JOHN LABATT

Annual Report 1986

Contents

Cover

John Labatt products are being taken home by more families across North America than ever before. This photograph shows a representation of products from all John Labatt companies.

Pour obtenir la version française du présent rapport, écrire au secrétaire de John Labatt, 451, rue Ridout nord, C.P. 5870, Succursale A, London (Ontario) N6A 5L3

Highlights

(in millions except per share and other data)	1986	1985	% Change
Operating Results			
Gross sales	**$3,581.4**	$2,802.6	+ 27.8
Net earnings	**101.5**	81.7	+ 24.2
Funds from operations	**201.2**	165.7	+ 21.4
Common share dividends	**32.3**	28.2	+ 14.5
Capital expenditures, acquisitions and additional investments in partly owned businesses	**178.5**	305.9	− 41.6
Financial Position			
Working capital	**$ 338.7**	$ 71.6	
Total assets	**1,785.3**	1,548.1	+ 15.3
Non-convertible long-term debt	**287.2**	154.5	+ 85.9
Convertible debentures and Shareholders' equity	**850.8**	649.4	+ 31.0
Per-Share Data			
Fully diluted net earnings	**$ 2.75**	$ 2.35	+ 17.0
Dividends	**$ 1.005**	$ 0.945	+ 6.3
Convertible debentures and Shareholders' equity	**$ 20.43**	$ 17.16	+ 19.1
Other Data			
Return on average shareholders' equity	**17.0%**	16.9%	
Number of common shareholders	**12,006**	11,648	
Number of employees	**14,200**	13,000	

John Labatt

John Labatt is a broadly based food and beverage company carrying on business in three major industrial groups: Brewing, Agri Products and Packaged Food.
The principal operating divisions and products within the three major groups are as follows:

The Brewing Group

Labatt's

Production and sale of beer, ale, malt liquor and stout in Canada and abroad.

The national brands, which account for most of the Company's beer sales, include "Labatt's Blue", "Labatt's 50", "Budweiser", "John Labatt Classic" and "Labatt's Lite". These are supplemented by important regional brands such as "Keith's" in the Maritimes, "Club" in Manitoba, "Kokanee" in British Columbia and "Blue Light" in Ontario.

Labatt Importers
Sale of beer and ale in the United States.

The Agri Products Group

Ault
AULT FOODS
Silverwood
Sealtest

Production and sale of cheese, butter, fresh table milk, cultured products, ice cream, powders and other milk products in Canada.

Johanna Farms

Production and sale of fresh table milk, ice cream, yogurt, fruit juices and fruit drinks in the United States.

OGILVIE

Production and sale of flour and other milled grain products in Canada and for export. Production and sale of starch, gluten and livestock feeds in Canada and the United States. Production and sale of specialty blended food products in the United States.

The Packaged Food Group

CHEF FRANCISCO

Production and sale of prepared frozen foods in the United States and Canada.

CATELLI

Production and sale of pasta, jams, marmalades, pickles, soups, sauces, packaged flour, puddings, table and maple syrup and fresh mushrooms in Canada. Production and sale of maple syrup, processed meats, soups and condiments in the United States.

Holiday Juice

Production and sale of fruit juices and fruit drinks in Canada and the United States.

CHATEAU-GAI

Production and sale of wine and wine-based refreshments in Canada.

LAMONT WINERY

Production and sale of wine, grape juice concentrate and brandy in the United States. *

Other Investments and Partly Owned Businesses

John Labatt has a number of other investments and partly owned businesses:

The Sports Network
Television sports broadcasting service in Canada. TSN is 100% owned by John Labatt.

Casco Company
Production and sale in Canada of sweeteners, starch and oil derived from corn. Sale of sweeteners in the United States. John Labatt has a 30% partnership interest.

McGavin Foods Limited
Production and sale of baked goods in western Canada. John Labatt has a 60% share interest and a 50% voting interest.

Allelix Inc.
Applied research in biotechnology in Canada. John Labatt has a 30% partnership interest.

Toronto Blue Jays Baseball Club
American League baseball. John Labatt has a 45% partnership interest.

Auscan Closures Canada and Company, Limited
A manufacturer of crown seals for bottled beverages for sale in Canada and in the United States. John Labatt has a 50% interest.

Canada Malting Co., Limited
Production and sale of malt for the brewing and distilling industries in Canada and for export. John Labatt has a 19.9% share interest.

Catelli-Primo Limited
Production and sale of packaged foods in Trinidad. John Labatt has a 46.4% share interest.

* *The LaMont Winery was sold following fiscal year end.*

Letter to Shareholders

To Our Shareholders:

On behalf of the Board of Directors and the management of John Labatt, we are pleased to report that the fiscal year ended April 30, 1986 was again a year of strong performance and excellent progress consistent with long-term plans for growth, expansion and diversification.

Shareholders can take pride in the fact that John Labatt continues to successfully meet the challenges in today's marketplace and achieve its aggressive goals for growth and diversification. John Labatt now occupies a solid position as a well-established, multi-faceted North American consumer products company, having come a long way from its roots in the Canadian brewing industry. The outlook for the future is extremely positive, given the well-balanced strengths of the Company: great consumer confidence in the quality of all our products; the respect of the financial community for our financial stability and growth record; and the dedication and enthusiasm of our employees.

Sales for fiscal 1986 reached $3.6 billion, a 28% increase over the prior year and a record achievement. For the first time, we surpassed the hundred-million-dollar milestone in earnings, posting net earnings of $101.5 million, which represent an impressive 24% increase over fiscal 1985.

Earnings per share on a fully diluted basis were $2.75 compared with $2.35 a year ago, and return on shareholders' equity was 17.0%.

Demonstrating the balanced diversification of the Company, we can report significant progress and contribution from all the major operating groups.

Labatt Brewing achieved increases in both volume and market share despite a 3% decline in the Canadian market caused by industry wide shut-downs in some provinces earlier in the year. Aggressive and innovative marketing programs sustained positive momentum to more solidly entrench Labatt's as Canada's largest brewer with a strong leadership share position at 41% of the Canadian market. The continuing popularity of Labatt's major brands, "Blue", "50", "Labatt's Lite", "Budweiser" and "John Labatt Classic", supported by strong regional brands, successful new product introductions, major packaging innovations and other marketing initiatives, worked together to create a formidable competitive advantage in the Canadian market. Labatt Brewing's sales also increased in the United States, and our marketing expertise will continue to be applied to achieve further growth in that important market. On the operating side, significant cost savings programs were introduced, which together with marketing successes produced substantially improved overall results for the Brewing group in fiscal 1986.

The Agri Products group achieved major growth in sales and earnings in 1986. This group now represents, with $1.6 billion in sales, 45% of total Company revenues, making it the largest group contributor on this basis.

Johanna Farms successfully expanded its market base in the United States, through sales growth and acquisition of the Pennsylvania-based dairy business of Atlantic Processing Inc. This business operates under the name of Lehigh Valley Dairy.

Ault and Ogilvie produced results at a slightly lower level than the record achievements of fiscal 1985. Realignment of ownership in the grocery trade and Ault's difficulty in securing an adequate supply of industrial milk constrained operating results. At Ogilvie, reductions in flour exports and lower feed commodity prices were external market factors that worked to offset the favourable effects of last year's acquisitions.

The third major operating group, Packaged Food, also grew substantially in fiscal 1986 and posted an impressive 63% increase in earnings over last year.

A strong contributor to the improvement in group results was Chef Francisco, whose performance in the American and Canadian food service industries continued to outpace the competition. Catelli, through aggressive marketing efforts, innovative new product introductions and effective cost control programs, produced improved results in a very competitive market. Holiday Juice grew successfully in both Canada and the United States. Holiday Juice now has production facilities in the United States through the recent acquisition of Boden Products, Inc., a fruit juice company in Illinois. Chateau-Gai also posted sales and operating gains, and its highly successful "Canada Cooler" brand continued to enjoy a leadership position in the popular wine-based refreshment category. Higher sales volumes at LaMont Winery in California helped to reduce its loss from that of a year ago. In early fiscal 1987 the Company reached an agreement, subject to regulatory approval, with Anheuser-Busch Beverage Group Inc. whereby the latter acquired LaMont Winery.

Consistent with our objectives of geographic growth and diversification, our United States business base now comprises a significant portion of the overall business of the Company. In fiscal 1986, United States operations contributed 25% of Company sales and 20% of earnings. This expansion is attributable to both solid growth of existing operations and ongoing acquisition of sound companies that complement our established business base.

In addition to the major operating groups, John Labatt owns The Sports Network (TSN), and a number of partly owned businesses. TSN represents a breakthrough in high-quality, all-sports specialty programming. Its market acceptance is continuing to grow, with the subscriber base reaching a level of over 833,000 in the second year of operation. Expenditures continue to exceed revenues as TSN builds a solid base for a profitable future. The outlook is positive as viewers, advertisers and the press continue to offer an enthusiastic acceptance for this valuable, high-quality service.

Results from partly owned businesses showed improvement over the previous year, due to reduced losses at several companies in this group.

John Labatt is pleased to be one of the corporate sponsors for Expo '86 in Vancouver. Through this arrangement, several John Labatt companies have official supplier status. In addition, in August of this year, the Company is a major exhibitor in the first annual Food Pacific Trade Show being held at BC Place. This international trade show will attract members of the food industry from around the world.

At the Ontario Science Centre, John Labatt is proud to be the corporate sponsor for the exhibit entitled "Food". Through this innovative and educational exhibit, people are entertained and informed of the many dimensions of nutrition, food preparation and production.

The Company's goals for growth, expansion and diversification are achievable in large measure by its financial strength and stability and its ability to generate and sustain a healthy cash flow. Our financial position was further strengthened this year through two new debenture issues. The July 1985 issue marked the Company's first fund raising in the Eurobond market. The second issue, in February 1986, was innovative and provided low-cost financing, which through its conversion feature, strengthens the Company's equity base.

John Labatt continued its program of long-term capital investment in order to achieve future growth and lasting profitability. Accordingly, major spending programs to enhance existing facilities, increase capacity, develop new markets and improve productivity in each of the Company's major business areas were again undertaken. Capital spending amounted to $116 million in fiscal 1986.

Outlook

Management anticipates continued strong sales and earnings growth in 1987 and beyond. The Company is in an excellent position to aggressively pursue its strategy of growth, expansion and diversification and to successfully attain its fundamental goal of exceptional performance. Our strengths come from dedicated employees and sound management, a strong financial position, superior marketing capabilities and an in-depth knowledge of our consumer-based businesses.

The Company enjoys the confidence and loyalty of consumers, the high-quality service of suppliers and the respect of the financial community. From this strong foundation, John Labatt will seek continued growth from existing operations, acquisitions and geographic diversification. Innovation and the willingness to seek out and seize market opportunities will further enhance our competitive advantage. Ongoing cost control programs and long-term investment will serve to sustain a positive performance and strengthen our position of leadership. The Company faces the new year, and the future beyond, with confidence and enthusiasm.

Tributes

John Labatt's success and continued optimism is due in great part to the dedicated efforts of its 14,200 employees and the loyal support of its customers and suppliers. We extend sincere thanks to our employees for their important contribution and express appreciation to our customers and suppliers for their loyal support and valued association.

Mr. John Ronald, formerly President of Catelli, retired during the past year. Joining the Company in 1968, he served the Company with distinction as President of Catelli for seventeen years. Mr. Ronald deserves much credit for guiding Catelli's growth and development to its present status as one of the premier grocery product companies in Canada.

At the annual and special meeting of shareholders to be held on September 5, 1986, Mr. J. B. Cronyn is retiring as an active director due to the corporation's policy requiring retirement of management directors at age 65 and Mr. A. S. Graydon, having reached age 70, is no longer eligible under By-law No. 1 for election as an active director. Messrs. Cronyn and Graydon have served with distinction as active directors for 27 and 33 years respectively and upon their appointment as honorary directors, the corporation will continue to benefit from their experience and expertise.

Peter N.T. Widdrington

P.N.T. Widdrington
President and Chief Executive Officer

N.E. Hardy

N.E. Hardy
Chairman of the Board

Group Financial Summary

(in thousands)	**1986**	1985	1984	1983	1982
Operating Results					
Gross sales					
Brewing	**$1,274,382**	$1,149,275	$ 984,218	$ 937,991	$ 827,323
Agri Products	**1,605,020**	1,074,518	973,750	792,554	779,349
Packaged Food	**702,039**	578,836	491,521	494,437	470,583
	$3,581,441	$2,802,629	$2,449,489	$2,224,982	$2,077,255
Earnings before interest and income taxes					
Brewing	**$ 93,305**	$ 77,695	$ 83,981	$ 83,543	$ 68,052
Agri Products	**92,063**	72,278	58,008	49,076	47,042
Packaged Food	**50,604**	30,971	28,029	21,383	23,626
	235,972	180,944	170,018	154,002	138,720
Unallocated income (expense)	**(509)**	(1,590)	11,033	5,482	7,610
Interest	**(49,700)**	(38,332)	(32,568)	(30,233)	(37,471)
Income taxes	**(79,631)**	(52,494)	(58,223)	(51,322)	(47,649)
Earnings before the following	**106,132**	88,528	90,260	77,929	61,210
Share of losses of partly owned businesses	**(4,669)**	(6,864)	(3,831)	(5,272)	(3,674)
Minority interest	**–**	–	–	–	(128)
Earnings before bottle write-off and extraordinary items	**101,463**	81,664	86,429	72,657	57,408
Provision for bottle write-off	**–**	–	(19,700)	–	–
Extraordinary items	**–**	–	–	(3,500)	(3,500)
Net earnings	**$ 101,463**	$ 81,664	$ 66,729	$ 69,157	$ 53,908
Capital Expenditures					
Brewing	**$ 54,705**	$ 61,204	$ 43,107	$ 24,416	$ 22,175
Agri Products	**35,356**	15,878	6,489	7,863	13,239
Packaged Food	**25,515**	33,978	21,084	20,769	15,285
	$ 115,576	$ 111,060	$ 70,680	$ 53,048	$ 50,699
Acquisitions	**$ 47,568**	$ 182,013	$ 69,666	$ 6,616	$ 64,517

One of Canada's most popular ales for over 30 years, "Labatt 50" is available in every province.

"Labatt's Lite" is Canada's most popular light beer, enjoyed by those who prefer a lighter-tasting beer with fewer calories.

As part of a growing export market, consumers in Japan are now enjoying the taste of Labatt beer.

	1986	1985	1984	1983	1982
Industry volume (000 hl.)	**19,766**	20,392	20,412	20,135	20,515
Labatt volume – domestic (000 hl.)	**8,097**	7,937	7,177	7,407	7,676
Market share	**41.0%**	38.9%	35.2%	36.8%	37.4%
(in thousands)					
Gross sales	**$1,274,382**	$1,149,275	$984,218	$937,991	$827,323
Assets employed	**343,421**	316,593	244,594	207,766	217,529
Capital expenditures	**54,705**	61,204	43,107	24,416	22,175
Depreciation and amortization	**25,425**	22,164	17,745	17,113	16,405
Earnings before interest and income taxes	**$ 93,305**	$ 77,695	$ 83,981	$ 83,543	$ 68,052

Executive and Marketing Offices:
Labatt Brewing Company
#2 First Canadian Place
Suite 3200, P.O. Box 69
Toronto, Ontario M5X 1E7

Head Office:
Labatt Brewing Company
150 Simcoe Street
London, Ontario N6A 4M3

Number of Plants: 12
Number of Employees: 4,340

Labatt Brewing markets 39 brands of quality beer, ale, malt liquor and stout. The company's national brands include "Blue", "50", "Budweiser", "John Labatt Classic" and "Labatt's Lite", which account for the major portion of sales. These brands are supplemented by important regional brands such as "Keith's" in the Maritimes, "Club" in Manitoba, "Kokanee" in British Columbia, and "Blue Light" in Ontario.

Labatt Brewing operates twelve plants across Canada with a total brewing capacity of 10.1 million hectolitres. Plants are located in St. John's, Halifax, Saint John, Montreal, Toronto, London, Kitchener, Winnipeg, Saskatoon, Edmonton, Creston and New Westminster.

In the United States, Labatt Importers markets a number of Labatt brands, in 43 states, through more than 300 independent distributors.

Group Highlights and Outlook:

- The brewing group achieved sales of $1.3 billion in the year ended April 30 1986, an increase of 11% over 1985. Earnings before interest and taxes were $93.3 million compared to $77.7 million the previous year.

- Fiscal 1986 was a year of continued, intense competitive activity in the Canadian brewing industry and a year in which Labatt consolidated and strengthened its position as Canada's leading brewer.

The smooth taste of "Schooner" and the distinctively-aged premium beer "John Labatt Classic" are the choice of many Canadians.

● Labatt achieved an important gain of two share points in national market share to average 41.0% for the year.

● The difficulties in negotiating the latest round of labour contracts continued in this past year with an industry-wide shutdown in Newfoundland lasting seven and one-half months. In Alberta, a labour dispute involving the three major brewers occurred during the peak summer season and lasted for ten weeks. Labour contracts covering all major bargaining units are now in place through to December 1987. Improved labour relations are an important priority for the company.

● Labatt, maintaining its commitment to responding to changing consumer preferences, implemented a number of product and marketing innovations in fiscal 1986.

- "Twist Shandy" was introduced to Quebec, Ontario, Prairie and British Columbia markets. "Twist Shandy" is a low-alcohol flavoured beer beverage and is the first of its kind in North America. This innovative, high-quality product met with good consumer acceptance and will be extended to other Canadian markets in the current year.
- Consumers in Ontario and British Columbia were invited to make a "smooth move" to "Schooner", a popular brand in the Maritimes for decades. In all Canadian markets where it has been introduced, consumer reaction has been positive.
- "Sarasoda", a sparkling citrus cooler containing 0.9% alcohol, was launched in November 1985 to compete in the adult soft drink market. This delicious beverage, distributed by Holiday Juice, is now available through grocery and convenience stores in Ontario, Manitoba and Alberta.
- "Michelob", the first American premium product to be brewed in Canada, was launched in March 1986 in Quebec with excellent consumer acceptance.
- "John Labatt Classic Light", Canada's only premium light beer, characterized by the traditional "Classic" quality, was introduced to Ontario consumers early in fiscal 1987.
- "Bud Light", brewed in Canada, was introduced to the Quebec market to complement the popularity of "Budweiser" in that province.
- A crown closure plant was purchased in Montreal in partnership with Burns Philp Limited, an Australian company, and began production in February 1986, of a patented bottle closure that "is easier on the hands" than the conventional "Twist-Off". The new "Swift-Off" caps were introduced early in fiscal 1987 as a major packaging improvement.

Labatt marketing representatives work closely with licensed accounts to promote company products, including "Labatt's Blue", Canada's largest-selling beer.

– Labatt further strengthened its leadership image in the marketplace by acquiring the promotional rights of the Montreal Expos Baseball Club. This move complements the already strong association with professional baseball, which began with the formation of the Toronto Blue Jays in 1977.
– Labatt has also stepped up its promotional involvement in music through the "Labatt Blue Live Concert" series, which is now produced and promoted by our recently formed company, "Blue Live Entertainment".

● Throughout this past year, Labatt continued its drive to reduce operating costs and to improve efficiencies. Significant capital-spending projects were undertaken to provide additional capacity, maintain quality and improve productivity and flexibility. Significant additional spending is planned for 1987.

● In the United States, Labatt Importers greatly improved its presence in all major import markets. Volume improved by 11% in fiscal 1986, and Labatt beer emerged as the fastest growing of the Canadian imports. Early in fiscal 1987, Labatt Importers introduced "Schooner" to several test markets in the northeast and west coast regions. Importers is positioned for further growth in the current year.

● While exports to overseas markets are still only a small part of the business, sales to the United Kingdom, Japan and the Caribbean more than doubled in volume. Exports to the United Kingdom showed the strongest growth. Further gains are anticipated in the current year.

● The domestic beer industry is expected to remain highly competitive in 1987. Labatt is determined to maintain its position as Canada's leading brewer through the superior quality of its products and through continuing emphasis on innovation.

Labatt products are becoming better-known and more popular in all major markets of the United States.

Johanna Farms milk and yogurt products enjoy increased sales.

Miracle Feeds provides customized service programs to both by-product suppliers and farmers.

"Sealtest" and "Silverwood" are well known brand names for Ault Foods and popular at the point-of-sale.

(in thousands)	**1986**	1985	1984	1983	1982
Gross sales	**$1,605,020**	$1,074,518	$973,750	$792,554	$779,349
Assets employed	**403,689**	278,347	232,477	165,935	185,562
Capital expenditures	**35,356**	15,878	6,489	7,863	13,239
Depreciation and amortization	**27,554**	15,351	14,432	11,662	10,349
Earnings before interest and income taxes	**$ 92,063**	$ 72,278	$ 58,008	$ 49,076	$ 47,042

The Agri Products Group comprises:

- **Ault Foods**
- **Johanna Farms**
- **Ogilvie**

Group Highlights and Outlook:

- The group in fiscal 1986 achieved major growth in sales and earnings.
- Sales reached $1.6 billion, accounting for 45% of the Company's total. The Agri Products Group now has the highest sales base of John Labatt's three business groups.
- Results at Ault and Ogilvie declined from the strong performance of the previous year.
- Johanna Farms had a very good year. Johanna successfully expanded its market base in the north-eastern United States and recently acquired the dairy operations of Atlantic Processing Inc. of Allentown, Pennsylvania.
- The Agri Products Group looks forward to positive sales and earnings growth in fiscal 1987.

Ault and Ogilvie expect better market conditions, and Johanna Farms will benefit from an expanded business base.

AULT FOODS

Head Office:
405 The West Mall
Etobicoke, Ontario M9C 5J1

Number of Plants: **18**
Number of Employees: **2,690**

Ault Foods is one of the largest milk processors in Canada. It produces and markets a complete line of dairy products in Ontario, Quebec and Manitoba.

Fresh table milk and complementary product lines of creams, yogurt, cottage cheese, butter, sour cream, ice cream, frozen confections and juices account for about two-thirds of Ault's total business. These products are marketed primarily under the familiar "Sealtest", "Silverwood" and "Light 'N Lively" brand names and also under well-known regional brand names such as "Dallaire", "Royal Oak" and "Copper Cliff".

The home of "Balderson Cheddar" is the Ault Foods store in Balderson, Ontario.

Ault distributes its branded products to retail grocery chains, convenience stores and independent grocers and also to restaurants and other segments of the food service industry.

On the industrial side, which accounts for approximately one-third of the business, Ault is a major supplier of products to food manufacturers for further processing and to retailers for brand name and private label business. Exports, particularly to the United Kingdom and the United States, include cheese, butter, evaporated and condensed milk, whey powder, skim milk powder and many custom-blended dairy powders.

Ault operates eighteen plant facilities located in Montreal, Rouyn and Laverlochère, Quebec; Ottawa, Sudbury, Toronto (2), Hamilton, London (2), Windsor, Winchester, Napanee, Balderson, Thornloe, Mitchell and New Dundee, Ontario; and Winnipeg, Manitoba.

Performance Highlights and Outlook:

● In fiscal 1986, Ault's sales volumes and earnings were slightly lower than the record achieved the previous year. Contributing to this performance was some loss of business resulting from realignment of ownership within the grocery trade and Ault's difficulty in securing an adequate supply of industrial milk.

These shoppers are choosing two new Ault products, "Fruit Fantasy", and "Chipwich Jr."

● Important product launches and market initiatives were implemented during this past year:

- "Oh Henry!" was extended to additional markets across Canada and became the number-one frozen confection in the industry.
- A super-premium ice cream was launched under the "Crème de la Crème" name. New frozen confections, "Fruit Fantasy" and "Eskimo Pie", were also introduced.
- Demineralized whey production using the latest technology was successfully launched at the Winchester plant. Additional value is provided through the removal of minerals and among other uses this product is an important ingredient in baby food.

● Market share increased for "Parlour" and "All Natural" ice cream and "Fruit On The Bottom" yogurt.

● Export sales increased, and, in particular, sales of cheese more than doubled, principally on the strength of shipments to Japan and the United Kingdom.

● Ault implemented several important organizational changes and facility rationalizations during this past year. These were:

- A new organizational structure was introduced that is more responsive to the distinctive and unique needs of the three major market segments served by Ault: retail, food service and industrial.
- During the year, production of most cultured products was transferred to the Napanee plant.
- In July 1986, the expanded Don Mills plant serving Metro Toronto and surrounding areas became fully operational.

● Ault's prospects in 1987 look good. New product introductions continue in the current fiscal year with the recent successful launch of a fruit drink "Frutti" and the frozen confections "Oh Henry! junior" and "Chipwich Jr." Ault is planning a more consumer-oriented presence in the marketplace in 1987, and additional operating efficiencies will also be initiated in Ault's plants and distribution channels. As a result Ault expects increased sales and earnings in 1987.

JOHANNA FARMS

Head Office:
Johanna Farms Road
P.O. Box 272
Flemington, New Jersey 08822

Number of Plants: 6
Number of Employees: 1,830

Johanna Farms is a large dairy operation in the United States which processes, packages and markets fresh table milk, yogurt, ice cream and cottage cheese as well as fruit juices and fruit drinks.

Johanna Farms' major branded products include fresh table milk under the "Johanna","Abbotts" and "Lehigh Valley Farms" labels, juice under the names of "Johanna" and "Florida Citrus" and Natural, Swiss- and French-style yogurts under the "Johanna", "Lacto" and "La Yogurt" labels. The company markets aseptic juices and drinks under the "Tree Ripe" and "Ssips" names and ice cream under the "Abbott's Old Philadelphia" label. Customers for these products include major supermarket chains, grocery wholesalers, and independent food stores. Johanna serves primarily the New Jersey, New York, Pennsylvania and Maryland areas but also serves markets as distant as Florida and Colorado. As a major private-label packager, Johanna Farms supplies supermarket chains and wholesale distributors and acts as co-packer for several major national companies.

Johanna operates six plants, located in Flemington, New Jersey; Fort Washington, Lansdale, Allentown and Schuylkill Haven, Pennsylvania; and Baltimore, Maryland.

Performance Highlights and Outlook:

- Johanna had a very good year in fiscal 1986.
- Johanna was able to increase its market share in southern New Jersey and southeastern Pennsylvania in spite of highly competitive conditions in the fresh table milk business.
- The aseptic juices and drinks sold under the "Tree Ripe" and "Ssips" labels achieved significant sales increases. Aseptic products sales for private-label customers, however, have declined.
- Johanna's bottled spring water business operated at capacity levels throughout the year, and expansion is planned for the summer of 1986.
- On March 1, 1986, Johanna acquired Lehigh Valley Dairies Inc. This acquisition substantially expands Johanna's fresh table milk business into contiguous geographic areas in Pennsylvania and Maryland, and provides the company with an entry into the ice cream business. Capital improvements to the newly acquired plants are underway to provide increased capacity and to improve efficiencies.

Johanna Farms was the first American company to use the "Brik Pak" aseptic packaging system for juices and fruit drinks. It has received wide acceptance for Johanna's "Ssips" and other product lines.

● The fresh table milk business within Johanna's marketing area is expected to remain highly competitive. Although overall volume of table milk products is expected to show only modest growth, selected products such as lactose-reduced or calcium-fortified milk should do well.

● Growing consumer concern for good nutrition has created a buoyant demand for juice products, and Johanna is well positioned to take advantage of this trend.

● In 1987, Johanna anticipates further sales and earnings growth. Major emphasis will be on ensuring effective integration of the Lehigh operation and modernizing production facilities to more efficiently process and distribute the output of its milk plants. Growth is expected in all product categories, and Johanna also plans to extend its product lines and to pursue new product initiatives.

Selling quality with service, an Ogilvie representative calling on a major baker.

OGILVIE

Head Office:
1 Place Ville Marie, Suite 2100
Montreal, Quebec H3B 2X2

Number of Plants: 12
Number of Employees: 1,130

Ogilvie operates the Company's grain-processing businesses.

Its major activity is the milling of flour to supply bakeries, pasta and biscuit producers and a number of other industrial food processors. The "Five Roses" brand of family flour is milled by Ogilvie and marketed nationally by Catelli. Ogilvie exports flour to a number of foreign nations by direct sale and through the government's foreign-aid supply programs. Ogilvie is also the leading world producer of wheat starch and gluten. Wheat starch is used in the food processing, corrugating, textile, paper, mining, building products and adhesives industries and is sold in Canada and the United States. Wheat gluten, a vegetable protein, is used in the baking, cereal and pet food industries and is sold domestically and internationally with the United States representing the major market.

The third element of Ogilvie's business is its livestock feed operations. Food and beverage industry by-products are purchased from a number of plants in Canada and the United States and sold as feed to the livestock industry.

Ogilvie's seven Canadian plants are located in Montreal and Candiac, Quebec; Midland, Strathroy and Thunder Bay, Ontario; Winnipeg, Manitoba; and Medicine Hat, Alberta.

In the United States, Ogilvie's major starch and gluten operations are located in Keokuk, Iowa. Four feed blending plants are also operated in the United States.

Performance Highlights and Outlook:

● Although results were less than the record level of the previous year, Ogilvie achieved strong sales and earnings in fiscal 1986.

● The Canadian milling industry was adversely affected in the past year by its inability to compete against European suppliers with subsidized lower wheat costs, and by significantly lower returns from flour milling by-products. Consequently, earnings from flour operations declined from 1985.

● Starch and gluten operations showed significant improvement, aided by a solid contribution from expanded operations in the United States. In addition to wheat starch and gluten, the United States operations process and market many custom-blended and dry sweetener products for the food industry. The earnings improvement also reflects the success of Ogilvie's continuing commitment to seeking additional sales of value-added starch products and to pursuing an expanded international market for its gluten.

● The Feeds operation faced low feed commodity prices in fiscal 1986, which constrained earnings. Oversupply in certain markets caused further downward pressure on selling prices and reduced profit contribution in the peak brewing season. This trend was reversed in the latter half of the year, and profitability showed some improvement.

● Ogilvie expects its earnings to increase in 1987. However, contribution from flour operations will remain under pressure as a worldwide surplus of grain continues to depress returns from by-products and a very competitive international flour market limits export potential.

Starch and gluten operations, supported by significant capital expenditures and new product introductions, are expected to show further gains.

Earnings from the Feeds operation should improve as a better balance between supply and demand in key markets is anticipated.

Wheat starch from Ogilvie supplied to a coated paper operation.

The Packaged Food Group

"Canada Cooler" helped Chateau-Gai make strong market share gains against domestic competition.

Holiday Juice products enjoy a wide appeal and can be enjoyed anywhere.

Catelli's "Habitant Deli" pickles are a hit with Canadians and an important product line for the Company.

The "Oregon Farms" brand packed by Chef Francisco's Grocery Products Division is an important factor in the frozen cake market in the United States.

Gross sales	**$702,039**	$578,836	$491,521	$494,437	$470,583
Assets employed	**372,175**	343,979	250,110	246,820	221,632
Capital expenditures	**25,515**	33,978	21,084	20,769	15,285
Depreciation and amortization	**17,937**	14,432	10,355	9,578	7,991
Earnings before interest and income taxes	**$ 50,604**	$ 30,971	$ 28,029	$ 21,383	$ 23,626

The Packaged Food Group is comprised of five operating divisions:

- **Chef Francisco**
- **Catelli**
- **Holiday Juice**
- **Chateau-Gai**
- **LaMont**

Group Highlights and Outlook:

- The group achieved significant growth in fiscal 1986, and earnings increased by over 60%.
- Chef Francisco contributed substantially to the group's improved results. Chef benefited from its strong position in the United States and Canadian food service industries.
- Catelli's results also improved despite very competitive markets.
- Holiday Juice expanded its sales base in Canada and the United States and recently acquired an Illinois juice company.
- Chateau-Gai Wines also achieved improved results due to the continuing success of "Canada Cooler".
- LaMont incurred a loss, but the loss was reduced from that of the previous year.
- The group anticipates continued growth and earnings improvement in 1987.

CHEF FRANCISCO

Head Office:
1500 Valley River Drive, Suite 140
Eugene, Oregon 97440

Number of Plants: 9
Number of Employees: 1,700

Based in the United States, Chef Francisco produces a variety of frozen food products for the food service industry and the retail grocery trade. Frozen soups, specialty frozen vegetables, cakes and other frozen baked goods are sold to the food service industry. Under the "Oregon Farms" brand name, frozen baked goods are marketed across the United States through the retail grocery trade. In the United States Chef Francisco operates six plants located in Eugene, Oregon; King of Prussia, Pennsylvania; Clarksville, Arkansas; Grand Island, Nebraska; Jamestown, North Dakota; and Columbus, Wisconsin.

Omstead Foods, a Canadian division of Chef Francisco, is located in Wheatley, Ontario and processes and markets a line of frozen specialty products and a wide variety of frozen vegetables and fish. Sales are mainly to the food service industry in Canada and the United States but also to a number of overseas export markets. In addition, onion rings, vegetables and other specialty products are marketed to the retail grocery trade under the "Omstead" and "Leo D'or" brand names.

Performance Highlights and Outlook:

- Chef Francisco achieved major sales and earnings growth in fiscal 1986. The growth occurred in spite of some slowness in the food service markets in the United States and Canada. Sales of frozen soups did particularly well. Specialty vegetable products from Delicious Foods also contributed to the overall sales and earnings gain.
- Omstead Foods had a very successful year. The supply of smelt from Lake Erie increased substantially, and sales, particularly to the Japanese market, were excellent. Omstead's "Quick Freeze" specialty vegetables and vegetable blends are increasingly popular in the United States food service market.
- New food service products introduced during the year included specialty cakes for the airlines and new soup varieties for restaurants and airlines.
- A new production facility for coated vegetables was opened recently at Grand Island, Nebraska.
- The retail market for frozen baked sweet goods continued to decline. However, the market share of "Oregon Farms" carrot cake improved.
- The frozen dough products of Dakota Bake-N-Serv, a new acquisition in 1986, will add significantly to Chef Francisco's sales through grocery outlets. Industry sales of frozen dough increased slightly, and Dakota Bake-N-Serv captured increased market share.
- In 1987, the sale of food service products through traditional food service restaurant outlets is expected to grow modestly. Purchases in the ready-to-serve, high-quality take-home sector are increasing. Chef Francisco's products are particularly well positioned, and its sales are expected to continue to outpace the market.

Chef Francisco's newly acquired Dakota Bake-N-Serv operation is a licensee of the "Rhodes" trademark. It is the largest packer of retail dough products in the United States.

CATELLI

Head Office:
Alexis Nihon Plaza
1500 Atwater Avenue, Suite 1000
Montreal, Quebec H3Z 1X5

Number of Plants: **12**
Number of Employees: **1,390**

Catelli is a leading grocery products manufacturer in Canada producing a wide range of goods sold in retail grocery outlets under well-known brand names such as "Catelli", "Habitant" and "Five Roses". In addition, operations in the New England states produce quality processed meats, which are sold under the "Schonlands" and "M.M. Mades" labels.

Catelli is the market leader in dry and fresh pasta, aseptic puddings and spaghetti sauces. Other major products are ready-to-serve soups, packaged flour, pickles, jams, marmalades, table syrup, maple syrup and milk flavouring. The Terra division produces and markets fresh mushrooms in Quebec through retail grocery outlets. A special food service group is concentrating on increasing sales to the non-retail market while providing custom products for several retail food outlets.

Catelli's eight Canadian plants are located in Montreal, Carignan and St. Hyacinthe, Quebec; Lethbridge, Alberta; and Delta, Scarborough, Weston and Woodbridge, Ontario. The four United States facilities are located in Manchester and Bedford, New Hampshire; Portland, Maine; and Essex Junction, Vermont.

The market leader in dry and fresh pasta, Catelli offers consumers a wide product range.

Performance Highlights and Outlook:

● Catelli significantly increased its earnings in fiscal 1986 based upon a strong performance in the markets for spaghetti sauce, puddings, jams and marinated products.

● Catelli continued to invest in growth opportunities in pasta. Nelia Foods, an Ontario producer of fresh pasta, was acquired during the year and the Parmapast fresh pasta activities have been consolidated into the Nelia operations. The "Nelia" and "Parmapast" brand names will continue to be used in the marketplace. This investment is consistent with a strategy of maintaining leadership in the pasta market.

● Catelli's pasta business remained under cost pressures due to escalating wheat prices and continued growth in highly subsidized pasta imports. Significant investments were made to strengthen Catelli's consumer franchise, which included the introduction of new products and increased advertising support.

● An innovative cost savings project was implemented this past year with the support of employees from all levels of the company. The project generated major savings which will be directed to Catelli's future growth and development.

● Favourable response from consumers and the trade to Catelli's innovative plastic aseptic packaging continued in 1986. Also in this category, Catelli completed the highly successful launch of "Light Touch" puddings.

● Pricing in the mushroom market served by Terra was again very competitive in 1986. Productivity gains in the latter part of the year should provide improved results in the current year.

● The development of several additions to the "Habitant" soup line was completed. These new products will be introduced to Ontario and Quebec markets early in fiscal 1987.

● The markets in which Catelli operates are expected to show only modest growth and remain highly competitive. Catelli, in 1987, will continue to emphasize new product development and productivity projects. It will also invest in increased advertising to further strengthen its consumer franchises. Future growth in both Canada and the United States will also be achieved through acquisitions.

HOLIDAY JUICE

Head Office:
1030 Walker Road
Windsor, Ontario N8Y 2N5

Number of Plants: 2
Number of Employees: 300

Holiday Juice is one of the leading producers of fruit juices and fruit drinks in Canada. It sells through distributors to the food service and wholesale markets in Canada and parts of the United States.

The company's major brands in Canada are "Everfresh", "Mr. Pure", "Mr. Citrus" and "H.J.", while in the United States products are marketed under the "J.Z." brand and under private labels. Sales in the United States are concentrated in Michigan and Illinois.

The company's Canadian processing facilities are located in Windsor, Ontario. In the United States, processing facilities are located in Chicago, Illinois.

Performance Highlights and Outlook:

● Holiday Juice achieved strong sales growth in fiscal 1986 and successfully expanded its business base in the United States.

● Holiday Juice's presence in the United States was strengthened considerably this past year with the acquisition of Boden Products, Inc. in Chicago, Illinois. The acquisition provides Holiday Juice with its first processing facility in the United States and the additional capacity required to maintain its strong sales growth.

● The company continues to be a leader in its markets. The "Mr. Citrus" brand in particular gained significant market share in Canada.

● Market demand for fruit juices and fruit drinks continues to show good growth potential, and Holiday Juice, with its high-quality products and expanding distribution base, is well positioned to share in this growth.

A Holiday Juice "Everfresh" delivery to a 7-Eleven Store. Product freshness and a dedication to service are at the heart of the company's success.

CHATEAU-GAI

Head Office:
201 City Centre Drive, Suite 405
Mississauga, Ontario L5B 2T4

Number of Plants: 4
Number of Employees: 400

Wines and wine-based refreshments are produced under the Chateau-Gai label at wineries located in Scoudouc, New Brunswick; Niagara Falls, Ontario; and Calgary, Alberta; and under the Casabello label at a winery in Penticton, British Columbia.

Performance Highlights and Outlook:

● The Canadian wine industry experienced its second consecutive year of sharp volume and market share decline against low-priced imports.

● Domestic brands in the Ontario market were affected most severely with erosion of their market share to below 40% (55% in 1983). The decline was aggravated by unfavourable publicity over quality

concerns involving some Ontario wines. Chateau-Gai wines were tested and found to meet or exceed quality standards; however, the unfavourable publicity tarnished the image of all domestic wine producers.

● In British Columbia, domestic wines began to show some recovery during the second half of fiscal 1986.

● In this increasingly difficult environment, Chateau-Gai achieved strong market share gains against domestic competition due to the popularity of "Canada Cooler", which now accounts for a significant portion of Chateau-Gai's volume. Chateau-Gai also achieved volume and share gains in table wines through renewed growth of existing brands and development of new brands.

● An agreement was recently negotiated with the United States producer of "Sun Country" for production and marketing of that brand in Canada. "Sun Country" is the third largest wine cooler brand in the United States market. This fully-supported launch is expected to strengthen Chateau-Gai's dominance of the Canadian "cooler" market.

● As a result of aggressive sales efforts and a major cost reduction program, Chateau-Gai's operating performance improved significantly in 1986. A new wine policy announced by the Ontario government in March of this year will help to further improve the outlook for Chateau-Gai. This policy, combined with the impact of recent currency changes, will restore a significant price advantage for Ontario wines relative to low-priced imports.

The manager of a Chateau-Gai "Wine Rack" store keeps the shelves full.

● Chateau-Gai anticipates some recovery of the domestic wine market, and this, combined with aggressive sales and merchandising of "cooler" brands and better capacity utilization in all Chateau-Gai wine operations, should result in continued sales and earnings growth in 1987.

LAMONT

Head Office:
1 Bear Mountain Winery Road
Di Giorgio, California 93217

Number of Plants: 1
Number of Employees: 160

The LaMont Winery, located in California, is engaged primarily in the production and sale of wine sold in bulk to major wine marketers in the United States. LaMont also produces and sells wine and brandy under a number of proprietary labels and custom packs wine under private labels for large-volume wholesale and retail customers.

Performance Highlights

● Adverse market conditions continued for the California wine industry this past year, reflecting the major surplus of California wine. Also, low-priced foreign imports, as a result of a similar wine surplus in Europe, continue to depress the industry.

● Industry oversupply conditions, together with relatively flat consumer demand, continued to depress prices and margins at LaMont.

● LaMont achieved higher sales volumes and lower product and operating costs and, as a result, its loss for the year was reduced from the level a year ago.

Divestiture

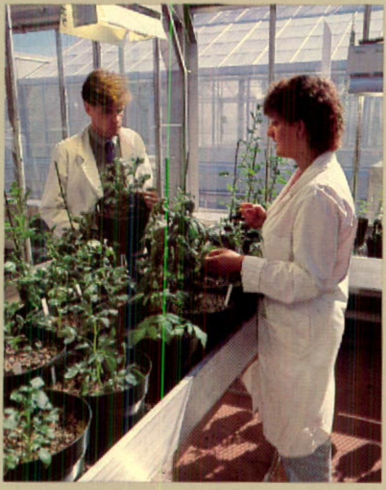
● In early fiscal 1987 the Company reached an agreement, subject to regulatory approval, with Anheuser-Busch Beverage Group Inc. whereby the latter acquired LaMont Winery.

Other Investments and Partly Owned Businesses

Toronto Blue Jays

The Sports Network (TSN)

Casco Company



Allelix

McGavin Foods

The Sports Network (TSN)

Head Office and Broadcast Centre:
1155 Leslie Street
Don Mills, Ontario M3C 2S6

Number of Employees: 120

TSN is a wholly owned Labatt subsidiary.

TSN, which began broadcasting in September 1984, is a Toronto-based 24-hour all-sports specialty programming service delivered to the consumer via cable television.

Programming consists of professional sports, such as baseball, hockey and football, as well as many popular amateur sporting events. Programming is derived from three sources: events produced by TSN, acquired programming and live studio production of sports news and other specials.

TSN is available to cable subscribers throughout most of Canada in conjunction with other pay and specialty services.

Performance Highlights and Outlook:

- The quality and diversity of TSN's programming continued to be well received by both viewers and advertisers. Based on its 833,000 subscribers at year end, TSN is the leading discretionary pay TV service in Canada.
- During the year, TSN reached a two-year agreement with the National Hockey League. New two-year agreements were also negotiated with the Toronto Blue Jays and Montreal Expos baseball clubs for the 1986 and 1987 seasons. In addition to these high-profile professional sports, TSN continued its coverage of a wide range of sporting activities including soccer, boxing, basketball, auto racing and Canadian and American college sports events.
- For the 1986 fiscal year, TSN achieved an average Canadian program content of 48% during prime time and 38% overall. These levels exceed TSN's minimum licence requirements of 34% and 18% respectively.
- TSN's expenditures exceeded its revenue in 1986, and this will continue for 1987 as TSN builds a solid base for a profitable future.
- In the current year, TSN will continue to focus on building its subscriber base and adding new advertising revenues.

TSN
THE SPORTS NETWORK™

Partly Owned Businesses

John Labatt has a number of partly owned businesses.

In fiscal 1986, the loss from partly owned businesses was reduced to $4.7 million from the previous year's loss of $6.9 million.

The major partly owned businesses are:

Casco Company

Casco Company is a joint-venture partnership between John Labatt (30%) and Canada Starch Company Limited (70%). Casco, a corn wet miller, is Canada's only producer of high-fructose corn syrup. The company's products are used by a wide number of industrial operations and food processors. Casco operates three plants in Ontario, located in London, Cardinal, and Port Colborne.

Performance Highlights and Outlook:

● Casco's results improved over the previous year, but the company again reported a loss as the business environment remained constrained by low world sugar prices.

● Volumes and margins on high-fructose and related products showed improvement. Casco enjoyed increased demand and greater market interest in its high-fructose products as world sugar prices showed signs of a gradual increase.

● Corn costs trended lower and this helped to improve Casco's margins. Corn prices are expected to remain low in 1987.

● Casco expects to further improve its performance in 1987.

McGavin Foods

McGavin Foods, the largest bakery in western Canada, operates five plants located in British Columbia, Alberta, Saskatchewan and Manitoba. A wide variety of breads, rolls and specialty baked goods are produced and sold throughout western Canada in grocery and convenience stores and to the food service industry, primarily under the "McGavin Country" and "Homestead" labels. John Labatt and Maple Leaf Mills hold equal voting interests in McGavin.

Performance Highlights and Outlook:

● Intense competition continued in fiscal 1986 in the bread market in western Canada with aggressive price competition between major supermarket chains. Bread and roll volumes and margins at McGavin were adversely impacted by these difficult market conditions.

● McGavin initiatives over the past several years have focused on rationalization of product lines, consolidation of production facilities, and reduction of manufacturing costs.

● McGavin anticipates improved results despite continuing difficult market conditions.

Allelix

Allelix, a joint venture established in 1981 by John Labatt, Canada Development Corporation and the Ontario Development Corporation, is Canada's leading company in the field of developing products and processes based on advances in biotechnology.

The company's scientific programs are guided by market research, which has identified attractive business opportunities in the areas of food processing, agriculture and diagnostics.

Allelix operates from modern research facilities in Mississauga, Ontario and from a recently opened large greenhouse complex located on 40 hectares of farmland in Caledon, Ontario.

The company's research capability has been built up over the past three years by recruitment of top-level scientists and support staff, which now number about 200.

During this past year, Allelix continued its development of technology and products aimed at its three market areas of food processing, agriculture and diagnostics. Allelix has developed a strong base of proprietary technology in all three areas, and several projects which show commercial promise are underway with joint-venture partners.

Allelix

McGavin's

Toronto Blue Jays

John Labatt has a 45% partnership interest in the Blue Jays, Toronto's popular American League baseball club.

Labatt shares ownership in the club with two other partners, Mr. Howard Webster, with a 45% interest, and the Canadian Imperial Bank of Commerce, with a 10% interest.

The financial results for this past year were much improved but did not provide a profit contribution to John Labatt. The club's financial results are highly sensitive to swings in the Canadian/U.S. dollar exchange rate since all major expenses are incurred in U.S. dollars while revenues are generated mainly in Canadian dollars.

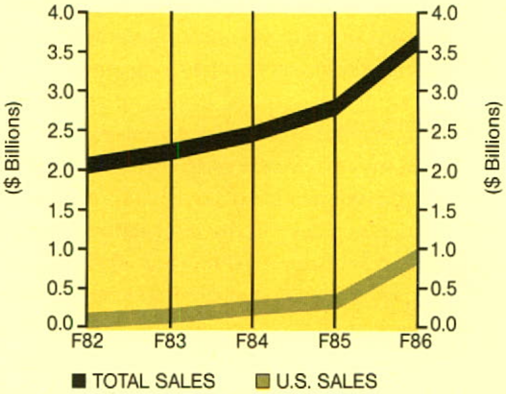
The Blue Jays had a very successful season this past year, winning the American League East Championship for the first time.

10th Anniversary '86

Financial Review

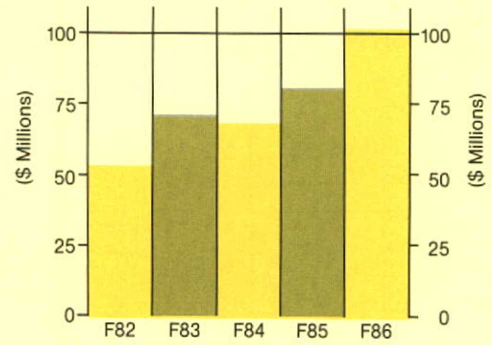
Sales and Earnings
Sales for fiscal 1986 reached \$3.6 billion, resulting in a 28% increase over the prior year and a compound growth rate of 15% since 1982. United States operations contributed 25% of Company sales as compared with 11% in 1985.

GROSS SALES



Fiscal 1986 was a year of significant accomplishment. The Company achieved the highest annual net earnings in its history, passing the \$100-million mark. Net earnings for the year were up 24% to \$101.5 million. This brought fully diluted net earnings per share to \$2.75 from \$2.35.

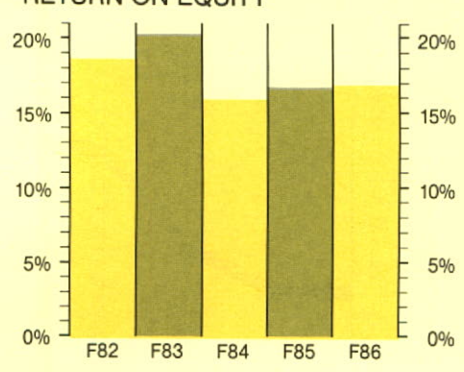
NET EARNINGS



The improvement in earnings was achieved in spite of a higher effective income tax rate and developmental costs associated with the first full year of operations of The Sports Network.

A return of 17% on average shareholders' equity was achieved in fiscal 1986.

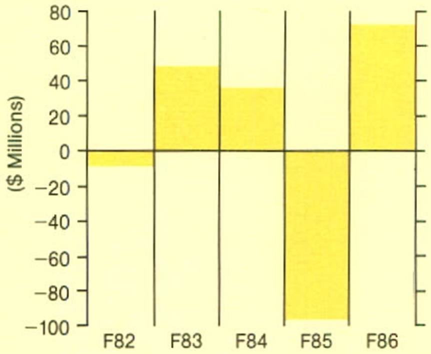
RETURN ON EQUITY



Changes in Financial Position

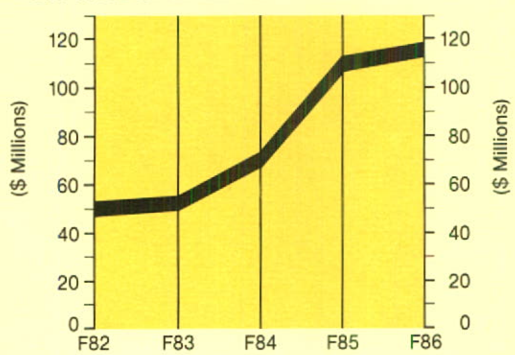
Funds generated from operations and from two debenture issues more than covered requirements for capital expenditures, acquisitions and investments in partly owned businesses. Funds required for these investment activities totalled $165.3 million, and the Company showed a $72.2-million net cash surplus at the end of the year.

CASH SURPLUS (DEFICIT)



Capital expenditures in fiscal 1986 reached record levels and exceeded the $111.1 million invested last year. Through this spending progam, John Labatt put new capital in all business segments to add production capacity, initiate productivity improvements and maintain the integrity of existing assets.

CAPITAL SPENDING

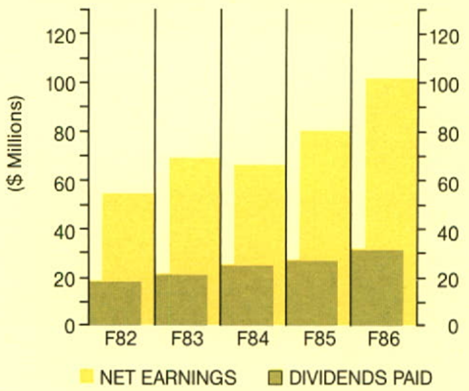


John Labatt spent $47.6 million on acquisitions. The acquisitions comprised the dairy business of Atlantic Processing, Inc. of Allentown, Pennsylvania; Boden Products, Inc. of Chicago, Illinois, a processor of fruit juices and fruit drinks; Nelia Foods Limited of Toronto, Ontario, a manufacturer of fresh pasta products; and Dakota Bake-N-Serv, Inc. of Kansas City, Missouri, a producer of frozen dough products. These acquisitions expand and complement the existing business segments of the Company.

During the year, the Company significantly increased its capital by successfully raising $256.5 million with two major debenture issues. On July 30, 1985 a U.S. $100-million 10½% debenture issue due July 30, 1995 was placed in the international capital market, and on February 27, 1986 $125.0 million of 1986 adjustable rate convertible debentures were issued. Share capital was increased by $88.7 million, and debentures were reduced by $87.2 million, primarily as a result of the conversion of the 11% debentures. The Company's ratio of net debt to convertible debentures and equity continues to be maintained at a prudent level.

Dividends per share were increased by 6.3%, and total dividends amounted to $32.3 million, compared with $28.2 million in fiscal 1985.

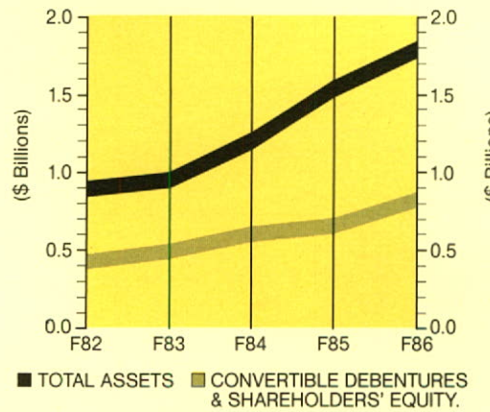
NET EARNINGS AND DIVIDENDS



Financial Position

John Labatt's financial position at April 30, 1986 remains strong. Total assets at year end surpassed the $1.7-billion mark, and convertible debentures and shareholders' equity of $850.8 million increased by $201.5 million over 1985.

TOTAL ASSETS/CONVERTIBLE DEBENTURES & SHAREHOLDERS' EQUITY



The working capital ratio improved from 1.11 last year to 1.65 as net cash increased by $166.2 million during the year.

The average number of days' sales in accounts receivable at 27 was comparable to last year's ratio. The number of days' sales in inventory at 57 declined from 62 days last year due to changes in the business mix resulting from recent acquisitions.

The convertible debentures of $174.8 million at April 30, 1986 and $131.3 million at April 30, 1985 have been reported under the heading of convertible debentures and shareholders' equity on the balance sheet. This presentation reflects management's view that these debentures will be converted into share capital given the history of regular conversions of previous issues and the fact that the market price of the Company's shares exceeded the conversion price of both issues by a substantial margin at year end.

Subsequent to the fiscal year-end the Board of Directors approved a one for one stock dividend which has the effect of a two for one stock split. The per share statistics in this report have not been restated to reflect this increase in the number of outstanding common shares.

At the end of the year, the Company was well positioned financially to support the activities of its major businesses and to pursue its strategy of seeking opportunities for growth in North America.

Summary of Quarterly Financial Information
(in thousands except per share amounts)

	Quarter				Total Year
Year ended April 30, 1986	First	Second	Third	Fourth	
Sales	$932,532	$927,270	$844,159	$877,480	**$3,581,441**
Net earnings	26,699	29,474	21,798	23,492	**101,463**
Net earnings per common share:					
Basic	0.87	0.95	0.62	0.64	**3.08**
Fully diluted	0.74	0.82	0.59	0.60	**2.75**
Dividends per common share	0.24	0.255	0.255	0.255	**1.005**

	Quarter				Total Year
Year ended April 30, 1985	First	Second	Third	Fourth	
Sales	$739,008	$737,236	$663,358	$663,027	**$2,802,629**
Net earnings	25,246	28,799	15,733	11,886	**81,664**
Net earnings per common share:					
Basic	0.85	0.96	0.53	0.40	**2.74**
Fully diluted	0.72	0.81	0.46	0.36	**2.35**
Dividends per common share	0.225	0.24	0.24	0.24	**0.945**

Responsibility for Financial Statements

Management
The accompanying consolidated financial statements of John Labatt were prepared by the management of the Company in conformity with generally accepted accounting principles.

The Company is responsible for the integrity and objectivity of the information contained in the financial statements. The preparation of financial statements necessarily involves the use of estimates requiring careful judgment in those cases where transactions affecting a current accounting period are dependent upon future events.

The Company's accounting procedures and related internal control systems are designed to provide assurance that accounting records are reliable and to safeguard the Company's assets. The accompanying consolidated financial statements have been prepared by qualified personnel in accordance with policies and procedures established by management, and in management's opinion, these statements fairly reflect the financial position of the Company, the results of its operations and the changes in its financial position within reasonable limits of materiality and within the framework of the accounting policies outlined in note 1 to the Consolidated Financial Statements.

External Auditors
Clarkson Gordon, Chartered Accountants, as the Company's external auditors appointed by the shareholders, have examined the consolidated financial statements for the year ended April 30, 1986, and their report is presented on page 38.

Their opinion is based upon an examination conducted in accordance with generally accepted auditing standards and a review of the Company's accounting systems and procedures and internal controls. Based upon the evaluation of these systems, the external auditors conduct appropriate tests of the Company's accounting records and obtain sufficient audit evidence to provide reasonable assurance that the financial statements are presented fairly in accordance with generally accepted accounting principles.

Audit Committee
The Audit Committee, a majority of whose members are not officers of the Company, meets quarterly to review the Company's financial statements before their recommendation to the Board of Directors for approval. The Audit Committee also reviews, on a continuing basis, reports prepared by both the internal and external auditors of the Company relating to the Company's accounting policies and procedures and internal control systems. The Audit Committee meets regularly with both the internal and external auditors, without management present, to review their activities and to consider the results of their audits. The Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders.

Consolidated Statement of Earnings

For the year ended April 30, 1986
(with comparative amounts for the year ended April 30, 1985)

(in thousands except per-share amounts)	**1986**	1985
Revenue		
Gross sales	**$3,581,441**	$2,802,629
Less excise and sales taxes	**420,255**	376,134
	3,161,186	2,426,495
Operating costs		
Cost of products sold	**2,135,741**	1,615,348
Selling and administration	**723,102**	586,168
Depreciation and amortization	**70,916**	51,947
Interest-long-term	**36,282**	27,752
-short-term (note 1)	**13,418**	10,580
	2,979,459	2,291,795
Operating earnings	**181,727**	134,700
Other income	**4,036**	6,322
Earnings before income taxes	**185,763**	141,022
Income taxes-current	**59,069**	38,755
-deferred	**20,562**	13,739
	79,631	52,494
Earnings before share of net losses of partly owned businesses	**106,132**	88,528
Share of net losses of partly owned businesses	**4,669**	6,864
Net earnings	**$ 101,463**	$ 81,664
Net earnings per common share (note 1)	**$3.08**	$2.74
Fully diluted net earnings per common share (note 1)	**$2.75**	$2.35

See accompanying notes

Consolidated Statement of Changes in Financial Position

For the year ended April 30, 1986
(with comparative amounts for the year ended April 30, 1985)

(in thousands)	1986	1985
Funds provided		
Net earnings	$ 101,463	$ 81,664
Net charges to earnings that do not reduce funds	99,698	84,052
Funds provided from operations	201,161	165,716
Changes in non-cash working capital (note 1)	(94,788)	40,426
Other	1,153	1,170
	107,526	207,312
Dividends paid to shareholders	(32,312)	(28,175)
Investment activities		
Additions to fixed assets	(115,576)	(111,060)
Proceeds on disposal of assets	13,202	2,898
Acquisitions (note 8)	(47,568)	(182,013)
Investments in partly owned businesses (note 2)	(15,334)	(12,823)
Cash used for investments	(165,276)	(302,998)
Financing activities		
Issue of common shares (note 5)	88,720	10,837
Net decrease in debentures	(87,186)	(15,317)
Loans to employees under share purchase and option plans	(1,797)	
Issue of debentures	256,523	
Cash provided from (used for) financing	256,260	(4,480)
Increase (decrease) in net cash	166,198	(128,341)
Net cash surplus (deficit) beginning of year	(93,976)	34,365
Net cash surplus (deficit) end of year	$ 72,222	$ (93,976)
Net cash consists of:		
Short-term investments	$ 206,498	$ 108,680
Bank advances and short-term notes	(134,276)	(202,656)
Net cash surplus (deficit) end of year	$ 72,222	$ (93,976)

See accompanying notes

Consolidated Balance Sheet

April 30, 1986
(with comparative amounts
as at April 30, 1985)

Assets *(in thousands)*	1986	1985
Current		
Short-term investments	**$ 206,498**	$ 108,680
Accounts receivable	**283,118**	245,990
Inventories (note 1)	**338,805**	328,099
Prepaid expenses	**33,463**	27,107
	861,884	709,876
Investments and other assets		
Investments in partly owned businesses (note 2)	**70,568**	64,893
Loans to employees under share purchase and option plans (note 5)	**15,066**	13,269
Other investments	**10,724**	15,483
	96,358	93,645
Fixed, at cost		
Land	**36,198**	33,251
Buildings and equipment	**1,030,015**	943,318
	1,066,213	976,569
Less accumulated depreciation	**393,070**	338,710
	673,143	637,859
Intangibles (note 1)	**153,867**	106,732
	$1,785,252	$1,548,112

See accompanying notes

Liabilities	1986	1985
Current		
Bank advances and short-term notes	**$ 134,276**	$ 202,656
Accounts payable	**356,029**	416,037
Taxes payable	**24,913**	13,092
Long-term debt due within one year	**7,959**	6,491
	523,177	638,276
Non-convertible long-term debt (note 3)	**287,213**	154,468
Deferred income taxes	**124,045**	106,022

Convertible debentures and shareholders' equity		
Convertible debentures (note 4)	**174,800**	131,281
Shareholders' equity		
Share capital (note 5)	**230,165**	141,445
Retained earnings	**441,329**	372,178
Accumulated foreign currency translation adjustment (note 1)	**4,523**	4,442
	676,017	518,065
	850,817	649,346
	$1,785,252	$1,548,112

On behalf of the Board

P.N.T. Widdrington, Director

N.E. Hardy, Director

Consolidated Statement of Retained Earnings

For the year ended April 30, 1986
(with comparative amounts for the year ended April 30, 1985)

(in thousands except per-share amounts)	1986	1985
Balance beginning of year	**$372,178**	$318,689
Net earnings	**101,463**	81,664
	473,641	400,353
Common dividends		
($1.005 per share fiscal year 1986) ($0.945 per share fiscal year 1985)	**32,312**	28,175
Balance end of year	**$441,329**	$372,178

See accompanying notes

Auditors' Report

To the Shareholders of John Labatt Limited
We have examined the consolidated balance sheet of John Labatt Limited as at April 30, 1986 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1986 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, except for the required change in the method of accounting for investment tax credits as explained in note 1 to the financial statements, on a basis consistent with that of the preceding year.

London, Canada
June 2, 1986

Clarkson Gordon
Chartered Accountants

Notes to the Consolidated Financial Statements

April 30, 1986

NOTE 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and also conform in all material respects with International Accounting Standards. Significant accounting policies observed in their preparation are summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of all subsidiary companies. The results of operations of subsidiaries acquired or sold during the year are included from or to their respective dates of acquisition or sale.

Foreign currency translation

The accounts of foreign subsidiaries, all of whose economic activities are considered to be self-sustaining, are translated into Canadian dollars on the following basis:

- Income and expenses
  - at average exchange rates prevailing during the year
- Assets and liabilities
  - at the exchange rate in effect at the balance sheet date

The adjustments arising on translation of foreign subsidiaries' balance sheets are deferred and included as a separate component of shareholders' equity.

Net earnings per common share

Earnings per common share have been calculated using the weighted monthly average number of shares outstanding during the year.

Fully diluted earnings per common share have been calculated on the assumption that the convertible debentures and common-share options outstanding at the end of the year had been converted to common shares or exercised at the beginning of the year or at date of issuance.

The number of shares used in calculating earnings per common share is as follows:

	1986	1985
Basic	**32,942,701**	29,813,712
Fully diluted	**39,149,496**	38,140,562

Inventories

Inventories, other than containers, are valued at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis. Containers are valued at redemption price or at amortized cost, which does not exceed replacement cost. Inventory values are as follows:

(in thousands)	1986	1985
Finished and in process	**$209,475**	$194,571
Materials and supplies	**89,896**	86,930
Containers	**39,434**	46,598
	$338,805	$328,099

Investments

Partly owned businesses are companies and partnerships in which the Company has significant influence and are accounted for using the equity method of accounting.

Investments in other companies are carried at the lower of cost and net realizable value, and income is recognized when dividends are received.

Fixed assets

Fixed assets are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, generally at rates of 2½% for buildings, 10% for machinery and equipment, and 20% for vehicles.

Short-term investments

Short-term investments are carried at cost, which approximates market value.

Short-term interest expense is comprised of the following:

(in thousands)	1986	1985
Interest expense on bank advances and short-term notes	$17,484	$12,596
Interest income from short-term investments	4,066	2,016
	$13,418	$10,580

Intangibles

Intangible assets include goodwill, licences, trademarks and unamortized debt financing expense.

Goodwill and other intangible assets acquired prior to May 1, 1974 are carried in the accounts at cost without amortization. Goodwill and other intangible assets acquired after April 30, 1974 ($130,708,000 at April 30, 1986) are being amortized by charges to earnings over the lesser of their estimated useful lives and forty years. Amortization expense was $6,913,000 in 1986 and $2,558,000 in 1985.

Debt financing expenses are amortized over the term of the issue to which they relate.

Details of intangible assets follow:

(in thousands)	1986	1985
Goodwill, licences and trademarks: Licences and trademarks	$ 15,961	$ 15,812
Purchased goodwill	13,822	13,822
Excess of purchase price of shares of certain subsidiary companies over assigned value of net assets acquired	135,229	85,934
	165,012	115,568
Less accumulated amortization	19,039	12,126
	145,973	103,442
Unamortized debt financing expense	7,894	3,290
	$153,867	$106,732

Income taxes

The Company follows the deferral method of tax allocation accounting. Future income tax recoveries relating to losses are provided for only when it is virtually certain, in the loss year, that earnings in future years will be sufficient to make such recoveries possible.

Effective May 1, 1985, the Company changed its method of accounting for investment tax credits to the method required by the Canadian Institute of Chartered Accountants. As a result of the change, investment tax credits arising from the acquisition of fixed assets in 1986 and future years are amortized on the same basis as the related asset. Previously, investment tax credits were recognized as a reduction of income tax expense. The effect of this change on reported earnings and fixed assets is not material.

The effective tax rate is comprised of the following:

	1986	1985
Combined basic federal, provincial and state income tax rates	49.9%	47.9%
Less Manufacturing and processing deduction	4.9%	4.9%
3% inventory allowance and investment tax credits	1.4%	4.9%
Non-taxable income, net of non-allowable expenses	0.7%	0.9%
	42.9%	37.2%

Research and development costs

Research and development costs amounting to $8,241,600 in 1986 ($6,890,000 in 1985) have been charged to earnings as incurred.

Changes in non-cash working capital

The change in non-cash working capital referred to in the statement of changes in financial position is determined as follows:

(in thousands)	1986	1985
(Increase) decrease in current assets		
Accounts receivable	$(37,128)	$(49,246)
Inventories	(10,706)	(81,360)
Prepaid expenses	(6,356)	663
Increase (decrease) in current liabilities		
Accounts payable	(60,008)	175,483
Taxes payable	11,821	(3,696)
Long-term debt due within one year	1,468	(334)
Working capital from acquisitions	6,121	(1,084)
Net increase (decrease) in cash	$(94,788)	$ 40,426

NOTE 2. PARTLY OWNED BUSINESSES

During the year, the Company purchased 250,000 common shares of Canada Malting Co., Limited for $6,000,000, thus increasing its equity interest from 14.2% to 19.9%.

In addition, the Company invested $1,500,000 to acquire a 50% interest in Auscan Closures Canada and Company, Limited, a limited partnership formed to manufacture in Canada crown seals for bottled beverages for sale in Canada and the United States.

Investments in partly owned businesses include the following:

	% Equity interest
Canada	
Allelix Inc.	30.0
Auscan Closures Canada and Company, Limited	50.0
Canada Malting Co., Limited	19.9
McGavin Foods Limited (50% voting)	60.0
Toronto Blue Jays Baseball Club	45.0
Casco Company	30.0
Trinidad	
Catelli-Primo Limited	46.4

The changes in these investments are summarized below:

(in thousands)	1986	1985
Investments, beginning of year	$ 64,893	$ 64,792
Additional investment	15,334	12,823
	80,227	77,615
Deduct: Share of net losses	4,669	6,864
Dividends and other distributions received	4,990	5,858
Investments, end of year	$ 70,568	$ 64,893

NOTE 3. NON-CONVERTIBLE LONG-TERM DEBT

(in thousands)	1986	1985
Sinking fund debentures		
6¼% Series D to mature June 15, 1987	$ 488	$ 490
6¼% Series E to mature October 1, 1989	1,520	1,520
7⅛% Series F to mature April 15, 1992	2,375	2,375
9¼% Series G to mature September 1, 1990	16,376	17,396
8¼% Series H to mature March 1, 1993	18,765	21,040
9% Series I to mature March 15, 1994	20,979	22,880
11⅛% Series J to mature October 1, 1999	37,845	38,425
Bank term loan – secured by Series K collateral debenture to mature June 30, 2003, at discounted amount	31,762	31,453
10½% debentures to mature July 30, 1995	138,000	
	268,110	135,579
Advances, mortgages and other long-term liabilities	24,260	22,847
Obligations under capital leases	2,802	2,533
	295,172	160,959
Less portion due within one year included in current liabilities	7,959	6,491
	$287,213	$154,468

The above balances include long-term debt of $178,328,000 at April 30, 1986 and $40,923,000 at April 30, 1985, denominated in United States dollars translated at rates of exchange at the balance sheet date.

The term bank loan had rates of interest to maturity significantly below market rates at the date of assumption. The principal balance of this loan was $42,780,000 (U.S. $31,000,000) at April 30, 1986 and $42,840,000 (U.S. $31,500,000) at April 30, 1985. However, for financial reporting purposes, this principal balance has been discounted based on an interest rate of 10.5% to an amount of $31,762,000 (U.S. $23,016,000) at April 30, 1986 and $31,453,000 (U.S. $23,127,000) at April 30, 1985. Earnings of the Company reflect interest expense calculated at a rate of 10.5% on this discounted amount.

Maturities and sinking-fund requirements for the years ending April 30, 1987 through 1991 are $7,959,000, $11,121,000, $11,791,000, $12,268,000, and $17,888,000 respectively.

The sinking-fund debentures are secured by a floating charge on the undertaking, property and assets of John Labatt Limited. At April 30, 1986, the Company had satisfied all of the convenants under the trust deed relating to the debentures, including the provision whereby dividends paid by the Company subsequent to April 30, 1984 may not exceed consolidated net earnings, as defined in the trust deed, earned subsequent to that date plus $25,000,000.

NOTE 4. CONVERTIBLE DEBENTURES

The convertible debentures are unsecured obligations and subordinated to all other indebtedness of the Company.

Particulars of debentures convertible into share capital are as follows:

(in thousands)	**1986**	1985
1983 adjustable-rate debentures to mature June 16, 2003	**$ 49,800**	$ 49,800
1986 adjustable-rate debentures to mature February 27, 2006	**125,000**	
Debentures converted to share capital during fiscal 1986:		
9½% maturing June 1, 1995		1,561
11% maturing June 1, 2001		79,920
	$174,800	$131,281

The 1983 adjustable-rate debentures pay a minimum interest rate of 6% and are convertible at the holder's option, on or before the earlier of June 16, 2003 or the last business day prior to redemption into common shares of the Company at an initial conversion price of $22.50 per share until December 15, 1986 and thereafter, if the Company fixes an interest rate of 6½%, at a conversion price of $26.875 per share. The debentures are redeemable at par plus accrued interest after December 16, 1986 and at any time prior to this date at 106% of par plus accrued interest if at least 85% of the original principal amount of the debentures have been converted.

The 1986 adjustable-rate debentures pay a minimum interest rate of 6% and are convertible at the holder's option, on or before the earlier of February 27, 2006 or the last business day prior to redemption into common shares of the Company at an initial conversion price of $35.75 per share until February 28, 1990 and thereafter, if the Company fixes an interest rate of 7%, at a conversion price of $40.00 per share. The debentures are redeemable at par plus accrued interest after February 28, 1990 and at any time prior to this date at 106% of par plus accrued interest if at least 85% of the original principal amount of the debentures have been converted.

NOTE 5. SHARE CAPITAL

Authorized and issued

The authorized capital stock of the Company is as follows:

4,000,000 preferred shares with conditions and preferences as determined by the Board of Directors.

Common shares of no par value in unlimited amount.

The changes in issued and fully paid common shares of the Company are as follows:

	1986		1985	
($ in thousands)	**Shares**	**Amount**	Shares	Amount
Issued and outstanding, beginning of year	**30,391,932**	**$141,445**	29,376,811	$130,608
Issued under employee share purchase and option plans	**348,513**	**7,957**	159,680	2,166
Issued as a result of conversions of 9½% convertible debentures at $9.125 per share	**138,658**	**1,052**	786,033	7,172
Issued as a result of conversions of 11% convertible debentures at $15.8125 per share	**5,048,063**	**79,355**	948	15
Issued as a result of conversions of 1983 adjustable-rate convertible debentures at $22.50 per share	–	–	8,888	200
Issued under shareholder dividend reinvestment plan and stock dividend election program	**11,880**	**356**	59,572	1,284
	5,547,114	**88,720**	1,015,121	10,837
Issued and outstanding, end of year	**35,939,046**	**$230,165**	30,391,932	$141,445

Shares available for share purchase and option plans

Details of unissued common shares for allotment to employees under share purchase or option plans as of April 30, 1986 are as follows:

Unissued common shares originally designated for allotment under By-law No. 3		2,000,000
Less:		
Issued	1,003,313	
Under option	201,408	
Reserved for employee share purchase plan maturing in July 1987	248,500	1,453,221
Shares available for issue		546,779

Shares under option to employees under By-Law No. 3 and under a predecessor By-Law No. 3 as of April 30, 1986 are as follows:

Plan	Number of shares	Price per share	Expiry date
1979 Share option	68,000	$10.875	December 1989
1983 Share option	35,600	21.508	October 1993
1984 Share option	50,000	19.420	June 1994
1985 Share option	115,808	27.185	June 1995
	269,408		

Of the 269,408 shares under option there are 60,808 under option to officers of the Company. Under these plans, the individuals are entitled to purchase the shares over periods of up to 10 years. The following schedule sets out details of the loans to employees under these plans:

($ in thousands)	**1986**	1985
Officers	**$13,899**	$11,724
Other employees	**1,167**	1,545
	$15,066	$13,269
Number of shares	**782,427**	729,214

NOTE 6.
LEASES, COMMITMENTS AND GUARANTEES

Operating leases

The Company has entered into long-term operating leases, substantially all of which will be discharged within 14 years. Fixed rental expense for 1986 was $10,071,000 ($6,712,000 in 1985). Future annual fixed rental payments for years ending April 30 are as follows:

1987	$8,647,000
1988	6,884,000
1989	6,155,000
1990	3,864,000
1991	3,669,000

In aggregate, fixed rental payments for subsequent years amount to $8,840,000.

Capital leases

Assets leased by the Company subsequent to May 1, 1979 under agreements that transfer substantially all of the benefits and risks of ownership of the assets to the Company are accounted for as capital leases.

At April 30, 1986, fixed assets acquired under capital leases, net of accumulated depreciation, amounted to $3,276,000 ($2,562,000 in 1985).

Future lease payments required under capital leases at April 30, 1986 for years ending April 30 are as follows:

1987	$1,025,000
1988	766,000
1989	430,000
1990	1,120,000
1991	10,000
1992 and thereafter	28,000
Total future minimum lease payments	3,379,000
Less imputed interest	577,000
Present value of minimum lease payments	$2,802,000

Commitment

The Company is committed to provide net funding of approximately $5,500,000 to Allelix Inc. in varying amounts from 1987 to 1992.

Contingent liability
Casco Company, a partnership with Canada Starch Company Inc., had total liabilities, net of partners' loans, of approximately $69,400,000 at April 30, 1986. The Company, along with Canada Starch Company Inc., is contingently responsible for these liabilities.

NOTE 7. PENSION PLANS

The Company offers retirement benefits for all of its employees. Past service costs relating to improved benefits are funded and charged to earnings over periods not exceeding 15 years. Current service costs are funded and charged to earnings as they accrue.

Based on the most recent actuarial valuations, the Company's unfunded obligations under certain pension plans were $9,285,000 at December 31, 1985 ($8,150,000 at December 31, 1984).

NOTE 8. ACQUISITIONS

During the year, the Company made the following business acquisitions for cash:

Agri Products
Effective March 1, 1986, the assets and dairy products processing activities of Atlantic Processing, Inc. of Allentown, Pennsylvania. The business includes the processing and marketing of fresh table milk, fruit juices, cultured products and ice cream and operates under the name Lehigh Valley Dairy.

Packaged Food
Boden Products, Inc. of Chicago, Illinois, effective January 21, 1986, a processor of fruit juices and fruit drinks in the United States.

Effective June 28, 1985, the operating assets and business of Dakota Bake-N-Serv, Inc. of Kansas City, Missouri, which produces and sells frozen dough products.

Nelia Foods Limited of Toronto, Ontario, effective April 11, 1986, a manufacturer and marketer of fresh pasta products.

Details of the combined net assets acquired, accounted for under the purchase method, are as follows:

(in thousands)	Current	Non-current	Total
Identifiable assets acquired at assigned values	$12,743	$33,591	$46,334
Less liabilities assumed	8,794	552	9,346
Identifiable net assets acquired	3,949	33,039	36,988
Excess of purchase price over assigned values of identifiable assets	–	10,580	10,580
Purchase price	$ 3,949	$43,619	$47,568

NOTE 9. SEGMENTED FINANCIAL INFORMATION

Information by class of business
The classes of business of the Company are as follows:

Brewing comprises the Company's brewing activities in Canada and the sale of Canadian-made beer and ale in the United States and overseas.

Agri Products includes operations that process agricultural products into basic foods in Canada and the United States.

Packaged Food includes operations that manufacture and distribute grocery food products, fruit juices and wines in Canada and the United States.

The following is a summary of key financial information by business segment for the years ended April 30, 1986 and 1985.

(in thousands)	1986 Gross sales	1986 Inter-segment sales	1985 Gross sales	1985 Inter-segment sales
Brewing	$1,274,382	$ 1,447	$1,149,275	$ 1,282
Agri Products	1,605,020	41,130	1,074,518	37,176
Packaged Food	702,039	712	578,836	2,599
	$3,581,441	$ 43,289	$2,802,629	$ 41,057

	1986 Capital expenditures	1986 Depreciation & amortization	1985 Capital expenditures	1985 Depreciation & amortization
Brewing	$ 54,705	$ 25,425	$ 61,204	$ 22,164
Agri Products	35,356	27,554	15,878	15,351
Packaged Food	25,515	17,937	33,978	14,432
	$ 115,576	$ 70,916	$ 111,060	$ 51,947

	1986 Contribution	1986 Assets employed	1985 Contribution	1985 Assets employed
Brewing	$ 93,305	$ 343,421	$ 77,695	$ 316,593
Agri Products	92,063	403,689	72,278	278,347
Packaged Food	50,604	372,175	30,971	343,979
	235,972	1,119,285	180,944	938,919
Interest	49,700		38,332	
Unallocated expense	509		1,590	
Earnings before income taxes	$ 185,763		$ 141,022	
Short-term investments		206,498		108,680
Investments in partly owned businesses		70,568		64,893
Current liabilities other than bank advances and short-term notes		388,901		435,620
Total assets per consolidated balance sheet		$1,785,252		$1,548,112

Information by geographic segment

The Company operates principally in the geographic areas of Canada and the United States. Geographic segmentation is determined on the basis of the business location where the sale originates. Financial information by geographic segment for the years ended April 30, 1986 and 1985 follow:

	1986		1985	
(in thousands)	**Gross sales**	**Inter-segment sales**	Gross sales	Inter-segment sales
Canada	**$2,675,523**	**$ 36,802**	$2,488,355	$ 26,383
United States	**905,918**	**898**	314,274	280
	$3,581,441	**$ 37,700**	$2,802,629	$ 26,663
	Capital expenditures	**Depreciation & amortization**	Capital expenditures	Depreciation & amortization
Canada	**$ 91,324**	**$ 52,021**	$ 87,726	$ 44,207
United States	**24,252**	**18,895**	23,334	7,740
	$ 115,576	**$ 70,916**	$ 111,060	$ 51,947
	Contribution	**Assets employed**	Contribution	Assets employed
Canada	**$ 189,051**	**$ 768,691**	$ 172,042	$ 746,645
United States	**46,921**	**350,594**	8,902	192,274
	235,972	**1,119,285**	180,944	938,919
Interest	**49,700**		38,332	
Unallocated expense	**509**		1,590	
Earnings before income taxes	**$ 185,763**		$ 141,022	
Short-term investments		**206,498**		108,680
Investments in partly owned businesses		**70,568**		64,893
Current liabilities other than bank advances and short-term notes		**388,901**		435,620
Total assets per consolidated balance sheet		**$1,785,252**		$1,548,112

NOTE 10. RELATED PARTY TRANSACTIONS

In the normal course of business the Company entered into transactions with affiliates and partly owned businesses on competitive commercial terms similar to those with unrelated parties. These transactions did not have a material impact on reported net earnings.

At April 30th, 1986, the Company held $172,000,000 ($100,000,000 at April 30th 1985) of marketable securities of affiliates. The total income earned on these marketable securities in fiscal 1986 was $8,500,000.

The Company's principal shareholder, Brascan Limited, purchased during the year one half of the $125,000,000 1986 adjustable rate convertible debentures issued by the Company, and converted $33,000,000 of 11% convertible debentures into approximately 2,100,000 common shares of the Company.

NOTE 11. COMPARATIVE BALANCES

Certain comparative balances have been restated to conform with the current year's presentation.

Five-Year Review

(in millions except per-share and other data)	**1986**	1985	1984	1983	1982
Operating Results					
Gross sales	**$3,581.4**	$2,802.6	$2,449.5	$2,225.0	$2,077.3
Depreciation and amortization	**70.9**	51.9	42.5	38.4	34.7
Interest expense	**49.7**	38.3	32.6	30.2	37.5
Income taxes	**79.6**	52.5	58.2	51.3	47.6
Earnings before bottle write-off and extraordinary item	**101.5**	81.7	86.4	72.7	57.4
Net earnings	**101.5**	81.7	66.7	69.2	53.9
Funds from operations	**201.2**	165.7	123.1	131.1	118.1
Common-share dividends	**32.3**	28.2	24.9	21.3	19.4
Capital expenditures	**115.6**	111.1	70.7	53.1	50.7
Acquisitions and additional investments in partly owned businesses	**$ 62.9**	$ 194.8	$ 95.4	$ 23.9	$ 101.3
Financial Position					
Working capital	**$ 338.7**	$ 71.6	$ 241.5	$ 253.1	$ 192.2
Fixed assets	**673.1**	637.9	418.2	333.8	328.1
Total assets	**1,785.3**	1,548.1	1,185.6	953.3	905.5
Non-convertible long-term debt	**287.2**	154.5	150.5	152.0	155.2
Convertible debentures	**174.8**	131.3	138.7	97.5	99.8
Shareholders' equity	**676.0**	518.1	449.3	383.2	330.8
Convertible debentures and shareholders' equity	**$ 850.8**	$ 649.4	$ 588.0	$ 480.7	$ 430.6
Data Per Common Share					
Fully diluted earnings					
Before bottle write-off and extraordinary item	**2.75**	2.35	2.51	2.26	1.85
Net earnings	**2.75**	2.35	1.99	2.16	1.75
Common-share dividends	**1.00½**	0.94½	0.87¼	0.78	0.72
Convertible debentures and shareholders' equity	**20.43**	17.16	15.63	13.93	12.55
Price range – high	**45⅞**	25¾	25⅛	22⅛	14⅝
– low	**$ 23⅝**	$ 17⅜	$ 17⅝	$ 12⅛	$ 11⅜
Other Data					
Return on average shareholders' equity	**17.0%**	16.9%	16.0%	20.3%	18.7%
Net earnings as a per cent of sales	**2.8%**	2.9%	2.7%	3.1%	2.6%
Working capital ratio	**1.65**	1.11	1.67	2.08	1.79
Common shares outstanding (in thousands)	**35,939**	30,392	29,377	27,533	27,073
Number of shareholders	**12,006**	11,648	11,727	10,325	11,146
Number of employees	**14,200**	13,000	10,500	9,000	11,000

Corporate Information

Dividends

The quarterly dividend paid on common shares was increased at the September, 1985 Annual Meeting to 25½¢ per share from 24¢ per share. During fiscal 1986, $32.3 million or $1.005 per share was paid in dividends to common shareholders, up from $28.2 million and $0.945 per share in fiscal 1985.

Shareholders

As of April 30, 1986, 11,622 Canadian residents located across Canada held 99.1% of John Labatt's shares. A regional summary of shareholders is shown in the following table:

	Number of Shareholders	Percent of Shareholders
Atlantic	409	3.4
Quebec	1,578	13.1
Ontario	7,425	61.8
Western	2,210	18.4
Total Canada	11,622	96.7
Non-Residents	384	3.3
Total Shareholders	12,006	100.0

John Labatt's Public Responsibility Programs

In 1975, John Labatt was one of the first Canadian Companies to establish a Public Responsibility Committee of the Board of Directors. This committee meets on a quarterly basis to review such matters as donations, government relations, health and safety and deal with matters concerning the Company's direct involvement with the general public. The Company continues to carefully monitor new developments in order to fulfill its ongoing commitment to public responsibility.

Donations:

John Labatt continued its tradition of corporate philanthropy through an extensive program of assistance to the voluntary sectors. This past year, $2.3 million was donated to a multiplicity of non-profit organizations. The distribution of donations was 43% to health and welfare agencies, 17% to educational institutions, 17% to cultural groups, and 23% to civic and sports organizations.

Labatt's People in Action:

The Labatt's People In Action program was a great success again last year. In 1985, the student summer employment program provided 158 student jobs, working with 59 non-profit agencies across Canada. The Company provides these agencies with the funds to hire students to work directly with the disadvantaged. This program has been in existence since 1977, and through it, over 1,000 students have participated to date.

In addition to the Labatt's People In Action program, John Labatt provides summer employment to over 1,100 students in plant facilities throughout the Company.

"People helping people" is the theme of Labatt's People In Action program.

Business Employee Education Program:

In 1977, the Company established the business employee education program. This program provides employees with the opportunity to hear the views of senior management on the opportunities, problems and issues facing the Company.

J.H. Moore Awards for Excellence:

In 1981, John Labatt established the J.H. Moore Awards for Excellence program to recognize and encourage the pursuit of excellence by employees, retired employees, their spouses, and their dependents. Applications are reviewed by an outside panel of judges, and awards are granted annually.

1985 J.H. Moore Winners were:

Trophy Winner:	Everett Hudson St. John's, Newfoundland
Medal Winners:	Bob Armstrong London, Ontario
	Al Dickson Port Coquitlam, B.C.
	Richard Gwinn Saint Davids, Pennsylvania
	John Macionis Elkins Park, Pennsylvania
	Robert Van Impe Saskatoon, Saskatchewan
Award Winners:	Joseph Stacey Sudbury, Ontario
	Eve West Winnipeg, Manitoba
	Frank Calhoon Gary, Illinois

Smile Across Canada:

The Company established the Smile Across Canada program in 1972. It enables children of employees between the ages of 12 and 14 to visit children of other employees on an exchange basis. This program runs for two consecutive weeks in the summer. Each year about 120 children participate in this program.

John Labatt is proud to be the corporate sponsor for the "Food" exhibit at The Ontario Science Centre.

Corporate Officers

Norman E. (Peter) Hardy,
Chairman of the Board

Peter N.T. Widdrington,
President and
Chief Executive Officer

George S. Taylor,
Executive Vice-President

Edward G. Bradley,
Executive Vice-President,
Corporate Development
and Planning

Guy Saint-Pierre,
Senior Vice-President

Neal Blackburn,
Vice-President,
Engineering Services

Frank Elsener,
Vice-President

J. Herbert England,
Vice-President

Ilay C. Ferrier,
Vice-President, Finance

R. Bruce Fraser,
Vice-President

Graham P.M. Freeman,
Vice-President

Richard L. Hooey,
Vice-President,
Personnel Resources

Dean C. Kitts,
Vice-President,
Administration, and
General Counsel

Sidney M. Oland,
Vice-President

Gerry E. Wilson,
Vice-President

W. James Emmerton,
Secretary

Paul L. Meier,
Treasurer

Norman R. Davis,
Assistant Treasurer

Operating Divisions

Labatt Brewing

Sidney M. Oland,
President

Edward E. Stewart,
Executive Vice-President

Robert A. Binnendyk,
Vice-President and General Manager, Prairie Region

Gregory W. Canning,
Vice-President and General Manager, British Columbia Region

Pierre Desjardins,
President, La Brasserie Labatt Limitée

John L. Dunwell,
Vice-President, Operations and Technical

Thomas R. Errath,
Vice-President, Marketing

Richard R. Fogarty,
President, Labatt Importers

J. Rod McLeod,
Vice-President and General Manager, Atlantic Region

Howard J. Morgan,
Vice-President, Personnel

John F. Morgan,
Vice-President and General Manager, Ontario Region

Allan J. Phillips,
Vice-President, Business Development

Robert G. Vaux,
Vice-President, Finance

Ault Foods

Graham P.M. Freeman,
Chairman and Chief Executive Officer

Stephen F. Ault,
Vice-President and General Manager, Ault Milk

Eamon P. Dillon,
Vice-President, Finance

Dr. Mahmoud M. Eino,
Vice-President, Operations

Anthony I. Kalhok,
President, Retail Division and Strategic Planning

D. Larry Morden,
Vice-President, Personnel

Andrew M. Schell,
Vice-President, Logistics

Carl J.T. White,
Vice-President and General Manager, Southwestern Ontario Region

Ogilvie

Guy Saint-Pierre,
President and Chief Executive Officer

Terrance McDonnell,
Executive Vice-President and General Manager, Grains

Yves Bertrand,
Vice-President, Finance

Dr. John Linton,
President, Miracle Feeds

Douglas McDougall,
Vice-President, Planning and Development

Johanna Farms

Kurt Goldman,
President

Peter Goldman,
Executive Vice-President

R. Bruce Fraser,
Vice-President, U.S. Dairy Development

John Kazanas,
President, Yogurt Division

Kenneth Rosenthal,
Vice-President

Chef Francisco

Frank Elsener,
President

Patrick Johnston,
Executive Vice-President, Manufacturing

Charles Koenig,
Executive Vice-President, Foodservice

Nick Chilton,
Vice-President, Sales and Marketing, Grocery Products

Walter Dunden,
Vice-President, Research and Development

Gary Knight,
Vice-President, Planning and Administration

Robert Martin,
President, Delicious Foods

Leonard H. Omstead,
President, Omstead Foods

Operating Divisions

Catelli

J. Herbert England,
President

Pierre-Paul Amyot,
Vice-President,
Finance and Planning

Jean-Claude Gauthier,
Vice-President,
Human Resources

Donald B. Green,
General Manager,
United Maple Products

Richard J. Hampton,
Vice-President,
Business Development

Raymond J. Huot,
Vice-President and
General Manager,
Catelli Products

Patrick Labrecque,
President,
Terra Foods

Daniel Laforte,
General Manager,
Jarred Products

Charles M. Waite,
President,
Catelli U.S.

Holiday Juice

Daniel F. Kotwicki,
President and
Chief Executive Officer

Charles E. Jamail,
Executive Vice-President

James E. Zakoor,
Vice-President

Joseph Boden,
President,
Boden Products

Chateau-Gai

Michael H. Conde,
President

John K. Hall,
Director,
Marketing and Sales

Dr. Allen Jackson,
Vice-President,
Operations and
Business Development

Peter B. Patchet,
Director of Finance

Lino Sienna,
Vice-President and
General Manager,
Casabello Wines,
British Columbia

Richard J. Slomka,
General Manager, Prairies

LaMont

Edward G. Bradley,
Chairman and President

Kenneth R. Ford,
Vice-President
and General Manager

William L. Hill,
Vice-President,
National Sales Manager

John A. McCray,
Vice-President,
Finance and
Administration

The Sports Network

Gordon Craig,
President and
General Manager

Joanne McKenna,
Vice-President,
Finance and
Administration

Terry Snazel,
Vice-President, Operations

James S. Thompson,
Vice-President,
Programming

Directors

Marcel Bélanger, F.C.A.
Quebec, Quebec
President,
Gagnon et
Bélanger Inc.
Elected 1972

Peter F. Bronfman,
Toronto, Ontario
Chairman of the Board,
Edper Investments Ltd.
Elected 1979

John B. Cronyn,
London, Ontario
Corporate Director
Elected 1959

Charles Diamond,
Vancouver,
British Columbia
President, B.C. Turf Ltd.
Elected 1981

J. Trevor Eyton, Q.C.
Toronto, Ontario
President and
Chief Executive Officer,
Brascan Limited
Elected 1979

Eric F. Findlay,
Mississauga, Ontario
Chairman and
Chief Executive Officer,
Silcorp Limited
Elected 1984

Edwin A. Goodman, Q.C.
Toronto, Ontario
Partner,
Goodman & Goodman
Elected 1966

Alexander S. Graydon,
Meaford, Ontario
President,
Grayalex Investments Limited
Elected 1952-54 and 1955

Norman E. (Peter) Hardy,
London, Ontario
Chairman of the Board,
John Labatt Limited
Elected 1966

Gordon F. Hughes,
Windsor, Nova Scotia
President,
Ocean Company Limited
Elected 1973

Mervyn L. Lahn,
London, Ontario
President and Chief
Executive Officer,
The Canada Trust Company
Elected 1978

Alexander J. MacIntosh, Q.C.
Toronto, Ontario
Partner,
Blake, Cassels & Graydon
Elected 1967

Jaime Ortiz-Patiño,
Geneva, Switzerland
President and Chief
Executive,
Patiño Investments S.A.
Elected 1980

Herbert C. Pinder,
Saskatoon, Saskatchewan
President,
Saskatoon Trading
Company Limited
Elected 1977

Samuel Pollock, O.C.
Montreal, Quebec
Chairman and President,
Carena-Bancorp Equities Inc.
Elected 1981

Wallace F. Read,
London, Ontario
Corporate Director and
Consultant,
John Labatt Limited
Elected 1970

The Honorable Judge Andrée Ruffo,
Montreal, Quebec
Judge, Youth Court
Elected 1985

Jean Denis Vincent,
Montreal, Quebec
President and Chief
Executive Officer,
Alliance Mutual Life
Insurance Company
Elected 1985

Peter N.T. Widdrington,
London, Ontario
President and Chief
Executive Officer,
John Labatt Limited
Elected 1973

William P. Wilder,
Toronto, Ontario
Chairman of the Board,
The Consumers' Gas
Company Ltd.
Elected 1970

Committees of the Board

Executive Committee

Chairman: Norman E. (Peter) Hardy;
J. Trevor Eyton,
Edwin A. Goodman,
Alexander S. Graydon,
Mervyn L. Lahn,
Alexander J. MacIntosh,
Peter N.T. Widdrington

Function:
During intervals between meetings of the Board of Directors, the Executive Committee has all the powers of the Board except those powers that are required by legislation or the Company's by-law to be exercised by the Board itself.

Audit Committee

Chairman: Marcel Bélanger;
Charles Diamond,
Mervyn L. Lahn,
Jaime Ortiz-Patiño,
Peter N.T. Widdrington

Function:
Reviews financial information intended for publication, and the adequacy thereof, before such information is submitted to the Board. Also reviews, on a continuing basis, control procedures in effect throughout the Company.

Management Resources and Compensation Committee

Chairman: Norman E. (Peter) Hardy;
J. Trevor Eyton,
Edwin A. Goodman,
Alexander J. MacIntosh

Function:
Reviews staff planning and the performance of management personnel and makes recommendations to the Board concerning executive compensation.

Pension Investment Advisory Committee

Chairman: Gordon F. Hughes;
Eric F. Findlay,
Jean Denis Vincent,
William P. Wilder

Function:
Reviews and makes recommendations with respect to the funding of employee pension benefits, selection of investment managers and funding vehicles, investment return objectives and investment strategies, and performance of each pension fund within the organization.

Public Responsibility Committee

Chairman: Peter F. Bronfman;
John B. Cronyn,
Herbert C. Pinder,
Samuel Pollock,
Wallace F. Read,
Andrée Ruffo

Function:
Reviews Company policies and practices concerning the physical, social and political environment, specifically those concerning labour, equal employment opportunity, consumer protection, public relations, charitable donations and government relations. It also reviews the impact of proposed legislation that may have social implications for the Company.

Stock Exchanges

Montreal, Toronto, Winnipeg, Alberta, Vancouver

Transfer Agents

The Canada Trust Company – Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

The Canadian Bank of Commerce Trust Company
New York, U.S.A.

Registrars

The Royal Trust Company – Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Bank of Montreal Trust Company
New York, U.S.A.

Auditors

Clarkson Gordon
Chartered Accountants
London, Ontario

For further information please write:

Investor Relations
John Labatt Limited
P.O. Box 5870, Terminal A
London, Ontario
N6A 5L3

JOHN LABATT

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