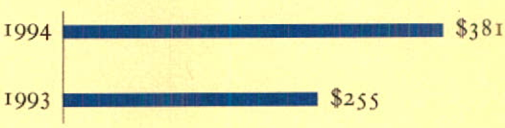
Toronto Montreal Vancouver

LBT

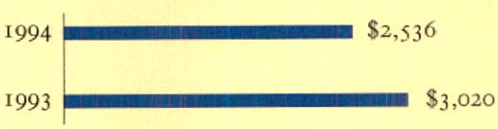
John Labatt Limited 1994

Annual Report

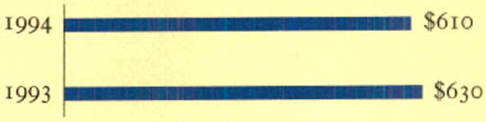
WORKING CAPITAL *(millions)*



TOTAL ASSETS *(millions)*

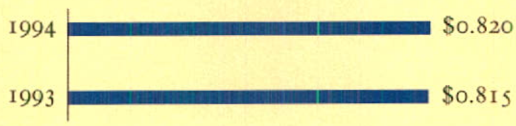


NON-CONVERTIBLE LONG-TERM DEBT *(millions)*

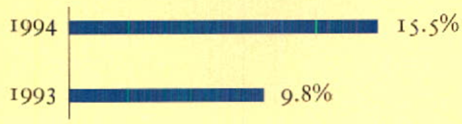


CONVERTIBLE DEBENTURES AND SHAREHOLDERS' EQUITY *(millions)*

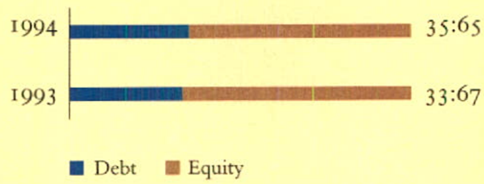
REGULAR COMMON SHARE DIVIDENDS *(per share)*



RETURN ON CONVERTIBLE DEBENTURES AND SHAREHOLDERS' EQUITY, CONTINUING OPERATIONS



DEBT TO EQUITY RATIO, FULLY DILUTED



Years ended April 30
(millions, except per share amounts)

	1994	1993	Change
BUSINESS SEGMENTED INFORMATION[1]			
Net Sales			
Brewing	$ 1,769	$ 1,672	6%
Broadcast, Sports and Entertainment	630	546	15%
	2,399	2,218	8%
Less: Partly owned businesses	78	83	-6%
	$ 2,321	$ 2,135	9%
Earnings before interest, restructuring charges and income taxes			
Brewing	$ 260	$ 218	19%
Broadcast, Sports and Entertainment	32	56	-43%
	292	274	7%
Less: Partly owned businesses	8	9	-11%
	$ 284	$ 265	7%
CONTINUING OPERATIONS			
Net earnings	$ 155	$ 133	17%
Fully diluted earnings per share	$ 1.53	$ 1.32	16%
CONTINUING AND DISCONTINUED OPERATIONS			
Net earnings	$ 155	$ (70)	N/M
Fully diluted earnings per share	$ 1.53	$ A/D	N/M

[1] Includes the results of partly owned businesses in the proportion of John Labatt ownership.

(A/D: Anti-dilutive; N/M: Not meaningful)

John Labatt

Has the earnings momentum and growth opportunities in its core brewing and broadcast businesses that will lead to significant value creation.

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Fiscal 1994 was a year of important strategic and operating accomplishments at John Labatt

- Consolidated earnings before interest, income taxes and restructuring charges increased by seven percent in fiscal 1994. Net earnings per share from continuing operations were $1.53 compared to $1.32 in fiscal 1993.

- The very successful launch of *Labatt Ice Beer, Labatt Maximum Ice* and *Wildcat* pushed Labatt Canada's average national market share to 44.2 percent – a record high.

- Higher sales and lower costs propelled Labatt Canada's earnings before interest, restructuring charges and income taxes to an 18 percent increase over last year.

- Export sales of *Labatt Ice Beer*, particularly to the United States and Japan, were very strong. Sales of the brand are the second-largest among all foreign beers in Japan.

- Labatt Canada licensed its patented *Ice Brewing* technology to major brewers in the United States and Europe.

- The Company created Labatt Communications Inc. to manage and develop its broadcast and sports businesses.

- On June 6, 1994 the CRTC announced its decision to license The Discovery Channel, a new, Canadian non-fiction specialty television channel that will begin broadcasting on January 1, 1995. LCI will own 80 percent of The Discovery Channel.

- The Toronto Blue Jays won their second consecutive World Series Championship.

- Subsequent to year-end, the Company announced an agreement in principle to acquire a 22 percent stake in Femsa Cerveza, Mexico's second-largest brewer, for US$510 million (C$720 million). This investment will be one aspect of a North American beer partnership with Femsa Cerveza to capitalize on market opportunities in Mexico, the United States and Canada.

Brewing

NORTH AMERICAN BREWING

LABATT BREWERIES OF CANADA operates nine breweries across the country and produces 42 brands of beer. Ten brands are marketed nationally while the others are sold regionally. The company is currently the second-largest brewer in Canada. **LABATT'S USA** competes in the high-quality segment of the United States beer business. The division brews and markets the *Rolling Rock* brands of its Latrobe Brewing Company. The division also imports and markets selected Labatt's brands from Canada, brands from Labatt's Italian breweries, and other high-quality international beers.

EUROPEAN BREWING

LABATT BREWERIES OF EUROPE has two operating units, Birra Moretti and Labatt UK; the latter includes Labatt Brewing UK and Labatt Retail UK. **BIRRA MORETTI** operates three breweries in Italy. It is the country's third-largest brewer, producing a variety of products for domestic and export markets. **LABATT BREWING UK** maintains contractual arrangements with several national and regional partners for the brewing and/or distribution of Labatt's brands and *Rolling Rock* within the United Kingdom. The company also imports and markets packaged Labatt and Birra Moretti brands for retail sale. **LABATT RETAIL UK** manages John Labatt's pubs, which currently number more than 500. Labatt Breweries of Europe also exports Labatt brands produced in Europe to major European countries.

LABATT BREWERIES INTERNATIONAL coordinates international activities outside North America and Europe such as the licensing of Labatt Canada's technology and brands, international *Ice Beer* marketing, certain international joint-venture projects, and the export of Labatt Canada products.

Broadcast, Sports and Entertainment

BROADCAST AND SPORTS

LABATT COMMUNICATIONS INC. was created during 1994 to provide an integrated structure for John Labatt's broadcast and sports businesses. LCI's principal *broadcast businesses* now comprise: TSN, an English-language, all-sports specialty television service; RDS, which is the French-language counterpart to TSN; a 25 percent interest in Viewer's Choice Canada, an English-language pay-per-view service in Eastern Canada; and an 80 percent interest in the newly licensed Discovery Channel, a Canadian non-fiction specialty channel. Principal *broadcast-related businesses* include: Dome Productions, which is a television event-production facility at the SkyDome, a video and audio post-production facility, computer animation studio, and provider of mobile, satellite and other transmission services; The Rep Shoppe, an advertising sales representation agency whose principal clients are TSN, RDS and now Discovery; and LCI Enterprises, the operator of real-time closed-captioning services and TSN SportsRadio. The *sports and sports-related businesses* of LCI comprise John Labatt's investment in the Toronto Blue Jays, an American League East Division baseball club based in SkyDome and the winner of the 1992 and 1993 World Series; The Toronto Argonauts Football Club of the Canadian Football League, also based in SkyDome; and an equity interest in SkyDome, a 55,000-seat, all-weather sports and live entertainment venue located in downtown Toronto.

ENTERTAINMENT

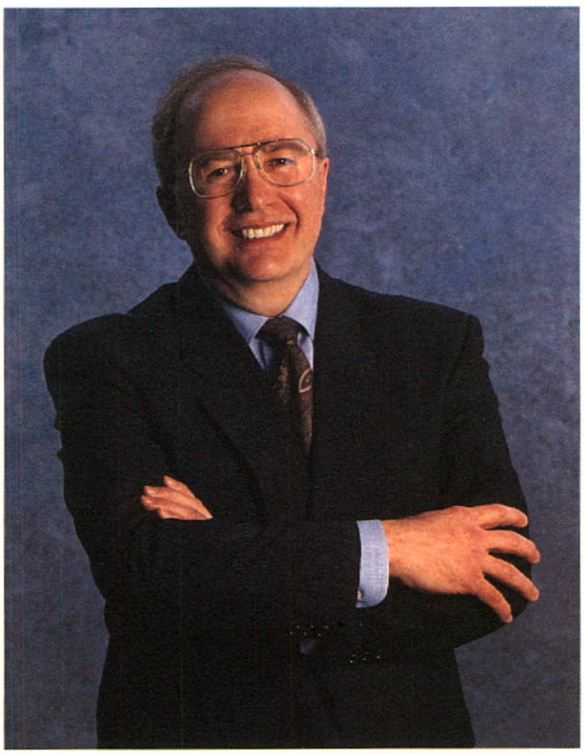
Restructured in 1994, **SUPERCORP/SKYVISION** now has two divisions. Partners Film is comprised of Partners Canada and Partners USA, which are producers of television commercials in those countries. Skyvision creates, develops and produces episodic television programming for domestic and foreign markets. **BCL ENTERTAINMENT** is a live-event promoter and merchandiser of related apparel. **INTERNATIONAL TALENT GROUP** represents music, film and television artists in North America and the United Kingdom.

To Our Shareholders

Fiscal 1994 was a year of notable accomplishments at John Labatt, both strategic and operating. The most significant strategic step was taken after year-end. On July 6th we announced the signing of an agreement in principle to create a unique North American beer partnership with Mexico's second-largest brewer, Femsa Cerveza, S.A. de C.V.

Under the terms of the partnership, Labatt will acquire 22 percent of Femsa Cerveza, a wholly owned subsidiary of Fomento Económico Mexicano, S.A. de C.V., for US$510 million and will hold an option to acquire an additional eight percent within three years. Subject to successful completion of due diligence, we expect to close the initial purchase transaction by the end of September this year. Our two companies also intend to pursue joint marketing of key brands in Canada and Mexico and to merge our operations in the United States into a company that will pursue opportunities in the specialty and import areas of the fast-growing high-quality market segment.

FINANCIAL HIGHLIGHTS Outstanding operating results from Canadian brewing, and better performance from our United States and European operations, helped boost Brewing segment earnings before interest, restructuring charges and income taxes by nineteen percent in 1994. Broadcast also made a good contribution, although down from last year's record level due to the increased costs of sports programming rights. Disappointing results from BCL were the major factor in a 43 percent decrease in earnings before interest and income taxes for the Broadcast, Sports and Entertainment segment for the year.



GEORGE S. TAYLOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER,
JOHN LABATT LIMITED

Earnings before interest, restructuring charges and income taxes for John Labatt increased seven percent to $284 million. Earnings from continuing operations after restructuring charges in 1994 were $155 million compared to last year's $133 million. Fully diluted earnings per share from continuing and discontinued operations were $1.53 compared to a loss of $0.88 in 1993. The prior year's loss was due primarily to a write-down of discontinued operations.

In response to requests from shareholders and the investment community, we have substantially expanded the discussion of Labatt's results and outlook in Management's Discussion and Analysis. Detailed information on the Company's performance during fiscal 1994 can be found there, beginning on page 14.

NORTH AMERICAN BREWING Labatt Breweries of Canada had a superb year. Earnings before interest, restructuring charges and income taxes reached a record high, and the company's average share of the Canadian beer market for the year was an all-time high of 44.2 percent. Labatt Canada again reduced costs, bringing its total savings over the past three years to approximately $120 million. This has been achieved while increasing its market share in each of those years through the development and launch of popular new brands such as *Labatt Genuine Draft, Labatt Ice Beer* and *Wildcat*.

Labatt Canada has also demonstrated excellent management of the business and the business environment. The company has accommodated structural change within the industry. It has met an influx of lower-priced domestic and imported brands head on – and emerged from the fray with the leading domestic "price brand" in Canada. In the coming year Labatt Canada will again leverage its skills in technology, marketing and cost reduction, and we are confident that it can continue to provide shareholders with a very good return in the years ahead.

IN THE COMING YEAR LABATT CANADA WILL AGAIN LEVERAGE ITS SKILLS IN TECHNOLOGY, MARKETING AND COST REDUCTION, AND WE ARE CONFIDENT THAT IT CAN CONTINUE TO PROVIDE SHAREHOLDERS WITH A VERY GOOD RETURN IN THE YEARS AHEAD.

The success of *Rolling Rock* in the very competitive United States beer industry is the story of the consistent application of our marketing strategy for the brand family. When Labatt acquired Latrobe Brewing in fiscal 1986, *Rolling Rock* was a weak regional brand. Seven years later, Latrobe Brewing produces six times the volume it produced at the time of our acquisition. The brand is available nationally, commands premium prices and is the leading domestic specialty beer in the high-quality segment. Volume growth of *Rolling Rock* and *Rock Light* again outperformed their segment and the United States beer industry in 1994.

The growth of Labatt's USA has required investments in production, marketing and new product introductions, and these have affected profitability. This was true in 1994, as investments were made in additional marketing support for *Rolling Rock* and the targetted introduction of *Labatt Ice Beer*. We will continue to invest in the growth of Labatt's USA while we position the business for higher profitability through cost control and further brand development. Under the planned partnership with Femsa Cerveza, our combined United States operations will constitute the largest specialty and import company in the United States.

EUROPEAN BREWING In Italy and the United Kingdom, as in the United States, we have chosen to make investments in our brands at the expense of short-term earnings. We are a small player in large and challenging markets. Yet we have a big opportunity to leverage Labatt's skills in brewing technology and in marketing.

In Italy, we have continued to make sizable investments in developing and expanding our line of brands and in achieving efficiencies in production and distribution. We have made a similar investment in the United Kingdom in distribution. The pub estate we have built is a competitive necessity in the vertically integrated markets of England and Wales, and we expect this investment to generate solid returns.

In other international markets, *Labatt Ice Beer* has quickly become the second-largest foreign beer in Japan. Our *Ice Brewing* process has now been licensed to major brewers in the United States and Europe. The payback on our investment in the brand and the technology is more than increased sales and royalties. It is also an opportunity to establish long-term relationships with key international partners.

Building on the basics: better brands and lower costs

"Let's deal with the issue that's near the top of everyone's list: With the growth of lower-priced brands, and more open borders for trade in beer, what is our expectation for the continuation of the excellent earnings growth Labatt Canada produced in 1994? There are two key elements in our strategy for future growth in profitability. The first is management of costs. The second is management of our portfolio of brands.

"Our goal is to be cost-competitive in all Canadian markets. In fiscal 1992 and 1993 we eliminated about $50 million in expenses through actions such as better capacity utilization and the move to a standard bottle. We took out another $70 million in costs last year. Labatt Canada has actually lowered its marketing expenditures over the past three years while consistently gaining market share.

"We've also been successful with our brand strategy. We manage the mix of the portfolio to have strong brands in each of the three major segments of the Canadian market – premium, mainstream and low-price. Most of our effort has been put against the development and support of value-added brands such as *Labatt Ice Beer* and *Labatt Genuine Draft*. But Labatt Canada has also won the leading share of the quickly growing low-price segment with our *Wildcat* brand. The important point is this – despite the advent of this low-price segment in key markets such as Ontario last year, our overall revenue per hectolitre was unchanged.

"We will continue to focus on the basics of our business. We will manage our costs and develop and market the type of products Canadian consumers want to buy. It's likely that the low-price segment will keep growing for a while. This will have some affect on revenue growth, but we've identified ways we can make significant additional reductions in our cost structure over the next three years with programs for better capacity utilization and the implementation of the best practices of North American businesses. From my perspective, the outlook for Labatt Canada's earning power is very bright indeed."

Hugo Powell

HUGO POWELL
PRESIDENT,
LABATT BREWERIES OF CANADA

STRATEGIC REALIGNMENT In last year's annual report, our entertainment businesses were included along with our broadcast operations in what we then called the "Entertainment" segment of John Labatt. During fiscal 1994 we made several decisions about the strategic fit and ownership levels of these businesses.

First, Supercorp was totally restructured. Parts were sold, parts merged, and other parts closed. The outcome of these efforts is Skyvision/Partners Film, which has excellent synergies in the production of television commercials and episodic series such as *RoboCop*. We are still assessing the long-term strategic fit of this part of the Labatt family.

Second, we have determined that BCL Entertainment is not a core business of Labatt. We believe that the company's operating results will improve in fiscal 1995 after a very disappointing 1994. Most of the expected improvement will be related to increased touring activity, especially the major tours by Pink Floyd and the Rolling Stones. Nonetheless, we are currently engaged in a process that may lead to a disposition of BCL. If this cannot be achieved on terms we consider acceptable, we will likely reduce our ownership in the company over time.

Third, we set up Labatt Communications Inc. ("LCI") to manage established businesses such as TSN, RDS, Viewer's Choice, Dome Productions and to hold Labatt's investment in the Toronto Blue Jays. During the last six months we also acquired The Toronto Argonauts and 41.6 percent of SkyDome, and established a business development focus within LCI to find new opportunities for LCI, utilizing our proven skills in technology in LCI and marketing in Labatt Canada. We were delighted to receive the CRTC's decision in early June to license The Discovery Channel, a specialty channel proposed by LCI and its partner, Discovery Communications Inc. of the United States. Discovery is a tremendous opportunity for growth at LCI. The net effect of these activities has been the creation of a large, vertically integrated broadcast and sports enterprise that is completely unique in Canada.

STRATEGIC OUTLOOK Looking ahead, it is Labatt's stated intention to reduce its ownership in the Toronto Blue Jays from 90 percent, and The Toronto Argonauts from 100 percent, to the level of Labatt's diluted equity in SkyDome; that is currently 41.6 percent. This level of ownership would enable us to realize the benefits of ownership of these valuable assets while monetizing some of the value we have created in the Blue Jays.

A longer-term objective of John Labatt – also intended to realize on inherent value we have created for shareholders – is to pursue an initial public offering of 49 percent of LCI. We anticipate doing so sometime in the next 12 to 24 months, should the equity markets be favourable for such a transaction. Before this can be undertaken, we must complete the integration of our sports properties into LCI and the reduction of our ownership in the Blue Jays and Argonauts.

The strategic realignment of John Labatt during the past five years has been predicated on its desire to become larger in its two core businesses of brewing and broadcast. The Femsa transaction will give us the opportunity to play a major part in the growing Mexican beer market and offer a stepping stone to Latin America. We are also continuing to look for attractive opportunities in conventional broadcasting, specialty channels and sports that would add growth potential to LCI.

THE FEMSA TRANSACTION WILL GIVE US THE OPPORTUNITY TO PLAY A MAJOR PART IN THE GROWING MEXICAN BEER MARKET AND OFFER A STEPPING STONE TO LATIN AMERICA. WE ARE ALSO CONTINUING TO LOOK FOR ATTRACTIVE OPPORTUNITIES IN CONVENTIONAL BROADCASTING, SPECIALTY CHANNELS AND SPORTS.

Strategic investments in long-term growth

"Our beer businesses in Italy and the United Kingdom are starting to bear fruit. We have put the basics of production and distribution in order, sorted out our market development strategies and transformed the organizations into very good, team-based competitors.

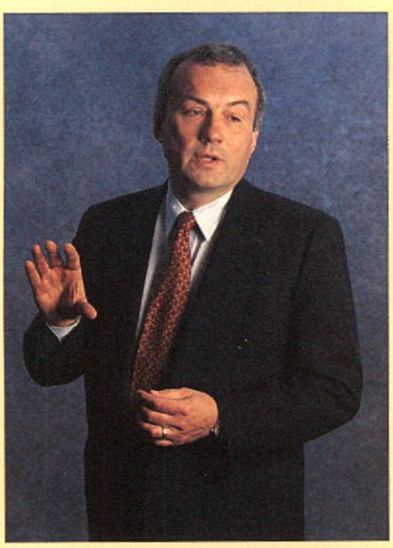
"It is important to remember that Labatt originally entered the Italian beer business in 1989 by purchasing one relatively small, regional family-operated brewery and a brewery with national distribution that was in serious decline and on the verge of bankruptcy. We merged the two companies and made sizable investments in people, brand development, production capability and distribution. Today Birra Moretti is the third-largest brewer in Italy with a meaningful and growing share of the domestic market. Its financial performance has also improved steadily during the past three years.

"We had considerable startup losses in the United Kingdom, but results have also improved there in recent years. We have rolled out an effective distribution strategy, very innovative marketing support for retail sales of our brands, and cost-effective brewing arrangements with national and regional brewers. We also tend to be somewhat non-traditional in our marketing, which has helped us build our share in the premium packaged segment of the marketplace. *Labatt Ice Beer*, which we just launched, is an important entry in this segment.

"A profitable pub estate is central to our strategy for growth. The beer business is highly integrated in the United Kingdom; major brewers own pubs in order to provide broad distribution for their products. The same is true for Labatt UK. We need the extra distribution pubs provide. Yet because we only compete in the lager market – which represents just over half of United Kingdom on-premise draught consumption – our pubs give us the opportunity to forge a complementary relationship with a brewer who wants our distribution capability for draught ale.

"Over the past two years, we have also developed an export business sourced from Italy and the United Kingdom. As a result, Labatt's products are now available in 21 European countries and demand is growing as our brands become better known.

"We will continue to leverage our experience in North American brewing and marketing to help us push down costs, introduce new products and develop attractive marketing campaigns. In my opinion, both Italy and the United Kingdom have the potential for a high return on investment."



BRUCE E. PEER
PRESIDENT,
LABATT BREWERIES OF EUROPE

LCI: an integrated broadcast and sports enterprise that is unique in Canada

"What we recently renamed Labatt Communications Inc. has diversified its revenue stream significantly over the last decade. We now have regulated businesses through our specialty licenses, unregulated businesses that provide related services to our networks and to third parties, and key sports and sports-related properties.

"We've always felt that specialty television in Canada would have the same strong trend of growth as specialty channels in the United States. Ten years ago, in its first year of operation, TSN had 350,000 subscribers and annualized revenues of $9 million. In the 1994 fiscal year, it had 6.4 million subscribers and revenues of $125 million. RDS went to 1.8 million subscribers and over $33 million in revenues in just five years. Viewer's Choice is growing according to plan. Now the new Discovery Channel promises to generate excellent returns from subscriber and advertising revenues and will contribute to the strong revenue growth pattern of LCI.

"Dome Productions is a vertically integrated company that provides us with event production resources, video and audio post-production, animation and distribution services and mobile production facilities. These are industry-leading skills that we make available to producers all over North America. The Rep Shoppe has demonstrated some very innovative, successful advertising and ad sales strategies both for our channels and other media clients, and LCI Enterprises handles other broadcast-related services such as real-time, closed captioning and TSN *SportsRadio*. Each of these contributes to LCI's stream of unregulated revenues.

"Sports broadcasting is our bread and butter. That's a large part of the reason we will hold Labatt's investment in the Toronto Blue Jays and why we acquired The Toronto Argonauts and SkyDome interest. The SkyDome is already profitable and we expect to be profitable with the two sports franchises in the near future. Equally important is the assurance ownership gives us in acquiring, at fair market value, broadcast rights for our networks. It's essential that we have these rights because top-quality sports programming is a necessary investment in our future – quality programming draws audiences and audiences attract advertisers. We will continue to look for opportunities to be involved with major league sports such as hockey and basketball in the future."

Gordon Craig

Gordon Craig
President and Chief Executive Officer,
Labatt Communications Inc.

OUR KEY ASSET John Labatt is fortunate to have talented and dedicated senior managers with the demonstrated ability to lead their organizations in today's challenging business world. My management philosophy, or style, is to provide the broadest possible scope for our senior managers to run and build their businesses. It is my job to ensure personal empowerment and to give each one the latitude to stretch to the very edge of his or her capacity.

An absolute necessity for the success of this approach is the selection of the best people to manage our businesses. Therefore, I am personally involved in all senior executive appointments and succession planning. The businesses are controlled through a comprehensive business planning process, and through regular review of progress against strategic goals and business objectives. I shun bureaucracy, and expect senior line managers to give broad responsibilities and authority to the people who work for them.

The other necessity in this style of management is for shared values. The most important are that all employees must have a passion for the success of the business; every activity must be undertaken with integrity; and everyone must have a respect for people, both inside and outside the organization.

Though it may seem obvious to say, these core values are the source of John Labatt's success today and will underpin our accomplishments of tomorrow.

IN SUMMARY Exceptional assets in the hands of outstanding managers have led to an excellent record of internal growth for John Labatt. We brought the Blue Jays to Toronto as a business opportunity and to support beer marketing. The team now has an estimated value in excess of US$175 million. We created The Sports Network to satisfy consumer demand and to provide a medium for our unused inventory of sports programming. The business is now Canada's premier specialty channel and has annual earnings before interest and income taxes of nearly $60 million. The five-year restructuring of John Labatt into a stronger, leaner brewing and broadcast enterprise has also been highly effective. Today, the Company has less than half the revenues generated in fiscal 1990 but records the same level of earnings before interest and income taxes.

EXCEPTIONAL ASSETS IN THE HANDS OF OUTSTANDING MANAGERS HAVE LED TO AN EXCELLENT RECORD OF INTERNAL GROWTH FOR JOHN LABATT. WE WILL CONTINUE TO DO WHAT WE DO WELL, WHICH IS TO GROW OUR CORE BREWING AND BROADCAST BUSINESSES.

We will continue to do what we do well, which is to grow our core brewing and broadcast businesses. The New Business Development Committee recently formed at LCI will be instrumental in uncovering opportunities for internal growth. Whatever we choose to pursue, our goal will be to create dynamic growth opportunities that will add value for John Labatt shareholders.

GEORGE S. TAYLOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER

JULY 11, 1994

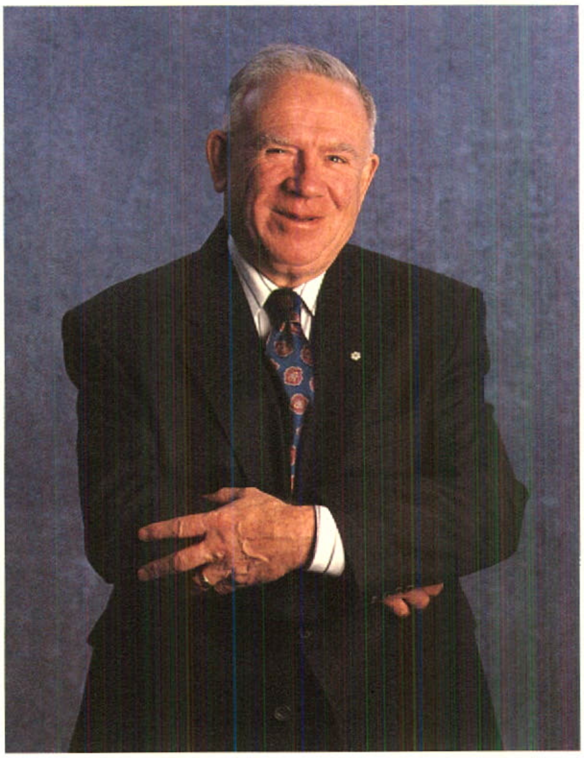
From the Chairman

This is the first time the Chairman has reported on the activities of the Board of Directors of John Labatt in the annual report. With the enhanced disclosure and discussion undertaken in the Company's annual report this year, it is timely and appropriate that shareholders have an equally candid view of the working of the board.

Labatt directors are keenly aware of their responsibility to the Company's shareholders and follow the debate on corporate governance with considerable interest. We believe our current practices of governance are appropriate, but we recognize the need to continually update our methods as thinking on these matters evolves. In doing so we are considering numerous perspectives, including the proxy voting guidelines of some institutional investors, the Cadbury Report on the financial aspects of corporate governance in the United Kingdom, and the standards issued by the Pension Investment Association of Canada. We are also considering the recent draft report of the Toronto Stock Exchange Committee on Corporate Governance.

This letter reviews the highlights of current governance practices of the Board of John Labatt and the ways in which the board carried out its mandate during the past year.

MEETINGS The John Labatt Board has six regularly scheduled meetings each year. There are four regular quarterly meetings, another meeting to review and approve management's comprehensive business plan for the forthcoming fiscal year, and one meeting primarily to approve the Management Proxy Circular and Annual Information Form. Other meetings are held as and when required; there were four other meetings during the last year.



SAMUEL POLLOCK
CHAIRMAN OF THE BOARD,
JOHN LABATT LIMITED

I am pleased with the performance of the Labatt board. All members have done their utmost to make themselves available for meetings, sometimes on very short notice.

THE BUSINESS OF THE BOARD The board considers a wide range of issues at its regular meetings. None receives more scrutiny than the Company's strategy, which we subject to continual and comprehensive examination. During the past year the board and management reviewed numerous strategic objectives for the growth of Labatt as well as approaches to achieving those objectives. The board played a key role in developing the strategy that culminated in the proposed partnership with Femsa Cerveza of Mexico. We also reviewed and endorsed the objective of reducing the Company's ownership in its sports properties and of offering a portion of the equity of Labatt Communications Inc. to the public at an appropriate time.

Regular reports on operations and updates on the Company's progress in achieving its strategy are key components of the board's governance mandate. Review and approval of the Company's financial statements are also principal responsibilities of the board. In addition, we are required to approve all documentation related to the issuance of securities, the Management Discussion and Analysis of Results of Operations and Financial Condition that appears in this annual report, the Annual Information Form and the Management Proxy Circular.

The deployment of the Company's capital resources is another important matter subject to board approval. Capital expenditures, acquisitions and dispositions above a specified amount must be ratified by the board. In the past year, for example, board members approved a transaction for the acquisition of 168 pubs in the United Kingdom, the purchase of a 41.6% interest in SkyDome, and the dispositions of the Tuscan and Green Spring dairy businesses in the United States. As noted, the board approved a very significant strategic transaction subsequent to year-end – the acquisition of a 22 percent interest in Femsa Cerveza, valued at US$510 million.

The board must approve new policies of the Company, or changes in existing policies. In 1994 Labatt's environmental and safety policy was again updated to reflect more stringent guidelines. As a board we also become involved in the ratification of senior management appointments. Ensuring that John Labatt is effectively managed is a key aspect of our governance of the Company for its shareholders.

Committees and Their Work At the end of fiscal 1994 John Labatt Limited had four standing committees – Audit, Management Resources and Pension, Nominating, and Environment and Safety. The name of the latter was changed during the year from the Public, Environmental and Product Responsibility Committee to reflect a change in its mandate. The Nominating Committee was established as a standing committee last winter, with a mandate encompassing matters of board composition, committee structure and board and director performance.

The board considers a wide range of issues. None receives more scrutiny than the Company's strategy, which we subject to continual and comprehensive examination. During the past year the board and management reviewed numerous strategic objectives for the growth of Labatt

In order to ensure their independence, none of the Labatt board committees have management directors as members. These committees typically meet quarterly, though they also meet on an as-needed basis in order to deal with specific issues.

The Audit Committee reviews matters related to John Labatt's financial reporting, internal controls and financial disclosure; it also reviews the performance of the external auditors appointed by shareholders. Close scrutiny of the expanded financial disclosure in Labatt's Management Discussion and Analysis was a priority for the Audit Committee this year. It also approved a new mandate and staffing for the corporate internal audit function.

The Management Resources and Pension Committee is responsible for the detailed review, approval and recommendation to the board of compensation for senior management, executive appointments, succession planning and investment of the Company's pension plan funds. A major focus during the year was succession planning and staffing for strategic growth. The committee also spent considerable time on executive compensation disclosure, the details and philosophy of which can be found in the Proxy Circular that accompanies this annual report.

The Environment and Safety Committee reviews environmental and safety policies, processes and compliance. The committee also receives reports on an annual schedule from the chief executives of the operating divisions on their environmental and safety practices as well as their compliance status. The committee's goal is to ensure that Labatt operations maintain high standards in their environmental and occupational health and safety practices. Members also reviewed a substantial volume of new environmental regulatory requirements and the Company's plans for compliance.

Composition of the Board There are currently 18 directors of John Labatt, five fewer than the 23 elected at the annual meeting in September 1992. In fact, the composition of the board has changed markedly over the past year.

In March 1993 Brascan Limited sold its significant interest in Labatt, and five directors associated with Brascan subsequently resigned from the board. Two experienced directors reached retirement age, as stipulated in the Company's by-laws, prior to the September 1993 annual meeting, and another resigned prior to that meeting. As a result, shareholders elected three new directors last September – Claude Boivin, Margaret Kerr and Eileen Mercier.

During the past fiscal year, the Company lost a valued and long-standing member of the board with the passing of Mervyn Lahn. Mr. Lahn was first elected to the Board in 1978 and had been a member of the Audit Committee since 1982 and its chairman since 1990. Gordon Hughes, a director who has also given generously of his time and talents on behalf of the Company, has reached the retirement age for directors.

Two other directors will not be standing for re-election. Sid Oland, Vice-Chairman of John Labatt and its former President and Chief Executive Officer, is recognized for his valuable contributions to the Company and the board during the past 23 years. Helga Stephenson is also thanked for her work on the board over the last three years.

The Nominating Committee of the Board has recruited four nominees for election as directors at this year's annual meeting who will bring skills and experience to complement those of continuing board members. Sir Graham Day, formerly Chairman of Cadbury Schweppes plc of the United Kingdom, is currently counsel to the law firm Stewart McKelvey Stirling Scales in Halifax, Nova Scotia. Mr. Al Flood of Thornhill, Ontario is Chairman and Chief Executive Officer of Canadian Imperial Bank of Commerce, the country's second-largest chartered bank. Mr. Othón Ruiz Montemayor of Monterrey, Mexico, is chief executive officer of Fomento Económico Mexicano, S.A. de C.V., the parent company of our new Mexican partner, Femsa Cerveza. Mr. Hugo Powell of Mississauga, Ontario, is President of Labatt Breweries of Canada.

BY RESPONDING TO THE CHARITABLE NEEDS OF THE COMMUNITIES ACROSS CANADA, THE JOHN LABATT FOUNDATION UPHOLDS A LONG TRADITION OF CORPORATE GIVING. MORE THAN 1,500 APPLICATIONS WERE PROCESSED LAST YEAR, CULMINATING IN THE APPROVAL OF 500 DONATIONS TOTALLING $2.8 MILLION.

John Labatt Foundation During fiscal 1994 Labatt maintained its support of charitable organizations in five broad categories – Health and Welfare (including United Way/Centraide), Education, Culture, Civic and Sports, and Environment. The Foundation also administered the Labatt's People in Action and Peter Hardy Matching Gift programs. More than 1,500 applications were processed last year, culminating in the approval of 500 donations totalling $2.8 million.

By responding to the charitable needs of the communities across Canada, the John Labatt Foundation upholds a long tradition of corporate giving. Our efforts to help improve the quality of life in this great country are made all the more gratifying – and effective – by the countless hours of volunteer time that individual Canadians give in achieving these worthy aims.

In Summary The board will continue to work diligently to achieve continued growth and development of the Company. We look forward to another exciting and fruitful year!

Samuel Pollock

Samuel Pollock, O.C.
Chairman of the Board

Board of Directors

Sir John Banham[2]
Cornwall, England
Chairman, Local Government Commission for England and a Director and Chairman of Tarmac PLC

Claude Boivin[1]
Montreal, Quebec
Advisor to the President, CGI Group

Peter F. Bronfman[3]
Toronto, Ontario
Chairman, Edper Enterprises Ltd.

Charles Diamond[2,4*]
Vancouver, British Columbia
President, B.C. Turf Ltd.

J. Trevor Eyton, O.C.[2*]
Caledon, Ontario
Chairman, Brascan Limited

Eric F. Findlay[3]
Orillia, Ontario
Corporate Director

Gordon F. Hughes, O.C.[2]
Windsor, Nova Scotia
Chairman, Ocean Company Limited

Dr. Margaret G. Kerr[3]
Toronto, Ontario
Senior Vice-President, Environment and Ethics, Northern Telecom Limited

Dr. Maurice J. LeClair, C.C.[3*,4]
Ville Mt-Royal, Quebec
Chairman, Sceptre Resources Limited

Eileen A. Mercier[1]
Toronto, Ontario
Senior Vice-President and Chief Financial Officer, Abitibi-Price Inc.

Sidney M. Oland
Toronto, Ontario
Vice-Chairman, John Labatt Limited

Samuel Pollock, O.C.[4]
Toronto, Ontario
Chairman, John Labatt Limited

Herbert H. Solway, Q.C.[1]
Toronto, Ontario
Partner, Goodman & Goodman

Helga M. Stephenson[3]
Toronto, Ontario
Chairman, Viacom Canada Limited

George S. Taylor
St. Marys, Ontario
President and Chief Executive Officer, John Labatt Limited

John H. Tory, Q.C.[1*]
Toronto, Ontario
Partner, Tory Tory DesLauriers & Binnington

Jean Denis Vincent[2]
Montreal, Quebec
Corporate Director

Honorary Directors

Marcel Bélanger, O.C., F.C.A.
John B. Cronyn
Edwin A. Goodman, O.C., Q.C.
Jaime Ortiz-Patiño
Herbert C. Pinder
Wallace F. Read
Peter N.T. Widdrington
William P. Wilder

Board Committees

[1] Audit Committee
[2] Management Resources and Pension Committee
[3] Environment and Safety Committee
[4] Nominating Committee
* Committee Chairman

The following discussion and analysis provides a review of the activities, results of operations and financial condition of John Labatt Limited (the "Company" or "Labatt") for the fiscal year ended April 30, 1994 ("1994") in comparison with those for the fiscal year ended April 30, 1993 ("1993"). This discussion should be read in conjunction with the Company's 1994 Consolidated Financial Statements.

Management believes it is important for readers to have a clear understanding of the operating results of the various businesses owned by the Company. As a result, this discussion first reviews the results of the businesses within the two segments (Brewing, and Broadcast, Sports and Entertainment) and then discusses separately Labatt corporate expenses and sundry income and expenses, which are allocated to the business segments. Corporate expenses are principally the costs of running the corporate office, public company costs and legal, audit and consulting fees. The Company's financial results by business segment are summarized in Table 1. The results by business, including the impact of the allocations of corporate expenses and sundry income and expenses, are summarized for the Brewing segment in Table 2, which appears on page 15, and for the Broadcast, Sports and Entertainment segment in Table 3, which appears on page 25.

RESULTS OF OPERATIONS

This review discusses the results of operations during 1994 in comparison with those of 1993 for the businesses within Labatt's two business segments – Brewing, and Broadcast, Sports and Entertainment. All amounts are expressed in Canadian dollars unless otherwise stated. Earnings before interest expense, restructuring charges and income taxes are referred to as "EBIT." Segmented net sales and EBIT include the results of partly owned businesses in the proportion of Labatt ownership.

In Tables 1, 2 and 3, "net assets" consist of consolidated non-cash working capital, other than the current portion of long-term debt plus long-term assets other than securities. Net assets of partly owned businesses are included at the amounts of Labatt's investment in and advances to those businesses. Information by individual business represents an analysis of consolidated information; consequently, inter-company sales, profits and balances are eliminated. Amortization of Labatt goodwill is attributed to the individual businesses as appropriate.

TABLE 1. SEGMENTED FINANCIAL DATA

(millions)

	Net Sales		EBIT		Net Assets		Depreciation & Amortization		Fixed Asset Additions	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Brewing	$1,769	$1,672	$ 260	$ 218	$ 960	$ 932	$ 83	$ 74	$ 103	$ 191
Broadcast, Sports and Entertainment	630	546	32	56	308	238	16	15	20	12
Segmented	2,399	2,218	292	274	1,268	1,170	99	89	123	203
Less: Partly owned businesses	78	83	8	9	–	–	–	–	–	–
Consolidated	$2,321	$2,135	$ 284	$ 265	$1,268	$1,170	$ 99	$ 89	$ 123	$ 203

BREWING

The Brewing segment comprises several divisions. North American operations are Labatt Breweries of Canada ("Labatt Canada") and Labatt's USA. European operations are managed under the umbrella of Labatt Breweries of Europe and include Birra Moretti in Italy and Labatt UK. The Company also pursues selected international activities through Labatt Breweries International.

Revenues (net sales) increased for all divisions within the Brewing segment during 1994 and by 6% overall. EBIT improved for each business, other than Labatt's USA, representing combined growth of 19%.

Total EBIT for North American brewing was reduced in both 1994 and 1993 as a result of the special tariff imposed by the United States government on imports of beer from Ontario. In 1994 the tariff was in place for the first three months of the fiscal year, a period of high summer shipments. In 1993 the tariff was imposed during the last nine months of the year, the period following the peak summer season. The tariff was withdrawn as a result of the Memorandum of Understanding between Canada and the United States, as described in the section "Competition and Trade Issues in 1994" on page 17.

Brewing EBIT was reduced by a $19 million allocation of corporate expenses and $11 million of sundry expenses. This compares to $20 million of corporate expenses and $4 million of sundry income allocated to the segment in 1993.

NORTH AMERICAN BREWING

The Company's North American brewing operations are Labatt Canada and Labatt's USA. Net sales for the North

TABLE 2. BREWING SEGMENT FINANCIAL DATA
(millions)

	Net Sales		EBIT		Net Assets		Depreciation & Amortization		Fixed Asset Additions	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Labatt Canada	$1,245	$1,241	$ 283	$ 239	$ 495	$ 534	$ 60	$ 55	$ 72	$ 98
Labatt's USA	228	180	4	5	74	67	7	5	10	9
Tariff	–	–	(4)	(8)	–	–	–	–	–	–
North America	1,473	1,421	283	236	569	601	67	60	82	107
Birra Moretti	134	130	(1)	(3)	203	180	12	10	12	15
Labatt UK	74	42	(2)	(8)	110	75	3	3	11	69
Europe	208	172	(3)	(11)	313	255	15	13	23	84
Labatt Breweries International	15	7	2	1	7	2	–	–	–	–
Canada Malting (19.7%)	73	72	8	8	47	44	–	–	–	–
Corporate Allocation	–	–	(19)	(20)	24	30	1	1	(2)	–
Sundry Allocation	–	–	(11)	4	–	–	–	–	–	–
	$1,769	$1,672	$ 260	$ 218	$ 960	$ 932	$ 83	$ 74	$ 103	$ 191

American operations in 1994 were $1,473 million, a 4% increase over last year's $1,421 million. Earnings before interest and taxes totalled $283 million compared to $236 million in 1993, a 20% increase.

Labatt Canada

Labatt Canada operates nine breweries across the country and produces 42 brands of beer for the domestic market. Ten brands are marketed nationally while the others are sold regionally.

Financial and Operating Performance

Labatt Canada had an excellent year. The company increased its sales volume 2% to 8.4 million hectolitres in 1994. National consumption of beer was slightly above 1993 levels. The company's net sales advanced to $1,245 million compared to $1,241 million in 1993.

Labatt Canada's average national market share for 1994 was a record 44.2%

Average selling price per hectolitre was unchanged for the year despite the growth of the low-price ("price") segment. This good relative performance was attributable to the shift in sales, both geographically and in the mix of products sold, to higher-priced brands such as *Labatt Maximum Ice*. The company did not initiate any price increases in major markets during 1994.

Labatt Canada's average national market share for 1994 was a record 44.2%, up 0.6 percentage points over 1993. The company gained share in nine provinces, including a third consecutive year of strong growth in Quebec. In Newfoundland, the company's share fell from 54.6% to 54.1%.

Volume and share gains were driven by the highly successful launch of three new products – *Labatt Ice Beer, Maximum Ice* and *Wildcat*. While there was some cannibalization effect on other Labatt brands due to the introduction of the division's new brands, there was also continuing strength in Labatt Canada's core brands. In particular, *Budweiser* maintained its strong market position and *Labatt Blue* made excellent gains in Quebec, becoming the best-selling beer in the province.

Labatt Canada's strategy is to counter the expansion of the price segment with value-added products such as *Labatt Ice Beer*. The price segment constituted 12% of the Canadian domestic market in the last quarter of 1994 compared to 6% at the end of 1993. Labatt Canada expects price brands to represent between 15% and 16% of the total domestic market by the end of fiscal 1995.

Earnings before interest, income taxes and restructuring charges advanced strongly in 1994 – up 18% to $283 million compared to $239 million last year. Projects initiated by Labatt Canada to reduce its costs resulted in cumulative savings of $50 million in fiscal 1992 and 1993 and a further $70 million in 1994. The company reduced expenses in all key areas – marketing, production, distribution and administration – through initiatives such as better capacity utilization, conversion to a standard bottle and the introduction of packaging efficiencies.

Labatt Canada invested $72 million in capital expenditures last year. The major portion was spent on the installation of *Ice Brewing* technology and on productivity improvements in the breweries. The company plans to spend a like amount on capital projects in fiscal 1995.

All of the company's labour contracts expired during 1994. The former practice of industry-wide bargaining was replaced with plant-by-plant negotiations in order to ensure that each brewery is cost-competitive on the basis of an open North American marketplace. New contracts were successfully negotiated at all locations, increasing the company's average hourly cost of labour by approximately 1.5%. Operations at the LaSalle, Quebec brewery and Montreal distribution centre were suspended for approximately three weeks before a new union contract was ratified, but no material financial or operational impact resulted from the work stoppage.

Competition and Trade Issues in 1994

The environment in which Labatt Canada competed in 1994 was significantly affected by trade issues. Labatt, its unions and other industry participants, as well as the Canadian federal and provincial governments, worked actively to achieve a resolution of these issues.

At the beginning of the fiscal year, import tariffs were in place on beer produced in Ontario for the U.S. market and on certain U.S. beer imported into Ontario. On August 5, 1993 a Memorandum of Understanding ("MOU") was signed between the governments of Canada and the United States that resulted in the elimination of these duties. The MOU provided for, and recognized, principles applicable to imported beer, such as: equal access by foreign and domestic producers to points of sale; the right-of-first-receivership of provincial liquor boards for products from outside the province; minimum pricing for social policy reasons; and environmental levies, applied to all alcoholic beverages, to encourage the use of refillable containers. It also contained an appendix specifying the application of several of these principles to the Ontario market.

The MOU took effect September 30, 1993 and applied to all provinces. Subsequently, U.S. brands were introduced into Ontario at the newly established minimum price, a development that helped expand the price segment of the market. Many U.S. brewers' major brands, however, already competed in Canada prior to the MOU through licensing arrangements with Canadian brewers, and these were unaffected. Domestic brewers moved quickly to capture the major share of the price segment with new products.

On May 5, 1994 Canada and the United States successfully concluded consultations under the MOU that resolved outstanding issues in Quebec and British Columbia. The specific terms upon which U.S. brewers are permitted access to more than 12,000 points of sale in Quebec are specified under an appendix to the MOU. Quebec also implemented a minimum retail price in the province for social policy reasons and finalized cost-of-service fees. Both countries also agreed to modifications of British Columbia's warehousing requirements that will facilitate the distribution of beer in that market.

Markets and Brand Development

Labatt Ice Beer quickly gained acceptance with consumers following its introduction in late 1993. Bolstered by the mid-year introduction of *Maximum Ice*, a high-quality strong beer, the *Ice*-brand family captured an average national market share of approximately 5% in 1994. Both are produced using Labatt Canada's proprietary *Ice Brewing* technology.

Significant export markets are developing for *Labatt Ice Beer*. The brand was rolled out in the United States during 1994 and quickly became an important part of Labatt's exports to the U.S. *Labatt Ice Beer* has also become the second highest-selling foreign beer in Japan.

During the third quarter Labatt Canada concluded the first international licensing agreement for the *Ice Brewing* process. The agreement with Coors Brewing Company allows for their use of the *Ice Brewing* process to produce an *Ice Brewed* beer in the United States; Coors is currently rolling out their brand in markets across the country. In addition, Labatt Breweries of Europe and Labatt Breweries International are pursuing arrangements with other major brewers for the licensing of the *Ice Brewing* technology for European and other foreign markets. Arrangements such as these offer not only the potential for significant income generation in the future but also a ready market for developments from Labatt Canada's highly regarded research and development facility.

LABATT CANADA'S BRAND STRATEGY IS TO OFFER CONSUMERS A BALANCED PORTFOLIO OF LEADING BRANDS

Labatt Canada's brand strategy is to offer consumers a balanced portfolio of leading brands in the primary segments of the Canadian beer market. In late 1993 and early 1994 the company introduced the *Wildcat* brand, an entrant in the growing price segment. With its high quality and attractive pricing, *Wildcat* quickly gained the leading share of the segment. The division's overall strategic emphasis, however, will remain on higher-margin, value-added products, such as *Labatt Blue*, *Budweiser* and *Labatt Ice Beer*.

Ice Beer Litigation

During calendar 1992 Labatt Canada invented a new process for brewing beer, designating the process with the trademark *Ice Brewing* and its products with the trademarks *Ice Beer* and *Ice Brewed*. The Company made applications for these trademarks in Canada, the United States and elsewhere. In addition, the Company made patent applications for the process in Canada, the U.S. and elsewhere and in April 1994 was granted a patent by the U.S. Patent and Trademarks office.

During 1994 Labatt sought an injunction and damages against Molson Breweries in Canada relating to Molson's use of the trademark *Ice Brewed*. The action is not expected to go to trial until late fiscal 1995 or fiscal 1996.

Challenges and Uncertainties

In the normal course of its business Labatt Canada faces challenges from its major competitor and other participants in the marketplace. The growth of the division's volume, market share and operating profits shows that it is effectively dealing with the normal challenges of its day-to-day business. For example, Labatt Canada anticipated the growth of the price segment and demonstrated its ability to respond aggressively and effectively.

Other uncertainties are less predictable. In 1991 the Canadian International Trade Tribunal ("CITT") applied anti-dumping duties to the imports of certain U.S. brewers in the province of British Columbia. On May 5, 1994 Canada and the United States agreed that Canada would request a review of these duties. Public hearings conducted by the CITT are expected to begin in September 1994.

The regulated retail pricing now in effect in Quebec reduces the potential for deep discounting of retail beer prices in that market, though some discounting is developing at the wholesale level where prices are not regulated. The signing of trade agreements has brought additional competition into the price segment from both out-of-province domestic brewers and U.S. imports. Labatt Canada's major competitor reduced prices on certain of its brands during May 1994. Labatt Canada responded with a competitive price reduction and will take steps to protect its competitive position.

The company anticipates that the price segment of the market will continue to develop, but at a slower rate than in the past year. The company intends to offer new products in the segment in order to build its share of the market.

Outlook

Labatt Canada expects domestic consumption to be relatively flat in fiscal 1995, with continued growth in the price segment. The company plans to increase its volume through ongoing gains in market share. The combination of these factors should result in revenues approximately equal to those of 1994.

The company's goal is to be cost-competitive in all Canadian markets. Labatt Canada has identified ways it can make further significant improvements in its cost structure during the next three years. Key initiatives in this effort will be to boost capacity utilization and implement the best practices and capabilities of leading North American businesses. The company also intends to make further improvements in its market position with effective and innovative products and marketing, with the objective of achieving the leading market share in the Canadian brewing industry.

LABATT'S USA

Labatt's USA operates in a fast-growing segment of the U.S. beer business known as the high-quality segment. The high-quality segment, which is made up of imports, super-premium beers, domestic specialty brands and micro-brewery-style beers, represents approximately 10% of the entire U.S. beer market.

The division brews and markets *Rolling Rock*, a domestic specialty brand produced by the Latrobe Brewing Company. The division also imports and markets *Labatt's Blue*, *Labatt's Blue Light*, *Labatt Ice Beer* and other Labatt Canada brands

LABATT'S USA VOLUME EXCEEDED TWO MILLION HECTOLITRES FOR THE FIRST TIME

through Labatt Importers. The Specialty Import Division imports and markets niche malt beverage products such as *Birra Moretti* and *La Rossa* from Birra Moretti, *Red Stripe* and *Dragon Stout* from Jamaica and *Clausthaler* non-alcoholic beer from Germany. The product line is distributed through an independent national wholesaler network, which then sells the brands to retail outlets.

Financial and Operating Performance

All brands recorded volume increases in 1994. Total Labatt's USA volume exceeded two million hectolitres for the first time, placing it among the top companies in the 23 million hectolitre, high-quality segment.

Rolling Rock again outperformed the domestic industry in the United States, which did not grow in 1994, and the high-quality segment, which grew by approximately 8%. Increased marketing spending in ten key markets boosted the volume of *Rolling Rock*. Total brand volume advanced 15% compared to a 9% increase in 1993, exceeding expectations. *Rolling Rock* is the leading domestic specialty beer in the United States.

After a modest 1% decrease in volume in 1993, the Labatt brands portion of Labatt USA's business surged 25% in 1994. A focus on providing key market support and strengthening wholesaler relationships, particularly in the aftermath of the 1993 trade dispute, resulted in a 7% annualized rate of volume growth for *Labatt's Blue* and *Labatt's Blue Light* prior to the introduction of *Labatt Ice Beer*. The targetted introduction of *Labatt Ice Beer* in 11 states in the fall was gradually extended to most of the U.S. market and by year end had added significantly to the total volume growth of Labatt brands.

The brands imported and marketed by the Specialty Import Division posted a combined 10% increase in sales volume last year. *Red Stripe*, *Birra Moretti* and *Clausthaler* all showed strong growth. *Birra Moretti* is now the leading imported Italian beer in the United States, and *Clausthaler* is the leading imported non-alcoholic beer.

Growth in total sales volume for Labatt's USA was 18% in 1994 compared to 6% in 1993. Net sales increased 27% to $228 million compared to $180 million last year. The growth in net sales was attributable to volume gains and price increases above the industry average, as well as to the greater strength of the U.S. dollar relative to the Canadian dollar. This excellent result was achieved despite a continuation of severe price and promotional competition among mainstream brewers that affected pricing in all industry categories.

Significant margin improvement due to favourable volume and pricing and lower costs was more than offset by an increased level of marketing expenditures behind *Rolling Rock* and start-up costs for the introduction of *Labatt Ice Beer*. These were the primary factors in reduced earnings before interest and income taxes of $4 million in 1994 compared to $5 million in 1993.

During 1994 the Latrobe, Pennsylvania brewery of Labatt's USA signed a three-year agreement with all its union workers that is consistent with other contracts in the industry.

Total capital expenditures in 1994 were $10 million. In order to meet increased demand for *Rolling Rock* brands, the second phase of the

Latrobe brewery expansion was advanced by a year and is now scheduled for completion in fiscal 1995. The expansion will increase capacity from 1.4 million hectolitres to 1.8 million hectolitres and improve the brewery's packaging and distribution capabilities. Labatt's USA plans to spend approximately $17 million on capital projects in fiscal 1995, including the Latrobe expansion.

Market and Brand Development

More extensive advertising and promotional support in key markets during 1994 helped *Rolling Rock* grow its volume significantly, and Labatt's USA expects volume growth to continue commensurate with the higher level of marketing expenditures. The company intends to maintain *Rolling Rock*'s "up-market" image during the coming year with further refinements to its marketing and packaging strategy.

The proliferation of *Ice Beer* imitators was an important competitive change in the U.S. beer market during 1994. Though small, the category of *Ice Beer* imitators is developing quickly. *Labatt Ice Beer* continues to gain momentum against imported *Ice Beer* imitators since its targetted introduction last fall. Although some erosion was seen in the sales volume of other Labatt's brands following the introduction of *Labatt Ice Beer*, Labatt's USA believes the erosion is manageable. The company will make additional efforts with the *Labatt's Blue* family in order to build the brand's volume.

Ice Beer Litigation

During 1994 Labatt initiated two actions, for injunctions and damages, against Miller Brewing and Molson Breweries in the United States, one for trademark infringement and false and misleading advertising and another for patent infringement. The two actions relate to the use of *Ice Beer*, *Ice Brewed*, *Ice Brewing* and other trademarks applied for by Labatt, and to infringement of Labatt's U.S. patent. The Company expects both the trademark and patent infringement actions to go to trial in late fiscal 1995 or in fiscal 1996.

During the year, the Company notified Anheuser Busch and G. Heileman Brewing in the U.S. that their activities constituted infringement of the Company's *Ice Beer* and related trademarks. In response, Anheuser Busch and G. Heileman Brewing initiated actions against the Company claiming that Labatt does not have trademark rights relating to *Ice Beer* and that Labatt's advertising is false and misleading. Labatt has counter-claimed in both cases. The timing of the trial in these actions has not been determined.

Management is confident that Labatt has a good likelihood of success in all of these actions.

Challenges and Uncertainties

Lack of growth in the overall beer market in the United States has led to very aggressive competition for market share. Major brewers have continued to advertise heavily while becoming more active in price discounting in the high-quality segment. This increased market pressure will make it more difficult for Labatt's USA to achieve price increases of the magnitude of those of past years.

Renewed interest by major brewers in the growing high-quality segment is also a significant challenge. Certain competitors are investing additional funds in their super-premium and Canadian brands, increasing their discount activity and introducing new specialty products. Their

Brewing Segment Volumes *(hl in thousands)*

	1994	1993
Labatt Canada *	8,380	8,219
Labatt's USA	2,117	1,793
North America	10,497	10,012
Birra Moretti	1,291	1,200
Labatt UK	588	625
Europe	1,879	1,825
Labatt Breweries International	166	79
	12,542	11,916

* Excludes volume of Labatt .5 beer.

tactics may further accelerate the robust growth of the high-quality category but could have some impact on established brands. Labatt's USA does not believe this to be a meaningful threat to its volume growth or profitability.

Outlook

The future of Labatt's USA remains very positive. The company's rapid growth in recent years has been founded on the maintenance of a consistent, high-quality strategy for its brands, the commitment of competitive marketing resources and the development of an entrepreneurial organization and wholesaler network. These advantages will be in play again in fiscal 1995. Total volume is expected to grow, driven by continuing gains by the *Rolling Rock* brand. *Labatt Ice Beer* is expected to boost the volume of the Labatt family of brands, and the Specialty Import Division should add volume to its growing base.

Margins and profitability are expected to be enhanced by price increases and through cost control and asset management. Over the longer term, Labatt's USA is well positioned for accelerated growth in the high-quality specialty segment of the U.S. beer business.

EUROPEAN BREWING

LABATT BREWERIES OF EUROPE

Labatt Breweries of Europe ("LBE") has two operating units, Birra Moretti, and Labatt UK, which includes Labatt Retail UK and Labatt Brewing UK. The division also exports Company brands produced in Europe to major European countries.

A clear focus on building brands, strengthening distribution and lowering costs led to the third consecutive year of improvement for LBE. Net sales advanced to $208 million, 21% over net sales of $172 million in 1993. The overall loss before interest and income taxes was $3 million compared to a loss of $11 million in 1993, reflecting significant operating progress in both businesses.

BIRRA MORETTI

Birra Moretti operates three breweries in Italy and is the country's third-largest brewer. The company produces a variety of products for domestic and export markets, including *Birra Moretti, Prinz, La Rossa* and the premium-quality *Sans Souci* and *Baffo d'Oro* brands. Birra Moretti also brews *Labatt's Canadian Lager, John Labatt Classic, Original Red* and *Extra Stock* for sale in Italy. The company operates distribution wholesalers in four major Italian cities.

Financial and Operating Results

An unstable political climate and poor economy prompted many Italians to reduce expenditures during 1994. As a result, industry sales volume declined 3%. Nevertheless,

BIRRA MORETTI AGAIN OUTPERFORMED THE INDUSTRY, POSTING AN 8% INCREASE IN VOLUME

Birra Moretti again outperformed the industry, posting an 8% increase in volume on top of last year's 5% growth. All brands showed year-over-year volume gains, and the company ended the year with an average national market share of 8.9% compared to 8.3% at the end of 1993.

Net sales during 1994 were $134 million compared to $130 million in 1993, despite a 12% decline in the average value at which sales were converted from Italian lire into Canadian dollars during the year. Operating results also continued to improve – Birra Moretti had a loss before interest and taxes of $1 million, after absorbing some realignment costs, compared to last year's loss before interest and taxes of $3 million. Increased volume, strengthened margins, and cost savings in production, distribution and logistics were responsible for the division's better results.

Birra Moretti made $12 million of capital expenditures in 1994, primarily to improve production and distribution facilities. The company plans to invest a further $17 million in fiscal 1995 for similar initiatives.

Markets and Brand Development

Effective distribution through wholesalers is one of the keys to success in the Italian marketplace. In order to compete more effectively, the company created "super-wholesaler" operations in four important markets. These operations are designed to build Birra Moretti's volume of higher-margin, premium-quality brands. The company uses 1,250 wholesale distributors to distribute its products throughout Italy, and also directly supports retail sales of its brands in supermarkets, pubs and restaurants. In the coming year Birra Moretti will work on strengthening service to its wholesale and retail customers through sales and service training, improved technology and team building.

The company did not introduce any new products during the year. It instead continued to support sales of high-margin, bottled products, including those that were introduced to the retail grocery trade last year. *Labatt's Canadian Lager, John Labatt Classic, Original Red* and *Extra Stock* have now established a solid base on which to build volume in the future. Packaging changes to *Birra Moretti* boosted the volume and profit contribution of the brand, and a reformulation of *Prinz* substantially improved its profitability without materially affecting the brand's volume.

Challenges and Uncertainties

Birra Moretti's consistently innovative marketing programs have attracted the attention of major competitors, who have become more aggressive in their marketing spending. Birra Moretti will match their efforts with additional marketing support and a revitalized marketplace image for its major brands while offsetting the increased spending with reduced costs. Enhanced quality of service to trade customers will also be an important factor in maintaining the momentum of Birra Moretti brands.

Outlook

Relative stability in the economic climate in Italy is expected to keep industry volume equal to that of 1994. Birra Moretti's record of out-performing industry volumes is expected to be sustained with new marketing support for *Sans Souci*. Pricing will also make its brands more competitive in their segments, while maintaining their premium price position compared to the competition. In the coming year the company intends to introduce new brands to the Italian marketplace and improve the presentation of its current brands. It will also launch innovative marketing initiatives that will include enhanced service quality for wholesalers and retailers.

Cost reduction will continue to be a major priority. The company intends to lower its administrative overheads, improve its management of working capital, further reduce its costs of distribution, and increase the efficiencies and capacity utilization of its San Giorgio and Crespellano breweries.

Labatt UK

During 1994 Labatt UK was separated into two new divisions – Labatt Brewing UK, which handles beer sales, and Labatt Retail UK, which manages the Company's pub estate. This enables Labatt UK to better focus on the needs of two very different but strategically linked businesses.

Labatt Brewing UK has contractual arrangements with several partners in the United Kingdom for brewing and/or distribution of *Labatt's Canadian Lager, Labatt's Blue, Labatt Ice Beer* and *Rolling Rock* within the United Kingdom. The division also imports certain of Birra Moretti's brands for sale in Italian-style restaurants and markets all brands for sale at retail outlets. Labatt Retail UK manages the Company's pub interests, the vast majority of which are 100% owned. With the agreement to purchase an additional 168 pubs following the 1994 year end, Labatt UK's pub estate now totals more than 500 pubs.

Financial and Operating Results

While industry draught volume in the United Kingdom declined approximately 4% in 1994, Labatt draught volume decreased by 9% compared to a 2% volume decline in 1993. The lower volume in 1994 was due primarily to contractual issues with a major customer. By year-end this contract was successfully renegotiated for a five-year term, consolidating volume at its current, decreased level. Volume of Labatt premium packaged products – *Rolling Rock, Labatt Strong* and *Birra Moretti* – grew by about 10%. This compares to a 4% rise in industry volume of packaged products during 1994.

Reported net sales increased to $74 million from last year's $42 million due to the inclusion this year of pub revenues. A loss of $2 million before interest and taxes compared favourably to a loss before interest and taxes of $8 million in 1993. A key factor in these improved results was increased profits in the pub business resulting from an increased number of pubs. Lower operating costs also added to the gains. During the year Labatt UK reduced overheads and renegotiated supply contracts with its brewing partners.

A KEY FACTOR IN THESE IMPROVED RESULTS WAS INCREASED PROFITS IN THE PUB BUSINESS RESULTING FROM AN INCREASED NUMBER OF PUBS

The improved margins should increase the operation's profitability and improve its competitive position in the very aggressive U.K. marketplace.

Total capital expenditures and investments in pub joint ventures were $11 million for the year. The company expects to spend approximately $78 million in fiscal 1995, primarily for pub acquisitions. The major portion of this has already been spent on the purchase of 168 Chef & Brewer pubs from Scottish & Newcastle Breweries subsequent to the 1994 year-end.

Markets and Brand Development

Consumption and distribution patterns of brewery products in the United Kingdom are unique. Approximately three-quarters of all product is consumed in pubs and restaurants ("on-premise"). About 75% of on-premise consumption is lower-margin draught product, which is largely subject to contracts between pubs and brewers. The market for on-premise consumption is roughly equally divided between ale and lager. Large-scale brewers are also vertically integrated in the United Kingdom, with extensive interests in brewing, brands, wholesale distribution and retail sales. In such a competitive environment, broad distribution is more difficult to achieve as major brewers do not welcome competing brands into their own pub estates.

Labatt Brewing UK, which competes in the draught lager market, has established alliances with regional ale brewers which distribute its products through their pub estates. Labatt brands are now represented in more than 12,000 of the 65,000 pubs throughout England and Wales.

Labatt Retail UK's acquisition of pubs helps it compete in this integrated marketplace. The pub estate extends the sustainable distribution of Labatt lager brands and, in its own right, delivers profit margin and cash flow to Labatt UK. Following the purchase of the Chef & Brewer pubs, Labatt Retail UK is now the fourth-largest independent estate in England and Wales and the twelfth-largest pub group overall. Nevertheless, acquisition of pubs has been slower than hoped during the past two years due to the company's insistence on acquiring only those properties with good prospects for strong performance.

During 1994 the division continued to build on the market awareness of Labatt premium bottled brands, where it enjoys competitive advantages and higher margins. Labatt Brewing UK now has a well-segmented portfolio that is sold nationally through retail outlets, supermarkets and specialty dealers. During 1994 *Labatt's Strong* was restaged as *Labatt's Blue* in order to distinguish it from the non-premium *Canadian Lager* brand and to capitalize on *Blue*'s reputation. Introduced in 1993, *Birra Moretti* continues to gain share in the import segment. *Rolling Rock* continues to perform well and is now brewed under contract in the United Kingdom. *Labatt Ice Beer* underwent very successful test marketing during 1994 and, following its introduction in the UK in early fiscal 1995, quickly achieved extensive distribution in pubs and retail outlets. The division also negotiated a licence of Labatt Canada's *Ice Brewing* technology to Carlsberg-Tetley; the latter now brews *Labatt Ice* for Labatt UK and *Carlsberg Ice* for sale in Denmark.

Challenges and Uncertainties

The rationalization of the highly competitive brewing industry in the United Kingdom is expected to continue during fiscal 1995. Intense price competition on sales to pubs and retailers will also remain, with expected price increases largely offset by higher discounts to wholesalers. This challenge will be addressed through ongoing cost reduction initiatives.

Draught lager volume is expected to continue to decline due to the ongoing shift from consumption in pubs to consumption in homes. Still, Labatt Retail UK strongly believes there will be a very healthy pub market in the United Kingdom for many years to come. The trend towards at-home consumption of premium-quality packaged lagers is in any event a positive trend for Labatt Brewing UK, as it has a well-regarded, and expanding, portfolio of higher-margin premium brands.

A dramatic increase in beer imports to the United Kingdom from France during 1994 depressed markets in the south of England. This is due both to a liberalization of European Community import practices and to lower prices in France caused by substantial tax differentials between the two countries. The brewing industry is addressing this differential with the British government.

Outlook

Labatt UK will focus on two key initiatives during the coming year. The first will be to ensure that the enlarged pub estate will be managed efficiently for maximum returns, though purchases of a small number of additional pubs may be made. Secondly, the division intends to build the volume of its packaged products. This will include the impact of re-positioning *Labatt's Strong* as *Labatt's Blue*, additional marketing support for *Rolling Rock* in key markets, an aggressive rollout of *Labatt Ice Beer*, and focused distribution efforts for *Birra Moretti*. Work will also be done to achieve further reductions in the division's cost base in order to improve competitiveness and profitability.

Labatt Breweries International

In 1994, Labatt Breweries International ("LBI") received a new mandate – to co-ordinate certain of the Company's international activities outside North America and Europe. These include the export of Labatt Canada products, joint-venture initiatives for the production of local and Labatt brands in major Caribbean markets, international *Ice Beer* marketing, and the licensing of Labatt Canada's new technology and brands to foreign brewers. The division is also responsible for the sale of Labatt Canada products to duty-free shops. The wine and spirits business of its predecessor, Labatt International Brands, was sold and its beer import business was transferred to Labatt Canada during 1994.

Net sales of LBI doubled to $15 million in 1994 compared to net sales of $7 million last year, the largest factor in the increase being *Ice Beer* sales. Earnings before interest and income taxes also doubled, to $2 million from the $1 million earned in 1993.

LBI is actively pursuing agreements for licensing of Ice Brewing technology and marketing of Labatt Ice Beer

LBI is actively pursuing agreements for licensing of *Ice Brewing* technology and marketing of *Labatt Ice Beer* with major brewers in several regions. LBI expects lower earnings in fiscal 1995. Operating profitability will likely be reduced by the costs of building the organization and developing new business – business which should result in significant growth opportunities in the years ahead.

TABLE 3. BROADCAST, SPORTS AND ENTERTAINMENT FINANCIAL DATA

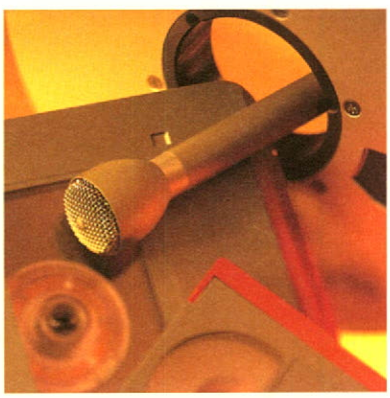
(millions)

	Net Sales		EBIT		Net Assets		Depreciation & Amortization		Fixed Asset Additions	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Broadcast	$ 178	$ 157	$ 58	$ 61	$ 37	$ 30	$ 6	$ 5	$ 17	$ 6
Sports	104	105	(3)	2	61	38	3	3	1	1
Labatt Communications Inc.	282	262	55	63	98	68	9	8	18	7
Supercorp/Skyvision	151	131	(1)	(1)	72	54	3	3	3	3
BCL Entertainment/ ITG (50%)	197	153	(12)	1	130	106	4	3	–	1
Corporate Allocation	–	–	(7)	(7)	8	10	–	1	(1)	1
Sundry Allocation	–	–	(3)	–	–	–	–	–	–	–
	$ 630	$ 546	$ 32	$ 56	$ 308	$ 238	$ 16	$ 15	$ 20	$ 12

BROADCAST, SPORTS AND ENTERTAINMENT

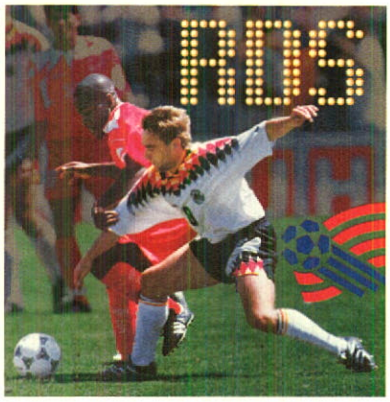
The former Entertainment segment of Labatt was restructured in 1994 to more closely reflect the strategic focus of the Company on brewing and broadcasting activities. Now known as "Broadcast, Sports and Entertainment," the segment comprises the Company's broadcast and broadcast-related businesses as well as its sports and sports-related businesses, all under the umbrella of the newly created Labatt Communications Inc. ("LCI"). Labatt's principal entertainment businesses are Supercorp, Skyvision and BCL Entertainment.

Revenues for the Broadcast, Sports and Entertainment segment were up 15% over 1993. The broadcast and entertainment businesses contributed to the increase, while sports revenues were virtually flat. EBIT was lower, and all businesses, with the exception of Supercorp and Skyvision, contributed to the decrease. Allocation of corporate expenses reduced earnings by $7 million in both 1994 and 1993. Sundry expenses allocated to the segment were $3 million in 1994 compared to nil in 1993.



LABATT COMMUNICATIONS INC. (BROADCAST AND SPORTS)

LCI, "a Broadcast and Sports Enterprise", was created during 1994 to provide an integrated structure for the development of Labatt's complementary broadcast and sports businesses. LCI's broadcast businesses now comprise: The Sports Network ("TSN"), an English-language, all-sports specialty television service; Le Réseau des sports ("RDS"), which is the French-language counterpart to TSN; a 25% interest in Viewer's Choice Canada, an English-language pay-per-view service in eastern Canada; and an 80% interest in the newly licensed Discovery Channel ("Discovery"), a Canadian non-fiction specialty television service. Discovery will start broadcasting on January 1, 1995.



Principal broadcast-related businesses of LCI include: Dome Productions, which is a television event-production facility at the SkyDome, a video and audio post-production facility, computer animation studio, and provider of mobile, satellite and other transmission services; The Rep Shoppe, an advertising sales representation agency whose principal clients are TSN, RDS and now Discovery; and LCI Enterprises, the operator of real-time closed-captioning services and TSN *SportsRadio.*

The sports and sports-related businesses of LCI comprise a 90% ownership interest in The Toronto Blue Jays, an American League East Division baseball club based in SkyDome and winner of the 1992 and 1993 World Series; The Toronto Argonauts Football Club of the Canadian Football League, also based in SkyDome; and a 41.6% diluted equity interest in SkyDome. SkyDome is a 55,000-seat, all-weather sports and live entertainment venue located in downtown Toronto. The SkyDome interest and The Toronto Argonauts were acquired late in 1994. As a result neither acquisition had a revenue or earnings impact on the year.

Financial and Operating Performance

Revenues for the broadcast and broadcast-related businesses advanced strongly in 1994 due to increased subscription and advertising revenues at TSN and RDS and the inclusion of the revenues of Sounds Interchange, which was transferred to Dome Productions from Supercorp early in the year. At the two networks, aggressive sales strategies were supported by an expanded, high-profile programming schedule. Growth of advertising revenues again outpaced the broadcast industry despite flat advertising budgets and stronger competition for advertising dollars. Dome Productions' sales were equal to those of the prior year despite additional competition arising from excess industry capacity.

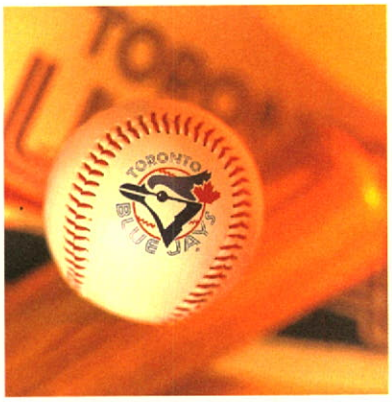
Overall, revenues for the broadcast and broadcast-related businesses increased by 13% in 1994. The earnings impact of this increase, however, was more than offset by higher costs of programming. Programming costs increased at TSN and RDS as rights agreements were renegotiated for key sports properties such as the Toronto Blue Jays, the National Hockey League and ESPN. EBIT for the broadcast and broadcast-related businesses was $58 million in 1994 compared to $61 million last year.

The Toronto Blue Jays won their second consecutive World Series title. The team drew more than four million fans for the third year in a row and led major league baseball in gate revenues. Higher player salaries and the substantial impact of a lower Canadian dollar – the team's salaries and many of its costs are paid in U.S. dollars – resulted in a loss. Labatt recorded a loss before interest and taxes of $3 million, comprising in almost equal amounts its share of the Club's losses for the year and Labatt goodwill amortization. This compared to earnings before interest and income taxes of $2 million in the prior year.

PROGRAMMING COSTS INCREASED AT TSN AND RDS AS RIGHTS AGREEMENTS WERE RENEGOTIATED FOR KEY SPORTS PROPERTIES

Capital expenditures in LCI's businesses were $18 million in 1994, of which the major portion was related to LCI's new state-of-the-art broadcast and office facility. The facility, which employs the latest technology to improve the quality of broadcast signals, leads the industry's inevitable transition to digital broadcast technology.

Licence Renewals and Application



During 1994 LCI filed comprehensive Licence Renewal Applications with the Canadian Radio-television and Telecommunications Commission ("CRTC") for TSN and RDS. It also participated in filing a licence renewal application for Viewer's Choice Canada. Considerable management resources were spent during the year in preparing for the licence renewal hearings, which were completed just prior to the end of the fiscal year. While the terms of the renewals are not known at the time of writing, management believes that the three licences will be renewed on terms that are acceptable to LCI.

In September 1993 LCI reached an agreement with Discovery Communications, Inc. ("DCI") of the United States to apply for a licence for the new, Canadian specialty service, Discovery. The service will broadcast non-fiction programming primarily on nature, the environment, science and technology. Under the agreement between LCI and DCI, DCI would supply programming and hold an option to acquire a 20% interest in the business. LCI subsequently made a detailed application to the CRTC for a licence, recruited a senior executive to manage the operation, and presented the application to the Commission at its hearing on new specialty services. On June 6, 1994, the CRTC announced its decision to licence Discovery. The decision requires certain changes to be made, to the CRTC's satisfaction, to the corporate structure proposed in the application. LCI is confident that satisfactory arrangements will be made to implement the required changes. The new service will go to air on January 1, 1995 from LCI's new broadcast centre.

ON JUNE 6, 1994, THE CRTC ANNOUNCED ITS DECISION TO LICENCE DISCOVERY

Market and Technical Developments

TSN and RDS maintained their positions as the most-watched Canadian specialty television services during 1994. A wide variety of international, national and regional sports programming proved to be very popular with both viewers and advertisers.

TSN's production and broadcast capabilities became the new industry benchmark when the network made the transition to its new broadcast centre in early fiscal 1995. The centre is the only fully operational, all-digital facility in North America to date and will enable TSN and Discovery to provide subscribers with the most technologically advanced broadcast signals.

TSN and RDS completed extensive negotiations during 1994 to secure their sports programming for coming years. A four-year contract was signed with the Toronto Blue Jays to broadcast a minimum of 80 regular season games per year. A new five-year contract was reached with ESPN, the U.S. specialty sports network, to acquire selected properties such as NFL football, auto racing, boxing, golf and tennis. They also secured the rights to broadcast all 52 World Cup soccer games, which will drive incremental revenues in fiscal 1995. Sports broadcast rights come with a significant cost – overall programming costs increased 22% between 1993 and 1994. Programming costs are expected to increase in fiscal 1995 as well, but at a substantially lower rate due to the fixed-price contracts for key properties now in place.

During 1994 the industry-leading audio post-production business of Sounds Interchange was merged into Dome Productions ("Dome"). Sounds Interchange was formerly part of Supercorp. In addition, the business of reselling satellite and other transmission services was transferred by TSN Enterprises to Dome. The realignment of Dome into a fully integrated facility is expected to create significant operating synergies and improve its market position for third-party sales. This is especially true in the video post-production business, which is being affected by industry over-capacity and resulting price competition. Dome is the leading provider of post-production services for long-form episodic and "movie-of-the-week" productions in the important southern Ontario market.

Challenges and Uncertainties

Interest in specialty and pay-per-view programming in Canada continues to grow. From less than 2% of the viewing audience in 1985, the specialty and pay segment grew to nearly 16% in 1991 and is anticipated to reach 30% by the year 2000.

Nevertheless, the rate of revenue growth for LCI's broadcast businesses, which has been exceptional over the past decade, is likely to slow. This is due to the high levels of subscribership that both TSN and RDS enjoy as well as to increased competition that is expected for advertising revenue. The new licence for Discovery provides a good opportunity for the division to continue its growth.

CONTROL OF BROADCAST RIGHTS FOR SPORTS PROPERTIES IS ESSENTIAL

Specialty television will address an increasingly fragmented audience with targetted programming, and this will likely increase the competition for advertising dollars still further. While this could lead to somewhat lower rates of growth in advertising revenue in the future for TSN and RDS, the division has been successful at meeting the competition for advertising dollars with high-quality programming, which attracts viewers and advertisers. Like TSN, Discovery is expected to appeal to Canadian viewers with a specific demographic profile. This will be attractive to advertisers wishing to reach viewers within that segment of the population.

Though current legislation does not permit direct-to-home broadcast in Canada by U.S. direct-broadcast satellites, undetected reception on a wide scale could pose a threat to cable subscriber revenues. LCI intends to participate in the rapid development of new distribution technologies in order to protect and expand its franchise in Canada. The company holds a minority interest in an initiative by major industry partners to introduce a direct-to-home satellite service that will serve smaller cable operators as well as individual customers located in areas of Canada not linked to cable. The service is expected to be operational by mid 1995.

For an integrated broadcasting and sports enterprise such as LCI, access to broadcast rights for sports properties is essential in order to retain the high quality of its programming. This was an important focus for the division in 1994, during which it negotiated a number of major contracts. Equity participation in major league sports franchises offers not only a business opportunity in its own right but also a significant advantage – access to broadcast rights on market terms.

The opportunity to both run a profitable franchise and negotiate rights were key factors in Labatt's involvement in an ultimately unsuccessful bid for a National Basketball Association team during 1994. LCI's purchase of The Toronto Argonauts represents an opportunity to rebuild the team's image, on-field success and profitability by employing sports management techniques that have built the Toronto Blue Jays into one of professional sports' most valuable franchises. In addition, CFL football is an important TSN broadcast property. Further equity positions in major league sports teams will be pursued if they can be acquired on attractive terms.

During fiscal 1995 the Toronto Blue Jays face the possibility of strike action by major league players and possible interruption of regular season and/or playoff games. The players' collective agreement expired on December 31, 1993. If such an interruption occurs, the impact on revenues and earnings could vary dramatically depending on the number of games affected and the timing of the action. Revenues at TSN and SkyDome would also be adversely affected by the same factors.

Outlook

Fiscal 1995 will be very active for LCI. The division will begin broadcasting Discovery on January 1, 1995. It will actively participate in the industry consortium that is introducing a new direct-to-home satellite distribution service and authorization centre. It will also work diligently to capitalize on the synergies that are inherent within its group of broadcast and broadcast-related businesses.

The grouping of existing and new sports and sports-related businesses under the umbrella of LCI is a new initiative. LCI intends to fully explore the operating and marketing efficiencies that can be gained from this relationship. Subsequent to year end the company appointed a senior executive who will be responsible for the planning, development and implementation of growth strategies for the sports and sports-related business of LCI.

The Toronto Blue Jays, a well-established business and baseball franchise, will assist in rebuilding The Toronto Argonauts as a cornerstone franchise in the Canadian Football League. This effort will entail marketing and operational costs that will reduce profitability of the sports businesses in the coming year.

Entertainment Businesses

Parts of the entertainment businesses were also restructured in 1994. As noted, the audio production and post-production business of Supercorp – Sounds Interchange – was transferred to Dome Productions of LCI. The animation, and media planning and buying, businesses of Supercorp were sold and the audio commercials production business was

shut down. That left the television commercial production business, which is known as Partners Film. Following year-end Labatt bought the minority interest in Partners Canada, to hold 100%, in order to have the ability to complete the restructuring of Supercorp.

The Company is now in the process of merging Partners Canada and Partners USA – Labatt owns 80% of the latter – with the episodic television production business of Skyvision Entertainment under the name "Skyvision/ Partners Film." The inherent synergies between the two operations include a common pool of production expertise as well as the shared use of facilities and equipment.

The entertainment businesses also include BCL Entertainment ("BCL"), a live-event promoter and merchandiser of related apparel. Labatt holds a 75% interest in BCL.

The Company is reviewing the fit of its entertainment businesses in order to assess whether its current ownership levels are strategically appropriate.

Supercorp / Skyvision

Partners Canada and Partners USA are the largest producers of television commercials in Canada and the United States, respectively. Skyvision creates, develops and produces episodic television programming such as *RoboCop* and *Heart of Courage* for domestic and foreign markets.

Financial and Operating Performance

Demand for high-quality television programming like that produced by Skyvision continues to increase throughout the world. This is being driven by new television transmission technology, which has increased channel capacity with advances such as fibre optic cable, digital video compression and satellite technology. During 1994 and early fiscal 1995 Skyvision produced 22 episodes of *RoboCop*, which premiered in first-run syndication in the United States and Canada in March 1994; the series has been well received. The company owns the worldwide television production rights for *RoboCop*, which has been sold in 108 countries to date.

Advertising revenue on the three major U.S. television networks declined by nearly 2% during calendar 1993, although total television advertising revenue increased by 4%. This divergence reflects the continuing shift by advertisers to lower-budget advertising on cable and independent stations. Production budgets have also remained lean since the recent recession, with the result that margins remained very tight last year in both Canada and the United States.

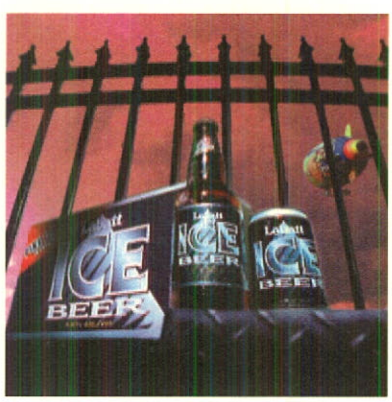
DEMAND FOR HIGH-QUALITY TELEVISION PROGRAMMING LIKE THAT PRODUCED BY SKYVISION CONTINUES TO INCREASE

Total Supercorp and Skyvision revenues increased 15% in 1994 to $151 million; this compares to revenues of $131 million in 1993. Increased profitability at Skyvision and a significant reduction in corporate overheads were offset by a loss on the disposition and closure of Supercorp businesses and lower revenues and margins at Partners Canada. The 1994 loss before interest and taxes of $1 million was equal to the loss before interest and taxes in 1993.

Challenges and Uncertainties

Following the buy-out of the minority interests in Partners Canada, certain individuals left the company with the intention of forming a competitive business. The impact on Partners Canada, however, is expected to be minimal.

Success in the creation and development of television programming depends to a large extent on acceptance of the product by North American audiences. To date, ratings for *RoboCop* have matched expectations but there has been no firm agreement on renewal of the series.



Outlook

Partners Canada intends to improve its margins through a focus on more integrated operations with the episodic activities of Skyvision and direct cost control. An increase in the number of film directors under contract is expected to result in continued volume gains in the U.S. commercial production business during fiscal 1995.

In the coming year Skyvision will complete the current season production of *RoboCop* and produce at least two new series. It will also continue to develop new programming. Two high-potential properties, *F/X* and a dramatic series, are in the advanced stages of development. Skyvision expects that *F/X* will go into production in the coming year.

Overall, the outlook for fiscal 1995 is for improved results. The ongoing businesses of Supercorp and Skyvision are profitable and should continue to enjoy good growth.

BCL

The Company owns 75% of BCL Entertainment, a live-event promotion business which includes touring, concert and theatrical promotion. Merchandising of live-event-related apparel and merchandise is handled by BCL's Brockum division. The Company also holds a 50% interest in International Talent Group ("ITG"), which represents contemporary and rock music artists, as well as film and television artists, in North America and the United Kingdom.

Financial and Operating Results

Good results from the theatre division, particularly the Hawaiian production of *Phantom of the Opera*, were overshadowed by poor results in both the concert and merchandising businesses. The touring cycle for stadium shows, which are typically the most profitable, was at a low ebb. In 1993 five stadium shows toured in Canada; there was just one show in 1994.

Merchandise sales at Brockum in 1994 fell far short of expectations due to a combination of fewer and smaller shows, and poor attendance, for certain large licensed acts.

GOOD RESULTS FROM BCL'S THEATRE DIVISION WERE OVERSHADOWED BY POOR RESULTS IN BOTH THE CONCERT AND MERCHANDISING BUSINESSES

By comparison, merchandise activity in 1993 was driven by the very successful tours of Guns N' Roses and Metallica. Reduced touring activity also had a negative impact on ITG.

Total revenues at BCL and ITG were $197 million in 1994, a 29% increase over 1993's $153 million. The increase was due to a full year of revenues from businesses acquired during 1993. The combined loss of $12 million before interest and income taxes for BCL and ITG compared to last year's earnings before interest and income taxes of $1 million. A substantial swing in the merchandising business operating results due to decreased revenues and margins, as well as the write-off of unrecouped advances, and losses incurred on a number of developmental projects, were the major factors in the change.

Challenges and Uncertainties

Both the concert and merchandising businesses operate in a cyclical industry in which revenues are directly related to the number, and audience appeal, of artists touring in a given year. In recent years advances to artists for both appearance guarantees and merchandising have increased dramatically, and competition has grown for major acts. As a result, profit margins have been reduced and financial risk increased.

Outlook

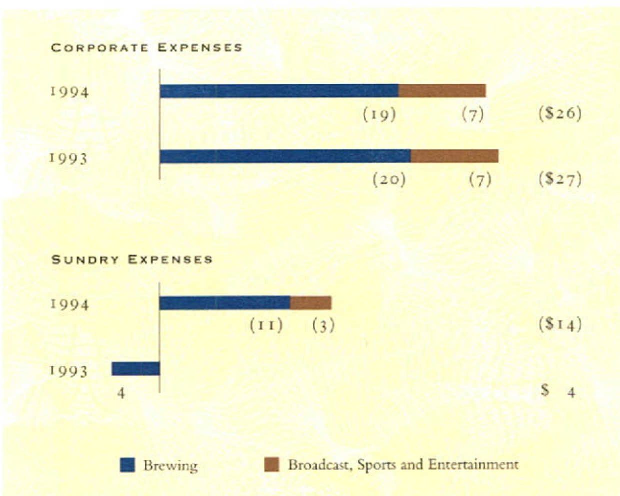
In order to improve profitability, the concert division has developed a new booking strategy. Brockum will be streamlining its operations and increasing its emphasis on artists with proven merchandising revenues, such as Phil Collins and Guns N' Roses.

With the acquisition of rights for Pink Floyd's *Division Bell* Tour in North America and the worldwide rights for the Rolling Stones' *Voodoo Lounge* Tour, BCL's international touring division expects a good year in fiscal 1995. Pink Floyd will make 57 appearances – ticket sales to date have been exceptional – and the Rolling Stones' tour is scheduled for at least 68 shows. Initial ticket sales for the Rolling Stones have been encouraging.

CORPORATE EXPENSES AND SUNDRY INCOME AND EXPENSES

Corporate expenses and sundry income and expenses are allocated to the Brewing, and Broadcast, Sports and Entertainment segments of the Company based on the relative sizes of the segments as determined by a weighting of sales, assets and number of employees. Corporate expenses include: the costs to run the corporate office, such as salaries, benefits and facilities; the costs of maintaining a public company, including investor relations; legal, audit and consulting fees; and corporate donations. Corporate expenses in 1994 were comparable to those in 1993.

FIGURE 1. CORPORATE AND SUNDRY EXPENSES



Sundry income and expenses are largely comprised of foreign exchange gains and losses and costs related to financing and banking activities other than interest. In 1994 sundry income and expense items netted to $14 million of expense. By comparison, 1993 sundry expenses were offset by one-time income items to net to $4 million of income. The Company's 1994 sundry income and expenses are at a more normal level.

Consolidated Financial Results

The following discussion and analysis addresses the key items in the John Labatt Limited Consolidated Financial Statements.

Earnings

Consolidated net sales from continuing operations increased 9% to $2,321 million compared to $2,135 million in 1993. Both the Brewing and the Broadcast, Sports and Entertainment segments contributed to the increase.

Increases in cost of sales, selling and administration expenses were held to the level of the net sales increase – 9% – growing from $1,781 million to $1,938 million. Depreciation and amortization expense increased to $99 million in 1994 from $89 million in the prior year. The increase was due to a full year of expense on the relatively higher level of capital expenditures in 1993, such as modifications to equipment to accommodate a standard bottle in Canada, brewing equipment for *Labatt Genuine Draft*, pub acquisitions in the United Kingdom, and the expansion of brewing capacity in Italy and the United States.

Consolidated earnings before interest, income taxes and restructuring charges increased 7% to $284 million in 1994 compared to $265 million in 1993. The higher contribution by Canadian brewing operations was the primary factor in the Company's increased EBIT.

Net interest expense – the cost of funds borrowed net of income earned on cash balances and securities – increased from $26 million in 1993, after an $11 million allocation to discontinued operations, to $48 million in 1994. This was due to the reduction in cash that resulted from the fiscal 1993 payment of a special dividend of $260 million ($3.00 per share) and the reduced level of income on cash and securities balances due to lower prevailing interest rates during the year. In addition, the interest received in 1994 on proceeds from the dispositions of the Tuscan and Green Spring dairy businesses was less than the interest allocated in 1993 to the discontinued U.S. dairy operations.

In 1993 the Company recorded restructuring charges of $45 million ($28 million after tax). The charges related to the closing of the Saskatoon brewery in May 1993 and the St. John brewery in December 1993, as well as to various charges relating to Labatt Canada and corporate administrative staff reductions. There were no material restructuring charges in 1994.

Tax expense as a percentage of pre-tax income increased to 36% in 1994 compared to 33% in 1993. The increase resulted largely from a marked reduction in non-taxable dividend and other income.

Labatt owns 19.7% of Canada Malting Co. Limited, whose improved performance was the primary factor in the growth in earnings from partly owned businesses – $4 million in 1994 compared to $3 million last year. Canada Malting, a publicly traded company, is the world's largest producer of malt.

NET EARNINGS FROM CONTINUING OPERATIONS TOTALLED $155 MILLION IN 1994 – A 17% INCREASE.

Net earnings from continuing operations totalled $155 million in 1994 – a 17% increase over 1993's $133 million. In 1993 Labatt had a loss of $203 million from discontinued operations, with no corresponding amount recorded in 1994. The 1993 loss from discontinued operations resulted primarily from the writedown of the assets of the Company's U.S. dairy businesses to estimated net realizable value. Consolidated net earnings of $155 million in 1994 compared to a loss of $70 million in 1993.

Earnings per Share

Fully diluted earnings (loss) per share	1994	1993
Continuing operations before restructuring charges	$ 1.53	$ 1.63
Restructuring charges	–	*0.31*
Continuing operations	1.53	1.32
Discontinued operations	–	*(2.20)*
Net earnings (loss)	$ 1.53	$ *(0.88)*

Charges and loss per share numbers in italics are anti-dilutive.

On a fully diluted basis, earnings per share from continuing operations before restructuring charges fell from $1.63 to $1.53. Although earnings before interest and income taxes were up in 1994, increased interest expense and income taxes more than offset this improvement. After restructuring charges, earnings per share from continuing operations rose to $1.53 in 1994 from $1.32 in 1993. As consolidated net earnings in 1993 included a fully diluted loss per share from discontinued operations of $2.20 ($2.55 basic), total fully diluted earnings per share from continuing and discontinued operations in 1994 of $1.53 ($1.60 basic) compared favourably to a fully diluted loss per share in the prior year of $0.88 ($1.12 basic).

Financial Position

Working Capital

Labatt's working capital increased to $381 million at the end of 1994 from $255 million at the end of 1993. The current ratio also increased to 1.5 to 1 from 1.3 to 1. Excluding discontinued operations, working capital grew from $213 million to $374 million, and the current ratio correspondingly increased from 1.3 to 1 to 1.6 to 1.

The increase in continuing non-cash working capital was primarily due to short-term advances at year-end relating to BCL's two major tours: Pink Floyd and the Rolling Stones.

The Company's cash position, net of short-term indebtedness, was $268 million at year-end compared to $188 million at the end of fiscal 1993.

Continuing operating activities generated $208 million of cash, which was used in $71 million of investing activities, $47 million of financing activities and $88 million of dividends. Thus, continuing operations provided $2 million of cash in 1994 while discontinued operations provided $78 million, for a total increase in cash of $80 million in 1994.

Assets in the Business

Fixed assets of continuing businesses, net of accumulated depreciation, increased to $813 million in 1994 from $784 million in the prior year. Additions to fixed assets totalled $123 million versus $203 million in 1993. Expenditures during 1994 related to the installation of *Ice Brewing* technology in Canada, the building and equipping of LCI's new digital broadcast centre, pub purchases in the United Kingdom, and further improvements to production and distribution capabilities at Labatt's USA and Birra Moretti.

Other assets consist of securities, intangible assets and investments in partly owned businesses. Other assets

FIXED ASSETS OF CONTINUING BUSINESSES INCREASED TO $813 MILLION FROM $784 MILLION LAST YEAR

declined by $58 million to $539 million. This reduction included the transfer to Ault Foods of $34 million of investment securities at the time of the distribution of Ault Foods to the Company's shareholders and the subsequent realization of $22 million of the remaining securities, offset by the $30 million investment in SkyDome.

Cash used for investing activities totalled $71 million, a significant decrease from the $471 million used in 1993. The 1993 amount included the reclassification, from current assets to long-term assets, of $250 million of securities issued by a previously related party .

At the beginning of 1993 the Company held $300 million in securities issued by then-related parties. During that fiscal year, $50 million of these securities were liquidated at their book value pursuant to an agreement negotiated at the time of the March 1993 sale of Brascan Limited's interest in the Company. Labatt has a binding agreement with Brascan under which Brascan has agreed to ensure the orderly monetization of these investments at the Company's book value over a three-to-five-year period from March 1993.

In 1994, $34 million of the $250 million of securities were transferred to Ault Foods under the distribution arrangement. An additional $22 million were liquidated at their book value, leaving the Company's holdings at year end at $194 million. The average dividend yield for these securities in 1994 was 4.9% compared to 5.7% in 1993.

Net assets of discontinued businesses totalled $89 million at 1994 year-end . This amount includes the remaining net assets of Johanna Dairies being held for sale, net of the remaining liabilities of businesses previously divested. As noted, Ault Foods was distributed to Labatt shareholders in a transaction that was completed on June 4, 1993. This accounted for the major portion of the reduction in net assets of discontinued operations. In addition, the Tuscan and Green Spring dairy businesses were sold during 1994. As a result, cash generated from discontinued operations totalled $78 million compared to $98 million in 1993.

Long-Term Debt, Convertible Debentures and Shareholders' Equity

Non-convertible long-term debt was $610 million at 1994 year-end compared to $630 million at the prior year-end. No new debt was issued in 1994.

A total of $20 million of convertible debentures was converted to common share capital in 1994 compared to the $144 million converted in 1993. The outstanding balance has now been reduced to $91 million.

The distribution of the Company's Canadian dairy business, including additional net transfers made by Ault under the terms of the Arrangement and the expenses of the transaction, reduced shareholders' equity by $278 million. This was apportioned between share capital and retained earnings in order to preserve their ratio to each other immediately before the distribution. Thus share capital was reduced by $145 million and retained earnings by $133 million.

The changes in the values of net assets held in foreign countries due to changes in the value of the various currencies do not affect the Company's earnings unless foreign operations are sold. Labatt continuing operations in the United States, Italy and the United Kingdom are self-sustaining. Consequently, the change in the value of their assets and liabilities denominated in foreign currencies is recorded in the "Cumulative translation adjustment" in shareholders' equity in the Statements of Financial Position.

The Company's net asset translational exposure to currency fluctuations is partially hedged by local currency borrowings and foreign exchange swap contracts. Gains or losses from these hedges are recorded in the cumulative translation account.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

During 1994 Labatt funded its day-to-day cash requirements and investment activities from cash received from continuing operating activities and discontinued operations. Capital spending totalled $123 million, a 39% decrease from last year's $203 million. Expenditures were allocated as indicated under the discussion, "Assets in the Business."

Labatt plans to spend approximately $200 million in fiscal 1995 on capital projects. These include productivity enhancements at Labatt Canada, the acquisition of pubs in the United Kingdom, capacity expansion at the Latrobe Brewery, and additional production and distribution improvements at Birra Moretti. The Company expects to fund its cash needs from a variety of sources, including cash on hand, cash generated from continuing operations and proceeds on the sale of the remaining U.S. dairy businesses. If required, additional amounts will be borrowed from the Company's commercial paper program or through other available credit lines.

Commercial Paper Programs

Labatt has short-term commercial paper programs in both Canada and the United States. The sizes of the programs are $200 million and US$200 million, respectively. The investment grade ratings for the Company's commercial paper programs are as follows:

	Canada	United States
Canadian Bond Rating Service	A-1	–
Dominion Bond Rating Service	R-1(mid)	–
Moody's Investors Service	–	P-1
Standard and Poor's Ratings Group	–	A-1

The U.S. commercial paper program is being terminated as the Company's funding requirements in the U.S. have been substantially reduced by the dispositions of its U.S. food businesses. The Company is establishing a "bank-conduit" commercial paper program of up to US$100 million to fund the short-term credit needs of its remaining U.S. operations. All of these commercial paper programs are supported by back-up bank facilities.

Capital Structure

The Company had $614 million of non-convertible long-term debt outstanding on April 30, 1994, including $4 million due within one year.

During 1994 Labatt repaid a total of $49 million of long-term debt through maturities or early redemption. This included the redemption of the 11¼% sinking-fund debentures and early repayment of a bank term loan, which was to mature on June 30, 2003. The sinking-fund debentures had been collateralized by a floating charge on the undertaking, property and certain assets of the Company. The charge has since been released.

In March 1992 the Company issued $250 million of 9.25% debentures maturing March 6, 2002. Concurrently, Labatt entered into interest-rate swap agreements to swap half of the issue into floating interest rates. The Company unwound $92 million of these swaps during 1993. At April 30, 1994 there were $33 million of interest-rate swaps outstanding at floating rates, which averaged 5.0% during the year; this reduced the overall cost of borrowing on the debt issue.

Labatt has outstanding $150 million of Series 1, 7.85% perpetual preferred shares that became redeemable by the Company on March 31, 1994. The dividend rate on these shares is now set by monthly auction, subject to a maximum of the 30-day Bankers' Acceptance rate plus 0.4%.

In 1992 the Company entered into interest-rate swaps that effectively fixed the floating-rate exposure on the $150 million outstanding of Series 2 preferred shares, the effect of which is equivalent to a dividend rate of approximately 5%. The costs of these swaps are included in interest expense. The swaps mature in December 1994, concurrent with the earliest redemption and renegotiation date of the Series 2 preferred shares.

The credit ratings of the Company's non-convertible long-term debt, convertible subordinated debentures and preferred shares are as follows:

	Long-term debt	Convertible debentures	Preferred shares
Canadian Bond Rating Service	A	B++(high)	P2
Dominion Bond Rating Service	AA(low)	A(high)	P1

After the significant reduction in shareholders' equity stemming from the distribution of the Canadian dairy business, Labatt's debt-to-equity ratio stood at 35:65 at the end of 1994 compared to 33:67 for 1993 – still a prudent ratio. The Company's debt-to-equity ratio is calculated by dividing total non-convertible long-term debt by the sum of total non-convertible long-term debt, convertible debentures and shareholders' equity.

Dividends

Preferred share dividends paid during 1994 totalled $17 million. The $2 million decrease from 1993 is attributable to a decline in dividends paid on the Series 2 preferred shares, which carry a dividend rate that varies with the movement in interest rates for Bankers' Acceptances. Those rates declined during the year.

Common shareholders continued to participate in the Company's growth and earnings during the year. Normal quarterly dividends per common share paid during 1994 totalled $0.82 compared to $0.815 in 1993.

In 1993 the Company paid out a net $260 million in special dividends. The dividends were funded by a portion of the proceeds from the previous years' sales of various food operations.

Inflation

Inflation continues to hold at relatively low levels in Labatt's major trading jurisdictions and thus had no meaningful impact in the Company's businesses during the past year.

Strategic Outlook for John Labatt Limited

The business context and outlook for Labatt's individual businesses over the next 12 to 18 months can be found in the relevant sections of this discussion and analysis.

During 1994 Labatt reconfirmed its commitment to build its two core businesses of brewing and broadcast, particularly in North America. On July 6, 1994 the Company announced that it had signed an agreement in principle to acquire 22% of Femsa Cerveza, S.A. de C.V. ("Femsa Cerveza"), a wholly owned subsidiary of Fomento Económico Mexicano, S.A. de C.V. and Mexico's second-largest brewer. The transaction is valued at US$510 million or approximately C$720 million. Labatt will also hold an option to acquire an additional 8% of Femsa Cerveza. The agreement is expected to create a unique North American beer partnership that will capitalize on attractive market opportunities in Mexico, the United States and Canada and provide a platform for potential future expansion in Latin America. The transaction is subject to a number of conditions, including successful completion of due diligence and the negotiation and execution of definitive agreements.

The creation of LCI in 1994 was an important step in the strategic development of the Company's broadcast and sports businesses. The nature of the businesses lends itself to operational synergies, and the alignment under LCI management will help to uncover and build the value that has been created in these companies.

It is Labatt's intention to reduce its ownership in the Toronto Blue Jays from 90%, and The Toronto Argonauts from 100%, to the level of Labatt's diluted equity in SkyDome, which is currently 41.6%. This level of ownership would enable the Company to realize the benefits of ownership of these assets while monetizing some of the value that has been created in the Blue Jays.

A longer-term objective of John Labatt is to pursue an initial public offering of 49% of the equity of Labatt Communications Inc. Before this can be undertaken, Labatt must complete the integration of its sports properties into LCI and the reduction of its ownership in the Blue Jays and Argonauts. The timing of an offering, should the equity markets be favourable for such a transaction, would be sometime during the next 12 to 24 months.

With regard to the Company's entertainment businesses, Labatt has determined that BCL is not a core business, although it does support marketing initiatives of Labatt Canada. Labatt is currently engaged in a process that may lead to a disposition of BCL. If this cannot be achieved on acceptable terms, it is likely that Labatt will reduce its ownership in the company over time.

The strategic realignment of John Labatt during the past five years has been predicated on its desire to become larger in its two core businesses of brewing and broadcast. The Femsa agreement is a significant move in this direction. Labatt will also expand its broadcast and sports businesses, given the right opportunity, and has examined a number of potential transactions over the last year. The Company will continue to pursue discussions with potential acquisition candidates or partners during the coming fiscal year.

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SIX-YEAR REVIEW

(millions, except per share amounts and number of employees)

	1994	1993	1992	1991	1990	1989
CONTINUING OPERATIONS						
Net sales	$ 2,321	$ 2,135	$ 1,727	$ 1,518	$ 1,389	$ 1,231
Earnings before interest, income taxes and restructuring charges	$ 284	$ 265	$ 232	$ 161	$ 184	$ 149
Interest expense, net	$ 48	$ 26	$ 11	$ (2)	$ (2)	$ 39
Net earnings	$ 155	$ 133	$ 81	$ 88	$ 141	$ 48
Fully diluted earnings per share, before restructuring charges	$ 1.53	$ 1.63	$ 1.42	$ 1.17	$ 1.47	$ 0.79
Fully diluted earnings per share	$ 1.53	$ 1.32	$ 0.76	$ 0.80	$ 1.47	$ 0.64
Capital expenditures	$ 123	$ 203	$ 122	$ 111	$ 109	$ 88
Net assets employed	$ 1,268	$ 1,170	$ 1,010	$ 1,011	$ 927	$ 627
Number of employees	5,700	5,700	5,500	5,500	5,500	4,900
Return on convertible debentures and shareholders' equity	15.5%	9.8%	4.9%	5.4%	10.3%	4.8%
NET EARNINGS						
Net earnings (loss)	$ 155	$ (70)	$ 101	$ 109	$ 169	$ 135
Fully diluted earnings per share	$ 1.53	$ A/D	$ 0.98	$ 1.03	$ 1.78	$ 1.60
Return on convertible debentures and shareholders' equity	15.5%	(6.6%)	6.3%	6.9%	12.5%	12.1%
OTHER INFORMATION						
Working capital	$ 381	$ 255	$ 832	$ 321	$ 556	$ 544
Total assets	$ 2,536	$ 3,020	$ 3,388	$ 3,138	$ 2,946	$ 2,757
Non-convertible long-term debt	$ 610	$ 630	$ 646	$ 416	$ 544	$ 533
Convertible debentures and shareholders' equity	$ 1,119	$ 1,317	$ 1,748	$ 1,676	$ 1,644	$ 1,398
Regular common share dividends – per share	$ 0.820	$ 0.815	$ 0.795	$ 0.770	$ 0.730	$ 0.685
– total	$ 71	$ 65	$ 62	$ 59	$ 55	$ 51
Number of common shares – basic	86.28	79.68	77.56	76.18	75.09	73.99
– fully diluted	93.61	92.38	91.92	91.26	90.71	90.57

(A/D: Anti-dilutive)

Note: Continuing operations for all years comprise the Brewing and the Broadcast, Sports and Entertainment segments.

(millions, except per share information)

	1994	1993	1992	1991	1990	1989
Analysis						
Working capital ratio, excluding net cash and discontinued operations	1.2	1.1	0.9	1.1	1.4	0.9
Debt to equity ratio, fully diluted	35:65	33:67	28:72	24:76	26:74	28:72
Convertible debentures and common shareholders' equity per share	$ 8.75	$ 11.01	$ 15.75	$ 15.07	$ 14.81	$ 13.90
Brewing segment						
Net sales	$ 1,769	$ 1,672	$ 1,564	$ 1,474	$ 1,376	$ 1,229
Depreciation and amortization	$ 83	$ 74	$ 64	$ 59	$ 52	$ 42
Segmented earnings	$ 260	$ 218	$ 178	$ 133	$ 167	$ 144
Capital expenditures	$ 103	$ 191	$ 117	$ 109	$ 98	$ 75
Net assets employed	$ 960	$ 932	$ 851	$ 886	$ 833	$ 564
Labatt's domestic volume, hectolitres	8.4	8.2	8.3	8.3	8.5	8.5
Labatt's worldwide volume, hectolitres	12.5	11.9	11.7	11.5	11.2	10.3
Broadcast, Sports and Entertainment segment						
Total net sales	$ 647	$ 560	$ 505	$ 666	$ 698	$ 332
Labatt share of net sales	$ 630	$ 546	$ 374	$ 387	$ 369	$ 177
Depreciation and amortization	$ 16	$ 15	$ 11	$ 5	$ 6	$ 2
Segmented earnings	$ 32	$ 56	$ 58	$ 47	$ 35	$ 17
Capital expenditures	$ 20	$ 12	$ 5	$ 2	$ 11	$ 13
Net assets employed	$ 308	$ 238	$ 159	$ 125	$ 94	$ 63

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of John Labatt Limited and all the information in this annual report are the responsibility of management.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgement. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Company maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and is comprised of non-management directors. The Committee meets periodically with management as well as the independent external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when the Board approves the financial statements for issuance to the Company's shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

On behalf of the shareholders, the financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards. Ernst & Young has full and free access to the Audit Committee.

Robert G. Vaux
Senior Vice-President,
Finance and Corporate Development

Toronto, Canada
June 23, 1994

Auditors' Report

To the Shareholders of John Labatt Limited

We have audited the consolidated statements of financial position of John Labatt Limited as at April 30, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young
Chartered Accountants

Toronto, Canada
June 23, 1994 except for note 20
which is as of July 6, 1994

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended April 30
(millions)

	1994	1993
Net sales		
Gross sales	$ 2,970	$ 2,780
Less: Excise and sales taxes	649	645
	2,321	2,135
Costs and expenses		
Cost of sales, selling and administration expenses	1,938	1,781
Depreciation and amortization	99	89
	2,037	1,870
Earnings before the undernoted	284	265
Interest expense (note 2)	48	26
Restructuring charges (note 3)	–	45
Earnings before income taxes	236	194
Income taxes (note 4)		
Current	82	68
Deferred	3	(4)
	85	64
	151	130
Share of net earnings of partly owned businesses	4	3
Net earnings (loss)		
Continuing operations	155	133
Discontinued operations (note 5)	–	(203)
	$ 155	$ (70)
Net earnings (loss) per common share (note 6)		

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended April 30
(millions)

	1994	1993
Balance, beginning of year	$ 430	$ 844
Net earnings (loss)	155	(70)
Dividends		
Preferred	17	19
Common	71	65
Special (note 7)	–	260
Canadian dairy distribution (note 5)	133	–
Balance, end of year	$ 364	$ 430

Consolidated Statements of Financial Position

As at April 30
(millions)

	1994	1993
Assets		
Current assets		
Cash and short-term investments	$ 368	$ 276
Accounts receivable and advances	376	286
Inventories (note 8)	193	192
Taxes recoverable	–	8
Prepaid expenses	93	85
Discontinued operations	72	340
	1,102	1,187
Fixed assets (note 9)	813	784
Other assets (note 10)	539	597
Discontinued operations	82	452
	$ 2,536	$ 3,020
Liabilities		
Current liabilities		
Bank advances and short-term notes	$ 100	$ 88
Accounts payable and accrued charges	401	463
Deferred revenue	99	69
Taxes payable	52	–
Long-term debt due within one year	4	14
Discontinued operations	65	298
	721	932
Non-convertible long-term debt (note 11)	610	630
Deferred income taxes		
Continuing operations	86	93
Discontinued operations	–	48
	1,417	1,703
Convertible Debentures and Shareholders' Equity		
Convertible debentures (note 12)	91	111
Shareholders' equity		
Share capital (note 13)		
Preferred shares	300	300
Common shares	363	486
Retained earnings	364	430
Cumulative translation adjustment	1	(10)
	1,028	1,206
	1,119	1,317
	$ 2,536	$ 3,020

On behalf of the Board

Samuel Pollock

Samuel Pollock, Director

George S. Taylor, Director

Consolidated Statements of Changes in Financial Position

Years ended April 30
(millions)

	1994	1993
Operating activities, continuing		
Net earnings	$ 155	$ 133
Items not affecting funds	117	136
Increase in non-cash working capital (note 14)	(64)	(41)
	208	228
Investing activities		
Additions to fixed assets	(123)	(203)
Acquisitions (note 15)	(35)	(9)
Decrease (increase) in other assets	87	(9)
Reclassification of other investments (note 10)	–	(250)
	(71)	(471)
Financing activities		
Issue of common shares (note 13)	22	149
Decrease in non-convertible debt	(49)	(68)
Decrease in convertible debt	(20)	(144)
	(47)	(63)
Dividends	(88)	(344)
Increase (decrease) in cash		
Continuing operations	2	(650)
Discontinued operations	78	98
	80	(552)
Cash, beginning of year	188	740
Cash, end of year	$ 268	$ 188

Cash consists of cash and short-term investments net of bank advances and short-term notes.

(millions, except per share amounts information)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Significant accounting policies followed in the preparation of the consolidated financial statements are summarized below.

Certain comparative amounts have been restated to conform with the current period's presentation.

Principles of consolidation

The consolidated financial statements include the accounts of the Company together with all of its subsidiaries.

Foreign currency translation

Assets and liabilities of foreign subsidiaries are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date. Income and expenses are translated at weighted average exchange rates prevailing during the year.

Adjustments arising on translation of foreign subsidiaries' statements of financial position are deferred and reported as the cumulative translation adjustment, a separate component of shareholders' equity. When designated as hedges of net investments in foreign subsidiaries, exchange gains or losses on long-term monetary liabilities denominated in foreign currencies and on currency swap agreements are also recorded in the cumulative translation adjustment.

Retirement benefits

Pension expenses charged to operations reflect both current service costs and amortization of experience gains and losses. Unrecognized gains and losses are amortized over the expected average remaining service lives of the employee groups covered by pension plans. Pension expenses are certified by independent actuaries. Medical and other non-pension retirement benefits are expensed as incurred.

Income taxes

The Company follows the deferral method of tax allocation accounting.

Inventories

Inventories, other than returnable containers, are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Returnable containers are valued at redemption price or at amortized cost not exceeding replacement cost.

Fixed assets

Fixed assets are recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets, generally at annual rates of 2½% for buildings and 10% for machinery and equipment.

Other assets

Goodwill is amortized using the straight-line method over the lesser of its estimated useful life and forty years.

Securities are carried at cost which approximates realizable value.

Investments in and advances to other companies are carried at cost. Income from these investments is recognized when received.

Investments in companies and partnerships over which the Company has significant influence ("Partly owned businesses") are accounted for using the equity method.

2 Interest Expense

	1994	1993
Non-convertible long-term debt	$ 53	$ 59
Convertible debentures	6	12
Other, net	(11)	(34)
	48	37
Less: Allocated to discontinued operations	–	11
	$ 48	$ 26

Other comprises income on cash, short-term investments and securities net of the expense incurred on short-term debt and swap contracts.

3 Restructuring Charges

Restructuring charges of $45 in 1993 related primarily to the rationalization of brewing capacity in Canada.

4 Income Taxes

	1994	1993
Combined basic federal, provincial and state income tax rates	39.3%	40.2%
Canadian manufacturing and processing deduction	(4.5)	(3.8)
Non-taxable dividends	(1.5)	(4.9)
Other, net	2.7	1.5
Effective tax rate	36.0%	33.0%

5 DISCONTINUED OPERATIONS

Canadian dairy distribution

Ownership of the Company's Canadian dairy business was distributed to shareholders effective June 4, 1993, pursuant to a Plan of Arrangement which received Shareholder approval on April 29, 1993 and Court approval on May 3, 1993.

The distribution of the Canadian dairy assets resulted in the following changes to the Company's financial position.

Net assets distributed	$ 331
Costs of transaction	5
Arrangement adjustments	
Transfer of cash	17
Transfer of securities	34
Receipt of interest-bearing promissory note	(109)
	$ 278

The interest-bearing promissory note was repaid in July, 1993.

The distribution resulted in the following reductions to components of shareholders' equity:

Common share capital	$ 145
Retained earnings	133
	$ 278

U.S. dairy dispositions

On March 24, 1993, the Board of Directors approved a formal plan to dispose of the United States dairy businesses. During 1994, Tuscan Dairy Farms and Green Spring Dairy were sold under this plan. Management believes that the remaining businesses will be sold during 1995.

Loss from discontinued operations, 1993

Net sales, to measurement dates (a)	$ 2,085
Earnings before income taxes, to measurement dates	$ 11
Income taxes	11
Net earnings from operations	0
Estimated loss on disposal, net of estimated earnings from discontinued operations subsequent to the measurement dates (b)	(203)
	$ (203)

(a) The measurement dates were April 29, 1993 for the Canadian dairy business and March 24, 1993 for the U.S. dairy business.

(b) This amount included a provision to write down the assets of the U.S. dairy business to its estimated net realizable value and provisions for estimated further liabilities from businesses sold in prior years.

6 Net Earnings (Loss) per Common Share

	1994	1993
Basic		
Continuing operations	$ 1.60	$ 1.43
Discontinued operations	0.00	(2.55)
	$ 1.60	$ (1.12)
Fully Diluted		
Continuing operations	$ 1.53	$ 1.32
Discontinued operations	0.00	A/D
	$ 1.53	$ A/D

(A/D: Anti-dilutive)

The numbers of shares used in calculating net earnings per common share are

	1994	1993
Basic	86.28	79.68
Fully diluted	93.61	92.38

Fully diluted net earnings per share have been calculated assuming that the convertible debentures and common share options outstanding at the end of the year had been converted to common shares or exercised at the later of the beginning of the year or the date of issuance, with an appropriate adjustment to earnings to reflect the after-tax interest avoided by the assumed early conversion ($5 in 1994; $8 in 1993).

7 Special Dividend

On October 15, 1992 the Company paid a special dividend of $3.00 per common share, and made an equivalent special interest payment on convertible debentures, amounting to a $260 cash distribution net of $14 of income taxes.

8 Inventories

	1994	1993
Finished goods and work in process	$ 97	$ 82
Materials and supplies	42	46
Returnable containers	54	64
	$ 193	$ 192

9 FIXED ASSETS

	1994	1993
Land	$ 51	$ 41
Machinery, buildings, and equipment	1,356	1,279
	1,407	1,320
Accumulated depreciation	594	536
	$ 813	$ 784

10 OTHER ASSETS

	1994	1993
Securities (a)	$ 194	$ 250
Goodwill (b)	164	161
Investments in partly owned businesses	92	63
Investments in and advances to other companies	84	99
Unamortized debt financing expense	5	6
Loans to employees under share purchase plans	0	18
	$ 539	$ 597

(a) These investments consist of common and preferred shares of two private corporations which invest primarily in dividend-paying preferred shares of public and private corporations principally in the Edper Enterprises Ltd. group of companies. Prior to April 30, 1993 Brascan Limited provided a binding undertaking in favour of the Company to ensure the orderly monetization of such investments at the Company's book value over the period until March 1998. Management believes that the disposal of these investments will realize full book value over this period. Since the undertaking was received, $72 of the portfolio has been monetized at book value, including $22 in 1994. In addition, $34 of these investments were transferred to Ault Foods Limited under the Plan of Arrangement described in Note 5.

(b) Goodwill amortization expense was $9 in 1994 ($8 in 1993) and accumulated amortization as at April 30, 1994 was $31 ($16 in 1993).

11 NON-CONVERTIBLE LONG-TERM DEBT

	1994	1993
10½% Debentures to mature July 30, 1995, US$100	$ 138	$ 127
10⅜% Debentures to mature April 21, 1998	100	100
9¼% Debentures to mature March 6, 2002	250	250
Note issuance facility, US$50, at an average rate of 3.7%, to mature April 29, 1997	69	64
11⅜% Sinking fund debentures	–	26
Bank term loan	–	28
	557	595
Other long-term liabilities	57	49
	614	644
Less: Long-term debt due within one year	4	14
	$ 610	$ 630

Maturities for 1995 through 1999 are: $4, $148, $4, $171 and $2, respectively.

The Company has entered into an interest swap agreement which effectively converts $33 of the 9¼% debentures into floating rate debt. The Company has entered into a number of swap agreements which effectively convert $128 of Canadian dollar debt into 140,544 of Italian lire debt. 100,000 lire of this debt bears fixed interest at an average rate of 13%.

12 CONVERTIBLE DEBENTURES

The convertible debentures are reported under the heading of "Convertible Debentures and Shareholders' Equity" in the Consolidated Statements of Financial Position to reflect the permanent nature of this capital. This presentation is supported by the long initial maturities, the conversion features, the low initial interest rates, an indication by many of the holders of these debentures that they intend to convert in the future, the continuing voluntary conversions over time, and the Company's intention ultimately to have these debentures converted to equity. The convertible debentures are unsecured obligations and are subordinated to all other indebtedness of the Company.

Maturity Date	Conversion Price(a)(b)	Minimum Interest Rate(a)	Issue Amount	1994	1993
June 16, 2003	$ 11.250	6%	$ 50	$ 10	$ 30
February 28, 2006	$ 17.875	6%	125	19	19
April 1, 2007	$ 27.000 (c)	5%	125	62	62
			$ 300	$ 91	$ 111

(a) The Company has the option to fix interest rates of 6½%, 7% and 6%, respectively. Under these amended interest rates, the conversion prices become $13.4375, $20.00 and $30.00, respectively.

(b) As at April 30, 1994 the closing price of the Company's common shares on the Toronto Stock Exchange was $21.00 ($26.00 in 1993).

(c) On April 1, 2007 the Company has the option to retire any debentures then outstanding by issuing common shares to the debenture holders of equivalent market value.

The debentures are redeemable at par plus accrued interest. The convertible debentures are each convertible into common shares of the Company, at the holder's option, on or before the business day preceding the earlier of the maturity date and the date fixed for redemption, if any.

13 SHARE CAPITAL

Authorized

4,000,000 preferred shares issuable in series, of which 300 consist of a series designated as "Series 1 Preferred Shares" and 150 consist of a series designated as "Series 2 Preferred Shares."

An unlimited number of common shares of no par value.

Preferred shares

	1994	1993
Series 1, cumulative; dividend rate set by monthly auction procedure (fixed dividend rate of 7.85% up to March 31, 1994), payable monthly	$ 150	$ 150
Series 2, cumulative; until December 31, 1994 floating rate dividend equal to 72% of 30-day Bankers' Acceptances, payable quarterly	150	150
	$ 300	$ 300

Subsequent to March 31, 1994, the dividend rate for the Series 1 Preferred Shares is established by negotiation between the Company and the holders of the individual series. If no agreement is reached, a bid solicitation procedure involving investment dealers is used. If no bids are accepted, a monthly auction procedure establishes the rate. The maximum dividend rate resulting from the auction procedure is the 30-day Bankers' Acceptances rate plus 0.4%. The Series 2 Preferred Shares will be subject to a similar auction procedure subsequent to December 31, 1994.

The Series 1 Preferred Shares are redeemable by the Company at any time, and the Series 2 Preferred Shares are redeemable on or after December 31, 1994. Both series are redeemable at par plus any accrued and unpaid dividends.

The Company has entered into a number of swap agreements in order to fix the effective after-tax cost of the Series 2 Preferred Shares at a rate of approximately 5% until December 1994. The pre-tax cost of these swaps of $7 is included in interest expense.

Common shares

	1994		1993	
	Number	Amount	Number	Amount
Issued and outstanding, beginning of year	85.46	$ 486	78.35	$ 337
Issued under employee share purchase and option plans	0.08	2	0.25	5
Issued as a result of debenture conversions	1.78	20	6.84	144
Issued under the shareholder dividend reinvestment plan and the stock dividend election program	0.02	0	0.02	0
Canadian dairy distribution (note 5)	–	(145)	–	–
	1.88	(123)	7.11	149
Issued and outstanding, end of year	87.34	$ 363	85.46	$ 486

As at April 30, 1994 stock options were outstanding with expiry dates from December 1996 to December 2003, to purchase 1,365,844 common shares at prices ranging from $17.06 to $23.60, with a weighted average price of $21.84. In addition, 839,235 shares remained available for allocation to stock option and purchase plans.

Effective June 4, 1993, pursuant to the Plan of Arrangement described in Note 5, the stated capital of the Company was reduced by $75. As at April 30, 1994, the stated capital of the Company was $433 ($486 in 1993).

14 INCREASE IN NON-CASH WORKING CAPITAL

	1994	1993
Decreases (increases) in current assets		
Accounts receivable and advances	$ (90)	$ (40)
Inventories	(1)	3
Taxes recoverable	8	(8)
Prepaid expenses	(8)	(3)
Increases (decreases) in current liabilities		
Accounts payable, accrued charges and deferred revenue	(16)	48
Taxes payable	43	(33)
	(64)	(33)
Less: Non-cash working capital relating to acquisitions	–	8
	$ (64)	$ (41)

15 ACQUISITIONS

Late in 1994, the Company acquired a 41.6% fully diluted equity interest in Stadium Acquisition Inc., which owns the SkyDome, for cash consideration of $30. In addition, the Company acquired a 100% interest in the Toronto Argonauts Football Club for cash consideration of $5, resulting in goodwill of $6.

During 1993, the Company acquired an additional 30% of the equity of BCL Entertainment, increasing its interest to 75%, effective May 1, 1992. In addition, the Company purchased the 20% minority interest of the partnership equity of Supercorp Entertainment, effective February 1, 1993. The acquisitions had a total cost of $9 and resulted in additional goodwill of $41.

16 COMMITMENTS

Lease commitments

The Company has entered into long-term operating leases, substantially all of which will be discharged within 10 years. Fixed rental expense for 1994 was $16 ($13 in 1993). Future annual fixed rental payments for the years 1995 through 1999 are: $17, $16, $14, $10 and $10, respectively. In aggregate, fixed rental payments for years subsequent to 1999 amount to $49.

Contractual commitments

A subsidiary of the Company has commitments for employment contracts totalling US$59 to 1996.

Purchase commitment

As at April 30, 1994 the Company had a commitment to purchase 168 pubs in the United Kingdom for $68.

17 RETIREMENT PROGRAMS

The Company has retirement programs which provide benefits including pension rights based on employee years of service and, in some instances, employee earnings.

Based on the most recent actuarial valuations, using the accrued-benefit method and management's best estimates, the funded status of the Company's defined-benefit pension plans for continuing operations is:

	1994	1993
Estimated present value of pension plan obligations	$ 369	$ 347
Pension plan assets at market value	$ 306	$ 306

Registered pension plans are funded through contributions determined by actuarial valuations performed in accordance with generally accepted actuarial principles.

18 RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with affiliates and partly owned businesses on competitive commercial terms similar to those with unrelated parties.

19 SEGMENTED FINANCIAL INFORMATION

Information by class of business

The classes of business within which the Company operates constitute the Brewing and the Broadcast, Sports and Entertainment segments.

The Brewing segment comprises brewing and marketing activities in Canada, the United States and Italy including export sales, and, in the United Kingdom, the marketing of beer produced and distributed under agreements with U.K. brewers and the ownership of pubs.

The Broadcast, Sports and Entertainment segment comprises broadcast activities, sports franchises, an investment in a sports-related facility, television commercials production, episodic television production and concert promotion businesses, primarily in Canada and the United States.

Corporate and other income and expenses and corporate net assets are allocated between the two business segments. Certain financial information for partly owned businesses is included in the proportion of John Labatt ownership.

	1994	1993
Net sales		
Brewing	$ 1,769	$ 1,672
Broadcast, Sports and Entertainment	630	546
	2,399	2,218
Less: Partly owned businesses	78	83
	$ 2,321	$ 2,135
Depreciation and amortization		
Brewing	$ 83	$ 74
Broadcast, Sports and Entertainment	16	15
	$ 99	$ 89
Earnings before interest, restructuring charges and income taxes		
Brewing	$ 260	$ 218
Broadcast, Sports and Entertainment	32	56
	292	274
Less: Partly owned businesses	8	9
	$ 284	$ 265
Additions to fixed assets		
Brewing	$ 103	$ 191
Broadcast, Sports and Entertainment	20	12
	$ 123	$ 203
Net assets employed		
Brewing	$ 960	$ 932
Broadcast, Sports and Entertainment	308	238
	1,268	1,170
Cash, short-term investments and securities	562	526
Accounts payable and accrued charges, deferred revenue and taxes payable, netted above	552	532
Total assets of continuing operations	2,382	2,228
Total assets of discontinued operations	154	792
	$ 2,536	$ 3,020

Information by geographic area

The Company operates principally in the geographic areas of Canada, the United States and Europe – specifically the United Kingdom and Italy. Geographic segmentation is based on the country in which a business operates.

As no single operation outside Canada constitutes a reportable geographic segment, all such operations are reported together as the International segment.

Corporate and other income and expenses and corporate net assets relating to continuing operations are allocated to the Canada segment. Certain financial information for partly owned businesses is included in the proportion of John Labatt ownership.

	1994	1993
Net sales		
Canada	$ 1,961	$ 1,865
International	438	353
	2,399	2,218
Less: Partly owned businesses	78	83
	$ 2,321	$ 2,135
Depreciation and amortization		
Canada	$ 76	$ 71
International	23	18
	$ 99	$ 89
Earnings before interest, restructuring charges and income taxes		
Canada	$ 307	$ 292
International	(15)	(18)
	292	274
Less: Partly owned businesses	8	9
	$ 284	$ 265
Additions to fixed assets		
Canada	$ 91	$ 110
International	32	93
	$ 123	$ 203
Net assets employed		
Canada	$ 866	$ 829
International	402	341
	1,268	1,170
Cash, short-term investments and securities	562	526
Accounts payable and accrued charges, deferred revenue and taxes payable, netted above	552	532
Total assets of continuing operations	2,382	2,228
Assets of discontinued operations	154	792
	$ 2,536	$ 3,020

20 Subsequent Event

On July 6, 1994, the Board of Directors of the Company approved an agreement in principle to acquire 22% of a brewing business in Mexico, subject to certain conditions, for US$510 million dollars.

JOHN LABATT LIMITED

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Chairman of the Board

SIDNEY M. OLAND
Vice-Chairman and
Group Chairman, Brewing

GEORGE S. TAYLOR
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Chief Executive Officer

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Corporate Resources

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Director of Taxation

MARY CURRIE
Corporate Controller

JOANNE RUSNELL
Secretary and
Assistant General Counsel

BREWING

Labatt Breweries of Canada

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Labatt Breweries International

MICHAEL H. CONDE
President

Labatt's USA

RICHARD R. FOGARTY
President

ROBERT H. BARGHAUS
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WILLIAM S. BESSETTE
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Operations

DAVID L. YALE
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Labatt Breweries of Europe

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Vice-President,
Operations

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Director,
Marketing

JOHN N. ECKMIRE
Managing Director,
Labatt Brewing UK

MICHAEL D.M. IZZA
Managing Director,
Labatt UK Retail

PIERO PERRON
General Manager,
Birra Moretti

BROADCAST

Labatt Communications Inc.

GORDON CRAIG
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Chief Executive Officer

ROBERT BLEASBY
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General Manager,
Dome Productions

GÉRALD JANNETEAU
President,
Le Réseau des sports

ALLAN JOHNSON
Vice-President and
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CINDY R. MCNICHOL
Vice-President,
Human Resources

LOU MONTANA
Vice-President,
Engineering

TRINA MCQUEEN
President and
General Manager,
The Discovery Channel

JAMES R. NEWELL
Vice-President,
Finance and
Chief Financial Officer

RICHARD PEDDIE
President,
LCI Development

JIM THOMPSON
President and
General Manager,
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GERRY TYMON
Vice-President and
General Manager,
The Rep Shoppe

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STOCK SYMBOL

LBT

STOCK EXCHANGES

Montreal, Toronto, Vancouver

TRANSFER AGENT AND REGISTRAR

The R-M Trust Company – Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

AUDITORS

Ernst & Young, Chartered Accountants
Toronto, Ontario

COMMON SHAREHOLDERS

As at April 30, 1994, John Labatt Limited had 12,300 registered shareholders, of which 11,800 with addresses in Canada held 95.9% of the Company's common shares.

SHAREHOLDERS' INQUIRIES

The R-M Trust Company operates a telephone information line for inquiries regarding change of address, stock transfer, registered shareholdings, dividends and lost certificates, which can be reached by dialing toll-free 1-800-387-0825. Shareholders in Toronto or outside Canada should telephone (416) 813-4600.

Correspondence should be addressed to:

The R-M Trust Company
Corporate Trust Services
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada
M5C 2W9

Pour obtenir la version française du présent rapport, écrire au secrétaire de John Labatt Limitée, Labatt House, BCE Place, 181 Bay Street, Suite 200, P.O. Box 811, Toronto, (Ontario), M5J 2T3.

DIVIDENDS

During fiscal 1994, $71 million or $0.82 per common share was paid in dividends to common shareholders, up from $65 million or $0.815 in fiscal 1993. In fiscal 1993 the Company also paid a special $3.00 dividend per common share.

QUARTERLY DIVIDEND PAYMENT HISTORY

(cents per common share)

Fiscal	Fiscal Quarters				
Year	July	Oct.	Jan.	April	Total
1990	17.5	18.5	18.5	18.5	73.0
1991	18.5	19.5	19.5	19.5	77.0
1992	19.5	20.0	20.0	20.0	79.5
1993	20.0	20.5	20.5	20.5	81.5
1994	20.5	20.5	20.5	20.5	82.0

DIVIDEND REINVESTMENT

Quarterly cash dividends can be reinvested automatically in the shares of the Company through the Dividend Reinvestment Plan. Shareholders also have the option of receiving quarterly dividends in the form of additional shares of the Company through the Stock Dividend Election Plan. Shareholders may wish to consult a tax advisor prior to selecting either of these plans.

COMMON SHARE MARKET PRICE HISTORY

($ per common share)

Fiscal Year	Low	High	April 30
1990	20½	27½	20⅝
1991	18⅜	26	23⅛
1992	22¼	27⅞	25¾
1993	24¼	30⅜	26
1994	20½	26¼	21

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JOHN LABATT LIMITED

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