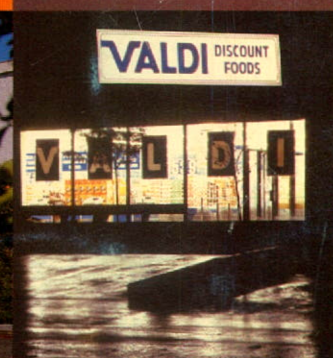
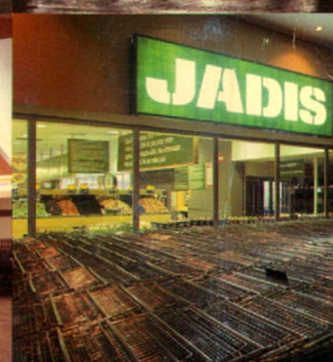
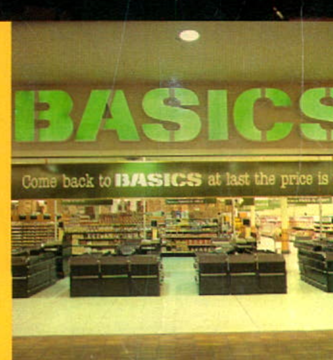
STEINBERG
Inc.

Annual Report 1982





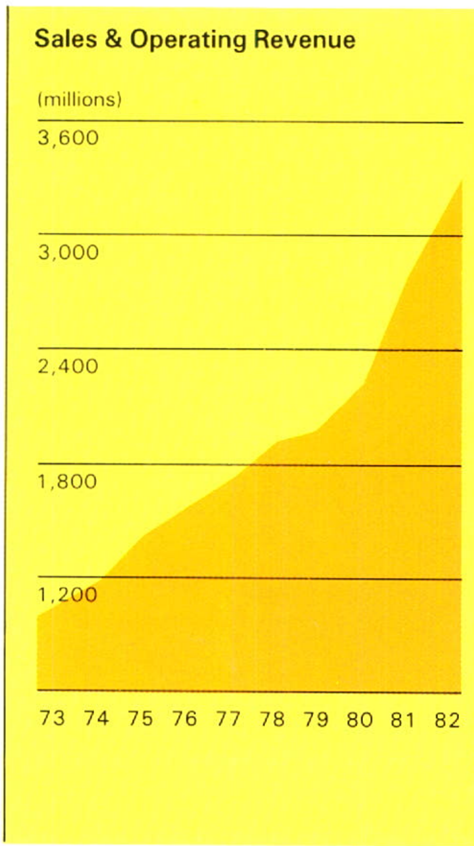


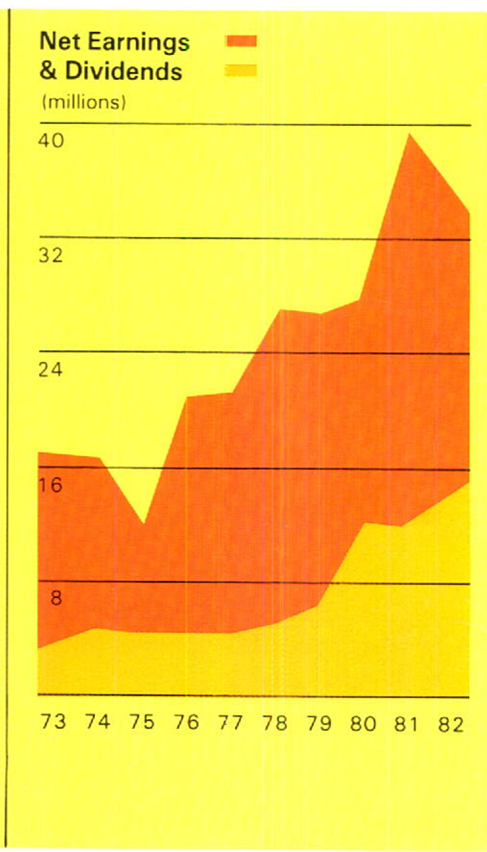
1917-1982

. . . 65 years of leadership
in food retailing.

Financial Highlights

(in thousands of dollars except per share items)	1982 $	1981 $	1980 $
Sales and Operating Revenue	**3,303,756**	2,813,376	2,253,343
Canadian retail food	**2,349,625**	2,166,655	1,916,202
American retail	**606,045**	268,176	—
general merchandise	**240,629**	236,927	227,568
manufacturing (external sales)	**29,019**	70,176	47,360
restaurants	**49,148**	45,379	40,823
real estate operations (external)	**29,290**	26,063	21,390
Net Earnings	**34,103**	39,480	27,961
retail and manufacturing operations	**25,323**	33,342	22,815
real estate operations	**8,780**	6,138	5,146
per dollar of sales and operating revenue	**1.03¢**	1.40¢	1.24¢
Cash Flow from Operations	**70,618**	82,255	60,082
Working Capital	**133,866**	142,628	98,926
Shareholders' Equity (common and Class "A")	**281,073**	260,406	232,086
Per Common and Class "A" Share			
net earnings	**4.10**	4.86	3.24
dividends	**1.30**	1.00	1.00
book value	**39.44**	36.60	32.76
return on average equity	**10.80%**	14.02%	10.24%





Steinberg Inc. and Subsidiary Companies Consolidated Financial Statements

Consolidated Statements of Earnings and Retained Earnings

Steinberg Inc. and Subsidiary Companies
For the year ended July 31, 1982
(expressed in thousands of dollars)

Earnings

	1982 (fifty-three weeks) $	1981 (fifty-two weeks) $
Sales and Operating Revenue	3,303,756	2,813,376
Expenses		
Cost of sales and expenses except those shown below	2,619,556	2,217,993
Wages and employee benefits	529,856	438,201
Directors' and officers' remuneration	3,150	2,826
Rentals	38,525	33,707
Depreciation and amortization	40,791	33,304
Interest and amortization of discount on long-term debt	47,614	32,795
Other interest	14,254	11,617
Investment income, including interest earned and gain on redemption of long-term debt	(18,852)	(13,093)
	3,274,894	2,757,350
Earnings before Other Income, Income Taxes, Minority Interest and Extraordinary Item	28,862	56,026
Other Income		
Share of net earnings of significantly influenced companies and partnerships	4,441	2,406
	33,303	58,432
Income Taxes (note 8)		
Current	3,476	8,549
Deferred	(4,945)	8,418
	(1,469)	16,967
Earnings before Minority Interest and Extraordinary Item	34,772	41,465
Minority Interest	669	823
Earnings before Extraordinary Item	34,103	40,642
Extraordinary Item (note 9)	—	1,162
Net Earnings for the Year	34,103	39,480
Earnings per Class "A" and Common Share		
Before Extraordinary Item	$4.10	$5.02
Net Earnings for the Year	$4.10	$4.86

Retained Earnings

	1982 (fifty-three weeks) $	1981 (fifty-two weeks) $
Balance - Beginning of Year	224,766	197,346
Net earnings for the year	34,103	39,480
	258,869	236,826
Dividends —		
5¼% preferred shares, Series "A"	116	121
$1.95 cumulative redeemable second preferred shares, series one	3,303	3,398
Variable rate cumulative redeemable second preferred shares, series two	1,440	1,440
Class "A" and common shares	9,260	7,101
	14,119	12,060
Balance - End of Year	244,750	224,766

Consolidated Balance Sheet

Steinberg Inc. and Subsidiary Companies
As at July 31, 1982
(expressed in thousands of dollars)

Assets

	1982 $	1981 $
Current Assets		
Cash	**23,824**	26,437
Short-term marketable securities (note 2)	**30,149**	108,981
Accounts receivable	**39,286**	40,378
Income taxes recoverable	**3,505**	4,243
Inventories	**289,138**	267,506
Prepaid expenses	**20,374**	21,869
	406,276	469,414
Other Assets (note 3)	**39,709**	37,360
Fixed Assets (note 4)		
Real estate operations	**199,381**	193,331
Retail and manufacturing operations	**299,329**	286,356
	498,710	479,687
Intangible Assets		
Unamortized discount on long-term debt	**1,487**	1,674
Goodwill	**52,014**	53,197
	53,501	54,871
	998,196	1,041,332

Signed on Behalf of the Board

Mel Dobrin, Director

Jack Levine, Director

Liabilities

	1982 $	1981 $
Current Liabilities		
Bank advances and notes payable	**36,790**	67,032
Accounts payable and accrued liabilities	**234,126**	258,572
Dividends payable	**29**	29
Current portion of long-term debt (note 5)	**1,465**	1,153
	272,410	326,786
Long-Term Debt and Other Obligations (note 5)		
Real estate operations	**118,688**	120,541
Retail and manufacturing operations	**228,762**	229,990
	347,450	350,531
Deferred Income Taxes	**28,934**	34,467
Minority Interest	**4,321**	3,946
	653,115	715,730

Shareholders' Equity

Capital Stock (note 6)	**99,074**	100,079
Contributed Surplus (note 7)	**1,257**	757
Retained Earnings	**244,750**	224,766
	345,081	325,602
	998,196	1,041,332

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Steinberg Inc. as at July 31, 1982 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1982 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 6, 1982

Coopers & Lybrand
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Steinberg Inc. and Subsidiary Companies
For the year ended July 31, 1982
(expressed in thousands of dollars)

	1982 (fifty-three weeks) $	1981 (fifty-two weeks) $
Source of Working Capital		
Earnings for the year before extraordinary item	**34,103**	40,642
Items not affecting working capital		
Depreciation and amortization	**40,791**	33,304
Deferred income taxes	**(4,945)**	7,486
Minority interest	**669**	823
Provided from operations	**70,618**	82,255
Additional debt and capital stock issued		
Present value of obligations under capital leases	**674**	3,564
Bank loans	**—**	149,775
Bankers' acceptances under long-term commitment	**3,000**	7,000
Mortgages and balance of purchase price payable	**—**	134
Issuance of Class "A" shares to employees	**182**	505
	74,474	243,233
Use of Working Capital		
Net additions to fixed assets		
Real estate	**10,737**	2,013
Retail and manufacturing	**47,468**	35,168
Capital leases	**(183)**	3,930
	58,022	41,111
Investments and other items — net	**3,358**	646
Extraordinary item (note 9)	**—**	1,162
Reduction of long-term debt	**6,755**	14,203
Reduction of minority interest	**294**	242
Retirement of preferred shares	**688**	2,169
Dividends	**14,119**	12,060
Acquisition of Smitty's Super Valu, Inc.	**—**	127,938
	83,236	199,531
Increase (Decrease) in Working Capital	**(8,762)**	43,702
Working Capital — Beginning of Year	**142,628**	98,926
Working Capital — End of Year	**133,866**	142,628

Notes to Consolidated Financial Statements

Steinberg Inc. and Subsidiary Companies
For the year ended July 31, 1982

1. Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards.

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

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 on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

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	Automotive equipment	6 to 12 years
Parking areas	25 years	Data processing equipment	5 years
Store equipment	10 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.

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.

1. **Accounting Policies (cont'd)**

Dividend income

Dividend income on preferred share investments is accrued as earned. Other dividends are recognized as income on the date of declaration.

Foreign currency translation

The accounts of subsidiary companies and other asset and liability accounts expressed in foreign currencies have been translated into Canadian dollars as follows:

Current assets and current liabilities, at the year-end exchange rate; all other assets and liabilities, at the exchange rate prevailing at the acquisition or transaction date; revenues and expenses (other than depreciation and amortization which are translated at the rate applicable to the related assets) at the average exchange rate for the year. Gains or losses on transactions are included in earnings and unrealized gains less losses on translation are deferred.

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.

Calculation of earnings per share

Net earnings per Class "A" and common 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 shares.

2. **Short-Term Marketable Securities**

The company's short-term investment portfolio is carried at cost which approximates market or realizable value and is comprised of:

	1982	1981
	(thousands of dollars)	
Marketable interest bearing or discount promissory notes, bankers' acceptances or treasury bills	**30,149**	19,981
Preferred shares subject to Put Option Agreements exercised in 1982	**—**	89,000
	30,149	108,981

3. **Other Assets**

	1982	1981
	(thousands of dollars)	
Interest in significantly influenced companies and partnerships		
Shares and interests — at equity	**4,951**	3,722
Advances	**979**	1,292
	5,930	5,014
Advances and other recoverable amounts with respect to real estate transactions	**2,433**	2,562
Funds on deposit and other items	**16,406**	14,093
Investment in Consumers Distributing Company Limited		
530,000 common shares at cost (quoted market value as at July 31, 1982 — $4,505,000)	**9,010**	9,010
Non-interest bearing note receivable in equal monthly instalments to February 1, 1989	**1,104**	1,271
Interest bearing note at 1% above prime, receivable in semi-annual instalments on August 1 and February 1 of each year and maturing on February 1, 1986	**5,577**	6,107
	15,691	16,388
Less: Current portion due within one year	**751**	697
	14,940	15,691
	39,709	37,360

4. Fixed Assets

	1982	1981
	(thousands of dollars)	
Real estate operations		
Land held for future development	**46,570**	44,682
Income producing properties	**214,076**	204,774
	260,646	249,456
Accumulated depreciation	**61,265**	56,125
	199,381	193,331
Retail and manufacturing operations		
Land and buildings	**59,680**	52,474
Equipment	**319,452**	298,024
	379,132	350,498
Accumulated depreciation	**156,319**	137,123
	222,813	213,375
Leasehold improvements	**50,424**	45,199
Assets under capital leases, at cost less amortization of $2,322,000 (1981 — $845,000)	**26,092**	27,782
	299,329	286,356

5. Long-Term Debt and Other Obligations

	1982	1981
	(thousands of dollars)	
Real estate operations —		
(Refer to page 30 and note 4 to the consolidated financial statements of Ivanhoe Inc.)	**142,935**	131,541
Elimination of notes and advances due to Steinberg Inc.	**24,247**	11,000
	118,688	120,541
Retail and manufacturing operations —		
Revolving term bank loan facilities due 1994 (repayable in U.S. currency $125,000,000) (b)	**149,775**	149,775
Steinberg Inc. sinking fund debentures —		
5¾% Series A, due 1984	**6,075**	6,797
6⅝% Series B, due 1986	**7,315**	7,718
8⅝% Series C, due 1992	**16,935**	17,551
10½% Series D, due 1994 (or 1984 at option of holder)	**25,000**	25,000
Present value of obligations under capital leases	**17,716**	16,944
Various mortgage loans of subsidiaries	**7,411**	7,358
	230,227	231,143
Less: Current portion due within one year	**1,465**	1,153
	228,762	229,990

(a) This loan has a revolving period during which Ivanhoe Inc. may, at its option, repay or reborrow without any mandatory repayment provisions. The revolving period expires on August 15, 1984, unless extended annually for additional twelve month periods by mutual agreement. Following the revolving period, the loan has a seven year term period, during which mandatory repayments of the principal amount outstanding at the end of the revolving period are required as follows: years 1-2, 10%; years 3-4, 15%; years 5-6, 20%; and year 7, 10%.

(b) The two term bank loans of U.S. $62,500,000 each are due January 29, 1994 and August 20, 1994 respectively. Each loan has a revolving period during which the company may, at its option, repay or reborrow without any mandatory repayment provisions. The revolving periods expire on January 28, 1984 and August 19, 1984 respectively, unless extended annually for additional twelve month periods, by mutual agreement. Following the revolving periods, each loan has a ten year term period, during which mandatory repayments of 10% per annum of the principal amount outstanding at the end of the revolving periods are required.

The rates of interest on the loans are computed retroactively by reference, at the company's option, to either U.S. base rate or LIBOR plus a margin which will amount to up to ¾ of 1% through July 31, 1983 and which will increase to a maximum of 1¼% by 1994.

5. Long-Term Debt and Other Obligations (cont'd)

The company has entered into interest rate swap contracts with third parties with the effect of fixing the rate of interest on an amount of U.S. $65,000,000 over terms from five to seven years from dates in 1982. The rate of interest is a weighted average of 15.32% per annum plus the company's margin over six month LIBOR referred to above.

These loans, when translated at the rate of exchange prevailing at July 31, 1982 and July 25, 1981, amount to $156,937,500 and $152,275,000 respectively.

(c) At July 31, 1982 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 ensuing five fiscal years are as follows:

	1983	1984	1985	1986	1987
			(thousands of dollars)		
Real estate operations	5,149	5,353	5,578	6,421	5,413
Retail and manufacturing operations	2,066	6,927	1,425	7,967	2,166
	7,215	12,280	7,003	14,388	7,579

The above repayment schedule does not include any amount with respect to the term bank loans (described in (a) and (b) above) since the period of revolving credit of those loans is extendable on an annual basis by mutual agreement.

The amount shown as payable in 1985 does not include the $25,000,000 Series D debentures 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 31, 1982, amounting to $2,059,000 in the case of real estate operations and $1,025,000 in the case of retail and manufacturing operations may be applied against these requirements.

(d) The trust indentures securing the company's sinking fund debentures and the credit agreements in respect of the company's term bank loans contain financial covenants which govern the issuance of additional long-term debt, the declaration of dividends on other than preferred shares, the ratio of long-term debt to equity, the ratio of earnings to interest on long-term debt and the working capital ratio. As at July 31, 1982, the company was in compliance with these covenants.

6. Capital Stock

(a) This is comprised as follows:

	1982	1981
	(thousands of dollars)	
Authorized		
22,160 cumulative redeemable preferred shares of the par value of $100 each		
3,919,200 second preferred shares of the par value of $25 each, issuable in series		
4,500,000 Class "A" shares without par value, non-voting		
3,500,000 common shares without par value		
Issued, outstanding and fully paid		
21,860 5¼% cumulative redeemable preferred shares, Series "A" (1981 — 22,160)	**2,186**	2,216
1,672,900 $1.95 cumulative redeemable second preferred shares, series one (1981 — 1,719,200)	**41,822**	42,980
800,000 variable rate cumulative redeemable second preferred shares, series two 7.2% to 1984	**20,000**	20,000
4,126,288 Class "A" shares, non-voting (1981 — 4,114,888)	**22,890**	22,707
3,000,000 common shares	**12,176**	12,176
	99,074	100,079

(b) During the year the company purchased for cancellation 300 5¼% cumulative redeemable preferred shares, Series "A" and 46,300 $1.95 cumulative redeemable second preferred shares, series one. The company has not applied for Supplementary Letters Patent cancelling these shares. As a result, retained earnings include an amount of $1,187,500 set aside equal to the value of the shares purchased.

(c) As at July 31, 1982 the company had reserved 101,112 Class "A" shares for future allocation of options to senior employees at a price to be determined by the Board of Directors but not less than 90% of the market value at the time of allocation.

(d) During the year 11,400 (1981 — 31,600) Class "A" shares were issued to employees for cash of $182,400 (1981 — $505,600).

7. Contributed Surplus

The contributed surplus as at July 31, 1982 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 $756,977 with respect to prior years and $500,537 with respect to the current year.

8. Income Taxes

A reconciliation of the company's effective income tax rate is as follows:

	1982	1981
	%	%
Canadian and United States income tax rates	**49.0**	51.0
Non-taxable dividend income	**(12.2)**	(7.2)
Inventory allowance	**(9.5)**	(5.5)
Inter-company interest income taxed at reduced rates	**(19.7)**	(5.8)
Share of net earnings of significantly influenced companies	**(4.6)**	(1.0)
Research expenditure allowance	**(4.2)**	—
Investment tax credits	**(1.8)**	(2.4)
Other	**(1.4)**	(0.1)
	(4.4)	29.0

9. Extraordinary Item

This represented a provision for the estimated loss on closure of the specialty bakery and meat processing division net of applicable income taxes of $932,000.

10. Retirement Plans

Substantially all employees of the company and its subsidiaries are covered by trusteed retirement plans, most of which are non-contributory. The present value of the company's obligations for unfunded past service liabilities in these different plans totals $1,643,000 based on actuarial valuations of January 1, 1979, January 1, 1980 and January 1, 1982. These obligations will be funded and charged to operations over varying periods to 1995 in amounts determined by the company's actuaries at the most recent valuation date, being approximately $200,000 a year.

11. Lease Obligations and Commitments

Future minimum lease payments relating to capital and operating leases are as follows:

	Capital leases	Operating leases
	(thousands of dollars)	
Fiscal years ending July 1983	3,701	33,853
July 1984	3,567	32,004
July 1985	3,554	30,709
July 1986	3,296	29,730
July 1987	2,981	28,823
Subsequent years	68,503	343,879
Total future minimum lease payments	85,602	498,998
Less: Amounts representing imputed interest and executory costs	67,886	
Present value of obligations under capital leases	17,716	
Less: Current portion due within one year	425	
	17,291	

The terms relating to long-term obligations under capital leases range substantially from 30 to 40 years, with related interest rates ranging from 12.16% to 17.00%.

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 $37,975,000 (1981 — $43,247,000) and $48,889,000 (1981 — $52,775,000) respectively would have been included in the balance sheet, and net earnings for the current year would have been reduced by $905,000 (1981 — $416,000).

12. Contingent Liabilities

(a) Subsidiaries of Steinberg Inc. have guaranteed bank loans to third parties in the aggregate amount of $896,000, of which $767,000 is in respect of indebtedness of 18 officers of Steinberg Inc., three of whom are directors. A subsidiary has pledged $1,000,000 in marketable securities to support its guarantee of the bank advances to those officers.

(b) 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 $2,423,977 payable over periods ranging from 1 to 17 years.

13. Supplementary Information

As at July 31, 1982, amounts owing to the company by 21 of the officers of Steinberg Inc. amounted to $973,000 (1981 — $1,041,000) in respect, for the most part, of housing loans secured by mortgages.

14. Comparative Figures

Certain of the 1981 figures have been reclassified to conform to the 1982 financial statement presentation.

15. Segmented Information

(a) Results by Business Segment

	Food Retailing and Manufacturing 1982	Food Retailing and Manufacturing 1981	General Merchandise Retailing 1982	General Merchandise Retailing 1981	Real Estate 1982	Real Estate 1981	Consolidated 1982	Consolidated 1981
	(in thousands of dollars)							
Sales and Operating Revenue								
Outside customers	**3,033,837**	2,550,386	**240,629**	236,927	**29,290**	26,063	**3,303,756**	2,813,376
Inter-segment	—	—	—	—	**21,905**	20,316	—	—
Total	**3,033,837**	2,550,386	**240,629**	236,927	**51,195**	46,379	**3,303,756**	2,813,376
Profit (Loss) Before the Following	**53,629**	68,605	**(5,920)**	3,081	**24,279**	22,730	**71,988**	94,416
Corporate Expenses, including income taxes, less income							**37,885**	54,936
Net Earnings							**34,103**	39,480
Assets								
Identifiable by segment	**624,455**	567,109	**71,678**	76,358	**212,655**	207,837	**908,788**	851,304
Corporate							**88,603**	188,788
Investment in affiliates							**805**	1,240
Total							**998,196**	1,041,332
Capital expenditures — net	**47,069**	34,991	**(594)**	1,119	**10,737**	2,013	**58,022**	41,111
Depreciation	**30,579**	24,313	**2,524**	2,585	**4,687**	4,469	**38,999**	32,870

Food retailing and manufacturing — merchandises a complete range of food and non-food products, through supermarkets, box 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

	Canada 1982	Canada 1981	United States 1982	United States 1981	Consolidated 1982	Consolidated 1981
	(in thousands of dollars)					
Sales and Operating Revenue	**2,697,711**	2,548,679	**606,045**	269,495	**3,303,756**	2,813,376
Profit Before the Following	**50,354**	84,724	**21,634**	9,692	**71,988**	94,416
Corporate Expenses, including income taxes, less income					**37,885**	54,936
Net Earnings					**34,103**	39,480
Assets						
Identifiable	**686,459**	637,526	**222,329**	213,778	**908,788**	851,304
Corporate					**88,603**	188,788
Investment in affiliates					**805**	1,240
Total					**998,196**	1,041,332
Capital expenditures — net	**49,437**	46,777	**7,775**	8,654	**58,022**	41,111
Depreciation	**31,197**	28,296	**6,593**	3,071	**38,999**	32,870

Ivanhoe Inc. and Subsidiaries

In spite of the much-publicized disturbances of the real estate market, the Ivanhoe group of companies performed remarkably well during the fiscal year.

The environment was not encouraging but the challenge was invigorating. Consolidated revenues of Ivanhoe Inc. rose to $51,195,000, surpassing the previous year by 10.4%. Net earnings amounted to $8,780,000, representing an increase of 43% over last year's figure of $6,138,000. This was in large part due to the combined effect of substantial gains on real estate developments, lower net financial expenses and a reduced effective income tax rate. Both assets and cash flow were increased.

The results of retailers in shopping centre premises reflected the sagging confidence of Canadian consumers and this in turn impinged on landlords. Nevertheless, Ivanhoe managed to maintain an enviable level of occupancy in its properties of 95%.

Ivanhoe added to its property portfolio a major meat processing facility located in Toronto and leased to Ontario Division, as well as a neighborhood shopping centre in Scarborough, Ontario. In keeping with ongoing plans, one shopping centre has been expanded and several others have been refurbished. The $68 million reconstruction of the Rockland Shopping Centre, now underway in Montreal, was agreed upon with the centre's other owners during the year. This transaction gave rise to a $2,083,000 gain as Ivanhoe disposed of part of its equity interest in the centre. The big Carrefour Laval complex just north of Montreal, in which Ivanhoe has a substantial interest, is also undergoing a $28 million expansion.

Ivanhoe management recognizes that continuation of its new level of profitability will require additional energy and initiative in the current year. Cost-saving, particularly in the area of energy, will be a big factor; conversion from oil to alternate fuels is a priority. Continuing study of possibilities for acquiring additional income properties in select market areas, notably shopping centres, will be given priority attention.

At year-end, the Ivanhoe group of companies owned and operated a network of 32 shopping centres in Quebec and Ontario, with a gross leasable area of approximately 5 million square feet. Total assets increased to $225.8 million.

In respect of the company's land holdings in Texas, steps are being taken to initiate local partnership arrangements with a view to facilitating the future development of certain valuable properties.

Consolidated Statements of Earnings and Retained Earnings

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 31, 1982
(Expressed in thousands of dollars)

Earnings

	1982 $	1981 $
Revenue		
Rentals — Steinberg Inc. and subsidiaries	16,519	15,518
— Other	18,956	17,584
Tenants' share of expenses — Steinberg Inc. and subsidiaries	5,386	4,798
— Other	8,092	6,967
Gain arising from real estate transactions	2,242	1,512
	51,195	46,379
Expenses		
Operating and administrative	16,809	14,567
Wages and employee benefits	4,703	3,907
Depreciation	4,687	4,469
	26,199	22,943
	24,996	23,436
Other Income		
Share of net earnings of significantly influenced companies and partnerships	2,599	2,406
Earnings from Operations	27,595	25,842
Interest Expense (Income)		
Interest and amortization of discount on long-term debt —		
Steinberg Inc.	2,506	1,515
Other	13,628	11,302
Other interest	206	38
Interest earned and gain on redemption of long-term debt	(1,789)	(809)
	14,551	12,046
Earnings Before Income Taxes and Minority Interest	13,044	13,796
Income Taxes (note 7)		
Current	627	5,264
Deferred	3,405	2,122
	4,032	7,386
Earnings Before Minority Interest	9,012	6,410
Minority Interest	232	272
Net Earnings for the Year	8,780	6,138
Represented by:		
Canadian operations	9,201	5,920
United States operations	(421)	218
	8,780	6,138

Retained Earnings

	1982 $	1981 $
Balance — Beginning of Year	25,260	31,971
Net earnings for the year	8,780	6,138
	34,040	38,109
Dividends —		
5% non-cumulative preferred shares	397	795
8% cumulative preferred shares	260	841
9¾% cumulative preferred shares	215	213
Common shares	—	11,000
	872	12,849
Balance — End of Year	33,168	25,260

Consolidated Balance Sheet

Ivanhoe Inc. and Subsidiary Companies
As at July 31, 1982
(Expressed in thousands of dollars)

	1982	1981
Assets	$	$
Property Interests		
Income producing properties	220,710	211,409
Accumulated depreciation	60,827	55,687
	159,883	155,722
Land held for future development	49,199	47,311
	209,082	203,033
Other Assets		
Accounts receivable (note 2)	5,328	5,599
Prepaid expenses	6,894	6,520
Investments (note 3)	3,550	2,532
Unamortized discount on long-term debt	977	1,094
	225,831	218,778
Liabilities		
Long-Term Debt and Other Obligations (note 4)	142,935	131,541
Other Liabilities		
Bank advances	15,834	12,217
Accounts payable and accrued liabilities (note 5)	10,283	7,501
	26,117	19,718
Deferred Income Taxes	19,557	15,918
Minority Interest	1,754	1,644
	190,363	168,821
Shareholders' Equity		
Capital Stock (note 6)	2,300	24,697
Retained Earnings	33,168	25,260
	35,468	49,957
	225,831	218,778

Signed on Behalf of the Board

, Director

, Director

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Ivanhoe Inc. as at July 31, 1982 and the consolidated statements of earnings, retained earnings and cash flow and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at July 31, 1982 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 6, 1982

Coopers & Lybrand
Chartered Accountants

Consolidated Statement of Cash Flow and Changes in Financial Position

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 31, 1982
(Expressed in thousands of dollars)

	1982 $	1981 $
Net Earnings for the Year	**8,780**	6,138
Items not requiring cash —		
Depreciation and amortization	**4,804**	4,581
Deferred income taxes	**3,405**	2,122
Minority interest	**232**	272
Cash Flow from Operations	**17,221**	13,113
Financing		
Additional long-term debt	**3,000**	7,000
Repayment of long-term debt	**(4,853)**	(12,535)
Additions to advances and subordinated note from Steinberg Inc.	**13,247**	422
Redemption of preferred shares	**(22,397)**	—
	(11,003)	(5,113)
Funds Obtained from Other Assets and Liabilities	**5,512**	6,798
Payment of Dividends to Minority Shareholders by a Subsidiary Company	**(122)**	(98)
Payment of Dividends	**(872)**	(12,849)
Funds Invested in Property Interests — net	**10,736**	1,851

Notes to Consolidated Financial Statements

Ivanhoe Inc. and Subsidiary Companies
For the year ended July 31, 1982

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

Accounts in foreign currencies are translated into Canadian dollars. Asset and liability accounts are translated at year-end rates, except property interests and long-term debt which are translated 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 exchange rate for the year. Gains or losses on transactions are included in earnings and unrealized gains less losses on translation are deferred.

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 on land up to the appraised value of the land and on construction in progress until the official opening date of the project. Capitalization in respect of all projects is subject to a reasonable maximum period of time.

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

Leases

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

2. Accounts Receivable

	1982	1981
	(thousands of dollars)	
Due from tenants	152	972
Amounts recoverable from land transactions, funds on deposit and other items	4,206	4,627
Income taxes recoverable	970	—
	5,328	5,599

3. Investments

	1982	1981
Interest in significantly influenced companies and partnerships —	(thousands of dollars)	
Shares and interests — at equity	804	1,240
Advances	979	1,292
Other	1,767	—
	3,550	2,532

4. Long-Term Debt and Other Obligations

	1982	1981
First mortgage sinking fund bonds —	(thousands of dollars)	
Ivanhoe Inc. —		
7½% Series A, due 1991	3,082	3,147
7% Series B, due 1991 (repayable in U.S. currency $1,346,000; 1981 — $1,455,000)	1,449	1,567
10¼%-10½% Series 1978, due 1998 (or 1988 at option of holder)	27,594	28,253
12.40% Series 1980, due 1995	14,190	14,610
Steinberg's Shopping Centres Limited —		
7% Series A, due 1985	1,780	2,270
8½% Series B, due 1994	2,934	3,182
Steinberg Realty Limited —		
8½% Series A, due 1991	12,363	13,070
8⅞% Series B, due 1993	19,616	20,160
	83,008	86,259
Other obligations —		
8½%-10½% balances payable on land purchases to 1994 (repayable in U.S. currency)	9,215	10,274
7%-11¾% mortgage loans, repayable in varying monthly instalments to 1996	11,465	12,001
Non-interest bearing advance	—	7
Revolving term bank loan facility due 1991 (a) —		
Bankers' acceptances	15,000	12,000
Due to Steinberg Inc. bearing interest at a rate approximating the cost of borrowing to Steinberg Inc. —		
Advances	1,850	11,000
Subordinated demand note	22,397	—
	59,927	45,282
	142,935	131,541

(a) This loan has a revolving period during which Ivanhoe Inc. may, at its option, repay or reborrow without any mandatory repayment provisions. The revolving period expires on August 15, 1984, unless extended annually for additional twelve month periods by mutual agreement. Following the revolving period, the loan has a seven year term period, during which mandatory repayments of the principal amount outstanding at the end of the revolving period are required as follows: years 1-2, 10%; years 3-4, 15%; years 5-6, 20%; and year 7, 10%.

(b) At July 31, 1982 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:

1983	1984	1985	1986	1987
		(thousands of dollars)		
5,149	5,353	5,578	6,421	5,413

The above repayment schedule does not include any amount with respect to the term bank loan (described in (a) above) since the period of revolving credit of this loan is extendable on an annual basis by mutual agreement.

The excess of bonds cancelled or purchased for cancellation to date, over the cumulative sinking and purchase fund requirements at July 31, 1982 amounting to $2,059,000 may be applied against these requirements.

5. Accounts Payable and Accrued Liabilities

	1982	1981
	(thousands of dollars)	
Deferred income	**1,752**	1,752
Income taxes	**—**	2,102
Steinberg Inc.	**4,225**	697
Other	**4,306**	2,950
	10,283	7,501

6. Capital Stock

(a) This is comprised as follows:

Authorized —

22,000 9¾% cumulative redeemable preferred shares of the par value of $100 each

1,000 cumulative, to a maximum of 25% of par value, redeemable preferred shares of the aggregate par value of $100,000, issuable in series. The first series is to consist of 10 15% cumulative redeemable Series A preferred shares of the par value of $10 each

2,000 common shares without par value

	1982	1981
	(thousands of dollars)	
Issued and fully paid —		
5% non-cumulative redeemable preferred shares (1981 — 159,012 shares)	**—**	15,901
8% cumulative redeemable preferred shares (1981 — 64,962 shares)	**—**	6,496
22,000 9¾% cumulative redeemable preferred shares	**2,200**	2,200
10 15% cumulative redeemable Series A preferred shares of the par value of $10 each		
1,000 common shares	**100**	100
	2,300	24,697

(b) During the year the company purchased for cancellation 159,012 5% non-cumulative redeemable preferred shares and 64,962 8% cumulative redeemable preferred shares. Supplementary Letters Patent were granted May 5, 1982 cancelling these shares.

7. Income Taxes

A reconciliation of the company's effective income tax rate is as follows:

	1982	1981
	%	%
Canada and United States income tax rates	**49.0**	51.0
Non-taxable dividend income	**(3.2)**	(3.6)
Non-taxable portion of capital gains	**(5.6)**	(0.4)
Investment tax credits	**(4.7)**	—
Other	**(4.6)**	6.5
	30.9	53.5

8. Contingent Liabilities

Guarantees

Ivanhoe Inc. has guaranteed secured loans amounting to $12,029,800 of companies in which it has ownership interests and cost over-runs of a construction project for an amount not exceeding $1,700,000.

9. Related Parties

Ivanhoe Inc. is a wholly-owned subsidiary of Steinberg Inc. Transactions with the parent company are identified separately in these financial statements.

10. Comparative figures

The 1981 comparative figures for tenants' share of expenses have been reclassified to rental income from operating and administrative expenses.

Ten Year Statistical Review

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

		1982*	1981
		$	$
Summary Income Statement	Sales and operating revenue	**3,303,756**	2,813,376
	Salaries, wages and employee benefits	**533,006**	441,027
	Rentals	**38,525**	33,707
	Depreciation and amortization	**40,791**	33,304
	Interest on long-term debt	**47,614**	32,795
	Income taxes	**(1,469)**	16,967
	Net earnings	**34,103**	39,480
Selected Balance Sheet Items	Inventories	**289,138**	267,506
	Working capital	**133,866**	142,628
	Investments and other assets	**39,709**	37,360
	Fixed assets — net	**498,710**	479,687
	Total assets	**998,196**	1,041,332
Capital Employed	Long-term debt	**347,450**	350,531
	Deferred income taxes	**28,934**	34,467
	Minority interest	**4,321**	3,946
	Preferred stock	**64,008**	65,196
	Common and Class "A" shareholders' equity	**281,073**	260,406
	Total capital employed	**725,786**	714,546
Cash Flow Items	Capital expenditures — net	**58,022**	41,111
	Cash flow from operations	**70,618**	82,255
	Dividends paid to shareholders	**14,119**	12,060
Key Financial Ratios	Return on average capital employed	**8.20%**	9.16%
	Return on average common and Class "A" equity	**10.80%**	14.02%
	Net earnings as % of sales and operating revenue	**1.03%**	1.40%
	Long-term debt: equity ratio	**50:50**	52:48
	Long-term interest coverage ratio	**1.70**	2.72
	Working capital ratio	**1.49**	1.44
	Inventory turn-over ratio	**9.19**	9.11
Per Share Data	Earnings per common and Class "A" share		
	Before extraordinary item	**$4.10**	$5.02
	Net earnings for the year	**$4.10**	$4.86
	Dividend paid per common and Class "A" share	**$1.30**	$1.00
	Book value per common and Class "A" share	**$39.44**	$36.60
Retail Facilities Data	*Supermarkets (including combination stores)*		
	Canada — Number of units	**226**	227
	— Gross leasable area (thousands of sq.ft.)	**7,561**	7,543
	— Sales area (thousands of sq.ft.)	**4,335**	4,324
	United States — Number of units	**20**	20
	— Gross leasable area (thousands of sq.ft.)	**1,679**	1,679
	Limited-Line grocery stores		
	— Number of units	**70**	44
	— Gross leasable area (thousands of sq.ft.)	**509**	311
	Department stores		
	— Number of units	**32**	32
	— Ground floor area (thousands of sq.ft.)	**3,160**	3,223
	— Sales area (thousands of sq.ft.)	**2,208**	2,255
	Restaurants — Number of units	**196**	200

*53 weeks.

Note: Certain of the 1978-1981 figures have been re-stated to reflect prior period adjustments pertaining to those years.

1980	1979	1978	1977	1976*	1975	1974	1973
$	$	$	$	$	$	$	$
2,253,343	2,089,053	1,922,712	1,767,687	1,605,642	1,430,195	1,197,319	1,012,209
350,352	310,922	280,641	261,521	222,878	190,449	158,399	134,465
30,512	28,642	24,155	21,261	19,678	17,107	14,881	11,386
27,928	25,463	23,161	20,513	18,729	15,803	14,473	12,903
16,733	15,483	18,124	15,641	13,809	9,774	8,966	7,233
15,142	18,956	17,485	19,580	18,551	14,614	15,692	14,136
27,961	26,851	27,182	21,760	21,484	12,310	16,371	16,729
204,378	159,885	156,863	146,118	122,432	112,165	113,283	82,391
98,926	106,780	84,054	75,245	55,397	35,989	23,582	30,725
24,539	31,338	13,209	12,690	16,021	21,920	14,335	12,876
373,100	313,461	312,716	293,955	267,412	239,527	218,740	198,904
760,750	648,294	572,541	522,797	472,686	418,666	389,145	338,292
186,648	160,600	206,929	199,432	175,514	152,928	117,924	117,742
26,826	23,264	19,003	16,765	13,602	11,275	12,291	9,952
3,365	3,309	2,950	2,524	2,647	2,460	2,311	1,857
67,760	69,435	5,472	7,624	8,634	9,689	10,765	11,909
232,086	215,222	195,099	172,711	155,779	138,592	130,569	118,422
516,685	471,830	429,453	399,056	356,176	314,944	273,860	259,882
87,567	26,208	41,922	47,056	46,614	36,590	34,309	36,329
60,082	57,103	53,367	45,955	43,225	27,684	33,952	31,492
12,126	6,240	5,233	4,685	4,468	4,489	4,509	3,481
7.48%	7.89%	8.97%	8.01%	8.70%	5.91%	8.10%	8.56%
10.24%	13.00%	14.67%	13.09%	14.40%	8.91%	12.87%	14.67%
1.24%	1.29%	1.41%	1.23%	1.34%	0.86%	1.37%	1.65%
38:62	36:64	51:49	53:47	52:48	51:49	45:55	47:53
3.65	3.99	3.49	3.66	3.94	3.80	4.64	5.31
1.40	1.61	1.59	1.60	1.47	1.35	1.20	1.39
9.76	10.48	10.46	10.45	10.87	11.25	12.22	12.46
$3.24	$3.78	$3.86	$3.08	$3.04	$1.72	$2.31	$2.37
$3.24	$3.78	$3.86	$3.08	$3.04	$1.72	$2.31	$2.37
$1.00	$0.86	$0.72	$0.66	$0.60	$0.60	$0.60	$0.45
$32.76	$30.43	$27.87	$24.76	$22.35	$19.91	$18.79	$17.10
224	218	209	206	197	196	191	187
7,380	6,889	6,517	6,374	5,977	5,877	5,684	5,447
4,214	3,883	3,593	3,488	3,273	3,185	3,019	2,815
28	6						
205							
32	34	32	31	28	28	32	31
3,223	3,348	3,132	3,038	2,743	2,743	3,236	3,255
2,255	2,350	2,178	2,112	2,046	2,046	2,294	2,173
200	194	164	153	123	119	119	96

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Nathan Steinberg*

* Member of Executive Committee
■ Member of Audit Committee
▲ Member of Management Resources & Compensation Committee

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Affiliate

Atlantic Sugar Limited

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

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Class "A", 5¼% Preferred, and $1.95 Second Preferred Shares

Montreal Exchange
Toronto Stock Exchange

Auditors

Coopers & Lybrand
Montreal

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