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## The Corporation

Imasco Limited is a major Canadian consumer products and services corporation with operations in Canada and the United States.

Imasco operates through four main divisions.

Imperial Tobacco, Canada's largest tobacco company, manufactures and distributes a complete range of tobacco products.

Imasco USA operates and licenses a system of 2,411 fast food restaurants, principally under the name Hardee's, in the United States.

Shoppers Drug Mart licenses and operates 447 pharmacies, principally in Canada, specializing in prescription drugs, over-the-counter medications, health and beauty aids, and cosmetics.

Peoples Drug Stores operates a chain of 765 drug stores in 14 states and in Washington, DC.

Other operations include the Imasco Resources division which explores investment opportunities in natural resources and venture capital fields, and the operations of the 455 UCS Group tobacco and gift shops in Canada.

## Head Office

4 Westmount Square  
Montréal, Canada  
H3Z 2S8  
Telephone (514) 937 9111  
Telex 0524176

## Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held June 27, 1985 at 10h30 at the Château Champlain Hotel, 1 Place du Canada, Montreal, Quebec.

Si vous desirez recevoir le rapport annuel en français, veuillez communiquer avec

Le Secrétaire  
Imasco Limitee  
4, square Westmount  
Montréal, Canada  
H3Z 2S8



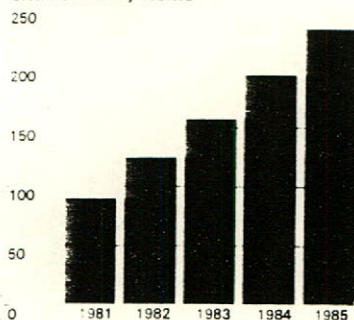


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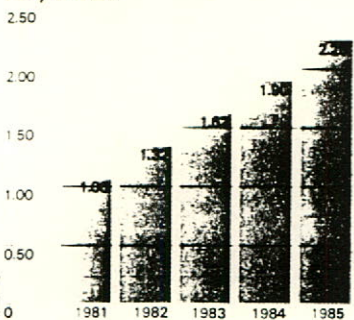
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of Management

**Financial Highlights**  
For the year ended March 31, 1985

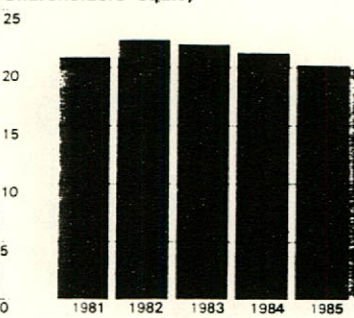
Earnings before extraordinary items



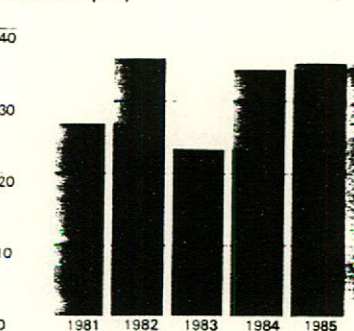
Earnings per common share, fully diluted



Return on average Shareholders' equity



Debt to equity\*



**Imasco Limited**

	1985	1984	%
Thousands of dollars			
System-wide sales	7,346,472	5,382,021	37
Revenues	4,353,254	2,873,151	52
Operating earnings	432,032	339,608	27
Earnings before extraordinary item	234,108	194,172	21
Earnings per common share before extraordinary item			
basic	\$2.25	\$2.03	11
fully diluted	\$2.25	\$1.90	18
Dividends per common share	\$0.645	\$0.50	29
Working capital	708,204	419,586	69
Total assets	2,741,572	2,029,897	35
Shareholders' equity	1,325,781	988,021	34

**Operating Divisions**

	1985	1984	%
Thousands of dollars			
Tobacco - Imperial Tobacco			
Revenues	1,451,130	1,358,935	7
Operating earnings	224,024	205,209	9
Restaurant - Imasco USA			
Revenues	1,321,248	1,134,074	16
Operating earnings	108,289	92,259	17
Drug Store - Peoples Drug Stores			
Revenues	1,356,915	-	-
Operating earnings	55,307	-	-
Drug Store - Shoppers Drug Mart			
Revenues	68,492	60,707	13
Operating earnings	38,283	32,632	17

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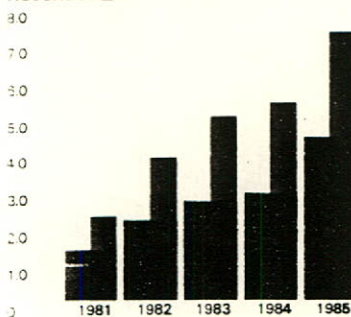
Annual Reports  
McGILL UNIVERSITY

\* Long term debt as a % of long term debt and tangible equity.

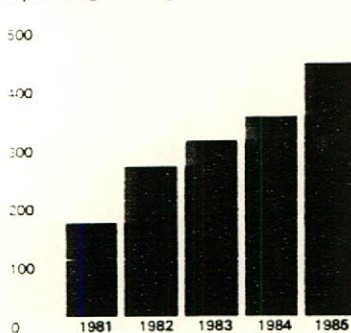




System-wide sales ■  
Revenues ■



Operating earnings



Fiscal 1985 has been another year of achievement for your company. Sales and earnings increased, the common shares were split, the quarterly dividend on common shares was increased twice, and the drug store chain of Rea and Derick, Inc. was acquired, significantly enlarging our drug store interests in the U.S.A.

During the year consolidated earnings were \$234.1 million, an increase of 21% over the \$194.2 million earned in fiscal 1984. Earnings per common share after adjustment for a two-for-one common share split in March of 1985 were \$2.25 compared with \$1.90 last year. Our growth in earnings per share on a fully diluted basis for fiscal 1985 was 18% and for the five-year period ended in fiscal 1985 represented a compound annual growth rate of 21%. Effective for fiscal 1985 was the acquisition of Peoples Drug Stores, Incorporated of Alexandria, Virginia. In December of 1984 Peoples acquired Rea and Derick, Inc. a Pennsylvania based drug store chain. Results for Peoples were included as of April 1, 1984 and for Rea and Derick as of December 1, 1984. System-wide sales for fiscal 1985 were \$7.3 billion representing an increase of 37% over 1984's \$5.4 billion. Revenues increased 52% from \$2.9 billion in fiscal 1984 to \$4.4 billion in fiscal 1985.

### Imperial Tobacco

The year proved to be a most exciting one for Imperial Tobacco. What had been identified as the industry's major problem, excessive cigarette taxation, was partly resolved because of a change in the federal taxation system brought about mainly by the concerted efforts of the tobacco industry as a whole. The government now indexes the federal levies to the Consumer Price Index rather than to the tobacco products sub-group, thereby

moderating, at least federally, the cycle of tax increases spurring further tax increases. The industry intends to continue discussing taxation with provincial governments to see if they might consider taking similar action.

Revenues were \$1.5 billion, an increase of 7%, while operating earnings were \$224 million an increase of 9% over the prior year. Imperial Tobacco's share of the cigarette market increased for the tenth consecutive year to 51.3%, an increase of 0.4% over last year. Cigarette unit shipments by Canadian manufacturers decreased by approximately 2.1% in fiscal 1985 while unit shipments by Imperial Tobacco were down only 1.6%.

The tobacco industry has faced many challenges in the past several years and in most recent periods the challenge of spiralling price increases caused mainly by large federal and provincial taxes. The current situation regarding federal taxation seems to be one of moderation; but a major effort will be required, especially after the latest Québec budget, to bring provincial taxation within the C.P.I.

Capital expenditures during the year were \$20 million compared with \$13 million in fiscal 1984. The majority of capital expenditures continued to be in the area of manufacturing productivity with emphasis on packaging and production. We expect that capital expenditures in the next five years will be much lower than those of the last five years as the major part of our plant modernization programme has been completed. Imperial Tobacco is optimistic about the environment in which the tobacco industry will operate in the months and years ahead. The company is well-positioned to maintain its leadership within the industry. Imperial will continue to lead the

tobacco industry in the development of new concepts, new products and in the implementation of productivity programmes aimed at maintaining a high level of profitability.

### Imasco USA

Imasco USA through its principal operating subsidiary, Hardee's Food Systems, Inc., had a somewhat disappointing year. System-wide sales were \$2.9 billion compared with \$2.4 billion in fiscal 1984, representing an increase of 21%. Revenues increased 16% from \$1.1 billion in fiscal 1984 to \$1.3 billion in fiscal 1985. Operating earnings were \$108.3 million, a 17% increase over fiscal 1984's \$92.3 million.

Hardee's performance was below historical trends and this is attributable to several factors. The most important of these was a significant increase in competition during the course of the year, particularly in the breakfast segment. However, during the year Hardee's extended its product line and with strong promotional activities was able to regain its position of growth and is now showing improved results in the breakfast segment.

Fast Food Merchandisers, Inc.'s results were affected by the start-up costs of a new manufacturing plant in Monterey, Tennessee. The new plant provides the increase in capacity needed to meet the system's long term requirements. The plant is now operating profitably.

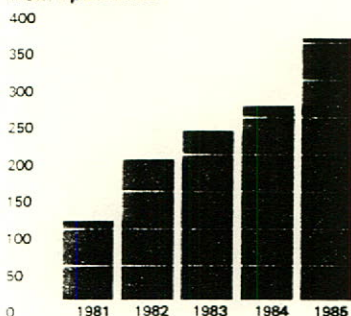
Hardee's will aggressively pursue new advertising and promotions with principal emphasis on an advertising campaign in fiscal 1986 with a new agency.

Imasco USA has acquired Grisanti, Inc. of Louisville, Kentucky. Grisanti has developed a family Italian restaurant concept that Imasco USA plans to

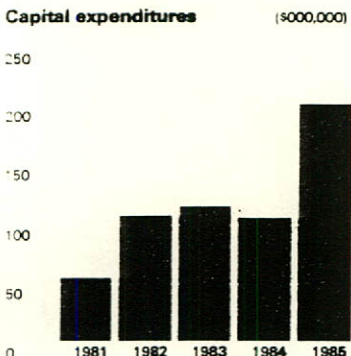




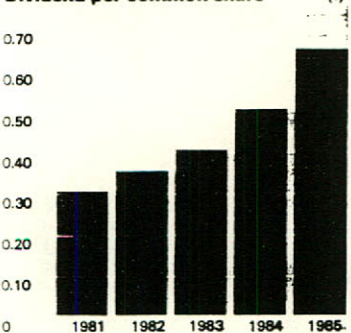
**Funds provided from operations**



**Capital expenditures**



**Dividend per common share**



evaluate as a prototype for broader development.

Imasco USA's total capital expenditures in fiscal 1985 were \$120 million compared with \$72 million last year, representing a significant increase in the number of company-owned store openings over fiscal 1984's level. Capital expenditures for fiscal 1986 are expected to be somewhat below those of fiscal 1985.

Results of Imasco USA in fiscal 1986 should improve, particularly in the restaurant division. Expectations for continued growth in the fast food industry remain high. Imasco USA will be well positioned in fiscal 1986 to resume its outstanding growth record within this industry.

### Shoppers Drug Mart

Shoppers Drug Mart experienced excellent growth in fiscal 1985, particularly in light of the continued changes in the retail drug store industry in Canada. Despite increased competition Shoppers was able to achieve a 12% increase in system-wide sales from \$1.3 billion to \$1.5 billion. Revenues increased 13% to \$68.5 million and operating earnings increased 17% to \$38.3 million in fiscal 1985.

Shoppers Drug Mart faced stiff competition, primarily in western Canada, from food and drug combo stores and off-price drug retailers. Shoppers is realigning its marketing strategies and pricing in these markets in order to effectively meet the competitive challenge. Store development during fiscal 1985 continued at an improved pace over the level of fiscal 1984 with the opening of 12 drug stores in Canada. During fiscal 1985 Shoppers also acquired four drug stores from independents and six Good Neighbor drug stores in the Atlantic Provinces.

Of particular note during the year was the continued improvement in operations in both Florida and Québec. Florida reached break even in operations. This improvement in results was directly attributable to the management in Florida as well as to a repositioning of the drug stores vis-à-vis their competition in the U.S. marketplace. In order to continue the profitable development, the Florida stores became part of the Peoples Drug Stores group in May 1985.

In Québec, operating losses at Pharmaprix were reduced as a result of the closing of some stores and the improvement of the Pharmaprix associate concept. Pharmaprix has excellent growth prospects.

Shoppers Drug Mart continues to test new marketing ideas. Howie's in Toronto, Pharmaprix Carnaval in Montréal, Health Care Centres, and combined drug and convenience food stores are examples of the group's interest.

These new concepts are being developed in order to meet the changing drug retailing environment in Canada.

### Peoples Drug Stores

Peoples Drug Stores recorded in fiscal 1985 its highest sales and earnings in its 79-year history. Sales were \$1.4 billion and operating earnings \$55.3 million.

Peoples' most strategic growth accomplishment in fiscal 1985 was the acquisition of Rea and Derick, a 134-store chain based primarily in Pennsylvania. The purchase, along with Peoples' store openings during fiscal 1985, increased the overall number of drug stores from 600 last year to 765 stores as of March 31, 1985. A major project at Peoples is the construction of a new distribution centre in Freder-

icksburg, Virginia, which will open during the second quarter of fiscal 1986.

In addition to market leadership, Peoples' strategy emphasizes professional health care and convenience. It is health orientation which sets Peoples apart from most other U.S. drug retailers. The image is enhanced by Peoples' operation of a total of 56 optical centres in its major markets which are serviced by two Peoples optical laboratories.

Capital expenditures in fiscal 1985 were \$47 million with the majority of funds being spent on the new distribution centre as well as the addition of 36 new drug stores. Capital expenditures on store development in fiscal 1986 are expected to be higher than in fiscal 1985 with particular emphasis on the remodelling of the recently acquired Rea and Derick chain.

Another development during the course of fiscal 1985 was the opening of two Hardee's restaurants in converted snack bars at existing Peoples drug stores. Sales have improved as a result of this conversion and Peoples considers this an area of future growth. Peoples will continue to emphasize expansion of its existing store base, particularly in southeastern markets, and increased profitability through productivity programmes.

### Other operations

Imasco's other activities are centered in two particular areas.

The UCS Group, with 455 retail outlets in Canada, and Imasco Resources division which owns a position in Canada Northwest Energy Limited and a partnership agreement with Flame Oil & Gas Ltd. The UCS Group enjoyed profitable results during the course of the year and we expect further progress in fiscal 1986.





### Capitalization

On December 14, 1984, the Corporation issued 3.4 million common shares from treasury to BATUS Investments, Inc., a wholly owned subsidiary of B.A.T Industries p.l.c., London, England, at a price of \$46.25 a share.

At a special meeting on March 4, 1985, shareholders approved a two-for-one subdivision of the common shares, effective March 22, 1985. At the same meeting, shareholders approved an increase in the number of authorized common shares from 57,500,000 to 120,000,000, after the effect of the subdivision of the common shares.

### Dividends

On May 9, 1984, the quarterly dividend on the common shares was increased five cents to 31 cents, or \$1.24 annually. On January 30, 1985, the Board of Directors again increased the quarterly dividend by five cents, to 36 cents or \$1.44 annually. After the stock split in March, the annual dividend is 72 cents a share.

This is the eleventh consecutive year that Imasco has increased its dividends. The Corporation has paid dividends every year since its establishment in 1912.

### Board of Directors

At the meeting of the Board of Directors on May 8, 1985, the number of directors of the Corporation was increased from 13 to 15. We are pleased to announce that Messrs. Paul E. Martin, President and Chief Executive Officer of The CSL Group Inc., and Daniel E. Somers, Vice-President, Chief Financial Officer and Corporate Comptroller of the Corporation, have been nominated for election to the Board at the Annual Meeting of Shareholders in June.

### Management

On July 1, 1985, Mr. L. Edmond Ricard will become Vice-Chairman of the Corporation, and Mr. Purdy Crawford will succeed Mr. Ricard as President and Chief Operating Officer.

The office of Vice-Chairman was created in anticipation of Mr. Ricard's retirement in 1986 and it will ensure that the Corporation retains the advantage of his experience, knowledge and leadership ability. Mr. Ricard will continue to contribute to the growth and prosperity of Imasco and be available to advise and counsel his successor.

Mr. Crawford is a senior partner in the law firm of Osler, Hoskin & Harcourt and has had a distinguished legal and business career. He takes on the role of President and Chief Operating Officer with the benefit of an extensive knowledge of Imasco. Mr. Crawford has been a member of the Board of Directors for 11 years and a member of the Executive Committee for the past seven years.

### Investment Canada

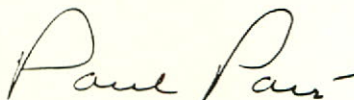
We are pleased that the federal government is taking a more reasonable and realistic view of the benefits to Canada of investment in this country. One of the first priorities of the new administration was to completely redesign the process for review of foreign investment in order to attract and facilitate investment into Canada. This new approach is expressed in the Investment Canada Bill now before Parliament. If this Bill becomes law, Imasco will be eligible to apply for recognition as a "deemed Canadian corporation". If granted, this status would place us on the same competitive footing as other Canadian corporations for all investments except those affecting Canada's cultural heritage and national identity.

### Outlook

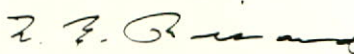
Imasco is committed to growth through the dedication of the operating divisions to quality – quality of products, of services to our customers, of management of our operating units, and of our employees. Our objective is to foster growth in all areas of operations. During fiscal 1985, we achieved that objective through the combined efforts of our employees at all levels. We are pleased to acknowledge their contribution to the success of the Corporation.

We expect the trend set in this past year to continue in fiscal 1986. While consolidating our position in our major areas of business, we shall continue to look for opportunities.

On behalf of the Board of Directors



Paul Paré, Chairman and Chief Executive Officer



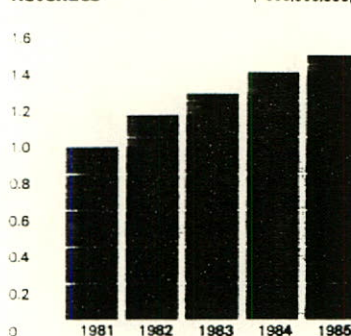
L. Edmond Ricard, President and Chief Operating Officer

Montréal, May 8, 1985.

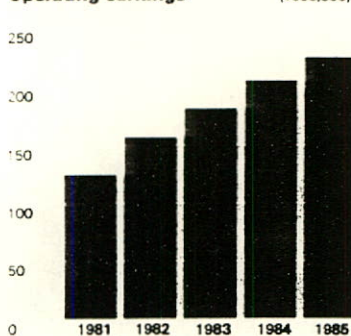




Revenues (\$000,000,000)



Operating earnings (\$000,000)



The fiscal year just ended proved to be a most exciting one for Imperial Tobacco for many reasons.

The industry's major problem, excessively high cigarette taxation, was partly resolved as a result of a change in the federal tobacco tax structure.

The company was again able to increase its share of the Canadian cigarette market, and launched a number of new products which, after only a short period, show positive signs of success.

Substantial changes in the company's organization were completed following the departure of a number of senior executives under the company's voluntary early retirement plan.

#### Industry cigarette sales

Total industry cigarette sales for the year amounted to 61.3 billion units, a 2.1% decrease in volume from 62.6 billion the previous year. This represented a softening of the decline in industry sales volume. The decline in 1984 from the previous year was 4.4%.

It is too early to offer definitive explanations for the slowing of the industry's decline in cigarette sales. However, it is probably partly attributable to the change in tobacco taxation introduced by the federal government in September 1984.

All segments of the tobacco industry were concerned about the effects of the new system of taxation introduced in 1981 and made representations to the federal finance department accordingly. Similar representations were made by the beverage alcohol industry. As a result of these representations, a joint industry-government study group was established to recommend

ways to improve the existing indexation system of federal excise duties and taxes on both tobacco and alcoholic beverages.

Following the study group's recommendations, the government modified its taxation system and now indexes federal excise duties and taxes to the Consumer Price Index rather than to the sub-group of the C.P.I. for tobacco products.

As a result of this change, federal taxes on cigarettes went up by about 5% on September 1, 1984, instead of by 17% as would have been the case under the previous system.

This new federal approach has a further benefit. It reduces automatic provincial tax increases in those provinces using indexed cigarette tax systems.

While these developments are welcome, the tobacco industry cannot afford to be complacent. In the past year several provinces raised tobacco taxes at rates substantially above the C.P.I. The Province of Québec, where more than 18,000 persons are either directly or indirectly employed in the tobacco industry, led all the others with an increase of 45%, or 28 cents per pack of 25 cigarettes.

#### Imperial Tobacco sales

For the 12 months ended March 31, unit sales of Imperial Tobacco totalled 31.4 billion cigarettes versus 31.9 billion for the previous year, a 1.6% decrease in volume. As a result of this better-than-industry performance, Imperial Tobacco's market share grew from 50.9% in fiscal 84 to its current position of 51.3%.

Imperial Tobacco's strong market position is led by Player's, the most popular cigarette trademark in Canada. The Player's family, consisting of Player's

Plain, Player's Filter, Player's Light, Player's Extra Light and the new Player's Special Blend and Player's Special Blend Light, now accounts for 22.5% of all cigarettes sold in Canada. In the course of the year, the Player's family increased its share of the total market by about 0.2%.

The second most popular cigarette on the Canadian market is Imperial Tobacco's du Maurier, which represented 17.5% of all cigarettes sold in fiscal 1985. The family members of this growing trademark consist of du Maurier, du Maurier Light and du Maurier Special Mild all of which contributed to a 0.5% growth in market share.

Other brands marketed by Imperial Tobacco include Matinée, Matinée Extra Mild, Medallion, Peter Jackson and Peter Jackson Extra Light which in fiscal 1985, collectively represented a total market share of 8.5%.

In September 1984, Matinée Slims was launched in regular, menthol, king size and 100mm versions. Response to the "slim" concept has been positive and sales are expected to contribute to continued increases in market share. As a follow-up to these positive market responses, a second slim brand called Avanti by du Maurier was launched in several test markets in early February.

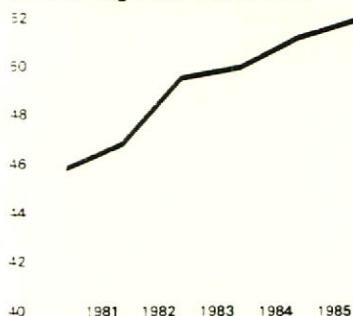
The company's growth in the marketplace is a result of the coordinated work of the Marketing and Research & Development divisions in developing new products designed to meet specific consumer needs while ensuring a high level of product quality and integrity.

In support of its strong market position, Imperial Tobacco is involved in a programme of sponsorship of world class pro-

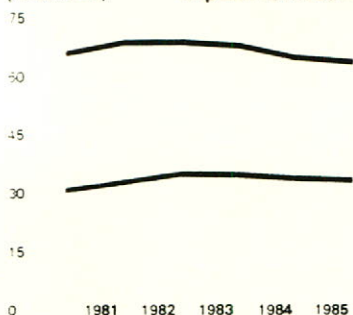




**Imperial Tobacco domestic cigarette market share** %



**Cigarette units (in billions)** Industry ■ Imperial Tobacco ■



professional sports events – golf, tennis, equestrian and auto racing. Its participation is on a scale unmatched by any other single enterprise in Canada.

In January 1985, the federal government announced that in the future, "All amateur sports associations receiving federal government funding shall be required to desist from associating in any new or renewed sponsorship or financial support arrangements with the tobacco products industry for events or programmes predominantly involving amateur athletes." This new policy will have little impact on Imperial Tobacco since the company's major sponsorships involve for the most part professional athletes.

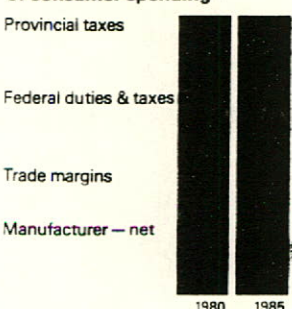
Sales of Imperial Tobacco fine cut tobacco for roll-your-own cigarettes in fiscal 1985 totalled 2.6 million kg, an increase of 2.2% over those of last year. Industry sales of fine cut decreased by 4.1%, resulting in a 2.7% growth in the company's market share to 43.6%.

Cigar and pipe tobacco sales declined during the year by 12% and 13% respectively.

#### Duty free sales

Cigarette sales activities in the duty free/export area have been rewarding. Total sales of cigarettes in this area in fiscal 1985 were 331 million units, an increase of 34.6% over last year. This segment covers sales to diplomats, ships stores, airlines, duty free airport shops and border stores, and areas where Canadians congregate while on vacation, e.g. Florida and Hawaii in the U.S. These results were achieved even during a period when the number of Canadian travellers to the U.S. was reduced as a result of unfavourable exchange rates for the Canadian dollar.

**Taxes on cigarettes per dollar of consumer spending\***



\* For the province of Ontario.

#### Human resources

In the course of the year, the company renewed seven collective agreements with the Bakery, Confectionery and Tobacco Workers International Union, which included the agreements at our major manufacturing facilities in Guelph, Québec City and Montreal. The new collective agreements are of 21 months' duration and expire in April 1986.

#### Reorganization

Under a plan offered by the company a number of senior executives took early retirement in fiscal 1985. It is a measure of the success of the company's career planning and executive succession programme that these departures took place without major internal disruptions. The management structure was reorganized and seven new division heads were appointed.

#### Leaf tobacco

The 1984 Canadian flue-cured, Virginia-type tobacco crop amounted to approximately 89,000 metric tonnes and reached the production targets in the various provinces where the tobacco is grown. The 1985 crop is expected to be smaller because of decreased demand for the export market. The average price received by the growers was \$3.73 per kg, up from \$3.60 in 1983.

Imperial Leaf Tobacco purchased approximately 38,000 metric tonnes of the 1984 crop, of which 9,000 metric tonnes are destined for overseas sales.

Canadian growers are seeking to establish a national marketing board for flue-cured tobacco. Some growers view such a board as the only means by which Canadian flue-cured tobacco can maintain its competitive position on world markets. However,

before any decision is taken to establish such a board, it would be advisable to determine what the long term prospects are for the export of Canadian leaf tobacco.

#### Prospects for the future

Imperial Tobacco's success in fiscal 1985 and hopes for the future rest essentially on two bases. First, a conviction that the company's products are the best in the industry and that they will continue to attract an increasing share of the custom of the seven million Canadians who enjoy smoking. The Company is committed to continued excellence in product development, manufacturing, packaging, marketing, advertising and promotion, and in consumer relations.

Secondly, Imperial Tobacco will continue to strive to achieve higher productivity levels. The combination of efficient production planning, modern machinery and the enthusiastic support of all employees should assure a successful future.





Avanti. New flavour, new sizes and new packaging are features of Imperial Tobacco's latest member of the popular du Maurier family.

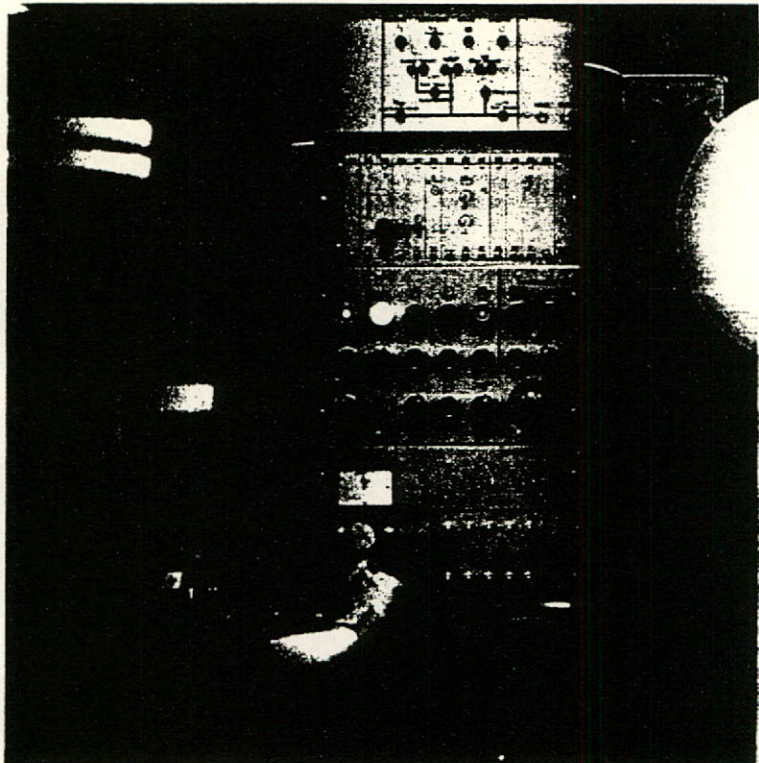
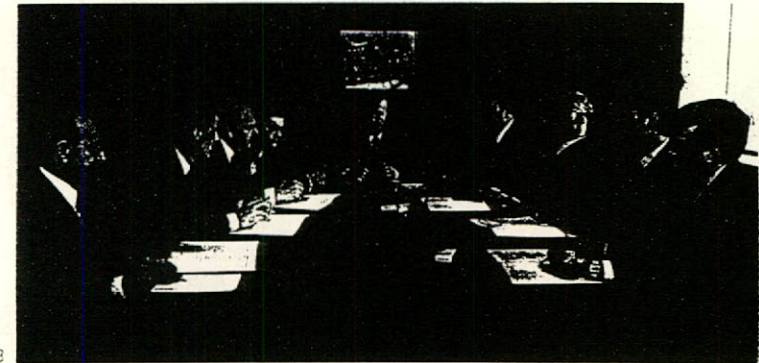
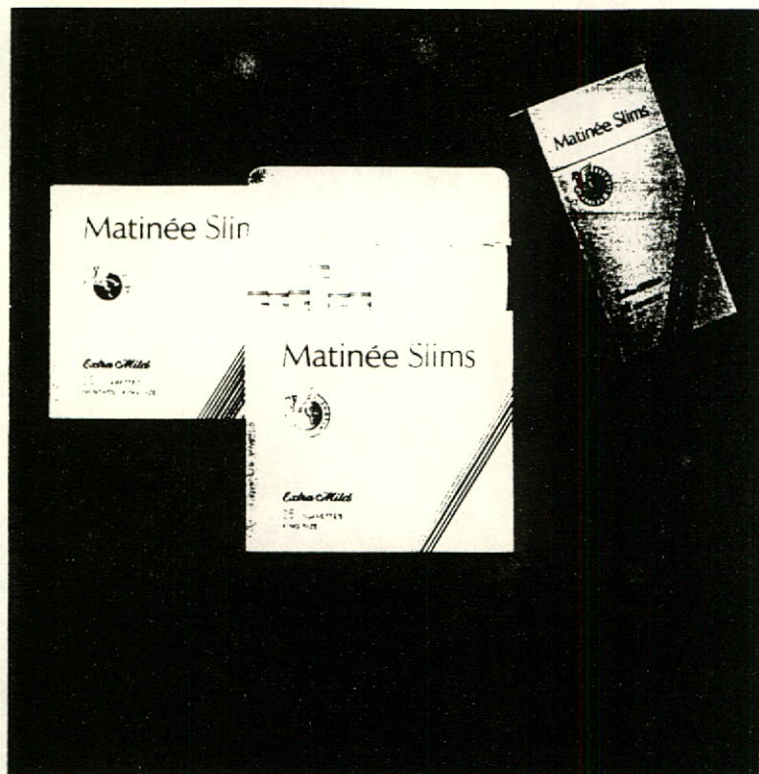
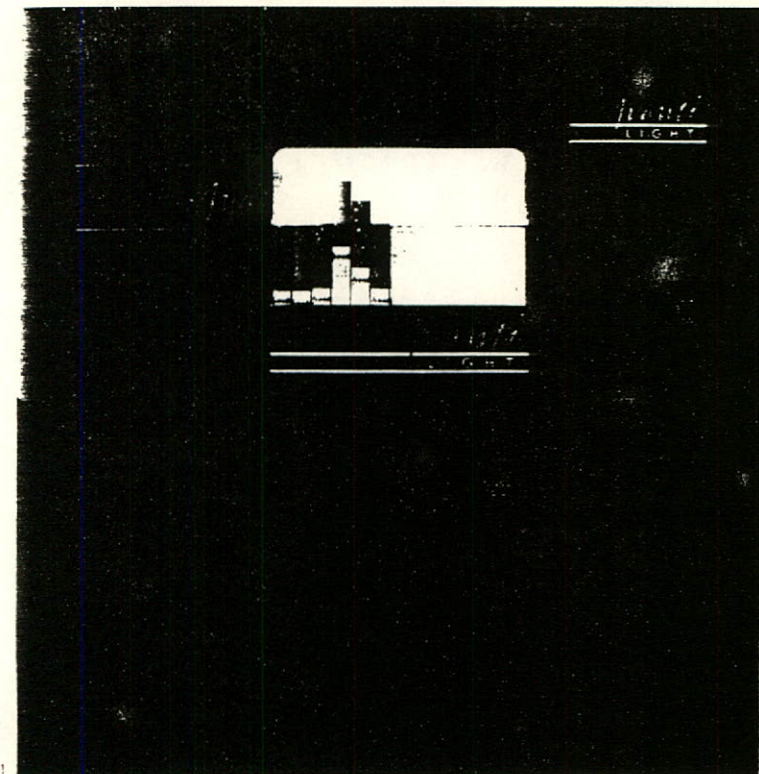
Matinée Slims. A bright, new presentation of one of Canada's favourite cigarette brands.

Imperial tobacco management committee meets regularly with president Jean-Louis Mercier, centre. L. to r. are Roland Bouchard, Secretary, Marius Dagneau, Andre Laporte, Wilmat Tennyson, Clifford Warren, Michael Courtney, Thomas Lee, Patrick Dunn.

4 Skilled technicians prepare flavour samples for smoking panel tests.

5 Technician selects cigarettes for quality control tests.

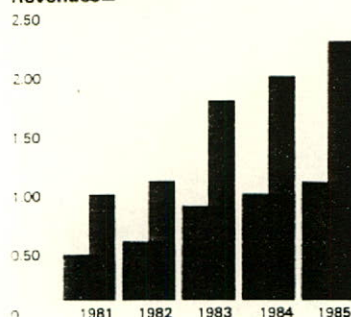
6 Mark IX machine makes 5,000 cigarettes a minute.



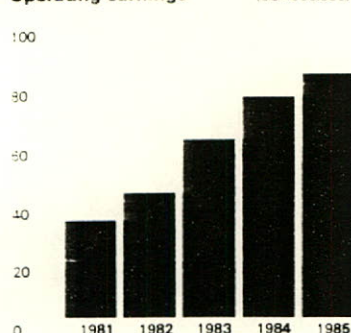




System-wide sales ■ (US \$000,000,000)  
Revenues ■



Operating earnings ■ (US \$000,000)



The year 1981 represents the fiscal year ended October 31, 1980.

For fiscal 1985 system-wide sales were \$2.9 billion and revenues were \$1.3 billion, representing increases of 21% and 16% respectively over fiscal 1984. Earnings from operations were \$108.3 million in fiscal 1985, a 17% increase over fiscal 1984 earnings of \$92.3 million. Total capital spending by Imasco USA was approximately \$120 million.

### Hardee's Food Systems

During fiscal 1986, Hardee's Food Systems, Inc., the principal operating subsidiary of Imasco USA, Inc., will celebrate its 25th anniversary. This represents two-and-a-half decades of leadership in the U.S. fast-service restaurant industry. Hardee's currently ranks fourth in revenue among all hamburger restaurant chains and fifth among all fast service chains.

Hardee's Food Systems' 2,358 restaurants are located principally in the southeastern, midwestern, and mid-Atlantic regions of the United States and in several foreign countries. Of these, 866 are company-owned and 1,492 are franchised. The company continues to maintain a company-ownership base of approximately one-third of all restaurants. In the past year, Hardee's opened 61 company-owned restaurants and 227 franchised restaurants, including 28 Burger Chef restaurants that converted to the Hardee's format. Hardee's expects to open 28 company-owned and 250 franchised restaurants in fiscal 1986.

Hardee's historical growth in the highly competitive fast-food industry has been the result of a disciplined yet flexible approach to management, as well as a continual monitoring and awareness of changes in consumer preferences and competitive trends. Hardee's has always been committed to aggressive growth, increased market share

and greater sales volumes. Timely product development and effective marketing, together with an increase in two-income households and an increase in disposable income as a result of lower inflation, make prospects for fiscal 1986 very attractive.

During fiscal 1985, Hardee's used both network and local television extensively, promoting a new theme, "It's All Here At Hardee's". Special advertising emphasis was given to Hardee's biscuit breakfast programme, with a network campaign reminding customers that Hardee's is Number One in Breakfast Biscuit sales, the fastest growing breakfast item in the industry. The introduction of new "Canadian Sunrise" biscuits and "Cinnamon 'N' Raisin" biscuits has also added strength to the overall breakfast product line.

Hardee's menu variety and consistently strong performance in breakfast sales were the main contributors to a 4% growth in average unit volumes in fiscal 1985 to US \$802,000 per restaurant.

The fast-food industry during the past year was buffeted by an unusually harsh winter. There was also intense competition for the breakfast customer. Since the introduction of breakfast in its restaurants in the early '80s, Hardee's has increased its market share in this important segment. In the markets in which it operates, it is now an important factor in the fast food breakfast segment. As a result of its strong market position, Hardee's experienced increased competition during fiscal 1985 in this segment. All competitors introduced programmes of promotional activity and new products into the breakfast segment. Hardee's will continue to focus its efforts in fiscal 1986 on improving the quality of its hamburger products and on maintaining high levels of

service and cleanliness in its restaurants. To this end, Hardee's will be embarking on a significant capital investment programme in new cooking equipment, research and development efforts to improve hamburger quality, and to raise the overall quality of its product line.

### Advertising and promotion

An especially successful Christmas children's promotion, in conjunction with Coca-Cola<sup>®</sup>, featured Walt Disney plush toys portraying various characters in the television cartoon feature, "A Christmas Carol". Forty percent more of these Disney plush toys were sold, with the purchase of a sandwich and a Coke<sup>®</sup>, than had been of the "Shirt Tales" plush animal toys during the extremely successful promotion of the previous Christmas. Hardee's is now planning a major summer promotion in fiscal 1986 featuring the popular television cartoon characters, "Alvin and the Chipmunks".

To further enhance its marketing position, Hardee's will introduce new packaging designs and bright contemporary uniforms for all restaurant employees in fiscal 1986. Testing of several product innovations will also be completed by mid-year, with plans calling for system-wide roll-out of some of these by the end of the current fiscal year.

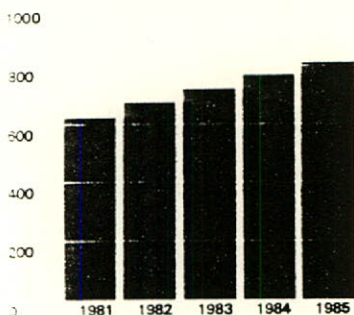
After an extensive review involving several New York advertising agencies, on March 15, 1985 Hardee's announced that Ogilvy & Mather had been awarded the company's national advertising account.

Ogilvy & Mather, the fourth largest advertising agency in the world, is a full-service international agency with 167 offices in 85 cities in 39 countries, including associate agencies. The agency's work for more than





Average unit sales volume (US \$000)



The year 1981 represents the fiscal year ended October 31, 1980.

1,800 client companies includes the preparation of general advertising, direct response advertising, sales promotion, public relations and media buying operations.

Hardee's has every confidence that this association will build a strong image and long term positioning for the company.

### Fast Food Merchandisers

Fast Food Merchandisers, the manufacturing and distribution subsidiary of Imasco USA, and its second largest division, opened a new 190,000 square-foot manufacturing facility in Monterey, Tennessee in June 1984. Although initially experiencing higher start-up costs than anticipated, this facility is now fully on stream and profitable. This processing plant employs state-of-the-art technology and processes a variety of beef and poultry products for both Hardee's restaurants and Gol-Pak, Fast Food Merchandisers' private label sales organization. The new facility, along with the manufacturing plants in Forest City and Rocky Mount, North Carolina, supplies 78% of the products needed for Hardee's menu.

During fiscal 1985, Fast Food Merchandisers closed its meat processing facility in Oneida, New York and divided the production from that plant among its three other modern facilities.

Fast Food Merchandisers also operates nine distribution centres which are strategically located to serve all of Hardee's company-owned and franchised units in the United States. With its own fleet of refrigerated trucks, Fast Food Merchandisers meets a demanding schedule of regular restaurant deliveries to guarantee that all products served at Hardee's are in optimum condition.

### Grisanti

Imasco USA acquired Grisanti, Inc. of Louisville, Kentucky in November 1984. Grisanti operates two nationally recognized restaurants, Casa Grisanti and Sixth Avenue. The company has also developed the Mamma Grisanti family restaurants which serve mid-priced, high-quality Italian meals. The Grisanti organization will introduce a prototype unit for development in fiscal 1986. Current plans are for the systematic expansion of this concept in major U.S. markets.

### Hardee's and Peoples

Peoples Drug Stores is the newest partner in Hardee's unit development. Operating as a Hardee's franchisee, Peoples has converted portions of two of its stores into Hardee's restaurants. These two units are located in the Washington, DC area. Initial operating results are most encouraging. Several more such conversions are planned.

Imasco USA and all of its operating divisions continue their commitment to excellence. This excellence will result in recognition by the consumer of Hardee's as the preeminent fast-service, family restaurant in the U.S. Such recognition will in turn allow the company to achieve its long term strategic goal of sustained average unit volume growth and restaurant development programmes to enable it to meet the competitive challenges.





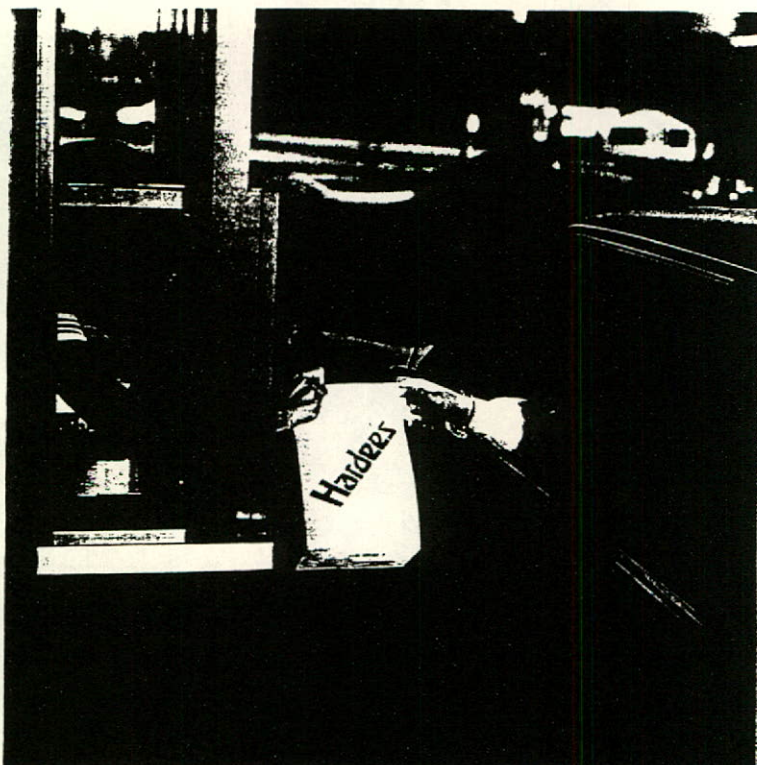
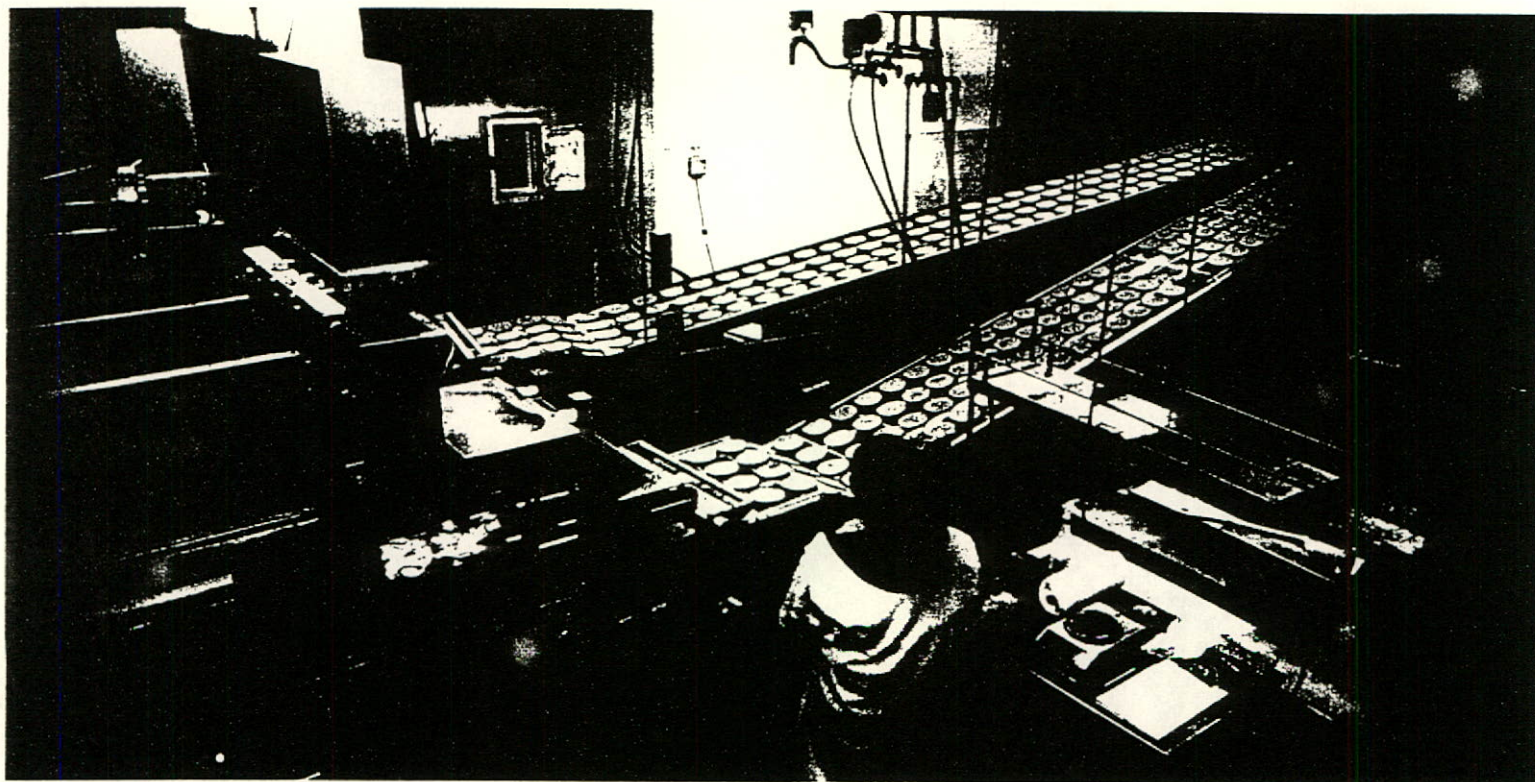
1 Quality assurance inspector oversees production of quarter pound hamburger patties in Rocky Mount plant.

3 Walt Disney-designed stuffed toys delighted children during Hardee's Christmas promotion.

2 Jack Laugher, Chairman, President and Chief Executive Officer, Imasco USA, and Spruill Bunn, President and Chief Executive Officer, Hardee's Food Systems.

4 Computer specialists confer in Rocky Mount, center of all management information services.

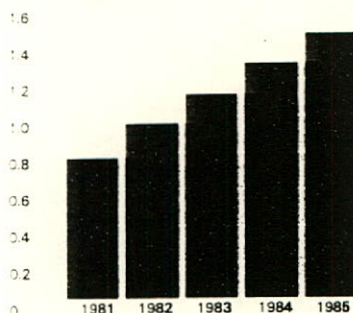
5 Drive-through service is popular at Hardee's.



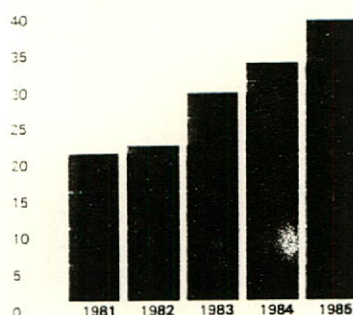




**System-wide sales** (\$000,000,000)



**Operating earnings** (\$000,000)



Shoppers Drug Mart, Canada's largest drug store group, continued to build on corporate and consumer programmes established in prior years, resulting in a strong performance by fiscal year end. New programmes were initiated during the year to complement and reinforce existing marketing and productivity goals.

At year end, there were 377 Shoppers Drug Mart stores across Canada, 37 Pharmaprix stores in the Province of Québec, 31 Shoppers Drug Mart stores in the State of Florida and two Howie's off-price stores in Toronto.

System-wide retail sales were \$1.5 billion which, on a comparable store basis, represent an increase over the prior year of 11%. Average retail sales per store were \$3.3 million and sales per square foot continued to rise, topping \$542. Both these latter statistics exceed by far the North American averages for drug stores. Operating earnings were \$38.3 million, up 17% from 1984, reflecting the results of improvements in productivity of space utilization, marketing, inventory management and human resources.

### Consumer-driven culture

Among management activities initiated this year that will have a long term, beneficial effect on the division's performance is a gradual shift of focus toward a market-driven philosophy in retailing, as opposed to an emphasis primarily on merchandising and sales.

The restructured marketing department is directed to determining and filling consumers' needs better than any retail organization in its field. Therefore, the purchasing function is dictated by what target/market consumers wish to buy, rather than what suppliers are anxious to sell. This philosophy is permeating corpo-

rate and regional offices, and all stores. It is becoming a major factor in the corporate culture and marketing thrust of Shoppers Drug Mart.

Shoppers Drug Mart is unique in the drug store industry in North America. Its stores are owner-operated through a type of franchise system that gives the Pharmacist-Associate the flexibility to meet local competitive pressures and market demands, and at the same time to take advantage of the administrative, management, marketing and training services available from the corporate centre. During the almost 25 years' history of Shoppers Drug Mart, the Associate system has helped the company to withstand keen competition, harsh economic climates and periods of consumer spending restraints.

### New retail concepts

With the food and drug retailing industry undergoing radical changes at the present time, and when new retail concepts are being tested by most major retailers, Shoppers Drug Mart is ideally equipped to strengthen its leadership position by catering to an important generation of consumers in the 18 to 49 year age group.

One such new retail concept opened last year was "Howie's, More than a Drug Store", a deep discount, large, free standing store attracting shoppers who are looking for expanded product offerings, one-stop shopping and exceptional value. The product mix of Howie's, in addition to traditional drug store items, includes foods, pet supplies, hardware, toys, household goods, specialty items and much more.

The success of the Howie's experiment has led to the development of a second Howie's in Toronto, two similar units, Phar-

mapiex Carnaval, in Montréal, and a combined drug and convenience food store in Halifax which opened near the end of fiscal 1985.

### Regional operations

Shoppers Drug Mart operates on a regional basis roughly following geographic lines, that is, Western Canada, Ontario West, Ontario East, Pharmaprix Québec, Atlantic Canada and Southeast U.S.A.

In Western Canada, particularly in the Edmonton area, competition is being overcome by much more aggressive marketing, advertising and promotional activities.

The major markets in Ontario continue to thrive, with market share increasing at a steady rate. Regional heads in Ontario East and West have instituted exciting sales and marketing programmes which focus on productivity measures to increase market share.

Pharmaprix stores have undergone organizational changes in the past year, with the result that profitability improvements have been made. A new type of Associate system is being introduced which promises to receive wide acceptance. With the opening of the two Pharmaprix Carnaval stores, the first new store openings in the Québec region since 1981, the pace of growth and profitability should quicken in fiscal 1986.

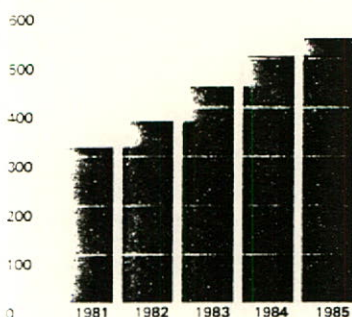
The Atlantic region continued to lead all regions in increases in sales, customer counts and average sale per customer. During the year, six Good Neighbor Drug Stores were acquired, further, extending the services of Shoppers Drug Mart to consumers in Atlantic Canada.

After a period of consolidation, the Florida stores showed better





Sales per square foot



day-to-day operating results. Performance of the region should improve at a faster rate because the remaining core stores have the best potential. One new store was opened in Tallahassee.

### Home health care and institutions

To take advantage of the favourable reputation enjoyed by the pharmaceutical services of the business – prescriptions and over-the-counter medications – the division has strengthened its position in the home health care market and the nursing home/hospital prescription business. The fifth Home Health Care Centre was opened, and additional contracts have been negotiated with nursing home operators for prescription services.

### Corporate and generic brands

The division's corporate brand names, Life Brand and Shoppers Drug Mart, have gained increased recognition among consumers as representing good quality and value in unconditionally guaranteed products. Life Brand vitamins are market leaders in their category.

Red Saver/Econo-Rouge, the division's generic products, continue to appeal to a large segment of the population that is less brand conscious on everyday, utility items and more interested in receiving price benefits.

### Beauty care

During the year, the organization of the Cosmetics Department at the corporate level was changed to reflect consumers' perception that there's more to looking good than cosmetics. Therefore, the product mix was adjusted to put beauty aids (hair, bath and body care products) under the supervision of the Cosmetics Department which has been re-named

the Beauty Care Department. Expanded product lines also include fashion pantyhose, jewellery and cosmetic accessories such as makeup bags, brushes and utensils.

### Health care

Similarly, the Pharmaceutical Services Department has been reorganized into the Health Care Department which, in addition to pharmacy/prescription services, now encompasses over-the-counter medications, home health care services and the nursing home prescription business.

The trend toward government reclassification of selected prescription drugs as non-prescription medications, along with a growing number of older adults who tend to self-medicate, is creating a significant role as patient counsellors for the Pharmacist-Associates of Shoppers Drug Mart.

### "Customers Are Really Everything"

In line with the division's market-driven philosophy, its internal operational theme, Customers Are Really Everything (C.A.R.E.), continued to dominate management communications and motivational activities throughout the year. Store employees were trained in treating the customer as king.

Aspects of the C.A.R.E. programme are evident in staff courtesy and friendliness, check-out efficiency and speed, store housekeeping, in-stock product availability and variety, and value-oriented sales and promotions.

### Consumer research

Shoppers Drug Mart is dedicated to the concept of knowing the wants and needs of the changing consumer, most especially the so-called Baby Boomers and

their parents. Both these segments play significant roles in the continuing contribution that Shoppers Drug Mart is able to make to the health protection and safety of the communities it is privileged to serve.

To maintain and strengthen its contribution as a member of the health services team, Shoppers Drug Mart engages in exhaustive consumer opinion and behaviour research in all major markets in which it operates. By knowing and filling the shopping needs of all consumers, especially the 18 to 49 age group and senior citizens, Shoppers Drug Mart is assured of reinforcing its position of dominance as the preferred destination for drug store shoppers in Canada.

### The future

Shoppers Drug Mart believes that the future's only constant factor will be change and is ready to cope with it. The Shoppers Drug Mart division of Imasco Limited is equipped to meet and profit from every change. Retail positioning will continue to be the main thrust of the company. Shoppers Drug Mart, Shoppers Drug Mart Health Care Centre, Howie's, and the combined Shoppers Drug Mart and convenience food are all well positioned to meet consumer needs for the balance of this decade.





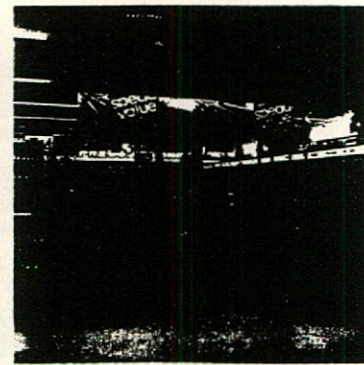
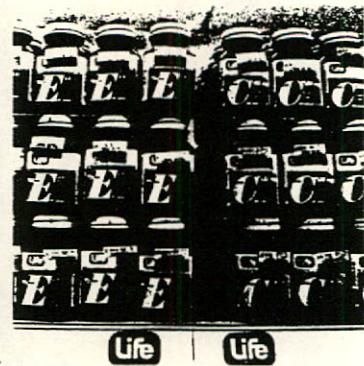
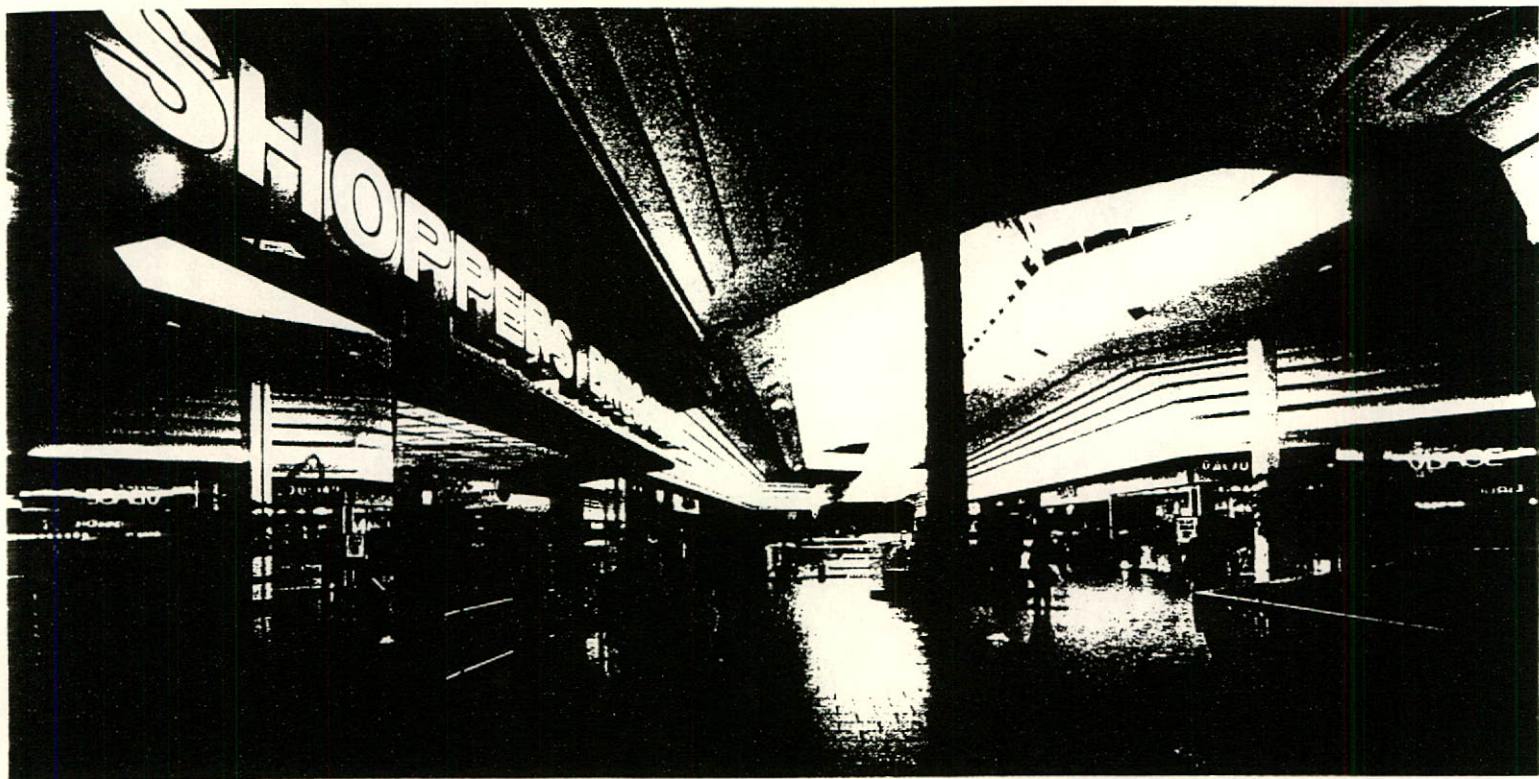
1 Shoppers Drug Mart in Markville, Ontario, Shopping Centre.

2 David Bloom, President and Chief Executive Officer, Shoppers Drug Mart, hears about a highly successful store from Nancy Keays, Pharmacist-Associate.

3 and 4. Shoppers Drug Mart private label products, Red Saver and Life Brand, provide top value at low prices.

5 Pharmacists' computers assure patients safety with comprehensive records of medication.

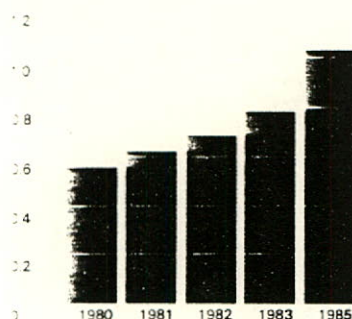
6 Attractive displays of name-brand cosmetics and knowledgeable sales staff combine to make Shoppers Drug Mart popular with the beauty-conscious woman.



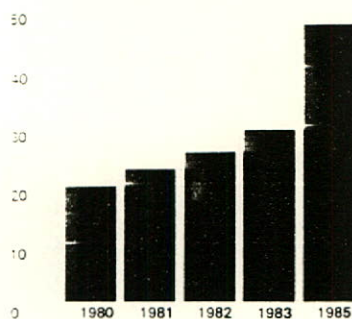




Revenues\* (US \$000,000,000)



Operating earnings\* (US \$000,000)



\* For the years ended September, except for March, 31, 1985.

Peoples Drug Stores, acquired by Imasco as of April 1, 1984, continued its progress by recording the highest sales and earnings in its 79-year history. Sales were \$1.4 billion, up 39% from its last recorded fiscal year which ended September 24, 1983. Operating earnings were \$55.3 million, up 54% against the same base. Comparative store sales were up 9.1% and sales per square foot averaged US \$196.

#### Rea and Derick acquisition

Of major significance to future growth was the purchase of the 134-store Rea and Derick drug store chain from American Stores of Salt Lake City, Utah. Rea and Derick stores are located primarily in the state of Pennsylvania and have a sales volume in excess of US \$200 million. These stores are remarkably similar to Peoples in size, merchandise composition and public image, and form a logical geographic extension of the Peoples chain. The purchase, along with Peoples store openings during fiscal 1985, increased the chain's size from 600 stores last year to 765 as of March 31, 1985.

Peoples took operating control of Rea and Derick in December 1984. In the past four months Peoples has implemented a variety of programmes designed to increase sales, improve gross profit, reduce expenses, standardize functions and generally improve productivity resulting from economies of scale.

Plans are underway to change all of the Rea and Derick stores in the south central sections of Pennsylvania, as well as two in northern Maryland, to the Peoples name. A small number of Peoples stores coexists with Rea and Derick in these markets and economies in advertising efficiency should result. The changeover to the Peoples trade name and detailed merchandis-

ing structure is expected to be accomplished by midsummer.

#### Marketing strategy

Peoples overall marketing strategy is based on market dominance, and Peoples is either first or second in market share in almost all of its markets, including the six major metropolitan markets in which Peoples operates about 50% of all its stores. These major markets are Washington, DC; Toledo, Ohio; Harrisburg/York/Lancaster, Pennsylvania; and Tidewater, Norfolk, Newport News, Virginia where Peoples holds the top market share, and in Indianapolis, Indiana, and Atlanta, Georgia, where it holds the number two share.

In addition to market leadership, Peoples' business strategy includes the emphasizing of health care and convenience. It is the health orientation which sets it apart from most other U.S. drug retailers. This also made the Rea and Derick acquisition particularly desirable, since its perception in its markets is also highly health-care oriented.

#### Health care reputation

Peoples not only dispenses prescriptions but provides other health-care services, professional advice and information. Advertising strategies include providing customers with consumer product information on prescription drugs and various health information pamphlets, often prepared in conjunction with U.S. Government agencies dedicated to health, welfare or education. All of this activity is presented to the public with emphasis on the Peoples' pharmacist as a community health care resource.

This community health image is reinforced by other related Peoples retail activities. These

include the operation of "Home Health Care Centers", retail units providing durable medical equipment and hospital-type supplies for sale or for rent. These Centers are positioned to capitalize on a trend to shortened hospital stays and improvement in the quality of home convalescence. Peoples now operates Home Health Care Centers in three markets, metropolitan Washington; Richmond, Virginia; and Norfolk, Virginia, and plans to expand to additional markets during the coming year.

The professional health care image is given additional stature by Peoples' operation of a total of 56 Optical Centers in its major markets. These Optical Centers, some of which are located in Peoples Drug Stores, and others which are free-standing, dispense prescription eyeglasses with a wide range of designer-frame choices. They are serviced by two Peoples optical laboratories in Alexandria, Virginia, and Atlanta, Georgia.

#### Convenience

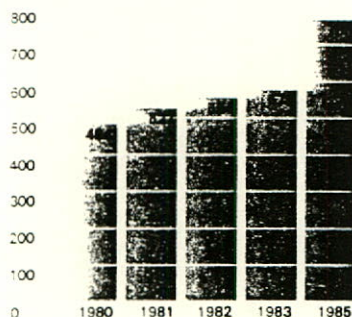
Peoples stores are designed for ease of access, nearness of parking, simplicity and logic of merchandise adjacencies, and for quickness of day-to-day necessity shopping.

In addition to convenience of location, a factor of its market leadership concept, Peoples aims for convenience in many other aspects of consumer perception. In addition to its main business of prescriptions and proprietary drugs, Peoples offers film, greeting cards, cosmetics, toiletries, basic food items, home and office supplies, vitamins, nutritional products, day-to-day needs in housewares, hardware and automotive supplies, and a wide range of seasonal needs. These span the buying peaks from St. Valentine's Day early in the year, with its candy and greeting cards, to Christmas with





Number of stores\*



\* For the years ended September, except for March 31, 1985.

its tree trimmings, outdoor decorations, gift wrap and other ornaments and novelties of the season.

### Operations policy

Operationally, Peoples is divided into six major groups. The largest, with over 350 stores, is the Peoples Mid-Atlantic Division headquartered in Alexandria, Virginia, which operates stores from south central Pennsylvania along the Atlantic coast as far as eastern North Carolina. The other drug store operational groups range from 80 to 120 stores each and include the Reed Division, headquartered in Atlanta, Georgia, which operates stores under the name of Reed Drug in and around Atlanta and Lee Drug in and around Columbus, Georgia; the Lane Drug Division, operating primarily as Lane in the greater Toledo, Ohio, market and small communities in northwestern Ohio as well as under the Peoples Drug name in eastern Ohio around Canton.

Peoples Mid-West Division is headquartered in Indianapolis, Indiana, with operations in Indiana, Kentucky, Illinois and Iowa, predominately in the metropolitan markets of Indianapolis and Evansville, Indiana and the Quad Cities of Davenport, Rock Island, Moline and Bettendorf on the Mississippi River between Illinois and Iowa. The new Rea and Derick Division is headquartered in Northumberland, Pennsylvania, with operations in many small towns in central Pennsylvania and Wilkes Barre/Scranton, and Allentown/Bethlehem/Easton in eastern Pennsylvania.

A sixth operational group, "Health Mart", is headquartered at Uniontown in western Pennsylvania and consists of 32 stores, smaller than Peoples Drug Stores, and located principally in downtown business areas. These

Health Marts engage primarily in the sale of discounted health and beauty aids and some general merchandise and, with four exceptions, do not contain pharmacies.

### Inventory management system

During the year Peoples further advanced its implementation of AIMS, "Advanced Inventory Management System", which is designed to create new efficiencies in buying and selling and in particular to the turnover of inventory. This system automates and simplifies many of the time-consuming manual buying and promotional functions, including the monitoring of product movement performance, cooperative advertising moneys and historical seasonal movement patterns. AIMS now provides Peoples' buyers with computer-assisted rebuying as well as much new information on service levels and vendor performance.

### Fredericksburg distribution centre

Peoples' newest distribution centre, located in Fredericksburg, Virginia, is planned to be operational by the end of calendar 1985. Construction on the building shell of this unit has been completed and interior finishing and equipment installation are in progress.

The distribution centre has 350,000 square feet of storage on a main floor with 40 feet of stack height, as well as 150,000 square feet of mezzanine. It has 24 receiving doors and 36 shipping doors and its own rail siding with seven rail doors. Shortly to be installed is the latest in automated sortation systems, capable of sorting over 200 cases a minute. The new centre gives marked expansion capabilities to Peoples Mid-Atlantic Division and replaces two Peoples distri-

bution centres. The distribution system will be under computer control.

### Specialty retailing experiments

Peoples is also conducting various experiments in specialty retailing, including card and gift shops, deep discount drug stores and fast food adjuncts.

Two card and gift shops, under the name Smiles, were launched in Ohio in 1983. Two more were opened in fiscal '85.

Peoples' first experimental deep discount unit was opened in November 1984 in Greenbelt, Maryland, under the name "BUD'S". BUD'S is based on the mass merchandising of high volume health and beauty products as well as some items that are more familiar to supermarkets. This high volume price-emphasis business is backed up by a price-oriented pharmacy. BUD'S is a totally self-contained operation with its own buying staff and an optical scanning checkout system. An additional number of experimental BUD'S stores with some variations in operational system are planned for other markets during this coming year.

As a unique example of cooperative enterprise, Peoples opened its first Hardee's franchise in the Washington area in February '85, close to the University of Maryland. After two months of operations, sales are remarkably strong. A second Peoples-operated Hardee's franchise was opened in March 1985 in Washington's Virginia suburbs. This innovation provides Hardee's with an opportunity to substantially increase their market share in Washington and provides Peoples with a high profit potential alternative to some of the older soda fountain units where sales and profit performance have been static.





1 One of the 134 Rea and Derick stores acquired by Peoples is this unit in the Susquehanna Valley Mall, Selinsgrove, Pennsylvania.

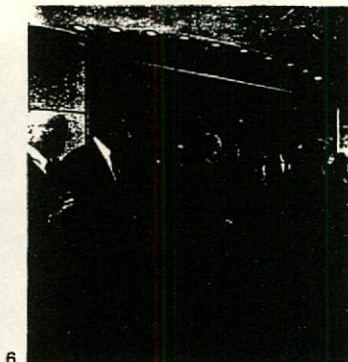
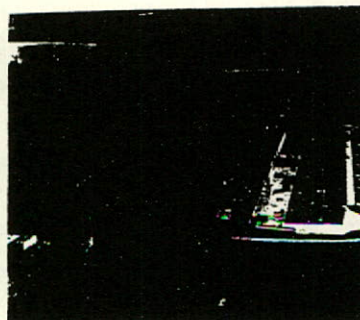
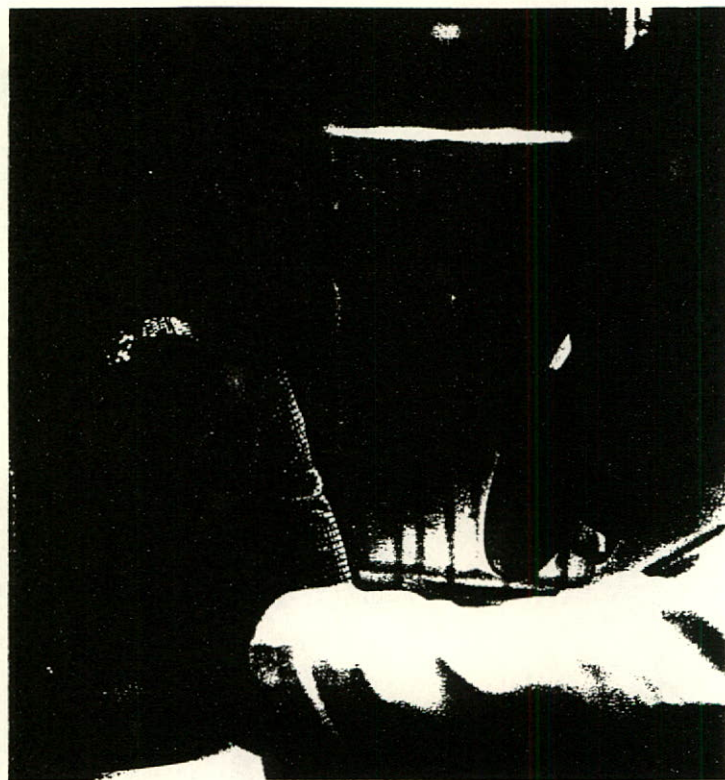
2 Peoples Drug Stores operates 56 Optical Centres in its major markets.

3 Peoples Home Health Care Centers provide sale, rental, delivery and set up of durable medical equipment.

4 Some Peoples key executives at a recent management meeting: Robert M. Arens-meyer, Sheldon W. Fantle, Chairman, President, Chief Executive Officer, Nicholas Simon, Jeffrey M. Fantle, David H. Eisen-berg, Joseph A. Pollard.

5 Aerial view of completed exterior of Peoples new Fredericksburg, Virginia, distribution center.

6 Executives from Peoples Drug and Hardee's with local civic officials at ribbon-cutting opening the first Peoples-operated Hardee's franchise in College Park, Maryland.







**Hardee's Food Systems**

Hardee's Food Systems operates and licenses a system of 2,358 fast food restaurants in 40 states in the U.S. and in ten foreign countries, in the Middle East, Central America and the Orient.

**Shoppers Drug Mart/  
Pharmaprix**

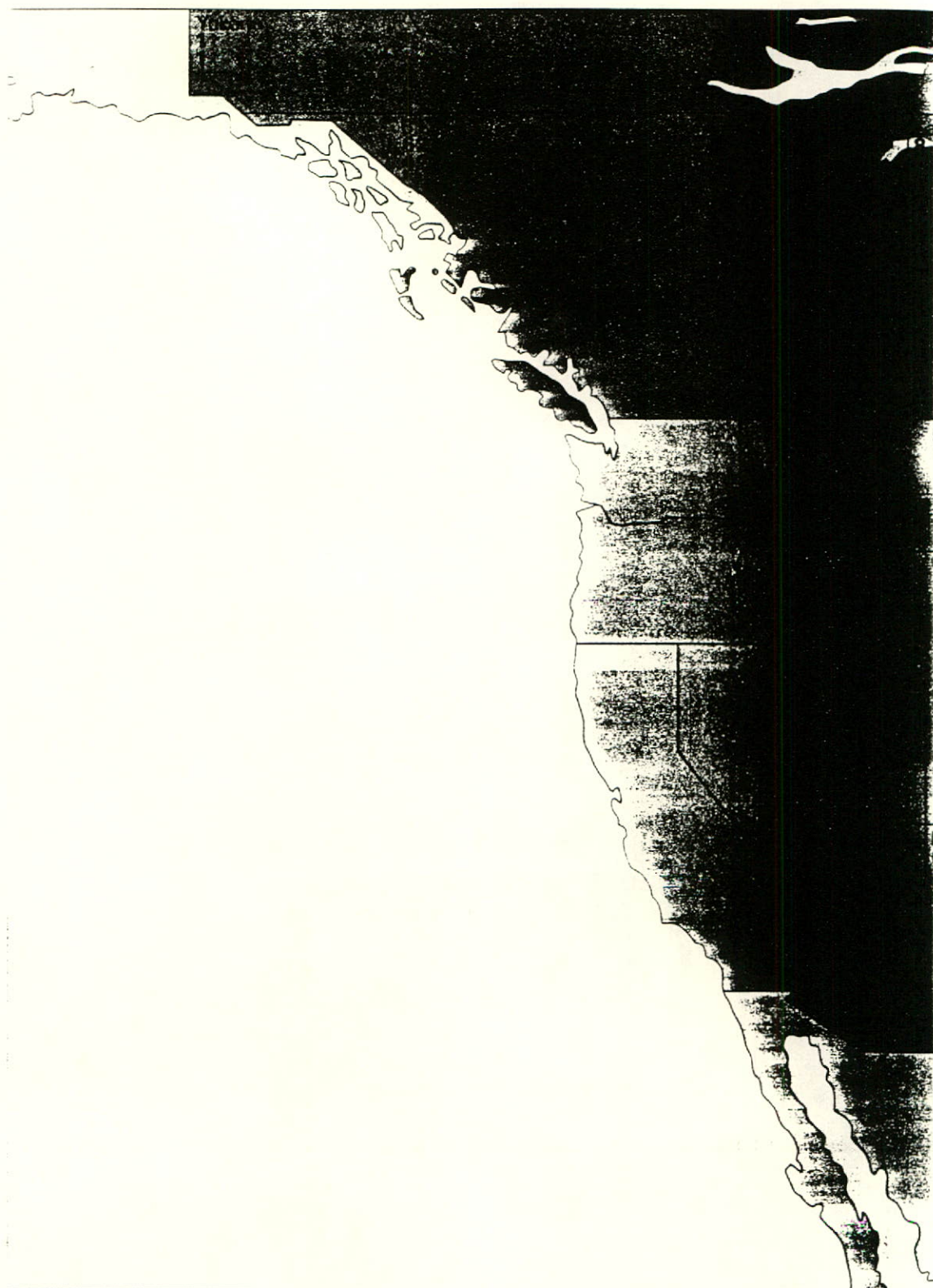
Shoppers Drug Mart (Pharmaprix in Québec) licenses and operates 447 pharmacies in all Canadian provinces and the Yukon. Shoppers specializes in prescription drugs, over-the-counter medications, health and beauty aids and cosmetics.

**Peoples Drug Stores**

Peoples Drug operates a chain of 765 drug stores in 14 states and in Washington, DC specializing in prescriptions, health care, and a broad range of day-to-day consumer products.

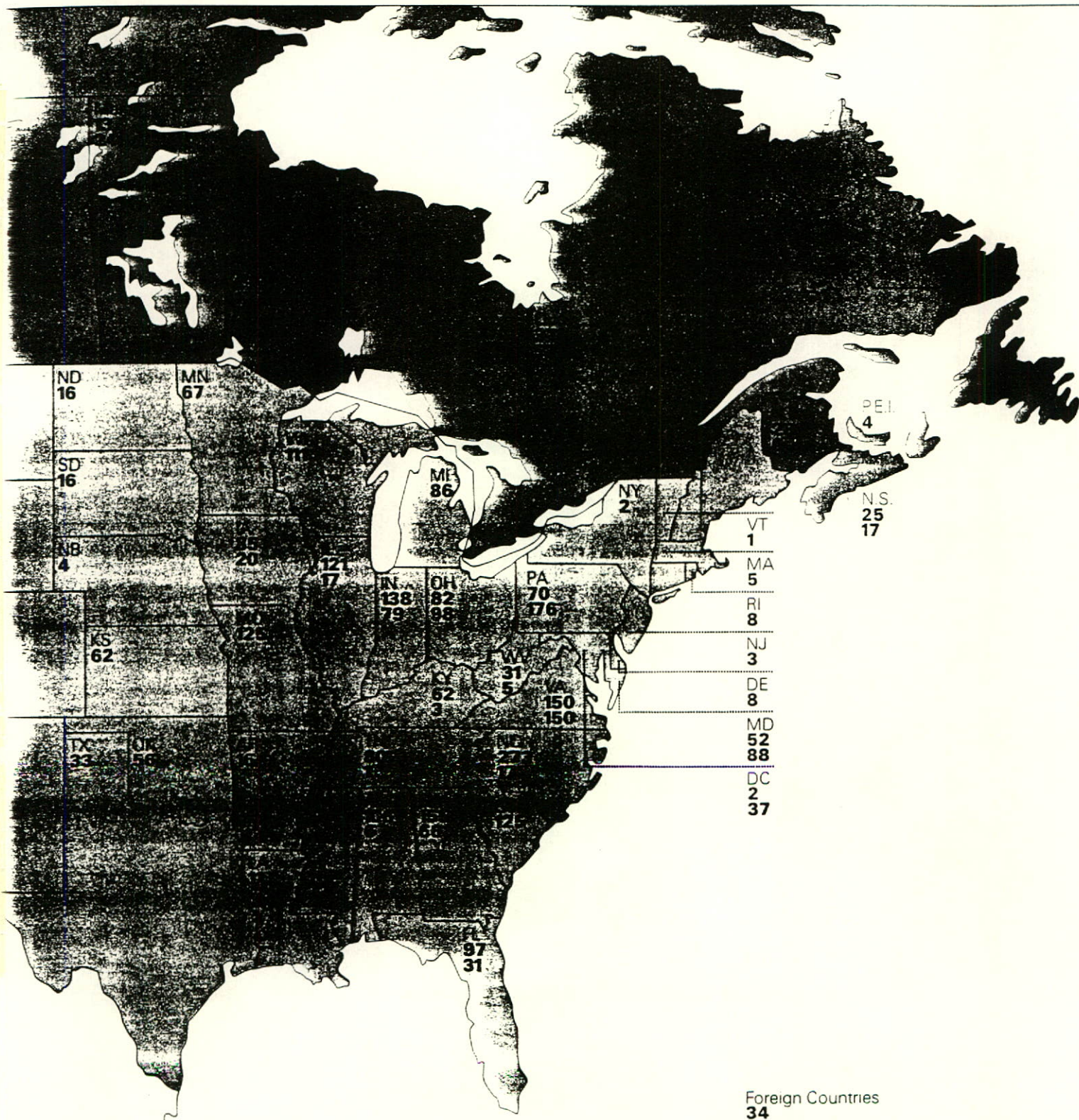
**The UCS Group**

UCS operates 455 retail tobacco and gift shops in all Canadian provinces and in the Yukon.













### The UCS Group

The UCS Group is Canada's leading tobacconist and the largest retailer of non-food convenience items such as cigarettes, newspapers and magazines, china and giftware, confectionery and snack items. During this past year, the company opened 17 units and closed or sold 19 stores which include the divestiture of the six Cavalier China and Gift Shops in Calgary.

Two retail divisions, Specialty and Convenience, were merged into one, thereby effecting significant operating efficiencies. At year end, there were 158 Smoke Shop departments in Woolco or F.W. Woolworth stores across Canada, 164 convenience item stores in shopping centres and other high traffic locations, 38 Den for Men/Au Masculin stores and 95 stores in airport terminals and hotels, for a total of 455 retail locations. The company plans to open 22 new locations in the coming year, while possibly disposing of a few older stores that have become unprofitable.

The core business of The UCS Group is tobacco-related. Its small, conveniently located outlets give consumers an opportunity to make purchases without going out of their way. Tobacco products account for a large percentage of sales, although the merchandise mix is changing as new products include more non-tobacco items.

Over the past few years, management's efforts to improve overall productivity have resulted in a consumer-conscious, efficient operation that places great emphasis on developing the company's human resources at all levels. A large majority of the 2,400 employees across Canada has been exposed to in-house training programmes and other incentives for career enrichment.

### Imasco Resources

Canada Northwest Energy Limited, a Calgary-based public company engaged in oil and gas exploration and production in Canada, the United States, Europe and Australia is Imasco Resources' principal investment. Imasco holds 2,010,960 common shares, or 12.2%, and \$8 million of 6 1/2% convertible preferred shares. The book value of the investment as at March 31, 1985 was \$16.6 million.

In September 1982, Imasco entered into a partnership agreement with Flame Oil & Gas Ltd., a Calgary-based private company, under which Imasco committed approximately \$5 million to an oil and gas exploration programme. The majority of funds in this partnership has been invested in Canadian exploration with the balance invested in the United States.

In October 1983, Imasco entered into a second partnership agreement with Flame Oil & Gas. Pursuant to this second agreement Imasco has to date committed \$10 million in oil and gas exploration in western Canada. Early indications from this programme are encouraging.

Several major issues confront the oil and gas industry, particularly in Canada. World oil prices and the effects of the recently revised Canadian energy policy are but two of these issues. Imasco Resources is following developments in this area closely.





1 United Cigar Store at Yorkdale Shopping Centre in Toronto.

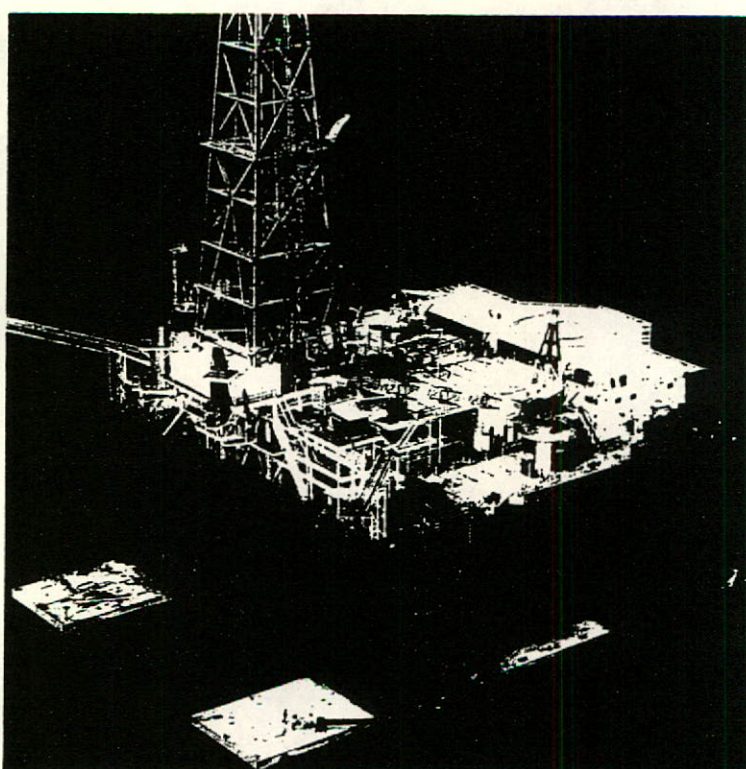
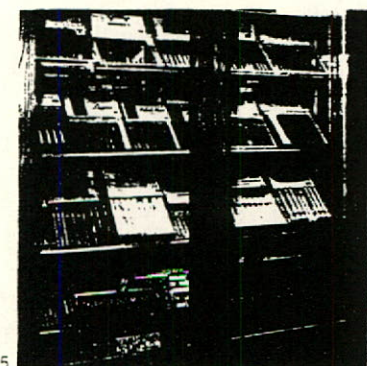
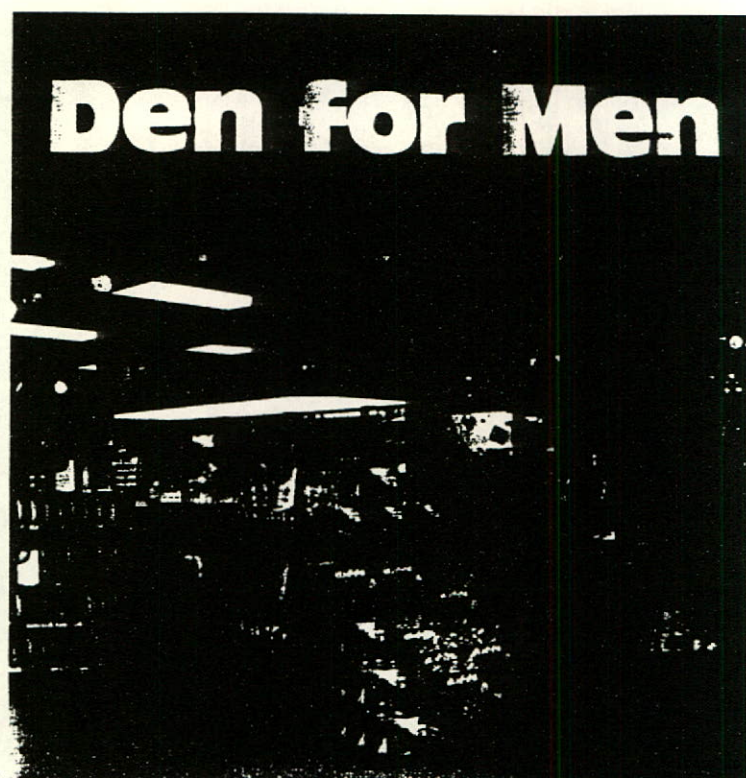
5 Humidor in Den for Men assures a fresh cigar to the discriminating smoker.

2 Den for Men, Limeridge Mall, Hamilton.

6 Canada Northwest Energy Limited. Drilling operations on the Angula No. 1 well in the Gulf of Valencia, Spain. (Photo courtesy of Sedco, Inc.).

3 Piccadilly Place, Royal York Hotel, Toronto.

4 Novelties or quality and originality attract the gift shopper to the Den for Men.







These are reportedly difficult times for charitable and benevolent organizations. High unemployment has shrunk the base of wage and salary earners who are counted upon to contribute to community funds. High government deficits have tightened the strings on the public purse that previously was open to many benevolent causes. As a result, there is more pressure than ever on corporations to support eleemosynary activities. There are some 50,000 registered charitable organizations in Canada. Some of these are small and were established to achieve a short term end and then dissolve. Others are the size of large corporations and a major presence in their communities and require continuing support.

#### **Corporate Donations Committee**

Virtually all requests for financial assistance addressed to the Corporation are referred to the Corporate Donations Committee. This Committee was established by the Board in 1969 and consists of seven members drawn from all divisions in Canada. The Committee operates under guidelines and a policy approved by the Board of Directors and its budget is reviewed and approved annually by the Board. Contributions over a certain amount are individually considered by the Board.

Grants are made for public welfare, aid to the disadvantaged, public health, education, cultural, recreational and youth activities. If the Committee discovers that some communities are not being represented in the donations programme, it may seek out worthy causes to support in such areas.

In fiscal 1985, the Donations Committee considered 675 requests for assistance and contributed to 364 organizations. Total

corporate donations in Canada were \$1.7 million. In addition moneys pledged to campaigns extending over several years amounted to another \$1.7 million.

The Committee also recommends grants in special circumstances, such as those special "Years" named by the United Nations to call attention to some particularly needy or neglected group. For example, in 1981 Imasco established a fund of \$100,000 to aid disabled students in response to the United Nations declaration of the International Year of the Disabled. Another \$50,000 was added to the Imasco Scholarship Fund for Disabled Students in 1982. Since its inception the fund has awarded 27 scholarships to 18 students.

#### **Sponsorships**

Corporate sponsorships of sports events and the arts in Canada provide an essential level of support to these activities. Through this support many fledgling performers are given the help and encouragement without which they might never reach their goals of professionalism and artistic excellence.

Imperial Tobacco has a long history of providing this kind of support. Grand Prix motor car racing and World Cup skiing competition were brought to Canada by Player's and du Maurier. The Canadian Open Golf Championship, now supported by du Maurier, has been a major, world class event since Imperial sponsored it in 1971. Imperial Tobacco also put Canada on the international circuit for tennis with the inauguration of the Player's International in 1979. The calendar of golf, tennis and equestrian events continues this year beginning with, in golf, the Canadian Open July 1-7, at the Glen Abbey Golf Club, Oakville, Ontario. This

will be followed by the du Maurier Classic for women golfers, July 22-28, at Beaconsfield Golf Club, Pointe-Claire, Québec. The du Maurier Champions for senior golfers will be held August 13-18 at the Vancouver Golf Club, Coquitlam, British Columbia. Tennis events begin with the Player's Challenge for women, August 3-11 at the National Tennis Centre, Toronto. The Player's International for men will take place August 10-18, at Jarry Tennis Stadium. The du Maurier International "Masters" equestrian competition will be held again this year at Spruce Meadows, Calgary, September 14-15.

#### **The du Maurier Council**

The du Maurier Council for the Performing Arts, established in 1970, has distributed over \$4 million to performing arts groups across Canada. Grants were made to organizations involved in theatre, dance and music. In addition the Council sponsored for seven years the Search for Stars programme in association with the Canadian Broadcasting Corporation. During these years the Council made grants totalling \$560,000 to 240 young performers and groups and, perhaps more importantly, provided opportunities for aspiring young performers to appear on a national television network.

#### **Shoppers Drug Mart**

Other companies in the Imasco group also participate in community activities in their own particular ways. Shoppers Drug Mart in Canada supports youth amateur sports at the community level. Some 1200 neighbourhood teams in hockey, baseball and soccer are assisted by their local Shoppers Drug Mart stores. This support is reinforced at the corporate level by special events, regional and national tournaments and sports schools. Shoppers Drug Mart also sup-

ports Canada's Olympic athletes and enjoyed "official supplier" status for the 1984 Summer Olympics in Los Angeles.

#### **Imasco USA**

Imasco USA, in fiscal 1985, contributed over US \$200,000 to civic, educational and cultural causes and has pledged outstanding for over US \$100,000. The company also continued its long time support of the Special Olympic Programme for the handicapped including support for the International Special Olympic Games in Salt Lake City, Utah.

Hardee's Food Systems continued its support of numerous regional and local charities in the communities in which it operates.

#### **Peoples Drug Stores**

Peoples Drug Stores contributed over US \$340,000 to charitable causes and has pledged some US \$330,000. Peoples also contributed merchandise and services to the value of US \$53,000.

#### **Political contributions**

The Corporation has a long-standing policy of support for the democratic political process in Canada. Accordingly, in fiscal 1985, Imasco contributed \$100,000 to the support of recognized federal and provincial political parties and causes which stand for democratic government and a strong private business sector.

#### **Employee participation**

The Corporation encourages employees to participate in community activities, whether it be through charitable work or political involvement. Where possible the Corporation has favoured donations to organizations in which employees are personally involved.





Chris Evert-Lloyd, 1984 Player's Challenge Champion.

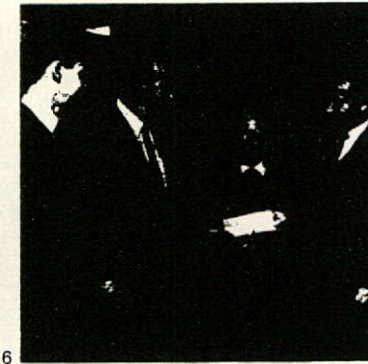
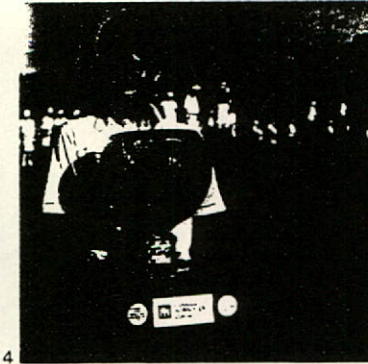
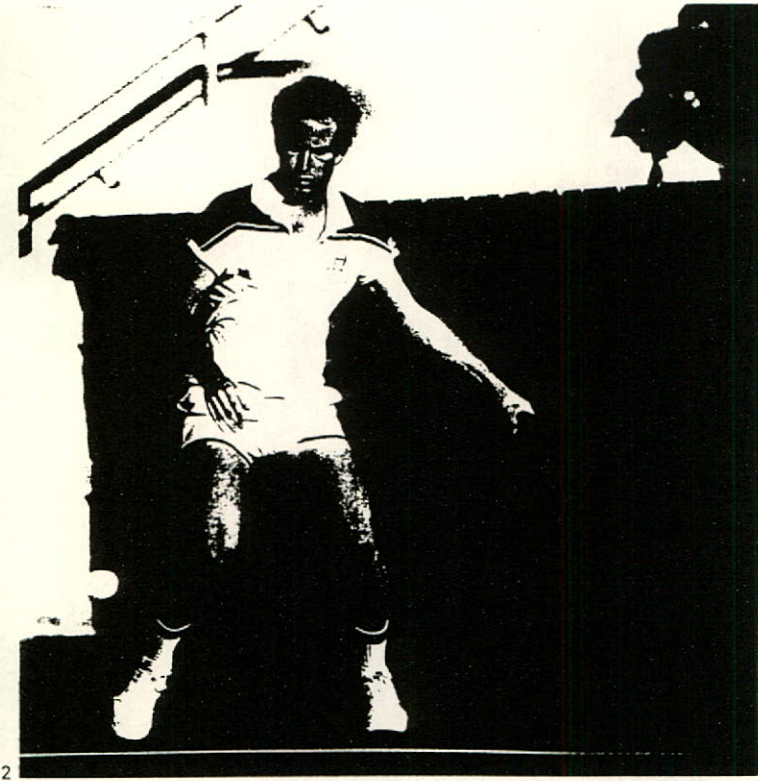
Don Mikster, winner of the 1984 du Maurier Classic.

John McEnroe, 1984 Player's International Champion.

Hardee's and its franchisees contributed generously to the Special Olympics for Handicapped Youth held in March 1985, Salt Lake City, Utah.

Olivier Holowitz, President University of Alberta, Edmonton, 2nd from right, accepts \$18,000 cheque as first instalment on \$90,000 pledge from Imasco. Making presentation are George Egan and Gary Watt, Imperial Tobacco, and Cliff Proceviat, Shoppers Drug Mart.

Jack Nicklaus and son Steve line up a putt at the Canadian Open held at Glen Abbey Golf Club, in Oakville, Ontario.







# Directors

Paul Paré, o.c.<sup>1,3,4</sup>  
 Chairman and  
 Chief Executive Officer  
 Imasco Limited

L. Edmond Ricard<sup>1</sup>  
 President and  
 Chief Operating Officer  
 Imasco Limited

David R. Bloom  
 President and  
 Chief Executive Officer  
 Shoppers Drug Mart Limited

Purdy Crawford, o.c.<sup>1,2</sup>  
 Partner  
 Osler, Hoskin & Harcourt

Sheldon W. Fantle  
 Chairman, President and  
 Chief Executive Officer  
 Peoples Drug Stores,  
 Incorporated

Roderick C. Foster, c.a.  
 Executive Vice-President  
 Imasco Limited  
 President, Imasco Resources

Rowland C. Frazee<sup>1,2,3,4</sup>  
 Chairman and  
 Chief Executive Officer  
 The Royal Bank of Canada

Yves Hudon  
 President  
 Clairve Investments Inc.

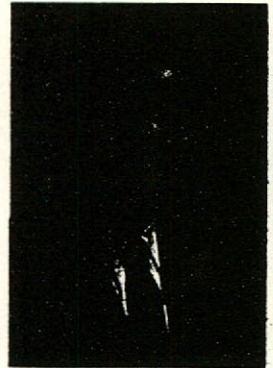
Peter Kilburn<sup>1,3</sup>  
 Chairman, Shieldings  
 Investments Limited

Murray B. Koffler, c.m.<sup>4</sup>  
 Chairman  
 Shoppers Drug Mart Limited

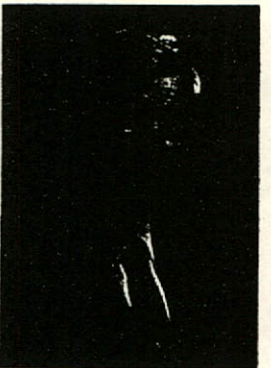
Jack A. Laughery  
 Chairman, President and  
 Chief Executive Officer  
 Imasco USA, Inc.

Jean-Louis Mercier  
 President and  
 Chief Executive Officer  
 Imperial Tobacco Limited

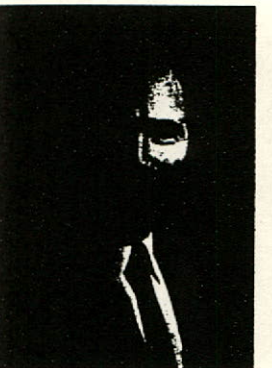
Jean H. Richer, c.m.<sup>2</sup>  
 President  
 Jean H. Richer Associés Ltée



Paul Paré, o.c.



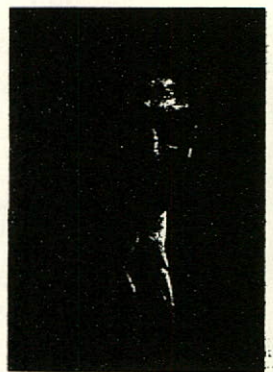
L. Edmond Ricard



David R. Bloom



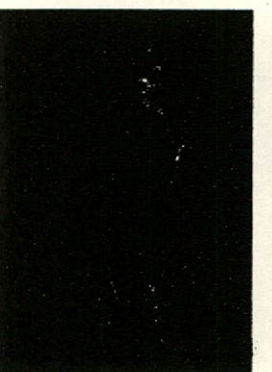
H. Purdy Crawford, o.c.



Sheldon W. Fantle



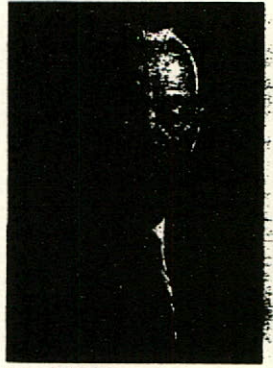
Roderick C. Foster, c.a.



Rowland C. Frazee



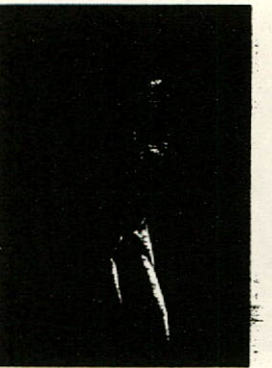
Yves Hudon



Peter Kilburn



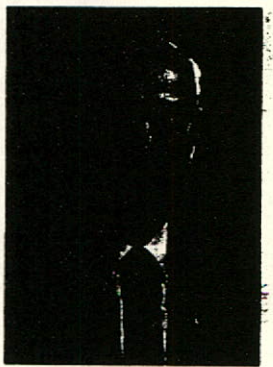
Murray B. Koffler, c.m.



Jack A. Laughery



Jean-Louis Mercier



Jean H. Richer, c.m.

<sup>1</sup> Member of the Executive Committee  
<sup>2</sup> Member of the Audit Committee  
<sup>3</sup> Member of the Salary Committee  
<sup>4</sup> Member of the Nominating Committee





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### Management's Responsibility for Consolidated Financial Statements

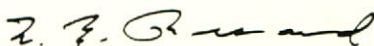
The accompanying consolidated financial statements of Imasco Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates and judgments.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data used elsewhere in the annual report are consistent with those contained in the financial statements.

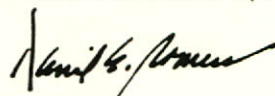
Management of Imasco and its subsidiaries in fulfilling its responsibilities has developed and maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for preparing the financial statements.

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 meets periodically with management as well as with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. 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, Deloitte Haskins & Sells, Chartered Accountants, and their report is presented below.



L. Edmond Ricard  
President and Chief Operating Officer



Daniel E. Somers  
Vice-President, Chief Financial Officer and Corporate Comptroller

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### Auditors' Report

To the Shareholders  
of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited as at March 31, 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 Corporation as at March 31, 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.

Deloitte Haskins & Sells  
Chartered Accountants  
Montréal, Canada

May 7, 1985

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## Summary of Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the following policies:

### Basis of consolidation

The consolidated financial statements include the accounts of all subsidiaries. Acquisitions are accounted for as purchases and the results of operations of acquired businesses are included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized on a straight-line basis, over their estimated useful lives not exceeding 40 years.

### Foreign exchange

The assets and liabilities of the Canadian operations denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Currency gains and losses are reflected in net earnings for the year. Unrealized foreign currency gains and losses on long term monetary assets and liabilities are deferred and amortized to earnings over the remaining lives of the related items on a straight-line basis.

Unrealized foreign currency gains and losses on long term monetary liabilities effectively hedged by investments in foreign controlled operations are included in a separate component of shareholders' equity.

The assets and liabilities denominated in a foreign currency of self-sustaining foreign operations are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average exchange rates prevailing during the year. The resulting gains and losses are accumulated in a separate component of shareholders' equity.

### Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially as follows:

Tobacco: average cost

Drug Store – Peoples Drug Stores: first-in, first-out

– Shoppers Drug Mart: retail inventory method

Restaurant: first-in, first-out

Other – retail stores: retail inventory method

### Investments and receivables

Investments and receivables are shown at cost.

### Fixed assets

Fixed assets are accounted for at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 14 to 40 years for buildings and from five to 20 years for equipment.

Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the term of the respective lease.

Leases which transfer substantially all of the benefits and risks of ownership to the Corporation are accounted for as capital leases and are recorded as if the Corporation had acquired the related assets through debt financing. Leased property under capital leases is amortized on a straight-line basis over the estimated useful lives of the assets.

### Deferred charges

Deferred charges are stated at cost less amortization accumulated on a straight-line basis. The amortization periods for the principal elements of deferred charges are:

Financing expense – term of the issue to which they relate;

Retail drug store opening costs (Shoppers Drug Mart) – three years, commencing in the first year of operation;

Restaurant, other drug store and retail store opening costs – first year of operation;

Restaurant and retail leases acquired – term of the lease;

Other deferred charges – one to 20 years.





**Consolidated Statement of Earnings**

	1985	1984
	Thousands of dollars	
Revenues	4,353,254	2,875,151
Sales and excise taxes	727,281	667,820
Operating costs	3,625,973	2,206,331
	3,193,941	1,885,723
Operating earnings	432,032	338,106
Corporate expenses	17,308	10,240
Interest - net	49,300	7,082
Earnings before income taxes	365,424	302,486
Income taxes	131,316	108,314
Earnings before extraordinary item	234,108	184,172
Extraordinary item		10,908
Net earnings	234,108	205,080
Earnings per common share, after giving retroactive effect to the 2:1 common share split on March 22, 1985		
Before extraordinary item		
basic	\$2.25	\$2.03
fully diluted	\$2.25	\$1.90
After extraordinary item		
basic	\$2.25	\$2.14
fully diluted	\$2.25	\$2.01

**Consolidated Statement of Retained Earnings**

	1985	1984
	Thousands of dollars	
Retained earnings, beginning of year	677,815	526,862
Net earnings	234,108	205,080
Dividends	(67,421)	(54,127)
Retained earnings, end of year	844,502	677,815

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.





**Consolidated Balance Sheet**

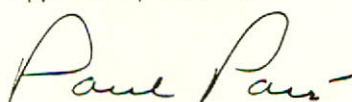
**1985 1984**

Thousands of dollars

Current assets	Cash and term deposits	270,741	224,321
	Accounts and notes receivable	282,750	143,756
	Inventories	909,704	534,261
	Prepaid expenses	16,603	15,025
	<b>Total current assets</b>	<b>1,479,798</b>	<b>917,363</b>
Current liabilities	Bank and other short term loans	334,932	192,568
	Accounts payable and accrued liabilities	368,239	224,779
	Income, excise and other taxes	50,541	69,546
	Current portion of long term debt and capital leases	17,882	10,884
	<b>Total current liabilities</b>	<b>771,594</b>	<b>497,777</b>
	<b>Working capital</b>	<b>708,204</b>	<b>419,586</b>
Other assets	Investment in Peoples Drug Stores, Incorporated	-	363,202
	Investments and receivables	96,087	107,213
	Fixed assets	867,618	552,045
	Deferred charges	48,301	21,740
	Goodwill	249,768	68,334
	<b>Total other assets</b>	<b>1,261,774</b>	<b>1,112,534</b>
	<b>Excess of assets over current liabilities</b>	<b>1,969,978</b>	<b>1,532,120</b>
Other liabilities	Long term debt	560,008	480,470
	Long term obligations under capital leases	30,544	28,552
	Deferred income taxes	53,645	35,077
	<b>Total other liabilities</b>	<b>644,197</b>	<b>544,099</b>
	<b>Excess of assets over liabilities</b>	<b>1,325,781</b>	<b>988,021</b>
Shareholders' equity	Capital stock	453,445	296,482
	Unrealized gain on foreign currency translation	27,834	13,724
	Retained earnings	844,502	677,815
	<b>Total shareholders' equity</b>	<b>1,325,781</b>	<b>988,021</b>

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Approved by the Board

  
Paul Paré, Director

  
Peter Kilburn, Director





**Consolidated Statement of Changes in Financial Position**

		<b>1985</b>	<b>1984</b>
		Thousands of dollars	
Operating activities	Earnings before extraordinary item	234,108	194,472
	Items not affecting working capital	125,376	70,040
	Working capital provided from operations	359,484	264,212
	Increase in non-cash operating working capital	(236,462)	(39,060)
	Deferred charges	(9,375)	(290)
	Unrealized foreign exchange gains	(6,058)	(2,418)
	<b>Total cash from operating activities</b>	<b>107,589</b>	<b>221,444</b>
Financing activities	Issue of common shares	157,250	-
	Issue of long term debt	93,092	271,974
	Repayment of long term debt	(50,915)	(28,730)
	Dividends paid	(67,421)	(54,127)
	Payments under capital leases	(3,580)	(2,504)
	Treasury shares issued in excess of (less than) common shares purchased for cancellation	(287)	218
	Redemption of preference shares	-	(35)
	<b>Total cash from financing activities</b>	<b>128,139</b>	<b>186,796</b>
Investing activities	Business acquisitions	(173,735)	(363,202)
	Extraordinary item - proceeds from sale of business operations	-	110,755
	Purchases of fixed assets	(202,078)	(104,074)
	Proceeds from disposal of fixed assets	28,350	13,395
	Disposal of investments and receivables collected	28,824	11,649
	Increase in investments and receivables	(13,033)	(24,882)
	<b>Total cash used for investing activities</b>	<b>(331,672)</b>	<b>(356,359)</b>
Cash and cash equivalents	Increase (decrease) for year	(95,944)	51,881
	Beginning of year	31,753	(20,128)
	<b>End of year</b>	<b>(64,191)</b>	<b>31,753</b>

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

The Corporation has adopted the cash basis presentation of the consolidated statement of changes in financial position. The presentation of the prior year figures has been changed to conform with that of the current year. Cash and cash equivalents include cash and term deposits, net of bank and other short term loans.





**Notes to the Consolidated Financial Statements**

**1985 1984**

**1. Significant events**

During March and April 1984, the Corporation acquired all the outstanding common shares and 8 3/4% convertible subordinated debentures of Peoples Drug Stores, Incorporated and subsidiaries for a total cash consideration of \$398,387,000. The accounts of Peoples Drug Stores, Incorporated have been consolidated as of April 1, 1984.

Details of the Peoples Drug Stores acquisition are as follows:

Cash and cash equivalents	(14,335)
Non-cash working capital	115,088
Fixed assets	143,431
Other assets	22,016
	266,200
Non-current liabilities	10,064
Net assets acquired	256,136
Goodwill	142,251
Total consideration in cash	398,387
Consideration reported as at March 31, 1984	363,202
Additional cash consideration paid in fiscal 1985	35,185

As at December 1, 1984, the Corporation acquired through its wholly owned subsidiary, Peoples Drug Stores, Incorporated all of the outstanding shares of Rea and Derick, Inc., a U.S. drug store chain, for a total cash consideration of \$114,200,000. The accounts of Rea and Derick, Inc. have been consolidated as of December 1, 1984.

Details of the Rea and Derick acquisition are as follows:

Cash and cash equivalents	(742)
Non-cash working capital	32,415
Fixed assets	46,908
Other assets	1,943
	80,524
Non-current liabilities	2,548
Net assets acquired	77,976
Goodwill	36,224
Total consideration in cash	114,200

In addition, the Restaurant segment acquired a business in fiscal 1985 for a total cash consideration of \$9,273,000.

**2. Interest expense - net**

Interest on long term debt	28,064	28,262
Interest on capital leases	4,616	5,336
Other interest expense (income) - net	17,085	2,006
Income from other investments	(46)	(21)
Gain on securities transactions		
	49,309	35,583
Interest on promissory notes classified as term loans (Note 6) is included in other interest expense		

**3. Effective income tax rate**

The effective income tax rate differs from the aggregate statutory income tax rate in Canada. The principal factors causing this difference are as follows:		
Combined basic federal and provincial income tax rate	47.5	47.5
Income tax allowances:		
manufacturing and processing	(3.7)	(4.3)
inventory allowance	(1.5)	(1.7)
investment tax credits	(2.0)	(1.0)
Foreign income taxed at lower rates	(5.2)	(4.3)
Other items	0.5	0.5
Effective income tax rate	35.9	35.8





<b>Notes to the Consolidated Financial Statements</b>		<b>1985</b>	<b>1984</b>
4. Investments and receivables	Canada Northwest Energy Limited: Common shares (approximate market value: 1985 – \$50,023,000; 1984 – \$69,400,000) 6½% preference shares Scientific research contract amortized against guaranteed royalty income to be received through 1987 BAC Cosmetiques Inc. (a related company) variable rate second preference shares Notes receivable Other investments and receivables	8,632 8,000 6,291 – 56,228 16,936 96,087	8,632 8,000 10,444 20,000 51,410 8,727 107,213
Notes receivable include \$24,624,000 (1984 – \$26,203,000) due from drug store associates which are non-interest bearing with no fixed maturity.			
5. Fixed assets	Land Buildings Equipment Leasehold improvements  Accumulated depreciation and amortization  Leased property under capital leases Accumulated amortization  Net fixed assets	90,257 254,709 542,574 314,214 1,201,754 353,340 848,414 41,610 22,406 19,204 867,618	64,815 175,835 370,487 195,258 806,395 272,438 533,957 37,765 19,677 18,088 552,045
6. Long term debt	Debentures – 15½% due January 1989* Sinking fund debentures 8½% Series A due March 1991 10⅞% Series B due August 1995 10¼% Series C due October 1990* 9% due July 1992  Notes payable 10¾% payable in annual instalments to September 1994* 9¼% payable in annual instalments to October 1993*  Term loans* Other long term obligations*  Less: Sinking fund debentures held in treasury Payments due within one year	68,180 20,300 21,000 15,690 5,186 62,176 54,544 12,272 66,816 325,991 54,898 578,061 (2,718) (15,335) 560,008	63,805 21,350 21,900 17,865 5,186 66,301 51,044 12,761 63,805 267,119 32,636 493,666 (4,546) (8,650) 480,470

\*All or partly payable in US dollars. The aggregate principal amount of long term debt payable in US dollars at March 31, 1985 was \$517,714,000 (US \$384,015,000) and at March 31, 1984 was \$441,067,000 (US \$346,164,000).  
Required principal payments and sinking fund provisions during the next five years, excluding term loans, are: 1986, \$15,335,000; 1987, \$18,856,000; 1988, \$17,450,000; 1989, \$89,519,000; 1990, \$11,360,000. The net book value of properties securing mortgage and other debt obligations at March 31, 1985 was approximately \$41,553,000 (March 31, 1984, \$25,800,000).  
Term loans consist of unsecured promissory notes maturing within one year and are supported by non-cancellable bank term credit facilities of \$436,352,000 to 1994. Promissory notes outstanding at March 31, 1985 amounted to \$660,923,000 with an average rate of interest of 9.2% (1984 – 9.9%) and have been classified as short term loans – \$334,932,000, and long term loans – \$325,991,000 (March 31, 1984 \$192,568,000 and \$267,119,000 respectively) based on repayments expected within the year.





Notes to the Consolidated Financial Statements		1985	1984
7. Capital lease commitments	The Corporation has commitments with respect to property in the Restaurant and Drug Store segments recorded under capital leases expiring on various dates through the year 2004. The minimum annual commitments under such leases are approximately as follows:		
	1986	7,332	
	1987	7,180	
	1988	6,873	
	1989	6,643	
	1990	6,299	
	1991 and thereafter	25,351	
	Total minimum commitments	59,678	
	Less:		
	Imputed interest at 11.9%	26,587	
	Payments due within one year	2,547	
	Long term obligations under capital leases	30,544	
8. Capital stock	Authorized:		
	a) 1,650,000 6% cumulative preference shares.		
	b) An unlimited number of first and second preference shares, issuable in series.		
	c) 120,000,000 common shares.		
	Issued and outstanding:		
	(after giving retroactive effect to the two-for-one common share split of March 22, 1985).		
	1,191,888 6% preference shares	5,800	5,800
	108,898,364 common shares (1984 - 102,108,696)	447,645	290,682
		453,445	296,482
	Weighted average numbers of shares outstanding used in the determination of earnings per common share are:		
		1985	1984
	Basic	104,095,256	91,799,680
	Fully diluted	104,095,256	102,108,740
	During the year 6,800,000 common shares were issued to Batus Investments Inc. (a related company) for a total cash consideration of \$157,250,000 (\$23.125 per share) and 157,534 common shares were issued in payment of quarterly dividends under the Shareholders' Stock Dividend Plans, at an average stated value per share of \$22.76.		
	Each year the Corporation makes an offer of unissued common shares to certain employees to enable them to benefit from the tax legislation of the Province of Québec. A total of 43,890 shares was issued under this offering at a price per share of \$26.81.		
	During the year 211,756 common shares were purchased for cancellation at an average cost of \$22.90.		
9. Dividends	6% preference shares	348	348
	Series B preference shares (all converted or redeemed)	-	7,884
	Common shares	67,073	45,895
		67,421	54,127
	Dividends for the year ended March 31, 1985 consisted of cash payments of \$63,836,000 and of 157,534 common shares with an aggregate stated value of \$3,585,000. These shares were issued under the Shareholders' Stock Dividend Plans which entitle holders of both classes of shares to receive common shares in lieu of cash dividends.		
	The trust agreements relating to the Series A, B and C sinking fund debentures contain restrictions regarding the payment of dividends on common shares. At March 31, 1985, all of the Corporation's retained earnings were free from such restrictions.		





<b>Notes to the Consolidated Financial Statements</b>		<b>1985</b>	<b>1984</b>
10. Operating lease commitments	The Corporation has commitments with respect to real estate operating leases, most of which are for terms of three to 20 years. The minimum annual commitments under such leases are approximately as follows:		
	Rental commitment	Assumed by franchisees	Net rental commitment
1986	91,157	33,266	57,891
1987	87,169	31,959	55,210
1988	80,613	30,697	49,916
1989	73,461	28,338	45,123
1990	64,710	24,006	40,704
	The minimum annual rental commitments as listed above do not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under leases, including escalation and percentage-of-sales payments, amounted to \$77,302,000 in 1985 and \$30,237,000 in 1984. In addition, the Corporation has operating lease commitments for equipment which are for terms of one to six years, with an annual rental of approximately \$19,400,000.		
11. Extraordinary item	Gain on disposal of business units net of tax recovery of \$11,826,000	—	10,908
12. Other information	a) The current service costs of various pension and retirement plans are charged to earnings as they accrue. There was no unfunded liability for past service benefits as at March 31, 1985. b) Research and development costs charged to earnings during the year amounted to approximately \$5,019,000 (1984—\$4,815,000). c) The Corporation has provided guarantees to various banks in respect of borrowing by retail franchisees, associates and licensees. The total of these guarantees at March 31, 1985 was \$41,834,000 (1984—\$41,428,000); the outstanding indebtedness of the franchisees was \$24,441,000 (1984—\$22,801,000). d) B.A.T Industries p.l.c., through the ownership of shares of the Corporation, is defined as a related party. Transactions with B.A.T Industries p.l.c. and/or its subsidiaries were as follows:		
	i) Payment of fees for research and development, marketing and manufacturing services	1,330	1,323
	ii) Export sales of leaf tobacco	7,202	14,256
	iii) Dividend income from BAC Cosmetics Inc.	122	1,473
	iv) Purchases of materials	11,051	7,374





# Notes to the Consolidated Financial Statements

## 13. Segmented financial information

Financial information is presented according to the following industry segments:<sup>1</sup>

Tobacco—Imperial Tobacco—manufactures and distributes a complete range of tobacco products.  
Restaurant—Imasco USA—operates, licenses, supplies and services a system of fast service restaurants primarily in the United States.  
Drug Store—Peoples Drug Stores (a U.S. drug store chain) and Shoppers Drug Mart—retail operations which specialize in prescription drugs, health and beauty aids and a broad mix of consumer products.  
Other—includes retail operations specializing in tobacco products and gifts, and the operations of Imasco Resources.  
Divested operations—includes Imasco Foods, Collegiate/Arlington Sports and Embassy Cleaners.

Industry segments	Consolidated		Tobacco		Restaurant	
	1985	1984	Imperial Tobacco 1985	1984	Imasco USA 1985	1984
Revenues						
Sales	4,278,055	2,818,198	1,451,130	1,358,935	1,272,378	1,094,794
Franchise fees and other income	119,068	102,034	—	—	48,870	39,280
Intersegmental <sup>2</sup>	(43,869)	(47,081)	—	—	—	—
	4,353,254	2,873,151	1,451,130	1,358,935	1,321,248	1,134,074
Operating earnings	432,032	339,608	224,024	205,209	108,289	92,259
Capital employed <sup>3</sup>						
Net assets	1,727,061	1,120,036	587,057	556,124	512,288	420,337
Goodwill	249,768	68,334	—	—	43,170	35,471
	1,976,829	1,188,370	587,057	556,124	555,458	455,808
Inventories						
Finished goods	523,349	156,091	64,853	76,572	44,530	40,218
Raw materials and leaf tobacco	386,355	378,170	378,916	371,198	7,439	6,972
	909,704	534,261	443,769	447,770	51,969	47,190
Net fixed assets	867,618	552,045	101,995	93,230	474,867	392,605
Depreciation and amortization expense						
Fixed assets	93,161	62,777	10,832	9,070	47,664	39,967
Capital leases	2,287	2,041	—	—	2,154	2,041
Goodwill	6,752	7,791	—	—	1,251	3,917
Deferred charges	9,503	4,270	1,330	1,016	2,305	1,997
	111,703	76,879	12,162	10,086	53,374	47,922
Capital expenditures	202,078	104,074	19,900	12,989	119,613	72,077

## Reconciliation of capital employed and excess of assets over current liabilities

Capital employed	1,976,829	1,188,370
Corporate assets	390,953	642,848
	2,367,782	1,831,218
Less: Corporate current liabilities	397,804	299,098
Excess of assets over current liabilities	1,969,978	1,532,120







Drug Store		Drug Store		Other		Divested operation	
Peoples Drug Stores <sup>4</sup>		Shoppers Drug Mart					
1985	1984	1985	1984	1985	1984	1985	1984
1,356,915	-	-	-	197,632	193,477	-	170,995
-	-	68,492	60,707	1,706	2,047	-	-
-	-	-	-	-	-	-	-
1,356,915	-	68,492	60,707	199,338	195,524	-	170,995
55,307	-	38,283	32,632	6,129	5,272	-	4,200
478,844	-	74,829	71,276	74,043	72,299	-	-
174,617	-	31,981	32,863	-	-	-	-
653,461	-	106,810	104,139	74,043	72,299	-	-
373,138	-	2,602	2,200	38,226	37,101	-	-
-	-	-	-	-	-	-	-
373,138	-	2,602	2,200	38,226	37,101	-	-
225,109	-	48,896	48,389	16,751	17,821	-	-
22,639	-	8,994	8,342	3,032	2,248	-	3,150
133	-	-	-	-	-	-	-
4,009	-	1,492	1,385	-	-	-	2,480
4,445	-	1,280	1,026	143	63	-	160
31,226	-	11,766	10,753	3,175	2,311	-	5,800
46,978	-	10,868	11,456	4,719	5,542	-	2,010

<sup>1</sup> As at March 31, 1985, other than the Restaurant and the Peoples Drug Stores segments, operations outside of Canada are not significant as a whole.

<sup>2</sup> Intersegmental transactions consist of sales from Imperial Tobacco to The UCS Group at normal wholesale selling prices.

<sup>3</sup> Capital employed consists of directly identifiable assets at net book value, less the current liabilities of each segment exclusive of corporate assets and corporate current liabilities.

<sup>4</sup> Peoples Drug Stores became a wholly owned subsidiary April 1, 1984.





## Statistical Highlights

## Five year review for years ended March 31

		1985	1984	1983	1982	1981
		Thousands of dollars, except "Per common share" statistics				
Operations	System-wide sales	7,346,472	5,382,021	4,953,519	3,853,785	2,264,940
	Revenues	4,353,254	2,873,151	2,713,901	2,190,756	1,423,707
	Depreciation expense	95,448	64,818	58,456	45,412	19,739
	Operating earnings	432,032	339,608	300,347	246,974	159,543
	Corporate expenses	17,308	16,040	13,179	10,885	9,634
	Interest	49,300	21,082	41,804	35,600	18,128
	Equity income	-	-	-	-	9,290
	Income taxes	131,316	108,314	88,601	76,313	51,521
	Earnings,					
	before extraordinary items	234,108	194,172	156,763	124,176	89,550
	Net earnings,					
	after extraordinary items	234,108	205,080	161,594	119,513	89,550
	Earnings per common share					
	before extraordinary items					
	basic	2.25	2.03	1.73	1.39	1.07
	fully diluted	2.25	1.90	1.62	1.32	1.06
Dividend record	On preference shares	348	8,232	8,970	9,006	1,188
	On common shares	67,073	45,895	33,930	28,985	24,844
	Per common share	0.645	0.50	0.40	0.35	0.30
Working capital provided	From operations	359,484	264,212	232,658	191,527	109,908
Capital expenditures	On fixed assets	202,078	104,074	114,675	106,705	53,686
Financial position	Current assets	1,479,798	917,363	802,020	622,008	537,229
	Current liabilities	771,594	497,777	407,263	367,317	364,880
	Working capital	708,204	419,586	394,757	254,691	172,349
	Fixed assets,					
	before depreciation	1,243,364	844,160	818,729	725,901	567,325
	Fixed assets,					
	less depreciation	867,618	552,045	541,213	494,976	377,492
	Total assets	2,741,572	2,029,897	1,530,063	1,315,117	1,086,363
	Long term debt	560,008	480,470	225,353	278,412	153,936
	Excess of assets over liabilities	1,325,781	988,021	823,161	593,870	512,348
Shareholders' equity	Preference shareholders	5,800	5,800	109,304	110,325	110,325
	Common shareholders	1,292,147	968,497	713,857	483,545	402,023
	Per common share	11.87	9.49	7.85	5.84	4.86

## Divisional Statistical Highlights

## Five year review for years ended March 31

		1985	1984	1983	1982	1981
		Thousands of dollars				
Tobacco - Imperial Tobacco	Sales	1,451,130	1,358,935	1,242,899	1,120,240	952,923
	Sales and excise taxes	727,281	667,820	592,435	530,186	458,243
	Operating earnings	224,024	205,209	182,268	156,040	123,248
	Inventories	443,769	447,770	404,937	356,455	296,390
	Fixed assets - net	101,995	93,230	90,190	73,644	64,535
	Depreciation expense	10,832	9,070	8,545	7,693	6,279
	Capital expenditures	19,900	12,989	26,778	17,272	18,791





## Divisional Statistical Highlights

Five year review for years ended March 31

		1985	1984	1983	1982	1981
		Thousands of US dollars, except				Number of restaurants
Restaurant - Imasco USA <sup>1</sup>	System-wide sales	2,197,895	1,917,231	1,718,419	1,141,000	922,3
	Revenues					
	Sales					
	Company-owned restaurants	599,404	579,156	544,625	336,464	282,5
	Other	365,717	304,413	232,627	184,615	157,4
	Service and licence fees	37,058	31,685	29,565	16,445	13,2
	Operating earnings	82,991	75,269	60,289	42,001	32,9
	Inventories	38,112	36,980	33,864	27,913	22,3
	Fixed assets - net	343,852	302,966	285,436	264,917	173,0
	Depreciation expense	37,755	33,887	30,051	21,707	15,8
	Capital expenditures	90,650	58,114	56,581	52,421	60,7
	Number of restaurants					
	Company-owned	870	825	840	805	4
	Licensed	1,541	1,404	1,314	1,360	8
		2,411	2,229	2,154	2,165	1,2
		Thousands of US dollars, except				Number of outlets
Drug Store - Peoples Drug Stores <sup>2</sup>	Sales	1,026,964	791,147	688,409	634,292	561,8
	Operating earnings	47,706	29,344	25,471	22,563	19,7
	Inventories	273,642	153,697	129,420	103,144	111,0
	Fixed assets - net	165,084	51,013	44,498	40,657	30,6
	Depreciation expense	17,239	6,697	5,899	4,773	4,4
	Capital expenditures	35,423	15,183	11,117	15,751	11,7
	Number of outlets	765	575	554	527	4
		Thousands of dollars, except				Number of outlets
Drug Store - Shoppers Drug Mart	System-wide sales	1,451,373	1,290,688	1,142,906	959,520	773,2
	Revenues: sales	-	-	16,319	18,734	23,5
	franchise fees	68,492	60,707	52,976	41,814	37,5
	Operating earnings	38,283	32,632	28,437	21,211	20,7
	Inventories	2,602	2,200	2,987	3,944	4,7
	Fixed assets - net	48,896	48,389	45,857	45,462	41,5
	Depreciation expense	8,994	8,342	7,207	6,348	5,5
	Capital expenditures	10,868	11,456	9,023	10,898	11,7
	Number of outlets	447	435	440	440	4
Other	System-wide sales	230,801	232,271	211,830	180,334	166,5
	Revenues: sales	197,632	193,477	172,372	150,613	131,5
	franchise fees	1,708	2,047	2,002	1,549	1,7
	Operating earnings	6,129	5,272	1,652	5,466	4,0
	Inventories	38,226	37,101	32,647	28,474	20,2
	Fixed assets - net	16,751	17,821	15,886	11,947	8,8
	Depreciation expense	3,032	2,248	1,847	1,341	1,0
	Capital expenditures	4,719	5,542	5,306	5,116	3,3
	Number of outlets					
	Tobacco, sundry and gift	651	651	674	657	6
Divested operations	Sales	-	170,992	271,103	257,529	18,9
	Operating earnings	-	4,236	13,102	11,357	8,8
	Inventories	-	-	54,495	43,401	42,0
	Fixed assets - net	-	-	38,529	39,701	35,0
	Depreciation expense	-	3,150	4,643	3,783	3,7
	Capital expenditures	-	2,010	3,598	6,782	8,6

<sup>1</sup> Represents Hardee's Food Systems, Inc. which became a wholly owned subsidiary January 29, 1981. Statistical Highlights for 1981 are for the year ended October 31, 1980.

<sup>2</sup> Peoples Drug Stores, Incorporated became a wholly owned subsidiary April 1, 1984. Statistical highlights prior to the year ended March 31, 1985 are for the years ended September 30, 1984.





**Imasco Limited**  
**Officers and Divisional Information**

**Officers**

Paul Paré, O.C.  
 Chairman and  
 Chief Executive Officer  
 L. Edmond Ricard  
 President and  
 Chief Operating Officer  
 Roderick C. Foster, C.A.  
 Executive Vice-President  
 Roger S. Ackman  
 Vice-President and  
 General Counsel  
 Robert C. Bégin, C.A.  
 Vice-President and Treasurer  
 William J. Harris  
 Vice-President,  
 Administration  
 Noël Pérusse  
 Vice-President,  
 Industry Relations  
 Paul K. Ryan, F.C.I.S.  
 Vice-President and Secretary  
 Roy R. Schwartz  
 Vice-President,  
 Corporate Development  
 Daniel E. Somers  
 Vice-President,  
 Chief Financial Officer and  
 Corporate Comptroller  
 Torrance J. Wylie  
 Vice-President, Public Affairs  
 Pierre Duhamel, C.A.  
 Assistant Treasurer  
 G. Michael Martin, C.A.  
 Assistant Comptroller

**Imperial Tobacco**

3810 St. Antoine Street West  
 Montréal, Québec  
 H4C 1B5

Manufactures and distributes  
 cigarettes, fine cut tobaccos,  
 pipe tobaccos, chewing  
 tobaccos, and markets snuff.

L. Edmond Ricard  
 Chairman of the Board  
 Jean-Louis Mercier,  
 President and Chief  
 Executive Officer  
 Wilmat Tennyson  
 Executive Vice-President,  
 Marketing  
 Clifford Warren  
 Executive Vice-President,  
 Operations  
 Michael A. Courtney  
 Vice-President, Finance  
 Marius Dagneau  
 Vice-President,  
 Human Resources  
 Patrick J. Dunn  
 Vice-President,  
 Research and Development  
 André Laporte  
 Vice-President,  
 Manufacturing  
 Thomas F. Lee  
 Vice-President,  
 Materials Management  
 Roland Bouchard  
 Secretary  
 Edouard Darche, C.A.  
 Comptroller

*General Cigar Company*  
 Montréal, Québec

Manufactures and distributes  
 cigars.

*Imperial Leaf Tobacco*

John Street North  
 Aylmer, Ontario  
 N5H 2R8

Purchases and processes leaf  
 tobacco for Imperial Tobacco  
 and for export.

**Imasco USA, Inc.**

1233 North Church Street  
 Rocky Mount, North Carolina  
 27801, U.S.A.

Operates and licenses 2,411 fast  
 service restaurants principally in  
 the U.S. and operates manufac-  
 turing and distribution facilities.

Jack A. Laughery  
 Chairman, President and  
 Chief Executive Officer  
 Ralph E. Peterson  
 Executive Vice-President and  
 Chief Financial Officer  
 Breen O. Condon  
 Senior Vice-President,  
 General Counsel and  
 Secretary  
 Thomas H. Sparks  
 Senior Vice-President,  
 Personnel  
 Jesse M. Harrington III  
 Vice-President and Treasurer  
 John D. Merritt  
 Vice-President,  
 Government and Public Affairs  
 John F. Schmutz  
 Vice-President, Legal

*Hardee's Food Systems, Inc.*

Spruill G. Bunn  
 President and Chief  
 Operating Officer  
 Ronald J. Wertheim  
 Executive Vice-President,  
 Marketing  
 Gerald L. Richards  
 Executive Vice-President,  
 Restaurant Operations

*Fast Food Merchandisers, Inc.*

Hugh Todd, Jr.  
 President and Chief  
 Operating Officer  
 F. Winslow Goins  
 Executive Vice-President,  
 Distribution Services

*Grisanti, Inc.*

1000 East Liberty Street  
 Louisville, Kentucky, 40204  
 U.S.A.

Michael J. Grisanti  
 President and Chief  
 Operating Officer  
 Vincenzo Gabriele  
 Executive Vice-President

*Burger Chef Systems, Inc.*

3500 DePauw Blvd.  
 Indianapolis, Indiana, 46268  
 U.S.A.

Robert E. Haberkamp  
 President and  
 Chief Operating Officer





## **Shoppers Drug Mart**

225 Yorkland Blvd.  
Toronto, Ontario  
M2J 4Y7

*Top Drug Mart*  
Toronto, Ontario  
*Pharmaprix*  
Montréal, Québec

A group of 447 licensed and company-owned drug stores operating in Canada and the U.S.

Murray B. Koffler, C.M.  
Chairman  
David R. Bloom  
President and Chief Executive Officer  
Craig Bain  
Executive Vice-President, Marketing  
Marvin A. Goldberg  
Executive Vice-President, Legal and Corporate Affairs  
Malcolm G. Swartz, C.A.  
Executive Vice-President, Administration  
Raymond E. Guyatt, C.A.  
Executive Vice-President, Finance and Planning and Chief Financial Officer  
David H. MacDonald  
President, Shoppers Drug Mart (West)  
Herbert R. Binder  
Executive Vice-President (Central West)  
Albert Krakauer  
Executive Vice-President (Central East)  
Michel Lesieur  
Executive Vice-President (Pharmaprix)  
Dale Daley  
Executive Vice-President (Atlantic)  
Fred Van Laare  
Executive Vice-President (S.E. U.S.)  
Herbert Albrecht  
Vice-President, Store Planning

Earl Bideman, C.A.  
Vice-President, Management Information Systems and Productivity  
Melvin Kochberg, C.A.  
Vice-President Operations Finance  
Roman Niemy  
President, Corporate Brands  
Garry Mulholland  
Vice-President, Purchasing  
Gordon Stromberg  
Vice-President, Advertising  
Howard Trifler  
Vice-President, Retail Development  
Dalton Van Cleave  
Vice-President, Marketing  
Victoria Williams  
Vice-President, Cosmetics

## **Peoples Drug Stores, Incorporated**

6315 Bren Mar Drive  
Alexandria, Virginia, 22312  
U.S.A.

A chain of 765 drug stores situated in six major metropolitan markets: Washington, DC; Atlanta, Georgia; Indianapolis, Indiana; Tidewater, Virginia; Toledo, Ohio and Harrisburg, Pennsylvania.

Sheldon W. Fantle  
Chairman, President and Chief Executive Officer  
Robert M. Arensmeyer  
Executive Vice-President and Treasurer  
David H. Eisenberg  
Senior Vice-President, Marketing  
Nicholas J. Simon  
Senior Vice-President, Operations  
David C. Forman  
Vice-President, Human Resources  
Robert Crichlow  
Vice-President, Distribution  
Joseph A. Pollard  
Vice-President, Advertising and Public Relations  
James N. Schwarz  
Vice-President, Corporate Secretary and General Counsel  
Glen Tarsha  
Vice-President, Data Processing  
Jerry V. Wilson  
Vice-President, Security  
Robert A. Seubert  
Corporate Comptroller

## **Other operations**

### *The UCS Group*

50 Overlea Blvd.  
Toronto, Ontario  
M4H 1B9

A chain of 455 retail tobacco and gift shops.

Norman Latowsky  
President  
David S. Cole  
Executive Vice-President

### *Imasco Resources*

4 Westmount Square  
Montréal, Québec  
H3Z 2S8

Develops and monitors investments in natural resources and in the venture capital field.

Roderick C. Foster, C.A.  
President  
Roy R. Schwartz  
Vice-President

### *Imasco B.V.*

J.J. Viottastraat 50,  
Amsterdam,  
1071 JT  
The Netherlands

Finances associated businesses.

Matthews Glezos  
President

Fribourg Branch  
30 St. Pierre Street  
1700 Fribourg, Switzerland

John Macnab  
General Manager

