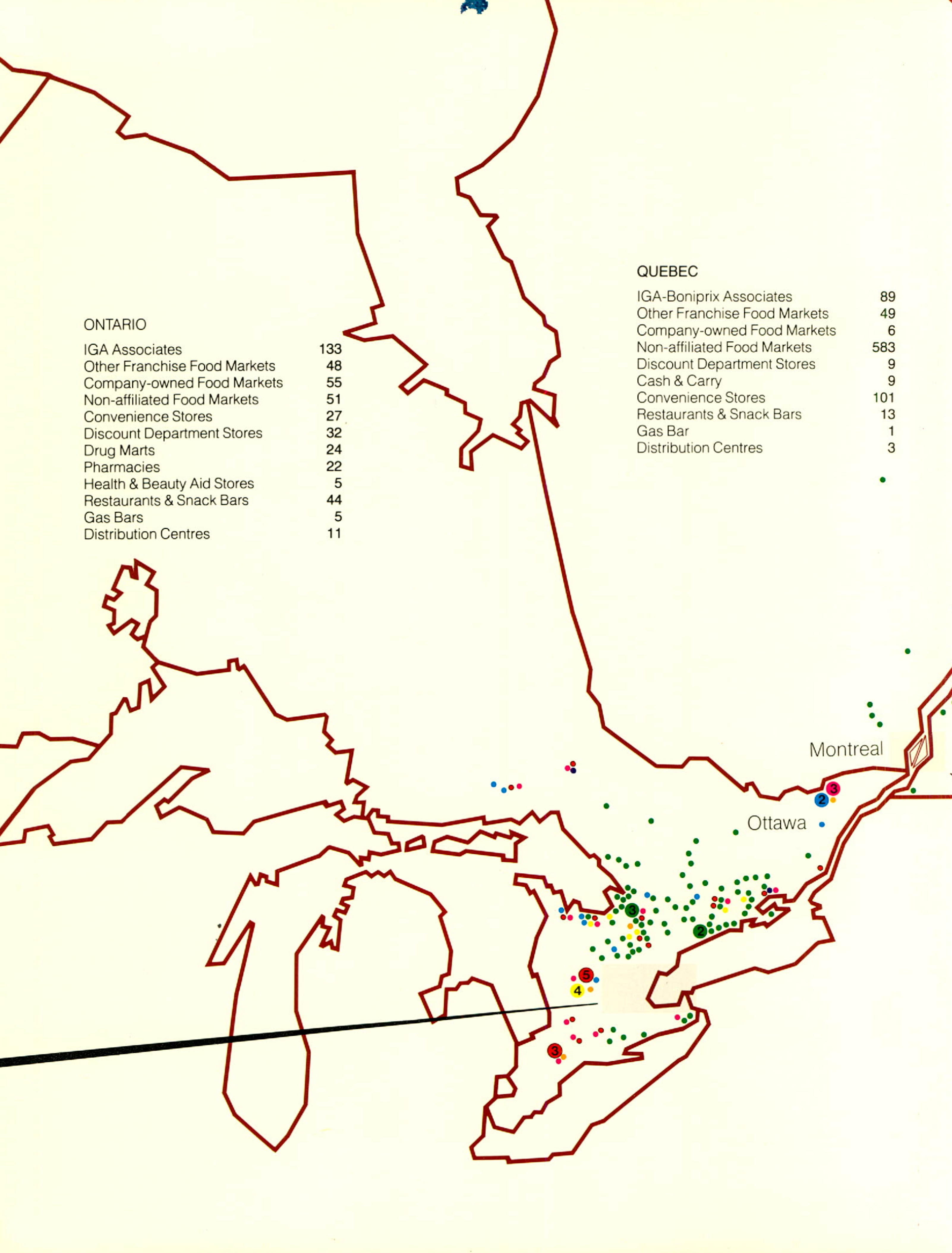
Oshawa

The Oshawa Group Limited

Annual Report

for the fiscal year ended January 24, 1981

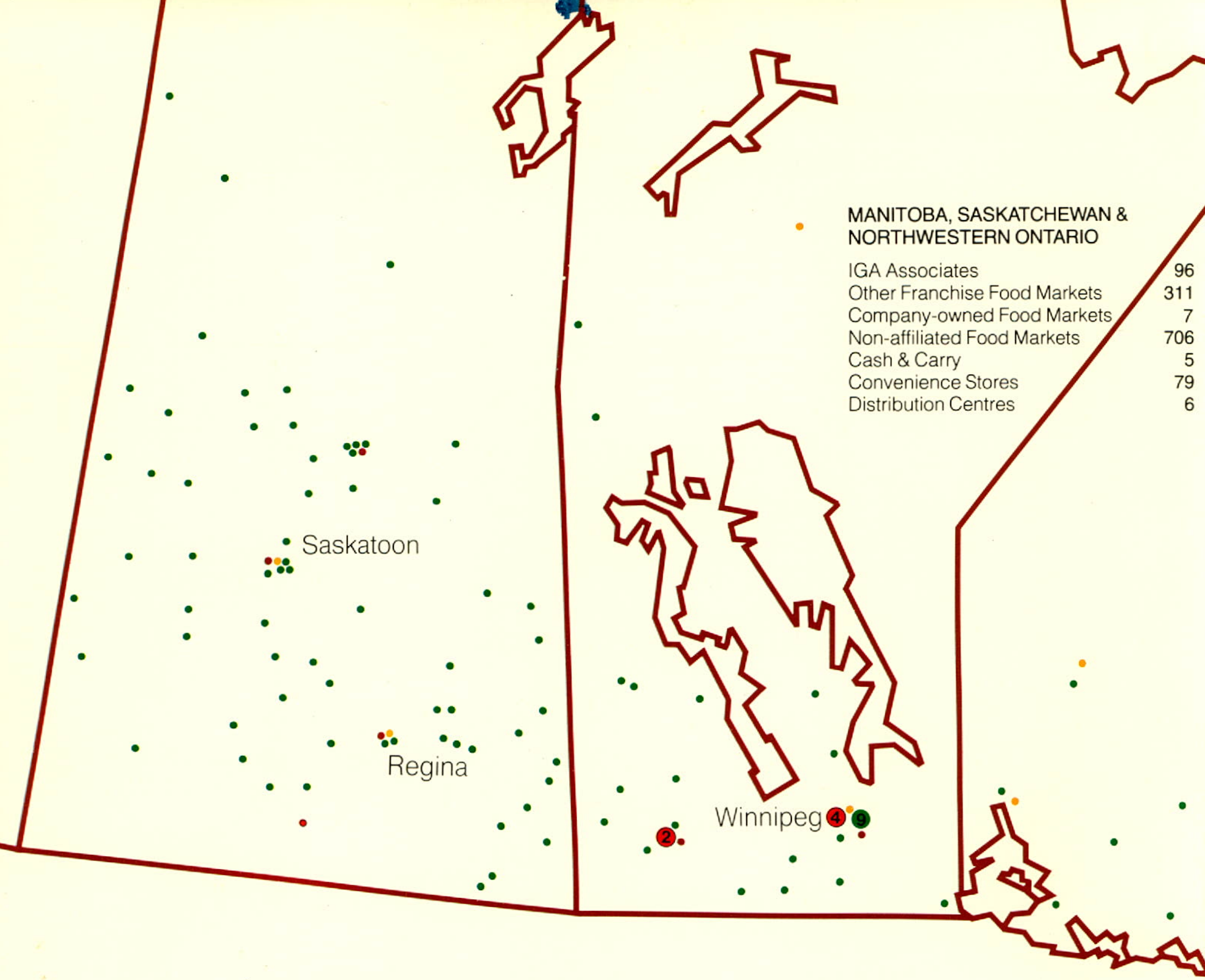


ONTARIO

IGA Associates	133
Other Franchise Food Markets	48
Company-owned Food Markets	55
Non-affiliated Food Markets	51
Convenience Stores	27
Discount Department Stores	32
Drug Marts	24
Pharmacies	22
Health & Beauty Aid Stores	5
Restaurants & Snack Bars	44
Gas Bars	5
Distribution Centres	11

QUEBEC

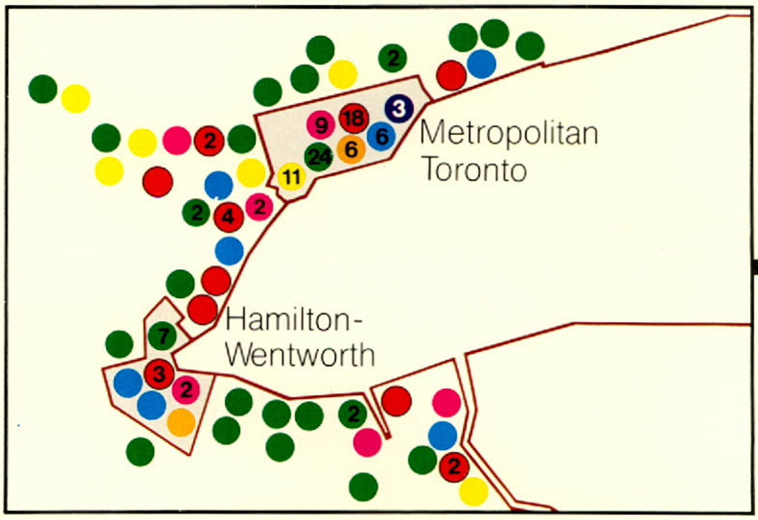
IGA-Boniprix Associates	89
Other Franchise Food Markets	49
Company-owned Food Markets	6
Non-affiliated Food Markets	583
Discount Department Stores	9
Cash & Carry	9
Convenience Stores	101
Restaurants & Snack Bars	13
Gas Bar	1
Distribution Centres	3



Oshawa

Market Penetration

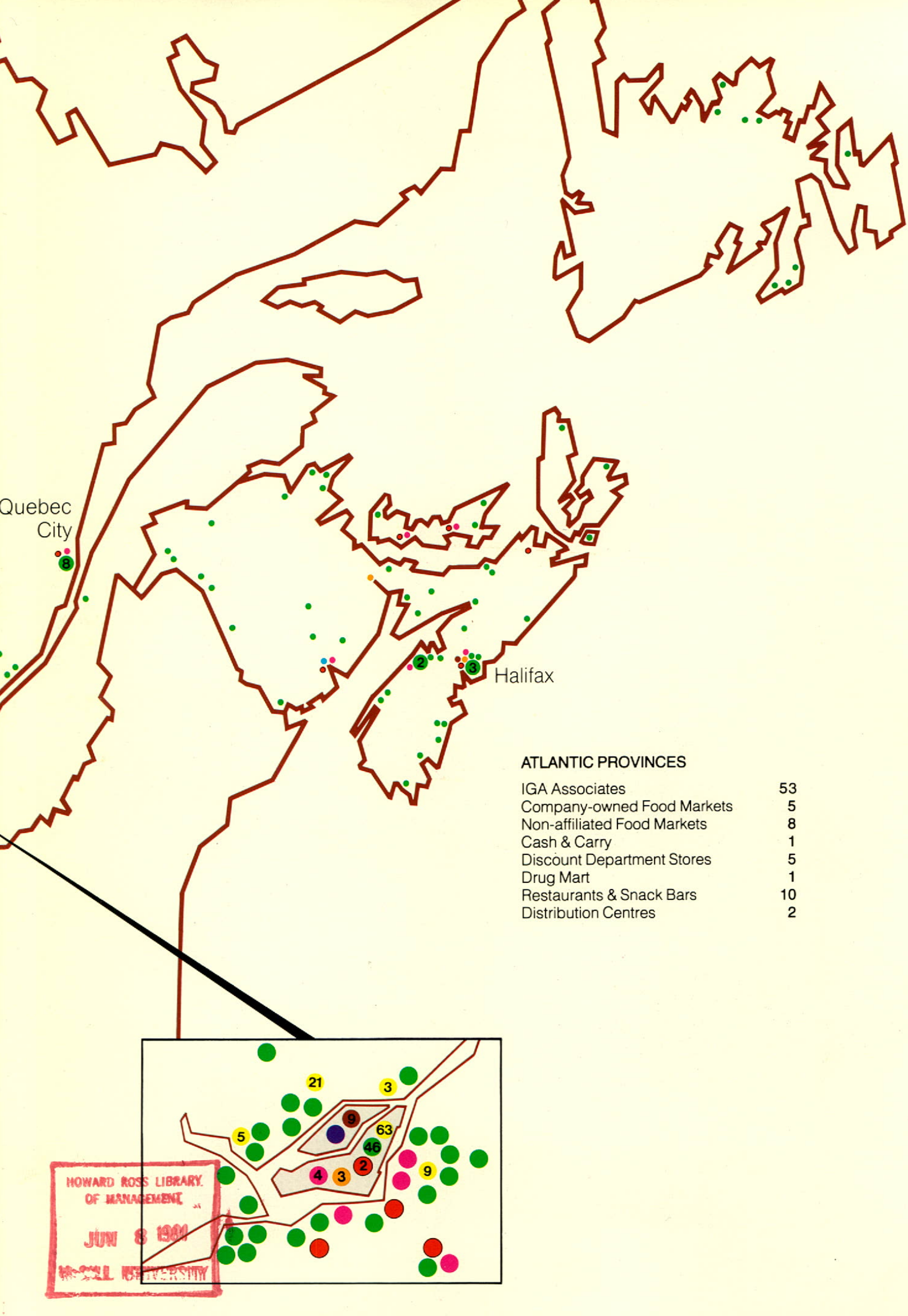
- IGA Associates
- Company-owned Food Markets
- Convenience
- Cash & Carry
- Towers
- Drug City
- Gas Bars
- Distribution Centres



Market Penetration

The Oshawa Group Limited which supplies and operates food markets, department stores, drug marts and gas bars in eight provinces, has become one of Canada's principal distributors of food and general merchandise. The following fold-out map shows the depth of market penetration achieved by the Company and its IGA Associates and the variety of retail services provided.

La version en français de ce rapport sera envoyée sur demande.



ATLANTIC PROVINCES

IGA Associates	53
Company-owned Food Markets	5
Non-affiliated Food Markets	8
Cash & Carry	1
Discount Department Stores	5
Drug Mart	1
Restaurants & Snack Bars	10
Distribution Centres	2

Contents

Results in Brief

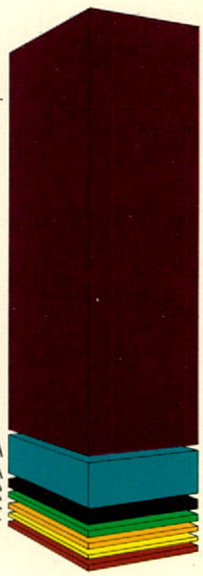
(in thousands of dollars)	January 24, 1981	January 26, 1980	% Change
Sales and Other Revenue	$1,648,188	$1,480,030	11.4
Earnings Before Extraordinary Items	13,486	8,457	59.5
Earnings Per Share Before Extraordinary Items	1.99	1.25	59.2
Extraordinary Items	3,037	1,648	84.3
Net Earnings	16,523	10,105	63.5
Earnings Per Share	2.44	1.50	62.7
Dividends Paid Per Share	0.47	0.42	11.9
Average Number of Shares Outstanding	6,764,779	6,749,904	

NUMBER OF STORES AT YEAR END

IGA Associates	371
Other Franchise Food Markets	408
Company-owned Food Markets	73
Convenience Stores	207
Cash & Carry	15
Non-affiliated Food Markets	1,348
Discount Department Stores	46
Drug Marts	25
Pharmacies	22
Health & Beauty Aid Stores	5
Restaurants & Snack Bars	67
Gas Bars	6

DISTRIBUTION OF SALES DOLLAR

87.70¢	Merchandise, services and related expenses
9.40	Payroll and employee benefits
.81	Interest
.64	Depreciation
.63	Corporation income taxes
.19	Dividends paid
.63	Retained for growth
100.00¢	



Sales and Revenue by Division

(in thousands of dollars)	January 24, 1981	January 26, 1980	% Change
WHOLESALE AND RETAIL FOOD			
Ontario Food Division	$ 615,953	$ 544,333	13.2
Hudon et Deaudelin Limitée	311,251	258,161	20.6
Codville Distributors	199,141	182,205	9.3
Bolands	107,988	78,997	36.7
Hypermarché	9,249	56,225	(83.6)
	1,243,582	1,119,921	11.0
INSTITUTIONAL			
Hickeson-Langs Supply Company	58,925	50,508	16.7
The Ontario Produce Company	43,396	36,700	18.2
Langs Cold Storage	2,714	2,554	6.3
Model Laundry	1,840	1,602	14.9
	106,875	91,364	17.0
GENERAL MERCHANDISE			
Towers Department Stores	290,112	263,599	10.1
Kent Drugs Limited	30,504	25,597	19.2
Restaurants	7,900	7,932	(0.4)
Gas Bars	6,714	5,109	31.4
	335,230	302,237	10.9
REAL ESTATE	9,262	9,031	2.6
Inter-divisional sales and revenue	(46,761)	(42,523)	
	$1,648,188	$1,480,030	11.4

Year in Review

Record sales and earnings in 1980

1980 was a year of record achievement for The Oshawa Group Limited with sales, earnings and working capital materially ahead.

SALES

Consolidated sales and other revenue of $1,648,188,000 were 11.4% higher than in the previous year.

Wholesale and retail sales increased 11%. Excluding sales of the Hypermarché Division which was sold during the year, the increase was 16%. The most substantial increase was at the wholesale level. Many factors contributed to a performance in excess of Canadian food industry averages. The full year's effect of marketing changes introduced by The Ontario Food Division in 1979, their successful application in Atlantic Canada, the entry of Bolands into the Newfoundland market, the addition and expansion of Company-owned and independent stores and a trend in the marketplace in support of independent grocers, all contributed to the sales increase.

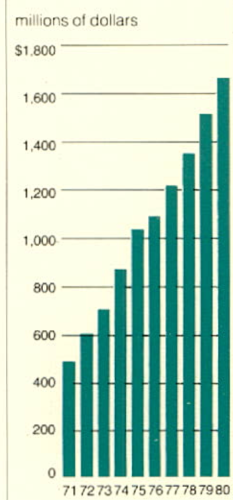
Institutional sales increased 17% as a result of higher prices for imported produce and improved performance of Hickeson-Langs Supply Company. Dominion Mushroom sales were materially ahead of the previous year which had been adversely affected by crop failures. Langs Cold Storage experienced a modest increase of 6.3%

General merchandise sales increased 10.9%. Towers Department Stores were up 10.1% with one new store opening late in the year. Restaurant sales remained level in spite of a net reduction of two locations. Kent Drugs Limited was ahead 19.2% partly due to five new outlets.

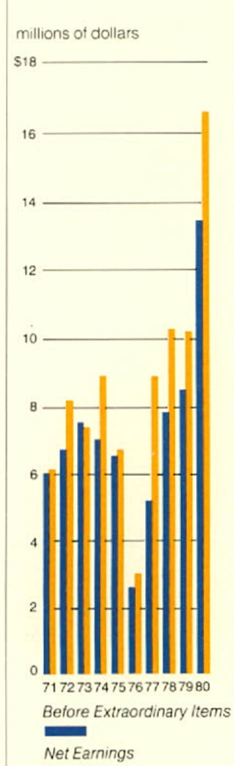
EARNINGS

Earnings from operations were $13,486,000 ($1.99 per share) compared with $8,457,000 ($1.25 per share) in the previous year, a 59.5% increase. After extraordinary items, net earnings amounted to $16,523,000 ($2.44 per share).

SALES

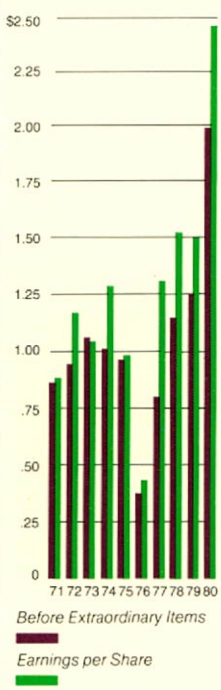


EARNINGS

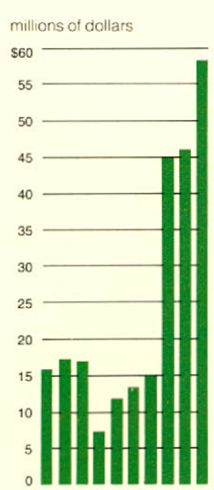


Working capital up $12.4 million to $58.5 million

EARNINGS PER SHARE



WORKING CAPITAL



All groups were profitable and contributed to the increase except real estate. After allocating corporate expense (other than interest and income taxes), segmented profit of food operations of $26,720,000 represented 2% on sales compared with $16,776,000 (1.4%) last year. General merchandise segmented profit was $6,328,000 (1.9% on sales) compared with $5,055,000 (1.7%) the previous year. Real estate profit of $3,326,000 compared with $3,627,000 in 1979.

In spite of higher rates, interest expense was held at the same level as 1979 as a result of lower average borrowings.

FINANCIAL POSITION

Working capital of $58,512,000 ($8.62 per share) was up $12,366,000. Capital expenditures of $26,673,000 included $4,696,000 for the capitalization of leases and $5,309,000 for a major expansion of Sudbury City Centre. The remainder was primarily for the opening of 10 new corporate retail units and the expansion and remodeling of a number of corporate food and department stores.

Bank indebtedness of $16,561,000 was $7,245,000 lower than at the previous year end. Long term debt increased by $4,194,000 representing capitalized lease obligations of $4,696,000 and term financing of $5,000,000 for the Sudbury City Centre, less debt repayments.

DIVIDENDS AND SHAREHOLDERS' EQUITY

Dividends of $3,177,000 were paid during the year compared with $2,836,000 in the previous year, an increase of 12%. During 1980, the Company adopted an optional stock dividend policy under which shareholders may elect to receive dividends in Class A shares rather than cash. In lieu of cash dividends of $376,000, 38,457 shares were issued as the result of such elections.

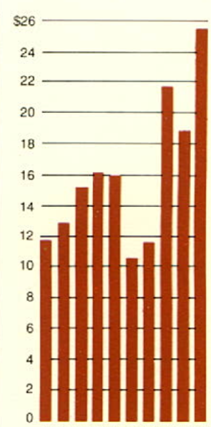
Shareholders' equity at year end was $115,605,000 ($17.03 per share).

EXPANSION AND DEVELOPMENT

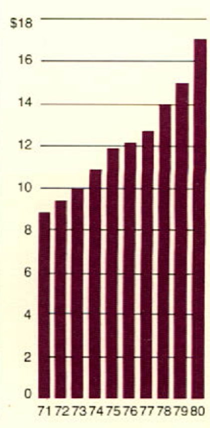
The pace of new, expanded and improved operations accelerated during 1980 and is continuing in the current year. Independents supplied by Oshawa experienced material growth.

In Atlantic Canada, **Bolands** franchised 15 new IGA markets including eight in Newfoundland. An additional two stores were converted to IGA from other programs and three were closed. Sales increased by 36.7%. 1981 will see further vigorous growth of dealer outlets.

Accelerated expansion pace continuing in 1981



FUNDS FROM OPERATIONS



SHAREHOLDERS' EQUITY PER SHARE

Additional distribution facilities under way

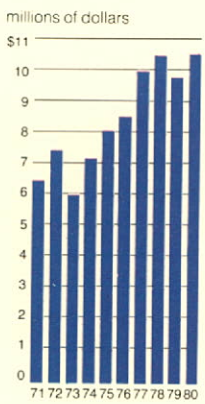
In Quebec, **Hudon et Deaudelin's** Bonisoir convenience stores increased by 35. Four IGA units were opened, one enlarged, one closed and four converted to other Company programs. Sales increased by 20.6%. In 1981, 11 new and 10 enlarged IGA stores are planned as well as 25 additional Bonisoirs.

The **Ontario Food Division** franchised four IGA units, expanded three, closed three, and converted one Food City to a corporate IGA. Eight Jug City convenience stores opened and three closed. Growth for 1981 will include seven IGA markets, 14 IGA enlargements, 15 Jug City stores, four Food City units and one Dutch Boy market.

In the West, **Codville Distributors** opened 10 new IGAs, expanded two and converted five Locomarts to IGA. Four smaller units were closed and four converted to other Company programs. The current year will see 16 new IGAs and three expansions.

To support retail growth, additional distribution facilities will be required in the coming year. A supply depot in Newfoundland, increased warehouse and office space at Dartmouth and Moncton, a frozen food installation in Montreal, and major enlargement of perishable, freezer and office space in Toronto are planned or under construction.

DEPRECIATION



This new 16,750 square foot IGA market in North Winnipeg's Maples Market Place is typical of the larger franchise stores now being opened.

Dakota IGA, a 20,000 square foot unit in the St. Vital district of Winnipeg was a corporate chain store which was acquired for an IGA Associate. Background, the IGA pylon in the Dakota Shopping Centre.


IGA

Department stores upgraded, drug chain expanded

In the general merchandise group, **Towers** opened one department store, expanded one and substantially upgraded 12 in 1980. **Kent Drugs Limited** added five Drug City units. Plans for 1981 include the opening of two department stores, continuation of the renovation program and five more Drug City stores.

Langs Cold Storage completed.a 795,000 cubic foot expansion of its London freezer plant in June 1980, and this contributed to a 20% increase in revenues from this branch.

To improve efficiency and customer service, **Ontario Produce** will upgrade its facilities at the Ontario Food Terminal in Toronto. An on-line computer, recently installed, provides more timely and effective management information systems.

In real estate, Oshawa's Sudbury City Centre was expanded to 497,000 square feet by the addition of 87,000 square feet of office and retail space. The retail area is almost completely leased and a major tenant has been obtained for a portion of the office space.

Combining competitive prices with IGA service has produced strong support for the IGA program and a need for larger retail facilities. The Sundridge, Ontario market (far left) replacing a smaller unit and the new 25,000 square foot Blue Mountain IGA in Collingwood are indicative of the trend.

In Montreal, land adjacent to the Décarie Square shopping centre was sold for construction (already under way) of high rise condominiums and other residential units. This development together with the extension of the Montreal subway should improve the viability of the mall.

MANAGEMENT CHANGES
A number of management changes were made in 1980.

Board, management strengthened

Allister P. Graham, Group Vice President Food Divisions and General Manager of the Ontario Food Division was elected to the Board of Directors, bringing to the Board a broad knowledge of the wholesale and retail food business.

The 40,000 square foot Food City which opened in March, 1981 in Oakville Place, one of Ontario's most attractive shopping centres, is Oshawa's largest food market. These photos (clockwise) depict a section of the produce department, the meat department, price scanning at computer assisted checkouts, and a cross-section showing the Oakville historical scenes that line the store interior.

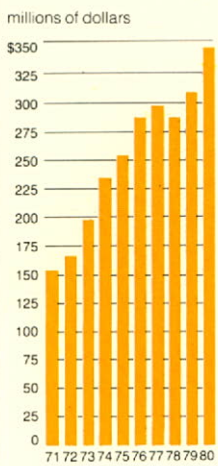
At Corporate level, Paul B. Nielsen, Director Industrial Relations was appointed Vice President Industrial Relations, John Brown, Ph.D., General Manager Institutional Food, and Vern T. Barber, General Manager Produce.

Croteau new president of Quebec division

Senior divisional appointments included: Hudon et Deaudelin Ltée – Pierre Croteau, President and General Manager, succeeding Jean-Guy Deaudelin who retired; Ontario Food Division – Jonathan Wolfe, Assistant General Manager, and Charles Candy, Vice President Corporate Stores; Bolands – George S. Lea, Vice President Sales and Advertising, Gordon F. Rands, Vice President Distribution and Brian Coen, Vice President Administration, and Towers Department Stores – Edward Harsant, Vice President Operations, and Peter Davidson, Controller.

Fifteen IGA markets were opened in Atlantic Canada in 1980 including Llewellyn's IGA in Montague, P.E.I. (top) and Victor's IGA in Grand Falls, N.B. (centre). Placentia IGA in Newfoundland opened early in 1981.

TOTAL ASSETS



This modern food market in Place Renaud, Laval, near Montreal (top) converted to the IGA-Boniprix program from another voluntary group. Below is Gérard Champagne's third IGA-Boniprix, a 9,200 square foot unit in Ville Emard in southwest Montreal.

PLANNING AHEAD

Generally, high borrowing costs, adverse conditions for conventional long-term debt financing, changing government regulations, and escalating energy and manpower costs increase the difficulty of producing a reasonable return on shareholders' investment and becloud projections and planning.

Objectives pursued with confidence

Nonetheless, within the bounds of prudent financial management, the Company pursues its growth objectives with confidence.

Paradoxically, some business uncertainties impairing the growth of most food retailing and general merchandise chains, have improved the prospects of the Company in its principal spheres of activity.

High fuel costs, for example, have discouraged long journeys to regional centres to the benefit of the more conveniently located IGA food market. And as inflation continues unabated, pressure on family budgets accents the values provided by Towers Department Stores.

By year end Oshawa supplied 207 convenience stores including this new Jug City unit which opened in October in Collingwood's Blue Mountain Mall.

Accordingly, the principal thrust of the Company's growth will be in new and enlarged retailing facilities for IGA Associates whose opportunities in the market place are further enhanced by the personal service and cost controls that only an independent entrepreneur can provide.

Main growth in new and enlarged stores

New Company-operated retail food units will also open on a controlled schedule with concentration on clustering to improve advertising effectiveness and productivity.

Towers' modernization program continues, with new decor and equipment providing a bright and enjoyable shopping environment. Coupled with improved product selection and fully competitive prices, Towers is expected to show steady gains in return on investment.

Twenty-one Towers Department Stores have been renovated in the past three years and now have a uniform, modern interior decor and exterior facade as illustrated by Scarborough Towers (above and centre), the first Towers to open in 1960. The lower photo shows the women's fashion department in the new Collingwood, Ontario Towers.

Drug City too, will expand by adding new locations as rapidly as they can be integrated.

In real estate, the emphasis will be on improving the return on revenue producing properties and the disposal of those not suitable for the Company's retail growth.

APPRECIATION

The above average results of the past year were made possible by the positive contributions of employees, management and suppliers, as well as the loyalty of wholesale and retail customers. For their past and continued support, on behalf of the Directors and shareholders, our sincere appreciation is extended.

Ray D. Wolfe, C.M.
Chairman and President

April 3, 1981

Emphasis on better return from properties

Blue Mountain Mall Drug City in Collingwood (top) was one of five drug stores opened in 1980 by the Company's Kent Drugs Limited division. Below is the office building addition to Oshawa's City Centre shopping and commercial complex in Sudbury, Ontario.

Comparative Summary

(in thousands of dollars except per share)

Year Ended	Jan. 24, 1981	Jan. 26, 1980	Jan. 27, 1979	Jan 28, 1978	Jan. 22, 1977
Sales	**$1,648,188**	$1,480,030	$1,336,784	$1,205,805	$1,077,575
Depreciation	**10,590**	9,801	10,441	10,027	8,629
Income Taxes	**10,443**	4,558	4,801	1,346	2,031
Earnings Before Extraordinary Items	**13,486**	8,457	7,766	5,233	2,578
Earnings Per Share Before Extraordinary Items*	**1.99**	1.25	1.15	0.78	0.38
Earnings Before Extraordinary Items as a % of Sales	**.82**	.57	.58	.43	.24
Net Earnings	**16,523**	10,105	10,283	8,874	2,957
Net Earnings Per Share*†	**2.44**	1.50	1.52	1.31	0.44
Funds From Operations	**25,786**	18,974	21,858	11,679	10,501
Total Dividends Paid	**3,177****	2,836**	2,295	2,295	2,295
Dividends Paid Per Share	**47.0¢****	42.0¢**	34.0¢	34.0¢	34.0¢
Reinvested in Business	**14,122**	6,493	7,988	6,579	662
Average Number of Shares*†	**6,764,779**	6,749,904	6,749,904	6,749,904	6,749,904
Shareholders' Equity	**115,605**	101,107	94,614	86,626	81,799
Shareholders' Equity Per Share*†	**17.03**	14.98	14.02	12.83	12.12
High-low Stock Price	**14¼-7⅛**	10-7	9-4⅜	5½-3⅜	5⅝-3
Total Assets	**344,583**	309,965	287,925	299,570	286,832
Current Assets	**197,857**	172,159	161,257	150,588	137,410
Current Liabilities	**139,345**	126,013	116,241	135,592	124,105
Working Capital	**58,512**	46,146	45,016	14,996	13,305
Current Ratio	**1.42:1**	1.37:1	1.39:1	1.11:1	1.11:1
Salaries, Wages, Benefits	**154,863**	145,576	133,819	127,447	112,606
Number of Regular Employees At Year End	**6,637**	6,583	6,768	6,919	6,909

* Combined Class A and Common.

† Net Earnings Per Share have been calculated on the average number of shares outstanding during the year. Shareholders' Equity Per Share has been calculated on the shares outstanding at the end of the year.

** Dividend declared on January 25, 1980, of 11½¢ per share was paid March 10,1980.

Consolidated Statement of Earnings

For the year ended January 24, 1981

(in thousands of dollars)	1981	1980
SALES AND OTHER REVENUE	$1,648,188	$1,480,030
COST OF SALES AND EXPENSES		
Cost of sales and expenses before the undernoted items:	1,601,907	1,445,542
Interest *(note 5)*	13,332	13,337
Depreciation	10,590	9,801
	1,625,829	1,468,680
	22,359	11,350
Interest and dividends earned	1,570	1,665
EARNINGS BEFORE INCOME TAXES	23,929	13,015
Income taxes	10,443	4,558
EARNINGS BEFORE EXTRAORDINARY ITEMS	13,486	8,457
Extraordinary items *(note 6)*	3,037	1,648
NET EARNINGS	$ 16,523	$ 10,105
Earnings per share before extraordinary items	$1.99	$1.25
Earnings per share	$2.44	$1.50
Average number of shares outstanding	6,764,779	6,749,904

Consolidated Statement of Retained Earnings

For the year ended January 24, 1981

(in thousands of dollars)		
BALANCE, BEGINNING OF YEAR	$ 41,111	$ 34,618
Add: Net earnings for year	16,523	10,105
	57,634	44,723
Less: Dividends *(note 4)*		
– Class A shares	2,340	3,520
– Common shares	61	92
	2,401	3,612
BALANCE, END OF YEAR	$ 55,233	$ 41,111

Consolidated Balance Sheet

January 24, 1981

(in thousands of dollars)	1981	1980
ASSETS		
CURRENT ASSETS		
Cash	$ 1,080	$ 966
Marketable securities, at cost (market value – \$442; 1980 – \$1,974)	394	1,230
Accounts receivable	52,423	46,198
Inventories	137,883	117,833
Real estate held for sale	1,752	1,581
Prepaid expenses	4,325	4,351
	197,857	172,159
OTHER ASSETS		
Loans and mortgages receivable	6,266	4,110
Other	962	3,511
	7,228	7,621
FIXED ASSETS *(note 2)*	139,498	130,185
	$ 344,583	$ 309,965

Approved on behalf of the Board

R. Wolfe

Ray D. Wolfe, C.M., Director

P J Connell

Philip F. Connell, F.C.A., Director

(in thousands of dollars)	1981	1980
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness and notes payable	$ 16,561	$ 23,806
Accounts payable and accrued liabilities	111,545	92,823
Dividends payable	–	776
Income taxes payable	8,290	6,240
Current portion of long term debt	2,949	2,368
	139,345	126,013
LONG TERM DEBT *(note 3)*	84,410	80,216
DEFERRED INCOME TAXES	5,223	2,629
SHAREHOLDERS' EQUITY		
CAPITAL STOCK *(note 4)*		
Authorized		
11,906,100 Class A non-voting shares, without par value		
912,000 Common shares, without par value		
Issued		
6,616,985 Class A shares (1980 – 6,578,528)	59,409	59,033
171,376 Common shares	44	44
	59,453	59,077
CONTRIBUTED SURPLUS	919	919
RETAINED EARNINGS	55,233	41,111
	115,605	101,107
	$ 344,583	$ 309,965

Consolidated Statement of Changes in Financial Position

For the year ended January 24, 1981

(in thousands of dollars)	1981	1980
SOURCE OF WORKING CAPITAL		
Operations		
Earnings before extraordinary items	$ 13,486	$ 8,457
Items not affecting funds from operations:		
Depreciation	10,590	9,801
Deferred income taxes	1,710	716
Funds from operations	25,786	18,974
Issue of long term debt	9,590	7,258
Disposal of fixed assets	6,770	948
Extraordinary items before deferred income taxes of $884,000 (1980 – nil)	3,921	1,648
Other	2,549	(608)
Issue of Class A shares as dividends	376	–
	48,992	28,220
USE OF WORKING CAPITAL		
Purchase of fixed assets	26,673	21,524
Repayment of long term debt	5,396	2,199
Dividends	2,401	3,612
Loans and mortgages receivable	2,156	(245)
	36,626	27,090
INCREASE IN WORKING CAPITAL	12,366	1,130
WORKING CAPITAL, BEGINNING OF YEAR	46,146	45,016
WORKING CAPITAL, END OF YEAR	$ 58,512	$ 46,146

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries.

Inventories
Warehouse inventories are valued at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis. Retail food and general merchandise inventories are valued at the lower of cost and net realizable value less normal profit margins as determined by the retail method of inventory valuation.

Real Estate Held For Sale
Real estate held for sale is valued at the lower of cost and net realizable value. Cost includes development expenses and carrying charges including applicable interest on general borrowings.

Fixed Assets and Depreciation
Major enlargements, remodelings and improvements are charged to the appropriate fixed asset accounts. The cost of maintenance and repairs which does not extend the life of an asset is charged against earnings.

Fixed assets are recorded at cost and are depreciated on the straight line basis at rates sufficient to amortize the cost of the assets over their estimated useful lives as follows:

Classification	*Estimated Useful Life*
Buildings	20 to 40 years
Equipment	4 to 10 years
Leasehold improvements	term of lease plus first option to a maximum of 20 years
Property under capital leases	term of lease

Development and Pre-opening Expenses
Development and pre-opening expenses of new stores are written off in the year of opening.

Sale of Stores and Properties
Gains and losses on the sale of stores and properties, other than warehouses and similar operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

Leases
Leases entered into after January 27, 1979 that transfer substantially all the benefits and risks associated with ownership are recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized on a straight line basis and the obligation, including interest thereon, is liquidated over the term of the lease. All other leases are accounted for as operating leases, and the rental costs are expensed as incurred.

2. FIXED ASSETS

	1981	1980
	(in thousands)	
Land	$ 17,857	$ 21,465
Buildings	90,684	84,063
Equipment	89,503	82,266
Leasehold improvements	17,276	17,435
	215,320	205,229
Less accumulated depreciation	82,946	77,798
	132,374	127,431
Property under capital leases, less accumulated depreciation of $462,000 (1980 – $135,000)	7,124	2,754
	$139,498	$130,185

3. LONG TERM DEBT

	1981	1980
	(in thousands)	
Bank indebtedness	$ 35,000	$ 33,000
Mortgages and notes payable	31,596	32,791
Series A Sinking Fund Debentures	13,468	13,990
Obligations under capital leases *(note 7)*	7,295	2,803
	87,359	82,584
Less current portion	2,949	2,368
	$ 84,410	$ 80,216

PRINCIPAL REPAYMENTS

Principal repayments of long term debt are as follows:

		(in thousands)
(fiscal year ending in)	1982	$ 2,949
	1983	5,775
	1984	9,992
	1985	19,380
	1986	2,043
	1987-2009	47,220
		$ 87,359

BANK INDEBTEDNESS

Bank indebtedness (including a loan of $19,000,000 secured by a mortgage on a shopping centre) bears interest at rates varying from prime to prime plus ¾%, and provides for principal repayments from 1982 to 1987.

MORTGAGES AND NOTES PAYABLE

These obligations are secured by certain real estate, bear interest at an average rate of 10.2% per annum and provide for principal repayments from 1982 to 2009.

SERIES A SINKING FUND DEBENTURES

These debentures are secured by a floating charge on the undertaking and assets of the Company, bear interest at a rate of 9¼% per annum and mature June 15, 1991.

The Company has covenanted to retire $8,500,000 principal amount Sinking Fund Debentures prior to maturity as follows:

June 15, 1982	$ 500,000
June 15, 1983 to 1990	1,000,000 in each year

In addition to the sinking fund payments referred to above, the Company has the non-cumulative right to retire up to $500,000 principal amount of Sinking Fund Debentures in each of the years 1982 to 1986.

4. CAPITAL STOCK

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 1¼¢ per share in priority to payment of dividends on the Common shares.

Pursuant to the adoption during the year of an optional stock dividend policy, the Company reserved 125,000 Class A shares of which 38,457 were issued in lieu of cash dividends.

The first dividend paid in 1981 was declared and charged to retained earnings in 1980. As a result three dividends were charged to retained earnings in 1981 and five in 1980.

5. INTEREST EXPENSE

	1981	1980
	(in thousands)	
Interest on long term debt	$ 9,467	$ 9,725
Other interest	3,550	3,635
Interest on obligations under capital leases	648	206
	13,665	13,566
Less interest capitalized to cost of real estate	333	229
	$13,332	$13,337

6. EXTRAORDINARY ITEMS

	1981	1980
	(in thousands)	
Gain on sale of investments less income taxes of $566,000	$ 1,650	$ –
Gain on sale of leases less income taxes of $822,000	822	–
Gain on sale of marketable securities less income taxes of $141,000 (1980 – $573,000)	330	1,598
Other items	235	50
	$ 3,037	$ 1,648

7. LEASES

Minimum lease payments for store locations, office and warehouse facilities and equipment (exclusive of additional amounts based on percentage of sales, taxes, insurance, and other occupancy charges) under capital and operating leases in future years are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
Fiscal year ending in		
1982	$ 1,341	$ 16,784
1983	1,500	15,685
1984	1,232	14,359
1985	1,104	13,289
1986	1,036	12,406
1987 to 2006	14,201	124,405
Total minimum lease payments	20,414	$196,928
Less executory costs	22	
Imputed interest at an average rate of 14.0% per annum	13,097	
	13,119	
Obligations under capital leases	$ 7,295	

It is expected that rental revenue of $4,519,000 will be received in the fiscal year ending January 23, 1982, from locations which have been sublet.

As stated in note 1, the Company has not adopted retroactive accounting treatment for capital leases. Retroactive application would have reduced net earnings for the current year by $333,000, increased assets by $48,733,000 and obligations by $55,531,000.

8. PENSION PLANS

Pension costs included in the consolidated statement of earnings represent current and past service contributions. There is no unfunded past service liability.

9. CONTINGENT LIABILITIES

(a) The Company has guaranteed long term leases of Consumers Distributing Company Limited having minimum annual rentals of $1,156,000. Consumers Distributing Company Limited has given the Company a debenture as security against any liabilities or costs which may be incurred under these guarantees.

(b) The Company has guaranteed one-half of any deficiency between net rental income and the payment of principal, interest and taxes required under a mortgage loan having a balance of $8,145,000 at January 24, 1981. The Company has received an indemnity against any losses which may be suffered under this guarantee.

(c) A legal action claiming damages for $1,286,000 was instituted in 1976 against the Company for an alleged failure to honor a commitment to lease in a shopping centre. In the opinion of counsel, based on the facts now known, the most probable outcome of this action if it were to proceed to trial would be the dismissal of plaintiff's action.

(d) Certain tenants in a shopping centre owned by the Company have instituted a series of actions against the Company for damages aggregating $6,300,000. On the basis of present information, it is the opinion of counsel that the most probable outcome, if these actions proceed to trial, would be their dismissal or judgments the amounts of which would not be material.

10. RELATED PARTY TRANSACTIONS

The Company leases a warehouse and six retail outlets from a company owned by certain Officers, Directors and their families. Rentals for the year ended January 24, 1981, amounted to $619,000 (1980 – $603,000).

11. COMPARATIVE FIGURES

The comparative figures for the previous year have been reclassified where necessary, to conform with the current year's presentation.

12. SEGMENTED INFORMATION

(in thousands of dollars)

	Food Distribution 1981	Food Distribution 1980	General Merchandise 1981	General Merchandise 1980	Real Estate 1981	Real Estate 1980	Consolidated 1981	Consolidated 1980
Sales and other revenue								
Outside	$1,307,948	$1,173,426	$335,230	$302,237	$ 5,010	$ 4,367	$1,648,188	$1,480,030
Inter-segment	28,278	26,421	–	–	4,252	4,664	–	–
	$1,336,226	$1,199,847	$335,230	$302,237	$ 9,262	$ 9,031	$1,648,188	$1,480,030
Segment profit	$ 26,720	$ 16,776	$ 6,328	$ 5,055	$ 3,326	$ 3,627	$ 36,374	$ 25,458
Corporate investment income							887	894
Interest							(13,332)	(13,337)
Income taxes							(10,443)	(4,558)
Earnings before extraordinary items							13,486	8,457
Extraordinary items							3,037	1,648
Net earnings							$ 16,523	$ 10,105
Assets								
Segment	$ 174,608	$ 158,828	$ 96,903	$ 78,695	$ 70,067	$ 63,952	$ 341,578	$ 301,475
Corporate							3,005	8,490
Total							$ 344,583	$ 309,965
Capital expenditures								
Segment	$ 12,664	$ 12,823	$ 6,793	$ 6,110	$ 7,185	$ 2,469	$ 26,642	$ 21,402
Corporate							31	122
Total							$ 26,673	$ 21,524
Depreciation								
Segment	$ 6,129	$ 5,541	$ 3,087	$ 2,912	$ 1,272	$ 1,250	$ 10,488	$ 9,703
Corporate							102	98
Total							$ 10,590	$ 9,801

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 24, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at January 24, 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
March 23, 1981

Wm. Eisenberg & Co.
Chartered Accountants

Directors, Officers

Max Wolfe
Honorary Chairman of the Board

DIRECTORS

William L. Atkinson
Philip F. Connell, F.C.A.*
Murray C. Goldman
Allister P. Graham
Charles Perrault, M. Eng.*
Albert Shifrin, Q.C.*
Arthur J.R. Smith, Ph.D., D.U.C., LL.D.*
Harold J. Wolfe
Harvey S. Wolfe
Jack B. Wolfe
Ray D. Wolfe, C.M.

*Audit Committee

OFFICERS

Ray D. Wolfe, C.M.
Chairman and President

Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer

Leonard Eisen, C.A.
Treasurer

Harold J. Wolfe
Secretary

Corporate Management

Ray D. Wolfe, C.M.
Chairman and President

Philip F. Connell, F.C.A.
Senior Vice President and Chief Financial Officer

William L. Atkinson
Group Vice President General Merchandise

Allister P. Graham
Group Vice President Food Divisions

Jack B. Wolfe
Group Vice President Institutional Food and Produce

E. Leonard Besler, C.A.
Corporate Controller

Charles Comrie
Vice President Personnel

Sam Crystal
Vice President Public Affairs

Leonard Eisen, C.A.
Treasurer

Murray C. Goldman
Vice President Development

Matilda Manojlov
Vice President Profit Development

Paul B. Nielsen
Vice President Industrial Relations

Harold J. Wolfe
General Counsel

Operating Divisions

FOOD

BOLANDS
Dartmouth, Nova Scotia
Leif Christensen
President and General Manager

CODVILLE DISTRIBUTORS
Winnipeg, Manitoba
Max Hatch
President and General Manager

CONVENIENCE STORES AND GAS BARS
Toronto, Ontario
G. Michael Moffat
Vice President

DUTCH BOY FOOD MARKETS
Kitchener, Ontario
Barry Humphrey
General Manager

HUDON ET DEAUDELIN LTÉE
Montreal, Quebec
Pierre Croteau
President and General Manager

ONTARIO FOOD DIVISION
Toronto, Ontario
Allister P. Graham
Vice President and General Manager

GENERAL MERCHANDISE

KENT DRUGS LIMITED
Toronto, Ontario
Ab Flatt
President

RESTAURANTS
Toronto, Ontario
Redmond J. Langan
Vice President and General Manager

TOWERS DEPARTMENT STORES
Toronto, Ontario
William L. Atkinson
President and Chief Executive Officer

INSTITUTIONAL FOOD AND PRODUCE

General Manager Produce
Vern T. Barber

BRADFORD PACKING CENTRE
Bradford, Ontario
Glen Henderson
Manager

DOMINION MUSHROOM COMPANY
Pickering, Ontario
Nate Tickner
Manager

THE ONTARIO PRODUCE COMPANY
Toronto, Ontario
Vern T. Barber
President

THE WHITE & COMPANY
Toronto, Ontario
Vance Graham
Manager

General Manager Institutional
J.F. Brown, Ph.D.

HICKESON-LANGS SUPPLY COMPANY
Toronto, Ontario
Charles Davies
President and General Manager

LANGS COLD STORAGE
Hamilton, Ontario
Ken Edworthy
General Manager

MODEL LAUNDRY
Toronto, Ontario
Carlo Bryce
General Manager

REAL ESTATE

Murray C. Goldman
Vice President Development

Salient Data

REGISTRAR AND TRANSFER AGENTS

Class A Shares and Series A Debentures,
The Canada Trust Company,
Toronto, Montreal, Calgary, Regina
and Vancouver

AUDITORS

Wm. Eisenberg & Co., Toronto

BANKERS

Canadian Imperial Bank of Commerce
Bank of Montreal
Bank of Nova Scotia
Toronto-Dominion Bank

LISTED ON

Toronto Stock Exchange
Montreal Stock Exchange

HEAD OFFICE

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Oshawa
The Oshawa Group Limited