Silverwood Industries Limited

1981 Annual Report

FINANCIAL HIGHLIGHTS

Year ended December 27, 1981 and December 28, 1980

	1981	1980
Sales	$482,440,302	$431,676,420
Net income for year	$ 717,496	$ 3,207,465
Earnings per Class "A" and "B" shares		
Net income for year	$ .53	$ 2.38
Dividends paid	$ 1,075,496	$ 873,839
Rate per Class "A" and "B" shares	$ .80	$ .65
Retained earnings re-invested in business to date	$ 26,328,076	$ 26,686,076
Shareholders' equity	$ 33,669,393	$ 34,027,393
Shares outstanding		
Class "A"	903,158	903,158
Class "B"	441,212	441,212
Equity per Class "A" and "B" shares	$ 25.04	$ 25.31
Funds from operations	$ 830,527	$ 11,461,700
Working capital	$ 6,558,617	$ 7,791,088

TO OUR SHAREHOLDERS:

On behalf of the Board of Directors of Silverwood Industries Limited, it is my privilege to report to you on the activities and financial affairs of your Company for the fiscal year 1981 comprising some 52 weeks ending December 27, 1981. This annual report is for the consolidated operations of Silverwood Industries Limited and its wholly-owned subsidiaries together with the Company's 33 percent interest in Hop-In Food Stores, Inc., Roanoke, Virginia which is included on an equity basis.

It is evident that for Silverwood Industries Limited and its shareholders 1981 was a year of disappointment. The 1981 fiscal year was dominated by the prolonged labour strike in the Toronto operations of the Silverwood Dairies Division causing severe operating losses which persisted through to year-end. The growing economic recession within Canada with increasing unemployment and high inflation caused a softening in sales growth and a pressure on margins in the convenience store and restaurant fields in Ontario and even more particularly in neighbouring Michigan.

These conditions were compounded by the breakout of a supermarket price war in Ontario in early November, 1981 which has yet to wane at the time of writing. With particular emphasis being placed on commodity goods prices by all major chains, the dairy foods market has been badly impacted by distortions in the distribution and sales patterns together with severely curtailed margins particularly at the retail level.

The year was dominated by soaring interest rates as they climbed to previously unknown highs. This fact has distorted the costs of borrowing and the financing of ongoing operations with increased costs of carrying accounts receivable and inventories.

Sales, Earnings Results

Consolidated sales of $482,440,302 for 1981 exceeded those of 1980 by $50,763,882 despite the major loss in sales due to the work stoppage in our Dairies Division in mid-1981 and consequent lost customers. An operating loss after taxes of ($3,481,973) or ($2.59) per share in 1981 compares with operating income after taxes of $3,207,465 or $2.38 per share for the same period in 1980. Consolidated net profit including extraordinary items in 1981 was $717,496 or 53¢ per share as compared with a consolidated net profit of $3,207,465 or $2.38 per share with no extraordinary items for the same period last year.

Asset Redeployment

The extraordinary income in 1981 consists of gains from the sale of two surplus properties in Toronto together with the divestment for cash of our fluid milk and ice cream processing and distribution operations in British Columbia. On Friday, December 19th, 1981, the dairy operations on the mainland of British Columbia centred in Vancouver were sold to Fraser Valley Milk Producers Association and on the same day our operations on Vancouver Island centred in Victoria were sold to Island Farms Dairies Co-Operative Association. Silverwood retained ownership of the dairy property in Victoria.

These divestments were initiated in mid-year by management in agreement with the Board of Directors in recognition of the decided change in the business and economic environment in Canada during early 1981. It was recognized that Silverwood, with its debt structure and forward commitments, was not well positioned to cope with the unexpectedly high inflation rates and consequent high interest rates that seemingly might be a part of the operating climate for a considerable period. Thus, a policy of asset redeployment was undertaken to ensure the financial stability and future growth of Silverwood.

Operating Performance

One must be concerned for the very significant losses incurred by the Ontario Division of Silverwood Dairies this past year, once the foundation and heart of Silverwood. We have described previously the massive restructuring that was being undertaken during latter 1980 and 1981 with the expectations that this division would emerge immeasureably stronger and as a major factor in the marketplace. Unfortunately, a seven-week shutdown of our major dairy production and distribution facilities in Toronto through June and July, at the peak of the reorganization, dealt a crippling blow to the plans and financial returns of that division for 1981.

It should be noted that Londonderry Distributors, being part of the same labour bargaining unit, was closed through the same period. Ice cream sales at the height of their season were reduced appreciably because of distribution difficulties. Regrettably, because of the highly competitive nature of the business, a portion of our dairy product customers did not return. Needless to say, progress on the restructuring program was badly delayed and it has taken several months to bring it back on-stream.

As so often happens, out of adversity comes a renewed vigour and determination to succeed. Although proof will be measured by the accomplishments of 1982, one can already sense in all sections of the people base at Dairies an attitude and resolve to manage their business and achieve their goals so as to provide a meaningful return to the corporate financial goals.

Although faced with these challenges in the dairy segment, one should be cognizant of the great success story within our Retail Group in 1981. While plagued with a badly deteriorating economic environment throughout Canada and the United States, the Retail Group has achieved real sales growth in excess of inflation and has improved its overall profit contribution.

Mac's Convenience Stores is the leading component in that group, once again aggressively expanding its store base by 45 net additions. However, severe unemployment conditions were prevalent in Southwestern Ontario in the latter half of the year causing a decline in sales growth, while the aforementioned supermarket price war curtailed operating margins towards year-end. Nevertheless, increased sales and store growth in Western Canada provided a stabilizing balance within the total organization.

Baskin-Robbins once again demonstrated its leadership in ice cream retailing adding 34 new stores for a total of 129 in operation in three provinces. We are anticipating significant growth by this organization in all three provinces in the future. The sale by Silverwood Dairies of its British Columbia facilities is not expected to impact the Baskin-Robbins operations in that province in any way.

On January 28, 1982, Silverwood Industries Limited and Hop-In Food Stores, Inc. jointly announced that the Board of Directors of Hop-In had accepted an offer made by USSIL Corporation, a wholly-owned United States subsidiary of Silverwood Industries Limited, to effect a merger between Hop-In and USSIL Corporation under the terms of which shareholders of Hop-In will receive U.S. $17 in cash per share of Hop-In common stock. The Hop-In Board of Directors has agreed to recommend approval of the merger to the Hop-In shareholders. The transaction is subject to the execution of a definitive merger agreement and the approval thereof by the shareholders of Hop-In other than USSIL Corporation.

This transaction, which we hope to complete later this spring, fulfills the commitments made to Hop-In Food Stores, Inc. when the initial purchase of 200,000 common shares from treasury stock was made in March, 1980. The expansion of our convenience store interests in the United States allows Silverwood to develop a totally new configuration within its operations. A great deal of emphasis has been placed these last few years on developing our retail opportunities across Canada in a growing market, and with this acquisition we expand those horizons materially.

Management

On October 1, 1981, Robert S. Maich, then Executive Vice-President, Retail Group, assumed additional operating responsibility with his appointment as Executive Vice-President, Silverwood Industries Limited. Thus, all operating Divisions are now directly responsible to him for the achievement of their operating and financial objectives.

Board of Directors

At the Annual Meeting of the Company on May 7, 1981, Gordon R. Carton, Q.C., Secretary and Vice-President, Legal and Corporate Affairs, was elected to our Board of Directors. At the same time, we regretfully report that J. Trevor Eyton, Q.C., President, Brascan Limited, did not stand for re-election.

Dividends

The Board of Directors of your Company at its meeting on Wednesday, February 24th, 1982, deemed it prudent to reduce the quarterly dividend in recognition of the current operating results of the Company. Accordingly, a quarterly dividend of 15¢ per share has been declared on the outstanding Class "A" and Class "B" shares of the Corporation, payable April 1, 1982, to shareholders of record as at the close of business on March 6, 1982.

1982 Outlook

Although the economic outlook for most markets within which Silverwood Industries operates is at best uncertain through 1982, significant profitable growth is expected from Mac's Convenience Stores Inc., Baskin-Robbins Ice Cream Stores, and Hop-In Food Stores, Inc.

A substantial turnaround in the Silverwood Dairies Division is currently underway which will alleviate to a very significant degree the negative drain on consolidated profitability experienced in 1981.

The Three Crowns and FarrView operations are being managed in a holding posture; an upturn in the economic environmental conditions is required to provide a more buoyant opportunity for growth. Vigorous efforts have already been undertaken to control costs and strengthen the sales base in both operations.

On balance, 1982 is likely to provide a most difficult and challenging North American business operating environment. However, the various divisions have assessed these challenges and have plans in place to generate significant improvements in operating performance. It is anticipated that these efforts will bring about a return to operating profitability within Silverwood Industries Limited.

Eric F. Lindsay

Chairman of the Board
President & Chief Executive Officer

Retail Operations

Mac's Convenience Stores, Inc.-Mac's achieved record sales of $251.8 million reflecting a 15.1% increase over 1980 sales levels in spite of the negative impact of a generally soft economic environment throughout much of 1981, principally in Ontario, the June/July Silverwood Dairies strike, and the Ontario food retail price war initiated in November 1981.

In the face of significant external negative factors, the company's 1981 profit was only marginally improved over the 1980 profit record.

Mac's ended the year with 701 stores operating in Quebec, Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia; 86 new locations were opened, 41 units were closed, for a net increase of 45 stores for the fiscal year.

FarrView Limited-The extreme economic recession in the automotive-related Michigan marketplace was the single most significant factor affecting FarrView's performance in 1981.

Sales in 1981 of $14.1 million from the 34 FarrView convenience stores reflected only marginal growth above 1980 sales levels. Static sales performance, combined with the effects of inflation on costs of operation, generated an operating loss for the year.

Baskin-Robbins Ice Cream-Expansion of this division's franchise store program continued with 129 units in operation at year-end in the provinces of Ontario, Québec, and British Columbia.

The opening of 34 new stores during 1981 resulted in a total of 109 operating units in Ontario, 7 in Quebec and 13 in British Columbia. This reflects the continued consumer acceptance of the Baskin-Robbins specialty ice cream retailing concept.

Retail sales of franchise dealers approximated $18 million in 1981, representing an overall sales increase of about 49.6% versus 1980.

Hop-In Food Stores, Inc.-This convenience store chain, operating in Virginia, North Carolina and Tennessee, substantially improved its market position through calendar year 1981. Total sales increased 32.3% from $72,616,000 (Canadian) to $96,091,000 (Canadian).

Of the 158 stores in operation at year-end, 133 also retail self-service gasoline.

The full net benefit of the business building programs initiated in 1981 is expected to be reflected more significantly in Hop-In's profitability through 1982. In light of the company's performance, we continue to view the developing relationship with Hop-In as a dynamic and sound basis for future growth in the United States marketplace.

Three Crowns Restaurants-The two Three Crowns Restaurants achieved 1981 sales of $3,015,000, up 12.9% from $2,670,000 in 1980.

General recessionary factors have impacted the restaurant industry as a whole, and have limited the growth of Three Crowns Restaurants accordingly.

Processing Operations

Londonderry Distributors-As a significant processor and supplier of private label and generic juices, Londonderry achieved 1981 sales of $4.3 million, down 7.5% from 1980. This sales decline reflects the impact of the mid-year 1981 work stoppage in the Toronto area.

Silverwood Dairies-Sales for 1981 of $231.3 million reflected a 7.8% increase over prior year levels. Sales growth was severely impacted by a variety of factors, most significantly the mid-year dairy plant strike centred in the Toronto area. This strike not only blunted sales progress for the company but was a major contributing factor to a substantial operating loss for the year.

Underlying such extraordinary and hopefully non-recurring factors was some significant strengthening of the dairy division through the attainment of substantial supermarket business during the latter half of 1981.

With the sale of dairy operations in the province of British Columbia, Silverwood Dairies ended the year with processing and distribution facilities active in the provinces of Ontario and Manitoba.

FINANCIAL YEAR IN REVIEW

The 1981 fiscal year of Silverwood Industries Limited and its subsidiaries comprises 52 weeks ended December 27, 1981.

Net income in 1981 was $717,496 or $0.53 per share, after reflecting extraordinary items of $4,199,469 and an operating loss of $3,481,973 ($2.59 per share). This compares with operating earnings of $3,207,465 or $2.38 per share in 1980. There were no extraordinary items in 1980. The results of operations on a segmented basis are shown on the Statement below.

Extraordinary items of $4,199,469 resulted primarily from gains on sale of dairy assets and operations in British Columbia but also included disposal of discontinued facilities in Ontario.

Sales increases were achieved in all divisions to provide a consolidated total of $482,440,302 in 1981, an increase of $50,763,882 over 1980. Cost of sales as a percentage of sales at 76.0 percent was approximately the same as in 1980 but selling, general and administrative expenses increased by approximately two percent to 22.2 percent in 1981. The increase in depreciation of $2.9 million during 1981 to $7,972,500 reflects the first full year of depreciation and amortization of assets acquired in 1980. Silverwood Industries' one-third ownership of Hop-In Food Stores, Inc. was accounted for on an equity basis throughout 1981.

Capital Expenditures
Total fixed asset additions in 1981 of $19.7 million represents an increase of $7.8 million over 1980 additions of $11.9 million. The Retail Group accounted for $8.6 million of the 1981 additions primarily representing new stores and equipment but also including capital for continuation of the Mac's Snacks fast food program. The Dairies Division had additions of approximately $11.1 million which included $6.9 million for the purchase of the land and buildings of the Toronto Don Mills dairy plant. The balance was for new and replacement dairy plant equipment.

Balance Sheet Position
Total assets increased from $125,450,910 in 1980 to $133,682,867 in 1981. The Retail Group and the Food Processing Group both contributed to this increase but the Retail Group, with an increase of $6.9 million, accounted for the major portion. Dairy assets were reduced near year-end by the previously mentioned sale of British Columbia assets. Long term debt showed a net increase of $9.2 million during the year to $42.7 million at year-end 1981. This included mortgage financing of the acquired Don Mills property. This new financing, together with lower net income in 1981, was the primary cause of a higher debt to equity ratio at 1981 year-end. Working capital decreased in 1981 by $1,232,471 to $6,558,617 at December 27, 1981.

STATEMENT OF SEGMENTED INFORMATION

Year ended December 27, 1981
(with comparative amounts for the year ended December 28, 1980) (000's)

	Food Processing Group		Retail Group		Elimination		Consolidation	
	1981	1980	**1981**	1980	**1981**	1980	**1981**	1980
Sales to customers outside the enterprise	**$213,463**	$196,443	**$268,977**	$235,233			**$482,440**	$431,676
Intersegment sales	**23,386**	22,714			**$(23,386)**	$(22,714)		
Total revenue	**$236,849**	$219,157	**$268,977**	$235,233	**$(23,386)**	$(22,714)	**$482,440**	$431,676
Segment operating profit (loss)	**$ (5,736)**	$ 3,408	**$ 8,728**	$ 8,275			**$ 2,992**	$ 11,683
General corporate expenses							**$ 2,230**	$ 2,148
Interest expense							**7,881**	3,767
Income tax							**(3,639)**	2,761
Share of Net (Income) Loss of Hop-In Food Stores, Inc.							**2**	(200)
Extraordinary items							**(4,199)**	
							$ 2,275	$ 8,476
Net income for year							**$ 717**	$ 3,207
Total assets	**$ 78,028**	$ 76,664	**$ 57,435**	$ 51,538	**$ (1,780)**	$ (2,751)	**$133,683**	$125,451
Depreciation and amortization	**$ 4,994**	$ 2,632	**$ 2,978**	$ 2,374			**$ 7,972**	$ 5,006
Fixed Asset additions	**$ 11,113**	$ 4,417	**$ 8,599**	$ 7,452			**$ 19,712**	$ 11,869

Description of business
The Food Processing Group segment derives its revenue from the processing and sale of milk, ice cream, dairy related products and citrus juices and drinks.

The Retail Group segment derives its revenue from retail sales of grocery, confectionery, fast food items and restaurant sales.

CONSOLIDATED BALANCE SHEET

December 27, 1981
(with comparative amounts at December 28, 1980)

	1981	1980
Assets		
Current:		
Cash	$ 340,199	$ 301,703
Marketable securities	750,000	750,000
Accounts receivable	28,816,590	29,343,117
Inventories (note 2)	29,669,263	28,801,533
Prepaid expenses	1,607,751	1,190,073
Total current assets	61,183,803	60,386,426
Investment in Hop-In Food Stores, Inc. (note 12)	3,353,273	3,412,827
Land, buildings and equipment held for sale	86,132	509,273
Fixed assets (note 3)	57,766,298	50,203,747
Deferred receivables and other assets	2,531,993	1,524,383
Goodwill	5,634,409	5,697,442
Deferred expenses	3,126,959	3,716,812
	11,293,361	10,938,637
	$133,682,867	$125,450,910
Liabilities and Shareholders' Equity		
Current:		
Due to bankers (accounts receivable and inventories pledged as security)	$ 4,114,268	$ 6,426,580
Accounts payable and accrued charges	47,860,812	43,656,020
Dividends declared	268,794	268,794
Current portion of long-term debt (note 4(a))	1,319,345	1,291,021
Current portion of obligations under capital lease	1,061,967	952,923
Total current liabilities	54,625,186	52,595,338
Long-term debt (notes 4(a) and 6)	35,862,685	28,652,277
Obligations under capital lease (note 4(b))	6,867,306	4,871,701
	42,729,991	33,523,978
Deferred income taxes	2,608,400	5,245,400
Deferred foreign exchange gain	49,897	58,801
Shareholders' equity:		
Capital stock (note 5)	7,341,317	7,341,317
Retained earnings (note 6)	26,328,076	26,686,076
Total shareholders' equity	33,669,393	34,027,393
	$133,682,867	$125,450,910

On behalf of the Board

Eric S. Findlay

Director

Gordon R. Carton

Director

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

Year ended December 27, 1981
(with comparative amounts for the year ended December 28, 1980)

	1981	1980
Sales	$482,440,302	$431,676,420
Less:		
Cost of sales	366,677,509	329,594,366
Selling, administrative and general expenses	107,027,789	87,540,562
Depreciation and amortization (note 9(a))	7,972,500	5,006,435
Interest (note 9(b))	7,881,043	3,766,882
	489,558,841	425,908,245
Income (loss) before taxes	(7,118,539)	5,768,175
Taxes on income (note 8):		
Current	21,000	24,000
Deferred	(3,660,000)	2,736,800
	(3,639,000)	2,760,800
Income (loss) before the following	(3,479,539)	3,007,375
Share of net income (loss) of Hop-In Food Stores, Inc.	(2,434)	200,090
Income (loss) before extraordinary items	(3,481,973)	3,207,465
Extraordinary items (note 10)	4,199,469	
Net income for year	$ 717,496	$ 3,207,465
Earnings per Class "A" and "B" shares:		
Income (loss) before extraordinary items	$(2.59)	$2.38
Net income for year	$ .53	$2.38

TEN YEAR COMPARATIVE SUMMARY

	1981	1980	1979
Sales	$482,440,302	431,676,420	315,427,884
Income (loss) before extraordinary items	$ (3,481,973)	3,207,465	2,982,629
Net income for year	$ 717,496	3,207,465	2,982,629
Income for each Class "A" and "B" share before extraordinary item	$ (2.59)	2.38	2.22
Net income for each Class "A" and "B" share for year	$ .53	2.38	2.22
Dividends	$ 1,075,496	873,839	806,620
Per Class "A" share	$ .80	.65	.60
Per Class "B" share	$ .80	.65	.60
Percentage of consolidated earnings paid in dividends	149.9%	27.2%	27.0%
Earnings re-invested in the business	$ (358,000)	2,333,626	2,176,009
Percentage of earnings re-invested in the business	(49.9%)	72.8%	73.0%
Capital invested			
Long-term debt	$ 42,729,991	33,523,978	13,837,888
Shareholders' equity	$ 33,669,393	34,027,393	31,693,767
Total	$ 76,399,384	67,551,371	45,531,655
Percentage of shareholders' equity to total investment	44.1%	50.4%	69.6%
Shareholders' equity per share	$ 25.04	25.31	23.58
Working capital	$ 6,558,617	7,791,088	7,176,820

1978-1981-Fifty-two weeks ended approximately the end of December in each year
1977-Fifty-three weeks ended January 1, 1978
1972-1976-Fifty-two weeks ended approximately the end of December in each year
* Restated for capital leasing

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 27, 1981
(with comparative amounts for the year ended December 28, 1980)

	1981	1980
Balance, beginning of year	**$26,686,076**	$24,352,450
Add net income for year	**717,496**	3,207,465
	27,403,572	27,559,915
Deduct:		
Dividends declared (80¢ per share in 1981 and 65¢ per share in 1980)–		
Class "A"	**722,526**	587,052
Class "B"	**352,970**	286,787
	1,075,496	873,839
Balance, end of year	**$26,328,076**	$26,686,076

See accompanying notes

1978	1977	1976	1975	1974	1973	1972
294,341,803	265,866,529	238,234,978	261,326,735	229,080,262	189,207,993	172,001,680
1,518,558*	561,926	559,057	1,881,886	1,354,921	2,204,189	1,247,582
1,518,558*	2,086,126	2,153,708	2,306,639	1,645,750	2,452,100	1,762,700
1.13	.42	.42	1.40	1.01	1.64	.93
1.13	1.55	1.60	1.72	1.22	1.82	1.31
806,620	806,620	1,008,277	1,075,496	1,075,496	1,075,496	1,075,496
.60	.60	.75	.80	.80	.80	.80
.60	.60	.75	.80	.80	.80	.80
53.1%	38.7%	46.8%	46.6%	65.3%	43.9%	61.0%
711,938*	1,279,506	1,145,431	1,231,143	570,254	1,376,604	687,204
46.9%	61.3%	53.2%	53.4%	34.7%	56.1%	39.0%
15,421,672*	14,212,419	14,903,941	13,440,267	13,149,557	12,104,719	12,684,757
29,517,758*	28,825,893	27,546,387	26,400,956	25,169,813	24,599,559	23,222,955
44,939,430*	43,038,312	42,450,328	39,841,223	38,319,370	36,704,278	35,907,712
65.7%	67.0%	64.9%	66.3%	65.7%	67.0%	64.6%
21.96	21.44	20.49	19.64	18.72	18.30	17.27
7,032,015*	6,710,906	8,179,863	5,110,055	2,671,837	3,339,964	3,929,331

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 27, 1981
(with comparative amounts for the year ended December 28, 1980)

	1981	1980
Source of working capital:		
Operations-		
Consisting of:		
Net income (loss) for year before extraordinary items	$ (3,481,973)	$ 3,207,465
Add (deduct) items not affecting working capital:		
Depreciation and amortization	7,972,500	5,006,435
Deferred income taxes	(3,660,000)	3,247,800
Working capital provided from operations	830,527	11,461,700
Net proceeds on disposal of fixed assets and business (including 1981 extraordinary items and land, buildings and equipment held for sale, net of $610,000 mortgage receivable due December 20, 1986)	9,999,589	639,799
Proceeds from issuance of long-term debt	2,241,196	12,721,039
Deferred foreign exchange gain (loss)	(8,904)	58,801
Dividends from Hop-In Food Stores, Inc.	57,120	43,200
	13,119,528	24,924,539
Application of working capital:		
Additions to fixed assets-owned	15,954,848	10,620,854
-leased	3,756,673	1,247,941
	19,711,521	11,868,795
Less portion financed by:		
-obligations under capital lease	3,756,673	1,247,941
-long-term debt	6,800,000	
	9,154,848	10,620,854
Repayment of long-term debt	2,001,804	2,151,064
Repayment of obligations under capital lease	1,590,052	992,342
Dividends to shareholders	1,075,496	873,839
Increase in deferred receivables and other assets	397,610	339,372
Increase in deferred expenses	134,623	3,540,312
Purchase of fixed assets under acquisition agreements net of long-term financing		1,451,920
Investment in Hop-In Food Stores, Inc.		3,255,937
Share of net income (loss) of Hop-In Food Stores, Inc.	(2,434)	200,090
Acquisition of FarrView Limited, plus working capital deficiency of $238,604		809,540
Purchase of goodwill		75,001
	14,351,999	24,310,271
Increase (decrease) in working capital	(1,232,471)	614,268
Working capital, beginning of year	7,791,088	7,176,820
Working capital, end of year	$ 6,558,617	$ 7,791,088
Represented by:		
Current assets	$61,183,803	$60,386,426
Current liabilities	54,625,186	52,595,338
Working capital	$ 6,558,617	$ 7,791,088

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 27, 1981

1. Summary of significant accounting policies

The consolidated financial statements present the financial position, results of operations and changes in financial position of the company in accordance with generally accepted accounting principles applied on a consistent basis. The more important accounting policies are summarized as follows:

(a) Principles of consolidation-The consolidated financial statements include the accounts of all subsidiary companies. Intercompany accounts and transactions have been eliminated.

The results of operations of all subsidiaries are included only from the dates of their respective acquisitions.

The investment in Hop-In Food Stores, Inc. is accounted for using the equity method, by which the original cost of the shares is adjusted for the company's share of net income less dividends received.

(b) Definition of fiscal year-The fiscal year of Silverwood Industries Limited for 1981 ended on December 27, and for 1980 on December 28 with each fiscal year comprising 52 weeks.

(c) Inventories-Inventories are valued at the lower of cost and estimated net realizable value. Cost is determined by the retail method (retail price less normal margin) for convenience stores' inventories and the first-in, first-out method for dairy division and supplies inventories.

(d) Marketable securities-Marketable securities are carried at cost. Approximate market values are $647,000 at December 27, 1981 and $624,000 at December 28, 1980.

(e) Land, buildings and equipment held for sale-Discontinued facilities held for sale are carried at the lower of cost less accumulated depreciation or estimated realizable value and are shown as a separate item in the balance sheet.

(f) Fixed assets-Fixed assets are carried at cost. Depreciation and amortization are provided on a straight-line basis using rates that will charge operations with the cost of these assets over their estimated useful lives. When fixed assets are sold, the related cost and accumulated depreciation or amortization are removed from the respective accounts and any profit or loss is reflected in the consolidated statement of income. Expenditures for repairs and maintenance are charged to income as incurred. The depreciation and amortization periods are as follows:

Buildings	20-50 years
Machinery and equipment	3-10 years
Merchandising equipment	10-12 years
Delivery equipment	7 years
Leasehold improvements	term of lease

(g) Leases-Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred. Assets recorded under capital leases are amortized on the same straight-line method described in (f) above.

(h) Goodwill-Goodwill includes amounts arising from the excess of purchase price of subsidiaries over the fair market value of the underlying assets and purchased goodwill.

Goodwill acquired prior to January 1, 1974, is carried at cost, less net proceeds from any disposals. Pre-1974 goodwill has been allocated by management to certain geographic areas. The net proceeds on disposal of goodwill reduce first the cost of goodwill in the related geographic area, then any proceeds in excess of cost are accounted for as an extraordinary item in the income statement.

Goodwill acquired after December 31, 1973 is being amortized on a straight-line basis over periods of five to ten years.

(i) Deferred income taxes-The company follows the tax allocation method of accounting. The deferrals arise substantially from the company claiming capital cost allowance and deferred expenses for income tax purposes in excess of depreciation and amortization charged to consolidated income.

(j) Deferred expenses-Deferred expenses consist of the following:

(i) Expenses incurred in connection with the issue of and amendments to the sinking fund debentures Series A and in connection with the issue of the floating rate redeemable debentures are capitalized in the accounts and amortized on a straight-line basis over the term of the debenture issues.

(ii) Expenses incurred in connection with an amalgamation in 1980 are capitalized in the accounts and amortized on a straight-line basis over five years.

(iii) Expenses incurred in connection with the integration of the Borden operations are capitalized in the accounts and are amortized on a straight-line basis over five years.

(k) Foreign currency translation-At December 27, 1981 all assets and liabilities of FarrView Limited, a wholly-owned subsidiary, and Hop-In Food Stores, Inc. an equity-accounted investment, are translated at the year-end rate of $.84 U.S. = $1.00 CDN. Revenue and expenses are translated at the average rates of exchange for the year. Gains or losses which result from translation are deferred on the balance sheet and amortized on a straight-line basis over five years.

2. Inventories

Inventory values are as follows:

	1981	1980
Convenience stores	**$18,655,231**	$15,809,195
Dairy division	**3,272,774**	3,644,405
Supplies	**7,741,258**	9,347,933
	$29,669,263	$28,801,533

3. Fixed assets

The major categories of fixed assets are as follows:

1981	Owned	Leased	Total
Land	$ 6,536,799		$ 6,536,799
Buildings	15,012,896		15,012,896
Machinery and equipment	19,342,446	$2,453,457	21,795,903
Merchandising equipment	32,924,507	4,352,410	37,276,917
Delivery equipment	5,789,650	4,444,287	10,233,937
Leasehold improvements	8,855,136	377,649	9,232,785
	88,461,434	11,627,803	100,089,237
Less accumulated depreciation and amortization	38,687,828	3,635,111	42,322,939
Net book value	$49,773,606	$7,992,692	$57,766,298

1980	Owned	Leased	Total
Land	$ 2,544,772		$ 2,544,772
Buildings	12,954,674		12,954,674
Machinery and equipment	19,737,282	$1,685,310	21,422,592
Merchandising equipment	31,109,735	1,991,124	33,100,859
Delivery equipment	6,397,280	5,098,623	11,495,903
Leasehold improvements	8,564,932		8,564,932
	81,308,675	8,775,057	90,083,732
Less accumulated depreciation and amortization	37,194,391	2,685,594	39,879,985
Net book value	$44,114,284	$6,089,463	$50,203,747

4. Long-term debt and obligations under capital lease

(a) Long-term debt–The details of long-term debt are as follows:

	1981	1980
Term notes payable to bankers:		
Prime plus 1/2%-1 1/2% due 1982 to 1990	*$12,371,000	$ 3,626,500
Other term notes payable at 6%-9% due 1982 to 1984	*200,724	412,374
10 1/2% note payable to The Borden Company, Limited due January 1, 1983 repayable in quarterly payments of $254,232	*1,272,215	2,288,104
8% sinking fund debentures Series A, due July 5, 1986 (sinking fund payment of $400,000 per annum)	**3,973,000	4,295,000
Floating rate redeemable debentures at prime plus 1/4% interest, due February 22, 2000	***16,500,000	16,500,000
6%-14 1/4% mortgages payable	2,635,363	2,624,357
Lease deposits	229,728	196,963
	37,182,030	29,943,298
Less portion due within one year included in current liabilities net of debentures redeemed in advance	1,319,345	1,291,021
	$35,862,685	$28,652,277

Aggregate non-current maturities and sinking fund requirements are as follows:

Year ended	Amount
January 1, 1984	$ 4,790,085
December 30, 1984	2,376,616
December 29, 1985	1,125,827
December 28, 1986	4,036,653
Subsequent years	23,533,504
	$35,862,685

*The assets of two subsidiary companies (subject to first mortgages thereon) are pledged under floating charge debentures as security for term notes of these subsidiaries totalling $13,843,939.

** Security for the sinking fund debentures Series A includes an assignment of a first floating charge on the assets of the parent company and a specific charge on its real property.

***Security for the floating rate redeemable debentures includes a floating charge on all the assets of the company subject to and subordinated to prior charges of the Series A debenture holders and subject to mortgages on certain properties and all assets under capital lease.

The floating rate redeemable debentures are subject to the following repayment terms:

(i) Repayments of amounts not exceeding $10,000,000 in aggregate are permitted between February 22, 1982 and February 22, 1983.

(ii) Repayments of amounts are permitted after February 22, 1983, provided that each payment is not less than $500,000 with provision for additional amounts in $100,000 increments.

(iii) Sinking fund repayments are required at the rate of 7 1/2% of the balance outstanding on December 31, 1987 for each year from 1988 to 1999 inclusive with the balance due in year 2000.

(b) Obligations under capital lease–Non-current maturities of these obligations are as follows:

January 1, 1984	2,043,633
December 30, 1984	1,914,813
December 29, 1985	1,898,944
December 28, 1986	1,615,375
Subsequent years to 1991	4,578,607
	12,051,372
Less imputed interest	5,184,066
	$ 6,867,306

These obligations are due at various dates up to 1991 with imputed annual interest rates varying from 6.24% to 22.87%.

5. Capital stock

The details of the capital stock for 1981 and 1980 are set out below:

Class "A" shares without par value, non-voting except in restricted circumstances, entitled to cumulative, preferential dividends of 60¢ per share per annum payable quarterly, and after the Class "B" shares have received 60¢ per share in any one year to further participation rateably with Class "B" shares; entitled in liquidation to a priority of $15 per share.

Class "B" shares without par value.

	Class "A"	Class "B"	
Authorized	1,000,000 shares	500,000 shares	
Issued	903,158 shares	441,212 shares	$7,341,317

6. Restrictions on payment of dividends

Under the provisions of the Trust Indentures securing the 8% sinking fund debentures Series A and the floating rate redeemable debentures, the company cannot declare or pay dividends under certain circumstances, other than stock dividends and dividends at the rate of 60¢ per share per annum on the outstanding Class "A" shares of the company.

The company is in compliance with the covenants of both the Series A Trust Indenture and the Floating Rate Trust Indenture.

7. Operating lease agreements and commitments

(a) Operating lease agreements–Silverwood Industries Limited and its subsidiary companies have entered into agreements to lease equipment and properties for various periods up to 2001 at total maximum aggregate net rentals of approximately $102,762,862. Minimum annual net rentals which will be charged to consolidated operations in the ordinary course of business in subsequent years for leases in effect at December 27, 1981 are as follows:

December 26, 1982	$16,241,994
January 1, 1984	14,981,269
December 30, 1984	13,986,016
December 29, 1985	13,017,110
December 28, 1986	11,882,197

Certain of these leases provide for additional rent based on sales.

(b) Pensions–The actuaries have advised the company that there is no unfunded liability at December 27, 1981. Current service costs are funded and charged to operations as they accrue.

8. Taxes on income

Taxes on income have been reduced by $360,000 in 1981 and by $300,000 in 1980 by claiming the 3% inventory allowance as permitted under the Income Tax Act, Canada.

9. Statutory and other information

(a) Depreciation and amortization–Depreciation and amortization includes charges to income for the following:

	1981	1980
Fixed assets–		
Owned	$5,838,541	$4,067,007
Leased	1,346,450	800,517
Deferred expenses	724,476	64,588
Goodwill	63,033	74,323
	$7,972,500	$5,006,435

(b) Interest expense–Interest expense includes the following charges (credits) to income:

	1981	1980
Long-term debt	$5,081,148	$2,739,671
Obligations under capital lease	882,401	587,484
Short-term debt	2,082,722	503,344
Interest income from deposits and investments	(165,228)	(63,617)
	$7,881,043	$3,766,882

10. Extraordinary items

The extraordinary items consist of gains on sale of dairy assets and operations in British Columbia and discontinued facilities less applicable deferred income taxes of $1,023,000.

11. Comparative figures

Certain of the 1980 amounts in the accompanying financial statements have been reclassified in order to conform with the presentation adopted for the 1981 financial statements.

12. Subsequent event

On March 27, 1980 USSIL Corporation, a wholly-owned United States subsidiary of the company, acquired for $3,255,937 cash, 200,000 common shares from the treasury stock of Hop-In Food Stores, Inc., being approximately 33% of the issued shares of that company.

On January 8, 1982 USSIL Corporation made an offer to the Board of Directors of Hop-In to acquire the remaining 401,700 issued and outstanding common shares of Hop-In at $17 U.S. in cash per share. The offer has been accepted by the Board of Directors of Hop-In and is now subject to the following:

(i) execution of a Merger Agreement and approval thereof by the Boards of Directors of Hop-In and Silverwood Industries Limited.

(ii) approval by the shareholders of Hop-In.

The proposed purchase for the balance of shares in Hop-In is to be financed by bank indebtedness of $4,600,000 U.S. (payable over a four year term) and cash of $2,400,000 U.S.

AUDITORS' REPORT

To the Shareholders of
Silverwood Industries Limited:

We have examined the consolidated balance sheet of Silverwood Industries Limited as at December 27, 1981 and the consolidated statements of income and retained earnings, changes in financial position and segmented information for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 27, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 24, 1982.

Clarkson Gordon
Chartered Accountants

DIRECTORS AND OFFICERS

DIRECTORS

W.I. Barton†
Victoria, B.C.

G.M. Carlyle
President
The Quest for Handcrafts
Canada Ltd.
Calgary, Alberta

G.R. Carton, Q.C.
Toronto, Ontario

Eric F. Findlay*†
Toronto, Ontario

Robert S. Maich
Toronto, Ontario

R.G. Pardy†
London, Ontario

W.P. Pigott*
President
Pigott Construction Limited
Hamilton, Ontario

W. Sagain
Toronto, Ontario

W.A. Stewart†
London, Ontario

J. Allyn Taylor*†
Honorary Chairman
The Canada Trust Company
London, Ontario

Donald H. Thain*†
Professor, School of Business
Administration
University of Western
Ontario
London, Ontario

David B. Weldon*†
Chairman of the Board
Midland Doherty Limited
Toronto, Ontario

HONORARY DIRECTORS

A.E. Lawrence, Sr.
London, Ontario

H.T. Spettigue
London, Ontario

C.L. Tulloch
London, Ontario

OFFICERS

Eric F. Findlay
Chairman of the Board
President and Chief
Executive Officer

R.S. Maich
Executive Vice-President

R.G. Pardy
Vice-President Finance

W. Sagain
Vice-President
Corporate Development

G.R. Carton, Q.C.
General Counsel,
Secretary and Vice-
President Legal and
Corporate Affairs

D.A. Pettit
Treasurer

B.L. Schemmer (Mrs.)
Assistant Secretary and
Associate General Counsel

A.E. Lawrence, Jr.
Assistant Treasurer

R.C. Ferguson
Controller

*Audit Committee
†Executive Committee

OPERATING DIVISIONS

MAC'S CONVENIENCE STORES INC.
Scarborough, Ontario

R.S. Maich
President

R.F. Egerdie
Executive Vice-President

J. DeWit
Vice-President
Eastern Region

R.C. Broadhead
Vice-President
Marketing & Merchandising

B.J. Livingston
Vice-President Real Estate

K.F. Sanford
Treasurer

R.M. Smith
General Manager
Western Region

BASKIN-ROBBINS 31 FLAVOUR ICE CREAM STORES
Toronto, Ontario

C.F. Findlay
Canadian Director

K.M. Hammond
Controller

N.W. Sanderson
Manager, Administration

FARRVIEW LIMITED
Flint, Michigan

J. DeWit
President

C.A. Androsky
Controller-Administrator

K.F. Sanford
Secretary-Treasurer

RESEARCH AND DEVELOPMENT
London, Ontario

P. Melnychyn, Ph.D.
Director

LONDONDERRY DISTRIBUTORS INC.
Toronto, Ontario

W.L. Wilson
Vice-President and
General Manager

J.W. Payne
Accountant

D.T. Sansone
Production Manager

THREE CROWNS RESTAURANTS
Toronto, Ontario

R.S. Maich
President

J.D. Stewart
Senior Manager

SILVERWOOD DAIRIES LIMITED
Mississauga, Ontario

M.E. Duffy
President

W.W. Pascoe
Senior Vice-President and
General Manager
Ontario Dairy Operations

A.C. Denny
Vice-President
Finance & Planning

D.E. Coe
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The Canada Trust Company
Toronto, Calgary &
Vancouver

AUDITORS
Clarkson Gordon
Chartered Accountants
Toronto, Ontario

ANNUAL MEETING
May 6, 1982-2:00 p.m.
London, Canada