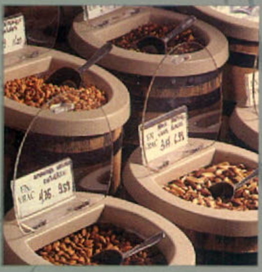
Annual Report
1985



STEINBERG
Inc.

Cover

The store plan on this year's cover symbolizes an active year of renovations in many of our stores and shopping centres. Thirty supermarket modernizations have been completed to date and 30 more are planned for next year. Capital spending on new store concepts, modernizations and expansions totalled $56,000,000, up from $26,000,000 in fiscal 1984. Next year, the Company will spend $100,000,000 to improve its retail outlets and shopping centers.

Butcher Jean-Paul Houle and cashier Brigitte Bauhart both agree that Steinberg's new Super Marché concept provides a "wonderful environment in which to work and shop".

Company Profile

Steinberg Inc., one of Canada's largest retailing organizations, has grown in the past 68 years from one small food store in Montreal to a diversified company that includes supermarkets, limited-assortment grocery stores, warehouse food stores, franchised convenience stores, department stores and restaurants. Through a wholly-owned subsidiary, the Company also owns and operates extensive real estate holdings.

Steinberg, with its Head Office in Montreal, 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.

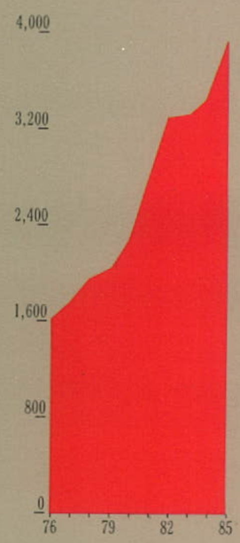
The Annual Meeting of Shareholders of Steinberg Inc. will be held in the Royal Bank auditorium, 1 Place Ville Marie, Mezzanine 2, in Montreal, Quebec, on Friday, November 22nd, 1985, at 10:30 A.M.

Contents

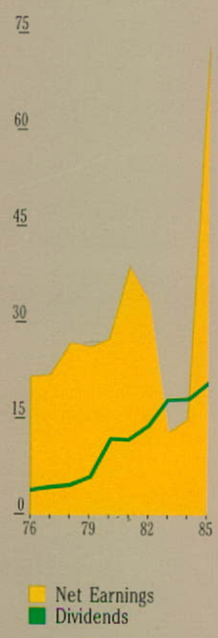
Financial Highlights

(in thousands of dollars except per share items)	1985 $	1984 $	1983 $
Sales and Operating Revenue	**3,908,428**	3,452,275	3,357,942
Canadian retail food	**2,666,847**	2,379,234	2,351,210
American retail	**831,070**	727,033	652,716
general merchandise	**274,584**	244,196	239,242
manufacturing (external sales)	**17,022**	8,261	34,324
restaurants	**55,803**	54,013	50,578
real estate operations (external)	**63,102**	39,538	29,872
Net Earnings	**73,634**	15,021	13,392
retail and manufacturing operations	**41,471**	4,216	6,195
real estate operations	**32,163**	10,805	7,197
per dollar of sales and operating revenue	**1.88¢**	0.44¢	0.40¢
Cash Flow from Operations	**109,068**	62,431	39,886
Working Capital	**256,510**	134,426	121,481
Shareholders' Equity (common and non-voting Class "A")	**382,059**	276,250	275,799
Per Common and Non-Voting Class "A" Share			
net earnings	**4.19**	0.24	0.36
dividends	**0.50**	0.50	0.70
book value	**22.81**	19.38	19.35
return on average equity	**18.19%**	1.24%	1.84%

Sales & Operating Revenue
(millions)



Net Earnings & Dividends
(millions)



Report to Shareholders

The past year was one of significant progress as we continued to renovate our stores, redefine their market position and explore innovative approaches to all areas of our business. The results have been encouraging.

□ Consolidated sales and operating revenue for the 52 weeks ended July 27, 1985, totalled $3,908,428,000 an increase of 13.2% over last year's $3,452,275,000.

□ Pre-tax earnings were $82,464,000, compared to $30,081,000 last year. Consolidated net earnings after taxes rose $58,613,000 to $73,634,000.

□ Earnings per common and non-voting Class "A" share increased from $0.24 to $4.19. (Outstanding shares in these classes were split two-for-one, effective July 3, 1985.) Earnings per share are stated after deducting preferred and preference dividends of $11,598,000 in fiscal 1984 and $13,773,000 this year.

□ During the year, the Company issued 2,500,000 non-voting class "A" shares. The net proceeds from the issue were added to the general funds of Steinberg, thus strengthening the Company's ability to finance operations, capital expenditures and future capital obligations.

□ In February, the Board of Directors appointed President Irving Ludmer as Chief Executive Officer.

Melvyn A. Dobrin

□ Other senior appointments, during the year, included: Jean-Roch Vachon, as Executive Vice-President, Food Retailing, Canada; William Cleman, as Executive Vice-President, Real Estate and Expansion; Pierre Mignault, as Vice-President, Corporate Development; and Marcel Croux as Vice-President, Information Systems. These changes reflect the Board's commitment to the development of a strong, professional management team.

□ In September, 1985, Mitzi Steinberg Dobrin resigned as Executive Vice-President, Legal and Corporate Affairs. During 12 years with the Company, Mrs. Dobrin shouldered many responsibilities, including those of General Manager of Miracle Mart and Executive Vice-President of Steinberg Inc. Mrs. Dobrin remains a member of the Board. Also in September, Norman Auslander, Executive Vice-President, Supermarkets Divisions, Canada, resigned from the Company. Mr. Auslander was a dedicated and professional member of Steinberg for 28 years.

□ All of us were saddened by the death, in December, of Vice-Chairman Nathan Steinberg. Along with his brother, the late Sam Steinberg, Mr. Nathan as he was affectionately known, was one of the pioneers of the Canadian food retailing industry. His reputation in the industry, particularly in Quebec where he played a leading role, was synonymous with excellence. He will be dearly missed.

□ Competition grew stronger in our major markets as competitors opened a great variety of new stores, including super food stores. Nevertheless, through operating efficiencies and increased market share, the Company's Canadian retail food operations contributed to improved consolidated net earnings.

□ In the past few years, our marketing strategy was largely a response to our competition. Our current initiatives, however, reflect our role as a leader and an innovator. Identical stores were the rule. Uniformity, once a strength, has become a weakness. We are now moving to meet the special needs of the markets we serve. In virtually all areas, customers have responded well.

□ In seeking to meet the needs of various market segments, we are actively involved in controlled experimentation. This includes testing, monitoring and refining new concepts individually in order to confirm their viability. Our 85,000-square-foot Marché du Jour and our new franchised, 8,500-square-foot "Les 5 Saisons" store are two good examples.

□ Perhaps the most visible element of change, and a major contributor to our performance, has been the conversion of many of the Company's conventional supermarkets.

□ Strengthened management, greater encouragement of store managers to be more entrepreneurial in their approach to day-to-day procedures, and firmer controls over financial and administrative matters, have added up to a healthy, dynamic operation.

□ In an effort to regain profitability, our Miracle Mart Division has been testing a prototype store that emphasizes better merchandising, new display techniques and enhanced services. Initial customer response has been positive enough that further testing of this new approach will be undertaken in fiscal 1986.

□ In our restaurant subsidiary, we opened some new self-service units and expanded our traditionally successful ones. We are experimenting with new concepts. We will continue to open new units, renovate existing ones and dispose of those not compatible with our objectives. Our restaurant operations are generating a satisfactory return on investment.

□ As of this fall, two large new units will be added to our Smitty's supermarket/department store chain in Phoenix, Arizona. This should enhance our leadership in the fast-growing U.S. Southwest. A newly-formed subsidiary of Smitty's, St. Lawrence Holding Company, has been established to acquire and develop additional properties in this area.

□ The Company, through its Ivanhoe subsidiary, currently has ownership interests in more than 100 developed properties in Canada and the U.S. In December, Ivanhoe sold two large tracts of land in Texas, realizing a significant profit.

□ Income from equity investments was higher than last year mainly because of good performance by Lantic Sugar Limited, in which Steinberg holds a 50% interest.

□ In the past year, we have taken steps to increase communication between management and unions. More frequent dialogue is being encouraged to prevent or resolve differences promptly. Employee communications now include wider and more frequent distribution of Company information through print and electronic means. All of these factors have enhanced productivity, performance and morale throughout our ranks.

□ We are encouraged by our new momentum and are committed to building on our considerable strengths: a solid financial base, the synergy of our retailing and real estate operations, and especially, the determination of our 32,000 men and women to make Steinberg a leader in the communities it serves. Thus, we are moving toward total-resource management.

Irving Ludmer

□ On behalf of the Board, we thank all our customers, employees, shareholders and suppliers for their support and encouragement.

□ In all our business activities, our job is to provide the best products, the best value, the best environment. Our job is to satisfy our customers and ensure their loyalty. Such loyalty is only earned by plain hard work and the tradition of excellence that has governed Steinberg for the past 68 years.

On behalf of the Board,

Mel Dobrin

Melvyn A. Dobrin
Chairman of the Board

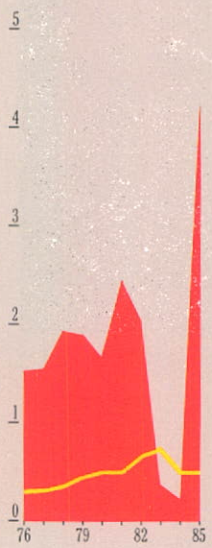
Irving Ludmer

Irving Ludmer
President &
Chief Executive Officer

October 29, 1985

Financial Review

Net Earnings & Dividends per Common & Non-Voting Class "A" Share
(dollars)



Net Earnings
Dividends

Earnings per share, after provision for preferred and preference dividends, increased to $4.19 from $0.24 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 5.2% over ten years.

The consolidated financial results of Steinberg Inc. and its subsidiaries for the fiscal year ended July 27, 1985, reflect a recovery from severely depressed earnings of the previous two fiscal years.

Sales and Operating Revenue

Consolidated sales and operating revenue of $3,908,428,000 were 13.2% higher than the $3,452,275,000 achieved in fiscal 1984. All segments of the Company contributed in some measure to this growth. The Canadian retail food operations, largely responsible for increased sales, registered a 12.1% improvement over the prior year. On a comparable basis, excluding the western sales of Valdi Foods Inc. (whose western operations were closed in the second quarter), the increase is 13.6%. Our American subsidiary, Smitty's Super Valu, Inc., showed sales growth of 7.6% stated in U.S. dollars and, despite strong competition, maintained its leading position in the growing Phoenix market.

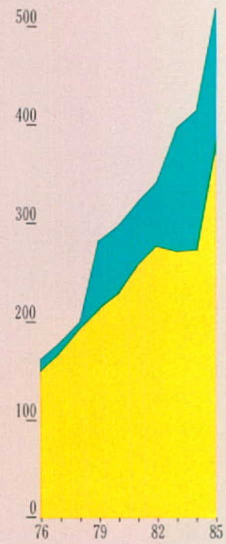
□ Our Canadian general merchandise sales, up 12.4%, benefitted from improved economic conditions. The restaurant group showed sales increases in all its markets. Real estate operating revenue, including gains from the sale of properties, continued upward with a 59.6% increase over the previous year. The manufacturing division recorded substantially higher sales.

Net Earnings

Consolidated net earnings for the year totalled $73,634,000 compared to $15,021,000 in the previous year. After giving effect to the two-for-one stock split effective July 3, 1985, consolidated earnings per common and non-voting Class "A" share were $4.19 per share compared to $0.24 the previous year.

□ In the current year, losses incurred in certain subsidiaries have been reduced by anticipated income tax recoveries

Book Value of Shareholders' Equity
(millions)



Common and Non-Voting Class "A" Shareholders' Equity

Preferred and Preference Stock

Total shareholders' equity increased by 24.8% to $521,489,000 this year. Common and non-voting Class "A" shareholders' equity increased by 38.3% to $382,059,000 this year due principally to the issue on July 23, 1985 of 2,500,000 non-voting Class "A" shares for $53,125,000. The book value per common and non-voting Class "A" share outstanding increased to $22.81 from $19.38 last year.

based on the virtual certainty of these losses being offset by future profits. In the previous year, the absence of virtual certainty prevented the tax affecting of losses amounting to $34,000,000. The Company believes that these latter losses will be fully recoverable against future profits.

□ Net earnings increased by $58,613,000; however, if fiscal 1984 losses had been fully tax affected, on a comparable basis the increase would have been $43,075,000. The Canadian retail food operations showed improved profitability, although the return on investment remains substantially below industry norms. Other factors contributing to increased earnings were an after-tax gain of $25,200,000 realized by Ivanhoe on the sale of two parcels of land in the United States, and improved profitability in restaurant operations.

□ Smitty's Super Valu, Inc. contributed $26,288,000 (U.S.) before inter-company interest expenses and income taxes, an increase of 4.8% over last year. The improvement in profitability was due both to increased sales volume and to improved productivity, which resulted in cost reductions.

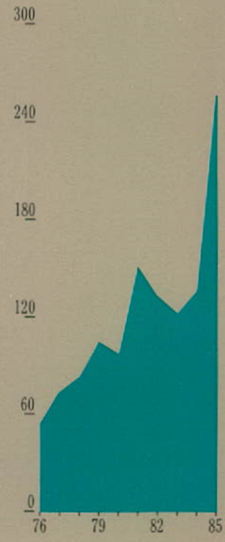
□ Principal factors negatively affecting earnings were the continued non-profitability of the La Maisonnée franchised convenience store operations, costs associated with the closing of Valdi's western operations and increased losses in the Miracle Mart division.

□ The Company's share of net earnings in non-controlled companies was $15,358,000, which is $3,135,000 higher than in the preceding year. The increase is primarily due to higher earnings from our equity investment in Lantic Sugar Limited. Net investment income amounted to $15,571,000, a 37.2% increase over last year.

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

Return on average common and non-voting Class "A" equity increased to 18.19% from 1.24% last year. The return on common and non-voting Class "A" equity averaged 11.15% for the past ten years.

Working Capital
(millions)

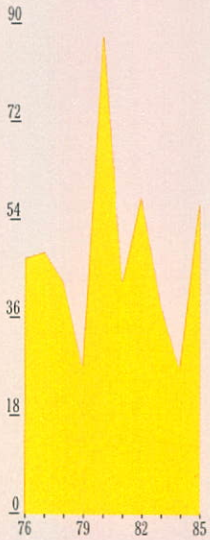


Working capital increased by $122,084,000 due, in part, to the issue on July 23, 1985 of 2,500,000 non-voting Class "A" shares and the sale of real estate in the U.S. The Company's working capital ratio was 1.81:1 compared with 1.42:1 for the previous year.

Assets and Liabilities

Consolidated assets increased by $133,704,000 to $1,146,658,000 at July 27, 1985. Current assets showed an increase of $116,950,000 while working capital increased by $122,084,000. Cash flow from operations was $46,637,000 higher than the previous year. The ratio of current assets to current liabilities improved to 1.81 from 1.42 the previous year. The ratio of long-term debt to shareholders' equity improved from 39:61 to 36:64 reflecting the issue on July 23, 1985 of 2,500,000 Steinberg Inc. non-voting Class "A" shares for $53,125,000 and the issue on December 21, 1984, of $26,000,000 of Ivanhoe First Mortgage Sinking Fund Bonds.

Capital Expenditures
(net of dispositions)
(millions)



This year's capital expenditure in the amount of $56,588,000 was $30,592,000 or 117.7% higher than last year.

The Company's balance sheet continues to reflect a strong financial position and will provide the base for its strategic thrust.

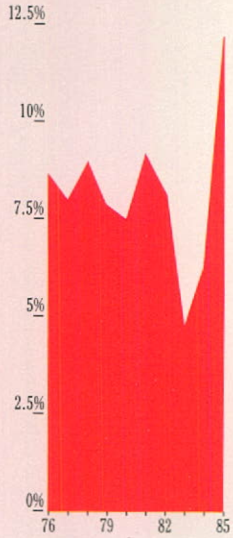
Shareholders' Equity

After giving effect to the two-for-one stock split effective July 3, 1985, the book value of common and non-voting Class "A" shareholders' equity rose from $19.38 to $22.81 at year-end, representing an increase of 17.7%.

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:

Return on Average Capital Employed
(percentage)



The return on average capital employed increased to 12.20% from 6.35% last year and averaged 8.17% for the past ten years.

(unaudited)
(in thousands of dollars except per share items which have been restated to give effect to the two-for-one stock split on July 3, 1985)

Quarter I

	First 12 weeks		
	1985	1984	1983
	$	$	$
Sales & Operating Revenue	**853,160**	753,625	763,272
Net Earnings	**3,324**	329	6,660
Earnings (Loss) Per Share	**0.01**	(0.16)	0.39

Quarter II

	Second 12 weeks		
	1985	1984	1983
	$	$	$
Sales & Operating Revenue	**963,067**	819,157	819,053
Net Earnings	**35,804**	6,758	8,009
Earnings Per Share	**2.29**	0.30	0.45

Quarter III

	Third 12 weeks		
	1985	1984	1983
	$	$	$
Sales & Operating Revenue	**901,008**	786,922	756,007
Net Earnings (Loss)	**13,440**	249	(2,101)
Earnings (Loss) Per Share	**0.72**	(0.17)	(0.33)

Quarter IV

	Last 16 weeks		
	1985	1984	1983
	$	$	$
Sales & Operating Revenue	**1,191,193**	1,092,571	1,019,610
Net Earnings	**21,066**	7,685	824
Earnings (Loss) Per Share	**1.17**	0.27	(0.15)

Review of Operations

Canadian Retail Food Operations

Daniel Lafleur
Fish Clerk

Improved results in the Company's Canadian retail food operations contributed to consolidated net earnings in fiscal 1985. This was partly a result of sound recovery strategies introduced in fiscal 1984 and implemented throughout the past year.

□ Many of the Company's conventional supermarkets were converted during the year to create more attractive shopping environments. Quality, variety, value and service were all enhanced through the incorporation of bulk foods, in-store bakeries, salad bars, prepared foods departments, service meats, fish counters and a greater variety of fresh products.

□ Our perishable foods program was improved. Grocery product mix was modified to emphasize preferred national brands and the Company's private label products.

□ Our marketing approach was revised to focus on our wider variety of products at competitive prices, attractive store environments and better customer service. Our store managers have also been encouraged to take a more entrepreneurial approach to their operations.

. . . increasingly popular

□ Financial and administrative controls were strengthened. These included improved financial analysis of ongoing operations and capital expenditure programs.

□ All these initiatives have increased the Company's market share in Quebec and Ontario, despite heightened competition and the introduction of several large competing warehouse stores.

□ At year-end, the Company operated 219 supermarkets and food warehouse stores and one super food store in Canada. Annual sales in our conventional supermarkets and food warehouse stores averaged $572 per square foot of selling area. Weekly sales averaged $214,000 per store.

□ Immediately after year-end, Steinberg withdrew from Volume I Inc. and joined the IGA Canada Limited buying group.

Quebec Division

The year was marked by a 15% improvement in sales, which helped the Division return to a modest level of profitability after two years of severe losses. The growth of non-unionized, independent food retailers continued to be a key competitive factor in Quebec.

□ Improved performance was a result of high customer acceptance of a successful renovation program, a new advertising campaign and market strategy, and better store operations.

□ A renewed emphasis on human resources has led to better technical and management training programs. Such programs are expected to improve operating efficiency and customer service and help the Division maintain its upward trend. In January, 1985, Guy April joined the Division as Vice-President, Human Resources. Mr. April has considerable experience in organizational and personnel development, recruitment and labour relations.

. . . a well-received concept

□ Eighteen Quebec Division stores were converted to the Super Marché concept. In response to customer preferences, Le Super Marché offers bulk and ready-to-eat foods, in-store bakeries, specialized meat counters, fresh fish departments and upgraded customer service. When supported by aggressive marketing and courteous staff, this approach has proven to be a strong vehicle for combatting the super food stores. Four other Quebec Division stores have been converted to date and 19 more conversions are planned for fiscal 1986.

□ While experimentation with different marketing approaches will continue, the Super Marché concept will enable the Division to better respond to the increased segmentation of the marketplace.

□ At year-end the Division operated 139 stores in Quebec and in Eastern Ontario.

Ontario Division

The 74 supermarkets operated by Ontario Division increased their market share as Miracle Food Mart continued to experience strong sales growth.

□ A customer-centered approach, good service, competitive prices on quality products and an aggressive advertising program have all helped improve the Division's position in the Ontario marketplace.

□ Although profits are still below an adequate return on investment, they have increased significantly. Intense competition has kept margins low.

□ Six store modernizations were completed during the year and the Division introduced an enhanced supermarket concept, modelled after Quebec Division's Le Super Marché.

□ Significant management changes during the year included the promotion of Les Mann to Group Vice-President and General Manager, and the appointment of Peter Ward to Vice-President, Human Resources.

Greg MacCormack Store Manager Miracle Food Mart

□ Miracle Food Mart will continue to respond aggressively to the challenges of its marketplace with effective merchandising, advertising and store operations. Plans for the coming year include four store expansions, seven major modernizations, three new combination stores and the replacement of an existing store.

Valdi Foods Inc.

Valdi Inc. and Yesteryear Grocers Inc. were merged during the year under a new corporation: Valdi Foods Inc., which groups several new and experimental retail vehicles within a "Specialty Retailing" structure. Its operating divisions include Valdi Discount Foods (limited-assortment grocery stores), Jadis/Basics (food warehouse stores) and Marché du Jour (a super food store). Valdi Foods Inc., a wholly-owned subsidiary of Steinberg Inc., is also the parent company of Franchises 5-16-11 Inc.

□ Expansion in Ontario continued during the year with the opening of four new Valdi stores. Valdi Discount Foods now operates 66 limited-assortment grocery stores in

Ontario. Sales were 8% higher than last year. Continued, profitable expansion is planned for the coming fiscal year.

□ During the year, Valdi closed all 27 of its stores in the western provinces. Merchandise and equipment were transferred to Ontario stores and all future liabilities have been provided for in this year's financial results.

□ The four Jadis warehouse stores, two in Montreal, two in Quebec City, reported lower sales. Several new alternatives are being studied for these stores. The largest Jadis store, in Laval, was expanded and transformed into the Marché du Jour. This pilot super food store showed increased sales over the previous year as a Jadis warehouse store. The Marché du Jour provides one-stop shopping convenience in an attractive market environment featuring a wide range of service and self-service departments and boutiques. Permits to sell beer and wine were obtained during the year for these five stores. The single Basics warehouse unit, in Toronto, reported a slight decrease in sales.

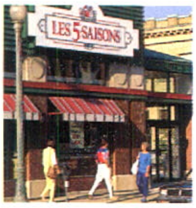
Ghislain Laverdière, Assistant Manager, Produce Department, Super Marché Steinberg, Domaine Shopping Centre, Montreal.

Ghislain, with Steinberg for 10 years says, "The past year has been terrific since the Super Marché concept was applied to my store. We now have specialized boutiques in meat, fish, cheese, bulk, bakery, produce... in just about every area. Customers love it."

"In fact, there are more customers now. I can vouch for that because I'm seeing many new faces and that suits me fine. I really enjoy working with the public. With stores like this one, the job is even more rewarding. It's great to be part of Steinberg's comeback".

□ A new subsidiary of Valdi Foods Inc., Franchises 5-16-11 Inc., was created to administer "Les 5 Saisons". This prototype, franchised store, in Montreal, offers high-quality perishables, and outstanding variety and service in produce, meat, deli, fish and baked goods. Expansion of this concept will proceed cautiously, after refining the approach and the franchise support system. Max Kollman, who has 20 years of varied experience with the Company, was appointed President of Franchises 5-16-11.

Franchise Plus (1985) Inc.
Store sales increased 27.6% over last year as La Maisonnée's positioning was firmed up. Certain unprofitable units were closed and internal controls were improved, but lack of profitability remains a concern. New products have been added to improve the convenience store merchandising mix and image. To provide greater convenience to customers, business hours have been expanded for all stores. Twenty-four stores are now open 24 hours a day. At year-end, 73 La Maisonnée units were in operation in Quebec.



Les 5 Saisons

□ Prior to year-end, the operating assets of Franchise Plus Inc. were transferred to Franchise Plus (1985) Inc., which now administers the La Maisonnée franchising operations. In August, 1985, Paule Langelier was appointed Controller.

International Operations

Steinberg B.V.
Headquartered in Rotterdam, Holland, Steinberg B.V. is a wholly-owned subsidiary established in 1981 to explore international opportunities. This company acquired Smitty's Super Valu, Inc. in January, 1981.


Members of the Board, Steinberg B.V.

Smitty's Super Valu, Inc.
Smitty's Super Valu, Inc. increased sales by 7.6%, to $619,785,000 (U.S.) despite a high level of new store construction by competitors and intense competition in the U.S. Southwest. Although wage costs were up, good expense controls helped produce a satisfactory profit.

□ Smitty's, the largest retailer in Arizona, employs more than 5,000 people and operates 20 supermarkets/department stores in Phoenix.

□ Two new stores, to be opened this fall, will each be in excess of 110,000 square feet. In addition to a large supermarket area, each store will also offer a full liquor department, in-store bakery, a flower shop, a large restaurant and a snack bar. General merchandise areas in the new stores have been designed for greater ease of shopping and traffic flow.

□ Considerable effort has been put into developing new training programs, particularly for employees who will work in the new stores.

□ Associated Grocers, a cooperative food wholesaler in which Smitty's was a shareholder, was sold during the year to the Fleming Companies. Smitty's expects that Fleming's extensive experience in wholesaling will improve Associated Grocer's operations. This should result in more competitive product costs for Smitty's.


Francine Brisebois
Senior Sales Clerk
Ladies Wear,
Miracle Mart

Department Store Operations

Although Miracle Mart sales were up 12.4%, compared to last year, higher operating and overhead expenses contributed to a loss. One store was closed, leaving 31 in operation in Quebec and Ontario.

□ The Division moved to improve long-term performance by developing marketing strategies to position Miracle Mart as an innovative and fashionable mass-market retailer to price-conscious, middle-class families. Merchandise assortments, customer services, advertising and store presentations were bettered. Steps were also taken to build a strong sense of commitment and competence among employees.

□ The Place Versailles store, in Montreal, was renovated to feature a visual merchandising approach that is unique. The results have been encouraging enough that this new look should be the basis of future

renovations. One such renovation, undertaken after year-end, at Carrefour Laval in suburban Montreal, was based on lessons learned in Place Versailles.

□ Senior Miracle Mart appointments during the year included: Michael Kershaw as Group Vice-President and General Manager; Harvey Zepp as Vice-President of Store Operations; and John Withenshaw as Vice-President, Human Resources. Merchandising management was also fortified.

Complex Manager Jack Kennaday, is excited about opening Smitty's new store in Scottsdale, Arizona. This suburban Phoenix store is one of two 110,000 square-foot supermarket/department stores that will be opened soon.

Manufacturing Operations

Trillium Meats

Trillium Meats, the Company's Ontario meat plant, experienced growth in sales and productivity, but reported a small loss for the year. This growth came, in part, from the introduction of a hog-cutting facility, a full line of fresh sausage and ground beef products, and centralization of Steinberg's beef buying.

□ Subsequent to fiscal 1985, the Quebec meat plant and warehouse became an operating arm of Trillium Meats.

"The new stores will give us increased retail leadership in the Phoenix area", says Jack. "I'm also pleased about the many new merchandising concepts we will be introducing. These stores will be very attractive, exciting places for one-stop shopping".

□ In July 1985, Robert Aubin was appointed Vice-President, Meat Processing.

Company Brands

Since 1928, Steinberg has been contracting with national brand manufacturers in North America for private label products. The high quality of these food and non-food items is ensured by extensive testing in Steinberg's own laboratories. Over the years, Steinberg Company Brands have earned a loyal following among consumers.

□ Steinberg reaffirmed its commitment to Company Brands this year by introducing a new money-back/replacement guarantee that has been well-received by consumers. Many new products, and imported products were added during the year, bringing the total to well over 1,000 company brands in grocery, deli, baked goods and non-food items. Although industry private label tonnage has been steady, our tonnage was more than 25% higher than last year's.

premium quality products

Restaurant Operations

The restaurant group renovated and repositioned many of its restaurants to meet the needs of the highly segmented marketplace. Twenty-three units, which no longer fit the overall marketing program, were closed. The large number of closings kept sales relatively flat. However, productivity and cost controls helped produce a satisfactory return on investment.

□ Intercity Food Services Inc., Multi Restaurants Inc. and Pik-Nik Inc. introduced some new restaurant concepts and refined existing ones. Controlled experiments were undertaken with new concepts such as the Salad Patch and Burger Supreme. Twenty units were closed, five were opened and 10 were renovated, leaving 148 in operation in Quebec and Ontario.

□ Salisbury House of Canada Ltd., in Manitoba, opened two restaurants and closed three. Salisbury House implemented its semi-service concept in two more of its 25 units.

□ At year-end, the Group operated 173 food-service outlets, including restaurants, snack counters and brasseries. Most are located in shopping centers. In fiscal 1986, the group plans to embark on its first franchise venture.

Human Resources

It was a year of reassessment and new directions in human-resources management throughout the Company. An independent study completed during the year highlighted strengths and weaknesses and outlined corrective measures.

□ Following completion of the study, all Steinberg human-resources people gathered at a three-day conference to discuss the findings and to explore new and better ways of working together.

□ Already, we have seen encouraging results from these activities. A human-resources network has been set up to help integrate personnel activities and the many, varied skills of our human-resources managers.

□ Management development, career planning and employee training have regained priority status at Steinberg. New meat and grocery courses are being designed. Existing courses, such as in-store merchandising and labour relations, are being revised. Communications are being improved among human-resources employees and between management and non-management employees.


Jeanne-Aimée Savard, Group Leader, Pik-Nik Restaurant

□ Our key resource is still people — our employees and our customers. Our current renovation program, by creating more pleasant environments in which to work and shop, has been well-received by both groups. Increased employee and management training are part of our long-term commitment to improved store operations and better customer service.

□ All of this will bring the human-resources function closer to the day-to-day operations of the Company and its divisions. That, in turn, will enable human resources to respond more effectively to the needs of the Company and of its 32,000 employees.

Alain Contant, lawyer

Steinberg values education. That's why the Company supports a wide range of educational institutions and activities through grants, bursaries, scholarships and special programs.

□ Since 1963, Steinberg's scholarship program has contributed more than $500,000 to help 119 children of Steinberg employees attend university. The six scholarships awarded each year, on the basis of academic merit, cover tuition fees and a $350 annual allowance over three academic years. The Company usually offers the winners additional assistance in the form of summer employment as well.

□ Each spring, the children of all Steinberg employees are invited to compete for a scholarship. Winning candidates are selected by an independent board of academics from major Canadian universities.

□ Alain Contant won a Steinberg scholarship, in 1968, that helped him attend McGill University where he earned a Bachelor of Arts, in 1972, and a Degree in Civil Law three years later. Alain, 34, who is now a senior litigation lawyer with Lengvari, Braman, Trudel in Montreal, recalls that winning the Steinberg scholarship at age 17 was *"something to be proud of. I appreciated both the scholarship and the opportunity of working summers at Steinberg during my university years"*, he says. *"The scholarship furthered my formal education while the work experience was an education in itself"*.

□ Alain worked in Steinberg's Purchasing and Legal departments. There, he met Sam Steinberg. *"I was very impressed with Mr. Sam's humanity and concern for employees"*, he says.

□ Alain's father, Maurice, who has worked in the Company's Quebec Division since 1952 remembers with pride how hard his son worked to achieve his goal. *"Steinberg helped give Alain a healthy introduction to the world of business"*, he says. *"Most of my clients today are business people"*, adds Alain.

□ Other Steinberg scholarship winners have included: systems analyst Richard Barrette, high-school teacher Dorothy Shestowsky, trust officer Joyce Ditkofsky, electronics engineer Yvon Leclaire and pediatrician Dr. Joseph Porepa.

□ Steinberg's support of education goes well beyond its scholarship program. Nearly $90,000 in bursaries have been awarded to high-school graduates since 1980. Grants to Canadian universities have totalled more than $350,000 since the early 80s and an additional, $72,000 has been pledged.

□ The Company frequently supports special public education programs. A film series on nutrition, sponsored by Steinberg in 1981, continues to help Canadian teachers illustrate the value of Canada's Food Guide to thousands of young students. In 1985, Steinberg joined with Parents Anonymous of Quebec in a month-long campaign to sensitize the public to the problem of child sexual abuse.

□ Education is also important within the Company. Employees are encouraged, through a program that pays tuition fees, to take recognized self-improvement and college-level courses. Since the early 80s, 261 employees have completed courses under this program.

Susan Ditkofsky, an assistant buyer at Miracle Mart, is proud of the achievements of daughter Joyce, a 1969 Steinberg scholarship winner. Joyce, 33, is a Trust Officer with Canada Permanent Trust. She holds degrees in Arts, Psychology and Law from McGill University, University of Toronto and Osgoode Hall.

□ Steinberg also promotes the sharing of knowledge and expertise among its own people through seminars, conferences and in-house training courses. These include informal sessions and structured courses in such areas as management development, customer service, meat-cutting, word processing and labour relations.

□ Through the non-profit National Food Distribution Centre for the Treatment of Metabolic Hereditary Diseases, Steinberg provides an opportunity for students pursuing management studies to acquire hands-on business experience. For the past 12 years this small, but vital, company has been supplying special foods to some 50 Canadian hospitals and genetic centres. The National Food Distribution program has helped thousands of children who require special diets.

□ Since 1917, Steinberg has maintained high standards of corporate citizenship. This has meant respect for our customers, concern for our employees and involvement in the community. Through donations and services, Steinberg supports hospitals, charitable organizations, community groups, and numerous social and cultural activities throughout Canada and the U.S.

Nancy Desmarais, winner of the Quebec Association of Rural Youth's Senior, Dairy Cow Competition, was among those who benefitted from Steinberg's sponsorship of a cross-province tour to help promote the association's aims and services during the International Year of Youth. The association encourages the value of agriculture and the pursuit of excellence among rural youth.

□ In the past five years, the Company has donated close to $4,000,000 to help others. This year alone, some 1700 institutions, organizations and associations received nearly $700,000 in financial assistance from the Company. Similarly, Steinberg employees have given generously, through their own fund, to the annual campaigns of Centraide/United Way.

□ Steinberg also supports the arts through financial assistance to museums, dance and theatre companies and cultural events. In amateur sports, the Company and its employees have contributed to the success of the Quebec Games and the Montreal International Marathon since the beginning of the decade.

□ We are proud of the many Steinberg employees who also give of themselves to help others. Many caring people throughout the Company volunteer their time and talent to the well-being of their communities. Such citizenship enriches us all.

Consolidated Statements of Earnings and Retained Earnings

Steinberg Inc. and Subsidiary Companies
For the year ended July 27, 1985

Earnings

	1985	1984
	(thousands of dollars)	
Sales and Operating Revenue		
Retail and manufacturing	**3,845,326**	3,412,737
Rentals and tenants' share of expenses	**36,140**	32,179
Gain arising from real estate transactions	**26,962**	7,359
	3,908,428	3,452,275
Expenses		
Cost of sales and expenses except those shown below	**3,097,180**	2,745,157
Wages and employee benefits	**624,644**	574,277
Rentals	**45,559**	43,255
Depreciation and amortization	**47,192**	43,585
Interest and amortization of discount on long-term debt	**34,418**	35,225
Other interest	**7,900**	4,269
	3,856,893	3,445,768
Earnings before Other Income, Income Taxes and Minority Interest	**51,535**	6,507
Other Income		
Investment income and gain on redemption of long-term debt	**15,571**	11,351
Share of net earnings of significantly influenced companies and partnerships	**15,358**	12,223
	30,929	23,574
Earnings before Income Taxes and Minority Interest	**82,464**	30,081
Income Taxes (note 8)		
Current	**14,386**	9,160
Deferred	**(5,935)**	5,565
	8,451	14,725
Earnings before Minority Interest	**74,013**	15,356
Minority Interest	**379**	335
Net Earnings for the Year	**73,634**	15,021
Earnings Per Common and Non-Voting Class "A" Share		
Basic	**$4.19**	$0.24
Fully diluted	**$3.82**	$0.24

Retained Earnings

	1985	1984
	(thousands of dollars)	
Balance — Beginning of Year	**235,106**	238,771
Net earnings for the year	**73,634**	15,021
	308,740	253,792
Dividends —		
Preferred and preference shares	**14,003**	11,195
Common and non-voting Class "A" shares	**7,126**	7,126
	21,129	18,321
Expenses relating to the issue of shares (net of applicable deferred income taxes of $1,154,544 in 1985; nil in 1984)	**1,399**	365
	22,528	18,686
Balance — End of Year	**286,212**	235,106

Consolidated Balance Sheet

Steinberg Inc. and Subsidiary Companies
As at July 27, 1985

Assets

	1985	1984
	(thousands of dollars)	
Current Assets		
Cash	**35,019**	20,178
Marketable securities — at cost and market	**121,177**	56,416
Accounts receivable	**47,033**	43,133
Inventories	**343,536**	314,765
Prepaid expenses	**23,411**	19,632
Current portion of deferred income taxes	**898**	—
	571,074	454,124
Other Assets (note 2)	**34,213**	37,594
Fixed Assets (note 3)		
Real estate operations	**195,140**	193,341
Retail and manufacturing operations	**283,170**	273,707
	478,310	467,048
Intangible Assets		
Unamortized discount on long-term debt	**910**	1,138
Goodwill	**62,151**	53,050
	63,061	54,188
	1,146,658	1,012,954

Signed on behalf of the Board,

Mel Dobrin, Director

Irving Ludmer, Director

Liabilities

	1985	1984
	(thousands of dollars)	
Current Liabilities		
Bank advances and notes payable	—	40,911
Accounts payable and accrued liabilities	**306,218**	246,284
Income taxes	**1,039**	2,551
Dividends payable	**24**	26
Current portion of deferred income taxes	—	4,309
Current portion of long-term debt (note 4)	**7,283**	25,617
	314,564	319,698
Long-Term Debt and Other Obligations (note 4)		
Real estate operations	**126,541**	108,742
Retail and manufacturing operations	**166,717**	157,188
	293,258	265,930
Deferred Income Taxes	**15,989**	8,102
Minority Interest	**1,358**	1,266
	625,169	594,996

Shareholders' Equity

	1985	1984
Capital Stock (note 5)	**227,621**	176,774
Contributed Surplus (note 6)	**2,334**	2,077
Retained Earnings	**286,212**	235,106
Foreign Exchange Translation Adjustments (note 7)	**5,322**	4,001
	521,489	417,958
	1,146,658	1,012,954

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Steinberg Inc. as at July 27, 1985 and the consolidated statements of earnings and 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 27, 1985 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

Montreal, Quebec
October 4, 1985

Coopers & Lybrand
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Steinberg Inc. and Subsidiary Companies
For the year ended July 27, 1985

	1985	1984
	(thousands of dollars)	
Funds Provided by (Invested in) Operations		
Net earnings for the year	**73,634**	15,021
Items not affecting funds		
Depreciation and amortization	**47,192**	43,585
Amortization of discount on long-term debt	**390**	159
Deferred income taxes	**(5,935)**	5,565
Minority interest	**379**	335
Equity in earnings of significantly influenced companies and partnerships in excess of dividends received	**(6,592)**	(2,234)
	109,068	62,431
Capital expenditures — net		
Real estate	**(8,623)**	1,155
Retail and manufacturing	**(47,965)**	(27,151)
Accounts receivable	**(3,900)**	(7,157)
Inventories	**(28,771)**	(4,206)
Prepaid expenses	**(3,779)**	820
Accounts payable and accrued liabilities and dividends payable	**59,932**	3,182
Income taxes	**8,257**	1,651
Other assets and goodwill	**(3,004)**	(4,042)
Total Funds Provided by Operations	**81,215**	26,683
Funds Provided by (Invested in) Investments		
Reduction of minority interest	**(287)**	—
Redemption of preferred shares of significantly influenced company	**2,010**	315
Change in foreign exchange translation	**1,321**	3,780
Total Funds Provided by Investments	**3,044**	4,095
Funds Provided by (Invested in) Financing		
Net proceeds from issue of non-voting Class "A" shares	**50,571**	—
Net proceeds from issue of third preferred shares	**—**	24,809
Proceeds from long-term debt	**44,884**	13,986
Reduction of long-term debt	**(17,718)**	(40,611)
Retirement of preferred shares	**(2,020)**	(1,069)
Total Funds Provided by (Invested in) Financing	**75,717**	(2,885)
Increase During the Year	**159,976**	27,893
Dividends	**(21,129)**	(18,321)
	138,847	9,572
Cash and Short-Term Securities, Net of Bank Advances, Notes Payable and Current Portion of Long-Term Debt		
Beginning of Year	**10,066**	494
End of Year	**148,913**	10,066

Notes to Consolidated Financial Statements

Steinberg Inc. and Subsidiary Companies
For the year ended July 27, 1985

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 manufacturing 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 forty years. Goodwill prior to that date is carried at cost, subject to revision in the event of diminution in value.

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.

1. Accounting Policies (continued)

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 period 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 period.

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. Investment tax credits are accounted for on the flow-through basis.

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.

2. Other Assets

	1985	1984
	(thousands of dollars)	
Interest in significantly influenced companies and partnerships		
Shares and interests — at equity	**17,540**	12,958
Advances	**1,554**	1,645
	19,094	14,603
Advances and other recoverable amounts with respect to real estate transactions	**3,501**	3,597
Funds on deposit and other items	**12,986**	20,762
	35,581	38,962
Less: Current portion due within one year	**1,368**	1,368
	34,213	37,594

3. Fixed Assets

	1985	1984
	(thousands of dollars)	
Real estate operations		
Income producing properties	**246,562**	224,868
Accumulated depreciation	**82,670**	74,362
	163,892	150,506
Land held for future development	**31,248**	42,835
	195,140	193,341
Retail and manufacturing operations		
Land and buildings	**78,185**	74,114
Equipment	**322,906**	299,042
	401,091	373,156
Accumulated depreciation	**203,865**	181,501
	197,226	191,655
Leasehold improvements, at cost less amortization of $43,918,000 (1984 — $40,476,000)	**52,836**	54,806
Assets under capital leases, at cost less amortization of $7,082,000 (1984 — $4,834,000)	**33,108**	27,246
	283,170	273,707

4. Long-Term Debt and Other Obligations

	1985	1984
	(thousands of dollars)	
Real estate operations —		
(Refer to page 33 and note 4 to the consolidated financial statements of Ivanhoe Inc.)	**185,206**	178,081
Elimination of notes and advances to Steinberg Inc.	**58,665**	69,339
	126,541	108,742
Retail and manufacturing operations —		
Term loan due November 1988 (repayable in U.S. currency $80,000,000) (note 4(a))	**108,144**	105,184
Steinberg Inc. sinking fund debentures —		
6⅝% Series B, due 1986	**4,949**	6,274
8⅝% Series C, due 1992	**10,806**	15,354
10½% Series D, due 1994	**754**	25,000
Present value of obligations under capital leases (note 10)	**27,050**	20,136
Various mortgage loans	**22,297**	10,857
	174,000	182,805
Less: Current portion due within one year	**7,283**	25,617
	166,717	157,188

(a) The term loan due in November 1988 may be prepaid at any time at the option of the company, but if prepaid may not be reborrowed.

The interest payable on the loan is equal to the lender's cost of funds which is, among other options, a function of the lender's cost of issuing its commercial paper in the United States and of maintaining with a Canadian bank a support agreement to provide advances and letters of credit.

The Canadian bank has agreed that, subject to certain conditions, it would, upon the maturity of this loan, provide a non-revolving credit facility to the company in the principal amount of up to U.S. $80,000,000 bearing interest at a rate involving a margin of up to ¾% over prime, 1¼% over LIBOR or ¾% over U.S. base rate depending on the company's option and the currency chosen; alternatively, a bankers' acceptance option will be available at a fee of up to ¾% over the prime bankers' acceptance fee. This facility will provide for mandatory semi-annual repayments of 10% of the original principal amount commencing on November 15, 1989 and will mature on May 15, 1994.

The company has entered into interest rate swap contracts with third parties with the effect of setting a ceiling 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. This ceiling is equal to 15.46%.

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

(b) At July 27, 1985 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 the redeemable preferred or preference shares described in note 5(c) and (g)):

	1986	1987	1988	1989	1990
			(thousands of dollars)		
Real estate operations	6,315	6,747	6,782	11,781	7,314
Retail and manufacturing operations	6,470	11,863	1,265	1,279	2,402
	12,785	18,610	8,047	13,060	9,716

The excess of bonds cancelled or purchased for cancellation to date over the cumulative sinking and purchase fund requirements at July 27, 1985, amounting to $1,967,080 in the case of real estate operations and $4,909,000 in the case of retail and manufacturing operations, may be applied against these requirements.

(c) The credit agreement in respect of the term loan contains covenants requiring the company to maintain certain financial ratios. The trust indenture securing the company's sinking fund debentures contains a covenant governing the declaration of dividends on other than preferred or preference shares. As at July 27, 1985 the company was in compliance with these covenants.

5. Capital Stock

(a) This is comprised as follows:

	Authorized	**Issued and fully paid**			
		1985	1984	**1985**	1984
	(number of shares)	(number of shares)		(thousands of dollars)	
Cumulative redeemable preferred shares of the par value of $100 each					
— Series "A", 5¼%	**21,660**	**18,187**	19,710	**1,819**	1,971
Second preferred shares of the par value of $25 each, issuable in series	**unlimited**				
— Series one, $1.95 cumulative redeemable shares		**1,496,800**	1,551,800	**37,419**	38,795
— 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**	800,000	**19,250**	20,000
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		**832,450**	832,450	**25,174**	25,174
Fourth preferred shares without par value, issuable in series	**unlimited**				
Non-voting Class "A" shares without par value	**unlimited**	**10,752,576**	4,126,288	**76,015**	22,890
Common shares without par value	**unlimited**	**6,000,000**	3,000,000	**12,176**	12,176
				227,621	176,774

5. Capital Stock (continued)

(b) During the year the company purchased for cancellation 1,523 5¼% cumulative redeemable preferred shares, Series "A", 55,000 $1.95 cumulative redeemable second preferred shares, Series one and 30,000 cumulative redeemable second preferred shares, Series two.

(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 27, 1985.

(d) By Certificate of Amendment dated July 3, 1985 issued under the Companies Act (Quebec) the outstanding common shares and the outstanding non-voting Class "A" shares of the company were subdivided on a two-for-one basis.

(e) During the year, the company issued 2,500,000 non-voting Class "A" shares for a cash consideration of $53,125,000.

(f) During the year the company granted to a senior officer options to purchase 400,000 non-voting Class "A" shares during the period April 17, 1985 (the "Effective Date") 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.

(g) 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. Also 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 27, 1985 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 $2,076,552 with respect to prior years and $257,291 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:

	1985	1984
	(thousands of dollars)	
Balance — beginning of year	**4,001**	221
Translation adjustments for the year arising from change in foreign exchange rates	**2,174**	5,010
Realization of exchange gain during the year through the payment of dividends	**(853)**	(1,230)
Balance — end of year	**5,322**	4,001

8. Income Taxes

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

	1985	1984
	%	%
Combined Canadian and United States income tax rates	**44.7**	45.7
	(thousands of dollars)	
Provision for income taxes based on combined Canadian and United States income tax rates	**36,861**	13,747
Increase (decrease) in taxes resulting from —		
Inventory allowance	**(3,361)**	(3,468)
Intercompany interest income taxed at reduced rates	**(6,416)**	(6,217)
Share of net earnings of significantly influenced companies	**(5,596)**	(4,453)
Non-taxable portion of capital gains	**(13,878)**	—
Future benefit of current losses not recognized	—	15,538
Other	**841**	(422)
	8,451	14,725

At July 27, 1985 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.

9. Retirement Plans

Substantially all employees of the company and its subsidiaries are covered by trusteed retirement plans, most of which are non-contributory. Actuarial valuations dated January 1, 1982, January 1, 1984 and September 30, 1984 indicate that the pension plans are fully funded.

10. 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 1986	6,284	38,744
July 1987	5,895	36,417
July 1988	5,731	34,256
July 1989	5,301	31,564
July 1990	4,775	29,724
Subsequent years	74,558	292,901
Total future minimum lease payments	102,544	463,606
Less: Amounts representing imputed interest and executory costs	75,494	
Present value of obligations under capital leases (note 4)	27,050	
Less: Current portion due within one year	1,574	
	25,476	

10. Lease Obligations and Commitments (continued)

The terms relating to long-term obligations under capital leases range substantially from 30 to 40 years, with related interest rates ranging from 12% 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 $26,483,000 (1984 — $32,784,000) and $37,290,000 (1984 — $44,977,000) respectively would have been included in the balance sheet, and net earnings for the current year would have been reduced by $623,000 (1984 — $715,000).

11. Contingent Liabilities

(a) Steinberg Inc. has guaranteed leases assigned to Consumers Distributing Company Limited in connection with the sale of the retail operations of Cardinal Distributors Limited in the amount of $1,798,804 payable over periods ranging from 1 to 14 years.

(b) A subsidiary of Steinberg Inc. has guaranteed loans amounting to $6,860,000 of companies in which it has ownership interests. In addition, a subsidiary of the company has guaranteed the payment of a note receivable held by a third party amounting to $3,851,987.

(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. No formal claim for a tax deficiency has been issued. Discussions with IRS officials indicate that a claim can be expected for adjustments in the tax treatment of assets acquired in the acquisition which would result in a substantial asserted tax deficiency. The company has deemed it prudent to provide for an amount of U.S. $6,800,000 with respect to this expected claim. Since this amount relates to the acquisition of Smitty's, it has not been charged to earnings but has been added to the cost of goodwill. A provision of U.S. $3,700,000 for interest on this amount has been charged to earnings.

In addition, the IRS had indicated in connection with its tax audit that it would assert that a 15% withholding tax should be applicable to all interest payments made by the company to Steinberg B.V. since acquisition. The company understands the IRS is considering whether to re-examine its position in light of a recent IRS Revenue Ruling. The company believes that it has a meritorious defence to such claim, if asserted, and no provision has been established for such an amount.

The company estimates that the claim resulting from the tax audit could exceed the amount it has provided by approximately U.S. $14,000,000 plus interest. The company believes that its ultimate liability, if any, will be substantially less than that indicated by the IRS at the audit level and that the amount, if any, determined ultimately to be payable by it will not be materially different from the amount provided.

12. Supplementary Information

Remuneration of ten (1984 — ten) directors and twenty-three (1984 — sixteen) officers amounted to $2,516,000 (1984 — $1,835,000). As at July 27, 1985 amounts owing to the company by thirteen (1984 — seven) of the officers of Steinberg Inc. amounted to $673,000 (1984 — $593,000) in respect, for the most part, of housing loans secured by mortgages.

13. Segmented Information

(a) Results by Business Segment

(6) Reconciliation

(2) Segment Revenue i) Sales to outside customers ii) inter-segment sales

(3) Segment operating profit or loss

(5) Total carrying amt of identifiable assets ii) capital exp

(4) Amt. of Dep'n, Amtz

(thousands of dollars)	Food retailing and manufacturing 1985	1984	General merchandise retailing 1985	1984	Real estate 1985	1984	Consolidated 1985	1984
Sales and Operating Revenue								
Outside customers	**3,570,742**	3,168,541	**274,584**	244,196	**63,102**	39,538	**3,908,428**	3,452,275
Inter-segment	—	—	—	—	**21,058**	22,501	—	—
Total	**3,570,742**	3,168,541	**274,584**	244,196	**84,160**	62,039	**3,908,428**	3,452,275
Profit (Loss) Before the Following	**56,818**	24,410	**(7,696)**	(5,448)	**44,762**	25,528	**93,884**	44,490
Corporate Expenses, including income taxes, less income							**20,250**	29,469
Net Earnings							**73,634**	15,021
Assets								
Identifiable by segment	**735,340**	691,993	**72,451**	67,754	**220,735**	220,052	**1,028,526**	979,799
Corporate							**100,593**	34,158
Investment in affiliates							**17,540**	(1,003)
Total							**1,146,659**	1,012,954
Capital Expenditures — net	**46,346**	25,897	**1,619**	1,254	**8,623**	(1,155)	**56,588**	25,996
Depreciation	**36,295**	32,810	**2,206**	2,170	**6,824**	6,775	**45,325**	41,755

(1) General description of products & services.

Food retailing and manufacturing — 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 approximately at market values.

(b) Results by Geographic Area

(thousands of dollars)	Canada 1985	1984	United States 1985	1984	Consolidated 1985	1984
Sales and Operating Revenue	**3,050,818**	2,725,242	**857,610**	727,033	**3,908,428**	3,452,275
Profit Before the Following	**23,458**	12,647	**70,426**	31,843	**93,884**	44,490
Corporate Expenses, including income taxes, less income					**20,250**	29,469
Net Earnings					**73,634**	15,021
Assets						
Identifiable	**746,791**	723,224	**281,735**	256,575	**1,028,526**	979,799
Corporate					**100,593**	34,158
Investment in affiliates					**17,540**	(1,003)
Total					**1,146,659**	1,012,954
Capital Expenditures — net	**49,750**	16,805	**6,838**	9,191	**56,588**	25,996
Depreciation	**36,551**	34,054	**8,774**	7,701	**45,325**	41,755

Serge Vincent, Regional Manager, Ivanhoe Inc., says the company's $4,900,000 investment in Dorval Gardens Shopping Center is providing many benefits to the Dorval community. "The economy of this Montreal suburb was stimulated during the expansion and modernization program", he says "and today Dorval residents have the additional services provided by 28 new stores". Dorval Gardens, which now includes 70 stores, was one of three major modernization projects completed during the past fiscal year in Quebec shopping centers owned by Ivanhoe.

Ivanhoe Inc., a wholly-owned subsidiary of Steinberg Inc., owns and operates more than 90 developed properties in Canada having a gross leasable area in excess of 9,000,000 square feet. These include shopping centres, supermarkets and other retail properties.

Development and Acquisition

During the year, Ivanhoe completed a comprehensive review of its shopping centre portfolio with the objective of developing specific strategic plans for the future. Properties that no longer meet the company's investment criteria have been identified for disposition.

□ To ensure the viability of revenue-producing properties, approximately $11,000,000 (excluding acquisitions from Steinberg Inc.) was invested during the year in expansions, renovations and the acquisition of the remaining 50% interest in the Greenfield Park Shopping Plaza, in suburban Montreal. Elsewhere in Quebec, Dorval Gardens Shopping Centre, Place Bourassa and Place Ste-Foy were among the centres modernized or expanded. Plans for the coming year include the redevelopment or expansion of the Greenfield Park centre and the Toronto-area Willowdale Plaza. Feasibility studies are underway for the expansion of Champlain Mall and Place Ste-Foy, two Quebec regional shopping centres.

□ As part of Steinberg's policy of holding all real estate through Ivanhoe, a number of free-standing supermarkets, other retail units, and fixed assets were acquired from Steinberg Inc. During the year, the company realized a significant gain from the sale of surplus land in Quebec and Texas.

□ The following table summarizes the value of Ivanhoe's real estate holdings as established during the year by an independent appraisal:

	1985 Net Book Value	1985 Appraised Value	1985 Appraisal Surplus	1985 % of Appraised Value to Book Value	1981 Appraisal Surplus
	(in thousands of dollars)				
	(for the year ended July 27, 1985)				(for the year ended July 25, 1981)
	$	$	$	%	$
Income-producing Properties	164,146*	419,247	255,101	255	124,734
Land Held for Future Use	33,877	62,484	28,607	184	26,040
Minority Interest	(2,187)	73,879	76,066	—	30,833
Total	195,836	555,610	359,774	284	181,607

* Net Book Value has been adjusted for acquisitions and dispositions in the years 1980 to 1985 and also excludes certain non-real-estate assets such as office equipment and furniture, leasehold improvements and assets acquired as of year-end from an affiliated company.

□ The total appraisal surplus of $359,774,000 represents $21.47 per common and Class "A" share of Steinberg Inc. before tax.

Shopping Centre Management

Ivanhoe implemented marketing strategies to improve the image, orientation and tenant mix of several shopping centers. A new program of visual merchandising was also designed, and introduced in some centres, to help tenants maximize their sales potential.

□ Ivanhoe continues to have one of the highest occupancy rates in the shopping centre industry.

□ During the year, William Cleman, Executive Vice-President and General Manager of Ivanhoe Inc., assumed the additional responsibility of Executive Vice-President, Real Estate and Expansion, Steinberg Inc. Louis Galardo was appointed Vice-President, Business Development of Ivanhoe.

Financial Performance

Consolidated revenues for the past fiscal year increased to $84,160,000 from $62,039,000 the previous year. The increase was largely due to a gain of $26,962,000 from the sale of surplus land in Canada and the U.S. Last year's gain on such sales was $7,359,000.

□ Operating profit (excluding land sales) was $27,507,000 compared to $26,948,000 the previous year. While favorable, these earnings were somewhat affected by renegotiation of certain leases with Steinberg Inc., as well as by an increase in the cost of services provided by the parent company.

□ Net financial expenses were $17,576,000, an increase of $1,104,000 over last year. This increase came primarily from interest expenses related to a $26,000,000 First Mortgage Sinking Fund Bond issue in December, 1984, and the higher cost of advances from Steinberg Inc. A large portion of Ivanhoe's financial needs is provided by Steinberg Inc. at prevailing market rates.

□ Net after-tax earnings of $32,163,000, up from $10,805,000 last year, primarily reflect gains from the sale of surplus lands.

Consolidated Statements of Earnings and Retained Earnings

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 27, 1985

Earnings

	1985	1984
	(thousands of dollars)	
Revenue		
Rentals — Steinberg Inc. and subsidiaries	**16,313**	17,844
— other	**26,096**	23,379
Tenants' share of expenses — Steinberg Inc. and subsidiaries	**4,745**	4,657
— other	**10,044**	8,800
Gain arising from real estate transactions	**26,962**	7,359
	84,160	62,039
Expenses		
Operating and administrative —		
Steinberg Inc.	**1,449**	—
Other	**19,376**	18,705
Wages and employee benefits	**6,209**	5,991
Depreciation and amortization	**6,824**	6,775
	33,858	31,471
	50,302	30,568
Other Income		
Share of net earnings of significantly influenced companies and partnerships	**4,167**	3,739
Earnings from Operations	**54,469**	34,307
Interest Expense (Income)		
Interest and amortization of discount on long-term debt —		
Steinberg Inc.	**8,222**	7,075
Other	**11,910**	10,849
Other interest	**126**	154
Interest earned and gain on redemption of long-term debt	**(2,682)**	(1,606)
	17,576	16,472
Earnings before Income Taxes and Minority Interest	**36,893**	17,835
Income Taxes (note 7)		
Current	**5,076**	2,755
Deferred	**(739)**	3,940
	4,337	6,695
Earnings before Minority Interest	**32,556**	11,140
Minority Interest	**393**	335
Net Earnings for the Year	**32,163**	10,805
By Geographic Area:		
Canada	**6,161**	11,076
United States	**26,002**	(271)
	32,163	10,805

Retained Earnings

	1985	1984
	(thousands of dollars)	
Balance — Beginning of Year	**10,062**	38,418
Net earnings for the year	**32,163**	10,805
	42,225	49,223
Dividends —		
9¾% cumulative preferred shares	—	161
Common shares	**36,000**	39,000
	36,000	39,161
Balance — End of Year	**6,225**	10,062

Consolidated Balance Sheet

Ivanhoe Inc. and Subsidiary Companies
As at July 27, 1985

Assets

	1985	1984
	(thousands of dollars)	
Property Interests		
Income producing properties	**264,155**	231,502
Accumulated depreciation	**83,659**	73,923
	180,496	157,579
Land held for future development	**33,877**	45,463
	214,373	203,042
Other Assets		
Cash and short-term deposits (note 4(b))	**5,174**	4,102
Accounts and notes receivable (note 2)	**15,201**	14,183
Prepaid expenses	**5,281**	5,222
Investments (note 3)	**967**	2,456
Unamortized discount on long-term debt	**817**	920
	241,813	229,925

Liabilities

Long-Term Debt and Other Obligations (note 4)		
Steinberg Inc.	**58,665**	69,339
Other	**126,541**	108,742
	185,206	178,081
Other Liabilities		
Bank advances and notes payable	—	935
Accounts payable and accrued liabilities (note 5)	**24,467**	10,294
	24,467	11,229
Deferred Income taxes	**19,603**	23,460
Minority Interest	**1,122**	1,266
	230,398	214,036

Shareholders' Equity

Capital Stock (note 6)	**100**	100
Contributed Surplus (note 6(c))	**5,090**	5,727
Retained Earnings	**6,225**	10,062
	11,415	15,889
	241,813	229,925

Signed on behalf of the Board,

Bailey, Director

Irving Ludmer, Director

Consolidated Statement of Cash Flow and Changes in Financial Position

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 27, 1985

	1985	1984
	(thousands of dollars)	
Net earnings for the year	**32,163**	10,805
Items not requiring cash —		
Depreciation and amortization	**6,929**	6,873
Deferred income taxes	**(739)**	3,940
Minority interest	**393**	335
Cash Flow from Operations	**38,746**	21,953
Financing		
Additional long-term debt	**26,000**	13,000
Repayment of long-term debt	**(8,201)**	(19,441)
Additions to (repayment of) advances and subordinated notes from Steinberg Inc.	**(10,674)**	39,674
Proceeds on issue of preference shares	**5,090**	5,727
Redemption of preference shares	**(5,727)**	(2,200)
	6,488	36,760
Funds Obtained from (Used for) Other Assets and Liabilities	**9,042**	(21,117)
Payment of Dividends	**(36,000)**	(39,161)
Payment of Dividends to Minority Shareholders by a Subsidiary Company	**(537)**	—
Increase (Decrease) in Funds Invested in Property Interests — net	**17,739**	(1,565)

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 27, 1985 and the consolidated statements of earnings and 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 27, 1985 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

Montreal, Quebec
October 4, 1985

Coopers & Lybrand
Chartered Accountants

Notes to Consolidated Financial Statements

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 27, 1985

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

Income taxes

Deferred income taxes represent amounts deferred to future years due to the earlier deduction of certain expenses, principally depreciation, for tax purposes. Investment tax credits are accounted for on the flow-through basis.

Property interests

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

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

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

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

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. Accounts and Notes Receivable

	1985	1984
	(thousands of dollars)	
Due from tenants	**971**	799
Amounts recoverable from land transactions, funds on deposit and other items	**5,724**	10,831
Notes receivable — Steinberg Inc.	**7,548**	—
Income taxes recoverable	**958**	2,553
	15,201	14,183

3. Investments

	1985	1984
	(thousands of dollars)	
Interest in significantly influenced companies and partnerships —		
Shares and interests — at equity, less advance distributions	**(2,187)**	(1,862)
Advances	**1,555**	1,645
Other	**1,599**	2,673
	967	2,456

4. Long-Term Debt and Other Obligations

	1985	1984
	(thousands of dollars)	
Steinberg Inc. —		
Due to Steinberg Inc. bearing interest at 1½% above prime —		
Advances	**7,268**	7,942
Subordinated notes	**51,397**	61,397
	58,665	69,339
Other —		
First mortgage sinking fund bonds —		
Ivanhoe Inc. —		
7½% Series A, due 1991 (note 4(b))	**2,340**	2,454
7% Series B, due 1991 (repayable in U.S. currency $976,000; 1984 — $1,107,000)	**1,319**	1,447
10¼%-10½% Series 1978, due 1998 (or 1988 at option of holder)	**25,371**	26,507
12.40% Series 1980, due 1995 (note 4(b))	**12,540**	13,155
15.25% Series 1984, due 2004	**25,911**	—
Steinberg's Shopping Centres Limited —		
7% Series A, due 1985	**—**	610
8½% Series B, due 1994	**1,663**	1,680
Steinberg Realty Limited —		
8½% Series A, due 1991	**10,931**	11,308
8⅞% Series B, due 1993	**18,120**	18,569
Greenfield Park Shopping Plaza Limited —		
6%, due 1987	**445**	—
Other obligations —		
6%-10% balances payable on land purchases to 1995 (repayable in U.S. currency $2,820,455; 1984 — $5,017,000)	**3,813**	6,596
7½%-16¾% mortgage loans, repayable in varying monthly instalments to 1996	**18,378**	18,846
11½% term bank loan, due 1986	**1,000**	1,000
13½% term bank loan, due 1991	**4,710**	5,570
Revolving term bank loan facility, due 1994 — Bankers' acceptances	**—**	1,000
	126,541	108,742
	185,206	178,081

(a) At July 27, 1985 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:

1986	1987	1988 (thousands of dollars)	1989	1990
6,315	6,747	6,782	11,781	7,314

The amount shown as payable in 1988 does not include $24,300,000 of the 10¼%-10½% 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 27, 1985 amounting to $1,967,000 may be applied against these requirements.

(b) The 7½% Series A and 12.40% Series 1980 first mortgage sinking fund bonds are partially secured by short-term deposits amounting to $4,400,000.

5. Accounts Payable and Accrued Liabilities

	1985	1984
	(thousands of dollars)	
Deferred income	**1,752**	1,752
Steinberg Inc. and affiliated companies	**14,069**	1,477
Other	**8,646**	7,065
	24,467	10,294

6. Capital Stock

	1985	1984
	(thousands of dollars)	
(a) Capital stock is comprised as follows:		
Authorized —		
998 cumulative redeemable preference shares of the par value of $1 each, issuable in series.		
The ninth series consists of one 9⅝% cumulative Series Nine preference share of the par value of $1, redeemable at $5,089,600		
2,000 common shares without par value		
Issued and fully paid —		
1 9⅝% cumulative redeemable preference share (1984 — 2)		
1,001 common shares (1984 — 1,000)	**100**	100
	100	100

(b) During the year, the company obtained Supplementary Letters Patent to effect the following changes to its authorized capital stock:

(i) On March 7, 1985, it was increased through the creation of an additional series within its existing preference share class, namely:

One 9⅝% cumulative redeemable Series Nine preference share of the par value of $1.

(ii) On July 23, 1985, its was reduced through the cancellation of the following classes of shares within its existing preference share class, namely:

One 9⅝% cumulative redeemable Series One preference shares and one 9⅝% cumulative redeemable Series Two preference share of the par value of $1 each.

(c) During the year, the following transactions affecting the company's issued and fully paid capital stock occurred:

(i) The company issued, in exchange for property interests valued at $5,089,600, one 9⅝% cumulative Series Nine preference share of the par value of $1 redeemable at its issue price.

(ii) The company redeemed one 9⅝% cumulative redeemable Series One preference share and one 9⅝% cumulative redeemable Series Two preference share for a total cash consideration of $5,726,955. The one Series One preference share and the one Series Two preference share were subsequently cancelled, as described in note 6(b)(ii).

(iii) The company issued one common share as partial consideration for the purchase of the common and preferred shares of an affiliated company.

During the year, Ivanhoe Inc. redeemed preference shares with a contributed surplus of $5,726,953, as described in note 6(c)(ii), and issued one preference share for a consideration of $5,089,599 in excess of the amount allocated to its par value, as described in note 6(c)(i).

7. Income Taxes

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

	1985	1984
	%	%
Combined Canadian and United States income tax rates	**43.4**	43.8
	(thousands of dollars)	
Provision for income taxes based on combined Canadian and United States income tax rates	**16,032**	7,812
Increase (decrease) in taxes resulting from —		
Share of net earnings of significantly influenced companies	**(577)**	(552)
Non-taxable portion of capital gains	**(175)**	(216)
Net gain on investment in scientific research tax credits	**(497)**	(177)
Gain on real estate transactions taxed at reduced rates	**(9,871)**	—
Other	**(575)**	(172)
	4,337	6,695

8. Future Income Taxes

As a result of the acquisition during the year of an affiliated company, the company has accumulated losses for tax purposes of $14,425,000. Of this amount, $7,340,000 represents losses for which a future tax benefit has been recognized as deferred income taxes in the accounts and $7,085,000 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 26, 1986 and may be claimed no later than:

Year ending July 1987	527,000
1990	2,271,000
1991	6,337,000
1992	5,290,000
	$14,425,000

9. Contingent Liabilities

Ivanhoe Inc. has guaranteed secured loans amounting to $6,860,000 of companies in which it has ownership interests. In addition, the company has guaranteed the payment of a note receivable held by a third party amounting to $3,851,987.

10. Related Parties

Ivanhoe Inc. is a wholly-owned subsidiary of Steinberg Inc. 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
(thousands of dollars except where noted)

		1985 $	1984 $
Summary Income Statement	Sales and operating revenue	**3,908,428**	3,452,275
	Salaries, wages and employee benefits	**624,644**	574,277
	Rentals	**45,559**	43,255
	Depreciation and amortization	**47,192**	43,585
	Interest on long-term debt	**34,418**	35,225
	Income taxes	**8,451**	14,725
	Net earnings	**73,634**	15,021
Selected Balance Sheet Items	Inventories	**343,536**	314,765
	Working capital	**256,510**	134,426
	Other assets	**34,213**	37,594
	Fixed assets — net	**478,310**	467,048
	Total assets	**1,146,658**	1,012,954
Capital Employed	Long-term debt	**293,258**	265,930
	Deferred income taxes	**15,989**	8,102
	Minority interest	**1,358**	1,266
	Preferred and Preference Stock	**139,430**	141,708
	Common and non-voting Class "A" shareholders' equity	**382,059**	276,250
	Total capital employed	**832,094**	693,256
Cash Flow Items	Capital expenditures — net	**56,588**	25,996
	Cash flow from operations	**109,068**	62,431
	Dividends paid to shareholders	**21,129**	18,321
Key Financial Ratios	Return on average capital employed**	**12.20%**	6.35%
	Return on average common and non-voting Class "A" equity	**18.19%**	1.24%
	Net earnings as % of sales and operating revenue	**1.88%**	0.44%
	Long-term debt: equity ratio	**36:64**	39:61
	Long-term interest coverage ratio	**3.40**	1.85
	Working capital ratio	**1.81**	1.42
	Inventory turn-over ratio	**9.24**	8.94
Per Share Data	Earnings per common and non-voting Class "A" share		
	Before extraordinary item	**$ 4.19**	$ 0.24
	Net earnings for the year	**$ 4.19**	$ 0.24
	Dividend paid per common and non-voting Class "A" share	**$ 0.50**	$ 0.50
	Book value per common and non-voting Class "A" share	**$22.81**	$19.38
Retail Facilities Data	Supermarkets (including combination stores)		
	Canada — Number of units	**219**	221
	— Gross leasable area (thousands of sq. ft.)	**7,418**	7,466
	— Sales area (thousands of sq. ft.)	**4,283**	4,302
	United States — Number of units	**20**	20
	— Gross leasable area (thousands of sq. ft.)	**1,679**	1,679
	Limited-assortment grocery stores		
	— Number of units	**66**	88
	— Gross leasable area (thousands of sq. ft.)	**539**	616
	Department stores		
	— Number of units	**31**	32
	— Ground floor area (thousands of sq. ft.)	**2,993**	3,160
	— Sales area (thousands of sq. ft.)	**2,086**	2,208
	Restaurants — Number of units	**173**	189

*53 weeks.

**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.

1983	1982*	1981	1980	1979	1978	1977	1976*
$	$	$	$	$	$	$	$
3,357,942	3,303,756	2,813,376	2,253,343	2,089,053	1,922,712	1,767,687	1,605,642
560,683	533,006	441,027	350,352	310,922	280,641	261,521	222,878
40,173	38,525	33,707	30,512	28,642	24,155	21,261	19,678
45,208	40,791	33,304	27,928	25,463	23,161	20,513	18,729
37,361	47,614	32,795	16,733	15,483	18,124	15,641	13,809
(10,284)	(1,469)	16,967	15,142	18,956	17,485	19,580	18,551
13,392	34,103	39,480	27,961	26,851	27,182	21,760	21,484
310,559	289,138	267,506	204,378	159,885	156,863	146,118	122,432
121,481	133,866	142,628	98,926	106,780	84,054	75,245	55,397
34,344	39,709	37,360	24,539	31,338	13,209	12,690	16,021
482,807	498,710	479,687	373,100	313,461	312,716	293,955	267,412
998,374	998,196	1,041,332	760,750	648,294	572,541	522,797	472,686
292,555	347,450	350,531	186,648	160,600	206,929	199,432	175,514
4,874	28,934	34,467	26,826	23,264	19,003	16,765	13,602
931	4,321	3,946	3,365	3,309	2,950	2,524	2,647
117,939	64,008	65,196	67,760	69,435	5,472	7,624	8,634
275,799	281,073	260,406	232,086	215,222	195,099	172,711	155,779
692,098	725,786	714,546	516,685	471,830	429,453	399,056	356,176
37,967	58,022	41,111	87,567	26,208	41,922	47,056	46,614
39,886	70,618	82,255	60,082	57,103	53,367	45,955	43,225
18,242	14,119	12,060	12,126	6,240	5,233	4,685	4,468
4.75%	8.20%	9.16%	7.48%	7.89%	8.97%	8.01%	8.70%
1.84%	10.80%	14.02%	10.24%	13.00%	14.67%	13.09%	14.40%
0.40%	1.03%	1.40%	1.24%	1.29%	1.41%	1.23%	1.34%
43:57	50:50	52:48	38:62	36:64	51:49	53:47	52:48
1.07	1.70	2.72	3.65	3.99	3.49	3.66	3.94
1.40	1.49	1.44	1.40	1.61	1.59	1.60	1.47
9.17	9.19	9.11	9.76	10.48	10.46	10.45	10.87
$ 0.27	$ 2.05	$ 2.51	$ 1.62	$ 1.89	$ 1.93	$ 1.54	$ 1.52
$ 0.36	$ 2.05	$ 2.43	$ 1.62	$ 1.89	$ 1.93	$ 1.54	$ 1.52
$ 0.70	$ 0.65	$ 0.50	$ 0.50	$ 0.43	$ 0.36	$ 0.33	$ 0.30
$19.35	$19.72	$18.30	$16.38	$15.22	$13.94	$12.38	$11.18
222	226	227	224	218	209	206	197
7,488	7,561	7,543	7,380	6,889	6,517	6,374	5,977
4,313	4,335	4,324	4,214	3,883	3,593	3,488	3,273
20	20	20					
1,679	1,679	1,679					
85	70	44	28	6			
610	509	311	205				
32	32	32	32	34	32	31	28
3,160	3,160	3,223	3,223	3,348	3,132	3,038	2,743
2,208	2,208	2,255	2,255	2,350	2,178	2,112	2,046
198	196	200	200	194	164	153	123

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Nathan Steinberg
Vice-Chairman of the Board and Senior Vice-President
(1908-1984)

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Sajjad H. Randhawa
Assistant Comptroller,
Financial Controls &
Budgeting

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▲ Member of the Audit Committee
■ Member of the Management Resources & Compensation Committee

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Planning & Sales Development

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Ian Bullock
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Earle Near
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Vice-President,
Store Operations

Company Brands

Allan Mattison
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Robert Aubin
Vice-President,
Meat Processing

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Vice-President,
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Barry Seitz
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Marketing

Affiliate

Lantic Sugar Limited

Leo E. Labrosse
President &
Chief Executive Officer

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
- $5\frac{1}{4}$% 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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