ANNUAL REPORT ~ 1977

Hiram Walker-Gooderham & Worts Limited

Hiram Walker-Gooderham & Worts Limited

Walkerville, Ontario, Canada, incorporated December 31, 1926, under the laws of Canada

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Head Office of Hiram Walker-Gooderham & Worts Limited, Walkerville, Ontario at 2:30 P.M. December 9, 1977. Those Shareholders who are unable to attend the meeting are urged to mail in their proxies.

HEAD OFFICE

2072 Riverside Drive East, Walkerville, Ontario

AUDITORS

Price Waterhouse & Co.

TRANSFER AGENTS

National Trust Company, Limited, Toronto, Montreal, Calgary and Vancouver
Bankers Trust Company, New York

REGISTRARS

Canada Permanent Trust Company, Toronto, Montreal, Calgary and Vancouver
Morgan Guaranty Trust Company of New York, New York

STOCK EXCHANGE LISTINGS

Toronto, Montreal, Vancouver and New York

10-K AVAILABILITY

The Company files a Form 10-K Annual Report with the United States Securities and Exchange Commission. A copy of this report will be made available without charge to interested Shareholders upon written request to the Secretary, Hiram Walker-Gooderham & Worts Limited, Walkerville-Box 2518, Windsor, Ontario, Canada, N8Y 4S5.

Financial Highlights

United States currency, except as noted

	August 31	
	1977	1976
	(thousands, except per share amounts)	
For the year:		
Sales	**$875,133**	$874,955
Net income	**59,855**	55,283
Dividends paid	**25,767**	25,953
At the year-end:		
Shareholders' equity	**$610,000**	$576,165
Inventories	**509,077**	496,587
Land, buildings and equipment, net	**176,780**	177,924
Working capital	**560,833**	518,644
Total assets	**959,154**	912,388
Per share amounts:		
Net income	**$3.47**	$3.21
Shareholders' equity	**$35.42**	$33.43
Dividends per Class A share: * (1)	**$1.50**	$1.50

Unaudited quarterly data:

	Quarter Ended			
	November 30	February 28	May 31	August 31
	(thousands, except per share amounts)			
Year ended August 31, 1977				
Sales	$283,878	$180,402	$216,221	$194,632
Gross profit	91,650	70,282	74,006	73,993
Net income	22,711	10,647	13,439	13,058
Net income per share	$1.32	$0.61	$0.78	$0.76
Dividends per share * (1)	$0.45	$0.35	$0.35	$0.35
Share price ranges * (2)	$30½ to $25	$29⅜ to $25	$29¼ to $24⅛	$27½ to $24⅛
Year ended August 31, 1976				
Dividends per share * (1)	$0.45	$0.35	$0.35	$0.35
Share price ranges * (2)	$31⅞ to $26¼	$33⅜ to $27⅞	$33⅝ to $29⅜	$32⅜ to $28¾

* Canadian currency.

(1) Class B dividends were identical to Class A dividends less applicable taxes. The $0.45 per share dividend paid during the quarter ended November 30 in each year included a $0.10 extra dividend.

(2) Toronto Stock Exchange prices for Class A shares. Class B shares trade infrequently but market prices were similar to those for Class A shares.

Report of Directors

To the Shareholders:

Your directors take pleasure in presenting this report on the results of the Company's operations for the 1977 fiscal year together with the accompanying consolidated financial statements. As in prior years, the consolidated financial statements and other dollar amounts are expressed in United States currency unless otherwise noted.

Sales and Earnings

Sales in dollars for the year were $875 million, unchanged from a year ago, while net earnings increased to $59.9 million or $3.47 per share compared with $55.3 million or $3.21 per share in 1976.

The improvement in the gross margin from a year ago arose from the growth in sales volume of our more profitable products. Lower interest costs arising from reduced level of borrowings and income from the temporary investment of additional surplus funds contributed to the improvement in earnings. In addition, foreign currency translation adjustments were favourable compared with a year ago.

Further information on the operating results may be found in the accompanying pages of the financial report.

Market Trends

Consumption of distilled spirits in the United States and Canada showed little change in volume from the prior year. Domestic and imported whiskies in the United States declined in volume, while the products generally referred to as "white goods" and cordials and specialties showed modest increases.

Sales of Canadian Club in the United States were relatively unchanged and the Company's entries in both the imported and domestic cordial categories and Courvoisier cognac continued to show favourable progress. Canadian market sales of Canadian Club advanced while most other products declined in a generally soft market for consumer goods. In the international markets the Company's Scotch whisky brands had another good year of growth.

Outlook

The Company considers its strength in premium quality whiskies and imported liqueurs and specialties, as well as its predominant position in American domestic cordials, to be positive factors for its future growth. While the relatively mature North American markets for distilled spirits are expected to grow only moderately in the near term, the potential for growth in international markets is encouraging. Inflationary pressures on margins continue to be a negative influence on earnings. Although selling prices were raised in a number of markets in 1977, and other increases are contemplated, competitive conditions necessarily limit the size of such adjustments.

Our marketing efforts continue to be focused on the promotion of those products which appear to provide both growth opportunities and a reasonable return on investment.

Dividends (Canadian currency)

During the fiscal year ended August 31, 1977, quarterly dividends of 35 cents per share plus an extra dividend of 10 cents per share were paid for a total of $1.50 per share. On September 7, 1977 the directors declared the regular quarterly dividend of 35 cents per share plus an extra dividend of 25 cents per share, both payable October 15.

Appreciation

The success of any company is, to a large measure, dependent on the strong support of the employees in all phases of its operations. Your directors wish to express their appreciation to the Company's employees for the part they have played in making this another successful year.

Thanks must also be expressed to the Company's 28,000 shareholders and to our customers around the world for their continued confidence in our products and our performance.

By Order of the Board of Directors,

H. Clifford Hatch

President

Walkerville, Ontario

October 18, 1977

Directors

F. Campbell Cope, Q.C.
Partner in the law firm of Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard

Richard E. Cross
Counsel to the law firm of Cross, Wrock, Miller & Vieson

A. E. Downing
Senior Vice President

Charles T. Fisher III
President of National Bank of Detroit

H. Clifford Hatch
President

Joseph Jeffery, O.B.E., Q.C.
Partner in the law firm of Jeffery & Jeffery

Paul J. G. Kidd, Q.C.
Senior Vice President

Allen T. Lambert
Chairman of the Board The Toronto-Dominion Bank

John T. Sapienza
Partner in the law firm of Covington & Burling

Robert C. Scrivener
Chairman and Chief Executive Officer Northern Telecom Limited

Thomas Snelham
Senior Vice President

Robert J. Tebbs
Senior Vice President

Business of the Company

Hiram Walker-Gooderham & Worts Limited is a holding company incorporated in Canada and having its executive offices in Walkerville, Ontario. Through its various subsidiaries it is primarily engaged in the manufacture and sale of only one class of product, distilled spirits. No other class of product contributes 10% or more to total sales. The following product groups, listed in order of importance, accounted for over 90% of the Company's sales in the fiscal year ended August 31, 1977: Canadian whiskies, Scotch whiskies, liqueurs and cognac, American blended and bourbon whiskies, and gin, rum and vodka.

Most of the products sold by the Company are manufactured by various subsidiaries in Canada, the United States, Scotland, France and the Argentine. In addition, the Company markets in both Canada and the United States brands produced by non-affiliated companies located principally in Europe. In fiscal 1977, 57% of the Company's products were sold in the United States, 17% in Canada and the remaining 26% in Europe and elsewhere. Products of the Argentine company are sold principally in that country.

The Company's principal operating subsidiaries are as follows:

Hiram Walker & Sons Limited
Corby Distilleries Limited
Hiram Walker & Sons (Scotland) Limited*
Hiram Walker & Sons, Inc.
Hiram Walker Incorporated
W. A. Taylor & Company
Maidstone Wine & Spirits, Inc.
Courvoisier Limited *

* Fiscal year-end of July 31 to allow timely reporting for consolidating purposes.

Officers

H. Clifford Hatch
President

A. E. Downing
Senior Vice President

Paul J. G. Kidd, Q.C.
Senior Vice President

Thomas Snelham
Senior Vice President

Robert J. Tebbs
Senior Vice President

J. D. N. Ford
Vice President

A. R. McCallum
Vice President and Treasurer

Richard M. Kippen
Secretary

James H. Shaw
Comptroller

(left to right): Messrs. Kidd, Downing, Hatch, Tebbs and Snelham.

Comments on Operations

United States

The Company's sales in the United States market are primarily whiskies (Canadian, American domestic blends and bourbon, and Scotch), imported cordials and cognacs, domestic cordials and fruit flavoured brandies.

In the past year Canadian Club whisky and Ballantine's Scotch increased marginally in volume while Courvoisier cognac, Kahlúa coffee liqueur and other imported cordials experienced satisfactory increases. Domestic cordials and fruit flavoured brandies continued their growth pattern of prior years. The declining popularity of American blended and bourbon whiskies in recent years continued to adversely affect sales of the Company's brands in this segment of the market. As a result of the interplay of all these factors, there was little change in the total volume of the Company's United States case sales for the year ended August 31, 1977 compared with the prior year. During 1977 sales volume in the United States amounted to about 57% of total Company sales.

The Company is continuing its program of market research to identify and develop new entries in the faster growing segments of the distilled spirits markets. Two Fingers tequila, introduced last year, has been successful in test markets and this product is now being distributed nationally. A new cordial, Hiram Walker Amaretto, was launched recently and several other products are in the planning stage.

In support of its principal brand, Canadian Club, the Company has extended its "Hide-a-Case" advertising campaign. In the prior series, cases of Canadian Club were hidden in nine remote regions of the world (such as Mount Kilimanjaro, Tanzania and Great Barrier Reef, Australia) but only four of these cases were ever found. The current campaign features locations in the United States; the first two cases, buried last year in Death Valley, California and in Bigfoot Country of the Pacific Northwest, were found a short time after the advertisements appeared. Hundreds of "adventurers" attempted to locate the caches and the hunt attracted

considerable media attention. The recent advertisement shown here gives directions to a case of Canadian Club hidden in the picturesque Thousand Islands region of the St. Lawrence River.

International

Ballantine's Scotch continued to post sales gains in the world markets outside of North America. These markets are considered to be the growth areas for our Company and considerable marketing effort is being expended in this direction. In 1977 the European markets of West Germany, Holland and France showed the best sales increases, while impressive gains were also registered in the developing markets of Venezuela, Paraguay, Turkey and South Africa. Volume increases were also recorded in international markets for some of the other Scotch brands, such as Old Smuggler and Ambassador. Case sales of the international division represented about 26% of the Company's total volume this year.

Canada

While sales of Canadian Club, the largest selling brand of whisky in Canada, continued to increase, sales volumes of the Company's other products generally were lower. Last year's volume included an abnormally high level of sales in British Columbia while a competitor's products were not available. Canadian sales represented about 17% of total volume in 1977.

Capital Expenditures

Substantial sums have been spent in the last few years for modernization and expansion of the facilities at a number of our plants. The recent construction of the bulk whisky handling system at Kilmalid, Scotland was completed late in the fiscal year at a cost of $15 million, and to date there has been a minimum of start-up problems. These improvements will increase the capacity of the facilities required to handle the projected growth in world-wide demand for the Company's Scotch whiskies.

Summary of Significant Accounting Policies

The Company's accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below.

Consolidation policy

The consolidated financial statements include the accounts of all subsidiaries, except for the Argentine subsidiary which is accounted for as described under Investments below.

Currency translation

The consolidated financial statements are expressed in United States currency because the greater part of the Company's business is conducted in that currency. In translating the accounts the following principles have been applied generally:

Current assets, except maturing inventories, and current liabilities at exchange rates on August 31; maturing inventories and all other assets and liabilities at historical exchange rates.

Income and expenses at average exchange rates for the year, except for matured whiskies and cognac entering into cost of products sold and other amounts related to assets translated at historical rates.

The foreign exchange translation gains and losses are included in the consolidated statement of income.

Inventories

Inventories are stated at amounts not exceeding manufactured or purchased cost. They include substantial quantities of whiskies and cognac which will remain in storage over a period of years, but which are classified as current assets in accordance with the general practice of the distilling industry.

Investments

Investments are stated at cost except for the Argentine subsidiary and 50%-owned companies. Effective March 1, 1976 the Company ceased to consolidate the operations of the Argentine subsidiary because of unsettled economic conditions in that country and is now carrying this investment at its equity in the subsidiary's net assets at February 29, 1976; income is recognized only to the extent of dividends received. Investments in 50%-owned companies are carried at the Company's equity in their net assets and the Company's share of their net income, or loss, is included in the consolidated statement of income.

Land, buildings and equipment

Land, buildings and equipment are carried at cost. The Company generally uses the straight-line method to provide depreciation over the estimated useful lives of depreciable assets at annual rates of 2 1/2% to 10% for buildings and 5% to 33 1/3% for equipment.

Other assets

At August 31, 1977 other assets consisted principally of purchased intangibles which are being amortized by systematic charges to operations over an appropriate number of years. The remaining goodwill attributable to the brandy and cognac company acquired in 1974 was written off during the year in recognition of continuing marginal operating results.

Pension plans

The Company and its subsidiaries have many pension plans, most of which are trusteed plans, covering the majority of their employees. It is the Company's policy to fund pension costs accrued. Unamortized prior service costs are funded by annual contributions over varying periods ranging from 15 to 30 years for the different plans.

Income taxes

No provision has been made for taxes on undistributed earnings of subsidiaries not currently available for paying dividends inasmuch as such earnings have been reinvested in the business.

Deferred income taxes are provided for all significant timing differences in reporting income and expenses for financial statement and tax purposes. The timing differences arise principally from differences in accounting and tax depreciation and special tax-deductible inventory reserves in France and the United Kingdom.

Consolidated Statement of Income and Retained Earnings

Expressed in thousands of United States dollars

	Year ended August 31 1977	1976
Sales	**$875,133**	$874,955
Dividends and interest on investments	**8,364**	3,922
Other income	**5,914**	2,812
	889,411	881,689
Cost and Expenses:		
Cost of products sold	**565,202**	569,055
Selling and general expenses	**175,776**	166,255
Interest on long-term indebtedness	**4,773**	4,508
Other interest	**9,272**	12,015
Depreciation	**14,359**	14,565
	769,382	766,398
Income before income taxes, foreign currency adjustments and minority interest	**120,029**	115,291
Provision for income taxes:		
Current	**57,524**	40,678
Deferred	**5,062**	16,913
	62,586	57,591
Income before foreign currency adjustments and minority interest	**57,443**	57,700
Foreign currency translation gain (loss)	**4,134**	(651)
Minority interest in earnings of subsidiaries	**(1,722)**	(1,766)
Net Income	**59,855**	55,283
Retained Earnings:		
At beginning of year	**562,829**	533,499
	622,684	588,782
Dividends paid (including 15% tax on Class B dividends)	**25,767**	25,953
At end of year	**$596,917**	$562,829
Earnings and Dividends per share		
Net income	**$3.47**	$3.21
Dividends paid (Canadian currency):		
Class A	**$1.50**	$1.50
Class B (after 15% tax)	**$1.27½**	$1.27½

The Summary of Accounting Policies and Notes to Financial Statements are part of these statements.

Consolidated Statement of Changes in Financial Position

Expressed in thousands of United States dollars

	Year ended August 31	
	1977	1976
Financial Resources were provided by:		
Net income	**$ 59,855**	$ 55,283
Items not requiring outlay of working capital:		
Depreciation	**14,359**	14,565
Amortization of cost in excess of net assets of company acquired (reflected as reduction of other income)	**1,050**	5,084
Minority interest in earnings of subsidiaries	**1,722**	1,766
Deferred income taxes	**5,062**	16,913
Working capital provided from operations	**82,048**	93,611
Sale of debentures	**—**	49,524
	82,048	143,135
Financial Resources were used for:		
Payment of dividends	**25,767**	25,953
Expenditures for land, buildings and equipment less disposals	**13,215**	13,759
Other items	**877**	2,910
	39,859	42,622
	42,189	100,513
Working capital of Argentine subsidiary	**—**	7,063
Increase in Working Capital	**42,189**	93,450
Working Capital:		
At beginning of year	**518,644**	425,194
At end of year	**$560,833**	$518,644
Changes in Working Capital Components		
Increase (decrease) in principal current assets—		
Cash and short-term investments	**$ 53,930**	$ 11,947
Accounts receivable	**(17,239)**	9,484
Inventories	**12,490**	(23,309)
(Increase) decrease in principal current liabilities—		
Loans and notes payable	**11,313**	92,083
Excise taxes	**(1,631)**	8,118
Income and other taxes	**(6,769)**	(6,105)
Other items	**(9,905)**	1,232
Increase in working capital	**$ 42,189**	$ 93,450

The Summary of Accounting Policies and Notes to Financial Statements are part of these statements.

Consolidated Balance Sheet

Expressed in thousands of United States dollars

Assets

	August 31 1977	1976
Current Assets:		
Cash	$ 15,738	$ 18,093
Short-term investments, at cost (approximates market value)	86,470	30,185
Accounts receivable	127,688	144,927
Inventories	509,077	496,587
Prepaid expenses	14,183	14,101
Total current assets	753,156	703,893
Investments:		
The Argentine subsidiary	13,085	13,085
With quoted market value (1977—$1,497; 1976—$1,188)	3,149	3,149
Without quoted market value	9,912	9,866
	26,146	26,100
Land, Buildings and Equipment	350,397	338,371
Less depreciation	173,617	160,447
	176,780	177,924
Other Assets	3,072	4,471
	$959,154	$912,388

Liabilities and Shareholders' Equity

	1977	1976
Current Liabilities:		
Loans and notes payable	$ 86,839	$ 98,152
Federal excise taxes	13,305	11,674
Income and other taxes	40,444	33,675
Accounts payable and accrued liabilities	51,735	41,748
Total current liabilities	192,323	185,249
Long-Term Indebtedness	49,524	49,524
Deferred Income Taxes	88,135	83,073
Minority Interest	19,172	18,377
Shareholders' Equity:		
Common shares, without par value	17,330	17,330
Retained earnings	596,917	562,829
	614,247	580,159
Deduct: Common shares held by Trustees and subsidiary company, at cost (1977—153,313 shares; 1976—143,063 shares)	4,247	3,994
	610,000	576,165
	$959,154	$912,388

Approved by the Board

H. Clifford Hatch, Director

Thomas Snelham, Director

The Summary of Accounting Policies and Notes to Financial Statements are part of these statements.

Notes to Financial Statements

1. Inventories

Inventories shown in the accompanying consolidated balance sheet consist of the following:

	August 31 1977	August 31 1976
	(Thousands of dollars)	
Raw materials and supplies	$ 34,209	$ 31,412
Maturing whiskies and cognac	418,438	410,331
Finished goods	56,430	54,844
	$509,077	$496,587

2. Land, Buildings and Equipment

The amounts shown in the accompanying consolidated balance sheet are detailed below:

	August 31, 1977			August 31, 1976
	Cost	Depreciation	Net	Net
		(Thousands of dollars)		
Land	$ 7,359	$ —	$ 7,359	$ 7,303
Buildings	175,257	67,478	107,779	108,247
Equipment	165,412	106,139	59,273	61,841
Construction in progress	2,369	—	2,369	533
	$350,397	$173,617	$176,780	$177,924

3. Loans and Notes Payable

Loans and notes payable consist of:

	August 31 1977	August 31 1976
	(Thousands of dollars)	
Bank loans	$ 35,912	$ 44,556
Commercial notes	50,927	53,596
	$ 86,839	$ 98,152
Average annual borrowings	$106,285	$130,263
Average annual interest rate	8.7%	9.3%
Maximum amount outstanding at any month-end	$108,000	$148,000

At August 31, 1977 the average interest rate on short-term borrowings was 8.3% (Canada—7.5%, foreign countries—10.3%). Through its subsidiaries the Company has unsecured lines of credit totalling $79 million in the United States and Canada and $55 million in foreign countries with interest at prime or most favourable local rates. At August 31, 1977 the unused portion of these lines was $98 million. In addition, the Company has available a $70 million bank line of credit to support its commercial note borrowings. The Company has a long-term agreement with a third party to provide a loan of $25 million to its operating subsidiary in the United Kingdom, in exchange for a loan made by the Company elsewhere. Such loans are considered to be intercompany in nature and, accordingly, are offset in consolidation.

4. Long-Term Indebtedness

Long-term indebtedness consists of unsecured debentures in Canadian currency of $20 million bearing interest at 9⅞% per annum, and in United States currency of $30 million bearing interest at 9½% per annum. Both series of debentures mature on December 15, 1980.

5. Stock Option Plan

The present stock option plan approved by the shareholders in December 1972 provides for the granting to officers and key employees of options to purchase an aggregate of 250,000 common shares at 100% of the quoted market price of the shares on the date of grant. The options must be granted within ten years from October 17, 1972 and are generally exercisable at the end of each of the first four years from the granting date at the rate of 25% per year. Options granted to Canadian employees must be exercised within ten years. Options granted to United States employees prior to May 21, 1976 must be exercised within five years and subsequent options before May 21, 1981, as provided by the Tax Reform Act of 1976. No options were exercised during the two years ended August 31, 1977. Information as to options granted and lapsed during this period is shown below:

	Number of shares	
	1977	1976
Options granted	141,600	—
Options lapsed	5,640	5,160

Options outstanding at August 31, 1977 were as follows:

Date of grant	Option price per share	Officers and employee directors	Total
April 1972	$43.69*	5,700	12,450
January 1973	$52.75	—	5,000
February 1973	$51.94*	21,500	31,000
February 1973	$52.13	500	20,500
December 1973	$50.75	5,000	5,000
January 1977	$26.50*	24,800	87,200
January 1977	$26.13	2,400	54,400
		59,900	215,550

*Canadian currency

The cost of shares acquired by trustees for the options granted and the cost of those held by a subsidiary have been deducted from Shareholders' Equity in the consolidated balance sheet.

6. Common Shares

Authorized capital of the Company consists of 42,000,000 Class A shares and 21,000,000 Class B shares. The shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Dividends may be declared on the Class B shares out of tax-paid undistributed surplus or 1971 capital surplus. These dividends are the same as on Class A shares less 15% tax paid by the Company to create tax-paid undistributed surplus, as required under the provisions of the Income Tax Act (Canada). In the March 1977 budget, the Federal Government proposed significant amendments which will permit dividends on the Class B shares to be paid immediately out of capital surplus rather than only after exhausting 1971 undistributed income. Also, the proposed amendments terminate the right to distribute tax-deferred dividends on the Class B shares at the end of calendar year 1978. Commencing July 15, 1977 the dividends on the Class B shares have been declared and paid in such a way that the shareholders can benefit from these proposed amendments.

Changes in the share capital of the Company for the two years ended August 31, 1977 were as follows:

	Class A	Class B
Shares issued and outstanding at August 31, 1975	16,419,548	956,548
Conversions (net)	(331,399)	331,399
Shares issued and outstanding at August 31, 1976	16,088,149	1,287,947
Conversions (net)	(108,514)	108,514
Shares issued and outstanding at August 31, 1977	15,979,635	1,396,461

7. Remuneration of Directors and Officers

Remuneration paid by the Company or its subsidiaries to its directors and officers is set out below. Of the twelve directors, five are officers of the Company; there are four officers of the Company who are not directors.

Paid by	1977	1976
	(Thousands of dollars)	
Hiram Walker-Gooderham & Worts Limited		
As directors	$ 75	$ 69
Corby Distilleries Limited		
As directors of Corby	12	12
Other subsidiaries (none of which are incorporated under the Canada Corporations Act)		
As directors	43	50
As officers	855	793
	$985	$924

Employment agreements with three directors who are also officers of the Company provide that, subject to certain restrictions, each of the three directors will receive $25,000 annually beginning with his sixty-fifth birthday throughout his life, or for ten years, whichever is longer. The cost of annuities purchased to meet these obligations was $64,000 (1976—$66,000).

8. Pensions

Pension expense was $8,417,000 in 1977 and $8,175,000 in 1976. Recent valuations of the Company's plans by independent actuaries indicated aggregate unamortized prior service costs of approximately $16 million.

9. Supplementary Information

	August 31	
	1977	1976
	(Thousands of dollars)	
Allowance for doubtful accounts deducted from accounts receivable in the consolidated balance sheet	$ 6,213	$ 4,716
Estimated excise taxes and import duties included in cost of products sold	319,000	331,000

Auditors' Report

To the Shareholders of
Hiram Walker-Gooderham & Worts Limited:

We have examined the consolidated balance sheets of Hiram Walker-Gooderham & Worts Limited and its subsidiaries as at August 31, 1977 and 1976 and the consolidated statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1977 and 1976 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 consistently applied.

Price Waterhouse & Co.
Chartered Accountants

Toronto, October 12, 1977

Financial Review

Management's Discussion and Analysis of Consolidated Summary of Operations

1977 Compared to 1976

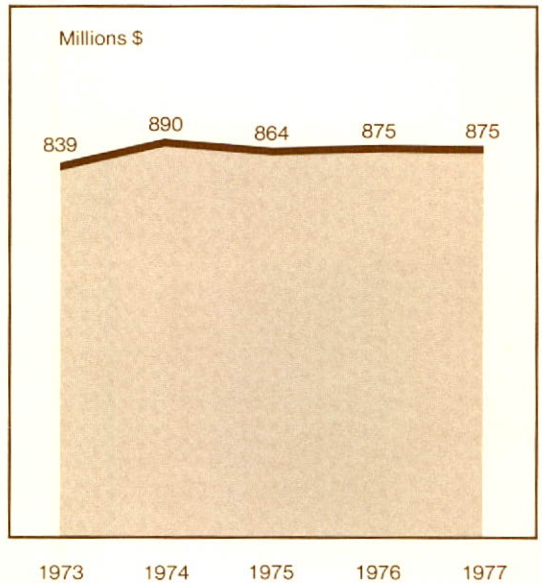
The decline in exchange rates relative to United States currency and the removal from consolidation of the Argentine subsidiary as of February 29, 1976 affects to some extent the comparability of individual income statement items in the two years.

Both dollar and unit sales were relatively unchanged from the prior year. The positive effect on sales dollars of the increased volume of premium priced products was negated by the higher quantities of products sold exclusive of excise taxes. Operating margins increased from 35.0% to 35.4%, primarily as a result of this change in sales mix. Increased operating costs, which were only partly offset by price increases in some markets, served to moderate the margin improvement. Selling and general expenses were up 5.7%, reflecting a general increase in the cost of doing business in all the countries in which the Company operates. Investment income increased and other interest expense declined mainly because more funds were available for short-term investments in 1977, particularly in the United States and Scotland, and borrowing levels were reduced elsewhere. Lower interest rates in most countries also contributed to the reduction in interest expense. A reduced charge for the amortization of goodwill was the major factor in the increase of other income in 1977. The effective income tax rate increased to 52.1% this year from 50.0% in 1976 due to translation related factors. After gains from foreign currency adjustments (primarily due to the changes in the value of the Canadian dollar in 1976 and 1977) and amounts related to minority interest, net income improved by 8.3%.

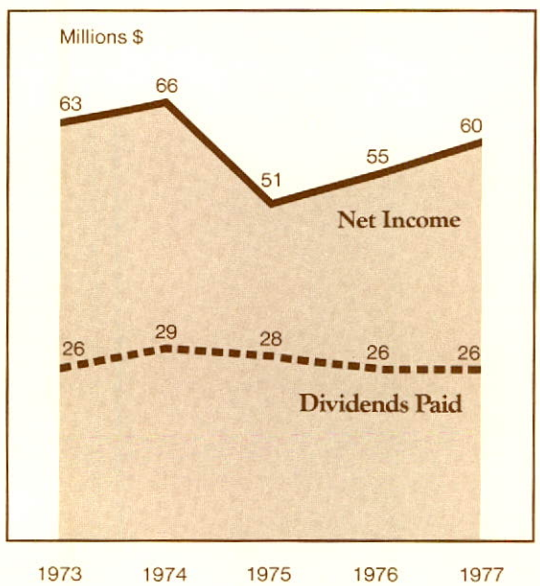
1976 Compared to 1975

Comparison of individual items in the two years is affected by the exclusion from consolidation of the Argentine subsidiary's income statement as of February 29, 1976 (although this did not have a material effect on net income) and generally lower foreign exchange translation rates, particularly for the pound sterling. Dollar sales increased 1.3% as a result of higher unit sales and selected price increases being partially offset by a higher proportion of sales which were exclusive of excise taxes. Cost of products sold increased 0.3% as inflationary cost increases were offset in part by lower excise taxes due to selected proof reductions and a higher proportion of tax-excluded sales.

Sales



Net Income



Increases in selling and general expenses were more than offset as a result of cost reduction measures undertaken in the United States, lower translation rates for foreign currency and the exclusion of the expenses of the Argentine subsidiary for six months. Interest on long-term debt resulted from the $50 million debenture issue early in the fiscal year which was used to reduce short-term debt. Accordingly, the decrease in other interest of 43.1% was consistent with the lower levels of borrowing as well as generally reduced interest rates. The effective income tax rate increased from 46.7% to 50.0% due to the non deductibility of goodwill amortization and translation related factors. After foreign currency adjustments arising from fluctuations in the value of several currencies in relation to the United States dollar and deductions for minority interest, net income increased by 9.2%.

Working Capital

The investment of funds in the short-term money market was higher at August 31, 1977, particularly in the United States because of the reduced requirements for financing working capital items. Although inventory quantities on hand were reduced from the prior year's levels, the investment in inventories increased as a result of generally higher unit costs. The net result of all changes was an improvement in working capital of $42 million for the year.

Shareholders' Equity

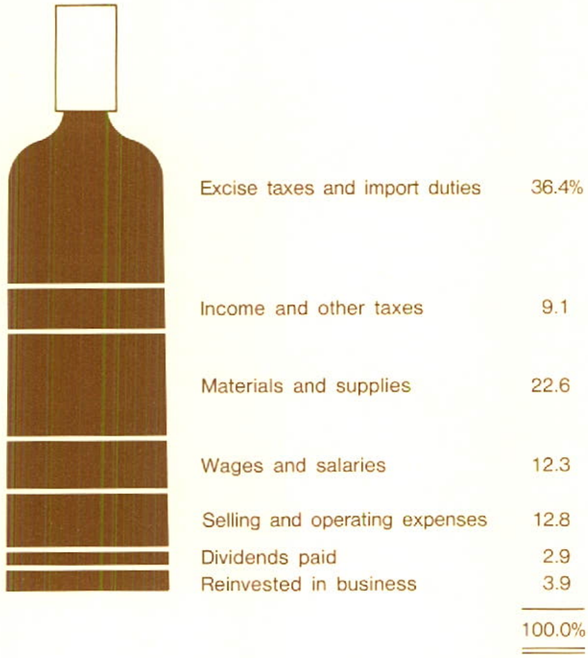
Shareholders' equity amounted to $610 million at August 31, 1977 or $35.42 per share, an increase of 6.0% from August 31, 1976 ($576 million or $33.43 per share). There were approximately 28,400 shareholders of the Company at the year-end, of which 86% were Canadian and the balance were residents of the United States and other countries.

Replacement Cost

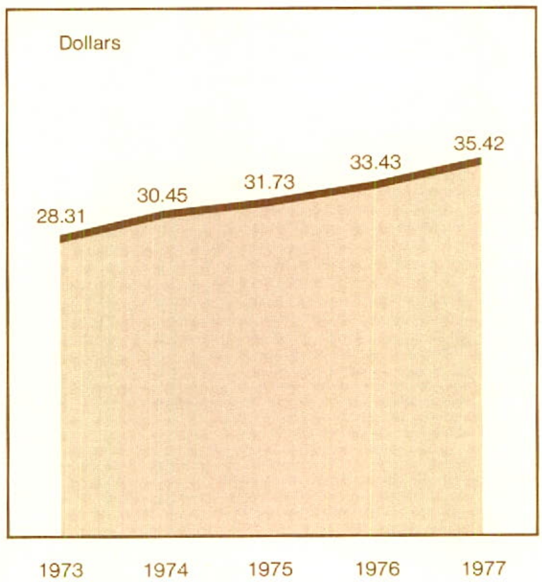
The Company's operations have been subject to varying degrees of inflation in Canada and in other countries in which it conducts its business. Replacement of buildings and equipment at current prices would require a substantially greater investment than was required at the time the assets were purchased and depreciation charges on such replacement values would be greater than reported. Inventories and cost of products sold would be similarly affected because of the long periods that whiskies and cognac must remain in storage before being bottled and sold. The Company has attempted over the years to adjust selling prices to maintain profit margins and, competitive conditions permitting, will continue to do so in the future.

Further details of the impact of inflation on replacement cost of inventories and buildings and equipment are included in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Distribution of 1977 Sales Dollar



Shareholders' Equity per Share



Five Year Review

Fiscal years ended August 31 (Expressed in thousands of United States dollars, except per share amounts)	**1977**	1976	1975	1974	1973
Consolidated Summary of Operations					
Sales	**$875,133**	$874,955	$864,105	$889,672	$839,270
Cost of products sold	**565,202**	569,055	567,192	576,868	552,351
Selling and general expenses	**175,776**	166,255	166,575	161,177	145,302
Interest on long-term indebtedness	**4,773**	4,508	—	—	—
Other interest	**9,272**	12,015	21,117	15,204	7,511
Dividends and interest on investments	**8,364**	3,922	3,703	3,124	4,259
Other income	**5,914**	2,812	5,356	1,948	2,256
Provision for income taxes	**62,586**	57,591	48,640	61,464	57,624
Foreign currency gains (losses)	**4,134**	(651)	(3,169)	1,735	(3,824)
Net income	**59,855**	55,283	50,647	66,243	63,404
Average common shares outstanding (thousands)*	**17,231**	17,233	17,234	17,241	17,263
Earnings per share	**3.47**	3.21	2.94	3.84	3.67
Dividends paid	**25,767**	25,953	28,278	28,954	26,030
Dividends paid per Class A share (Canadian currency)**	**1.50**	1.50	1.65	1.65	1.50
Other Financial Data					
Inventories	**$509,077**	$496,587	$519,896	$487,337	$383,783
Working capital	**560,833**	518,644	425,194	386,608	348,395
Land, buildings and equipment, net	**176,780**	177,924	184,375	178,454	173,974
Total assets	**959,154**	912,388	913,166	863,465	718,152
Shareholders' equity	**610,000**	576,165	546,835	524,869	488,281
Shareholders' equity per share	**35.42**	33.43	31.73	30.45	28.31
Return on shareholders' equity	**9.8%**	9.6%	9.3%	12.6%	13.0%
Net income as a percent of sales	**6.8%**	6.3%	5.9%	7.4%	7.6%
Estimated federal excise taxes included in sales	**319,000**	331,000	347,000	382,000	379,000

* Excludes common shares held by Trustees and subsidiary company.

** Similar dividends were paid on Class B shares less the applicable taxes.

Company's Record/1934-1977

FISCAL YEAR ENDED AUG. 31	SALES	NET INCOME		DIVIDENDS			RETAINED EARNINGS AT END OF YEAR
		AMOUNT	PER SHARE*	PREFERENCE AMOUNT	COMMON AMOUNT	COMMON PER SHARE* (CANADIAN CURRENCY)	
1934	$ 21,071,349	$ 3,366,267	$ .19	$461,131	$ —	$ —	$ 5,594,170
1935	45,353,470	3,165,650	.17	460,818	—	—	8,244,484
1936	54,729,133	4,796,120	.28	460,818	990,000	.07	10,580,959
1937	63,969,514	6,463,633	.35	460,818	1,443,433	.09	15,140,340
1938	67,201,413	6,284,968	.34	460,818	2,896,016	.17	8,576,950
1939	68,325,810	5,295,979	.28	534,092	2,896,016	.17	10,687,311
1940	78,678,677	6,065,664	.32	560,818	2,896,016	.17	13,296,141
1941	102,156,227	6,921,970	.37	560,818	2,896,016	.17	16,761,277
1942	150,492,421	7,123,579	.38	560,818	2,893,549	.17	19,994,448
1943	142,017,948	9,245,143	.50	560,818	2,886,148	.17	25,792,625
1944	167,051,135	7,637,364	.41	560,818	2,886,148	.17	29,813,088
1945	254,618,161	9,411,300	.51	560,818	2,886,148	.17	35,777,422
1946	266,845,903	15,784,699	.88	532,777	2,886,148	.17	48,143,196
1947	294,577,355	18,879,570	1.09	—	3,463,377	.20	63,559,389
1948	310,252,924	24,870,572	1.44	—	5,411,527	.32	83,018,434
1949	294,112,700	23,643,669	1.37	—	5,772,296	.34	100,889,807
1950	343,122,732	27,925,874	1.62	—	6,926,756	.40	121,888,925
1951	328,284,523	20,872,190	1.21	—	11,544,592	.67	131,216,523
1952	306,998,430	15,674,160	.91	—	11,477,633	.67	133,023,990
1953	337,304,847	19,093,424	1.11	—	8,848,930	.50	143,268,484
1954	339,285,815	20,252,490	1.17	—	11,093,631	.63	152,427,343
1955	341,273,232	19,327,468	1.12	—	11,821,662	.67	159,933,149
1956	370,927,502	21,079,312	1.22	—	11,636,949	.67	169,375,512
1957	396,182,157	22,478,161	1.31	—	12,031,458	.67	179,822,215
1958	384,028,204	21,845,494	1.27	—	14,506,584	.82	187,161,125
1959	412,121,674	23,694,387	1.38	—	15,597,593	.88	195,257,919
1960	440,179,873	25,050,258	1.46	—	15,685,430	.88	204,649,946
1961	449,889,391	26,362,652	1.53	—	16,031,356	.93	214,981,242
1962	469,287,365	27,705,832	1.61	—	16,347,124	1.00	226,339,950
1963	478,788,327	29,643,565	1.73	—	15,945,767	1.00	240,037,748
1964	498,174,425	32,173,389	1.87	—	17,506,013	1.10	248,352,856
1965	529,614,946	34,568,348	2.01	—	19,152,431	1.20	263,768,773
1966	565,317,357	38,021,516	2.21	—	19,193,833	1.20	282,596,456
1967	590,349,891	40,799,775	2.37	—	20,707,712	1.30	302,688,519
1968	634,299,454	44,266,500	2.57	—	20,721,868	1.30	318,167,327
1969	690,419,103	47,928,264	2.78	—	23,234,824	1.45	351,685,136
1970	715,379,387	48,693,000	2.82	—	23,492,327	1.45	376,885,809
1971	713,605,842	48,433,716†	2.81†	—	24,761,650	1.45	400,557,875
1972	805,105,806	54,093,344†‡	3.13†‡	—	25,183,471	1.45	436,465,624
1973	839,269,809	63,404,605	3.67	—	26,030,265	1.50	473,839,964
1974	889,671,867	66,243,865	3.84	—	28,954,441	1.65	511,129,388
1975	864,105,039	50,647,368	2.94	—	28,277,892	1.65	533,498,864
1976	874,954,668	55,283,135	3.21	—	25,952,952	1.50	562,829,047
1977	875,133,504	59,855,073	3.47	—	25,766,759	1.50	596,917,361

*Adjusted for stock splits of four for one in 1947, three for one in 1958 and two for one in 1964. Beginning in 1974 per share amounts are for Class A shares, and dividends on Class B shares are the same as for Class A, less applicable tax.

†After deducting extraordinary foreign exchange adjustments of $2,616,505 or $0.15 per share in 1971 and $2,230,381 or $0.13 per share in 1972.

‡Restated to include all subsidiaries and the Company's share of the earnings, or losses, of 50%-owned companies.

A SELECTION OF PRODUCTS MARKETED
IN CANADA OR THE UNITED STATES