JOHN LABATT

Annual Report 1985

Contents

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(in millions except per share and other data)	1985	1984	% Change
Operating Results			
Gross sales	**$2,802.6**	$2,449.5	+ 14.4
Earnings before bottle write-off	**81.7**	86.4	− 5.4
Net earnings	**81.7**	66.7	+ 22.4
Funds from operations	**165.7**	123.1	+ 34.6
Common share dividends	**28.2**	24.9	+ 13.0
Capital expenditures, acquisitions and additional investment in partly-owned businesses	**305.9**	166.1	+84.2
Financial Position			
Working capital	**$ 71.6**	$ 241.5	
Total assets	**1,548.1**	1,185.6	+ 30.6
Long-term debt	**285.7**	289.2	− 1.2
Shareholders' equity	**518.1**	449.3	+ 15.3
Per Share Data			
Fully diluted earnings before bottle write-off	**$ 2.35**	$ 2.51	− 6.4
Fully diluted net earnings	**2.35**	1.99	+ 18.1
Dividends	**.945**	.8725	+ 8.3
Shareholders' equity	**17.05**	15.29	+ 11.5
Other Data			
Return on average equity	**16.9%**	16.0%	
Number of common shareholders	**11,648**	11,727	
Number of employees	**13,000**	10,500	

John Labatt John Labatt John Labatt John Labatt

John Labatt is a broadly-based food and beverage company carrying on business in three major industrial groups: Brewing, Packaged Food and Agri Products.
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 Company's national brands include "Labatt's Blue", "Labatt's 50", "Budweiser" and "Labatt's Light" which account for the majority of the Company's beer sales. These are supplemented by important regional brands such as "Keith's" in Nova Scotia, "Club" in Alberta and "Kokanee" in British Columbia.

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

The Packaged Food Group

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.

CHEF FRANCISCO

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

LAMONT WINERY

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

CHATEAU-GAI

Production and sale of wine in Canada.

Holiday Juice

Production and sale of fruit juices and fruit drinks in Canada. Sale of fruit juices and fruit drinks in the mid-western United States.

The Agri Products Group

AULT FOODS

Silverwood

Sealtest

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

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.

Johanna Farms

Production and sale of fluid milk, fruit juices and fruit drinks, and yogurt in the north-eastern United States.

Other Investments and Partly-Owned Businesses

John Labatt has a number of other investments and partly-owned businesses accounted for on the equity basis:

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

Casco Company
Production and sale of sweeteners, starch and oil derived from corn in Canada. Sale of sweeteners derived from corn 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 equity 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.

Canada Malting Co., Limited
Production and sale of malt for the brewing and distilling industries in Canada and for export. John Labatt has a 14.2% share interest.

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

Letter to Shareholders

Dear 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, 1985 was again a successful year for your Company.

John Labatt achieved solid growth in each of its major business segments. The Company increased its strong leadership position in the Canadian beer market and further strengthened its broadly diversified business base with important acquisitions. These were the purchase of Johanna Farms, a major United States dairy, the acquisition by Ogilvie of two businesses in the United States, the starch and gluten operations of Henkel, and a feeds business, Murphy Products, and Chef Francisco's purchase of Omstead Foods, a processor of fish and specialty battered vegetables based in Wheatley, Ontario. The Johanna Farms acquisition strengthens Labatt's business presence in the United States and adds significantly to the Company's already sizeable position in the dairy business. John Labatt also launched The Sports Network, an all-sports specialty television network, which broadcasts 24 hours per day.

Sales for fiscal 1985 reached $2.8 billion, an increase of 14% over the prior year. Net earnings for the year were $81.7 million, well up over fiscal 1984's $66.7 million, while earnings per share were $2.35 compared with $1.99.

Last year's results included the write-off of surplus compact beer bottles resulting from the conversion to new stylized bottles and this reduced earnings by $19.7 million or $0.52 per share. If this write-off is excluded from earnings comparison, the fiscal 1985 results are somewhat lower than a year ago. Reduced earnings in fiscal 1985 are attributable principally to the adverse impact of brewing industry work stoppages and higher costs of brewing marketing initiatives, as well as the initial operating loss related to the start up of The Sports Network.

At Labatt Brewing, the Company's marketing initiatives over the past two years have proved very successful as the popularity of Labatt brands, particularly Labatt's "Blue", reached record levels. As a result, Labatt achieved sizeable volume and market share gains which significantly strengthened our position as leader in the industry. Beer sales in the United States also showed continued progress and an increased share of Canadian beer exports to the United States market was achieved. Brewing earnings were, however, affected by costly industry work stoppages in Ontario, Quebec and Newfoundland, by the need to invest in aggressive marketing programs, and by higher costs associated with new bottles and aluminum cans.

The Packaged Food Group achieved increased sales and earnings in fiscal 1985. Foodservice sales strengthened in the United States and we benefited from Chef Francisco's acquisition of Omstead Foods. Holiday Juice also showed good progress. Catelli maintained its strong sales and earnings position in the face of difficult soft markets and increased competitive activity. The wine divisions, Chateau-Gai in Canada and LaMont in California, experienced disappointing results due to difficult market conditions caused by a surplus of wine in world markets. This continues to be a concern.

The Agri Products Group achieved record results in fiscal 1985. Impressive growth over the past few years has established this group as a large and very important segment of John Labatt's total business base. Sales surpassed the billion dollar mark for the first time and, as such, this group now approximates the Brewing operations in total revenue.

Ault Foods, with its diverse milk operations, which include the well-known major brand names of "Sealtest" and "Silverwood", provided the bulk of the Agri Group's sales and earnings gains. During fiscal 1985 Ault emphasized the consolidation of its important acquisitions of the past several years and realized significant benefits from integration and rationalization of these operations.

Ogilvie, the other major division in the Agri Products Group, maintained its strong position in the domestic flour market and will benefit from the acquisition in the United States of the former food ingredients division of Henkel and a feeds division, Murphy Products.

John Labatt's other business interests include The Sports Network and the partly-owned businesses of Casco, McGavin Foods, the Toronto Blue Jays Baseball Club and Allelix. In The Sports Network's first three years of operation we expect expenditures to exceed revenues as the network builds a solid base for a profitable future. In its first year the loss at The Sports Network was slightly lower than anticipated.

Partly-owned businesses again incurred a loss for the year and a rapid turn-around in this situation is unlikely. A substantial part of the loss stems from Casco and this is attributable to extremely low prices in world sugar markets.

Your Company continued in fiscal 1985 with the significant capital expenditures program which commenced in fiscal 1984 and which we deem is necessary to enhance existing facilities, increase capacity and improve productivity in each major business group. As a result, capital expenditures over the past two years have stepped up to record levels – $71 million in fiscal 1984 and $111 million in fiscal 1985. Capital expenditures will continue at these levels in fiscal 1986 to provide your Company with a sound base for continued growth and improved profitability.

In order to augment the company's capital resources and working capital position, John Labatt successfully issued in early fiscal 1986 a public offering in the international capital market of U.S. $100 million of 10-year debentures.

Outlook

In fiscal 1986 the Company anticipates further sales growth and an improvement in earnings.

Brewing industry work stoppages hurt our performance this past year. In fiscal 1986, Brewing results will also be affected by industry work stoppages in Newfoundland and Alberta; however, the impact on this year's results is not expected to be as significant a factor as it was in fiscal 1985. While the Johanna Farms acquisition, after financing costs, is not anticipated to contribute initially to consolidated earnings, we do expect a good contribution to operating profit from this acquisition and the others made this past year. The present economic environment and intensely competitive market conditions will continue to represent considerable challenges.

However, your company has the resources, market position and financial strength to face fiscal 1986 with confidence and enthusiasm.

Tribute

Mr. Wally Read, Senior Vice-President, retired during the year after a long and distinguished career with the Company. During his career, Mr. Read has made a significant contribution and served the Company well in a number of senior positions both at Labatt Brewing and at John Labatt. In 1970, Mr. Read was elected to the Company's Board of Directors. Mr. Read will continue to provide John Labatt with valuable counsel both as a consultant and as a member of the Board of Directors.

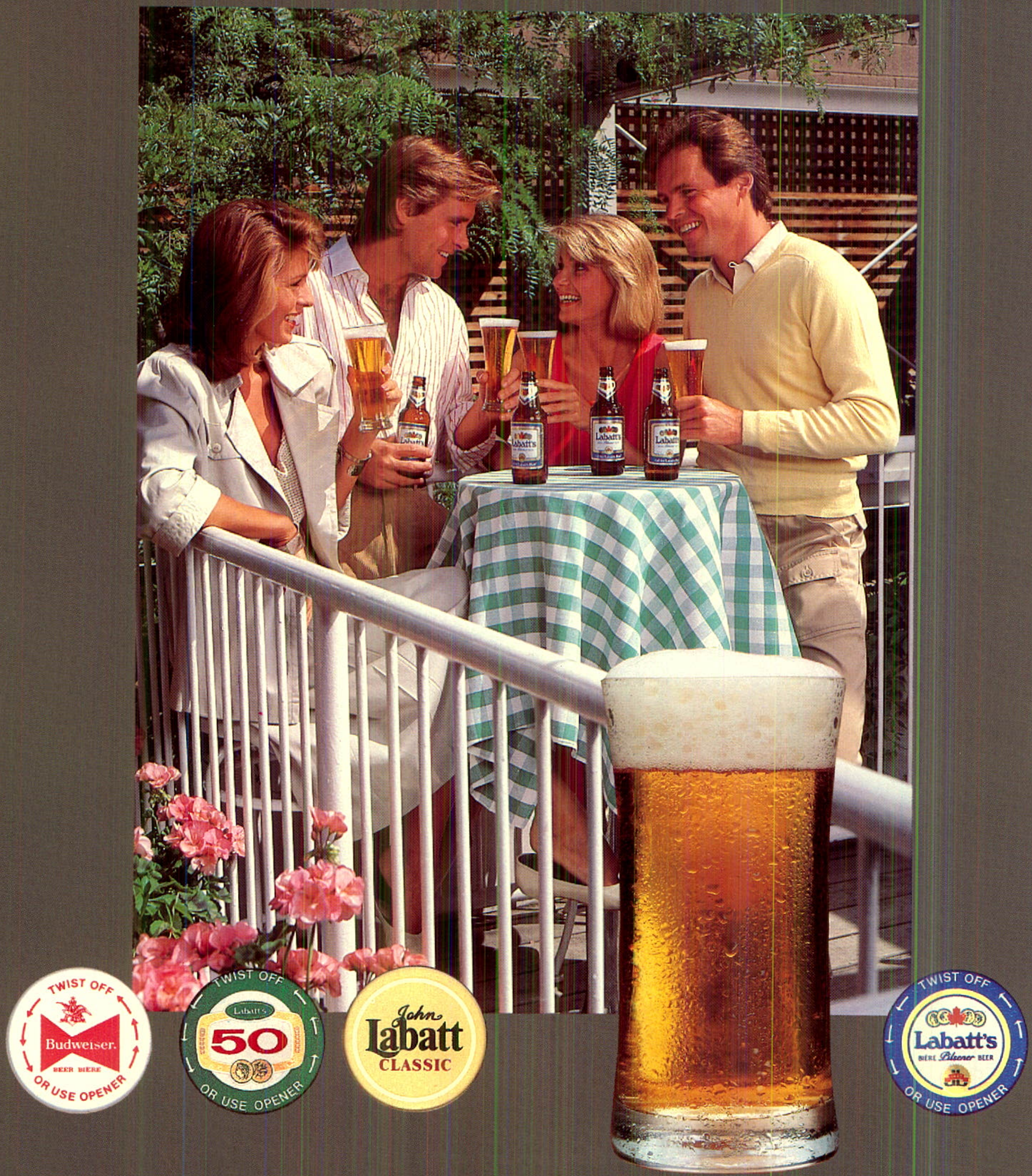
We express our appreciation to all our employees for their continued dedication and contribution toward the Company's success. We also take the opportunity to thank our customers and suppliers for their loyalty and valued association.

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

N.E. Hardy
Chairman of the Board

Group Summary Group Summary Group Summary

(in thousands)	1985	1984	1983	1982	1981
Operating Results					
Gross sales					
Brewing	**$1,149,275**	$ 984,218	$ 937,991	$ 827,323	$ 650,519
Packaged Food	**578,836**	491,521	494,437	470,583	440,663
Agri Products	**1,074,518**	973,750	792,554	779,349	404,535
	$2,802,629	$2,449,489	$2,224,982	$2,077,255	$1,495,717
Earnings before interest and income taxes					
Brewing	**$ 77,695**	$ 83,981	$ 83,543	$ 68,052	$ 46,089
Packaged Food	**30,971**	28,029	21,383	23,626	20,885
Agri Products	**72,278**	58,008	49,076	47,042	30,841
	180,944	170,018	154,002	138,720	97,815
Other income	**426**	11,149	5,646	8,064	–
Interest	**(40,348)**	(32,684)	(30,397)	(37,925)	(25,666)
Income taxes	**(52,494)**	(58,223)	(51,322)	(47,649)	(29,580)
Earnings before the following	**88,528**	90,260	77,929	61,210	42,569
Share of earnings (losses) of partly-owned businesses	**(6,864)**	(3,831)	(5,272)	(3,674)	2,107
Minority interest	**–**	–	–	(128)	(112)
Earnings before bottle write-off and extraordinary item	**81,664**	86,429	72,657	57,408	44,564
Provision for bottle write-off	**–**	(19,700)	–	–	–
Extraordinary item	**–**	–	(3,500)	(3,500)	(3,200)
Net earnings	**$ 81,664**	$ 66,729	$ 69,157	$ 53,908	$ 41,364
Capital Expenditures					
Brewing	**$ 61,204**	$ 43,107	$ 24,416	$ 22,175	$ 15,359
Packaged Food	**33,978**	21,084	20,769	15,285	10,365
Agri Products	**15,878**	6,489	7,863	13,239	13,674
Acquisitions	**182,013**	69,666	6,616	64,517	13,278
	$ 293,073	$ 140,346	$ 59,664	$ 115,216	$ 52,676


TWIST OFF
Budweiser.
OR USE OPENER
TWIST OFF
50
OR USE OPENER
John Labatt
CLASSIC
TWIST OFF
Labatt's
OR USE OPENER

● During the year, Labatt commenced shipments of "Labatt's Blue" to Japan and substantially increased sales to the United Kingdom and the Caribbean. International acceptance of Labatt products has been encouraging and, coupled with our efforts in the United States we foresee a significant volume potential in exports in future years.

● Industry work stoppages hurt performance this past year. Results for fiscal 1986 will also be affected by industry work stoppages in Newfoundland and Alberta; however, the impact on this year's results is not expected to be as significant a factor as it was in fiscal 1985.

● Labatt expects the brewing industry to remain highly competitive in fiscal 1986, with competitor activity focused on new brand launches and continued packaging changes. The Company remains committed to maintaining its position as Canada's leading brewer through innovation and continued emphasis on providing the highest quality products possible to the Canadian consumer. The Company's marketing success this past year, and its commitment to excellence leave it well positioned to maintain its leading role in the industry in fiscal 1986 and beyond.

The Packaged Food Group

The Brewing Group consists of Labatt Brewing in Canada and Labatt Importers in the United States.

		1985	1984	1983	1982	1981
	Industry volume (000 hl.)	**20,392**	20,412	20,135	20,515	19,534
	Labatt domestic volume (000 hl.)	**7,937**	7,177	7,407	7,676	7,073
	Market share	**38.9%**	35.2%	36.8%	37.4%	36.2%
(in thousands)	Gross sales	**$1,149,275**	$984,218	$937,991	$827,323	$650,519
	Assets employed	**316,593**	244,594	207,766	217,529	227,997
	Capital expenditures	**61,204**	43,107	24,416	22,175	15,359
	Depreciation and amortization	**22,164**	17,745	17,113	16,405	15,425
	Earnings before interest and income taxes	**$ 77,695**	$ 83,981	$ 83,543	$ 68,052	$ 46,089

Labatt Brewing markets 35 brands of quality beer, ale, malt liquor and stout. The Company's national brands include "Labatt's Blue", "Labatt's 50", "Budweiser" and "Labatt's Light" which account for the majority of the Company's beer sales. These are supplemented by important regional brands such as "Keith's" in Nova Scotia, "Club" in Alberta and "Kokanee" in British Columbia.

Labatt Brewing operates twelve plants across Canada with a total brewing capacity of 9.6 million hectolitres. Plants are located in St. John's, Halifax, Saint John, Montreal, Toronto, London, Kitchener, Winnipeg, Saskatoon, Edmonton, Creston and New Westminster.

Labatt Importers markets a number of Labatt brands in the United States, in 32 states through a number of independent distributors.

Performance highlights and outlook:

- The Brewing Group achieved sales of $1,149 million in fiscal 1985, an increase of 17%. Earnings before interest and taxes were $77.7 million versus $84.0 million last year.
- Fiscal 1985 was a year of intense competitive activity in the Canadian brewing industry and a year in which Labatt strengthened its position as the dominant Canadian brewer.
- Industry profitability was negatively affected by a combination of higher costs associated with new stylized bottles, lower margins attributable to aluminum cans and to costly industry work stoppages. The net result was lower profit levels in fiscal 1985 than those achieved in the previous two years. However, Labatt Brewing performed significantly better than its competitors and is poised for positive earnings growth in fiscal 1986 and beyond.
- Labatt's domestic volume increased by 10.6% despite no increase in the industry. Strong consumer support for Labatt brands, particularly "Labatt's Blue" and strong regional brands, is again clearly evident.

1

• The Company's market share in Canada averaged 38.9% during fiscal 1985, an increase of 3.7 share points over the previous year.

• Labatt Importers continued to progress in the United States market, recording another year of volume growth.

• It was a year of high activity as the Company met its commitment to respond to changing consumer preferences and to maintain its position as the leading brewer in Canada. Significant initiatives included:

– The conversion of all major brands to unique stylized bottles featuring twist-off caps. The new packaging has a high aesthetic appeal and consumers appreciate the convenience of the twist-off cap.
– "John Labatt Classic", after achieving good consumer acceptance in Ontario and Quebec, was introduced successfully to western Canada markets.
– Consumers have been invited to make a "smooth move" with the introduction of "Schooner" in several provinces. "Schooner" has been a very popular brand in the Maritimes for decades and consumer acceptance to date in other provinces has been positive.

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– Labatt "Select" – a low alcohol brand with "real beer taste" was introduced in Ontario for those occasions when consumers want the real taste of beer with a lower alcohol content.
– Early in fiscal 1986, the Company introduced "Twist Shandy" to the Canadian market. "Twist Shandy" is a low alcohol flavoured beer beverage and is the first of its kind in North America. "Twist Shandy" is an innovative and high quality product that will appeal to a broad range of consumers.

• Significant capital spending programs were undertaken in each region to improve productivity as well as to enhance production flexibility. Major reviews of operating costs were conducted in each region resulting in improved efficiencies in every area of the Company's operations. Capital spending in fiscal 1986 will continue at high levels with expenditures directed towards improving efficiency.

The Packaged Food Group consists of five operating divisions: Catelli, Chef Francisco, Chateau-Gai, LaMont, Holiday Juice.

(in thousands)	**1985**	1984	1983	1982	1981
Gross sales	**$578,836**	$491,521	$494,437	$470,583	$440,663
Assets employed	**343,979**	250,110	246,820	221,632	216,634
Capital expenditures	**33,978**	21,084	20,769	15,285	10,365
Depreciation and amortization	**14,432**	10,355	9,578	7,991	8,475
Earnings before interest and income taxes	**$ 30,971**	$ 28,029	$ 21,383	$ 23,626	$ 20,885

Group highlights and outlook:

- The group achieved increased sales and earnings in fiscal 1985. Sales were up 18% to $579 million and earnings rose by 10% to $31 million.
- Chef Francisco and Holiday Juice recorded significant improvement. Catelli maintained its strong sales and earnings base despite soft markets and increased competitive activities.
- Chef Francisco acquired Omstead Foods, a processor of fish and specialty battered vegetables based in Wheatley, Ontario.
- The wine divisions, Chateau-Gai in Canada and LaMont in California, experienced disappointing results.
- For fiscal 1986, the group expects continued growth. Catelli will continue to require increased investment in product development and in marketing support to maintain and to build upon its strong market position. Little improvement is expected in the wine divisions. However, Chef Francisco, supported by a full year impact from Omstead, will achieve strong results and Holiday Juice also expects to make further gains.

Catelli

Catelli produces and markets a wide range of grocery products in Canada and the United States.

In Canada, the division is the leading producer of pasta, aseptic puddings and spaghetti sauces and has, on a regional basis, significant market shares in other product lines. Catelli's products also include pickles, jams, marmalades, table syrups, maple syrups, ready-to-serve soups, packaged flour and other cereal-based products. In addition, fresh mushrooms are produced and marketed in Quebec through grocery retail outlets. The division is also a major supplier to the retail food trade for a variety of custom-packed products.

Catelli's United States operations in New England produce and market soups, quality processed meats and specialty condiments.

Catelli's seven Canadian plants are located in Montreal, Carignan and Saint-Hyacinthe, Quebec; Lethbridge, Alberta; and Toronto and Delta, Ontario. The four United States facilities are located in Manchester, New Hampshire; Portland, Maine; and Essex Junction, Vermont.

Performance highlights and outlook:

- Catelli maintained its strong sales and earnings base in fiscal 1985, but results were constrained by a difficult market and increased competitive activities.
- Market declines were experienced in key segments of Catelli's business, namely family flour, puddings, jams and pickles. Two key market areas which showed increased volume were pasta and spaghetti sauces.
- Catelli's pasta business is under pressure from low priced imported products and softer market demand.
- In the spaghetti sauce market, Catelli introduced a premium brand, "Recette Maison", of sauces, packed in cans for the Quebec market.
- Catelli's innovation into new plastic aseptic packaging for its puddings and yogurt line has resulted in substantial cost savings and improved product quality. Trade and consumer response have been very favourable.
- Catelli introduced a new line of jams under the "Morning Delight" brand name into the Quebec market and expansion into Ontario is also underway. The jams feature more fruit and lower sugar content and preliminary results show good consumer acceptance.
- Catelli also introduced a new line of marinated products with deli-type characteristics under the "Habitant Deli" brand name in the Quebec market.

- The Terra mushroom operation experienced some production problems and difficult market conditions in fiscal 1985 and results were disappointing.
- Catelli expects that markets will continue to be soft in fiscal 1986. However, increased investment in new product development and innovative marketing support will allow Catelli to build upon its solid base and to anticipate longer term growth.

Chef Francisco

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

Omstead Foods, acquired in fiscal 1985 represents a further expansion of Chef Francisco's business base. Omstead Foods is located in Wheatley, Ontario, and processes and markets a line of frozen battered products and a wide variety of frozen vegetables and fish. Sales are mainly to the foodservice industry in Canada and the United States but also to a number of overseas export markets. In addition, onion rings, vegetables and other battered products are marketed to the retail grocery trade under the "Omstead" and "Leo D'or" brand names.

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Performance highlights and outlook:

● The foodservice industry in the United States showed good growth in fiscal 1985. Chef Francisco's foodservice sales benefited from this growth and outpaced the industry.

● The Deli section of supermarkets is one of the strongest areas of food products sales growth in the United States. Chef's high quality, ready-to-serve foods for consumers to take home, such as soups and coated vegetables, are ideally suited for this trade.

● Successful product introductions during fiscal 1985 included new varieties of soups, cakes and delicatessen products such as breaded cheese and mixed vegetable appetizers.

● A major new production facility for frozen soups was successfully opened at the King of Prussia plant.

● Industry sales of frozen baked goods through grocery outlets continued to decline although the market showed some recovery towards the end of the year.

● Productivity improvements were achieved at all manufacturing plants this past year and continuing efficiency gains in manufacturing and distribution are planned for fiscal 1986.

● The newly acquired Omstead operation showed good progress. Marketing of fish products was constrained by an unsettled situation in Lake Erie's commercial fishing quota regulations and by a shortage of smelt.

● In fiscal 1986, the United States foodservice market will likely grow more slowly. However, the product lines of Chef Francisco, Delicious Foods and Omstead Foods are in the faster growing segments of the foodservice market and sales should continue to outpace the industry. Also, Omstead's distribution system in Japan holds the potential of additional export opportunities for other Chef products.

CHEF FRANCISCO

3

Chateau-Gai

Under the Chateau-Gai label, wines are produced 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 a serious downturn in fiscal 1985 as low-priced imported wines made further inroads into the Canadian wine market at the expense of domestic wines.

● The Ontario and British Columbia markets, which account for about two-thirds of the market for Canadian produced wines, were affected the most as domestic market shares declined in Ontario by 7 points to a 43% level and in B.C. by 5 points to a 57% level.

● Chateau-Gai's wine operations shared in the industry's volume decline as sales lost ground and earnings were impacted sharply.

● The very successful launch in April, 1984 of "Canada Cooler", a wine and citrus juice blend, generated substantial demand and during the summer of 1984 we were unable to supply sufficient quantities of the product to satisfy the market.

● Recovery of the Canadian wine industry in the short-term will be unlikely without cooperation from the federal and provincial governments, which would demonstrate a concern for the domestic wine industry. Chateau-Gai expects to achieve some performance recovery through efforts to recapture lost volume and through profitable growth in the sales of refreshment wine beverages.

4

LaMont

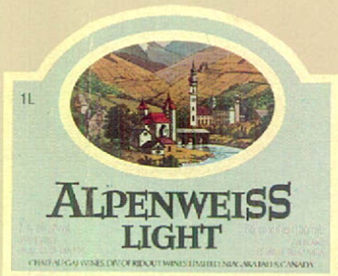
The LaMont Winery, located in California is engaged primarily in the production and sale of wine sold in bulk to major wine marketers in the United States. LaMont also produces and sells wine and brandy under a number of proprietary labels and custom packs wine under private labels for large volume wholesale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

Performance highlights and outlook:

● Although LaMont achieved a volume gain of 7%, in fiscal 1985, prices and margins continued to be depressed due to difficult industry conditions. LaMont again incurred a substantial loss.

● Adverse market conditions continued in fiscal 1985 as the major surplus of California wine persisted. Foreign imports at depressed prices, resulting from the substantial surplus of wine in major producing countries, continue to plague the industry. These conditions, together with a relatively flat market, caused continued weakness in demand and prices for California wine.

● The negative conditions affecting the bulk wine market are expected to continue for some time, and the LaMont operation is not expected to contribute to earnings in fiscal 1986.



Holiday Juice

Holiday Juice, located in Windsor, Ontario, is one of the leading producers of fruit juices and drinks in Canada and caters through distributors to the retail, foodservice and wholesale markets in Canada and parts of the United States.

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

Performance highlights and outlook:

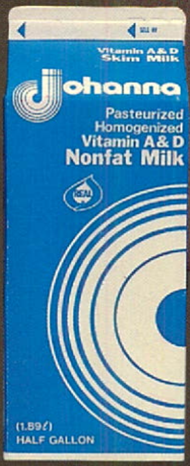
● Holiday Juice achieved a 30% sales growth and improved earnings in fiscal 1985. The Company continues to be a leader in its market as sales growth has far outpaced market performance over the past two years.

● During the past year, Holiday Juice expanded its product line with additional new flavours and completed a total packaging redesign which will result in improved consumer awareness and recognition.

● The Company also achieved significant expansion into the United States through a strengthened distribution network.

● Holiday Juice is well positioned with its high quality product line and strong distribution system to enjoy the growing demand for natural and refrigerated pure juices. While prices for citrus juices supplied to the company are expected to remain volatile, Holiday Juice anticipates an increase in output and further growth in sales and earnings.


Oh Henry!
Five Roses
homo
Creamed cottage cheese
Chipwich
Sealtest
Homo Milk
2 Litres


Vitamin A & D Skim Milk
Johanna
Pasteurized
Homogenized
Vitamin A & D
Nonfat Milk
(1.89 ℓ)
HALF GALLON


KEEP REFRIGERATED
CANADA
CLOVERDALE BRAND
BUTTER
1 lb 454 g


GERME DE BLÉ DESHUILÉ
Ogilvie
DEFATTED WHEAT GERM

The Agri Products Group consists of:
Ault Foods, Ogilvie Flour, Johanna Farms.

The Agri Products Group

(in thousands)	1985	1984	1983	1982	1981
Gross sales	**$1,074,518**	$973,750	$792,554	$779,349	$404,535
Assets employed	**278,347**	232,477	165,935	185,562	135,252
Capital expenditures	**15,878**	6,489	7,863	13,239	13,674
Depreciation and amortization	**15,351**	14,432	11,662	10,349	5,209
Earnings before interest and income taxes	**$ 72,278**	$ 58,008	$ 49,076	$ 47,042	$ 30,841

Group highlights and outlook:

- The group, which for fiscal 1985 did not include Johanna Farms, achieved record results for the year. Sales surpassed the billion dollar mark for the first time and earnings were up 25% to $72.3 million.
- Impressive growth over the past few years has established the group as a large, and important major segment of John Labatt's total business base. In fiscal 1985 the group accounted for 38% of John Labatt's gross sales and 40% of total group earnings.
- Ault Foods, with its diversified milk operations, including the well known major brand names "Sealtest" and "Silverwood", provided much of the group's sales and earnings gains this past year.
- Ogilvie expanded its business base in the U.S. with two important acquisitions; a starch and gluten business based in Keokuk, Iowa, and a feeds business based in Detroit, Michigan.
- Johanna Farms, a large dairy operation based in New Jersey was acquired effective April 30, 1985.
- The group anticipates further strong growth in fiscal 1986 partially a result of the significant impact from the acquisition of Johanna Farms.

Ault Foods

Ault Foods, a broadly-based dairy company, is one of Canada's leading processors of dairy products with the familiar "Sealtest" and "Silverwood" names leading its list of retail brands. In addition, on a regional basis, the "Dallaire", "Royal Oak" and "Copper Cliff" brands of fluid milk products present a strong local image in their respective market areas in Ontario and Quebec. Ault markets, locally and nationally, over 30 brands of cheese, butter and milk powder products under the "Stacey", "New Dundee", "Balderson" and "Lafreniere" labels.

Ault distributes its branded products extensively through grocery chains, convenience stores and independent grocers in Ontario, Quebec, Manitoba and the Maritimes. In addition, many products are sold to restaurants and other segments of the foodservice industry. Ault has long been a major supplier of dairy products to large food manufacturers and retailers for further processing and for private label distribution.

The full range of products in the milk division include a complete line of fluid milks, creams, yogurt, cottage cheese, sour cream, juices, ice cream and frozen novelties. On the industrial side the division is a major manufacturer of Canadian cheeses, butter, evaporated and condensed milk, whey powder, skim milk powder and an extensive variety of custom blended dairy powders.

Ault's Ontario facilities are located in Winchester, Toronto, London, Hamilton, Ottawa, Mitchell, Napanee, New Dundee, Windsor, Copper Cliff, North Bay, Balderson and Thornloe while Quebec operations are located in Montreal, Rouyn and Laverlochère. The Manitoba operation is in Winnipeg. The division also supplies the market from a number of strategically located distribution centres effectively serving a large part of Canada.

Performance highlights and outlook:

- In fiscal 1985 Ault's sales and earnings showed impressive gains due to successful consolidation of the important acquisitions of the past two years and a strong emphasis on efficiency improvements. Major steps were taken to rationalize and integrate operations to make the milk division more competitive and effective in its markets.
- A number of major capital projects were undertaken. Some were completed during fiscal 1985 and others will be completed in the first quarter of fiscal 1986. The projects include the installation of ultra-high-temperature processing equipment in the Montreal fluid milk plant, the addition of another glacier unit in the London ice cream plant for the manufacture of premium novelties, an expansion of the Copper Cliff dairy plant, automation and mechanization of the Winchester cheese plant, Ontario's largest, and the relocation and centralization of all cultured products with a state-of-the-art facility at the Napanee cheese plant location.
- In fiscal 1986, the division will complete a demineralized whey project at the Winchester plant. The plant will be positioned at the leading edge of whey processing technology in the world. A major step will also be taken in fiscal 1986 with the consolidation of Ault's two large fluid milk processing plants in Toronto into one location at Don Mills.

• In the past year sales and earnings on the industrial side continued to be constrained by shortages in the supply of milk. In fiscal 1984 Ault's industrial milk receipts in Ontario declined 13% from the prior year's level, and fiscal 1985 milk receipts declined a further 1%. The declines have constrained Ault's ability to produce cheddar cheese and other industrial products.

• Sales were expanded substantially in the frozen confection novelty line and Ault is now distributing these products coast to coast. It is also planning the introduction of several new frozen novelty products in the coming year.

• Consolidation of its channels of distribution is an important priority and a new Ault logo will be highly visible on company vehicles this year.

• Exports of cheese continue to grow and export opportunities will be given top priority in the coming year.

• In fiscal 1986, Ault anticipates continued growth in sales and earnings.

Ogilvie

Ogilvie operates the Company's grain processing businesses.

The major activity is flour milling to supply bakeries, pasta and biscuit producers as well as a number of other industrial food processors. The "Five Roses" brand of family flour is milled by Ogilvie and marketed nationally by Catelli. Ogilvie also exports wheat flour by direct sale to a number of foreign nations and through the government's foreign aid supply programs.

The division is now also the world's largest producer of wheat starch and vital wheat gluten. Wheat starch is used in the food processing, corrugating, textile, paper, mining, building products and adhesives industries and is sold in Canada and U.S. markets. In addition, Ogilvie has developed specialty starches which are marketed primarily to the corrugating and paper industry in the United States. Wheat gluten, a protein additive, is used in the food processing, 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 feeds to the livestock industry.

OGILVIE

Ogilvie operates seven plants in Canada, located in Montreal and Candiac, Quebec; Midland, Strathroy and Thunder Bay, Ontario; Winnipeg, Manitoba; and Medicine Hat, Alberta.

In fiscal 1985, Ogilvie acquired two United States based operations, the food ingredients division of Henkel Corporation engaged in wheat starch and gluten processing in Keokuk, Iowa, and Murphy Products of Detroit, Michigan, a company engaged in the livestock feeds business.

Performance highlights and outlook:

● Ogilvie achieved further gains over prior year's record results.

● Domestic flour sales were up significantly from the previous year and more than made up for reduced export flour sales.

● The improved earnings were achieved despite significantly reduced returns from flour milling by-products due to lower feed grain prices in Canada and the United States.

● Earnings for the starch and gluten operations showed significant improvement for the third consecutive year.

● The feeds operations contributed increased earnings due primarily to improved volume and margins in the domestic market.

● Ogilvie made two important acquisitions in the United States during the latter part of the year. On February 1, 1985, Ogilvie acquired the food ingredients division of Henkel Corporation. This operation manufactures and markets wheat starch and gluten, in addition to numerous custom blended products for the United States food industry. Production facilities are located at Keokuk, Iowa.

● On March 30, 1985, Ogilvie, through its Miracle Feeds Division, purchased substantially all of the assets of Murphy Products Company of Detroit, Michigan. Murphy operates Maltlage production plants in Shafter, California; Longview, Texas; Olive Branch, Mississippi; and Winston Salem, North Carolina. Maltlage is a proprietary controlled analysis animal feed. This acquisition doubles the size of Miracle Feeds' operations to over one million tons annually. The division is now positioned to supply wet grains to most of the markets in the United States and Canada.

● The two acquisitions are expected to contribute to significant earnings gains for Ogilvie in fiscal 1986, despite the anticipated lower returns from flour mill by-products and reduced export sales of flour.

MIRACLE FEEDS

Johanna Farms

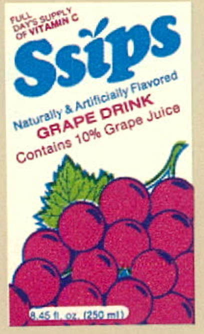
The Johanna Farms operation, acquired effective April 30, 1985, is a large dairy operation in the United States, which processes, packages and markets fluid milk products, citrus and other fruit juices and beverages as well as yogurt.

Johanna Farms' major branded products include fluid milk under the "Johanna", "Abbots" and "Jersey Farms" labels, juice under the "Johanna" and "Florida Citrus" brand names and natural Swiss and French-style yogurt under the "Johanna", "Lacto", "La Yogurt" and "La Chocolat" labels. The Company also markets aseptic juices and drinks under the "Tree Ripe" and "Ssips" labels. Customers for these branded products include major supermarket chains, grocery wholesalers, and independent food stores. Johanna serves primarily the New Jersey, New York and Pennsylvania markets but also serves markets as far away as Florida and Colorado. As a major private label packager, Johanna Farms supplies supermarket chains and wholesale distributors and in addition, acts as co-packer for several major national companies.

Johanna Farms, with sales of U.S. $310 million in its latest fiscal year, employs approximately 900 people at its manufacturing facilities in Flemington, New Jersey and Fort Washington, Pennsylvania.

Performance highlights and outlook:

- Johanna Farms had no impact on John Labatt results for fiscal 1985 as the Company was acquired at year end. Its assets and liabilities were consolidated in the John Labatt balance sheet as at April 30, 1985.
- The acquisition of Johanna Farms represents an important strengthening of John Labatt's business presence in the United States and adds significantly to Labatt's already sizeable position in the dairy business.



Other Investments and Partly-owned Businesses

Partly-owned Business

Other Investments

The Sports Network "TSN" is wholly-owned by Labatt.

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

Programming consists of major high profile professional sports such as baseball, hockey and football, as well as many popular amateur and other 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 a variety of ways in conjunction with other pay and specialty services.

Performance highlights and outlook:

- The quality and variety of TSN's programming is well received by both viewers and advertisers and favourable press coverage also attests to the success of our new venture. TSN's subscriber base grew to nearly 600,000 by year end, well in line with expectations.

- In addition to its scheduling of a wide range of sports, including college sports, NBA basketball and major golf, tennis and curling events, TSN has acquired coverage of 130 major league baseball games, including 40 with the Toronto Blue Jays and 40 with the Montreal Expos.

- As expected in its start up phase, TSN's expenditures exceeded its revenues in fiscal 1985 and this will also be the case in fiscal 1986.

- TSN will focus its efforts during the coming year on building its subscribers base and on continued development of quality programming.

Partly-Owned Businesses

John Labatt has a number of partly-owned businesses of which the major ones are:

- Casco Company (30% interest).

- McGavin Foods (60% interest/50% voting).

Other partly-owned businesses include:

- Allelix (30% interest), a joint venture with the Canada Development Corporation and the Ontario government in biotechnology.

- Toronto Blue Jays (45% interest), an American League baseball club.

- Canada Malting (14.2% interest), Canada's major supplier of malt for the brewing and distilling industries.

- Catelli-Primo (46.4% interest), a packaged food manufacturer in Trinidad.

In fiscal 1985, Labatt recorded a loss from partly-owned businesses of $6.9 million compared with $3.8 million for the prior year. Most of the loss was attributable to Casco Company.

Casco Company

Casco Company is a joint venture partnership formed in fiscal 1984 between John Labatt (30%) and Canada Starch Company Inc. (70%). Casco, a corn wet miller, is Canada's only producer of high fructose corn syrup (HFCS). 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:

● World sugar prices remained at record low levels and this limited expansion of domestic glucose and fructose markets.

● Shipments of high fructose syrup to the United States market improved during fiscal 1985 as both Coca Cola and Pepsi expanded their use of fructose.

However, significant additional milling capacity came on stream in the United States over the past year which resulted in some downward pressure on prices.

● Starch demand and requirements for brewing syrups have shown some improvement.

● Corn costs were higher than anticipated in fiscal 1985 but lower costs are expected for fiscal 1986.

● Casco's prospects continue to be constrained by very low world sugar prices and there is little expectation of improvement in the near term. However, Casco expects to achieve volume growth through exports to the United States market which, along with lower corn costs should result in reduced losses in fiscal 1986.

McGavin Foods

McGavin Foods, the largest bakery in western Canada, operates five plants 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 foodservice industry primarily under the "McGavin's" and "Homestead" labels. John Labatt and Maple Leaf Mills hold equal partnership rights in McGavin.

Performance highlights and outlook:

● Intense competition continued in fiscal 1985 in the bread market in western Canada, including aggressive price competition between major supermarket chains. Bread and roll volumes and margins at McGavin were impacted adversely by these difficult market conditions.

● McGavin initiatives over the past two years have focused on efforts toward rationalization of product lines, consolidation of production facilities, and reductions in manufacturing costs.

● McGavin anticipates a continuation of difficult market conditions in fiscal 1986 but its results should improve.

Allelix

Allelix is a joint venture established in 1981 to develop and pursue commercial oportunities arising from advances in biotechnology. John Labatt's partners in Allelix are Canada Development Corporation and Ontario Development Corporation.

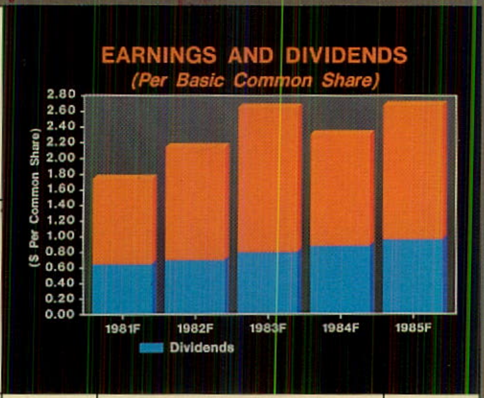
Allelix's research and administrative facilities are located at Mississauga, Ontario.

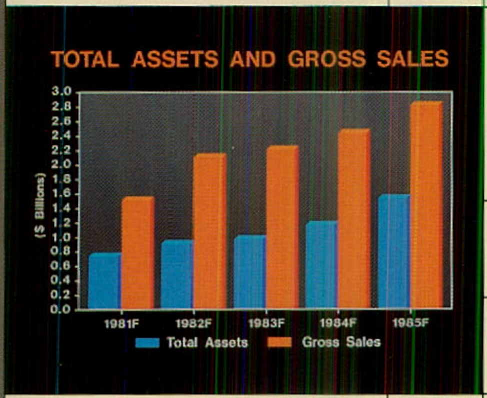
During the 1984 fiscal year, Allelix recruited a team of top level scientists from around the world. The research team was fully operational in fiscal 1985 and efforts are currently underway on several major research projects which show promise for the longer term.

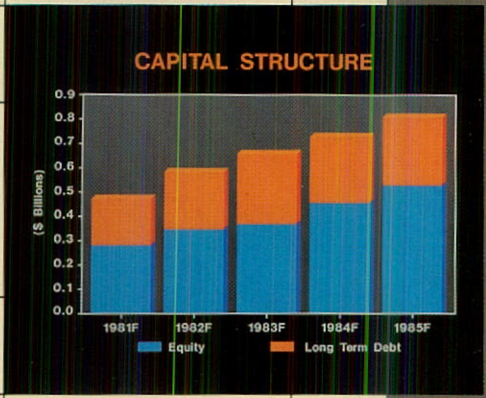
Allelix

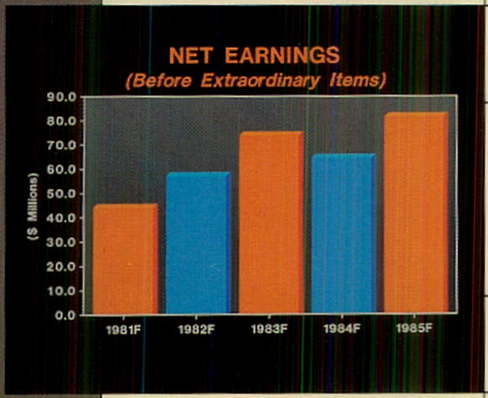
McGavin's

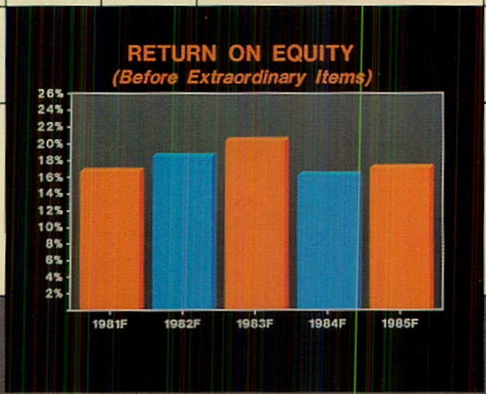
Financial Review











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Earnings

Sales and net earnings achieved solid growth in fiscal 1985 with sales increasing by 14% to $2.8 billion and net earnings up by 22% to $81.7 million. Last year's net earnings were reduced by a $19.7 million write-off of a large surplus of compact beer bottles.

Fully diluted net earnings per share increased by 18% to $2.35 per share, compared with last year's $1.99. Basic net earnings per share were $2.74, up substantially from last year's $2.35.

Return on average shareholders' equity in fiscal 1985 improved to 16.9%, which compares favourably to 16.0% in fiscal 1984, after the provision for bottle write-off.

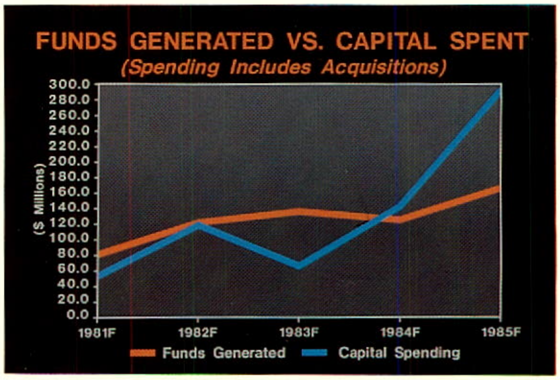
Short-term interest expense of $12.6 million rose by $8.7 million. The increased interest expense was the result of higher borrowings attributable to the Corporation's aggressive capital expenditure and acquisition programs during the year.

Effective May 1, 1984, the Corporation changed its method of accounting for foreign currency translation to that recently recommended by the Canadian Institute of Chartered Accountants. The details of the change are discussed in Note 1 to the financial statements.

Changes in Financial Position

To reflect more appropriately the Corporation's operating, financing and investing activities, an improvement was made to the statement of changes in financial position which is similar to the CICA exposure draft. The new presentation discloses all of the Corporation's financing and investment activities relating to net cash. The statement previously had used a working capital definition of funds.

Capital expenditures, acquisitions and investments in partly-owned businesses in fiscal 1985 were financed mainly by funds from operations and partly from short-term borrowings. The funds generated from these sources were used to finance an exceptional level of investment activities totalling $305.2 million.



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The Corporation significantly increased capital expenditures this year to $111.1 million versus $70.7 million last year. Through the spending program the Corporation acquired innovative packaging equipment in the Brewing Group and put new capital in all business segments to achieve added production capacity, continued productivity improvements and the maintaining of the integrity of existing assets.

The Corporation spent $182.0 million on the acquisitions of Johanna Farms Inc., the food ingredients division of Henkel Corporation, the assets of Murphy Products Company Inc., and Omstead Foods Limited. The $182.0 million in acquisitions is significantly higher than the $69.7 million spent last year and results in a major addition to the operating assets, providing a solid base for continued earnings growth in the future.

During the year shareholders' dividends per share were increased by 8.3% and the total outlay amounted to $28.2 million for the year.

The substantial investment activities of the year resulted in a $128.3 million decrease in cash. To replace short-term borrowings and to position itself for continued growth, the Corporation successfully issued in early fiscal 1986 a public offering in the international capital market of U.S. $100 million of 10-year debentures.

Financial Position

The Corporation's financial position at April 30, 1985 remains strong. Shareholders' equity of $518.1 million increased by $68.8 million over last year. Total assets, at year end, surpassed the $1.5 billion level.

Net debt as a percent of total capitalization increased during the year but remained at a conservative level at 38.2%.

The average number of days sales in accounts receivable at 26 and the average number of days sales in inventory at 62, are comparable to last year.

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 judgement 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, 1985, and their report is presented on page 36.

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 Corporation, meets quarterly to review the Company's financial statements before their submission 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, 1985
(with comparative amounts for the year
ended April 30, 1984)

(in thousands except per share amounts)	1985	1984
Revenue		
Gross sales	$2,802,629	$2,449,489
Less excise and sales taxes	376,134	316,551
	2,426,495	2,132,938
Operating costs		
Cost of products sold	1,615,348	1,414,663
Selling and administration	586,168	511,335
Depreciation and amortization	51,947	42,532
Interest-long-term	27,752	28,765
-short-term	12,596	3,919
	2,293,811	2,001,214
Operating income	132,684	131,724
Other income	8,338	16,759
Income before taxes	141,022	148,483
Income taxes-current	38,755	56,385
-deferred	13,739	1,838
	52,494	58,223
Earnings before share of net losses of partly-owned businesses	88,528	90,260
Share of net losses of partly-owned businesses	6,864	3,831
Earnings before bottle write-off	81,664	86,429
Provision for bottle write-off		19,700
Net earnings	$ 81,664	$ 66,729
Earnings per common share (note 1)		
Before bottle write-off	$2.74	$3.04
Net earnings	$2.74	$2.35
Fully diluted earnings per common share (note 1)		
Before bottle write-off	$2.35	$2.51
Net earnings	$2.35	$1.99

See accompanying notes

Consolidated Statement of Changes in Financial Position

For the year ended April 30, 1985 (with comparative amounts for the year ended April 30, 1984)

(in thousands)	1985	1984
Funds provided		
Net earnings	$ 81,664	$ 66,729
Net charges to earnings which do not reduce funds	84,052	56,378
Funds provided from operations	165,716	123,107
Changes in non cash working capital (note 1)	40,426	8,062
Other	3,337	(727)
	209,479	130,442
Dividends paid to Shareholders	(28,175)	(24,933)
Investment activities		
Additions to fixed assets	(111,060)	(70,680)
Proceeds on disposal of fixed assets	2,898	2,620
Investment in partly-owned businesses (note 2)	(12,823)	(25,705)
Acquisition of subsidiary companies (note 7)	(182,013)	(69,666)
Purchase of goodwill and other intangibles	(2,167)	
Cash used for investments	(305,165)	(163,431)
Financing activities		
Issue of common shares (note 4)	10,837	24,322
Decrease in long-term debt	(15,317)	(18,890)
Due from employees under share purchase and option plans		(11,987)
Issue of adjustable rate convertible subordinated debentures		50,000
Cash provided from (used for) financing	(4,480)	43,445
Decrease in net cash	(128,341)	(14,477)
Net cash surplus beginning of year	34,365	48,842
Net cash surplus (deficit) end of year	$ (93,976)	$ 34,365
Net cash consists of:		
Short-term investments	$ 108,680	$129,454
Bank advances and short-term notes	(202,656)	(95,089)
Net cash surplus (deficit) end of year	$ (93,976)	$ 34,365

See accompanying notes

Consolidated Balance Sheet

April 30, 1985
(with comparative amounts
as at April 30, 1984)

Assets *(in thousands)*	**1985**	1984
Current		
Short-term investments	**$ 108,680**	$ 129,454
Accounts receivable	**245,990**	196,744
Inventories (note 1)	**328,099**	246,739
Prepaid expenses	**27,107**	27,770
	709,876	600,707
Investments and other assets		
Investment in partly-owned businesses (note 2)	**64,893**	64,792
Due from employees under share purchase and option plans (note 4)	**13,269**	13,277
Other investments	**15,483**	9,119
	93,645	87,188
Fixed at cost		
Land	**33,251**	27,969
Buildings and equipment	**943,318**	681,321
	976,569	709,290
Less accumulated depreciation	**338,710**	291,074
	637,859	418,216
Unamortized debt financing expense	**3,290**	3,562
Goodwill, licences and trade marks (note 1)	**103,442**	75,921
	$1,548,112	$1,185,594

See accompanying notes

Liabilities	1985	1984
Current		
Bank advances and short-term notes	$ 202,656	$ 95,089
Accounts payable	416,037	240,554
Taxes payable	13,092	16,788
Long-term debt due within one year	6,491	6,825
	638,276	359,256
Long-term debt (note 3)	285,749	289,172
Deferred income taxes	106,022	87,869
Shareholders' equity		
Share capital (note 4)		
Authorized		
4,000,000 preferred shares		
Common shares of no par value in unlimited amount		
Issued and outstanding		
30,391,932 common shares		
(29,376,811 at April 30, 1984)	141,445	130,608
Retained earnings	372,178	318,689
Accumulated foreign currency translation adjustment (note 1)	4,442	
	518,065	449,297
	$1,548,112	$1,185,594

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, 1985 (with comparative amounts for the year ended April 30, 1984)

(in thousands except per share amounts)	1985	1984
Balance, beginning of year	**$318,689**	$276,893
Net earnings	**81,664**	66,729
	400,353	343,622
Common dividends ($0.945 per share 1985) ($0.8725 per share 1984)	**28,175**	24,933
Balance, end of year	**$372,178**	$318,689

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, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1985 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change in the method of accounting for foreign currency translation as explained in Note 1 to the financial statements with which change we concur.

London, Canada
June 7, 1985

Clarkson Gordon
Chartered Accountants.

Notes to the Consolidated Financial Statements

April 30, 1985

NOTE 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles 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 corporations. 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

Effective May 1, 1984, the Corporation changed its method of accounting for foreign currency translation to the method recommended by the Canadian Institute of Chartered Accountants for corporate fiscal periods beginning after July 1, 1983. The effect of this change on the reported earnings of prior years is not material.

The accounts of all foreign subsidiaries 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 subordinated 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:

	1985	1984
Basic	**29,813,712**	28,394,605
Fully diluted	**38,140,562**	37,364,554

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)	1985	1984
Finished and in process	**$194,571**	$168,699
Materials and supplies	**86,930**	60,324
Containers	**46,598**	17,716
	$328,099	$246,739

Investments

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

Investments in other companies are carried at cost 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.

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

Goodwill, licences and trade marks
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, are being amortized by charges to earnings over the lesser of their estimated useful lives and forty years. Amortization expense was $2,558,000 in 1985 and $2,034,000 in 1984.

The amounts of goodwill and other intangible assets consist of:

(in thousands)	**1985**	1984
Licences and trade marks	**$ 15,812**	$ 15,517
Purchased goodwill	**13,822**	10,088
Excess of purchase price of shares of certain subsidiary companies over assigned value of net assets acquired	**85,934**	59,884
	115,568	85,489
Less accumulated amortization	**12,126**	9,568
	$103,442	$ 75,921
Portion of above amount acquired after April 30, 1974 which is subject to amortization	**$ 81,264**	$ 49,959

Income taxes
The Corporation 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.

The effective tax rate was comprised of the following:

	1985	1984
Combined basic federal and provincial income tax rate	**47.9%**	48.8%
Manufacturing and processing deduction	**(4.9)**	(4.9)
3% inventory allowance and investment tax credits	**(4.9)**	(3.4)
Non taxable income, net of non-allowable expenses	**(0.9)**	(1.3)
	37.2%	39.2%

Research and development costs
Research and development costs amounting to $6,890,000 in 1985 ($6,273,000 in 1984), have been charged to earnings as incurred.

Consolidated statement of changes in financial position
The Corporation has changed its method of reporting changes in financial position this year to more appropriately reflect its operating, financing and investing activities. This change in presentation is similar to that recommended by the Canadian Institute of Chartered Accountants in the November 1984 exposure draft.

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

Changes in non-cash working capital

Year ended April 30 *(in thousands)*	**1985**	1984
Accounts receivable	**$(49,246)**	$(15,106)
Inventories	**(81,360)**	(45,009)
Accounts payable	**175,483**	83,308
Taxes payable	**(3,696)**	(21,034)
Other	**329**	(5,035)
Working capital from acquisitions	**(1,084)**	10,938
Net decrease	**$ 40,426**	$ 8,062

NOTE 2. PARTLY-OWNED BUSINESSES

Investments in partly-owned businesses include the following:

	% Equity interest
Canada	
Canada Malting Co., Ltd.	14.2
Allelix Inc.	30.0
McGavin Foods Limited (50% voting)	60.0
Toronto Blue Jays Baseball Club	45.0
Casco	30.0
Trinidad	
Catelli-Primo Limited	46.4

The changes in these investments are summarized below:

(in thousands)	**1985**	1984
Investments, beginning of year	**$ 64,792**	$ 49,568
Additional investment	**12,823**	25,705
	77,615	75,273
Less share of net losses	**6,864**	3,831
Dividends and other distributions received	**5,858**	6,650
Investments, end of year	**$ 64,893**	$ 64,792

NOTE 3. LONG-TERM DEBT

(in thousands)	**1985**	1984
Sinking fund debentures		
6¼% Series D to mature June 15, 1987	**$ 490**	$ 502
6¼% Series E to mature October 1, 1989	**1,520**	1,624
7⅛% Series F to mature April 15, 1992	**2,375**	2,625
9¼% Series G to mature September 1, 1990	**17,396**	19,096
8¼% Series H to mature March 1, 1993	**21,040**	22,910
9% Series I to mature March 15, 1994	**22,880**	24,346
11⅛% Series J to mature October 1, 1999	**38,425**	40,000
Bank term loan – secured by Series K collateral debenture to mature June 30, 2003, at discounted amount	**31,453**	26,083
9½% convertible subordinated debentures to mature June 1, 1995	**1,561**	8,734
11% convertible subordinated debentures to mature June 1, 2001	**79,920**	79,935
Adjustable rate convertible subordinated debentures to mature June 16, 2003	**49,800**	50,000
	266,860	275,855
Advances, mortgages and other long-term liabilities	**22,847**	16,146
Obligations under capital leases	**2,533**	3,996
	292,240	295,997
Less portion due within one year included in current liabilities	**6,491**	6,825
	$285,749	$289,172

The above balances include $U.S. long-term debt translated at rates of exchange at the balance sheet date of $40,923,000 at April 30, 1985 and $37,056,000 at April 30, 1984.

During the year the Corporation issued a Series K debenture to secure a term bank loan. 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 $42,840,000

($31,500,000 U.S.) at April 30, 1985 and $35,987,000 ($32,000,000 U.S.) at April 30, 1984. However, for financial reporting purposes this principal balance has been discounted based on an interest rate of 10⅜% to an amount of $31,453,000 ($23,127,000 U.S.) at April 30, 1985, and $26,083,000 ($23,142,000 U.S.) at April 30, 1984. Earnings of the Corporation reflect interest expense calculated at a rate of 10⅜% on this discounted amount.

Maturities and sinking fund requirements for the years ending April 30, 1986, through 1990 are $6,491,000; $9,949,000; $10,108,000; $11,224,000; and $10,590,000, respectively.

The 9½% convertible subordinated debentures are convertible at the holder's option, on or before the earlier of June 1, 1985, or the last business day prior to redemption, into common shares of the Corporation at a conversion price of $9.125 per share.

The 11% convertible subordinated debentures are convertible at the holder's option, on or before the earlier of June 1, 1991, or the last business day prior to redemption, into common shares of the Corporation at a conversion price of $15.8125 per share.

The adjustable rate convertible subordinated 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 Corporation at a conversion price of $22.50 per share until December 15, 1986 and $26.875 per share thereafter.

The sinking fund debentures are secured by a floating charge on the undertaking, property and assets of John Labatt Limited. At April 30, 1985, the Corporation had satisfied all of the convenants under the trust deed relating to the debentures, including the provision whereby dividends paid by the Corporation 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. SHARE CAPITAL

Common shares

Under the provisions of the Canada Business Corporations Act and the Corporation's articles, an unlimited number of common shares may be issued.

Preferred shares

There are 4,000,000 authorized preferred shares available for future issue with conditions and preferences as determined by the Board of Directors.

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, 1985 are as follows:

Unissued common shares originally designated for allotment under By-law No. 3		2,000,000
Less:		
Issued	670,000	
Under option	92,000	
Reserved for employee share purchase plan maturing in August 1985	188,000	950,000
Shares available for issue		1,050,000

Shares under option to employees under the above plan and the previous plan as of April 30, 1985, are as follows:

Plan	Number of shares	Price per share	Expiry date
1979 Share option	83,200	$10.875	December 1989
1983 Share option	42,000	21.508	October 1993
1984 Share option	50,000	19.420	June 1994
	175,200		

Of the 175,200 shares under option there are 36,000 under option to officers of the Corporation. 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 amounts due from employees under these plans:

($ in thousands)	**1985**	1984
Officers	**$11,724**	$11,544
Other employees	**1,545**	1,733
	$13,269	$13,277
Number of shares	**729,214**	740,672

Shares converted, issued and redeemed

The changes in the Corporation's issued shares were as follows:

	1985		1984	
($ in thousands)	**Shares**	**Amount**	Shares	Amount
Issued and outstanding, beginning of year	**29,376,811**	**$130,608**	27,532,678	$106,286
Issued under employee share purchase and option plans	**159,680**	**2,166**	851,542	14,958
Issued as a result of conversions of 9½% convertible subordinated debentures at $9.125 per share	**786,033**	**7,172**	965,801	8,812
Issued as a result of conversions of 11% convertible subordinated debentures at $15.8125 per share	**948**	**15**	2,717	43
Issued as a result of conversions of floating rate convertible subordinated debentures at $22.50 per share	**8,888**	**200**		
Issued under shareholder dividend reinvestment plan and stock dividend election program	**59,572**	**1,284**	24,073	509
	1,015,121	**10,837**	1,844,133	24,322
Issued and outstanding, end of year	**30,391,932**	**$141,445**	29,376,811	$130,608

NOTE 5. LEASES, COMMITMENTS AND GUARANTEES

Operating leases

The Corporation has entered into long-term operating leases substantially all of which will be discharged within 13 years. Fixed rental expense for 1985 was $6,712,000 ($6,049,000 in 1984). Future annual fixed rental payments for years ending April 30 are as follows:

1986	$7,313,000
1987	6,839,000
1988	5,400,000
1989	4,791,000
1990	2,803,000

In aggregate, fixed rental payments for subsequent years amount to $2,916,000.

Capital leases

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

At April 30, 1985, fixed assets acquired under capital leases, net of accumulated depreciation, amounted to $2,562,000 ($4,317,000 in 1984).

Future lease payments required under capital leases at April 30, 1985, for years ending April 30, are as follows:

1986	$ 687,000
1987	687,000
1988	590,000
1989	311,000
1990	103,000
1991 and thereafter	1,027,000
Total future minimum lease payments	3,405,000
Less imputed interest	871,000
Present value of minimum lease payments	$2,534,000

Commitment

The Corporation is committed to provide net funding of approximately $7,000,000 to Allelix, Inc. in varying amounts from 1986 to 1992.

Contingent liability

Casco Company, a partnership with Canada Starch Company Inc., had total liabilities, net of partners' loans, of approximately $68,300,000 at April 30, 1985. The Corporation, along with Canada Starch Company Inc., is contingently responsible for these liabilities.

NOTE 6. PENSION PLANS

The Corporation contributes to its pension plans the amounts necessary to provide defined retirement incomes for the participants. 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 Corporation's unfunded obligations under pension plans were $8,150,000 at December 31, 1984 ($9,717,000 at December 31, 1983).

NOTE 7. ACQUISITIONS

During the year, the Corporation and certain wholly-owned subsidiaries made the following business acquisitions for cash:

Agri Products

Effective April 30, 1985, Johanna Farms, Inc. of Flemington, New Jersey, which is a large dairy operation in the United States, processing, packaging and marketing fluid milk products, citrus and other fruit juices and beverages and yogurt.

The food ingredients division of Henkel Corporation at Keokuk, Iowa, a processor of wheat starch, vital gluten and numerous custom blended products for the U.S. food industry.

The livestock feeds division of Murphy Products Company, Inc., a livestock feeds processor in the United States.

Packaged Food

Omstead Foods Limited of Wheatley, Ontario, a processor of frozen vegetables and fresh water fish for the foodservice industry in both Canada and the United States.

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	$102,585	$162,440	$265,025
Less liabilities assumed	103,669	6,664	110,333
Identifiable net assets acquired	(1,084)	155,776	154,692
Excess of purchase price over assigned values of identifiable assets		27,321	27,321
Purchase price	$ (1,084)	$183,097	$182,013

NOTE 8. REMUNERATION OF DIRECTORS AND OFFICERS

During fiscal 1985 the total remuneration paid to seventeen of the Corporation's directors, as directors, was $253,000.

The Corporation's seventeen officers received remuneration totalling $2,795,000. The two officers who served as directors throughout the year received no additional remuneration as directors.

NOTE 9. THE COMPANY ACT (BRITISH COLUMBIA)

The Company Act (British Columbia) requires consolidated financial statements to include the names of every subsidiary corporation but permits the circulation within the province of statements which do not so comply.

These consolidated financial statements include the accounts of all subsidiary corporations. However, they do not include the names of such subsidiary corporations and, to that extent, they do not comply. A list of all of the subsidiaries of the Corporation is available for inspection at the Corporation's registered office in British Columbia.

NOTE 10. INFORMATION BY CLASS OF BUSINESS

The classes of business of the Corporation are as follows:

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

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

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

The following is a summary of key financial information by business and geographic segments for the years ended April 30, 1985, and 1984.

Business segments

(in thousands)	**1985** Gross sales	**1985** Inter-segment sales	1984 Gross sales	1984 Inter-segment sales
Brewing	**$1,149,275**	**$ 1,282**	$ 984,218	$ 1,341
Packaged Food	**578,836**	**2,599**	491,521	
Agri Products	**1,074,518**	**37,176**	973,750	43,492
	$2,802,629	**$ 41,057**	$2,449,489	$ 44,833

	Capital expenditures	**Depreciation & amortization**	Capital expenditures	Depreciation & amortization
Brewing	**$ 61,204**	**$ 22,164**	$ 43,107	$ 17,745
Packaged Food	**33,978**	**14,432**	21,084	10,355
Agri Products	**15,878**	**15,351**	6,489	14,432
	$ 111,060	**$ 51,947**	$ 70,680	$ 42,532

	Contribution	**Assets employed**	Contribution	Assets employed
Brewing	**$ 77,695**	**$ 316,593**	$ 83,981	$ 244,594
Packaged Food	**30,971**	**343,979**	28,029	250,110
Agri Products	**72,278**	**278,347**	58,008	232,477
	180,944	**938,919**	170,018	727,181
Interest	**(40,348)**		(32,684)	
Other income	**426**		11,149	
Income before taxes	**141,022**		148,483	
Short-term investments		**108,680**		129,454
Investment in partly-owned businesses		**64,893**		64,792
Current liabilities other than bank advances and short-term notes		**435,620**		264,167
Total assets per consolidated balance sheet		**$1,548,112**		$1,185,594

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Geographic segments

(in thousands)	1985 Gross sales	1985 Inter-segment sales	1984 Gross sales	1984 Inter-segment sales
Canada	**$2,488,355**	**$ 26,383**	$2,200,359	$ 16,857
United States	**314,274**	**280**	249,130	165
	$2,802,629	**$ 26,663**	$2,449,489	$ 17,022

	1985 Contribution	1985 Assets employed	1984 Contribution	1984 Assets employed
Canada	**$ 172,042**	**$ 746,645**	$ 159,905	$ 613,430
United States	**8,902**	**192,274**	10,113	113,751
	180,944	**938,919**	170,018	727,181
Interest	**(40,348)**		(32,684)	
Other income	**426**		11,149	
Income before taxes	**$ 141,022**		$ 148,483	
Short-term investments		**108,680**		129,454
Investment in partly-owned businesses		**64,893**		64,792
Current liabilities other than bank advances and short-term notes		**435,620**		264,167
Total assets per consolidated balance sheet		**$1,548,112**		$1,185,594

Assets employed in 1985 include the acquisitions of Johanna Farms Inc., the food ingredients division of Henkel Corporation and the assets of Murphy Products Company, Inc. which were purchased during the last three months of the year.

NOTE 11. RELATED PARTY TRANSACTIONS

Through subsidiaries, the Corporation enters into transactions with certain of its partly-owned businesses for the purchase and sale of products in the normal course of business. These transactions include sales of flour, pasta and packaged food products to both McGavin Foods Limited and Catelli-Primo Limited, the purchase of malt from Canada Malting Co., Limited and of starch, glucose, high fructose syrup and brewer's adjunct from Casco Company. Set out below are the amounts of these transactions for 1985 and 1984:

(in thousands)	**1985**	1984
Sales to McGavin Foods Limited and Catelli-Primo Limited	**$11,534**	$ 9,631
Purchases from Canada Malting Co., Limited and Casco Company	**$49,893**	$38,689

Amounts receivable from and payable to partly-owned businesses at April 30, 1985 and 1984 in respect of the aforementioned transactions were not material.

During the year the Corporation acquired $46 million and sold $21 million of marketable securities of affiliates. At the year-end the Corporation held $100 million of marketable securities of affiliates. The total income received on marketable securities of affiliates during the year amounted to $7.4 million.

In the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario the Corporation distributes beer through entities which are jointly owned by the Corporation and other Canadian brewers. Each brewer's interest in these distribution companies is based upon its market share in the respective provinces, and all costs of such distribution companies are reimbursed by the brewers based upon their relative market shares.

Report on the Effects of Changing Prices

During fiscal 1985 the inflation rate was approximately 3.9%. Although lower than last year's level of 5.0%, this level is still sufficiently high to distort traditional financial statements which reflect costs at historical dollar values. Accordingly, John Labatt is again disclosing supplementary information which illustrates the effects of changing prices on financial results. This information is consistent with that disclosed in prior years and with the Canadian Institute of Chartered Accountants recommendations on reporting the effects of changing prices.

John Labatt still believes that current cost financial statements should be used with caution as they are experimental in nature, are based on subjective assumptions and estimates, and there is still no consensus on how the data can be used to evaluate company performance. Nevertheless, current cost financial statements can give an indication of the effects of inflation on reported earnings and on the current cost of assets employed.

In restating reported results to a current cost basis, specific adjustments have been made in the financial results disclosed herein. Explanations of these adjustments are as follows:

NOTE (A)
Cost of products sold on a current cost basis is $14.7 million higher than on an historical cost basis. This reflects the cost of inventory sold during the year at current cost instead of historical cost. Current cost was determined by re-pricing inventory cost components to approximate replacement cost on sale date.

NOTE (B)
Depreciation and amortization on a current cost basis are $34.5 million higher than the amount based on historical cost. This reflects depreciation expense calculated consistently with the Company's established policy but on the current cost of fixed assets instead of historical cost. The current cost of fixed assets is based on recent professional appraisals approximating reproduction cost, which are updated to year-end values using specific price indexes.

NOTE (C)
A hedge against the impact of changing prices is provided to the extent that John Labatt will be able to partially finance asset replacement with debt obligations. The impact of current cost on earnings is reduced in proportion to the debt financing during the year. The financing adjustment realized is $17.1 million ($10.0 million in 1984). The financing adjustment, applicable to both realized and unrealized current cost increases in 1985 is $27.5 million ($14.0 million in 1984).

NOTE (D)
Current cost adjustments are not recognized by tax legislation. Accordingly, the income tax provision for current cost income is the same as for historical cost income.

NOTE (E)
The share of net losses of partly-owned businesses has been increased to reflect the adjustments outlined in Notes (A), (B) and (C).

NOTE (F)
The 1984 comparative results were determined by converting the 1984 current cost results into equivalent 1985 dollars by increasing all dollar amounts by 3.9% representing the change in the average Consumer Price Index (C.P.I.) during fiscal 1985.

NOTE (G)
The increase in the current cost of inventory and fixed assets in 1985 was $79.2 million ($53.8 million in 1984). If the rate of price change of these assets had been the same as the change in the C.P.I. during the year, the increase would have been $43.9 million ($56.1 million in 1984). This indicates that the current cost of these assets has been above the average general rate of inflation as measured by the C.P.I. in 1985, but below the average rate of general inflation in 1984.

NOTE (H)
During periods of inflation, entities holding net monetary assets lose purchasing power and conversely entities with net monetary liabilities gain purchasing power. The Company had net monetary liabilities at April 30, 1985 of $559.3 million as compared to $318.5 million at the end of 1984. Therefore, a holding gain of $16.7 million ($12.9 million in 1984), accrued to the Company. Earnings before the bottle write-off do not reflect this general purchasing power gain, but reflect the effects of debt financing in specific price terms through applying the debt financing adjustment described in Note (C) above.

Current cost earnings at $48.8 million reflect an increase of $8.9 million or 22.3% from 1984 constant dollar current cost results. Return on average equity for 1985 was 5.8%. This was up from 5.2% return achieved in 1984, consistent with the increase in historical cost return from 16.0% to 16.9%.

John Labatt continues to believe that sound management of working capital, an orientation to cash flow, and focus on productivity are important priorities in counteracting the impact of inflation on the business. By focusing attention on these areas, John Labatt has been able to achieve superior performance in real terms.

Summary of Results Adjusted for Effects of Changing Prices (Unaudited)

For the year ended April 30, 1985 (with comparative amounts for the year ended April 30, 1984)

(in millions except per share amounts)		Historical Cost Dollars 1985	Current Cost Dollars 1985	Current Cost Dollars 1984 (Note F)
Net sales		$2,426.5	$2,426.5	$2,215.2
Operating costs				
Cost of products sold	Note A	1,615.3	1,630.0	1,476.6
Selling and administrative expenses		586.2	586.2	531.0
Depreciation and amortization	Note B	52.0	86.5	75.3
Interest		40.3	40.3	34.0
		2,293.8	2,343.0	2,116.9
Operating income		132.7	83.5	98.3
Investment and sundry income		8.3	8.3	17.3
		141.0	91.8	115.6
Financing adjustment	Note C		17.1	10.0
Income before taxes		141.0	108.9	125.6
Income taxes	Note D	52.5	52.5	60.4
Earnings before share of net losses of partly-owned businesses		88.5	56.4	65.2
Share of net losses of partly-owned businesses	Note E	6.8	7.6	4.8
Earnings before bottle write-off		81.7	48.8	60.4
Provision for bottle write-off				20.5
Net earnings		$ 81.7	$ 48.8	$ 39.9
Fully diluted earnings per common share		$ 2.35	$ 1.49	$ 1.20
Assets and equity				
Inventory		$ 328.1	$ 328.1	$ 257.8
Fixed assets (net)		637.9	990.0	772.4
Shareholders' equity		518.1	870.3	806.2
Return on average equity		16.9%	5.8%	5.2%
Increase in current cost amounts of inventory and fixed assets	Note G		$ 79.2	$ 53.8
Effect of general inflation			43.9	56.1
Increase in current cost over the effect of general inflation			$ 35.3	$ (2.3)
Gain in general purchasing power from having net monetary liabilities	Note H		$ 16.7	$ 12.9

Five Year Review Five Year Review Five Year Review

(in millions except per share and other data)	1985	1984	1983	1982	1981
Operating Results					
Gross sales	**$2,802.6**	$2,449.5	$2,225.0	$2,077.3	$1,495.7
Depreciation and amortization	**51.9**	42.5	38.4	34.7	29.1
Interest expense	**40.3**	32.7	30.4	37.9	25.7
Income taxes	**52.5**	58.2	51.3	47.6	29.6
Earnings before bottle write-off and extraordinary item	**81.7**	86.4	72.7	57.4	44.6
Net earnings	**81.7**	66.7	69.2	53.9	41.4
Funds from operations	**165.7**	123.1	131.1	118.1	82.1
Common share dividends	**28.2**	24.9	21.3	19.4	16.6
Capital expenditures	**111.1**	70.7	53.1	50.7	39.4
Acquisitions and additional investment in partly-owned businesses	**$ 194.8**	$ 95.4	$ 23.9	$ 101.3	$ 17.1
Financial Position					
Working capital	**$ 71.6**	$ 241.5	$ 253.1	$ 192.2	$ 151.6
Fixed assets	**637.9**	418.2	333.8	328.1	270.6
Total assets	**1,548.1**	1,185.6	953.3	905.5	723.0
Long-term debt	**285.7**	289.2	249.5	255.0	177.1
Shareholders' equity	**518.1**	449.3	383.2	330.8	282.6
Total capitalization	**$1,010.3**	$ 798.8	$ 674.0	$ 674.5	$ 604.0
Data Per Common Share					
Earnings					
Before bottle write-off and extraordinary item	**$ 2.74**	$ 3.04	$ 2.66	$ 2.14	$ 1.74
Net earnings	**2.74**	2.35	2.53	2.01	1.61
Fully diluted earnings					
Before bottle write-off and extraordinary item	**2.35**	2.51	2.26	1.85	1.61
Net earnings	**2.35**	1.99	2.16	1.75	1.49
Common share dividends	**.94-½**	.87-¼	.78	.72	.65
Shareholders' equity	**17.05**	15.29	13.92	12.22	10.93
Price range – high	**25-¾**	25-⅛	22-⅛	14-⅝	14-¾
– low	**$ 17-⅝**	$ 17-⅝	$ 12-⅛	$ 11-⅝	$ 10-⅝
Other Data					
Return on average shareholders' equity	**16.9%**	16.0%	20.3%	18.7%	16.6%
Earnings before bottle write-off and extraordinary item as a percent of sales	**2.91%**	3.53%	3.27%	2.76%	2.98%
Working capital ratio	**1.11**	1.67	2.08	1.79	1.75
Net debt to equity ratio	**0.75**	0.58	0.53	0.81	0.92
Net debt as a percent of total capitalization	**38.2%**	32.8%	30.4%	39.6%	43.0%
Common shares outstanding (in thousands)	**30,392**	29,377	27,533	27,073	25,868
Number of shareholders	**11,648**	11,727	10,325	11,146	11,410
Number of employees	**13,000**	10,500	9,000	11,000	10,400

Corporate Information

Dividends

The quarterly dividend paid on common shares was increased at the September, 1984 Annual Meeting to 24¢ per share from 22½¢ per share. During fiscal 1985, $28.2 million or $0.945 per share was paid in dividends to common shareholders, up from $24.9 million and $0.8725 per share in fiscal 1984.

Shareholders

As of April 30, 1985, 11,262 Canadian residents located across Canada held 98.6% of John Labatt's shares. A regional summary of shareholders is shown in the following table:

	Number of Shareholders	Percent of Shareholders
Atlantic	407	3.5
Quebec	1,732	14.9
Ontario	6,844	58.7
Western	2,279	19.6
Total Canada	11,262	96.7
Non Residents	386	3.3
Total Shareholders	11,648	100.0

John Labatt's Public Responsibility Programs

In 1975, John Labatt Limited was one of the first Canadian corporations to establish a Public Responsibility Committee of the Board of Directors. This committee was established to meet on a quarterly basis to review matters such as donations, government relations, health and safety, in short, matters pertaining to the Corporation's direct involvement with the general public. The corporate commitment to public responsibility is a matter of serious review as it relates to the company's direct involvement with the general public.

Donations:

John Labatt has a long tradition of corporate philanthropy which extends to the present day. In 1985, $1.9 million was donated to various non-profit organizations across the country. The distribution of donations was 51% to health and welfare agencies, 23% to educational institutions, 10% to cultural groups, and 16% to civic and sports organizations.

Labatt's People in Action:

In 1984, the Labatt's People In Action Program, the Corporation's student summer employment program, was a tremendous success. Over 125 student jobs were created working with 50 non-profit agencies across Canada. John Labatt provided these agencies with the funds to hire students for 10 weeks of employment. Since this program began in 1979, over 800 students have been employed to work on community projects. The students are hired to work with disadvantaged groups.

Business Employee Education Program:

In 1977 the Corporation established a program to inform employees on a yearly basis on the major financial aspects of its business. This program provides the employees with the opportunity to review with senior management the Company's business standing. The program is run across all divisions for all employees.

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, including retired employees, their spouses, and dependents. Applicants are reviewed by an outside panel of judges and awards are granted on an annual basis to those chosen.

Smile Across Canada:

The Company established the Smile Across Canada program in 1972 which allows children of employees between the ages of 12 and 14 to visit children of other employees on an exchange basis. This program is operated during two consecutive weeks in the summer. Approximately 110 to 120 children participate in this program every year.

Management

As a result of John Labatt's growth in Canada and diversification into the United States, several corporate officer appointments have been made:

- Mr. G. S. Taylor, formerly Vice-President Finance, was appointed Executive Vice-President.
- Mr. E. G. Bradley was appointed Executive Vice-President Corporate Development and Planning. Mr. Bradley was Vice-President responsible for the Wines operations.
- Mr. I. C. Ferrier joined John Labatt as Vice-President Finance and Treasurer.
- Mr. J. F. Ronald, formerly President of Catelli, was appointed Chairman of Catelli.
- Mr. H. J. England was appointed President of Catelli and Vice-President of John Labatt. Formerly, Mr. England was Vice-President Prairie Region Labatt Brewing Company.
- Mr. G. P. Freeman, formerly Executive Vice-President Labatt Brewing Company was appointed Chairman and Chief Executive Officer of Ault Foods and Vice-President of John Labatt.
- Mr. F. Elsener, President of Chef Francisco, was appointed Vice-President of John Labatt.
- Mr. R. B. Fraser, formerly Vice-President Corporate Development at John Labatt, was appointed Vice-President U.S. Dairy Development and Vice-President of John Labatt.
- Mr. N. E. Blackburn, formerly Director of Engineering Services, was appointed Vice-President Engineering Services.
- Mr. N. R. Davis was appointed Assistant Treasurer of John Labatt.

Corporate Officers

N.E. Hardy,
Chairman of the Board

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

G.S. Taylor,
Executive Vice-President

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

G. Saint-Pierre,
Senior Vice-President

N.E. Blackburn,
Vice-President,
Engineering Services

F. Elsener,
Vice-President

J.H. England,
Vice-President

I.C. Ferrier,
Vice-President,
Finance and Treasurer

R.B. Fraser,
Vice-President

G.P. Freeman,
Vice-President

K.H. Henry,
Vice-President

R.L. Hooey,
Vice-President,
Personnel Resources

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

S.M. Oland,
Vice-President

J.F. Ronald,
Vice-President

G.E. Wilson,
Vice-President

N.R. Davis,
Assistant Treasurer

W.J. Emmerton,
Secretary

Operating Divisions

Labatt Brewing

S.M. Oland,
President

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

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

P. Desjardins,
President, La Brasserie Labatt Limitee

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

T.R. Errath,
Vice-President, Marketing

R.R. Fogarty,
President, Labatt Importers

J.R. McLeod,
Vice-President, Atlantic Region

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

J.J. Ranson,
Vice-President, Personnel

R.G. Vaux,
Vice-President, Finance

Catelli

J.F. Ronald,
Chairman

J.H. England,
President

P.P. Amyot,
Vice-President, Finance

D.B. Green,
General Manager, United Maple Products

R. Hampton,
Director Product Development

R.J. Huot,
General Manager, Catelli Products

P. Labrecque,
President, Terra Foods

D. Laforte,
General Manager, Jarred Products

F. McLaughlin,
Vice-President, Human Resources

C. Waite,
President, Catelli U.S.

Chef Francisco

F. Elsener,
President

N. Chilton,
Vice-President, Sales and Marketing Grocery Products

W. Dunden,
Vice-President, Research and Development

P. Johnston,
Executive Vice-President, Manufacturing

G. Knight,
Vice-President, Planning and Administration

C. Koenig,
Executive Vice-President, Foodservice

B. Martin,
President, Delicious Foods

L.H. Omstead,
President, Omstead Foods

Chateau-Gai

M.H. Conde,
President

G.R. Currie,
Executive Vice-President

C. Emmons,
Director Marketing

J.K. Hall,
Director Business Development

Dr. A. Jackson,
Director Technical Operations and Development

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

R. Slomka,
General Manager Prairies

LaMont

E.G. Bradley,
Chairman and President

K.R. Ford,
Vice-President, Production

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

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

Holiday Juice

D.F. Kotwicki,
President

C.E. Jamail,
Executive Vice-President

J.E. Zakoor,
Vice-President

Ault Foods

G.P. Freeman,
Chairman and Chief Executive Officer

K.H. Henry,
President

D.E. Rooney,
President, Ault Dairies

S.F. Ault,
Vice-President & General Manager, Ault Milk

Dr. M. Eino,
Vice-President, Manufacturing

A. Kalhok,
Senior Vice-President Marketing and Strategic Planning

N. Lafreniere,
Senior Vice-President, Ault North East

C.T. White,
President, Royal Oak

E. Dillon,
Vice-President, Finance

Johanna Farms

K. Goldman,
President

P. Goldman,
Executive Vice-President

R.B. Fraser
Vice-President U.S. Dairy Development

J. Kazanas,
President, Yogurt Division

K. Rosenthal,
Vice-President

Ogilvie

G. Saint-Pierre,
President and Chief Executive Officer

T. McDonnell,
Executive Vice-President and General Manager Grains

Y. Bertrand,
Vice-President Finance

Dr. J. Linton,
President, Miracle Feeds

D. McDougall,
Vice-President, Planning and Development

The Sports Network

G. Craig,
President and General Manager

Directors

M. Bélanger,
Quebec, Quebec
President, Gagnon et Bélanger Inc.
Elected 1972

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

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

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

J.T. Eyton,
Toronto, Ontario
President and Chief Executive Officer
Brascan Limited
Elected 1979

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

E.A. Goodman,
Toronto, Ontario
Partner, Goodman & Goodman
Elected 1966

A.S. Graydon,
Meaford, Ontario
President, Parham Investments Limited
Elected 1952-54 and 1955

N.E. Hardy,
London, Ontario
Chairman of the Board
John Labatt Limited
Elected 1966

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

M.L. Lahn,
London, Ontario
President and Chief Executive Officer
Canada Trustco Mortgage Company
Elected 1978

P.E. Lippincott
Philadelphia, Pennsylvania
Chairman, President and Chief Executive Officer
Scott Paper Company
Elected 1983

A.J. MacIntosh,
Toronto, Ontario
Partner, Blake, Cassels & Graydon
Elected 1967

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

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

S. Pollock,
Montreal, Quebec
Chairman and President
Carena-Bancorp Inc.
Elected 1981

W.F. Read,
London, Ontario
Senior Vice-President (Retired) and consultant to John Labatt Limited
Elected 1970

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

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

Committees of the Board

Executive Committee

Chairman:	J.T. Eyton,	**Function:**
N.E. Hardy;	E.A. Goodman, A.S. Graydon, M.L. Lahn, A.J. MacIntosh, P.N.T. Widdrington	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 Company by-law to be exercised by the Board itself.

Audit Committee

Chairman:	M.L. Lahn,	**Function:**
M. Bélanger;	A.J. MacIntosh, J. Ortiz-Patiño, P.N.T. Widdrington	Reviews financial information intended for publication, and the adequacy thereof, before such information is submitted to the Board. It also reviews, on a continuing basis, control procedures in effect throughout the Company.

Management Resources and Compensation Committee

Chairman:	J.T. Eyton,	**Function:**
N.E. Hardy;	E.A. Goodman, A.J. MacIntosh	Reviews manpower planning and the performance of management personnel and makes recommendations to the Board concerning executive compensation.

Pension Investment Advisory Committee

Chairman:	E.F. Findlay,	**Function:**
C. Diamond;	E.A. Goodman, G.F. Hughes, P.E. Lippincott, W.P. Wilder	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:	J.B. Cronyn,	**Function:**
P.F. Bronfman;	H.C. Pinder, S.Pollock, W.F. Read,	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 which 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