Oshawa Annual Report

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For the fiscal year ended January 26, 1985

The Oshawa Group Limited is a diversified Canadian company principally engaged in the marketing of food, general merchandise, health and beauty products and pharmaceuticals. Its operations are carried out through a network of wholesale distributors and retail outlets.

Oshawa is supplier to 424 IGA franchise stores located in every province except Alberta and British Columbia. It owns and operates 82 supermarkets, of which 45 are Food City stores and six Dutch Boy Food Markets, 48 Towers and Bonimart department stores, 47 Drug City and Metro Drug stores, 22 pharmacies, as well as 54 cafeterias and snack bars and 12 gas bars.

The Company also supplies many non-affiliated outlets as well as food-service and institutional customers. The Oshawa operations include produce wholesaling, a vegetable-packaging plant, a mushroom farm, public cold-storage warehouses and a commercial laundry. Oshawa's substantial real estate holdings play their part in the Company's ongoing expansion and development.

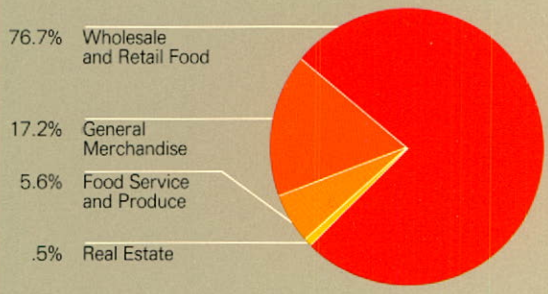
The accompanying financial statement for 1984 records another year of significant growth. It is against this background that Oshawa prepares for further advance through a broad program of updating, renovation and construction.

Cover Photos

Pictured on the cover are the principal retailing entities operated or supplied by The Oshawa Group Limited. The Towers Department Stores chain is represented by a new Brampton, Ontario unit; Food City supermarkets by a recently modernized Bramalea, Ontario unit; Drug City and Metro Drug stores by a drug mart in Collingwood, Ontario; and franchised IGA markets by Larry McMullen's Blue Mountain IGA in Collingwood.

Sales and Other Revenue

1984



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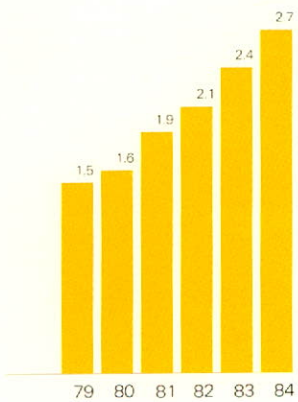
Financial Highlights

(in thousands of dollars except per share)	**1985** *January 26, (52 weeks)*	1984 *January 28, (53 weeks)*	% change
Operations			
Sales and other revenue	**$2,665,774**	$2,434,985	+ 9.5
Net earnings	**36,179**	25,895	+ 39.7
Capital expenditures	**30,043**	19,439	+ 54.6
Financial Position			
Working capital	**111,007**	92,502	+ 20.0
Long term debt	**56,255**	58,202	— 3.4
Shareholders' equity	**226,084**	195,223	+ 15.8
Total assets	**483,922**	435,631	+ 11.1
Per Share			
Net earnings	**2.28**	1.83	+ 24.6
Dividends	**.40½**	.33	+ 22.7
Book value	**14.22**	12.33	+ 15.3
Key Ratios			
Return on sales	**1.36%**	1.06%	
Return on opening equity	**18.5%**	18.1%	
Current ratio	**1.59:1**	1.54:1	
Debt to equity ratio	**.25:1**	.30:1	
Average number of shares outstanding	**15,865,953**	14,135,386	+ 12.2

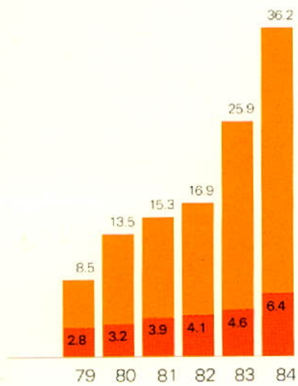
Sales

in Billions



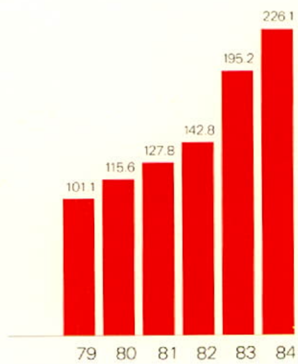
Net Earnings
Dividends

in Millions



Shareholders' Equity

in Millions



Ray D. Wolfe, C.M.
Chairman and
Chief Executive Officer

Allister P. Graham,
President and
Chief Operating Officer

1984 produced record earnings of $36.2 million, an increase of 40% over the preceding year. Consolidated sales for the 52-week fiscal period were 9.5% ahead of 1983 (when the year comprised 53 weeks). Return on sales showed an improvement from 1.06% to 1.36%.

Growth of earnings and sales were general throughout The Oshawa Group Limited. The Company substantially strengthened its financial position, with year-end working capital at an all-time high of $111 million, and a debt-to-equity ratio of .25 to 1.

These results were obtained despite unfavorable trading conditions. The food and general merchandise industries in Canada have been affected by continuing high unemployment, an unstable economic climate and fundamental changes in the marketplace. In seeking solutions to the resultant problems, most food chains have closed or sold many unprofitable units, and tried new formats and wholesaling. The pursuit of increased market share continues with a variety of concepts ranging from limited-line "box stores" to "warehouse" superstores.

In the general merchandise sector, major competitors facing shrinking sales, have introduced a variety of product mixes and "deep discount" merchandising. The attempt to cut costs has prompted large-scale layoffs, and reassessment of priorities.

In contrast to this general turmoil, Oshawa has maintained a steady program of upgrading, expansion and growth to serve a widening clientele. Through its IGA Associates, its corporate Food City and Towers/Bonimart stores, it has effectively carried out an aggressive merchandising policy and obtained better-than-average sales and earnings, sustaining the momentum established during recent years.

Looking Ahead

Industry forecasts and projections indicate that the last half of the present decade will continue to be unstable in food and general merchandise retailing. New formats and formulae have so far produced no dominant trend. However, it is clear that electronic technology will be important in shaping the future and determining the pattern of supply to the consumer market.

Oshawa is at the leading edge of the technological evolution. Both at corporate-store level and in IGA stores, retail operations will benefit from increased efficiencies flowing from computer-linked electronic checkouts and computer-operated replenishment systems.

New technology is also on stream to help in guiding suppliers toward improved packaging and more efficient handling. As wholesalers and retailers Oshawa will be making optimum use of the information obtained at point of sale. The resultant acceleration of supply, improvement of product availability and increased turnover will be reflected in future Company reports.

Oshawa's $30 million capital expenditure program during the year — 50% higher than in 1983 — was the largest in our history. It is being followed by a capital expenditure commitment of $45 million for 1985 which will be met out of Company resources and further complemented by the capital outlays of IGA Associates involved in an unprecedented expansion program.

1985 will see the opening of 55 IGA units, ten of which will replace small existing stores, and 28 will be transfers from other franchise affiliation. An additional 71 units are slated for upgrading and modernization — 26 of which will be substantially expanded.

In the corporate sector, three new supermarkets will be built, one to replace an existing, smaller store; and four supermarkets will be enlarged. Another five units are to undergo extensive renovation.

Reference has been made to the economic climate. Governmental measures aimed at correcting unemployment, the weakness of the Canadian dollar and continuing high interest rates will be limited by the accumulated debt and the fixed nature of many current obligations.

Against these negative factors, Oshawa is pitting the strengths acquired in the course of recent years. Its market share has grown; its policies have been effective.

With a broad geographic base, a good balance between corporate and franchise operations, the Company has achieved an efficient cost structure and the ability to maintain high levels of service to its customers.

Appointment to the Board

During the past year Jonathan A. Wolfe, President and General Manager of Oshawa Foods, was appointed to the Board of Directors of The Oshawa Group Limited.

Appreciation

This year, as in the past, we acknowledge the invaluable contributions of a dedicated staff. At every level, Oshawa people have given loyal and faithful service to the Company. To them, our suppliers, and to the public we serve, we express sincere thanks.

Ray D. Wolfe, C.M.
Chairman and
Chief Executive Officer

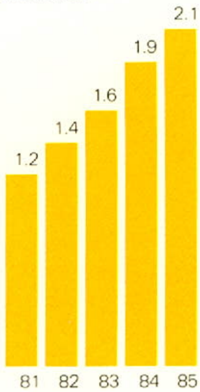
Allister P. Graham
President and
Chief Operating Officer

March 22, 1985

Oshawa Profile

Wholesale and Retail Food

In Billions



Compound growth 14%

The wholesale and retail food division, representing 76.7% of 1984 consolidated sales, consists of operating divisions in four geographic regions — in Ontario, Oshawa Foods, Toronto (including Dutch Boy Food Markets, Kitchener and Elliott Marr and Company Limited, London); in Quebec, Hudon et Deaudelin Limitée, Montreal; in Western Canada, Codville Distributors, Winnipeg, Saskatoon and Regina, and in Atlantic Canada, Bolands, Dartmouth, Nova Scotia.

Sales and Other Revenue by Division

(in millions)	**1984**	1983	% Increase Over (53 weeks)	(52 weeks)
Oshawa Foods, Dutch Boy, and Elliott Marr	**$1,003.9**	$ 925.2	+ 8.5	+ 10.6
Hudon et Deaudelin	**664.7**	565.2	+ 17.6	+ 19.9
Codville Distributors	**291.4**	276.9	+ 5.2	+ 7.3
Bolands	**138.5**	137.9	+ .5	+ 2.4
	$2,098.5	$1,905.2	+ 10.2	+ 12.3

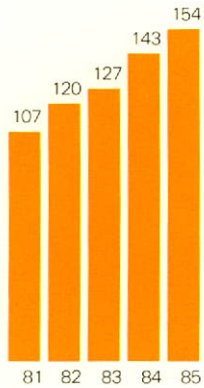
Operations

The Wholesale and Retail Food divisions supply a full line of grocery, produce, dairy, frozen food and meat products to franchised food markets, convenience stores, Cash & Carry units and non-affiliated independents, and operate Company-owned supermarkets. The table illustrates the number of stores served or operated.

	Ontario	Quebec	Western Canada	Atlantic Canada	**1984**	1983
IGA Food Markets						
Franchised	140	142	96	46	**424**	401
Company-owned	4	3	5	9	**21**	23
Other Food Markets						
Franchised	100	121	367	—	**588**	517
Company-owned	57	3	1	—	**61**	60
Convenience Stores	71	160	100	—	**331**	305
Cash & Carry	1	12	5	1	**19**	16

Food Service and Produce

In Millions



Compound growth 11%

Food service and produce companies contributed 5.6% of 1984 consolidated sales. Food service is composed of Hickeson-Langs Supply Company, Toronto, Hamilton, London and Ottawa, Ontario, Langs Cold Storage, Hamilton and London, Ontario, and Model Laundry, Toronto, Ontario. Produce consists of The Ontario Produce Company, Toronto and Bradford, Ontario, The White and Company, Toronto, and Dominion Mushroom Company, Pickering, Ontario.

Sales and Other Revenue by Division

(in millions)	**1984**	1983	% Increase Over (53 weeks)	(52 weeks)
Food Service				
Hickeson-Langs	**$ 87.8**	$ 81.0	+ 8.4	+ 10.5
Langs Cold Storage	**2.9**	2.4	+ 20.8	+ 23.2
Model Laundry	**2.6**	2.6	—	+ 1.9
	93.3	86.0	+ 8.5	+ 10.6
Produce				
Ontario Produce, White and Co. and Dominion Mushroom	**60.5**	56.5	+ 7.1	+ 9.1
	$153.8	$142.5	+ 7.9	+ 10.0

Operations

Hickeson-Langs provides grocery, frozen food and meat products to the food service industry, and operates a juice and coffee dispenser service to restaurants, hotels and other customers. Langs Cold Storage provides blast freezing and commercial frozen storage facilities for processors of fruit, vegetables, meat and juice.

Model Laundry offers a rental service for linens, uniforms and work clothes to retail stores and industrial plants.

Ontario Produce and White and Company are full service wholesalers of imported and domestic fruit and vegetables to retailers and jobbers, and are purchasing agents of produce for Oshawa Foods. Ontario Produce also operates a vegetable packing plant at Bradford.

General Merchandise

In Millions

Compound growth 10%

The General Merchandise Group, which accounted for 17.2% of 1984 consolidated sales, includes Towers Department Stores (Bonimart in the Province of Quebec), Kent Drugs Limited and a restaurant division, all with head offices in Toronto, Ontario.

Sales and Other Revenue by Division

(in millions)	**1984**	1983	% Increase Over (53 weeks)	% Increase Over (52 weeks)
Towers/Bonimart	**$389.1**	$366.4	+6.2	+8.2
Kent Drugs Limited	**73.8**	68.9	+7.1	+9.2
Restaurant Division	**8.2**	8.1	+1.2	+3.2
	$471.1	$443.4	+6.3	+8.3

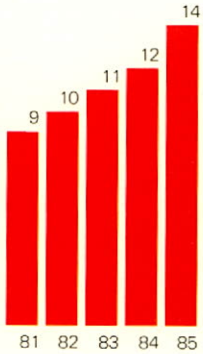
Operations

Towers Department Stores has 48 locations in Ontario, Quebec, Nova Scotia, New Brunswick and Prince Edward Island. The two stores in Prince Edward Island are combination food and general merchandise units.

Kent Drugs Limited operates 47 drug stores under the Drug City and Metro Drugs names in Ontario, Manitoba and New Brunswick, as well as pharmacies in 20 Towers units and two Food City supermarkets. The Restaurant Division consists of 54 restaurants, cafeterias and snack bars within or adjacent to Towers Department Stores.

Real Estate

In Millions



Compound growth 6%

Oshawa's Real Estate division acquires sites and provides engineering and construction supervision for the Company's retail and wholesale divisions and franchised associates.

Real estate holdings include a shopping and commercial centre in downtown Sudbury, Ontario with gross building area of 737,932 square feet, and shopping centres in Montreal and St-Jean, Quebec with gross building areas of 418,592 square feet and 142,746 square feet respectively. It also includes several owned and leased plazas which are sublet to the food and general merchandise divisions and third parties, as well as land for future development or sale.

(in millions)	**1984**	1983	%
Revenue	**$13.8**	$11.7	+18.0

It should be noted that the 53-week 1983 figure excludes $1.5 million in rental revenues which had been netted with cost of sales and expenses. Accordingly on a comparable basis, taking into account the reporting change and the additional week, the revenue increase was 6.6%.

Wholesale and Retail Food

Growth of the wholesale and retail food divisions continued in 1984 with sales of $2,098.5 million, a 10.2% increase (12.3% on comparable weeks) and an 18.2% improvement in profit before corporate expenses, interest and income taxes.

Strong competition intensified during the year in several major markets, creating a difficult environment for the food retailing industry. Nevertheless the Company's food divisions continued to perform well. This was due in part to Oshawa's dual role as both wholesaler and retailer, and to the balance between urban and rural operations.

1984 was the eighth consecutive year of double digit growth. Among the factors contributing to this consistent performance:

• Oshawa has concentrated on improving its traditional business without dispersal of energies in a variety of other approaches to food retailing.

• Resources have been directed toward improving market share in areas where franchised and corporate stores are already established.

• Growth has been assisted by large corporate capital expenditure programs, as well as direct and indirect financial support to IGA Associates.

• Oshawa, recognizing the need for customized marketing strategies to suit individual geographic areas and ethnic groups, has made it possible for divisional managers to adapt merchandising programs to local variations in lifestyles and consumer demand.

• Ongoing management and skills training programs have produced a high degree of efficiency and operational sophistication throughout the Company and its IGA Associate stores.

Growth has been accelerated through IGA Associates building larger or additional units, chain store acquisitions, and conversions from competing franchise programs.

IGA expansion increased to record proportions in 1984. Some new units were replacements for smaller stores such as Bill Armstrong's IGA in Orono, Ontario, where Mr. Armstrong is shown helping a customer (previous page). Some were stores which transferred to IGA from competing programs, such as Andre Pepin's market in St. Jean Chrysostome, Quebec (top of page). Others were former chain stores such as the Winnipeg unit (upper right) operated by Wayne Hamel, Bill O'Leary and Rick Willson, or second stores as with Bob Jackson's new IGA in Beeton, Ontario.

These factors have attracted many new participants to the IGA franchise program from other voluntary franchise groups. In 1984, IGA expansion was the most extensive in the Company's history with 42 new units of which 28 were transfers from other programs. Nine were new locations and five were replacements for smaller stores. An additional 20 markets were enlarged, 67 remodeled and two converted to other Oshawa programs. Four became wholesale accounts, five closed and five left the IGA program.

Ontario — Oshawa Foods, Dutch Boy and Elliott Marr

Despite continued competitive pressures and little population growth in 1984, sales increased 8.5% (10.6% on comparable weeks) and earnings were up significantly ahead of sales. While the improvement was experienced in most areas, it was more pronounced in upgraded and enlarged IGA and corporate stores.

Seven IGA units were opened, of which four were transfers from competing franchise programs, one was a new location and two were replacements for smaller stores. One IGA transferred to a competing program. Fifteen IGA supermarkets were enlarged or renovated. Six Food City and Dutch Boy supermarkets were enlarged or extensively remodeled.

Elliott Marr recorded a substantial sales gain, most of which was due to the introduction of a direct store delivery and billing program. While goods are delivered directly from supplier to the store, Elliott Marr is responsible for billing. In this way, the retail customer benefits from the volume purchasing strength of Elliott Marr and Oshawa.

At Dutch Boy, which has a strong presence in Kitchener-Waterloo, plans were finalized for the addition of two stores during 1985.

Quebec — Hudon et Deaudelin

Hudon et Deaudelin reported a 17.6% sales increase during 1984 (19.9% on comparable weeks) and even greater profit improvement. This was achieved

Continuity of IGA family ownership is assured by increases in the number of sons and daughters in store operations.

Second, and in some cases, third generation ownership of markets is increasingly common in the IGA family. Children of Associates learn fundamentals of the business early as parcelers, shelf stockers and cashiers and mature through department management to partnership and ownership. Typical are the two sons of Jim Milne, of Glace Bay, N.S. (opposite page). His son Allister is in training, preparing for his own store, and Jim Jr. opened his own IGA unit in Ingonish, N.S. five years ago; Robert Vincent, of Valleyfield, Quebec (left) and his sons Claude, Benoit, Michel and Jacques; Glen and Kitty Burnett, of Elmvale, Ontario (lower left) whose daughter and son-in-law, Jan and Paul Abernathy own an IGA market in Orillia, Ontario, while daughter, Lorie (centre) manages the Elmvale IGA unit, and Henry Poetker, of Shaughnessy IGA, Winnipeg, Manitoba (bottom) and his sons Randy and Barry.

in spite of the opening of a number of competing super stores in Montreal and Quebec City which adversely affected some IGA Boniprix stores. This required the development of special merchandising programs at some cost to both the Company and the Associates concerned.

However, IGA Boniprix market share increased materially as a result of the conversion of 19 stores from competing programs, the opening of four new locations and the enlargement or remodeling of 43 existing units. Two small stores transferred to other Company programs and three converted to competing programs. The full year's effect of this dynamic growth will be realized in 1985.

In May,1984, Hudon et Deaudelin opened a modern 23,580 square-foot distribution centre for imported and domestic fruit and vegetables. This has given IGA Boniprix stores access to better quality and value in produce, and has been very well received.

Western Canada — Codville Distributors

Codville Distributors recorded growth in sales of 5.2% in 1984 (7.3% on comparable weeks) and increased earnings. Codville's sales to IGA stores were up 15%. However, reduced sales to chain store customers, and price wars in Winnipeg and Saskatoon adversely affected Codville's non-IGA business.

Seven new IGA units were opened, three of which replaced smaller stores, eight were enlarged or renovated, and three became unaffiliated wholesale accounts.

Atlantic Canada — Bolands

While Bolands' sales were up only .5% in 1984 from the previous year (2.4% on comparable weeks), stringent cost controls produced higher profitability.

The unsatisfactory sales increase was principally due to the closure of five IGA corporate and franchised stores, transfer of one to a competing program and one to independent status, reflecting a flat market and intense competition. However, a concerted effort to expand IGA membership in this region has been encouraging. Five merchants from competing programs joined IGA in 1984 and a further six are scheduled to join during 1985. Construction will also begin on a second 30,000-square foot IGA supermarket in Nova Scotia, at Dartmouth.

Positive shopper reaction to the atmosphere and innovations of a new generation of Food City supermarkets.

Opening of the Food City market in Oakville Place in 1980 introduced a new ambiance to Canadian supermarket shopping which has received widespread shopper approval as well as an award from the City of York for the Westside Mall Food City. The design has been utilized in all new and renovated stores including City Centre Food City, Bramalea, Ontario where the photos on these pages were taken. One feature enthusiastically endorsed by customers is the bottle return machine (top of page) for its convenience, speed and sanitation. This reverse vending system was developed in Norway and introduced in North America by Food City. Systems were installed in eight stores in 1984, and another eight are scheduled in the current year.

Food Service and Produce Companies
Sales in 1984 of $153.8 million were up 7.9% (10.0% on comparable weeks). All companies contributed to the sales improvement, but production problems at Dominion Mushroom and a labor stoppage at the Hamilton warehouse of Hickeson-Langs held earnings to the same level as last year.

Hickeson-Langs
During 1984, Hickeson-Langs increased sales by 8.4% (10.5% on comparable weeks), but turned in lower earnings because of the labor disruption.

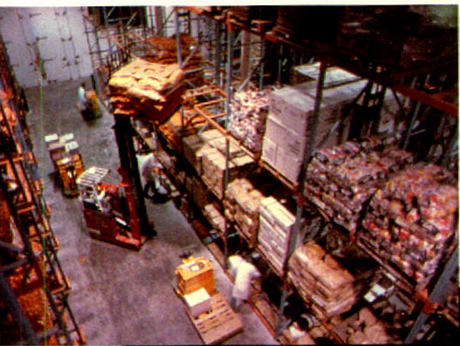
In November, 1984, this Ontario-based company broadened its meat supply program, augmenting its provision of groceries and frozen foods to the food service industry, including hotels, hospitals, restaurants, caterers and institutions. By this addition, Hickeson-Langs offers a complete service to its customers. The initial response from customers has been encouraging.

Langs Cold Storage
Langs Cold Storage sales increased by 20.8% during 1984 (23.2% on comparable weeks) and earnings were substantially higher. Improved crop conditions and the addition of new customers brought storage levels near capacity throughout the year.

Model Laundry
High utilization of facilities maintained sales levels of Model Laundry and produced a satisfactory increase in earnings during 1984.

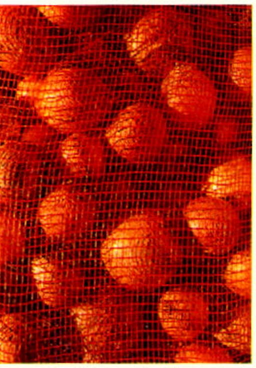
Ontario Produce, White and Company, Dominion Mushroom
Sales during 1984 increased 7.1% (9.1% on comparable weeks). Earnings increased at Ontario Produce and White and Company, but a loss at Dominion Mushroom led to a slight reduction in earnings.

The plentiful supply of fresh fruit and vegetables in 1984 resulted in little or no price inflation in this segment of the food industry. Per capita consumption was at an historical high with real market growth of nearly 3.0%. Therefore the sales increase of 9.1% by these operations reflects an



Quality control and customer service improved with the opening of the $2.9 million produce distribution centre in Montreal.

Customer reliance on outside suppliers for fresh fruit and vegetables ended with the opening of a modern 23,580-square foot produce distribution centre (upper left) adjacent to the Hudon et Deaudelin head office and warehouse in Montreal North. Above, order selector Yves St. Louis loads a shipment on a truck at one of the centre's nine bays.



increase in market share. Contributing factors to this sales gain were better product quality, the result of additional refrigerated space at Ontario Produce, and expanded varieties and sources of supply from around the world to satisfy multicultural tastes. The packing operations of Ontario Produce at Bradford enjoyed an excellent year in both domestic and export sales.

Due to the delicate nature of growing and harvesting, Dominion Mushroom encountered difficulties during the year relating to production ingredients and the shortage of trained pickers.

General Merchandise
General Merchandise sales during 1984 were $471.1 million, up 6.3% (8.3% on comparable weeks) and earnings were 52.0% higher. This segment includes Towers/Bonimart department stores, Kent Drugs and the restaurant division.

Towers/Bonimart Department Stores
Sales for 1984 were $389.1 million, up 6.2% (8.2% on comparable weeks), and earnings were materially higher for the second year in a row. This was due to stable gross margins and tight control of operating expenses. Not included in reported sales are concessionaire sales of $18.1 million.

With a low rate of inflation in the department store industry, the sales increase substantially represented a real gain in physical sales volume. Strong merchandising and advertising programs contributed to this performance. The sales pattern, however, was uneven during the year. Major gains were made in the spring and early summer, but the Christmas season was disappointing. Keen competition exerted pressure on

The expansion of meat distribution added materially to food service sales.

In November, 1984, Hickeson-Langs Supply Company broadened meat service to hospitals, health care institutions, caterers, hotels and restaurants. At right, Head Chef Joseph Mannarino of the Carlingview Airport Inn, Toronto, discusses this program with sales representative Duncan Craig. Upper right, an Ontario Produce Company selector prepares an order.

selling prices throughout the year but gross margins were maintained because of a reduction in markdowns and the lowest inventory shrinkage in Towers' history.

The material investment over several years in electronic point-of-sale equipment, integrated with computer-based systems, improved the buying and merchandising effectiveness and expense control of Towers/Bonimart. These tools assisted management in achieving record sales and cost performance.

Towers/Bonimart's 48th store was opened in Quebec City and the Brampton, Ontario store was relocated in larger premises.

Kent Drugs
Kent Drugs sales during 1984 were up 7.1% (9.2% on comparable weeks), with earnings materially improved. The Drug City chain and pharmacies in Towers Department Stores contributed all the sales gain. Metro Drugs, located in Winnipeg, had a flat sales performance and earned a small profit.

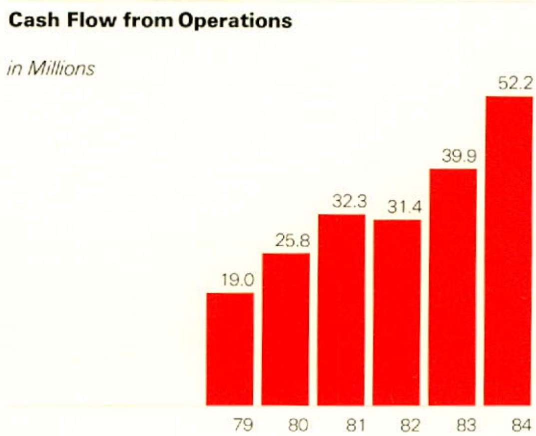
Restaurants
Restaurant division sales increased by 1.2% during 1984 to $8.2 million (3.2% on comparable weeks) despite the closing of two unprofitable units. The improved results were due to increased customer traffic in Towers/Bonimart stores, in which most units are located, menu modifications and expense control.

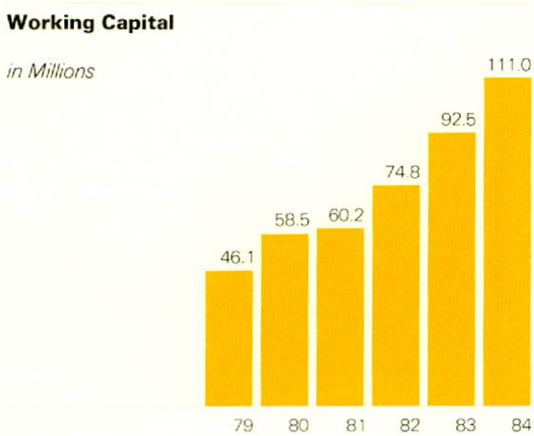
Real Estate
Real estate revenues of $13.8 million during 1984 included $1.5 million of income otherwise classified in previous years. After taking into account this change and the 53rd week of the 1983 reporting period, revenues were up 6.6% from the previous year. Segmented earnings during 1984 of $5.1 million compared with $3.3 million in 1983 when earnings were depressed by significant provisions for doubtful accounts. There were no major changes in real estate holdings except for the re-acquisition of residential land in Montreal.

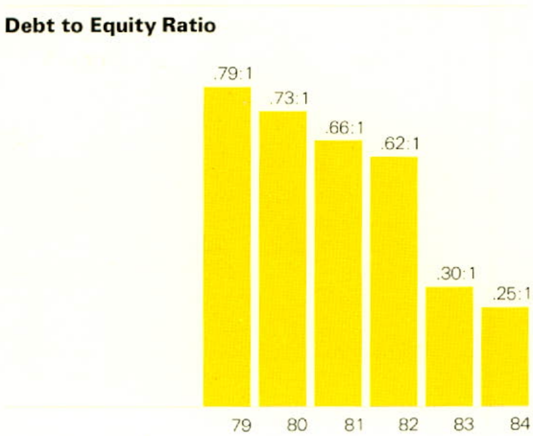
Customers respond to the quality and value of Towers/Bonimart fashions.

Strong merchandising and advertising programs attracted increased traffic to department and drug stores as customers responded to the promotion of recognizable values. Productivity and service was enhanced by Towers/Bonimart's use of electronic point-of-sale and computer-based systems (lower left).

Financial Review







Sales
Consolidated sales and other revenue increased by 9.5% (11.6% on comparable weeks) to $2.7 billion in the year ended January 26, 1985 over the previous year. Of this $231 million increase in sales, $201 million was attributable to food, $28 million to general merchandise and $2 million to real estate. Over the last five years, compound average annual growth in sales and other revenue was 12.5%.

Earnings
Net earnings for the 1984 52-week year were $36.2 million ($2.28 per share) up by 39.7% from $25.9 million ($1.83 per share) in the previous year's 53 weeks. The improved results were derived from increased earnings by all operating groups, lower interest charges and higher short-term investment income. Compound annual average earnings growth over the past five years was 33.7%.

Food segmented earnings of $52.2 million were up $6.6 million (a 14.6% increase over the prior year), general merchandise earnings of $9.8 million increased $3.4 million (52.0%) and real estate earnings of $5.1 million were higher by $1.8 million (54.7%).

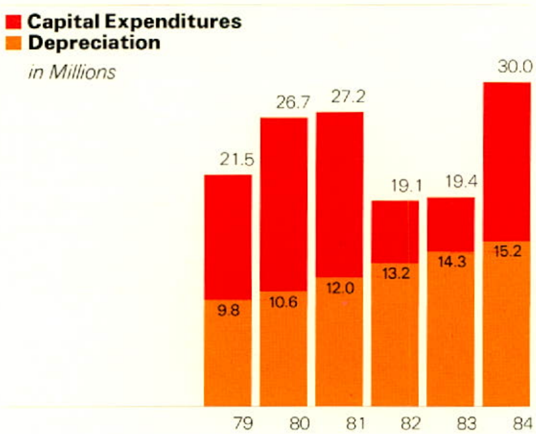
Interest expense in 1984 was $7.3 million, $3.8 million lower than in the previous year, while investment income of $3.7 million was $2.4 million higher than in 1983. The effective income tax rate was 43.1% in both years.

Expressed as a percentage of sales, net earnings were 1.36% in 1984 compared with 1.06% in 1983.

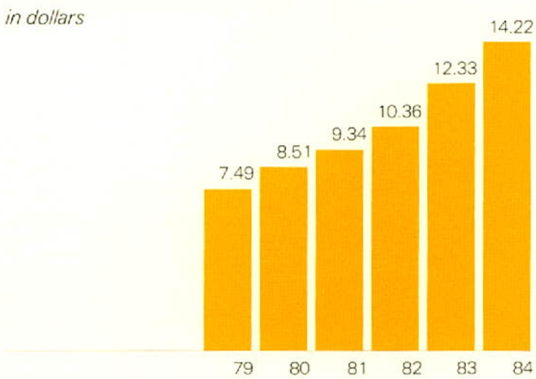
Dividends
Dividends of 40½ cents per share were paid in 1984, up from 33 cents per share in the previous year. Of the $6.4 million in dividends payable in 1984, $1.1 million was paid by the issuance of 58,254 Class A shares under the provisions of the optional stock dividend policy.

Subsequent to year end, the quarterly dividend rate was increased from 10½ cents to 12½ cents per share, commencing with the dividend payable June 10, 1985 to shareholders of record May 17, 1985.

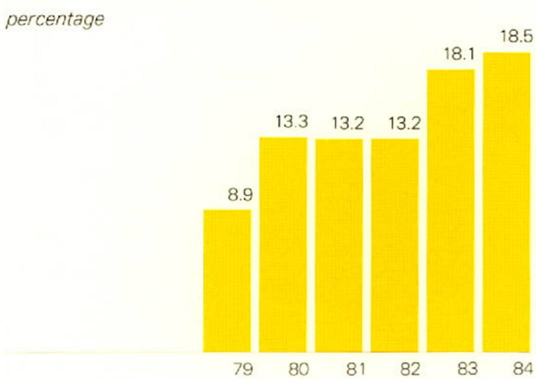
Financial Position
The Company has one of the strongest balance sheets in the food and general merchandise industries.



Shareholders' Equity per Share



Return on Equity



Working capital increased during the year by $18.5 million to $111 million, the highest in Oshawa's history. Within working capital, cash and short term investments of $40.5 million were up $20.9 million, while current bank indebtedness of $23.6 million increased $8.3 million, reflecting an improvement in quick assets of $12.6 million.

Long term debt at the end of fiscal 1984 was $56.3 million, down by $1.9 million from the previous year. Most of this debt consists of obligations with favorable fixed interest rates. The debt-to-equity ratio was .25 to 1, leaving substantial leeway for debt financing should the need arise.

Capital expenditures of $30.0 million were the largest in the Company's history and were primarily directed to upgrading facilities. This included modernization of corporate food and department stores, two new department stores (one a larger replacement), completion of a produce warehouse in Montreal, replacement of transportation fleets, and installation of additional scanning and computer equipment and software.

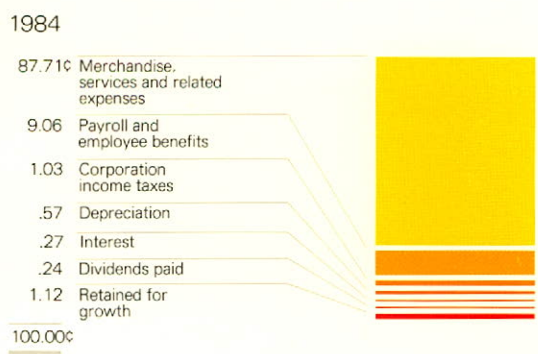
Shareholders' Equity

On June 22, 1984 at the special and general annual meeting, shareholders approved the subdivision of the Class A and Common shares two for one. This was implemented effective July 6, 1984. Earnings per share reflect this change for the full year as well as the previous year's comparison.

Shareholders' equity increased by $30.9 million to $226.1 million. Return on opening shareholders' equity after income taxes was 18.5%.

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

Distribution of Sales Dollars



Consolidated Statement of Earnings

For the year ended January 26, 1985

(in thousands of dollars)	*(52 weeks)* 1985	*(53 weeks)* 1984
Sales and Other Revenue	**$2,665,774**	$2,434,985
Cost of Sales and Expenses		
Cost of sales and expenses before the undernoted items:	**2,585,192**	2,366,327
Interest (note 5)	**7,258**	11,066
Depreciation	**15,189**	14,287
	2,607,639	2,391,680
	58,135	43,305
Interest earned	**5,464**	2,233
Earnings Before Income Taxes	**63,599**	45,538
Income taxes	**27,420**	19,643
Net Earnings	**$ 36,179**	$ 25,895
Net earnings per share	**$2.28**	$1.83
Average number of shares outstanding	**15,865,953**	14,135,386

For the year ended January 26, 1985

Consolidated Statement of Retained Earnings

(in thousands of dollars)	*(52 weeks)* 1985	*(53 weeks)* 1984
Balance, Beginning of Year	**$ 101,985**	$ 80,948
Add: Net earnings for year	**36,179**	25,895
	138,164	106,843
Less: Dividends		
— Class A shares	**6,284**	4,441
— Common shares	**139**	113
	6,423	4,554
Expenses of issue of Class A shares, net of income taxes	—	304
	6,423	4,858
Balance, End of Year	**$ 131,741**	$ 101,985

Consolidated Balance Sheet

January 26, 1985

(in thousands of dollars)	**1985**	1984
Assets		
Current Assets		
Cash and short term investments	**$ 40,500**	$ 19,603
Accounts receivable	**76,041**	64,230
Inventories	**176,744**	172,339
Real estate held for sale	**2,256**	2,398
Prepaid expenses	**4,971**	4,878
	300,512	263,448
Other Assets		
Loans and mortgages receivable	**7,666**	9,410
Other	**768**	1,014
	8,434	10,424
Fixed Assets (note 2)	**174,976**	161,759
	$ 483,922	$ 435,631
Liabilities		
Current Liabilities		
Bank indebtedness	**$ 23,628**	$ 15,332
Accounts payable and accrued liabilities	**153,145**	144,381
Income taxes payable	**11,200**	10,520
Current portion of long term debt	**1,532**	713
	189,505	170,946
Long Term Debt (note 3)	**56,255**	58,202
Deferred Income Taxes	**12,078**	11,260
Shareholders' Equity		
Capital Stock (note 4)		
Authorized		
Unlimited number of Class A and Common shares		
Issued		
15,550,994 Class A shares (1984 — 15,492,740)	**94,299**	93,194
342,752 Common shares	**44**	44
	94,343	93,238
Retained Earnings	**131,741**	101,985
	226,084	195,223
	$ 483,922	$ 435,631

Approved on behalf of the Board

Ray D. Wolfe, Director

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

Consolidated Statement of Changes in Financial Position

For the year ended January 26,1985

(in thousands of dollars)	(52 weeks) 1985	(53 weeks) 1984
Sources of Working Capital		
Operations		
Net earnings	**$ 36,179**	$ 25,895
Items not affecting funds from operations:		
Depreciation	**15,189**	14,287
Deferred income taxes	**818**	(238)
	52,186	39,944
Loans and mortgages receivable	**1,744**	(845)
Disposal of fixed assets	**1,637**	1,439
Issue of long term debt	**1,527**	3,827
Issue of Class A shares as dividends	**1,105**	812
Issue of Class A shares net of expenses	**—**	30,296
Other	**246**	(127)
	58,445	75,346
Uses of Working Capital		
Purchase of fixed assets	**30,043**	19,439
Dividends	**6,423**	4,554
Repayment of long term debt	**3,474**	33,676
	39,940	57,669
Increase in Working Capital	**18,505**	17,677
Working Capital, Beginning of Year	**92,502**	74,825
Working Capital, End of Year	**$ 111,007**	$ 92,502
Change in Cash Component of Working Capital		
Sources of Cash		
Working capital	**$ 18,505**	$ 17,677
Accounts payable and accrued liabilities	**8,764**	20,440
Income taxes payable	**680**	6,897
Current portion of long term debt	**819**	(2,857)
Other	**49**	(64)
	28,817	42,093
Uses of Cash		
Accounts receivable	**11,811**	7,830
Inventories	**4,405**	15,995
	16,216	23,825
Increase in Cash	**$ 12,601**	$ 18,268
Increase in Cash Represented by:		
Increase in cash and short term investments	**$ 20,897**	$ 13,232
(Increase) decrease in bank indebtedness	**(8,296)**	5,036
	$ 12,601	$ 18,268

(in thousands of dollars)

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 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, which in the case of land and buildings includes carrying costs incurred during development, construction and the initial leasing period, 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 major shopping centres, warehouses and similar operating facilities, are considered an integral part of the Company's operations and are included in ordinary income.

Fiscal Year
The fiscal year of the Company ends on the fourth Saturday in January.

2. Fixed Assets

	1985	1984
Land	**$ 22,565**	$ 19,217
Buildings	**103,371**	100,353
Equipment	**127,468**	114,396
Leasehold improvements	**30,679**	25,679
	284,083	259,645
Less accumulated depreciation	**113,279**	103,262
	170,804	156,383
Property under capital leases, less accumulated depreciation of $825 (1984 — $843)	**4,172**	5,376
	$174,976	$161,759

3. Long Term Debt

	1985	1984
Bank indebtedness and notes payable	**$ 7,770**	$ 6,770
Mortgages and loans payable	**35,363**	35,553
Series A Sinking Fund Debentures	**9,790**	10,536
Obligations under capital leases (Note 7)	**4,864**	6,056
	57,787	58,915
Less current portion	**1,532**	713
	$ 56,255	$ 58,202

Principal Repayments
Principal repayments of long term debt are as follows:

Fiscal year ending in	
1986	$ 1,532
1987	9,187
1988	1,894
1989	1,976
1990	2,065
1991-2011	41,133
	$ 57,787

Bank Indebtedness and Notes Payable
Bank indebtedness and notes payable bear interest at rates varying from short term money market rates to prime, and provide for principal repayments in 1987 and 1991.

Mortgages and Loans Payable
These obligations bear interest at an average rate of 10.6% per annum and provide for principal repayments from 1986 to 2009.

Series A Sinking Fund Debentures
These debentures, secured by a floating charge on the undertaking and assets of the Company, bear interest at 9¼% per annum and mature June 15, 1991.

4. Capital Stock

On June 25, 1984, articles of amendment were issued increasing the authorized capital of the Company to an unlimited number of Class A and Common shares, and subdividing the Class A and Common shares on a two-for-one basis.

The Class A shares are non-voting, participating and are entitled to a non-cumulative annual dividend of 10¢ per share in priority to payment of dividends on the Common shares.

Under the optional stock dividend policy, 106,062 Class A shares are available for future issue. During the year, 58,254 Class A shares were issued in lieu of cash dividends.

The Company has reserved 600,000 Class A shares for issuance under the Share Option Plan for Officers and Key Executives 1982. As at January 26, 1985 options for 170,000 Class A shares were outstanding under this plan, exercisable until 1993 at a price of $14 per share. The exercise of these share options would have no material dilutive effect on the reported earnings per share.

5. Interest Expense

	1985	1984
Interest on long term debt	**$5,362**	$ 7,970
Other interest	**1,329**	2,009
Interest on obligations under capital leases	**989**	1,192
	7,680	11,171
Less interest capitalized to cost of real estate	**422**	105
	$7,258	$11,066

6. Effective Income Tax Rate

	1985	1984
Combined basic Canadian and Ontario income tax rate	**51.0%**	51.8%
Inventory allowance	**(5.1)**	(6.6)
Tax reductions due to lower rates in other provinces	**(2.4)**	(1.8)
Sundry items	**(0.4)**	(0.3)
	43.1%	43.1%

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
Fiscal year ending in		
1986	$ 924	$ 22,271
1987	930	20,370
1988	933	17,058
1989	933	15,502
1990	933	14,548
1991-2011	15,777	120,933
	20,430	$ 210,682
Less imputed interest at an average rate of 18% per annum	15,566	
Obligations under capital leases	$ 4,864	

It is expected that rental revenue of $6,491 will be received in the fiscal year ending January 25, 1986, from locations which have been sublet.

8. Pension Plans

Pension costs included in the consolidated statement of earnings represent current service contributions. There are no unfunded past service liabilities.

9. Contingent Liability

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 $7,755 at January 26, 1985. The Company has received an indemnity against any losses which may be suffered under this guarantee.

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 26, 1985, amounted to $1,027 (1984 — $720).

11. Comparative Figures

Comparative figures have been reclassified, where necessary, to conform with the current year's presentation.

12. Segmented Information

	Food		General Merchandise		Real Estate		Consolidated	
	1985	1984	**1985**	1984	**1985**	1984	**1985**	1984
Sales and other revenue								
Outside	**$2,185,813**	$1,984,750	**$ 471,146**	$ 443,409	**$ 8,815**	$ 6,826	**$2,665,774**	$2,434,985
Inter-segment	**45,436**	43,753	**—**	—	**4,986**	4,857	**—**	—
	$2,231,249	$2,028,503	**$ 471,146**	$ 443,409	**$ 13,801**	$ 11,683	**$2,665,774**	$2,434,985
Segment profit	**$ 52,181**	$ 45,552	**$ 9,818**	$ 6,459	**$ 5,148**	$ 3,327	**$ 67,147**	$ 55,338
Corporate investment income							**3,710**	1,266
Interest							**(7,258)**	(11,066)
Income taxes							**(27,420)**	(19,643)
Net earnings							**$ 36,179**	$ 25,895
Assets								
Segment	**$ 254,252**	$ 235,423	**$ 114,097**	$ 106,787	**$ 74,544**	$ 73,597	**$ 442,893**	$ 415,807
Corporate							**41,029**	19,824
Total							**$ 483,922**	$ 435,631
Capital expenditures								
Segment	**$ 20,721**	$ 13,220	**$ 5,279**	$ 3,993	**$ 3,665**	$ 2,148	**$ 29,665**	$ 19,361
Corporate							**378**	78
Total							**$ 30,043**	$ 19,439
Depreciation								
Segment	**$ 9,625**	$ 8,691	**$ 3,696**	$ 3,745	**$ 1,737**	$ 1,738	**$ 15,058**	$ 14,174
Corporate							**131**	113
Total							**$ 15,189**	$ 14,287

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Oshawa Group Limited as at January 26, 1985 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 26, 1985 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 5, 1985

Wm. Eisenberg & Co.
Chartered Accountants

Six Year Comparative Summary

(in thousands of dollars except per share)

Income Statement	Sales
	Salaries, wages, benefits
	Depreciation
	Interest expense
	Income taxes
	Earnings before extraordinary items
	Net earnings
Balance Sheet	Total assets
	Current assets
	Current liabilities
	Working capital
Financing	Shareholders' equity
	Long term debt
Cash Flow	Cash flow from operations
	Capital expenditures
	Re-invested in business
	Dividends paid
Key Financial Ratios	Current ratio
	Return on opening equity
	Earnings before extraordinary items as a % of sales
Per Share Data	Earnings before extraordinary items***
	Net earnings***
	Dividends
	Shareholders' equity***
	High-low stock price
	Average number of shares*
	Number of shares at year-end*
	Number of full and part time employees at year-end

* Combined Class A and Common
** Dividends declared on January 25, 1980 of 11½¢ per share were paid March 10, 1980.
*** 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.
Figures for previous years have been adjusted for the two-for-one stock split of July 6, 1984.

1985 *January 26,*	1984 *January 28, (53 weeks)*	1983 *January 22,*	1982 *January 23,*	1981 *January 24,*	1980 *January 26,*
$2,665,774	$2,434,985	$2,118,285	$1,896,569	$1,648,188	$1,480,030
241,433	226,144	201,389	177,235	154,863	145,576
15,189	14,287	13,186	12,020	10,590	9,801
7,258	11,066	16,219	16,020	13,332	13,337
27,420	19,643	11,465	11,503	10,443	4,558
36,179	25,895	16,912	15,310	13,486	8,457
36,179	25,895	18,327	15,417	16,523	10,105
483,922	435,631	393,825	380,026	344,583	309,965
300,512	263,448	226,327	217,402	197,857	172,159
189,505	170,946	151,502	157,234	139,345	126,013
111,007	92,502	74,825	60,168	58,512	46,146
226,084	195,223	142,774	127,825	115,605	101,107
56,255	58,202	88,051	84,820	84,410	80,216
52,186	39,944	31,449	32,254	25,786	18,974
30,043	19,439	19,143	27,194	26,673	21,524
29,756	21,341	14,211	11,504	14,122	6,493
6,423	4,554	4,116	3,913	3,177**	2,836**
1.59:1	1.54:1	1.49:1	1.38:1	1.42:1	1.37:1
18.53	18.14	13.23	13.24	13.34	8.94
1.36	1.06	0.80	0.81	0.82	0.57
2.28	1.83	1.23	1.12	1.00	0.63
2.28	1.83	1.33	1.13	1.22	0.75
40½¢	33¢	30¢	28¾¢	23½¢**	21¢**
14.22	12.33	10.36	9.34	8.51	7.49
25-15½	17¼-10⅝	12⅛-6½	8¼-5¾	7⅛-3⅝	5-3½
15,865,953	14,135,386	13,730,608	13,623,818	13,529,558	13,499,808
15,893,746	15,835,492	13,776,572	13,678,546	13,576,722	13,499,808
15,031	14,643	14,806	15,000	14,232	14,249

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
Jonathan A. Wolfe
Ray D. Wolfe, C.M.
* Audit Committee

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Chairman and Chief
Executive Officer

Allister P. Graham
President and Chief
Operating Officer

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

Leonard Eisen, F.C.A.
Treasurer

Harold J. Wolfe
Secretary

Corporate Management

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Executive Officer

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President and Chief
Operating Officer

Philip F. Connell, F.C.A.
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Chief Financial Officer

William L. Atkinson
Group Vice President
General Merchandise

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Group Vice President
Food Service and Produce
Companies

E. Leonard Besler, C.A.
Corporate Controller

Sam Crystal
Vice President Public Affairs

Leonard Eisen, F.C.A.
Treasurer

Murray C. Goldman
Vice President Development

Matilda M. Manojlov
Vice President Profit
Improvement

Paul B. Nielsen
Vice President Industrial
Relations

Sydney Pasoff
Vice President Management
Information Services

Donald A. Smith
Vice President
Human Resources

Harold J. Wolfe
General Counsel

Operating Divisions

Food

Bolands
Dartmouth, Nova Scotia
Leif Christensen
President and
General Manager

Codville Distributors
Winnipeg, Manitoba
Max J. Hatch
President and
General Manager

Dutch Boy Food Markets
Kitchener, Ontario
Barry Humphrey
General Manager

Elliott Marr and Company Limited
London, Ontario
H. Douglas Mansfield
President and
General Manager

Hudon et Deaudelin Limitée
Montreal, Quebec
Pierre Croteau
President and
General Manager

Oshawa Foods
Toronto, Ontario
Jonathan A. Wolfe
President and
General Manager

Food Service and Produce Companies

General Manager Produce
John F. Brown, Ph.D.

Dominion Mushroom Company
Pickering, Ontario
Jonathan S. Shaw
Manager

The Ontario Produce Company
Toronto, Ontario
John F. Brown, Ph.D.
President

The Ontario Produce Company
Bradford, Ontario
H. Glen Henderson
Manager

The White and Company
Toronto, Ontario
Vance Graham
Manager

General Manager
Food Service
Gary R. Adams

Beverage Dispensers
Toronto, Ontario
Robert C. Kelly
General Manager

Hickeson-Langs Supply Company
Toronto, Ontario
Charles J. Davies
President and
General Manager

Langs Cold Storage
Hamilton, Ontario
Kenneth R. Edworthy
General Manager

Model Laundry
Toronto, Ontario
Carlo Bryce
General Manager

General Merchandise

Kent Drugs Limited
Toronto, Ontario
Ab Flatt
President

Restaurants
Toronto, Ontario
Larry J. Crystal
General Manager

Towers Department Stores
Toronto, Ontario
William L. Atkinson
President and Chief
Executive Officer

Real Estate

Murray C. Goldman
Vice President Development

Corporate 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
National Bank of Canada

Listed on
Toronto Stock Exchange
Montreal Exchange
Stock Symbol: OSH.A

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Islington, Ontario,
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(416) 236-1971
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Annual Meeting
The annual meeting of shareholders will take place at 10 a.m., Thursday, June 20th, 1985 in the Quebec Room, Royal York Hotel, Toronto.

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The Oshawa Group Limited