristics:
- a semi-annual, non-cumulative dividend of 2/100 of a cent per share commencing January 1, 1992;
 - on or after November 15, 1991 the preferred share is retractable for \$5 or convertible into non-voting Class "A" shares on the basis of a formula reflecting the then market value of the non-voting Class "A" shares;
 - the preferred share is redeemable for \$5 by the company at any time, at which time the conversion feature referred to above becomes exercisable with respect to the shares to be redeemed.
- (b) Subsequent to year-end, the company has redeemed, on September 30, 1986, all the 8% 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.

15. Segmented Information

(a) Results by Business Segment

	Food retailing and processing		General merchandise retailing		Real estate		Consolidated	
	1986	1985	1986	1985	1986	1985	1986	1985
	(thousands of dollars)							
Sales and Operating Revenue								
Outside customers	3,793,103	3,534,586	204,913	203,659	43,932	63,102	4,041,948	3,801,347
Inter-segment	—	—	—	—	25,088	21,058	—	—
Total	3,793,103	3,534,586	204,913	203,659	69,020	84,160	4,041,948	3,801,347
Profit (Loss) Before the Following	68,384	58,566	(7,651)	(740)	29,574	44,762	90,307	102,588
Corporate Expenses , including special charge and income taxes, less income							51,369	28,954
Net Earnings							38,938	73,634
Assets								
Identifiable by segment	823,058	750,254	73,666	72,451	216,705	205,821	1,113,429	1,028,526
Corporate							81,135	100,592
Investment in affiliates							27,189	17,540
Total							1,221,753	1,146,658
Capital Expenditures — net	81,845	50,421	2,918	1,619	6,317	4,548	91,080	56,588
Depreciation	39,666	36,758	1,832	1,683	6,569	6,021	48,067	44,462

Food retailing and processing — merchandises a complete range of food and non-food products, through 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	
	1986	1985	1986	1985	1986	1985
	(thousands of dollars)					
Sales and Operating Revenue						
Profit Before the Following	47,969	32,162	42,338	70,426	90,307	102,588
Corporate Expenses , including special charge and income taxes, less income					51,369	28,954
Net Earnings					38,938	73,634
Assets						
Identifiable	798,723	746,791	314,706	281,735	1,113,429	1,028,526
Corporate					81,135	100,592
Investment in affiliates					27,189	17,540
Total					1,221,753	1,146,658
Capital Expenditures — net	49,449	49,750	41,631	6,838	91,080	56,588
Depreciation	38,707	35,687	9,360	8,775	48,067	44,462

Included in 1985 profit before corporate expenses for the United States geographic area is a gain on sale of land of \$26,600,000.

Expansion and development keep our shopping centres bright, modern and inviting. This helps attract customers and improve retail sales for some 1,000 tenants of Ivanhoe shopping centres.



*I*vanhoe Inc., a wholly-owned subsidiary of Steinberg Inc., owns and operates 101 developed properties, including shopping centres, supermarkets and other retail properties, with a gross leasable area of 8,700,000 square feet. This subsidiary also has a 51% interest in three shopping centres, which it manages, and has joint ownership interests in seven others.

Development and Acquisition

Ivanhoe has undertaken an extensive program of expanding, renovating and modernizing its existing properties. New merchandising and operating programs are also underway.

As a result of a comprehensive asset review in fiscal 1985, one shopping centre was sold, another is being redeveloped and a new one is under construction.

During the year, more than 128,000 square feet of the former Steinberg bakery, in east-end Montreal, was redeveloped and leased to a Quebec utility.

Construction planning is in progress for a major expansion and renovation of Champlain Mall on the south shore of Montreal. Construction is to start in early 1987 and be completed by mid-1988.

Other major projects in the initial planning stages include: expansion of Place Ste-Foy, in Ste-Foy, Quebec, and the West Island Mall, in the Montreal area; renovation of St. Martin Shopping Centre in Laval, Quebec; and redevelopment of both the Greenfield Park Shopping Plaza, on the south shore of Montreal, and a property in the Ottawa area.

As in recent years, Ivanhoe disposed of some surplus land (136 acres) in Quebec and Ontario.

Shopping Centre Management

Ivanhoe's shopping centres are constantly reviewed and assessed, in order to optimize profitability and operating efficiencies. To this end, a number of remerchandising plans were implemented to improve tenant mix and to help tenants increase sales.

Maintenance standards were given particular attention during the year to make Ivanhoe shopping centres more appealing to customers and tenants.

Human resources are one of Ivanhoe's most important assets. In this area, studies are being conducted to help us make our organization more efficient, effective, enterprising and competitive.

Financial Performance

Consolidated revenues for the fiscal year ended July 26, 1986 were \$69,020,000 compared to \$84,160,000 the previous year. Last year's revenues included a gain of \$26,962,000 from the sale of surplus land in Canada and the U.S. This year's gain from such sales was \$2,896,000.

Earnings from operations totalled \$38,604,000 compared with \$54,469,000 last year. After adjusting for the gains on the sale of land, earnings from operations were \$35,708,000, an \$8,201,000 increase from last year's restated earnings of \$27,507,000. The increase is primarily from the growth in shopping centre operations and earnings from equity interests.

Lower interest and capitalization rates, higher cash flow from operations and a substantial rise in Montreal-area property values in the past year indicate that the appraisal surplus of Ivanhoe's real estate holdings may have improved significantly. Although no formal appraisal survey was conducted in fiscal 1986, an independent appraisal in fiscal 1985 showed an appraisal surplus of \$359,774,000, or \$21.47 per common and non-voting Class «A» share of Steinberg Inc. before tax.

Net financial expenses totalled \$18,471,000, up \$895,000 from the previous year's \$17,576,000. This mainly reflects the additional cost of borrowings associated with new capital investments.

Net earnings were \$14,626,000 this year compared to \$32,163,000 last year. However, this year's earnings were higher than those of last year if the \$25,200,000 gain from the sale of land in fiscal 1985 is excluded.



CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 26, 1986

Earnings	1986	1985
	(thousands of dollars)	
Revenue		
Rentals — Steinberg Inc. and subsidiaries	19,472	16,313
— Other	29,663	26,096
Tenants' share of expenses — Steinberg Inc. and subsidiaries	5,616	4,745
— Other	11,373	10,044
Gain arising from real estate transactions	2,896	26,962
	69,020	84,160
Expenses		
Operating and administrative — Steinberg Inc.	1,431	1,449
— Other	18,691	19,376
Wages and employee benefits	6,414	6,209
Depreciation and amortization	8,694	6,824
	35,230	33,858
	33,790	50,302
Other Income		
Share of net earnings of significantly influenced companies and partnerships	4,814	4,167
Earnings from Operations	38,604	54,469
Interest Expense (Income)		
Interest and amortization of discount on long-term debt —		
Steinberg Inc. and subsidiaries	6,919	8,222
Other	14,074	11,910
Other interest	181	126
Interest earned and gain on redemption of long-term debt	(2,703)	(2,682)
	18,471	17,576
Earnings Before Income Taxes, Minority Interest and Extraordinary Item	20,133	36,893
Income Taxes (note 7)		
Current	4,421	5,076
Deferred	3,449	(739)
	7,870	4,337
Earnings Before Minority Interest and Extraordinary Item	12,263	32,556
Minority Interest	470	393
Earnings Before Extraordinary Item	11,793	32,163
Extraordinary Item		
Reduction of income taxes on application of prior years' losses	2,833	—
Net Earnings for the Year	14,626	32,163
By Geographic Area —		
Canada	14,736	6,161
United States	(110)	26,002
	14,626	32,163

Retained Earnings	1986	1985
	(thousands of dollars)	
Balance — Beginning of Year	6,225	10,062
Net earnings for the year	14,626	32,163
	20,851	42,225
Dividends —		
Common shares	4	36,000
Balance — End of Year	20,847	6,225

CONSOLIDATED BALANCE SHEET

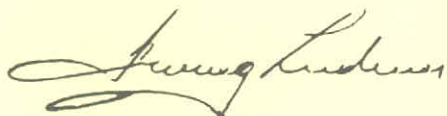
Ivanhoe Inc. and Subsidiary Companies
as at July 26, 1986

Assets	1986	1985
	(thousands of dollars)	
Property Interests		
Income producing properties (note 2)	295,240	264,155
Accumulated depreciation	94,541	83,659
	200,699	180,496
Land held for future development	34,515	33,877
	235,214	214,373
Other Assets		
Cash and short-term deposits	15,917	5,174
Receivables and investments (note 3)	4,335	16,168
Prepaid expenses	6,170	5,281
Unamortized discount on long-term debt	708	817
	262,344	241,813
Liabilities		
Long-Term Debt and Other Obligations (note 4)		
Steinberg Inc.	51,711	58,665
Other	129,260	126,541
	180,971	185,206
Other Liabilities		
Accounts payable and accrued liabilities (note 5)	33,336	24,467
Deferred Income Taxes	20,989	19,603
Minority Interest	1,101	1,122
	236,397	230,398
Shareholders' Equity		
Capital Stock (note 6)	5,100	100
Contributed Surplus (note 6 (c))	—	5,090
Retained Earnings	20,847	6,225
	25,947	11,415
	262,344	241,813

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 26, 1986

	1986	1985
	(thousands of dollars)	
Earnings Before Extraordinary Item	11,793	32,163
Items not requiring cash —		
Depreciation and amortization	8,803	6,929
Deferred income taxes	3,449	(739)
Minority interest	470	393
Reduction of income taxes on application of prior years' losses	2,833	—
Cash Flow from Operations	27,348	38,746
Financing		
Additional long-term debt	9,733	26,000
Repayment of long-term debt	(7,014)	(8,201)
Repayment of advances and subordinated notes from Steinberg Inc.	(6,955)	(10,674)
Proceeds on issue of preference shares	5,028	5,090
Redemption of preference shares	(5,118)	(5,727)
	(4,326)	6,488
Funds Obtained from Other Assets and Liabilities	6,608	9,042
Payment of Dividends	(4)	(36,000)
Payment of Dividends to Minority Shareholders by a Subsidiary Company	(491)	(537)
Increase in Funds Invested in Property Interests — net	29,135	17,739
Increase Represented by the Following:		
Additions to property interests	33,478	31,070
Proceeds on disposal of property interests	(7,239)	(40,293)
Gain arising from real estate transactions	2,896	26,962
	29,135	17,739

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 26, 1986 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 26, 1986 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.

Coopers & Lybrand

Montréal, Québec
October 1, 1986

Coopers & Lybrand
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ivanhoe Inc. and Subsidiary Companies
for the year ended July 26, 1986

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.

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 transactions 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.

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.

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

1986 1985
(thousands of dollars)

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

Cost	46,781	19,810
Accumulated depreciation	10,776	4,896
	36,005	14,914

3. Receivables and Investments

1986
(thousands of dollars)

	1986	1985
Receivables		
Due from tenants	982	971
Amounts recoverable from land transactions, funds on deposit and other items	5,357	5,724
Notes receivable — Steinberg Inc.	—	7,548
Income taxes recoverable	—	958
	6,339	15,201
Investments		
Interest in significantly influenced companies and partnerships —		
Shares and interests — at equity, less advance distributions	(6,029)	(2,187)
Advances	1,341	1,555
Other investments	2,684	1,599
	(2,004)	967
	4,335	16,168

4. Long-Term Debt and Other Obligations

1986
(thousands of dollars)

Steinberg Inc. —		
Due to Steinberg Inc. bearing interest at 1½% above prime —		
Advances	3,464	5,418
Subordinated notes	48,247	53,247
	51,711	58,665
Other —		
First mortgage sinking fund bonds —		
Ivanhoe Inc. —		
6%, due 1987	341	445
7½% Series A, due 1991	1,985	2,340
7% Series B, due 1991 (repayable in U.S. currency \$837,000; 1985 — \$976,000)	1,161	1,319
10¼% — 10½% Series 1978, due 1998 (or 1988 at option of holder)	24,755	25,371
12.40% Series 1980, due 1995	11,850	12,540
15.25% Series 1984, due 2004	25,709	25,911
Steinberg's Shopping Centres Limited —		
8½% Series B, due 1994	1,491	1,663
Steinberg Realty Limited —		
9% Series A, due 1991	9,999	10,931
9% Series B, due 1993	16,917	18,120
Other obligations —		
6% — 10% balances payable on land purchases to 1994 (repayable in U.S. currency \$2,538,409; 1985 — \$2,820,455)	3,521	3,813
10¾% — 16¾% mortgage loans, repayable in varying monthly instalments to 1996 (note 4 (c))	21,266	18,378
10⅞% term bank loan, due 1990 (note 4 (a))	2,610	—
11½% term bank loan, due 1986	—	1,000
12⅞% term bank loan, due 1995 (note 4 (a))	3,375	—
13½% term bank loan, due 1991	4,280	4,710
	129,260	126,541
	180,971	185,206

(a) Term bank loans in the amount of \$5,985,000 (1985 — nil) relate to assets employed in the retail and processing operations of Steinberg Inc.

(b) At July 26, 1986 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:

4. Long-Term Debt and Other Obligations (continued)

1987	1988	1989	1990	1991
		(thousands of dollars)		
7,606	7,668	12,694	8,255	14,827

The amount shown as payable in 1988 does not include \$24,300,000 of the 10¹/₄%-10¹/₂% Series 1978 first mortgage sinking fund bonds all or part of which may become payable in that year at the option of the holder.

The excess of bonds cancelled or purchased for cancellation to date, over the cumulative sinking and purchase fund requirements at July 26, 1986 amounting to \$2,364,000 may be applied against these requirements.

- (c) An 11¹/₂% mortgage of \$3,327,000 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

	1986	1985
	(thousands of dollars)	
Deferred income	1,752	1,752
Steinberg Inc. and affiliated companies	5,985	14,069
Demand note payable to a significantly influenced company, bearing interest at prime	12,581	—
Income taxes payable	64	—
Other	12,954	8,646
	33,336	24,467

6. Capital Stock

- (a) Capital stock is comprised as follows:

	1986	1985
	(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		
996 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	—
NIL 9 ¹ / ₂ % Series Nine cumulative redeemable preference share (1985 — 1)	—	—
1,001 common shares (1985 — 1,001)	100	100
	5,100	100

- (b) During the year, the company obtained supplementary letters patent to effect the following changes to its authorized capital stock:

- (i) On February 24, 1986, it was increased through the creation of an additional series within its existing preference share class, namely:
One 8% cumulative redeemable Series Ten preference share of the par value of \$1.
- (ii) On July 1, 1986, it was reduced through the cancellation of the following classes of shares within its existing preference share class, namely:
One 9¹/₂% cumulative redeemable Series Nine preference share and one 8% cumulative redeemable Series Ten preference share of the par value of \$1 each.
- (iii) On July 21, 1986, it was increased through the creation of a new class of preferred shares, namely:
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 preferred shares redeemable at their par value of \$1,000 each.

6. Capital Stock (continued)

- (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 \$28,261, one 8% cumulative Series Ten preference share of the par value of \$1 redeemable at its issue price.
 - (ii) The company redeemed one 9% cumulative redeemable Series Nine preference share and one 8% cumulative redeemable Series Ten preference share for a total cash consideration of \$5,117,861. The one Series Nine preference share and the one Series Ten preference share were subsequently cancelled, as described in note 6(b)(ii).
 - (iii) The company issued 5,000 8% cumulative Series A preferred shares for a total cash consideration of \$5,000,000.
- During the year, Ivanhoe Inc. issued one preference share for a consideration of \$28,260 in excess of the amount allocated to its par value, as described in note 6(c)(i) and redeemed preference shares with a contributed surplus of \$5,117,859 as described in note 6(c)(ii).
-

7. Income Taxes

The company's income tax provision is made up as follows:	1986	1985
	%	%
Combined basic federal and provincial income tax rate	44.7	43.4
	(thousands of dollars)	
Provision for income taxes based on combined basic federal and provincial income tax rate	8,999	16,032
Increase (decrease) in taxes resulting from —		
Share of net earnings of significantly influenced companies	(751)	(577)
Non-taxable portion of capital gains	(126)	(175)
Net gain on investment in scientific research tax credits	—	(497)
Gain on real estate transactions taxed at reduced rates	(302)	(9,871)
Other	50	(575)
	7,870	4,337

8. 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 \$21,345,000. Of this amount, \$10,017,000 represents losses for which a future tax benefit has been recognized as deferred income taxes in the accounts and \$11,328,000 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 1987	566,000
1990	2,853,000
1992	8,864,000
1993	9,062,000
	<hr/>
	\$21,345,000

9. Contingent Liabilities

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

10. 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. 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.

TEN-YEAR STATISTICAL REVIEW

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

		1986	1985
		\$	\$
Summary	Sales and operating revenue	4,041,948	3,801,347
Income Statement**	Salaries, wages and employee benefits	672,502	612,165
	Rentals	43,214	43,670
	Depreciation and amortization	49,966	46,328
	Interest on long-term debt	41,678	34,418
	Earnings before special charge, income taxes, minority interest and extraordinary items	73,766	91,168
	Income taxes	19,292	12,425
	Earnings (before special charge)	54,061	78,364
	Special charge	15,123	4,730
	Net earnings	38,938	73,634
Selected Balance Sheet Items	Inventories	333,069	343,536
	Working capital	249,872	256,510
	Investments and other assets	41,609	34,213
	Fixed assets — net	520,491	478,310
	Total assets	1,221,753	1,146,658
Capital Employed	Long-term debt	319,161	293,258
	Deferred income taxes	14,542	15,989
	Minority interest	1,281	1,358
	Preferred and Preference Stock	138,185	139,430
	Common and non-voting Class "A" shareholders' equity	401,446	382,059
	Total capital employed	874,615	832,094
Cash Flow Items	Capital expenditures***	103,854	77,941
	Cash Flow from operations	84,703	109,068
	Dividends paid to shareholders	22,056	21,129
Key Financial Ratios	Return on average capital employed****	7.25%	12.21%
	Return on average common and non-voting Class "A" equity	6.45%	18.19%
	Earnings (before special charge) as % of sales and operating revenue	1.34%	2.06%
	Long-term debt: equity ratio	37:63	36:64
	Long-term interest coverage ratio	2.09	3.40
	Working capital ratio	1.72	1.81
	Inventory turn-over ratio	9.49	9.24
Per Share Data	Earnings per common and non-voting Class "A" share		
	Before special charge and extraordinary items	\$ 2.41	\$ 4.52
	Before extraordinary items	\$ 1.51	\$ 4.19
	Net earnings for the year	\$ 1.51	\$ 4.19
	Dividend paid per common and non-voting Class "A" share	\$ 0.50	\$ 0.50
	Book value per common and non-voting Class "A" share	\$23.93	\$22.81
Retail Facilities Data*****	Supermarkets (including combination stores)		
	Canada — Number of units	205	219
	— Gross leasable area (thousands of sq. ft.)	6,991	7,418
	— Sales area (thousands of sq. ft.)	4,046	4,283
	United States — Number of units	22	20
	— Gross leasable area (thousands of sq. ft.)	1,899	1,679
	Limited-assortment grocery stores		
	— Number of units	66	66
	— Gross leasable area (thousands of sq. ft.)	539	539
	Department stores		
	— Number of units	31	31
	— Ground floor area (thousands of sq. ft.)	2,993	2,993
	— Sales area (thousands of sq. ft.)	2,086	2,086
	Restaurants — Number of units	162	173

*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.

*****Number of units and related data include 3 Jadis food warehouse stores and 11 Miracle Mart department stores which will be closed subsequent to the end of the 1986 fiscal year.

1984	1983	1982*	1981	1980	1979	1978	1977
\$	\$	\$	\$	\$	\$	\$	\$
3,341,580	3,248,058	3,210,300	2,750,492	2,192,178	2,032,875	1,872,281	1,717,604
562,288	549,764	522,866	433,054	342,498	303,530	273,637	252,882
41,220	38,225	36,618	32,108	28,973	27,185	23,027	20,141
42,722	44,213	39,965	32,589	27,099	24,497	22,439	19,849
35,225	37,361	47,614	32,795	16,733	15,483	18,124	15,641
35,288	5,387	39,107	60,702	45,589	48,579	46,133	47,457
14,589	(9,020)	1,306	18,128	16,068	20,028	17,926	22,353
20,364	14,916	37,132	40,589	28,890	27,992	27,657	24,765
5,343	1,524	3,029	1,109	929	1,141	475	3,005
15,021	13,392	34,103	39,480	27,961	26,851	27,182	21,760
314,765	310,559	289,138	267,506	204,378	159,885	156,863	146,118
134,426	121,481	133,866	142,628	98,926	106,780	84,054	75,245
37,594	34,344	39,709	37,360	24,539	31,338	13,209	12,690
467,048	482,807	498,710	479,687	373,100	313,461	312,716	293,955
1,012,954	998,374	998,196	1,041,332	760,750	648,294	572,541	522,797
265,930	292,555	347,450	350,531	186,648	160,600	206,929	199,432
8,102	4,874	28,934	34,467	26,826	23,264	19,003	16,765
1,266	931	4,321	3,946	3,365	3,309	2,950	2,524
141,708	117,939	64,008	65,196	67,760	69,435	5,472	7,624
276,250	275,799	281,073	260,406	232,086	215,222	195,099	172,711
693,256	692,098	725,786	714,546	516,685	471,830	429,453	399,056
34,210	57,875	66,511	41,111	87,567	26,208	41,922	47,056
62,431	33,988	69,575	82,255	60,082	57,103	53,367	45,955
18,321	18,242	14,119	12,060	12,126	6,240	5,233	4,685
6.35%	4.75%	8.20%	9.16%	7.48%	7.89%	8.97%	8.01%
1.24%	1.84%	10.80%	14.02%	10.24%	13.00%	14.67%	13.09%
0.61%	0.46%	1.16%	1.48%	1.32%	1.38%	1.48%	1.44%
39:61	43:57	50:50	52:48	38:62	36:64	51:49	53:47
1.85	1.07	1.70	2.72	3.65	3.99	3.49	3.66
1.42	1.40	1.49	1.44	1.40	1.61	1.59	1.60
8.94	9.17	9.19	9.11	9.76	10.48	10.46	10.45
\$ 0.61	\$ 0.38	\$ 2.26	\$ 2.59	\$ 1.68	\$ 1.97	\$ 1.96	\$ 1.76
\$ 0.24	\$ 0.27	\$ 2.05	\$ 2.51	\$ 1.62	\$ 1.89	\$ 1.93	\$ 1.54
\$ 0.24	\$ 0.36	\$ 2.05	\$ 2.43	\$ 1.62	\$ 1.89	\$ 1.93	\$ 1.54
\$ 0.50	\$ 0.70	\$ 0.65	\$ 0.50	\$ 0.50	\$ 0.43	\$ 0.36	\$ 0.33
\$19.38	\$19.35	\$19.72	\$18.30	\$16.38	\$15.22	\$13.94	\$12.38
221	222	226	227	224	218	209	206
7,466	7,488	7,561	7,543	7,380	6,889	6,517	6,374
4,302	4,313	4,335	4,324	4,214	3,883	3,593	3,488
20	20	20	20				
1,679	1,679	1,679	1,679				
88	85	70	44	28	6		
616	610	509	311	205			
32	32	32	32	32	34	32	31
3,160	3,160	3,160	3,223	3,223	3,348	3,132	3,038
2,208	2,208	2,208	2,255	2,255	2,350	2,178	2,112
189	198	196	200	200	194	164	153

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Vice-President &
Controller

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Barry Seitz
Vice-President,
Procurement

André Turenne
Vice-President,
Merchandising

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Group Vice-President

David Steinberg
Vice-President &
General Manager

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Meat Processing

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General Merchandise
Manager,
Hard Goods

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Store Operations

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Mark Schwartz
Vice-President &
General Manager

Salisbury House of Canada Ltd.

Lewis Steinberg
President

David Cook
Vice-President &
General Manager

Smitty's Super Valu, Inc.

C. Thomas Hickey
President &
Chief Executive Officer

J. Winslow Smith
Executive Vice-President,
General Manager &
Chief Operating Officer

Stanley F. English
Vice-President,
Legal and Corporate Affairs,
Secretary

Ward S. Noble
Vice-President,
Finance,
Assistant-Secretary

Steinberg B.V.

Roger Steinemann
Managing Director

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Jean-Roch Vachon
President

Harry Lutgens
Vice-President and
General Manager

Jacques Lacas
Vice-President,
Marketing & Operations,
Marché du Jour

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Lantic Sugar Limited

Leo E. Labrosse
President &
Chief Executive Officer

146896 Canada Inc. (Price Club)

Pierre L. Mignault
President

Transfer Agent

Montreal Trust Company
Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary
and Vancouver

Registrar

The Royal Trust Company
Halifax, Montreal, Toronto,
Winnipeg, Regina, Calgary
and Vancouver

Stock Exchange Listings

- Non-Voting Class "A"
Shares
- 5 1/4% Preferred Shares
- \$1.95 Second Preferred
Shares
- \$2.9375 Series A Second
Preference Shares
- U.S. \$2.875 Series B Second
Preference Shares

Montreal Exchange
Toronto Stock Exchange

Auditors

Coopers & Lybrand
Montreal

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