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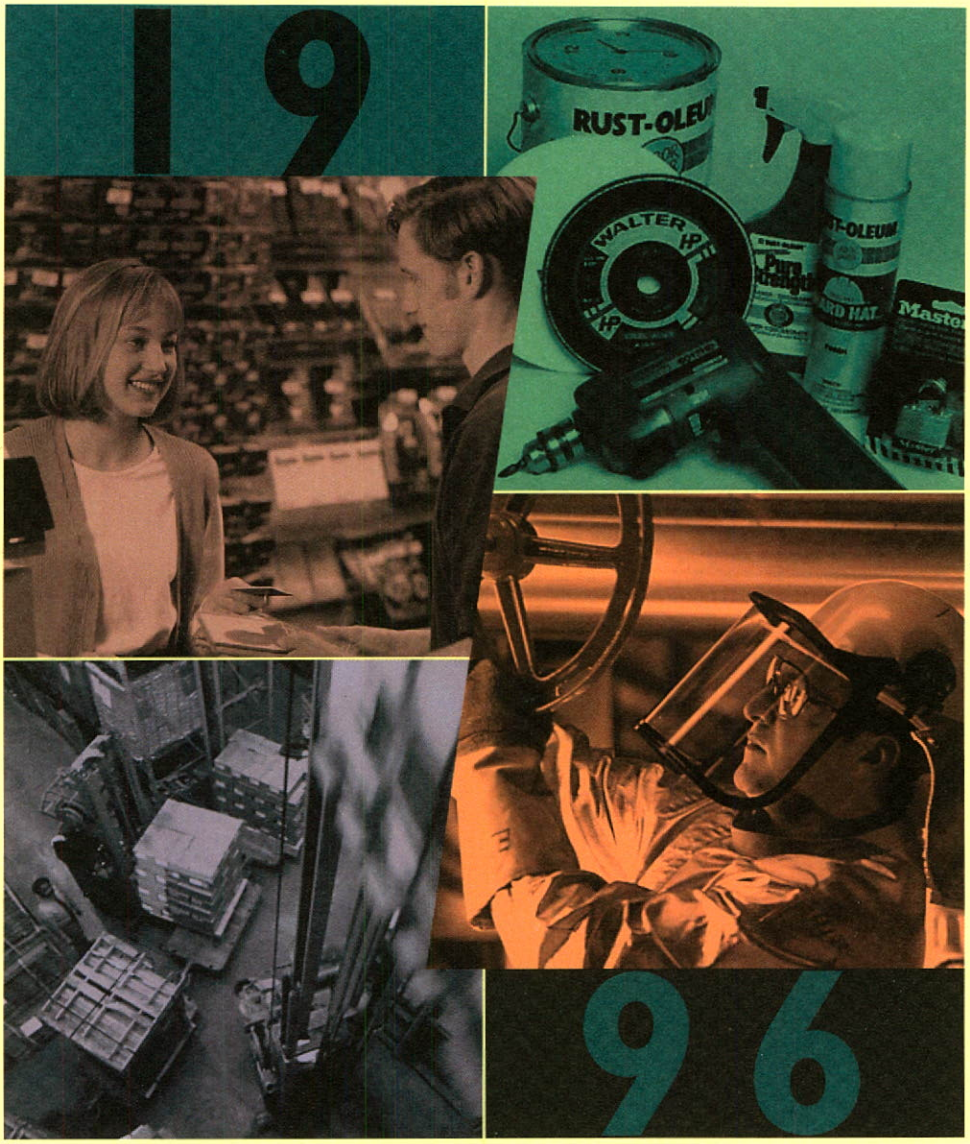
ACKLANDS LIMITED



1996 Annual Report

Acklands

Acklands

ACKLANDS LIMITED IS A **GROWTH COMPANY**, DISTRIBUTING INDUSTRIAL, AUTOMOTIVE AND SAFETY PRODUCTS IN NORTH AMERICA. **WE ARE COMMITTED, AS A TEAM**, TO BE A FINANCIALLY SOUND ORGANIZATION PROVIDING QUALITY PRODUCTS AND SERVICES, **RESPONSIVE TO THE NEEDS OF OUR CUSTOMERS**.

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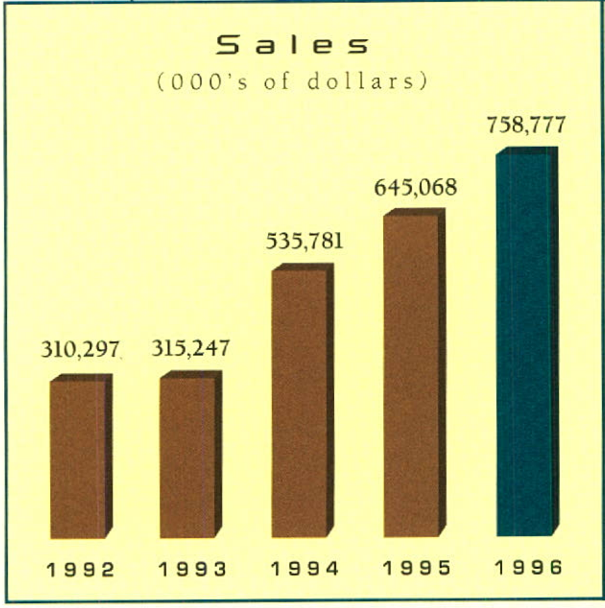
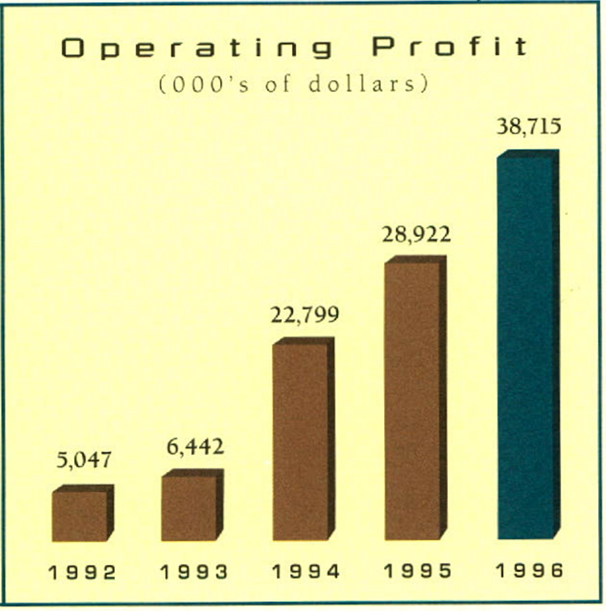
THE ANNUAL MEETING OF SHAREHOLDERS OF ACKLANDS LIMITED WILL BE HELD ON WEDNESDAY, JUNE 12, 1996 AT 4:30 P.M. IN THE TORONTO III BALLROOM AT THE TORONTO HILTON HOTEL, 145 RICHMOND STREET WEST, TORONTO, ONTARIO.

Financial Highlights

YEARS ENDED JANUARY 31	1996	1995
Sales	$ 758,777,000	$ 645,068,000
Earnings before income taxes	32,679,000	25,780,000
Net earnings	17,025,000	21,645,000
Net earnings per common share		
- Basic	0.96	1.25
- Fully diluted	0.93	1.22
Shareholders' equity	216,772,000	191,624,000
Equity per common share	12.06	11.05
Total Assets	426,728,000	352,078,000





Chairman's Report to Shareholders

The Acklands organization is committed to building value for our shareholders. To be successful, we must continue to grow the organization and execute our business plan for continuous improvement in our operating units. During Fiscal 1996, we succeeded in meeting these objectives and maintaining a financially sound organization.

Net earnings were $17.0 million and $0.96 per common share compared with $21.6 million and $1.25 in Fiscal 1995. Significantly, pre-tax earnings of $32.7 million were 27% ahead of the prior year and cash flow from operations improved by 58% to $16.7 million.

Fiscal 1996 was an active year for corporate development with six strategic businesses acquired by Acklands for an aggregate consideration of $34.2 million. Auto Point Inc. was the largest acquisition during the year and solidifies the Company's position as a leader in the automotive aftermarket in the province of Quebec. In addition, the purchase of City Industrial Sales Corporation during the Third Quarter enables us to satisfy specialized industrial demand for hydraulic parts and services, and offers truly exciting prospects for expansion. Both of these operations have been integrated into the Acklands core business units and are contributing to our growth objectives.

CORPORATE DEVELOPMENT IS A KEY PROGRAM FOR ACKLANDS. EACH YEAR, THE ORGANIZATION HAS IDENTIFIED A NUMBER OF TACTICAL INVESTMENTS WHICH REQUIRE RELATIVELY LOW AMOUNTS OF CAPITAL AND PROVIDE IMMEDIATE IMPROVEMENTS IN PROFITABILITY AS THEY ARE INTEGRATED INTO EXISTING OPERATIONS.

In addition, we approved capital expenditures of $8.8 million with a significant proportion of this being invested to modernize the infrastructure and systems in the automotive division.

We have successfully moved through periods of transition in our businesses as markets change and competitive challenges arise. Over the past five years, this has required extensive restructuring, considerable refocusing, enhancement of our established products and services, unique marketing programs, and higher levels of investment in products and infrastructure to meet the demands of our customers. The benefit of these initiatives is clearly evident in the performance of the industrial business where change has produced new approaches to the market, with considerable impact on profitability. In our automotive companies, customer needs and product requirements are dynamic. Demanding business conditions are now the standard and as a result, the challenges facing management are much more exacting than in the past.

Our business plan sets out clear programs to move through this environment and we will continue to progress towards enhancing the long term competitiveness of our businesses. These efforts are headed by our operating company leaders and supported by the corporate office.

Across your company, individuals are challenged to maintain the focus on customer requirements and provide innovative approaches to servicing their needs. Constant focus on margin improvements and productivity enhancements are fundamental to our business plan. Significant gains have been realized through leveraging activities across our various distribution entities. These activities reflect an evolving partnership between the Company, the customers, the suppliers, and our dedicated employee group. This is a powerful combination which has been established, is building momentum, and continues to add to shareholder value.

Corporate development is a key program for Acklands. Each year, the organization has identified a number of tactical investments which require relatively low amounts of capital and provide immediate improvements in profitability as they are integrated into existing operations. As well, management continually investigates opportunities for strategic investments which broaden the base and profit potential of the Company. These activities have produced a compounded annual growth rate in excess of 25% over the past four years and have solidified the Company's position as the leading MRO, safety and fleet distributor in the industrial market, and positioned it as one of the largest automotive aftermarket parts distributors in the country.

The industrial performance is solid and as our investment and programs in the automotive sector mature, we can expect similar improvements in our operating results.

Acklands enters Fiscal '97 with a strong balance sheet, solid earnings and cash flow performance. Our business units are stronger than they were a year ago and accordingly, we believe that next year will yield further improvement in earnings and cash flow. As importantly, we expect to enhance the competitive position of our business units which will ultimately translate into additional value to our shareholders.

Our success is based upon the continuing patronage of our customers, support from our suppliers and the resourcefulness of our employees. I wish to thank them and you, our shareholders, for this commitment to our success.

K. (Rai) Sahi
Chairman and Chief Executive Officer

ON OCTOBER 30, 1995 WALTER FEDORAK, OUR SENIOR VICE-PRESIDENT, OPERATIONS WESTERN CANADA RETIRED AFTER SERVING YOUR COMPANY FOR 45 YEARS. I THANK HIM FOR HIS VALUED CONTRIBUTION AND WISH HIM GOOD HEALTH IN RETIREMENT.

Acklands is an international distribution company whose broad product line has many industrial and commercial applications. All of the products fall primarily into either of the following categories:

1. The industrial, work related safety and fleet products segment, and

2. The automotive aftermarket parts segment.

INDUSTRIAL SEGMENT

In the industrial segment, Acklands is principally involved in the distribution of products used in maintenance, repair and operation functions ("MRO"), work related safety products and fleet products. These products include power tools, bits, abrasives, fasteners, welding supplies, gases, janitorial supplies, maintenance supplies, machine tools and a large range of personal protection and work place safety products. The fleet side of the industrial business provides products such as filters, anti-freeze and parts to the large industrial fleet buyer.

The demand for industrial products is driven by the level of activity in the economy. The key industries served include construction, pipeline, mining, forestry, institutions and the various levels of government procurement, oil and gas, manufacturing, transportation and agriculture. Each sector is sensitive to general levels of economic activity. In addition, certain customer sectors, particularly gas, pulp and paper, and mining are affected by other factors such as world commodity prices, government support programs, available tax incentives and weather.

The Canadian industrial business is divided into two regional operating divisions with a coast to coast network of 7 distribution centres and 182 corporate stores.

Growth

Established in 1889, Acklands has evolved into the leading industrial supply company in Canada. Since 1991, tactical acquisitions have been made to incorporate the operations of JB Reid, Malkin and Pinton and Safety Supply Canada to expand the organization geographically and add significant product line breadth. During Fiscal '96, the Company acquired the assets of City Industrial Sales Corporation to complement its MRO activities with a hydraulic parts and service specialty house. During the First Quarter of Fiscal '97, the Company announced its plans to expand its presence in industrial distribution in the United States through the acquisition of Reynolds Fasteners, Inc. of New Jersey. As a master distributor of general line fastener products, Reynolds operates nine distribution centres in key markets across the United States.

Competitive Strengths

Acklands is the only Canadian industrial distributor with a branch network covering all regional markets from coast to coast. It is uniquely positioned to service any size of account across the country, its relationship with CN being one example. The Company has a service-driven culture and is committed to maintaining its position as the leader in quality products and services.

During Fiscal '96, Acklands expanded its marketing capabilities with enhancements to its single source and integrated supply programs. For major accounts, the Company compliments its field expertise with ISO certification and complete EDI capabilities. Acklands' financial strength enables it to support the most comprehensive distribution centre and branch infrastructure in

Canada providing service to the largest project or most remote site. The calibre and depth of the management and staff at the branch level have enabled Acklands to be viewed as the distributor of choice. With its regional structure, the organization has engineered a high level of responsiveness and empowered management to tailor its products and services to the local market. The appropriate financial focus is maintained with responsibility for profitability and return on capital employed taken to the local level.

The most comprehensive infrastructure in the industry, the broadest product range, a customer focused and results oriented organization are the key components in Acklands' formula for success in industrial distribution.

AUTOMOTIVE SEGMENT

In the automotive segment, Acklands distributes replacement parts, accessories and paint ("automotive aftermarket parts") primarily for automobiles and light trucks, ("the automotive aftermarket"). The traditional method of distribution in the automotive aftermarket is three steps going from manufacturer to warehouser to store/wholesale distributor ("jobber") to installer. Acklands distributes to the automotive aftermarket through its network of warehouses/distribution centres and thereafter through one of three channels: corporate stores, associated jobbers or independent unbannered jobbers. Acklands competes for business from jobbers and installers by providing inventory on demand and product knowledge.

Acklands provides automotive aftermarket parts to two main customer segments: (1) the mechanic/installer segment; and (2) the smaller do-it-yourself market segment. It typically does not service the branded dealer network of original equipment manufacturers or large mass merchandisers and warehouse clubs that buy directly from parts manufacturers.

Growth

Strategic investments in automotive aftermarket distribution have been made by Acklands over the past five years. This enterprise has been built into a large and profitable core business with investments in McKerlie-Millen Inc., Atlas Products, and via the establishment of a Bumper To Bumper dealer network in Western Canada. During Fiscal '96, the Company acquired Auto Point Inc. to expand its corporate store program in Quebec.

In South Florida, Acklands serves the retail market with a distribution centre and a captive network of 98 stores. These outlets provide automotive aftermarket parts to the do-it-yourself customer. Noted for its product selection and knowledgeable staff, Rose Auto Stores has been serving this market for more than forty years.

Competitive Strengths

McKerlie-Millen, Bumper To Bumper and Rose Auto Stores have established names and long standing relationships in their respective markets. In Eastern Canada, through McKerlie-Millen, the Company maintains 8 distribution centres, 149 corporate stores and 258 associated jobbers. In Western Canada, the Bumper To Bumper network includes 3 distribution centres, 19 corporate stores and 120 associated jobbers.

In both regions, Acklands provides associated jobbers the benefits of purchasing power, a computerized inventory system and product knowledge. This program also provides coordinated marketing support to the jobbers. One such program launched during Fiscal '96 was the 'Auto Place' banner designed to enhance installer demand which will translate into increased revenue for the jobbers. This was accomplished by providing a link between independent installers, the jobbing stores and the distribution centres at McKerlie-Millen. This is a comprehensive initiative with training, computer support, and a media campaign designed to promote and support the installer.

With Acklands' financial resources and national presence, significant leverage has been placed on the suppliers during Fiscal '96. The conversion to standardized product lines across the country has enabled the Company to provide additional marketing support to the jobbers and price support where appropriate. All corporate and associate stores are linked to our distribution centres by computer. This permits regular replenishments and facilitates the filling of rush orders.

Acklands also distributes performance products, paint, body shop supplies and related equipment, Atlas tires and batteries and accessories throughout the entire network. The Company maintains the largest selection of branded products available in Canada. Stores are strategically located to provide timely delivery and filling of orders with the Company's fleet.

During Fiscal '96, the programs engineered to strengthen the relationship between the end users of the products and the organization have begun to pay dividends. Further progress is anticipated as Acklands' investment in this business unit matures and initiatives to improve service, productivity and reduce capital employed in the division all gain momentum.

Management's Discussion and Analysis of Financial Results

Results of Operations for Fiscal 1996 Compared to Fiscal 1995

Gross revenue for the year ended January 31, 1996 was $759 million and represents an increase of more than 17% from the $645 million reported last year. Earnings before income taxes increased to $32.7 million in Fiscal '96 from $25.8 million in Fiscal '95. Net earnings in Fiscal '96 were $17.0 million or $0.96 per share compared with

$21.6 million or $1.25 per share in Fiscal 1995. The results for the current year have been fully taxed as the available shelter was utilized during Fiscal 1995.

Approximately $30 million of the increase in gross revenue over Fiscal '95 was a result of organic growth in the industrial sector. This reflects the strengthening of the Company's operations in its major markets and is attributable to general economic conditions and marketing initiatives.

The automotive group experienced an improvement in revenue of $83 million over Fiscal '95. This is attributable to the first full year of the Rose acquisition (incremental $61 million) and the acquisition of Auto Point which was concluded during the Third Quarter ($21 million). Demand for automotive products remained stable year over year though competitive pressures were significant. The acquisitions concluded during Fiscal '96 represent tactical moves to fill in the operation geographically and strengthen the Company's market share.

On a consolidated basis, margins improved during the year reflecting the full year of the inclusion of Rose Auto. This retail operation produces higher than average gross margins. Significantly, all business units experienced steady improvement in their margins year over year. This reflects initiatives on the purchasing side, where the organization has taken advantage of its considerable growth and consolidated its buying positions.

Cost of sales

Cost of sales, payroll, selling and administrative expenses increased by $102 million reflecting the growth in volume over the past year. The components of this aggregate number include: i) cost of product increased $50 million due to volume, though gross margins are improving; ii) payroll increased $24 million; however, efficiency is improving as operations become more fully integrated; and iii) selling and administrative costs rose by $28 million to support the growth. Total employee count at year-end reached 4,700 versus 4,200 a year earlier.

Gross profit margins, at 34.1% for the Company overall, improved by 1.8% as a result of the mix of the retail business and improved leverage on purchasing. Interest expense increased to $6.4 million in Fiscal '96 from $3.8 million in Fiscal '95 due to the additional debt required to finance the acquisitions and increased working capital requirements, as well as due to higher rates of interest compared with Fiscal '95.

The effective income tax rate on earnings in Fiscal '96 was 47.9% compared with 16.0% in Fiscal '95. The tax rate in Fiscal '96 has increased due to the fact that the available shelter had been utilized in prior years. At year-end, the Company had net timing differences of $11.9 million; the related tax benefit has not been recorded in the accounts.

The Company acquired a number of regional distribution businesses, the most significant being Auto Point Inc. in Quebec and City Industrial Sales Corporation in Ontario. The total capital program for acquisitions was $34.2 million in Fiscal '96 compared to $28.1 million in Fiscal '95. The investments are consistent with the Company's growth initiatives and its policy of making tactical acquisitions to enhance existing business units.

Financial Condition, Capital Resources and Liquidity

Current assets as at January 31, 1996 include accounts receivable of $105 million and inventories of $223 million compared with $87 million and $182 million respectively at January 31, 1995. The increases in receivables and inventories are consistent with the Company's significant growth in sales revenues, including the impact of new acquisitions. As the ongoing integration activities proceed, and the investment in the automotive sector matures, it is anticipated that the requirements for working capital will be reduced and turnover ratios will improve.

Other assets have increased from $14.9 million in Fiscal '95 to $22.6 million in Fiscal '96. This represents increases in goodwill ($2.8 million arising on acquisitions), deferred income taxes ($1.8 million recoverable from non-restricted operating losses) and increases in other assets ($3.0 million representing investments in marketable securities held for strategic purposes.)

The fixed asset base of the Company increased by $8.5 million during the year. This represents the Company's ongoing investments in infrastructure to support the underlying business units.

The current liabilities of the Corporation have increased by $53.2 million during the year. In addition to the trade payable balance which has risen due to the expansion in the inventory levels, the Company is reporting a current tax liability of $16.5 million. This reflects the fact that the Company is now fully taxable. Deferred income taxes have been reduced during the year as the majority of the balance has now become payable.

Deferred real estate income represents the gains on a series of sale and leaseback transactions during the 1980's. The resulting gain is being amortized into income over the term of the related leases.

Bank indebtedness increased by $27.3 million as of January 31, 1996 as the Company required the facility to support its acquisition program and the related investments in working capital. As at January 31, 1996 the Company maintained revolving credit facilities in the amount of $118 million of which $37 million remains unused. As security for this debt, the Company has pledged the current assets and certain real property of the Corporation.

Shareholders' equity increased by $25.2 million to $216.8 million as at January 31, 1996 compared with $191.6 million at January 31, 1995. The increase is comprised of the net earnings for Fiscal '96. As well, the balance includes the proceeds from the issue of 975,000 common shares as partial consideration for the acquisition of Auto Point Inc.

concluded on September 2, 1995 at $12.54 per share.

Under the terms of the Company's normal course issuer bid, commenced in July, 1995, the Company is authorized to acquire up to 1.3 million common shares over a twelve month period. During Fiscal '96, the Company acquired for cancellation 398,900 shares at prices ranging from $10.50 to $12.25 per share.

The book value of the shareholders' equity is $12.06 per share as at January 31, 1996 compared with $11.05 as at January 31, 1995.

The debt/equity ratio for the Company as of January 31, 1996 was .41:1.00 compared to .36:1.00 at January 31, 1995. The Company is in compliance with all covenants of its various banking agreements and management is of the opinion that the current facilities, together with internally generated cash flow from operating business units and other available sources of capital will be adequate to meet the foreseeable capital requirements of the existing business, and will support the growth objectives of Acklands.

No dividends on common shares were paid in Fiscal '96 or Fiscal '95. The Company's current program is to reinvest in established business units or in strategic opportunities. The Board of Directors reviews this policy on a periodic basis.

Subsequent Events and Outlook

On February 1, 1996 the Company acquired the outstanding shares of Reynolds Fasteners Inc. of New Jersey for U.S. $24.9 million. The Reynolds acquisition provides an opportunity to expand the industrial division geographically with a nationwide master distributor of fasteners and related products. The Reynolds acquisition was financed through the Company's existing operating facilities and is expected to contribute to operating profits immediately.

On March 29, 1996 the Company concluded the placement of a U.S. $30 million 10 year term loan to support the Company's acquisition program. This debt replaced obligations in the Company's operating lines.

With favourable business conditions, the evolution of its core business units and the recently announced acquisition, management expects to continue its trend of sales and operating earnings growth established over the past two years.

Management's Reporting Responsibility

The accompanying consolidated financial statements of Acklands Limited and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Ernst & Young, Chartered Accountants, and their report is presented below.

K. (Rai) Sahi
Chairman and Chief Executive Officer

Donald W. Turple
Vice-President, Finance

Auditors' Report

To the Shareholders of Acklands Limited

We have audited the consolidated balance sheets of **Acklands Limited** as at January 31, 1996 and 1995 and the consolidated statements of operations, 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 January 31, 1996 and 1995 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.

Winnipeg, Canada
March 15, 1996.

ERNST & YOUNG
Chartered Accountants

Consolidated Balance Sheets

AS AT JANUARY 31	1996	1995
ASSETS (Note 5)		
Current Assets		
Accounts receivable	$ 104,800,000	$ 87,227,000
Inventories	222,648,000	182,336,000
Prepaid expenses	2,223,000	1,708,000
	329,671,000	271,271,000
Other Assets (note 3)	22,621,000	14,889,000
Fixed Assets (note 4)	74,436,000	65,918,000
	$ 426,728,000	$ 352,078,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 5)	$ 80,638,000	$ 53,288,000
Accounts payable and accrued liabilities	103,120,000	85,087,000
Income and other taxes payable	16,520,000	3,144,000
Principal due within one year on long-term debt (note 6)	2,141,000	7,667,000
	202,419,000	149,186,000
Long-term debt (note 6)	6,413,000	7,882,000
Deferred income taxes	—	2,063,000
Deferred real estate income	1,124,000	1,323,000
	209,956,000	160,454,000
Shareholders' equity		
Capital stock (note 7)	146,210,000	136,948,000
Retained earnings	70,562,000	54,676,000
	216,772,000	191,624,000
Commitments (note 9)		
Contingencies (note 14)		
	$ 426,728,000	$ 352,078,000

See accompanying notes to consolidated financial statements.

On behalf of the Board:

K. (Rai) Sahi
Director

Rae E. Wallin
Director

Consolidated Statements of Operations

YEARS ENDED JANUARY 31	1996	1995
Sales	$ 758,777,000	$ 645,068,000
Cost of sales, selling and administrative expenses	711,177,000	609,699,000
Depreciation	7,670,000	5,602,000
Goodwill amortization	1,215,000	845,000
	720,062,000	616,146,000
	38,715,000	28,922,000
Other expenses (income)		
Interest on long-term debt	769,000	1,083,000
Other interest expense	5,621,000	2,738,000
Gain on sale of fixed assets	(354,000)	(679,000)
	6,036,000	3,142,000
Earnings before income taxes	32,679,000	25,780,000
Income taxes (note 10)	15,654,000	4,135,000
Net earnings	$ 17,025,000	$ 21,645,000
Earnings per share (note 8)		
Basic	$ 0.96	$ 1.25
Fully diluted	$ 0.93	$ 1.22

Consolidated Statements of Retained Earnings

YEARS ENDED JANUARY 31	1996	1995
Balance, beginning of year	$ 54,676,000	$ 33,031,000
Net earnings	17,025,000	21,645,000
Excess of repurchase price of common shares over stated value	(1,043,000)	–
Cumulative translation adjustment	(96,000)	–
Balance, end of year	$ 70,562,000	$ 54,676,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

YEARS ENDED JANUARY 31	1996	1995
CASH PROVIDED BY (USED IN)		
Operations		
Net earnings	$ 17,025,000	$ 21,645,000
Items not involving cash		
Depreciation	7,670,000	5,602,000
Goodwill amortization	1,215,000	845,000
Deferred income taxes	(3,949,000)	–
Gain on sale of fixed assets	(354,000)	(679,000)
Other items	394,000	1,506,000
Change in non-cash operating working capital	(5,261,000)	(18,358,000)
	16,740,000	10,561,000
Financing		
Proceeds from long-term debt	735,000	–
Proceeds on issue of common shares	12,509,000	275,000
Shares purchased for cancellation	(4,290,000)	–
Repayment of long-term debt	(7,965,000)	(4,123,000)
	989,000	(3,848,000)
Investments		
Additions to fixed assets	(8,794,000)	(10,501,000)
Proceeds from sale of fixed assets	1,112,000	721,000
Acquisition of net assets of businesses (note 11)	(34,157,000)	(28,140,000)
Increase in lease contracts and lien notes receivable and other assets	(3,240,000)	(1,552,000)
	(45,079,000)	(39,472,000)
Increase in bank indebtedness	(27,350,000)	(32,759,000)
Bank indebtedness, beginning of year	(53,288,000)	(20,529,000)
Bank indebtedness, end of year	$ (80,638,000)	$ (53,288,000)

See accompanying notes to consolidated financial statements.

1. General

The company is incorporated under the laws of Manitoba and is engaged in the integrated distribution of automotive, industrial and safety related products in Canada and the United States.

2. Significant Accounting Policies

[a] Principles of consolidation

These consolidated financial statements include the accounts of all subsidiary companies. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition.

[b] Inventories

Inventories are valued at the lower of average cost and net realizable value.

[c] Goodwill

On acquisitions, the underlying fair value of net identifiable assets is determined and goodwill is recognized as the excess of the purchase price over this amount. Goodwill is amortized on a straight-line basis over a ten year period. Periodically, the company reviews its goodwill account to assess whether the value has been impaired based upon projected, undiscounted net cash flows of the related operations.

[d] Long-term investments

Other investments are accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the company's share of post-acquisition earnings or losses less dividends and where necessary, the value of an investment has been written down to estimated realizable value.

[e] Fixed assets

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives using substantially the following rates and methods:

Buildings	3% straight-line
Equipment	
Automotive	30% diminishing balance
Computer	20% straight-line
Other	10% straight-line
Leasehold improvements	Over the unexpired term of the lease

[f] Lease contracts

The company sells equipment to independent jobbers or customers and finances these transactions with lease/purchase agreements or conditional sales contracts. The gross margin is recorded at the time of the sale or lease; finance charges are recorded as earned over the term of the contract.

[g] Deferred real estate income

The profits realized on the sale and lease back of property have been deferred and are being amortized over various periods according to the terms of the related leases.

[h] Pensions

Pension cost adjustments are amortized to income on a straight-line basis over the expected average remaining service life of employees. Market related values of pension fund assets are calculated using year-end market values.

[i] Translation of foreign currencies

The accounts of foreign subsidiaries are translated into Canadian dollars using the exchange rates prevailing at the end of the year for assets and liabilities and the average exchange rate during the year for revenues and expenses. The adjustment arising from the translation of these accounts has been deferred and included in shareholders' equity as a cumulative translation adjustment.

3. Other Assets

	1996	1995
Goodwill, at cost	$ 15,037,000	$ 10,993,000
Less accumulated amortization	3,007,000	1,792,000
	12,030,000	9,201,000
Other investments	1,435,000	1,423,000
Deferred income taxes	1,815,000	—
Lease contracts and lien notes receivable and other assets	7,341,000	4,265,000
	$ 22,621,000	$ 14,889,000

4. Fixed Assets

	Cost	Accumulated Depreciation	1996 Net
Land	$ 18,031,000	$ —	$ 18,031,000
Buildings	41,868,000	9,489,000	32,379,000
Equipment	53,527,000	33,573,000	19,954,000
Leasehold improvements	11,345,000	7,273,000	4,072,000
	$ 124,771,000	$ 50,335,000	$ 74,436,000

	Cost	Accumulated Depreciation	1995 Net
Land	$ 15,985,000	$ —	$ 15,985,000
Buildings	37,978,000	9,206,000	28,772,000
Equipment	46,125,000	29,255,000	16,870,000
Leasehold improvements	10,657,000	6,366,000	4,291,000
	$ 110,745,000	$ 44,827,000	$ 65,918,000

5. Bank Indebtedness

The company and its subsidiaries have access to Canadian and U.S. dollar denominated short-term credit lines, bearing interest at Canadian Prime, U.S. Base Rate, and U.S. Prime. Bank indebtedness is generally secured by a charge over the inventory and the receivables of the company and its subsidiaries, and in the case of certain subsidiaries, over property and equipment. The company and its subsidiaries have the option of borrowing by way of Bankers' Acceptances in Canadian dollars, and LIBOR in U.S. dollars. As at January 31, 1996, consolidated U.S. dollar denominated indebtedness stood at U.S. $17,880,000.

6. Long-term Debt

	1996	1995
9 1/8% mortgage payable, due March, 1997	$ 3,662,000	$ 3,760,000
Unsecured non-interest bearing promissory notes due to suppliers with maturities to 1995	—	886,000
Unsecured non-interest bearing note payable, payable in quarterly installments due September, 1999	689,000	—
Mortgages, agreements and notes, payable in monthly and annual installments with a weighted average interest rate of 9 7/8%	403,000	554,000
6 1/4% mortgage payable, due March, 1995	—	4,749,000
Term loan, principal payment in quarterly installments of $450,000, plus interest at prime plus 1/4%, due December, 1997, secured by debenture	3,800,000	5,600,000
	8,554,000	15,549,000
Principal due within one year	2,141,000	7,667,000
	$ 6,413,000	$ 7,882,000

Principal repayments on long-term debt are as follows:

1997	$ 2,141,000
1998	6,091,000
1999	184,000
2000	138,000
	$ 8,554,000

7. Capital Stock

Authorized

623,116 preference shares issuable in series

Unlimited number of common shares

	1996	1995
Issued and fully paid		
17,967,183 common shares (1995 - 17,336,983)	$ 146,210,000	$ 136,948,000

During the year ended January 31, 1996, 1,029,100 common shares were issued for proceeds of $12,509,000. This includes 975,000 shares issued as partial consideration for a business acquisition and 54,100 shares as a result of employee stock options being exercised.

During the 1995 fiscal year, 54,800 common shares were issued under the stock option plan for proceeds of $275,000.

The company has approved a normal course issuer bid to purchase up to 1,300,000 common shares. The program expires July 11, 1996, and as of January 31, 1996, the company had purchased and cancelled 398,900 shares for cash consideration of $4,290,000.

1,735,388 common shares have been reserved for the employee stock option plan. Outstanding options have been granted to employees, officers and directors for an aggregate of 901,900 common shares at prices ranging from $4.75 to $14.00 per share. These options expire from 1996 to 2005.

8. Earnings Per Share

Basic and fully diluted earnings per share have been calculated using the weighted average number of common shares outstanding during the year.

9. Commitments

Lease commitments

Future rental payments for operating leases, net of recoveries of $4,452,000 from subtenants, are as follows:

1997	$ 14,946,000
1998	11,026,000
1999	8,599,000
2000	6,612,000
2001	4,538,000
2002 to 2006	6,293,000
	$ 52,014,000

10. Income Taxes

The company's effective income tax rate is derived as follows:

	1996		1995	
Tax at statutory rates	$ 14,806,000	45.3 %	$ 11,524,000	44.7 %
Losses utilized	—	—	(8,980,000)	(34.8)%
Other	848,000	2.6 %	1,591,000	6.1 %
	$ 15,654,000	47.9 %	$ 4,135,000	16.0 %

At January 31, 1996, the company and its subsidiaries had deductions available to reduce future years' income for tax purposes, the tax benefit of which has not been recorded in the accounts, as follows:

Losses carried forward for tax purposes, expiring 2003	$ 1,200,000
Net timing differences resulting from revenue and expense items reported for tax purposes in different periods than for financial statement purposes.	$ 10,700,000

11. Business Acquisitions

1996 acquisitions

During the year, the company acquired six regional distribution businesses. In the industrial sector, the company acquired the net assets of Triod Supply on April 24; the net assets of Gas and Gears Inc. on May 1; and certain assets of City Industrial Sales Corporation on October 2. In the automotive sector, the company acquired the shares of Renrick Holdings Ltd. on April 1; the assets of Willowbrook Parts on April 3; and the shares of Auto Point Inc. on September 1.

1995 acquisitions

During the year, the company acquired for cash the net assets of The AFS Group, Autotec Inc., Auto Paint Supply, Woodstock Auto, and Lymans Warehouse Distributing Ltd., regional distributors of auto parts, paint and supplies. Effective October 2, 1994, the company acquired by way of a share purchase, the net assets of Rose Auto Stores - Florida Inc. which is a retailer of automotive parts and accessories.

These acquisitions were accounted for by the purchase method as summarized below and the results of operations were recorded from the effective date of the purchases.

Summary of acquisitions

	1996	1995
Cost of net assets acquired consists of:		
Net working capital (excluding bank indebtedness)	$ 22,067,000	$ 15,184,000
Goodwill	4,073,000	4,757,000
Fixed assets	8,250,000	9,609,000
Other assets	74,000	—
	34,464,000	29,550,000
Deferred income taxes	(72,000)	(1,410,000)
Long-term debt	(235,000)	—
Net assets acquired (excluding bank indebtedness)	34,157,000	28,140,000
Bank indebtedness	(3,442,000)	(32,000)
Cost of acquisitions	$ 30,715,000	$ 28,108,000

12. Pension Plan

The company maintains a contributory defined benefit pension plan covering certain of its employees. The plan provides benefits based on length of service and final average earnings.

At January 31, 1996, as determined by the company's actuaries, the approximate present value of accrued pension benefits amounts to $54,909,000 [1995 - $52,258,000] and the value of pension fund assets amounts to approximately $55,561,000 [1995 - $53,026,000].

13. Segmented Information

The company is engaged in the integrated distribution of automotive, industrial and safety related products in Canada and automotive products in the United States.

Information on the geographic segmentation of the company's business is as follows:

	1996	1995
Sales		
Canada	$ 665,439,000	$ 613,013,000
United States*	93,338,000	32,055,000
	$ 758,777,000	$ 645,068,000
Operating income		
Canada	$ 41,263,000	$ 28,795,000
United States*	(2,548,000)	127,000
	38,715,000	28,922,000
Interest expense	(6,390,000)	(3,821,000)
Gain on sale of fixed assets	354,000	679,000
Earnings before income taxes	$ 32,679,000	$ 25,780,000
Identifiable assets		
Canada	$ 383,750,000	$ 311,787,000
United States*	42,978,000	40,291,000
	$ 426,728,000	$ 352,078,000

* In fiscal 1995, Sales and Operating income from the United States segment were from October 2, 1994 being the date of acquisition of that segment.

14. Contingencies

The company and certain of its subsidiaries have been named defendants in a number of legal actions. Although the outcome of these claims cannot be determined, in the opinion of management the resolution of these matters will not have a material adverse effect on the company's financial position.

15. Subsequent Event

Effective February 1, 1996, the company acquired 100% of the shares of Reynolds Fasteners Inc. of New Jersey for U.S. $24.9 million cash.

Statement of Corporate Governance Practices

General

The Toronto Stock Exchange Committee on Corporate Governance released its final report in December, 1994, which set out guidelines for effective corporate governance. The Toronto Stock Exchange ('TSE') subsequently adopted this report and now requires that every listed company incorporated in Canada or a province of Canada disclose its approach to corporate governance. An 'approach to corporate governance' means a description of how the Company is governed with reference to the guidelines set by the TSE. The Company's approach to corporate governance is set forth below.

Mandate of the Board

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company. The duties and objectives of the Board include assuming responsibility for the following:

(i) adoption of a strategic planning process;

(ii) identification, to the extent possible, of the principal risks of the Company's business and ensuring the implementation of appropriate systems to manage these risks;

(iii) succession planning, including appointing, training and monitoring senior management;

(iv) a communications policy for the Company; and

(v) the integrity of the Company's internal control and management information systems.

There were eight meetings of the Board during the financial year ended January 31, 1996. The frequency of meetings, as well as the nature of items discussed, depend upon the state of the Company's affairs and the opportunities or risks the Company faces.

Composition of the Board

The TSE guidelines recommend that a board of directors be constituted with a majority of individuals who qualify as 'unrelated directors'. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director. The TSE guidelines state that if the corporation has a 'significant shareholder', in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A significant shareholder is a shareholder with the ability to exercise a majority of the votes for the election of the board of directors.

The Board of Directors of the Company has applied the above definition of an unrelated director to the circumstances of each individual director and has determined that of its nine directors, eight are unrelated directors and one is a related director. Mr. K. (Rai) Sahi is the Chief Executive Officer of the Company and thus a related director. The Company does not have a significant shareholder.

The Board has reconstituted its former Compensation Committee as the Corporate Governance and Compensation Committee which is responsible, among other things, for monitoring the Company's compliance with the TSE guidelines. The current committees of the Board include, an Audit Committee, a Corporate Governance and Compensation Committee, a Nominating Committee and a Pension Plan Committee. A description of the committees of the Board, their mandates and their activities are set forth below.

(1) Audit Committee

The Audit Committee is composed of three unrelated directors.

The Audit Committee reviews the annual financial statements of the Company and such other financial statements as may be issued by the Company from time to time as part of any prospectus, and makes reports to the Board on all such annual statements and when considered necessary, on interim and other statements. The committee also reviews the scope of the examination to be performed by the auditors prior to commencement of the audit and the findings of the examination after its completion. Other duties of the committee are to review the contents of management's representation letters to the auditors, consider the auditors' comments with respect to accounting treatment and consider the auditors' report to the shareholders. The committee also reviews the general internal financial controls exercised by the Company and reviews the scope of financial reports submitted to the Board. The Audit Committee reports any of its recommendations to the Board.

There were two meetings of the Audit Committee during the financial year ended January 31, 1996.

(2) Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee is composed of three unrelated directors.

The Corporate Governance and Compensation Committee is responsible for developing, monitoring and assessing the Company's approach to corporate governance. This includes consideration of the effectiveness of the Board, its size and composition, its committees and the individual performance of its directors. The committee also reviews all salaries, bonuses, pension contributions, fringe benefits, other direct or indirect compensation and expense allowances of all officers of the Company. The committee reports to the Board on all such remuneration and makes any recommendations. In particular the committee annually assesses the performance of the Chief Executive Officer and determines his compensation and benefits.

There was one meeting of the Compensation Committee during the financial year ended January 31, 1996.

(3) Nominating Committee

The Nominating Committee is composed of two unrelated directors and one related director.

The Nominating Committee is responsible for proposing new nominees to the Board as well as the orientation and continuing education of directors. The TSE guidelines recommend a nominating committee that is composed exclusively of outside directors, a majority of whom are unrelated directors. Mr. K (Rai) Sahi, Chief Executive Officer of the Company is currently a member of the Nominating Committee. Given that Mr. Sahi controls approximately 19% of the issued and outstanding shares of the Company and is the only related director of a nine member board, to whom the Nominating Committee can only make recommendations, the interests of shareholders and accountability thereto support such composition. Additionally, the Board is satisfied that shareholder representation on the Nominating Committee will ensure the active pursuit of new nominees to replace existing directors.

(4) Pension Plan Committee

The Pension Plan Committee is composed of three unrelated directors, one related director and one non-director.

The Pension Plan Committee is charged with reviewing the performance of the fund managers of the Company's pension plan and ensuring that the pension plan complies with all regulatory requirements across Canada. The committee determines all questions of eligibility, duration of service, continuity of service, dates of birth, membership or retirement, and computation and value of benefits. The committee maintains accounts showing the fiscal transactions of the plan and submits written reports to the Board. The committee must also approve any proposals for amendments to the pension plan.

There was one meeting of the Pension Plan Committee during the financial year ended January 31, 1996.

Independence from Management

Mr. K. (Rai) Sahi, Chief Executive Officer of the Company, also serves as Chairman of the Board. The TSE guidelines recommend the appointment of a chair of the board, who is not a member of management, with the responsibility of ensuring that the board discharges its responsibilities, or the adoption of an alternative means of ensuring that the board can function independently of management such as assigning this responsibility to a committee of the board or to a 'lead' director. The Board believes that its current composition and the number of unrelated directors on the Board helps to ensure that the Board can operate independently of management. More specifically, the unrelated directors have an opportunity to meet independently from management prior to board meetings.

Decisions Requiring Prior Board Approval

In addition to those matters which must by law or by the articles of the Company be approved by the Board, management is required to seek Board approval for major transactions. At present the Company has an internal resolution requiring approval of the Board for strategic acquisitions and expenditures above a certain dollar amount, or acquisitions that fall outside the strategic plan. Board approval is also required for changes of Executive Officers and changes in material financial commitments.

Recruitment of and Orientation for New Directors

New nominees are identified by the Nominating Committee and are recruited to represent various facets of the Company's operational environment and includes individuals who have experience in the products we sell, in the distribution of industrial or automotive products, members of the financial community, or those who bring broad based business experience and knowledge to the Board.

New recruits are briefed on the history of the Company and are provided with the formal strategic plan of the Company together with updates on the current status. Board members are provided with underlying information through the distribution of board packages which allow them to become familiar with all issues that could be discussed at each board meeting.

As part of its mandate, the Corporate Governance and Compensation Committee will examine the desirability of the implementation of a formal process for the assessment of the performance of Directors and the Board as a whole.

Shareholder Relations

The Company continuously discloses material changes in its affairs and holds meetings with financial analysts on an on-going basis. The Company communicates to its shareholders through annual reports, quarterly reports, annual information forms, and information circulars. Through its investor relations department, the Company receives and responds to shareholder enquiries. Shareholder enquiries and concerns are dealt with promptly by senior management of the Company. To date the Board has not needed to take an active role in responding to shareholder enquiries and concerns.

Outside Advisors

The independent external auditors of the Company, as well as the internal audit functions are available to the Board. Individual directors may also engage other outside advisors at the expense of the Company. The engagement of such other outside advisors would be subject to the prior approval of the Corporate Governance and Compensation Committee.

Board's Expectations of Management

Management is expected to execute the strategic business plan of the Company and to assist the Board by providing it with a comprehensive analysis of any matter that requires Board approval. Individual directors, along with committees of the Board, have full access to management. Executives who attend, or are invited to board meetings are expected to be fully conversant with current issues and be prepared to provide, with any forwarding documentation, their views, opinions or analysis.

Board of Directors

K. (Rai) Sahi
Chairman & CEO
Acklands Limited

Jack C. Bingleman
President, North American
Superstores, Staples, Inc.

James A. Coombs
Chair, Council for an Ontario
Information Infrastructure

Thomas H. Savage
Corporate Director

Keith M. Thompson
President and CEO,
Republic Automotive Parts, Inc.

Dean G. Groussman
Chairman and CEO,
White Rose Crafts &
Nursery Sales Limited

David A. King
President,
David King Corporation

Michel Vennat
Partner, Stikeman, Elliott
Barristers & Solicitors

Rae E. Wallin
Chairman and Chief
Financial Officer,
N-Viro Systems Canada Inc.

Senior Management Group

Standing (from left to right): Don Turple, Eugene Hretzay, Peter Morawetz, Rai Sahi, Fraser Berrill, John Lokker, Frank Munsters
Seated (from left to right): Douglas Cumming, Jim Williams, Paul Rushlow, Jack Radford

Corporate Directory

CORPORATE DATA

Auditors
Ernst & Young

Transfer Agents and Registrars of Common Shares
Montreal Trust

Bankers
Royal Bank of Canada
Bank of Montreal
Barnett Bank

Legal Counsel
Osler Hoskin & Harcourt

Share Listing
Toronto and Winnipeg Stock Exchanges

Ticker Symbol
ACK

Head Office
125 Higgins Avenue
Winnipeg, Manitoba R3B 0B6
Telephone: (204) 956-0880
Fax: (204) 947-3965

Executive Office
945 Wilson Avenue
North York, Ontario M3K 1E8
Telephone: (416) 631-5200
Fax: (416) 635-9549

CORPORATE GOVERNANCE AND COMPENSATION COMMITTEE

James A. Coombs
Chairman

David A. King

Keith M. Thompson

AUDIT COMMITTEE

Rae E. Wallin
Chairman

David A. King

Michel Vennat

NOMINATING COMMITTEE

Jack C. Bingleman

Michel Vennat

K. (Rai) Sahi

PENSION PLAN COMMITTEE

Thomas H. Savage
Chairman

Jack C. Bingleman

Dean G. Groussman

K. (Rai) Sahi

Donald W. Turple

DIRECTORY

EXECUTIVE

K. (Rai) Sahi
Chairman & CEO

James B. Williams
President & COO

Donald W. Turple
Vice President, Finance

Fraser R. Berrill
Vice President, Corporate Development

John Lokker
Vice President, Internal Audit

Eugene Hretzay
Corporate Counsel & Secretary

CORPORATE

Gerald McCallum
Comptroller & Treasurer

Peter Morawetz
Vice President, Logistics

Frank Munsters
Vice President, Credit and Banking

Paul Rushlow
Vice President, Purchasing

Rick Sadowski
Director of Information Services

David Wright
Director of Transportation

AUTOMOTIVE GROUP

Robert Blair
Vice President, Marketing

Kiyo Nonomura
Vice President, Purchasing

Dave Broughton
Vice President, Finance

Doug Gilbert
Controller

Steve Mara
General Manager, Ontario

Magella Boutin
Vice President & General Manager, Quebec

Ted Reevey
General Manager, Atlantic

Sean Corcelli
General Manager, Alberta & British Columbia

Rose Auto Stores

Brian Collins
Director of Operations

Deepak Chaudhry
Director of Finance

Larry Selby
Director of Merchandising

INDUSTRIAL GROUP

Douglas G. Cumming
Senior Vice President

Ted Stokes
General Manager, British Columbia

Glenn Norton
General Manager, Alberta

Wayne McArthur
Vice President, Sales, Western Canada

Frank Murray
General Manager, Saskatchewan

Ken Chamberlin
General Manager, Manitoba and Northwestern Ontario

Jack Radford
Vice President, Eastern Canada

Lloyd Hanna
Vice President, Sales and Marketing, Eastern Canada

Bill Irwin
General Manager, Southern Ontario

Walt Friesen
General Manager, Northern Ontario

Alun Pearce
General Manager, Quebec

Dan Parker
General Manager, Atlantic

Reynolds Fasteners Inc.

Don Haggerty
President

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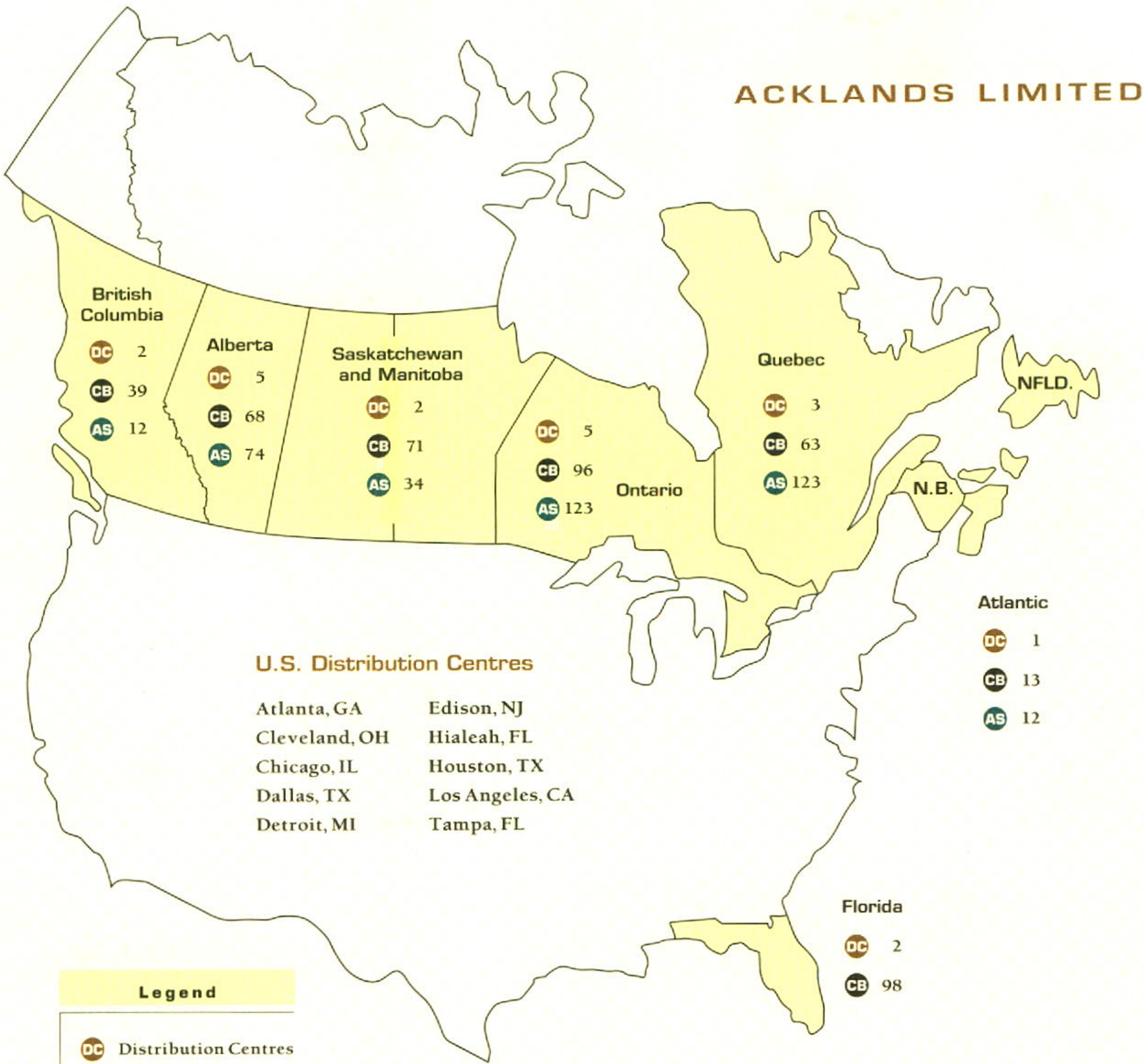
Five Year Financial Summary

YEARS ENDED JANUARY 31	1996	1995	1994	1993	1992
Sales	$758,777,000	$ 645,068,000	$ 535,781,000	$ 315,247,000	$ 310,297,000
Depreciation and amortization	8,885,000	6,447,000	7,837,000	4,803,000	5,469,000
Interest on long-term debt	769,000	1,083,000	1,411,000	461,000	596,000
Earnings before income taxes	32,679,000	25,780,000	18,582,000	4,502,000	3,048,000
Net earnings	17,025,000	21,645,000	18,414,000	5,012,000	3,048,000
Working capital	127,252,000	122,085,000	125,202,000	76,128,000	76,527,000
Fixed assets, net	74,436,000	65,918,000	51,563,000	38,468,000	30,501,000
Long-term debt	6,413,000	7,882,000	15,814,000	7,358,000	1,894,000
Shareholders' equity	216,772,000	191,624,000	169,704,000	112,227,000	106,930,000
Total assets	426,728,000	352,078,000	281,123,000	194,595,000	169,808,000
Net earnings per common share					
- Basic	0.96	1.25	1.23	.37	.22
- Fully diluted	0.93	1.22	1.19	.37	.22
Equity per common share	12.06	11.05	9.82	8.20	7.85
Common shares outstanding	17,967,183	17,336,983	17,282,183	13,689,783	13,629,783
Number of corporate branches	448	415	318	199	177

North American Operations



Legend

- DC Distribution Centres
- CB Corporate Branches
- AS Associate Stores

	Distribution Centres	Corporate Branches	Associate Stores
Atlantic	1	13	12
Quebec	3	63	123
Ontario	5	96	123
Saskatchewan/Manitoba	2	71	34
Alberta	5	68	74
British Columbia	2	39	12
U.S.A.	10	98	0
TOTAL	28	448	378

Acklands

EXECUTIVE OFFICE
945 Wilson Avenue, Toronto, Ontario, Canada M3K 1E8

Design: Starboard Marketing Services