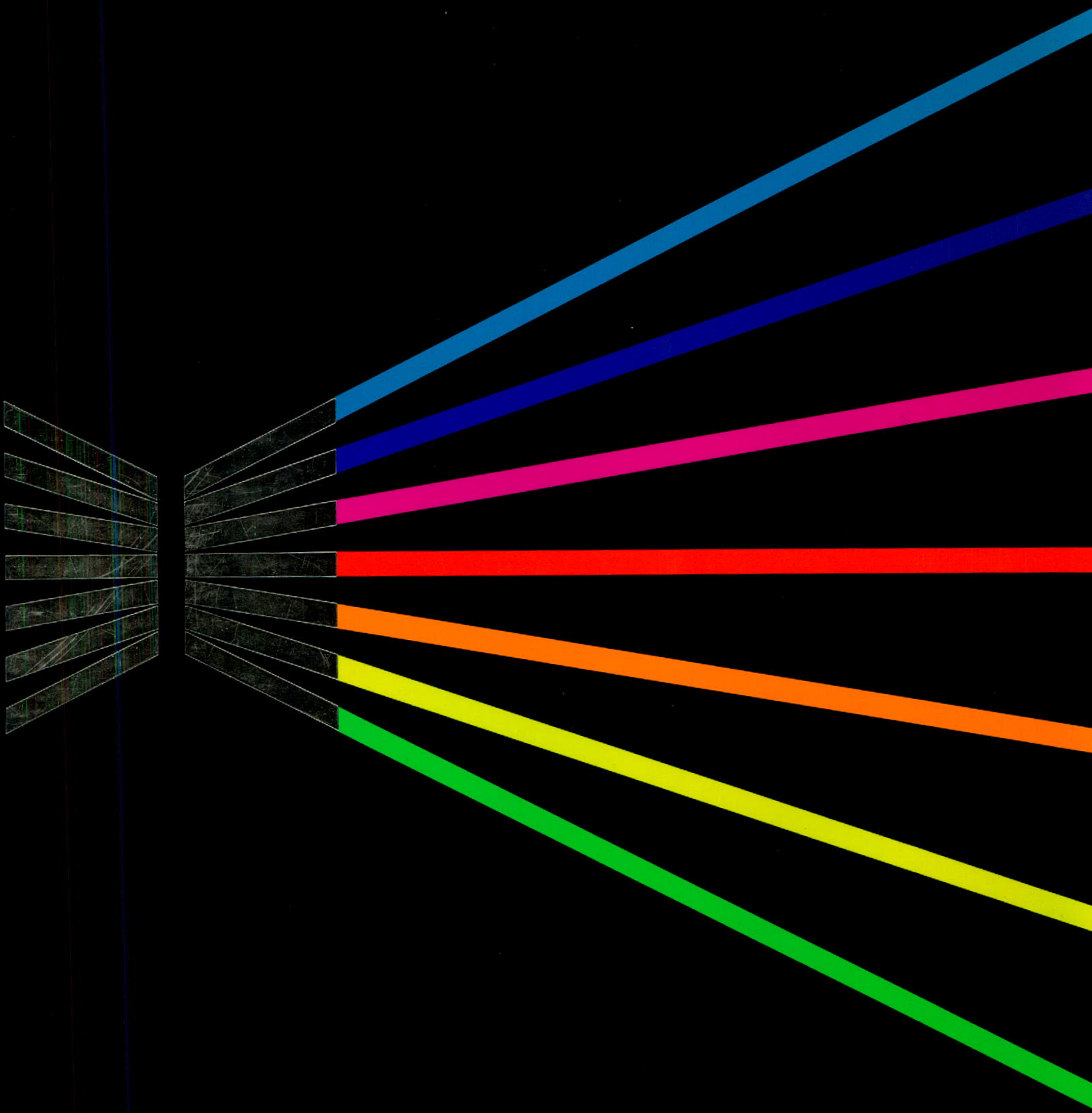
Imasco

Annual Report 1987



Imasco Limited
Annual Report 1987

Contents

The Corporation

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

Imasco's wholly owned operations include Imperial Tobacco, Imasco USA, Shoppers Drug Mart, Peoples Drug Stores, The UCS Group and Imasco Enterprises Inc.

Imperial Tobacco, Canada's largest tobacco company, manufactures and distributes tobacco products.

Imasco USA operates and licenses a system of 2,747 fast food restaurants, principally under the name Hardee's, in the United States.

Shoppers Drug Mart licenses and operates 553 drug stores in Canada.

Peoples Drug Stores operates a chain of 831 drug stores in 14 states and the District of Columbia in the United States.

The UCS Group operates 500 tobacco and gift shops in Canada.

Imasco, through Imasco Enterprises Inc., owns in excess of 98% of the outstanding common shares of Canada Trustco Mortgage Company.

Canada Trustco is Canada's largest trust company and seventh largest financial institution. Canada Trustco provides a complete range of savings and loan services, personal, pension and corporate trust services, and retail and commercial real estate and brokerage services.

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Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held June 25, 1987 at 10:30 at Le Château Champlain Hotel, 1 Place du Canada, Montréal, Québec.

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

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

Financial Highlights
For the years ended March 31

Imasco Limited	1987	1986	1985
	Thousands of dollars, except "per common share" amounts		
System-wide sales	**9,430,534**	8,688,642	7,346,472
Revenues	**5,625,074**	5,325,134	4,353,254
Operating earnings	**448,160**	465,870	432,032
Earnings before extraordinary items	**212,646**	261,745	234,108
Earnings per common share before extraordinary items	**$1.73**	$2.40	$2.25
Dividends per common share	**$0.87**	$0.75	$0.645
Working capital	**488,976**	878,303	708,204
Total assets	**5,399,951**	2,986,644	2,741,572
Shareholders' equity	**2,102,918**	1,517,091	1,325,781

Operating Divisions	1987	1986	1985
			Thousands of dollars
Imperial Tobacco			
Revenues	**1,787,614**	1,769,776	1,451,130
Operating earnings	**210,009**	246,015	224,024
Imasco USA			
Revenues	**1,656,350**	1,508,710	1,321,248
Operating earnings	**128,316**	118,768	108,289
Peoples Drug Stores			
Revenues	**1,875,273**	1,831,271	1,359,261
Operating earnings	**(32,117)**	46,444	55,307
Shoppers Drug Mart			
Revenues	**144,267**	78,360	66,146
Operating earnings	**46,882**	46,555	38,283
The UCS Group			
Revenues	**213,335**	191,146	176,088
Operating earnings	**6,450**	6,303	4,016

To our Shareholders

Fiscal 1987 was a year of achievement and of disappointment for Imasco. Our achievements are reflected in the acquisition of Genstar Corporation and in the results of Imperial Tobacco, Shoppers Drug Mart/Pharmaprix, Imasco USA and The UCS Group. Our disappointment is in the results of Peoples Drug Stores. Each of these developments will be commented on in our remarks but we would like to begin with a summary of Imasco's sales, revenues, earnings and dividend performance.

Sales, revenues and earnings

System-wide sales for fiscal 1987 were $9.4 billion, an increase of 9% over the $8.7 billion in fiscal 1986. Through the five years ended March 31, 1987 system-wide sales have increased at an annual compound rate of 20%. System-wide sales include the sales of associate drug stores and licensed restaurants.

Fiscal 1987 revenues were $5.6 billion, an increase of 6% over the $5.3 billion of the previous year. The annual compound rate of increase in revenues for our last five fiscal years is 21%.

Operating earnings in fiscal 1987 totalled $448.2 million and compare with $465.9 million in fiscal 1986. Over the past five years Imasco's operating earnings have increased at an annual compound rate of 13%.

Imasco's earnings before extraordinary items in fiscal 1987 were $212.6 million, a decrease of 19% from the $261.7 million earned in fiscal 1986. For the five years ended March 31, 1987, the average annual compound rate of growth was 11%.

Net earnings per common share before extraordinary items were $1.73 compared with $2.40 in fiscal 1986, a decline of 28%. The compound annual rate of growth for the five year period is 6%.

The Corporation also recorded extraordinary losses of $29.1 million in fiscal 1987. Net earnings for the year after extraordinary items were $183.6 million. Earnings per common share after extraordinary items were $1.48.

Dividends

On January 28, 1987 the Board of Directors increased the quarterly dividend on the common shares by three cents a share to 24 cents, or 96 cents annually. This decision reflects the confidence of the Board in the underlying strengths and prospects of Imasco and marks the thirteenth consecutive year that Imasco has increased its dividend. The Corporation has paid dividends every year since its establishment in 1912.

Genstar/Canada Trustco acquisition

Imasco was established in 1970 as the successor corporation of Imperial Tobacco to manage its diversification into new lines of business. Our goal is to achieve diversity of operating earnings through acquisition of entities in the consumer products and services sectors that have high growth prospects. By the end of fiscal 1986, our diversification philosophy had led us to two growth sectors, drug store retailing in Canada and the United States, and fast service restaurants in the United States. These two sectors contributed 45% of our fiscal 1986 operating earnings. Imperial Tobacco, thanks to its remarkable record of earnings growth, contributed 53%.

To further diversify earnings, Imasco had been searching for a "fourth leg". On March 24, 1986 Imasco made an offer for all of Genstar Corporation's outstanding common shares. Our objective in the Genstar acquisition was to enter the financial services sector by taking over Genstar's ownership position in Canada Trustco Mortgage Company, Canada's largest trust company and seventh largest financial institution.

The financial services sector attracted us because, like the retail drug store and fast service restaurant sectors, it trades directly with consumers and should enjoy faster growth than the economy as a whole. Canada Trustco attracted us because it has outstanding leadership and is of a size to make a very significant contribution to Imasco's earnings.

Shareholders will recognize in these comments the criteria Imasco has evolved to guide our diversification. Our interest in Canada Trustco is totally consistent with our long-standing strategy of entering growth sectors through acquisitions. Our approach is to join forces with a strongly managed market leader and support its future growth and expansion in all appropriate ways. It is important to underline that at no time in our examination of Canada Trustco did we give consideration to any additional advantage (so called "self-dealing") that might flow to Imasco from ownership of Canada's largest trust company. To have done so would have been contrary to the decentralized approach Imasco takes with its operating companies and to Imasco's views on how business should be conducted.

Acquiring Canada Trustco has been a challenge. We had to acquire Genstar Corporation which, in addition to its approximately 98% common share ownership of Canada Trustco, had extensive holdings in building materials, industrial services and real estate. As a result, the Genstar transaction represented the largest takeover in Imasco's history. The cost of the entire acquisition was $2.6 billion for all of Genstar's common shares plus assumption of approximately $2.3 billion of Genstar debt.

From the outset, our strategy involved restructuring and selling off all of Genstar's assets except Canada Trustco. Because many of Genstar's businesses were cyclical and the acquisition left us debt heavy, a prime consideration in approaching the restructuring was the need to complete it as quickly as possible. At the same time, we were determined to obtain fair prices for the assets in order to meet our acquisition cost target.

An important consideration was the responsibility that we felt towards Genstar employees and the communities that could be affected by our divestment activities.

We are happy to report that the restructuring programme has proceeded quickly. To date we have completed 11 separate transactions and received approximately $2.2 billion for the assets sold. This has substantially reduced Genstar's pre-acquisition debt.

Each of the operations sold is in good hands and well positioned to flourish in the future. Impact on employees and their communities has been minimal.

Still to be sold are Genstar's land and real estate development holdings, the venture capital portfolio and some residual assets. We remain confident in our ability to meet our initial objective of acquiring Canada Trustco at an attractive price.


Imasco

The Genstar acquisition was initially financed on the basis of $2.6 billion of syndicated bank loans. This financing arrangement was restructured in the course of fiscal 1987. In June of 1986, we issued 10 million common shares to raise $345 million of new common equity and raised $200 million through a retractable preference share offering. Later in the year we completed three separate debt issues totalling $550 million with maturity periods of 5, 10 and 15 years.

Our entry into the financial services sector coincided with a period of intense public policy debate over the future regulation of this sector. On December 18, 1986 the Government of Canada tabled a policy statement addressing the regulation, powers and ownership of federally regulated financial institutions. Under the general policy to be legislated Imasco will have to reduce its ownership of Canada Trustco Mortgage Company to 65% by December 31, 1991. The policy also prohibits commercial firms and financial institutions linked to commercial firms through ownership from expanding in financial services through acquisitions, mergers and new start ups. As a result, financial institutions like Canada Trustco would be competitively disadvantaged vis-à-vis all other federally regulated, provincially regulated and foreign financial institutions.

Imasco strongly believes these constraints are inequitable and prejudicial to consumers and depositors, minority and majority shareholders, and the long term competitiveness of the Canadian financial services sectors.

Imperial Tobacco

Imperial Tobacco's continued success in a difficult environment in fiscal 1987 is a true measure of the company's commitment and professionalism. Year after year, Imperial has had to contend with extraordinary challenges.

The size of the Canadian market for manufactured cigarettes continued to decline. The pressure of declining markets and competitive factors led to a costly price war, plant closures and a merger. Anti-smoking groups continued to attack smokers and the tobacco industry, often in abusive and intolerant ways. And on April 30, the Government of Canada tabled Bill C-51, an Act to prohibit the advertising and promotion and respecting the labelling and monitoring of tobacco products, in Parliament.

In the face of these pressures Imperial Tobacco continued to do what it does best. The company concentrated on strategies to promote the integrity and appeal of its Player's, du Maurier and Matinée trademarks; on strategies to preserve and ultimately expand its overall market share; and on strategies to ensure that Imperial will remain the low cost producer of tobacco products in Canada.

The price war began in September 1985 when a competitor introduced a pack of 30 cigarettes for the price of 25. Imperial had to choose between maintaining gross margins and accepting a lower market share or entering the off-price segment to defend its market share. Imperial chose to fight. This decision cost Imperial Tobacco some $44 million in lost operating earnings in fiscal 1987. By the end of the calendar year the price war had ended and Imperial's current market share is higher than it was at the close of fiscal 1986. The prospects for further growth in market share are excellent.

Year over year declines in industry volumes are the root cause of industry rationalization. In order to maintain its position as the low cost producer of cigarettes, Imperial Tobacco decided to close its Québec City plant and transfer production to the Guelph and Montréal plants. All affected employees were offered transfers or enhanced allowances for early retirement or separation.

Imasco USA

Imasco USA contributed 28.6% of Imasco's operating earnings in fiscal 1987 and enjoyed a year marked by continued progress in system-wide sales, revenues, earnings and average sales per restaurant. Measured in terms of average sales per restaurant and customer traffic, Hardee's has taken over third place among the top four hamburger chains in the United States.

At the base of these results are a series of initiatives that flow from the repositioning of Hardee's long term market strategy which began in fiscal 1986. As a result, Hardee's has rededicated itself to providing its consumers with a total restaurant experience that is second to none.

Perhaps the most significant changes have occurred in Hardee's menu offering. In fiscal 1986, Hardee's introduced a quarter pound hamburger that is juicier and thicker than those served by other hamburger chains. The result is a product that is considered superior in quality by Hardee's customers.

Hardee's long term focus continues to be on product improvement determined by consumer preference, effective and strategic marketing, and selective geographic expansion through internal development and acquisition.

Shoppers Drug Mart

The retail drug store market place remains extremely competitive and margins on prescription drugs were compressed by changes in provincial government drug benefit plans, notably in Ontario, but Shoppers Drug Mart continues to meet expectations.

Shoppers also successfully advanced its objectives of system expansion and diversity again in fiscal 1987. The number of outlets increased by 119 to 553. Shoppers' expansion in fiscal 1987 included the acquisition of the 76 store Super X Drugs group. All Super X stores are located in Ontario and are operated by Associates. Super X Drugs stores are smaller, on average, than the typical Shoppers stores and, for the most part, are located in smaller Ontario centres not previously served by Shoppers Drug Mart. Super X will continue to trade under its own corporate name. Shoppers focus on system expansion will now shift to areas of the country in which it is relatively under-represented.

Shoppers also seeks to maintain its competitive advantage through careful overall positioning in the retail market place, through an aggressively managed corporate brands programme, through superior service, employee training, marketing and store merchandising, and through the installation of computerized business systems at store level.

Peoples Drug Stores

Shareholders who have followed the progress of Imasco through each quarter of our fiscal year will be aware of the disappointing performance of Peoples Drug Stores. Peoples' operating loss in fiscal 1987 was $32 million, a swing of $78 million from fiscal 1986. Peoples also incurred an extraordinary loss of $39 million before tax. This latter amount represents costs associated with restructuring and disposing of certain of

Peoples' assets and unproductive drug store locations.

We are confident of the value of Peoples' assets and are committed to returning the company to profitability. A first step toward this goal was the creation of the Imasco Drug Retailing Group in January of this year. David R. Bloom, Chairman, President and Chief Executive Officer of Shoppers Drug Mart has also assumed the position of Chairman and Chief Executive Officer of the Imasco Drug Retailing Group. The mission of the Group is to oversee the future progress of both Peoples and Shoppers which will continue to operate as separate entities.

Returning Peoples to profitability will require a modest system rationalization to allow management to concentrate its energies on Peoples' core business – retail drug stores – in markets where the company has a dominant or highly competitive position. Plans and programmes are under way to improve sales growth and operating margins. It will take time to effect a full recovery but we expect Peoples will contribute to Imasco's earnings during the next fiscal year.

Imasco Enterprises/Canada Trustco

Imasco Enterprises Inc. is the wholly owned subsidiary of Imasco Limited incorporated in March 1986 to acquire Genstar Corporation. Our objective in the acquisition was ownership of Canada Trustco Mortgage Company. The results of Imasco Enterprises reflect its share of the results of the operations of Canada Trustco.

Imasco Limited accounts for the net earnings of Imasco Enterprises on an equity basis. The contribution from Imasco Enterprises Inc. covered an 11-month period in fiscal 1987 and totalled $88.6 million. After allowing for increased interest expense and other related acquisition costs, Canada Trustco made a positive contribution to Imasco's net earnings.

Looking to the future, this contribution is expected to grow substantially.

The UCS Group

The UCS Group continued to show improvement in its revenues and earnings during the course of fiscal 1987. The UCS Group progressed towards its objective of being the leader in the retail convenience tobacco store industry by acquiring the 21 unit Transit Shops chain and opening an additional 15 stores under its own trade names. At fiscal year end, the Group operated a total of 500 stores throughout Canada.

Board of Directors

Peter Kilburn will retire from the Board on June 25. Since 1974, Mr. Kilburn has given the Board the benefit of his many years' experience and knowledge of business. His wisdom enlightened our deliberations and his wit enlivened our discussions. He will be greatly missed. Two other directors left the Board during the year, Sheldon W. Fantle and Rowland C. Frazee. Mr. Fantle became a director in 1984 upon our acquisition of Peoples Drug Stores and left to pursue other business interests. Mr. Frazee was appointed in 1982 and resigned on our acquisition of Canada Trustco Mortgage Company to avoid any apparent conflict with his directorship of The Royal Bank of Canada.

We accepted these resignations with regret and on behalf of the shareholders we thank these directors for their much valued contributions to the Corporation.

We are pleased that the following three candidates will stand as managament nominees for election to the Board at the annual meeting of shareholders on June 25: Mrs. Nan-Bowles de Gaspé Beaubien, Mrs. Angela C. Peters and the Honourable William R. Bennett.

Paul Paré, Chairman of the Board, and Chief Executive Officer of the Corporation from 1969 to 1986, will retire as an officer in June, but will be a management nominee for election as a non-executive director.

Change of fiscal year

The Corporation has changed its fiscal year from April-to-March to January-to-December. Accordingly Imasco will publish a nine months report as of December 31, 1987. The following annual report will cover the calendar year 1988.

Outlook

Viewed in retrospect, fiscal 1987 was a challenging and eventful year for Imasco. We are grateful to and sincerely thank all members of the Imasco family – directors, management, staff, employees – for their ability, energy and commitment.

The year ahead, while different, will be equally challenging. Successfully completing the divestment of the remaining Genstar assets and returning our balance sheet to historic debt to equity ratios are high priorities. We will need to stay attentive to public policy developments affecting financial institutions in Canada as we consolidate our position in financial services. Working through the industry association, we will have to monitor and participate in parliamentary developments relative to Bill C-51, The Tobacco Products Control Act.

Most important of all, we will continue to strive for excellence in all our operating companies and in particular at Peoples.

We have every confidence in our ability to meet these challenges, capitalize on our opportunities and continue to build value for our shareholders.

On behalf of the Board of Directors

Paul Paré

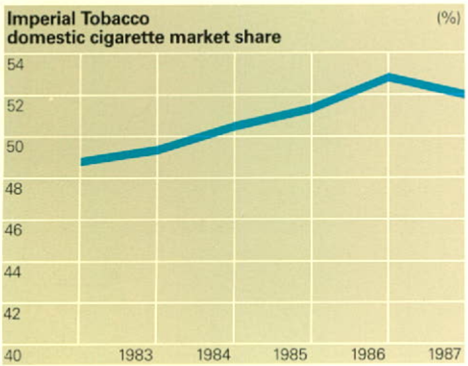
Paul Paré, O.C.
Chairman of the Board

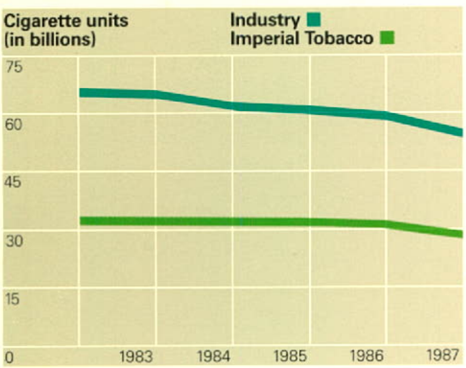
Purdy Crawford

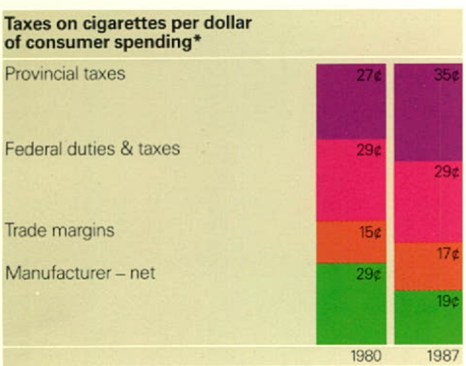
Purdy Crawford
President and Chief Executive Officer

Montréal, May 5, 1987

Highlights of operations	1987	1986	1985	1984	1983
				Thousands of dollars, except as noted	
Revenues	**1,787,614**	1,769,776	1,451,130	1,358,935	1,242,899
Sales and excise taxes	**1,058,867**	1,014,354	727,281	667,820	592,435
Operating earnings	**210,009**	246,015	224,024	205,209	182,268
Operating margins (%)	**11.7%**	13.9%	15.4%	15.1%	14.7%
Industry shipments (billions of cigarettes)	**54.7**	57.9	61.3	62.6	65.5
Market share (%)	**52.0%**	52.9%	51.3%	50.9%	49.6%
Capital expenditures	**14,866**	20,350	19,900	12,989	26,778







*For the province of Québec calculated for March 31st of each year.

Imperial Tobacco is the largest tobacco enterprise in Canada. Operations include leaf tobacco buying and processing, and the manufacture and distribution of a wide range of tobacco products. The manufacture and sale of cigarettes constitute the largest segment of the business, representing 89% of revenues in fiscal 1987.

Imperial Tobacco has been the leader in the Canadian tobacco market for many years and was the first to introduce a broad range of cigarette brands in the "light" category. Major brand names are Player's, du Maurier, Matinée and Cameo. Imperial Tobacco also produces fine cut tobaccos for roll-your-own cigarettes under some of these brand names.

Although the cigar market continues to decline, Imperial Tobacco remains the largest seller with such brands as House of Lords, Reas, White Owl and Old Port, the largest selling small cigar in Canada.

Imperial Tobacco has manufacturing plants in Montréal, Québec, and Guelph, Ontario, and leaf processing plants in Joliette, Québec and Aylmer, Ontario. A cigarette manufacturing plant in Québec City is being closed this year. Sales and/or distribution centres are situated in Moncton, Montréal, Ottawa, Toronto, Winnipeg, Calgary and Vancouver.

The past year was a difficult one for the tobacco industry in Canada as it strove to overcome the burden of excessive taxation on cigarettes.

Cigarette consumption in Canada has declined in the last five years from 65.5 billion units to 54.7 billion units. This decline in total market has led to increased competitiveness among the manufacturing companies, and resulted in plant closures and the merger of two tobacco companies. The competition for market share also brought on a price war as manufacturers offered discounted brands.

Imperial Tobacco reluctantly entered this price war and did so only in order to maintain its market share. Peter Jackson were discounted $4 a carton, substantially reducing revenues from this brand. Discounting by all companies ended by December 1986. The cost in lost operating earnings to Imperial Tobacco was $44 million.

Research and development

In Montréal, Imperial Tobacco has the most comprehensive research and development laboratory in the industry. The company develops and evaluates new products, monitors quality assurance programmes, and designs and develops new processes.

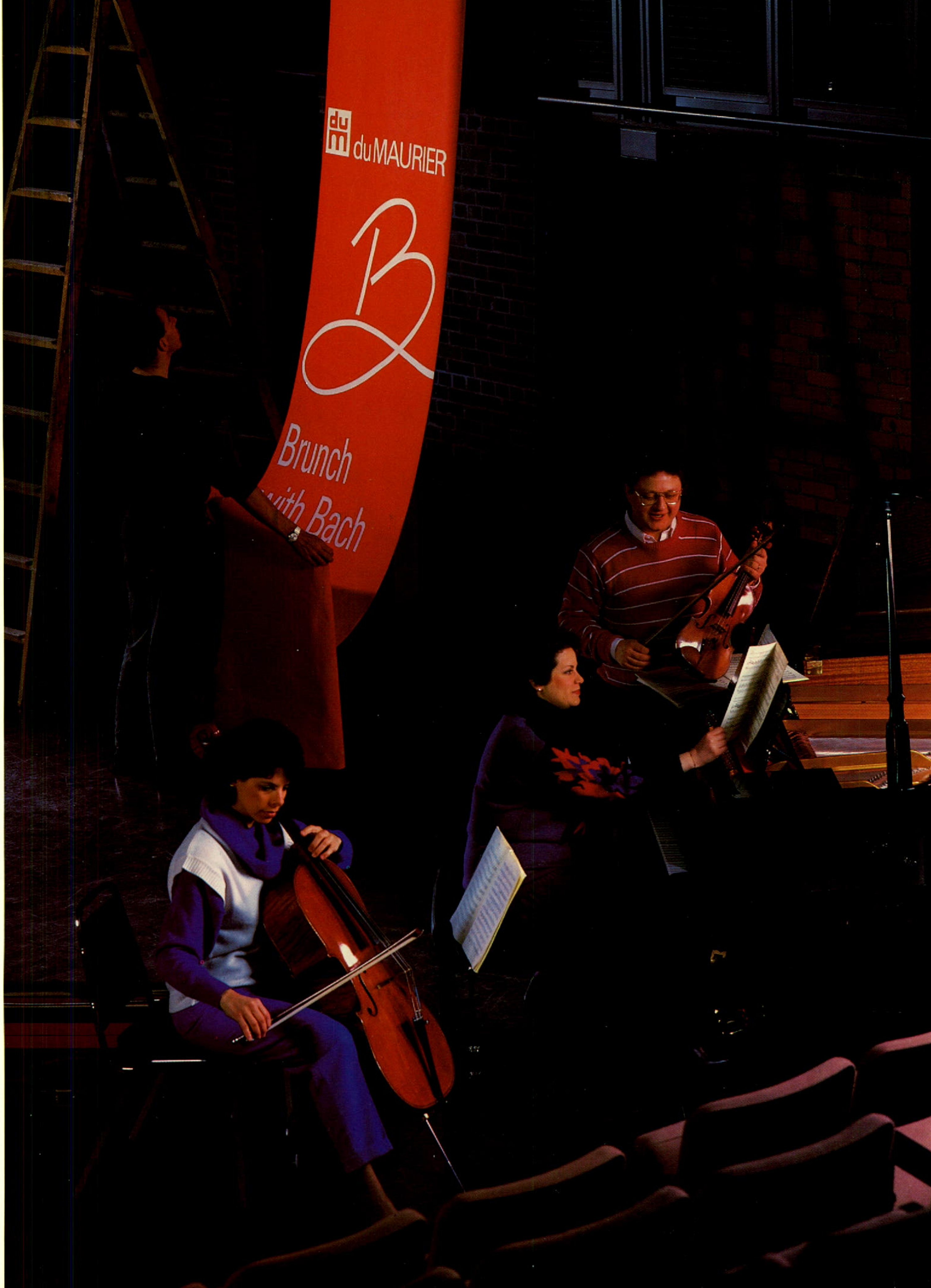
The marketing research department is the most sophisticated of its kind in Canada. These two resources assure that Imperial will continue to be first with the best tobacco products on the market.

Plant closing

In January 1987, Imperial Tobacco announced plans to close its Québec City plant. This plant was opened in 1949 and has a production capacity in excess of eight billion cigarettes a year. This closure is the result of excessive taxation and its negative impact on sales.

Industry cigarette sales

Industry cigarette sales for the past 12 months totalled 54.7 billion cigarettes, a decline of 3.2 billion units, or 5.5% from the prior fiscal year.


du MAURIER
Brunch
with Bach

Imperial Tobacco sales

Imperial cigarette sales for the year totalled 28.5 billion units, a 7.1% decline from the previous year.

During the same period, Imperial Tobacco's market share was 52% or down 0.9 share point. This decline is short term because Imperial held a smaller share of the off-price market and withdrew from this segment earlier than its competitors. During the fourth quarter of fiscal 1987, Imperial's share exceeded 54%. This share figure indicates Imperial's strong position as smokers return to their previous brands with the end of industry price discounting.

Imperial's major trademarks are recovering quickly. The Player's family remains the most popular in the industry with a market share of 20.8% at fiscal year end. The du Maurier family continues as the second largest and represents 16.8%. Matinée, with 5.1%, ranks eighth.

With product innovation and contemporary packaging, Imperial launched the new Cameo Special brand in both king size and 100 mm lengths in September 1986 in Alberta and in January 1987 in British Columbia. Sales are in line with expectations in both markets with an estimated market share of 0.6%.

Cameo Special is aimed at providing a better smoking experience for menthol smokers. In developing this product, the company sought to produce less irritation and improve aftertaste. The desired effect was achieved by a combination of a tobacco blend and a new mentholated, mint taste.

du Maurier Extra Light, regular and king size, was launched in September 1986 in British Columbia. Initial consumer acceptance was so favourable that it was made available nationally in January 1987. The brand continues to perform well with an average national share of about 1.3%. Imperial also introduced a new 15s pack for du Maurier Extra Light.

In the duty free and export markets, total sales of cigarettes were 500 million units, an increase of 18% over sales in the previous year.

Sales of Imperial Tobacco fine cut tobacco for roll-your-own cigarettes in fiscal 1987 totalled 3.4 million kilograms, an increase of 6.6%. Industry sales of fine cut tobacco increased by 1.7% to 7.2 million kilograms. Imperial's share of the roll-your-own market rose by one share point to 46.3%.

Based on the strength of its factory-made cigarette trademarks and emphasis on product quality, Imperial has grown stronger in this segment in the face of heavy competitive off-pricing.

Cigars continue to lose popularity. Sales of large cigars declined by 19% to 30 million units, and small cigar sales decreased by 5% to 225 million units.

Human resources

The primary concern of the company in the area of human resources has been directed towards the closure of the manufacturing plant in Québec City and its effect on the 334 employees. All employees in the plant were offered the choice of a transfer to another company location or separation. Special separation and retirement allowances and internal transfer programmes were developed. The programmes were well received by employees, the union and elected government officials.

In fiscal 1987 seven collective agreements were signed with the Bakery, Confectionery and Tobacco Workers International Union, and one with the Canadian Union of Operating Engineers, including agreements at our major manufacturing plants in Guelph, Montréal and Québec City. These agreements, covering approximately 1,800 employees, are for a two year term.

Imperial Leaf Tobacco

The 1986 Canadian flue-cured tobacco crop amounted to 147 million pounds, a reduction of 23% compared with the 1985 crop. The target of 154 million pounds was reduced by bad weather.

The domestic portion of the crop amounted to some 95 million pounds at a guaranteed average minimum price of $1.84 per pound. This represented a price increase of 4.2% over the 1985 crop.

Imperial Leaf Tobacco purchased 63.8 million pounds of which 9.8 million pounds are for export.

The crop was of average quality. Minimum grade prices were unchanged from those for the 1985 crop to ensure continued competitiveness of Canadian tobacco on world markets.

The target for the 1987 Ontario flue-cured leaf tobacco crop has been set at 110 million pounds. The same figure is projected for 1988 and 1989. The successful negotiations between the manufacturers and growers result from the work of the newly formed Tobacco Advisory Committee initiated by the Ontario Ministry of Agriculture and Food. Membership is composed of representatives of federal and provincial governments, the manufacturers and the producers. The aim of the Committee is to find solutions to the problems of supply and demand.

Outlook

Imperial Tobacco will continue to strengthen its appeal to Canadian smokers with improvements to its current brands and the introduction of new ones.

Without further excessive tax increases, the industry should see a slowdown of the decline in sales of cigarettes. Imperial Tobacco should profit from its successful counteraction in the price war and resume its trend of increased sales, market share and earnings.

1 Wilmat Tennyson, President and Chief Operating Officer, Jean-Louis Mercier, Chairman and Chief Executive Officer and Gérard Leduc in the leaf blending department, Montréal plant.

2 Esther Dussault-Allard, laboratory technician, takes samples of tobacco for testing.

3,4 New du Maurier Extra Light and Cameo Special are proving popular with smokers across Canada.

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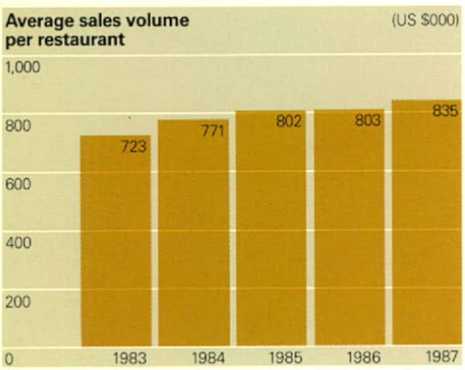
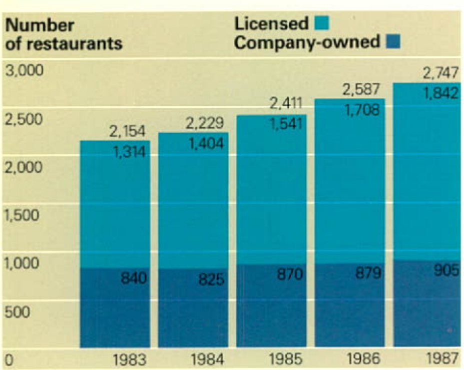
Highlights of operations	**1987**	1986	1985	1984	1983
				Thousands of dollars, except as noted	
System-wide sales	**3,772,070**	3,366,874	2,900,122	2,376,216	2,127,918
Revenues	**1,656,350**	1,508,710	1,321,248	1,134,074	999,367
Operating earnings	**128,316**	118,768	108,289	92,259	74,888
Operating margins (%)	**7.7%**	7.9%	8.2%	8.1%	7.5%
Average sales per restaurant (thousands of US dollars)	**835**	803	802	771	723
Capital expenditures	**166,288**	87,294	119,613	72,077	69,970





Imasco USA comprises Hardee's Food Systems, Burger Chef, Fast Food Merchandisers and Grisanti's.

Hardee's Food Systems operates and licenses a system of fast food restaurants, situated mostly in the Southeast, mid-West and mid-Atlantic United States. In addition to Hardee's, there are 15 Burger Chef and eight Grisanti's restaurants.

There are 897 company-owned and 1,827 licensed Hardee's restaurants. The Burger Chef chain was acquired in 1982 and most of the restaurants were converted to the Hardee's format.

Fast Food Merchandisers supplies the food products to nearly all of the Hardee's restaurants and to some 422 other food service outlets.

Grisanti's is a group of moderately priced Italian food restaurants.

Hardee's Food Systems

Hardee's showed increased revenues and earnings in fiscal 1987. This is an excellent performance in a period of flat sales in the fast food industry. Hardee's advanced to the number three position among the major fast-food hamburger chains in terms of average restaurant volume, edging out Wendy's. Hardee's mounted an aggressive advertising campaign to capitalize on its increasingly popular quarter pound hamburger. This product, made juicier and thicker by an exclusive Hardee's process, will also be cooked on a new top-side cooker that shortens cooking time and improves quality. This unique cooker enables employees to prepare Hardee's hamburgers and breakfast meats at much lower temperatures to retain natural flavours and juices. Since products are cooked simultaneously on both sides, cooking time is reduced by as much as 50%. As a result, capacity of products cooked on the grill is increased during busy periods and customers receive faster service. Hardee's has also embarked on a system-wide campaign to stress quality, service and cleanliness.

Hardee's aim is to provide its customers not only the best food products, but the most pleasant and inviting environment in which to enjoy them.

The company was on target in its development plan for the year, opening 45 company-owned and 170 licensed restaurants. Restaurant openings occurred on the average of approximately one per business day. Hardee's also accelerated its remodelling plan, upgrading 166 company-owned restaurants during the fiscal year.

Many of the new and renovated restaurants carry Hardee's new image. The exterior features lighter building materials. A solarium, stucco, cedar shingles, a covered drive-through and picturesque landscaping are just a few of the many outside features. Inside, customers are greeted in an open service area with free standing tables and chairs and plenty of natural lighting, natural woods and bright colours.

Overall, the new image improves the restaurants and gives customers additional reasons to stop and eat more often at Hardee's.

Tactical, provocative and competitive advertising continued to reinforce Hardee's quality hamburger story. The ads also support the fact that Hardee's hamburger products taste more like the hamburgers made at home and are superior to those served by the other


Hardee's
Hardee's
152
152
45

major hamburger chains. The theme of the advertisements is "We're out to win you over". Following the initial volley of ads, awareness and sales of quarter pound hamburgers jumped 35% and 33%, respectively. Both percentages were all-time highs.

Breakfast remained a strong part of Hardee's menu with consistent growth in the number of transactions. The breakfast segment was further strengthened with the successful introduction of the "Canadian Sunrise Biscuit". Featuring Canadian bacon, cheese, egg and hickory-smoked bacon on a "Rise 'N' Shine" buttermilk biscuit, the new product resulted in a 3.4% increase in breakfast transactions and a 3.2% average check increase over the previous year on a comparable restaurant basis.

Product development and testing were also high priorities in fiscal 1987. To broaden Hardee's menu mix and make it more appealing to women and children, four different packaged salads and a soft-serve ice cream product with 5.5% butterfat were tested. Both the salads and the ice cream will be offered system-wide next year.

A baby version of America's most popular stuffed animal toy, the "Pound Puppy", was featured in Hardee's restaurants during the 1986 Christmas season. The month long, four puppy promotion attracted millions of children and families to Hardee's during the holiday season and resulted in higher than usual sales. Over 11 million toys were sold with the purchase of food.

Management development

Restaurant management and employee training has been a fundamental part of Hardee's training programme for some time. A more formal approach to restaurant and middle management training was launched with the opening on April 18, 1987 of the Hardee's Management Development Center. The first group of students represented a cross-section of restaurant managers from both company and licensed operations throughout the chain. The Management Development Center represents a major effort on the part of Hardee's to provide training which will strengthen and broaden career opportunities for restaurant and middle management personnel. During the coming year, approximately 1,500 management staff members will graduate from the Center.

Plans for the upcoming year call for the opening of 281 new Hardee's restaurants and the remodelling of 122 company-owned restaurants.

Expansion of Hardee's restaurants into new regions is being studied. This would be accomplished through additional licensed and new company-owned restaurants.

Fast Food Merchandisers

Fiscal 1987 was another banner year for Fast Food Merchandisers, the manufacturing and distribution division of Imasco USA. The division processes most of the high quality products in its strategically located facilities and delivers them quickly and efficiently to nearly all Hardee's restaurants.

Fast Food Merchandisers' processing expertise and technical ability were key elements in the development and success of Hardee's reformulated quarter pound hamburger and other major products served throughout the chain.

A new 60,000 square feet distribution centre, one of 10 operated by FFM, opened last summer in Ardmore, Oklahoma. The facility further expands Hardee's opportunities for extension in the southwestern United States.

Grisanti's

The development of Grisanti's restaurant division continues to evolve as an opportunity for Imasco USA. Three new restaurants were opened in Aurora, Colorado, Rochester, New York and Indianapolis, Indiana, bringing the total to eight. Grisanti's units average 7,500 square feet and seat 292 guests. Other units are in Omaha, Nebraska, Bloomington, Indiana and Louisville, Kentucky.

Grisanti's features a full menu of high quality Italian cuisine, warm hospitality, exceptional service and a casual atmosphere. Each restaurant is carefully planned and its operations closely supervised to ensure the achievement and maintenance of the high standards associated with the Grisanti's name.

Outlook

Imasco USA will face many challenges during the next year. Heavy discounting and fierce competition from all fast food chains are expected throughout the year. However, relying on a solid and experienced management team that stresses the importance of always delivering superior products and services, and a renewed enthusiasm from new and long time employees and licencees, Imasco USA is confident the year ahead will be excellent in terms of sales, expansion and profits.

1 William Prather, President and Chief Operating Officer, Hardee's and Jack Laughery, Chairman, President and Chief Executive Officer, Imasco USA, try out the new look of Hardee's in Rocky Mount, NC.

2 Only the finest American beef goes into Hardee's hamburgers. Darlene Ashburn, Fast Food Merchandisers, Monterey, Tennessee.

3 Deluxe quarter pound hamburger.

4,5 Cinnamon and Raisin Biscuit and Canadian Sunrise Biscuit are breakfast favourites.

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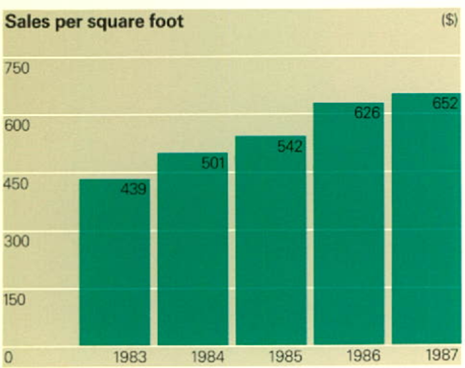
Highlights of operations	**1987**	1986	1985	1984	1983
				Thousands of dollars, except as noted	
System-wide sales	**1,834,007**	1,583,704	1,371,324	1,290,688	1,142,906
Revenues	**144,267**	78,360	66,146	60,707	69,295
Operating earnings	**46,882**	46,555	38,283	32,632	28,437
Operating margins (%)	**32.5%**	59.4%	57.9%	53.8%	41.0%
Average sales per store	**3,880**	3,702	3,338	3,006	2,659
Average sales per square foot (dollars)	**652**	626	542	501	439
Capital expenditures	**22,694**	19,211	10,868	11,456	9,023



Shoppers Drug Mart is a group of 553 retail drug stores across Canada. Stores operate under the name Shoppers Drug Mart, Pharmaprix, Pharmaprix Carnaval, Top Drug Mart, Howie's – More Than A Drug Store, and Super X Drugs. Pharmaprix operates a group of 41 stores in Québec. Super X Drugs is a group of 75 drug stores, smaller in area than the usual Shoppers Drug Mart store, and operating chiefly in smaller communities in Ontario. About 37% of Shoppers stores are situated in Ontario.

Howie's are discount drug stores and carry a broader range of goods than most drug stores, including packaged foods, pet supplies, housewares and toys. There are 10 Howie's in operation. Pharmaprix Carnaval is a similar off-price group of stores. There are seven Pharmaprix Carnaval stores in the Montréal area. There are 14 Shoppers Drug Mart Home Health Care Centres which specialize in the sale and rental of convalescent aids. Shoppers Drug Mart Food Baskets are stores which combine a drug store with a convenience food store. Shoppers Drug Mart operates 10 such stores in Halifax, Moncton, Vancouver and Toronto.

Fiscal 1987 has been a difficult one for the drug store industry in Canada and particularly in Ontario. While drug prices have increased to the pharmacies, the Ontario government has been slow to grant price increases for prescriptions issued to people covered by the Ontario Drug Benefit Plan. Consequently, margins on prescription sales have declined.

The rotating strike by Ontario doctors early in the year reduced the issue of prescriptions. Sunday shopping regulations, which curtail both the number of employees authorized to work in stores on Sundays and the products allowed to be sold, have had an effect on the stores' ability to deliver their promise to consumers of everyday convenience, service and selection. In spite of these conditions, Shoppers Drug Mart achieved its financial goals for the year.

Under the Shoppers Drug Mart system, pharmacists operate their stores as Associate/Owners. Each store's Associate is provided with financing and continuing training for all staff. The Associate also benefits from the management efficiencies and economies inherent in being part of a large buying organization. For these services and benefits, the Associate pays a variable fee. Shoppers Drug Mart also operates the Koffler Academy which conducts training courses for Associates and staff to enable them to make the most of their business opportunities.

Shoppers Drug Mart holds a 30% share of the drug store market in Canada, as measured by Statistics Canada, compared with 28% a year earlier. Based on planned expansion in 1987-88, market share is expected to continue its upward trend.

During the year, excluding the acquisition of the initial 76 Super X Drugs stores, 27 new stores were established, 27 independent drug stores were acquired, 17 were enlarged or renovated and six stores were closed. Of the 27 independents acquired, five were merged with existing stores for a net gain of 43 stores.

Environment

The company has successfully met the challenges of the competitive retail environment. Through innovative approaches involving people, productivity and positioning, it is well structured to continue its momentum and growth.


SHOPPERS DRUG MART
STOP

Shoppers Drug Mart/Pharmaprix

The Shoppers Drug Mart retail concept is "Everything You Want in a Drug Store", expressing each store's dedication to price, selection, service and convenience. The division's credo, "CARE – Customers Are Really Everything", is part of the retailing culture of all stores.

Shoppers Drug Mart Food Basket

Shoppers Drug Mart Food Basket combines a traditional drug store with a convenience food store. Food Baskets are adaptable to the larger Shoppers Drug Mart units, enabling Associates to increase their business potential. Open for extended hours, seven days a week, the stores cater to a socio-economic group which continues to grow in importance: two-income families who need convenient shopping hours and a wide choice of products.

Corporate Brands

Shoppers Drug Mart operates a Corporate Brands division that provides over a thousand stockkeeping units marketed under the Life Brand, Rialto, Shoppers Drug Mart and Pharmaprix labels. Through intensive marketing and promotional activities including exclusive, store-wide sales events, these products currently account for 6% of total store sales.

The recently introduced "Rialto" line is being expanded. Produced for women aged 18 to 49, items include cosmetics, beauty accessories and fashion hosiery.

Howie's – More Than A Drug Store

The creation of Howie's – More Than A Drug Store, marked the company's entry into deep discount retailing. Howie's are company-owned stores and offer a combination of low price, variety and one-stop shopping.

Howie's stores are positioned to provide the same product mix and convenient service that a customer receives at any Shoppers Drug Mart store, together with a wide selection of items in high demand by price-conscious consumers.

Pharmaprix Carnaval

Pharmaprix Carnaval is a "super" Pharmaprix store, carrying traditional core products and a large selection of additional items for household use. These stores are located adjacent to the rapidly growing Super Carnaval food stores and Pharmaprix Carnaval has taken advantage of the increased customer traffic.

Super X Drugs

The acquisition in July 1986 of Super X Drugs Limited added an important new division to the company's operations and reinforced its commitment to community pharmacy in smaller centres not previously served by Shoppers Drug Mart stores.

The operating philosophy of Super X Drugs is to provide consumer access to the full range of products and services carried in a traditional drug store. Although product selection is limited by available space, consumers are assured the same convenience, service and value found in the larger Shoppers Drug Mart. Super X Drugs also has its own private label brands.

Marketing

A large percentage of total retail sales is allocated to a marketing and advertising programme, the chief component of which is national and regional advertising flyers.

Shoppers Drug Mart newspaper inserts were distributed 37 times last year to over seven million Canadian households. Because of the frequency and geographical coverage of these flyers, Shoppers Drug Mart/Pharmaprix is the only drug or food retailer in Canada that can guarantee national distribution to national brand suppliers on new product introductions or special consumer offers. Howie's and Super X Drugs also implement an aggressive flyer programme in their markets.

The store itself is always positioned to be the predominant selling vehicle. In-store personal attention, decor and atmosphere are consistently enhanced by point-of-purchase signs, video programming to staff and customers, free pamphlets on health maintenance and hands-on product demonstrations.

Twice a year all stores play host to area senior citizens in a Salute to Seniors. The programme that began almost 10 years ago is now eagerly awaited by this important segment of the market in every community in which there is a Shoppers Drug Mart store.

To become even more responsive to consumer needs in the field of health care service, the company has opened two 24-hour, full service drug stores in Toronto and Mississauga. To date, the response has been most gratifying as more and more consumers are utilizing the off-hours dispensary services for emergency purposes.

Operations

During the year, operational strategies have focused on positioning each group to cope with the ever-changing retail environment, to meet competition in all markets and to fill the needs of more and more consumers. This was achieved, in part, through the strengthening of new retailing concepts, and investment in computerization at all levels of the organization.

For the first time, Associates are being given the opportunity to operate a second drug store, thus enabling the company to utilize their extensive experience to a much greater degree.

Store business computer systems are being installed to equip units with computer-based information comparable to that provided by supermarket scanners. Howie's stores are all fully computerized from bookkeeping through to checkout scanners. Training in computer assisted management is continuing throughout the organization.

The establishment, earlier in the year, of the Imasco Drug Retailing Group is facilitating a greater exchange of ideas and information with Peoples Drug Stores and is shortening the learning period on many new management innovations.

Outlook

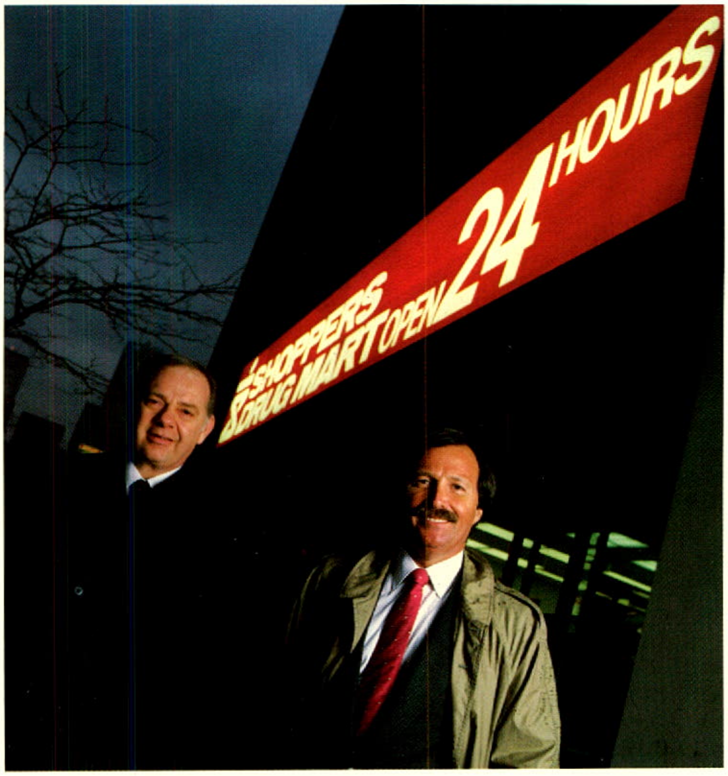
The repositioning of Shoppers Drug Mart in the marketplace and the internal focus on customer service have combined to propel the organization to a new plateau of sales and profitability. The further development of Food Baskets, Home Health Care Centres, Howie's, Pharmaprix Carnaval and Super X Drugs will sharpen the company's competitive edge.

Growth in operating earnings will continue. The opening of new stores and the acquisition of independent drug stores across Canada will expand the group.

1 Herbert Binder, Senior Executive Vice-President and Chief Operating Officer, and David Bloom, Chairman, President and Chief Executive Officer, in front of 24-hour Shoppers Drug Mart store, Toronto.

2 Super X Drug Stores are now growing with Shoppers Drug Mart.

3,4 New packaging designs carry the Shoppers Drug Mart promise of quality products.



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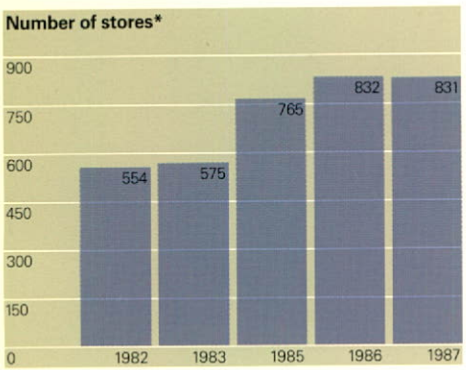
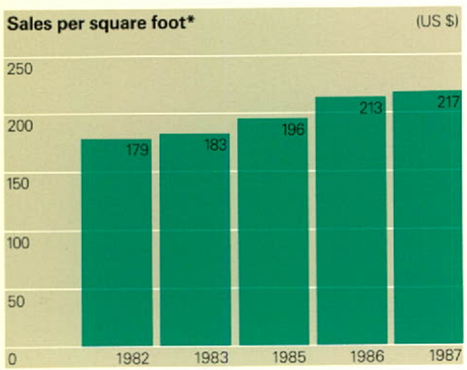
Highlights of operations	**1987**	1986	1985	1984*	1983*
				Thousands of dollars, except as noted	
Revenues	**1,875,273**	1,831,271	1,359,261	968,214	823,993
Operating earnings	**(32,117)**	46,444	55,307	35,911	30,488
Operating margins (%)	**(1.7%)**	2.5%	4.1%	3.7%	3.7%
Average sales per store (thousands of US dollars)	**1,643**	1,600	1,507	1,376	1,243
Average sales per square foot (US dollars)	**217**	213	196	183	179
Capital expenditures	**25,577**	53,983	46,978	18,581	13,307

* Peoples Drug Stores became a wholly owned subsidiary April 1, 1984. Highlights of operations prior to 1985 are for the years ended September 1983 and 1982 and have been translated into Canadian dollars using the average exchange rates for those years.





*The years 1982 and 1983 represent fiscal years ended September.

Peoples Drug Stores is a chain of 831 company-owned drug stores, the sixth largest such chain in the United States. The stores operate under the name Peoples and under the trade names of Lane, Reed, Lee, Health Mart, Rea and Derick and Bud's. More than 150 markets are served by locations in 14 states and in the District of Columbia from the Atlantic coast as far west as Iowa, south to Alabama and north to New York State.

Peoples has seven distribution centres that supply approximately 75% of the merchandise to its stores.

Peoples is distinguished from other drug store chains by its emphasis on health care. Service, information and advice are offered on aging, drug abuse, diet and many other topics of interest to the health conscious.

Peoples suffered a decline in earnings in fiscal 1986 and 1987. Major changes in leadership, personnel, organization and store planning have been made to stop and reverse this trend. As mentioned under Shoppers Drug Mart, Peoples now forms part of the Imasco Drug Retailing Group headed by David R. Bloom. A closer working arrangement has been developed whereby Peoples is able to take advantage of support services offered by Shoppers Drug Mart.

In most of its trading areas, Peoples has attained market share leadership with first or second share position in the drug retailing field. Its market appeal has been based on convenience of locations, consumer confidence in Peoples' pharmacists as community health professionals, and a wide range of products and services.

Although revenues increased slightly during the year, the increase is mainly attributable to inflation and the opening of new stores.

In fiscal 1987, a number of factors combined to reduce operating profits. These were continuing operating problems in the distribution system, lower operating margins, reduced comparable store sales gains, excessive inventory and higher operating costs.

Environment

Pharmacy services remained the major and increasing source of revenue although gross margins on prescription sales were eroded because of intense price pressure from third party drug payment plan sponsors.

Competition in general was extremely challenging in all markets, not only from other drug stores, but from super-sized food/drug combination stores and general merchandise discounters. Strategically, Peoples met the competition by protecting its market share leadership, again at the expense of gross margins.

Review and evaluation of Peoples' operating policies, followed by human resources assessments, are resulting in policy and operational refinements, more comprehensive staff skills training and the re-positioning of marketing communications.

Past year's activities

In fiscal 1986, the company assumed responsibility for the operations of the Shoppers Drug Mart stores in Florida. After determining that, in the long term, the stores would be incompatible with Peoples' business objectives, by reason of their geographical distance from operational support services and the presence of a dominant competitor in the Florida market, the stores were sold.

PHARMACY
First Aid
Ointments

As an experiment in diversification, six Hardee's restaurants were opened in combination with Peoples' stores in the Washington area and were licensed to Peoples. These restaurants were recently transferred to Hardee's so that management could devote its full attention to the primary retail side of Peoples' business.

Experimentation with nine Bud's deep discount drug stores is continuing. Although Bud's is not yet profitable, the application of operating concepts developed at Shoppers Drug Mart's deep discount units, Howie's, should show improved results.

Peoples has adopted a policy of opening stores in a fill-in pattern in existing retail markets and of closing unprofitable locations. During the year, Peoples opened 41 new stores in key markets. However, with the closing of unprofitable stores and the sale of the Florida units, the year ended with a net minus of one.

The Fredericksburg distribution centre, formerly the cause of operating deficiencies, has increased its daily output from 40,000 to 110,000 units over a six month period. Average daily demand is 90,000 to 100,000 units which is now being consistently supplied by the system. New equipment on order for the distribution centre will further increase its efficiency and capacity to serve additional stores.

Marketing

Four stores in a key Washington trading area have been designated prototypes to test findings from consumer research conducted in that market. With support from Shoppers Drug Mart, Peoples is creating prototype stores designed to meet consumers' expectations and win their loyalty. After evaluation, these stores will become models for the overhaul of all other stores and training centres for their personnel.

Research has indicated strong consumer support for Peoples Drug Stores. Repositioning will build on this support and emphasis will also be on advertising, store operations, staff training, management information systems and productivity gains. The CARE programme – Customers Are Really Everything – undertaken by Shoppers Drug Mart, has become a North American initiative of the Imasco Drug Retailing Group and will be implemented at Peoples. Retailing excellence through people, positioning and productivity is the goal.

Outlook

The Peoples organization has many valuable strengths: skilled and enthusiastic employees at all levels, excellent retail locations, market leadership, customer loyalty and a sound corporate reputation. The further development of a corporate culture based on participative management, entrepreneurship, marketing innovations and, above all, attention to the consumer, will return the company to profitability.

In the year under review, Peoples began a process of intense examination of every aspect of its business and is emerging as a company whose people have a clear focus on corporate direction and goals, and a renewed spirit of vitality and determination to achieve them.

The long term prospects for the drug store industry in the United States, based on population aging trends, growing consumer awareness of health preservation, industry consolidation and the emergence of fewer but larger national drug store chains, present favourable conditions for Peoples' growth and progress.

1 David Eisenberg, (left), Senior Executive Vice-President and Chief Operating Officer, Peoples Drug Stores, and David Bloom, (center), Chairman and Chief Executive Officer, Imasco Drug Retailing Group, with Peoples Pharmacist Edward Watkins Jr. who was selected preceptor of the year by Howard University College of Pharmacy.

2 Researching consumer needs at Peoples Drug includes focus groups, telephone surveys, mall intercepts and exit interviews.

3,4 Peoples brands include over 600 products, retail priced substantially lower than comparable national brands, and delivering better gross margin percentage to the company.

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Genstar/Canada Trustco acquisition

Imasco Enterprises Inc. is a wholly owned subsidiary of Imasco Limited and was incorporated under the Canada Business Corporations Act on March 19, 1986. On March 24, 1986 Imasco Limited through Imasco Enterprises Inc. initiated a tender offer for all of the outstanding common shares of Genstar Corporation. During 1986 all of the common shares of Genstar Corporation were acquired for a total cash consideration of approximately $2.6 billion. As indicated earlier the principal strategy behind this acquisition was the ownership of Canada Trustco Mortgage Company, the nation's seventh largest financial institution and largest trust company in terms of total assets.

This entry into financial services added a significant dimension to Imasco's diversification strategy. The acquisition of Canada Trustco meets Imasco's strategic criteria for acquisitions, i.e. an important enterprise that contributes to earnings in a major fashion, is in the consumer products or services sector, is well-managed, and has excellent long term growth prospects.

On December 29, 1986 Genstar Corporation commenced voluntary dissolution proceedings. The assets of Genstar Corporation were distributed to Imasco Enterprises Inc. which also assumed all of the liabilities, obligations and the former operations of Genstar Corporation. Among those liabilities are its 11¾% debentures due June 1, 1995, 11¼% debentures due March 15, 1996, 10¾% debentures due June 15, 1999, and the 7% Swiss debentures due April 30, 1991 which were redeemed by the Corporation on April 30, 1987.

At the time of its acquisition by Imasco Enterprises Inc., Genstar Corporation was a diversified company which directly or through subsidiaries provided a broad range of financial services, manufactured building materials, provided specialized industrial services and was active in land and real estate development. Imasco indicated that it intended to retain Genstar Corporation's ownership of approximately 98% of the common shares of Canada Trustco and to dispose of Genstar Corporation's other operations and assets.

This disposition programme has been conducted smoothly and to date approximately $2.2 billion of assets and operations have been sold. The remaining assets, which consist primarily of venture capital and real estate operations, are under active disposition at the present time. This disposition programme has proceeded on a timely basis and has, through its timeliness, reduced the initial risk which resulted from the acquisition.

Canada Trustco

Canada Trustco has total assets in excess of $24 billion and administers another $28 billion for its clients. Canada Trustco's major operations are in retail financial services, real estate sales brokerage and management, mortgage lending activities, personal and corporate pension and asset management, and corporate lending, corporate trust and personal trust activities. Canada Trustco has been a market leader in many segments of its business and has accomplished this through an innovative product approach to marketing. Examples of this are its aggressive mortgage and personal loan programmes and Registered Retirement Savings Plan campaigns.

Results for Canada Trustco for the year ended December 31, 1986 were encouraging given the significant costs it experienced in the amalgamation of Canada Trustco and Canada Permanent Mortgage Company. Net earnings of $133.9 million were essentially flat compared with earnings in 1985. The earnings of Imasco Enterprises Inc. in 1987 reflected its share of the results of Canada Trustco for the 11-month period ended March 31, 1987.

Canada Trustco's net earnings for the quarter ended March 31, 1987 showed a 72% increase to $42.1 million. These net earnings are included in Imasco Limited's equity earnings in Imasco Enterprises Inc. These results reflect the elimination of costs associated with the amalgamation of the two companies and an improvement in both net investment income spreads and control of operating expenses.

Imasco considers the financial services industry to be an attractive sector of future growth, and subsequent efforts to continue to increase our level of activity in financial services will be forthcoming pending the proposed legislation tabled by the federal government.

On April 17, 1986 Imasco Limited voluntarily entered into undertakings with the Federal Minister of Finance in respect of the conduct of the relationship between Imasco Limited and its subsidiaries on the one hand and Canada Trustco and its subsidiaries on the other. Central to these undertakings is a complete prohibition on Imasco Limited and Canada Trustco from entering into any related party transactions after April 17, 1986. No such transactions have been initiated since the acquisition. The undertakings also stipulate that no more than 25% of the Board of Directors of Canada Trustco Mortgage Company will be composed of persons who are employees, officers or directors of Imasco Limited and its subsidiaries. Currently five of Canada Trustco Mortgage Company's 36 directors are persons so related to Imasco Limited.

On December 18, 1986 the Honourable Thomas Hockin, Federal Minister of State, Finance tabled in the House of Commons a policy paper entitled "New Directions for the Financial Sector". This paper outlines significant changes to be legislated in respect of the regulation of the financial services industry and the powers and ownership of financial institutions. Of paramount importance to Imasco Enterprises Inc. and Imasco Limited is the provision that will require commercially linked trust, loan and insurance companies with more than $50 million in capital to have at least 35% of their voting shares publicly traded and widely held by December 31, 1991. If enacted as proposed, this provision will affect Imasco Enterprises Inc.'s current 98.7% shareholding in Canada Trustco Mortgage Company. Efforts by Imasco Limited to expand its base in financial services will be reviewed pending this legislation.

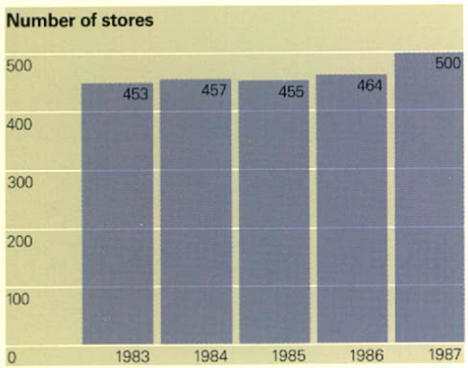
Outlook

The improved net earnings results during 1987 expected by Canada Trustco will be reflected in the earnings of Imasco Enterprises Inc. for its year ending December 31, 1987.


CANADA
TRUST

1 Laurie Mains, Director of Operations, Specialty Stores Division, and Norman Latowsky, President and Chief Executive Officer, The UCS Group, Toronto.

Highlights of operations	1987	1986	1985	1984	1983
				Thousands of dollars, except as noted	
Revenues	**213,335**	191,146	176,088	165,963	150,713
Operating earnings	**6,450**	6,303	4,016	5,974	3,808
Operating margins (%)	**3.0%**	3.3%	2.3%	3.6%	2.5%
Average sales per store	**443**	416	387	366	339
Average sales per square foot (dollars)	**662**	627	600	564	484
Capital expenditures	**4,435**	3,263	2,453	2,804	2,690



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The UCS Group operates 500 retail outlets across Canada, ranging in size from 100 to 2,000 square feet, specializing in providing convenient, courteous and fast service to purchasers of tobacco products, confectionery and snack foods, reading materials and a wide variety of non-food consumables. Many stores carry souvenirs, gifts and novelties.

Retail stores are located in high pedestrian traffic areas of shopping malls, hotels, airports, retail strip centres, public transportation terminals, commercial buildings and Woolco stores. Of the many trade names associated with retail locations, the more prominent are United Cigar Stores, Woolco Smoke Shops, Den for Men, Au Masculin, Piccadilly Place, Inclination and, more recently, Transit Shops.

The UCS Group – United Cigar Stores – reached a milestone in 1987, marking 85 years of continuous service to the public. Since 1902, UCS has been known as a vendor of tobacco products, newspapers and confectionery, three categories that remain the company's core merchandise.

Despite greater pressures on tobacco sales caused by tax increases, competitive price activities and overall market decline, total sales of tobacco products increased by about 9% over the prior year.

The Woolco/Woolworth Smoke Shop division, in cooperation with Woolco/Woolworth management, has developed a new prototype Smoke Shop department. When tested, it will be adapted to new and existing stores in the coming years. Renovation of the 154 Woolco/Woolworth in-store Smoke Shop departments will improve sales over time.

The acquisition of 21 Transit Shops was successfully completed in fiscal 1987. These retail locations were merged into existing operating divisions with minimal additional overhead expense.

The Hotel/Airport division benefitted from the operation by Transit Shops of regular and duty-free locations at some of Canada's major airports. The division regained two Westin Hotel shops that had been operated by hotel management, and was awarded the location in the new Westin Ottawa. It now has a retail outlet in every Westin Hotel in Canada. There are 116 locations in hotels and airports across Canada.

The largest operating division, Specialty Stores, has a total of 182 units. Surveys indicate that consumers patronize these kiosks and small-space stores because they are visible and convenient, and service is quick and courteous. Specialty stores are merchandised to appeal to the growing number of impulse buyers.

Although Den for Men/Au Masculin stores were conceived to carry men's gift and accessory items that would appeal to women shoppers, more and more males are becoming customers. There are now 48 Den for Men/Au Masculin stores in major shopping centres, with several more in the planning stages, including four in Ottawa.

During the year, 53 stores were acquired or newly opened, 23 renovated, 11 relocated and 17 closed for a net gain of 36 units.

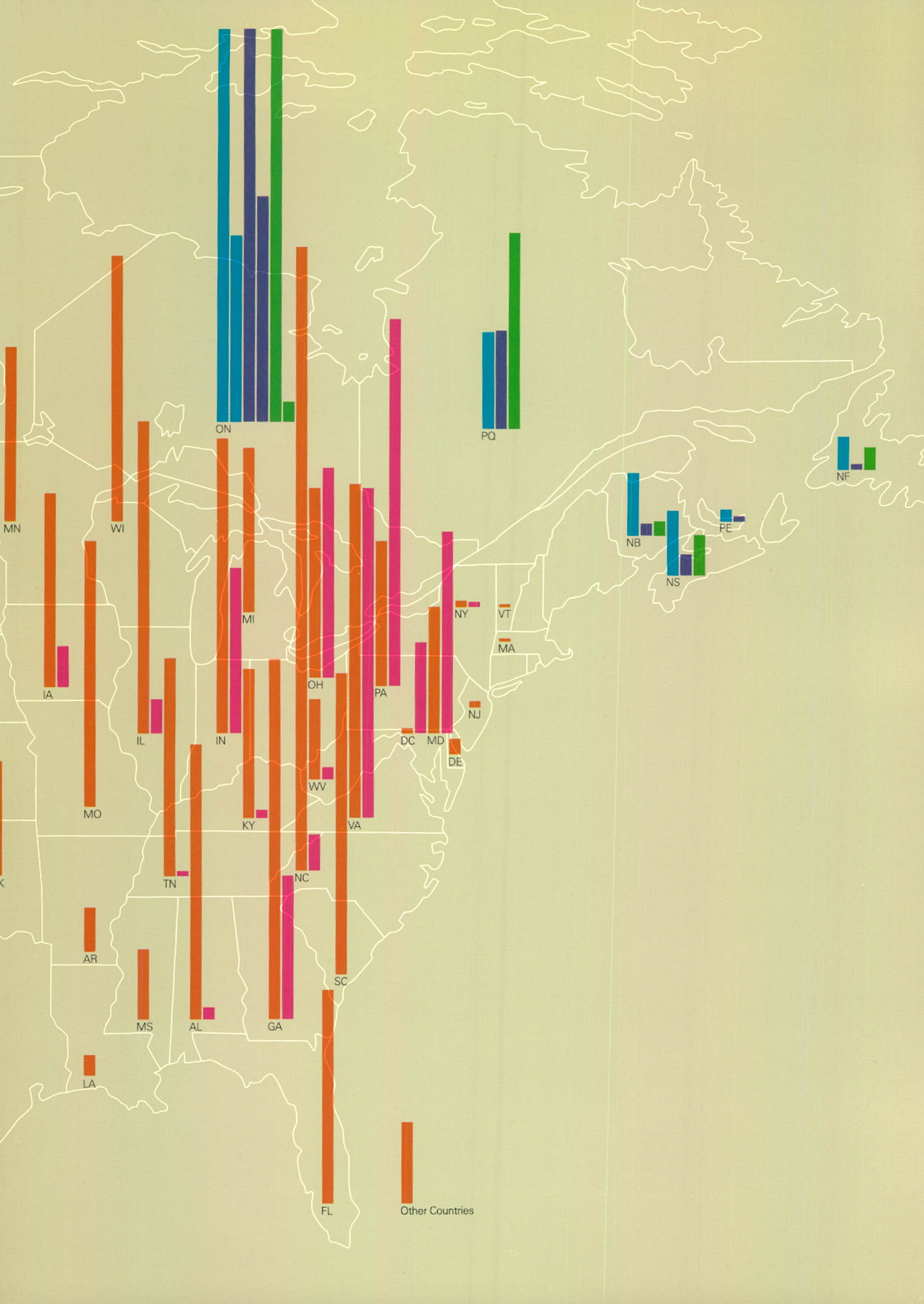
Outlook

In its 85th anniversary year, The UCS Group will continue the traditions followed since 1902 – to grow with Canada through excellence in service to consumers.

Imasco Limited
Restaurants, drug stores, other retail locations and financial service offices

Canada		Shoppers Drug Mart	Canada Trustco	The UCS Group
AB	Alberta	40	49	67
BC	British Columbia	65	51	47
MB	Manitoba	17	10	25
NB	New Brunswick	31	6	7
NF	Newfoundland	16	2	11
NS	Nova Scotia	32	10	20
ON	Ontario	290	307	205
PE	Prince Edward Island	6	2	–
PQ	Québec	48	49	98
SK	Saskatchewan	8	10	19
YT	Yukon	–	–	1
Total		**553**	**496**	**500**

United States		Imasco USA	Peoples Drug Stores
AL	Alabama	137	6
AR	Arkansas	22	–
AZ	Arizona	9	–
CO	Colorado	15	–
DC	District of Columbia	2	46
DE	Delaware	8	–
FL	Florida	107	–
GA	Georgia	180	72
IA	Iowa	97	20
IL	Illinois	157	17
IN	Indiana	149	83
KS	Kansas	53	–
KY	Kentucky	75	4
LA	Louisiana	10	–
MA	Massachusetts	1	–
MD	Maryland	64	101
MI	Michigan	82	–
MN	Minnesota	87	–
MO	Missouri	133	–
MS	Mississippi	35	–
MT	Montana	9	–
NB	Nebraska	13	–
NC	North Carolina	312	18
ND	North Dakota	18	–
NJ	New Jersey	3	–
NM	New Mexico	7	–
NY	New York	3	2
OH	Ohio	95	105
OK	Oklahoma	57	–
PA	Pennsylvania	73	184
SC	South Carolina	151	–
SD	South Dakota	17	–
TN	Tennessee	109	2
TX	Texas	43	–
UT	Utah	27	–
VA	Virginia	168	165
VT	Vermont	1	–
WI	Wisconsin	133	–
WV	West Virginia	40	6
WY	Wyoming	5	–
Other Countries			
	Bahrain	1	–
	Costa Rica, C.A.	1	–
	Kuwait	12	–
	Netherlands Antilles	1	–
	Oman	1	–
	Panama	3	–
	Puerto Rico	1	–
	Qatar	1	–
	Saudi Arabia	8	–
	Singapore	3	–
	Taiwan	3	–
	United Arab Emirates	5	–
Total		**2,747**	**831**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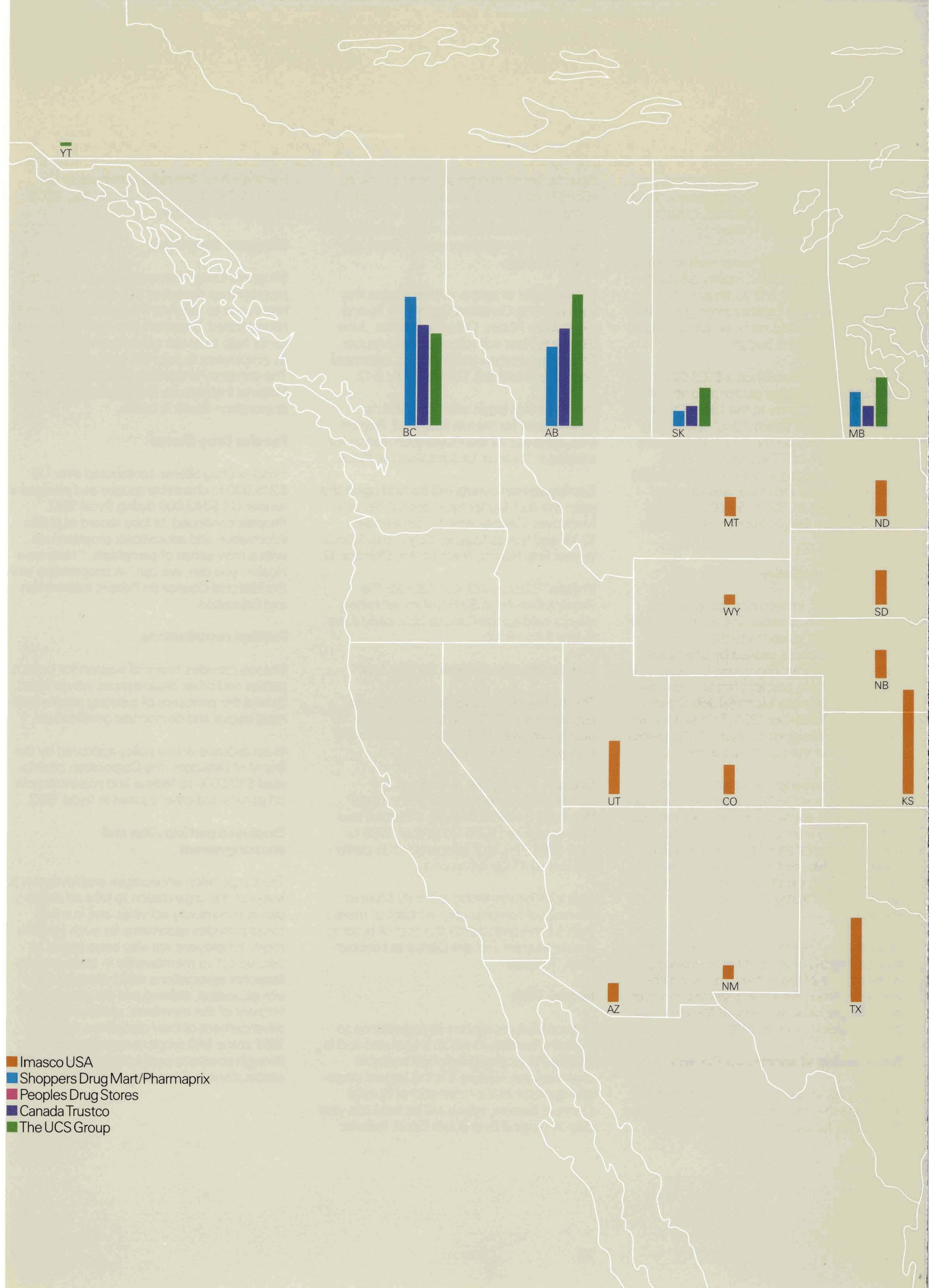
GA
LA
FL
Other Countries


YT
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SK
MB
MT
ND
WY
SD
NB
UT
CO
KS
AZ
NM
TX
Imasco USA
Shoppers Drug Mart/Pharmaprix
Peoples Drug Stores
Canada Trustco
The UCS Group

In fiscal 1987 Imasco continued its support for charitable and other worthy causes. Total donations to some 500 Canadian organizations amounted to $1.9 million.

Donations are made for social welfare, aid to the disadvantaged, public health, education, cultural, recreational and youth activities. United appeals and capital campaigns of hospitals and universities make up an important part of the donations budget.

In 1981 Imasco established a $100,000 fund to assist disabled students to attend university in response to the United Nations Declaration of the International Year of the Disabled. Since then the fund has awarded 50 scholarships to 27 students. In 1985 $50,000 was added to the original $100,000 and in fiscal 1986 individual awards were increased from $1,500 to $2,000. In fiscal 1987, a further $50,000 was contributed to the fund.

Job creation initiative

For some time, Imasco has expressed its support for private sector initiatives that contribute practical solutions to the economic and social problems caused by unemployment, especially among young Canadians. To help alleviate this problem Imasco committed $7 million to the Montréal Job Creation Initiative in December 1986. This experimental project is designed to create 1,000 permanent jobs over the next three years.

The idea is to sponsor a project whereby entrepreneurs with viable business plans are provided with physical facilities and administrative assistance to start up new enterprises. A team of small business development specialists will manage the project. One Enterprise Centre opened this spring and a second Centre will open later in the year.

The choice of Montréal as the location of the two Enterprise Centres reflects Imasco's commitment to the community in which Imasco's head office is located and in which our principal division, Imperial Tobacco, has been established since 1912.

Sponsorship of sports and the arts

Imperial Tobacco is one of many companies in Canada that recognize the need to support the search for excellence in sports and in the arts. Through support for a number of sports competitions, exhibitions and artistic events associated with product brand names, Imperial Tobacco makes a major contribution to the development of these pursuits in Canada.

The calendar of sports events begins this year with the Canadian Open Golf Tournament, Glen Abbey, Oakville, Ontario, June 29-July 5. Next will follow the du Maurier Classic for women golfers at the Islesmere Golf Club, Montréal, Québec, July 6-12.

Tennis events begin with the Player's International for men in Montréal, August 8-16, followed by the Player's Challenge for women in Toronto, Ontario, August 15-23.

Two equestrian events will be held again this year; the du Maurier International, Spruce Meadows, Calgary, Alberta, September 12-13, and the du Maurier Cup at the Atlantic Winter Fair, Halifax, Nova Scotia, October 17.

Imperial Tobacco will also sponsor the Player's Challenge Series of motor racing events held across Canada from early June to late September.

The du Maurier Council for the Arts

The du Maurier Council for the Arts was established in 1971, and since then has distributed over $5.6 million to performing arts groups across Canada.

Because of the great success of the du Maurier sponsored tour of the Royal Winnipeg Ballet in 1985-86, a second tour was sponsored from November 1986 to April 1987. This tour consisted of 31 performances in 18 Canadian cities.

Also worth mentioning is the du Maurier Council's three-year commitment of more than $1 million towards the cost of building the du Maurier Theatre Centre at Harbourfront, Toronto.

Imasco USA

Imasco USA recognizes its importance to the communities in which it operates and is involved in local and national charitable organizations. Hardee's is the largest corporate sponsor of the International Special Olympic Games, which will be held this year July 31-August 8, in South Bend, Indiana. Hardee's has pledged a minimum of US $500,000 to the Games. More than 4,500 athletes will take part.

Shoppers Drug Mart

Shoppers Drug Mart continues to develop programmes designed to promote good health and to alleviate the problems of the handicapped. Shoppers has received awards for its help to senior citizens, and has trained its employees to help the hard of hearing. The company is working with the Canadian National Institute for the Blind to produce prescription labels in braille.

Peoples Drug Stores

Peoples Drug Stores contributed over US $245,000 to charitable causes and pledged a further US $243,000 during fiscal 1987. Peoples continued its long record of public information and educational programmes with a new series of pamphlets, "Help your Health: you can, we can" in cooperation with the National Council on Patient Information and Education.

Political contributions

Imasco provides financial support for political parties and other organizations which stand behind the principles of a strong private business sector and democratic government.

In accordance with a policy approved by the Board of Directors, the Corporation contributed $108,000 to federal and provincial political parties and other causes in fiscal 1987.

Employee participation and encouragement

The Corporation encourages employees at all levels of the organization to take an active part in community activities and in many cases provides assistance for such involvement. Employees are also encouraged to take up active membership in trade and professional associations which have as their aim education, training and the general betterment of the members' abilities and the advancement of their disciplines. In fiscal 1987 some 540 employees participated through company-paid memberships in 459 associations in Canada and the USA.

1 Paul Paré and Purdy Crawford look over plans for Job Creation Enterprise centres.

2 Boris Becker, 1986 Player's International winner.

3 Helena Sukova, 1986 Player's Challenge champion.

4 Pat Bradley, winner of 1986 du Maurier Classic.

5 Wilmat Tennyson, right, presents trophy to Bob Murphy, Canadian Open Golf champion.

6 Soirée du Maurier at Festival de Lanaudière, Cathédrale de Joliette, PQ.

7 Don Brown, Vice-President, Marketing, Imperial Tobacco presents Player's Challenge trophy to winner Richard Spénard, Molson Indy, Toronto, 1986.

8 Special olympics athletes meet Cale Yarborough, driver of Hardee's #24 race car.

9 Imasco Scholarships for disabled students are awarded to Lisa Huss and Linda Vey (sitting), Victoria University.

10 Purdy Crawford presents first of five $10,000 cheques to École des Hautes Études Commerciales, Montréal.

11 Purdy Crawford (second from right) and David Bloom (left) present Imasco's $100,000 cheque to Gordon Creasy, President, United Way, Toronto.

12 Virginia Knaur, Consumer Advisor to President Reagan, recognizes Peoples work in consumer education.


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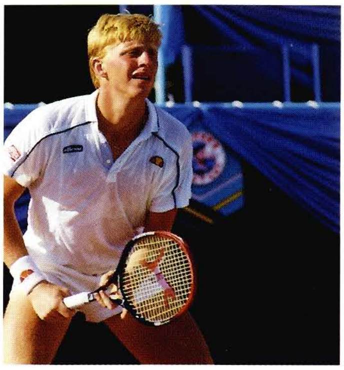
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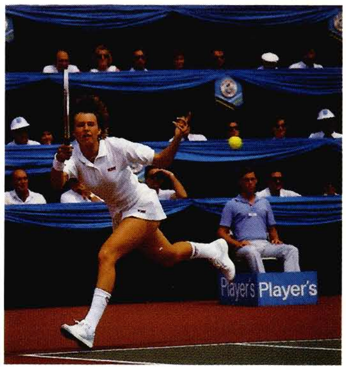

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Imasco Limited
Directors

Paul Paré, O.C. [1,4]
Chairman of the Board
Imasco Limited

Purdy Crawford [1,3,4]
President and
Chief Executive Officer
Imasco Limited

David R. Bloom
Chairman and
Chief Executive Officer
Imasco Drug Retailing Group;
Chairman, President and
Chief Executive Officer
Shoppers Drug Mart Limited

Roderick C. Foster, C.A.
Executive Vice-President
Imasco Limited

Peter Kilburn [2]
Consultant
Richardson Greenshields
of Canada Limited

Murray B. Koffler, C.M. [1,2,3,4]
Chairman
The Koffler Group

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

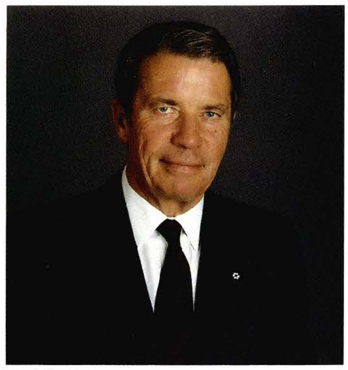
Paul E. Martin [1]
President and
Chief Executive Officer
The CSL Group Inc.

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

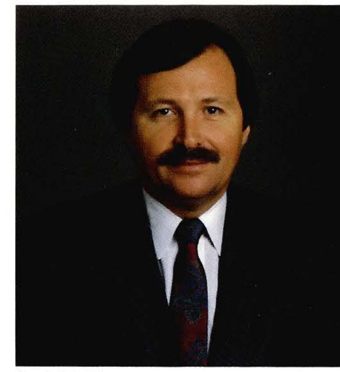
Jean H. Richer, C.M. [2,4]
President
Jean H. Richer Associés Ltée

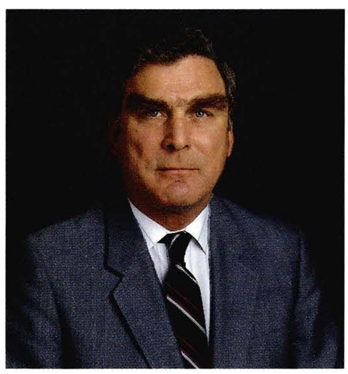
Daniel E. Somers
Executive Vice-President
Chief Financial Officer and
Treasurer
Imasco Limited

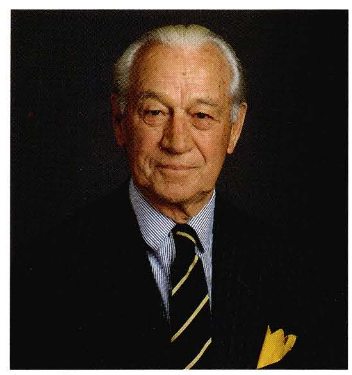
1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Salary Committee
4 Member of the Nominating Committee

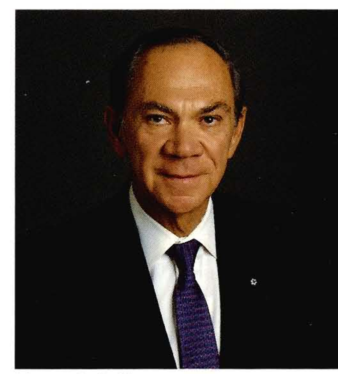

Paul Paré, O.C.


Purdy Crawford

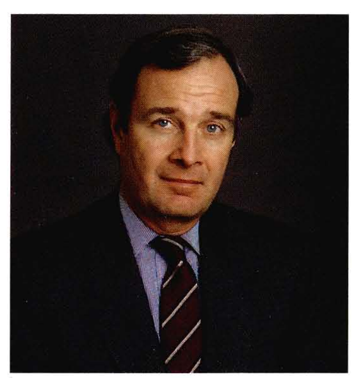

David R. Bloom

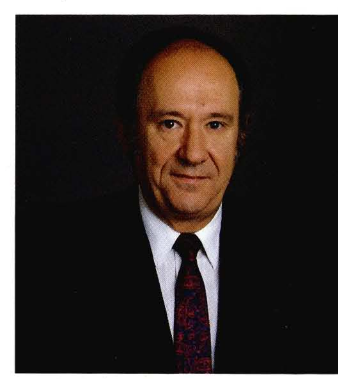

Roderick C. Foster, C.A.

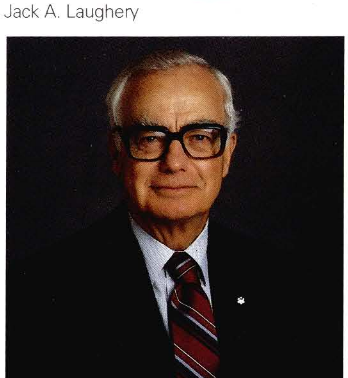

Peter Kilburn


Murray B. Koffler, C.M.


Jack A. Laughery


Paul E. Martin


Jean-Louis Mercier


Jean H. Richer, C.M.


Daniel E. Somers

Executive Committee

The Executive Committee meets between regular board meetings. The Board of Directors meets a minimum of five times a year and in the intervals the Executive Committee meets to advise the President and Chief Executive Officer on various matters, to take action where necessary and to make recommendations to the Board.

Audit Committee

The Audit Committee meets a minimum of four times a year. The Committee reviews, approves and recommends for adoption by the Board of Directors the financial statements of the Corporation; examines and recommends for payment the statements of fees of the Corporation's auditors; and in general is responsible for seeing that adequate accounting control procedures are in place.

Salary Committee

The Salary Committee reviews and approves the compensation and benefits of the executive directors.

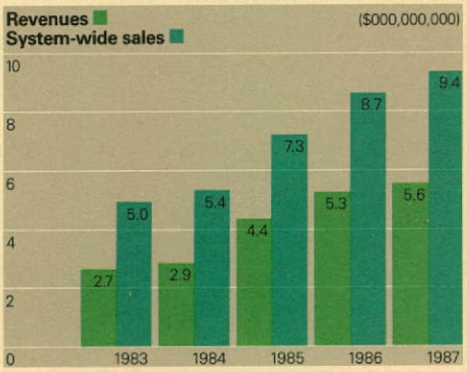
Nominating Committee

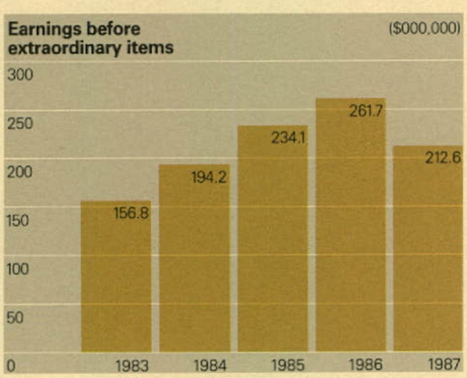
The Nominating Committee recommends candidates for the Board of Directors.

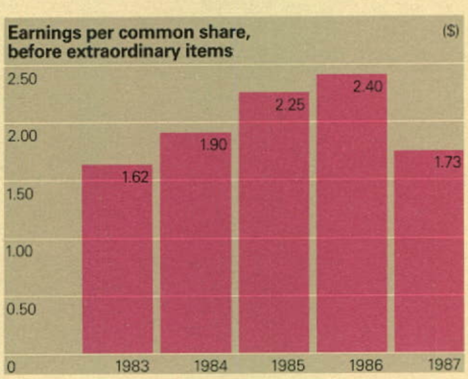
Contents

Management's Discussion and Analysis

Results of operations







Consolidated sales and earnings

System-wide sales were $9.4 billion in fiscal 1987 compared with $8.7 billion in fiscal 1986, an increase of 9%. Fiscal 1986 system-wide sales reflected an 18% increase over those of fiscal 1985.

Revenues of $5.6 billion in fiscal 1987 were 6% higher than in fiscal 1986 with increases reported by all divisions. Fiscal 1986 revenues of $5.3 billion were 22% greater than in fiscal 1985.

Fiscal 1987 operating earnings declined by 4% to $448.2 million with mixed divisional results. The Imperial Tobacco division reported a decline in operating earnings of $36 million, or 15%. This decline in earnings was planned and is primarily the result of price discounting in the industry during the first three quarters of the fiscal year. Severe and unplanned operational problems at the Peoples Drug Stores division resulted in an operating loss for the year of $32.1 million, compared with operating earnings of $46.4 million in fiscal 1986. The acquisition of Genstar Corporation and its principal financial services subsidiary, Canada Trustco Mortgage Company, provided the Corporation with additional operating earnings of $88.6 million. Increases in operating earnings were reported by Imasco USA, Shoppers Drug Mart and The UCS Group divisions. Operating earnings in fiscal 1986 increased by 8% over fiscal 1985 with increases reported by all divisions except Peoples Drug Stores which reported a decrease of 16%.

Net interest expense for fiscal 1987 was $156.8 million compared with $38.7 million in fiscal 1986, reflecting increased debt levels resulting from the acquisition of Genstar Corporation offset to a certain extent by lower interest rates on pre-acquisition debt. Fiscal 1986 net interest expense decreased 22% from fiscal 1985, again primarily attributable to the downward trend in interest rates.

Earnings before extraordinary items totalled $212.6 million, a decrease of 19% compared with $261.7 million earned in fiscal 1986. Earnings per common share before extraordinary items were $1.73 compared with $2.40 in fiscal 1986.

Extraordinary charges to earnings (Note 13, page 46) amounted to $29.1 million in fiscal 1987 and reduced net earnings to $183.6 million, a decrease of 30% from those of fiscal 1986.

Earnings per common share, after extraordinary items, decreased 38% over the same period. The larger percentage decline in earnings per share reflects the dilutive effect of a public issue of 10 million common shares in June 1986. Fiscal 1986 results showed net earnings and earnings per share increases of 12% and 7%.

Imperial Tobacco

Revenues for fiscal 1987 were $1.79 billion, an increase of 1% over fiscal 1986 revenues of $1.77 billion. Revenues suffered as a result of industry, including Imperial Tobacco, price discounting of selected brands and the movement of consumers to more economical brands. Unit sales volume continued to decline with Imperial Tobacco shipments in fiscal 1987 of 28.5 billion cigarettes, 7.1% less than in fiscal 1986. This compared with the reduction in industry shipments of 5.5% from 57.9 billion cigarettes to 54.7 billion cigarettes during the same period. Imperial Tobacco ended fiscal 1987 with a 52% share of market. This results from our lower share in the off-price segment and our early withdrawal from this segment versus our competitors. The reduction in industry volume is attributable to increasing consumer sensitivity to tobacco price increases, largely due to government tax increases. Sales and excise taxes are an ever increasing part of gross revenues. In fiscal 1987 sales and excise taxes were 59% of gross revenues as compared with 57% in fiscal 1986 and 50% in fiscal 1985. In fiscal 1986 revenues increased 22% over fiscal 1985. Unit shipments decreased 2.5%.

Management's Discussion and Analysis

Results of operations (continued)

Operating earnings declined 15% to $210 million during fiscal 1987 primarily due to lower gross margins on brands that were price discounted during the first three quarters of the year. With the termination of price discounting, gross margins returned to more normal levels as evidenced by the 3% increase in operating earnings during the fourth quarter of fiscal 1987 as compared with the similar quarter of fiscal 1986. Fiscal 1986 operating earnings increased 10% over fiscal 1985.

As discussed in Note 13 on page 46 the division has recorded an extraordinary provision with respect to the closure of its Québec City plant.

Imasco USA

Imasco USA had a successful fiscal 1987 with performance generally outpacing that of industry competitors.

System-wide sales in fiscal 1987 were $3.8 billion, an increase of 12% over fiscal 1986. Restaurant locations grew by 160 to 2,747. Average unit sales volume of the Hardee's restaurants increased by 4% to US $835,000 per restaurant. Fiscal 1986 system-wide sales increased 16% over fiscal 1985 with the addition of 176 restaurants to the system.

Revenues in fiscal 1987 were $1.7 billion, an increase of 10% over fiscal 1986. This increase results from the addition of 26 company-owned restaurants, increased revenues from existing restaurants, increased revenues by Fast Food Merchandisers, the manufacturing and distribution subsidiary of Imasco USA, and increased service and licence fees. On a comparable unit basis, revenues of company-owned restaurants increased 5.1% in fiscal 1987 due both to price and volume increases. The increased system-wide sales and revenues during fiscal 1987 reflect the successful introduction of a new quarter pound hamburger and a new marketing programme. Fiscal 1986 revenues increased by 14% over those of fiscal 1985 with comparable unit revenues increasing 1.4%.

Operating earnings for the year were $128.3 million, an increase of 8% over fiscal 1986 operating earnings of $118.8 million which in turn were 10% above the previous year. These increases are attributable to higher revenues.

Shoppers Drug Mart

In July 1986, the 76 store Super X Drugs group was acquired by Shoppers Drug Mart. This acquisition, together with the net addition of 43 stores, had a significant impact on the sales and revenues discussed below.

System-wide sales in fiscal 1987 were $1.8 billion, an increase of 16% over fiscal 1986. On a comparable store basis the increase in sales was 5.8%. Fiscal 1986 system-wide sales of $1.6 billion were 15% above fiscal 1985, 11.6% on a comparable store basis.

Average sales per store were $3.9 million compared with $3.7 million in fiscal 1986 and $3.3 million in fiscal 1985. Sales per square foot rose to $652 from $626 in fiscal 1986 and $542 in fiscal 1985. The average prescription sale was $16.62 in fiscal 1987 compared with $15.38 in fiscal 1986 and $14.23 in fiscal 1985.

Fiscal 1987 revenues of $144.3 million were 84% ahead of fiscal 1986 revenues of $78.4 million. Fiscal 1987 revenues include for the first time the sales of company-owned stores amounting to $57.5 million. In prior years, revenues of these stores were reported as though they were operated by Associates. Fiscal 1986 revenues were 18% ahead of fiscal 1985.

Operating earnings for the year were $46.9 million, an increase of 1% over fiscal 1986. Gross margins declined slightly during the year reflecting continuing competitive market conditions in certain regions and reductions in prescription margins in Ontario resulting from changes in the provincial government's drug benefit plans. However, improved margins were reported during the last two quarters of fiscal 1987 reflecting gains from pricing and buying strategies and an improved sales mix. Fiscal 1986 operating earnings of $46.6 million were 22% ahead of fiscal 1985.

Management's Discussion and Analysis

Results of operations (continued)

Peoples Drug Stores

Revenues for fiscal 1987 were $1.9 billion, an increase of 2% over fiscal 1986. Comparable store revenues increased 1.3%. Fiscal 1986 revenues increased by 35% over fiscal 1985 reflecting the December 1984 acquisition of Rea and Derick. In fiscal 1986 the comparable store revenues increase was 6.6%.

Average sales per store were US $1.64 million compared with US $1.60 million in fiscal 1986 and US $1.51 million in fiscal 1985. Sales per square foot rose to US $217 from US $213 in fiscal 1986 and US $196 in fiscal 1985. The average prescription sale was US $15 compared with US $13.20 in fiscal 1986 and US $12 in fiscal 1985.

Peoples Drug Stores reported an operating loss of $32.1 million in fiscal 1987 compared with operating earnings of $46.4 million in fiscal 1986 and $55.3 million in fiscal 1985. The steep decline in operating earnings is the result of operational problems and a significant erosion of gross margins. Gross margins have declined due to intense prescription price pressure from third party drug payment plan sponsors and the cost of protecting market share in its major markets. As discussed in Note 13 on page 46, a programme has been undertaken which provides for the rationalization and restructuring of certain business operations. It is expected that the situation at Peoples will improve in future years.

As at March 31, 1987 there were 831 retail locations compared with 832 the previous year, a net decrease of one store including the disposal of the 32 Shoppers Drug Mart stores in Florida.

The UCS Group

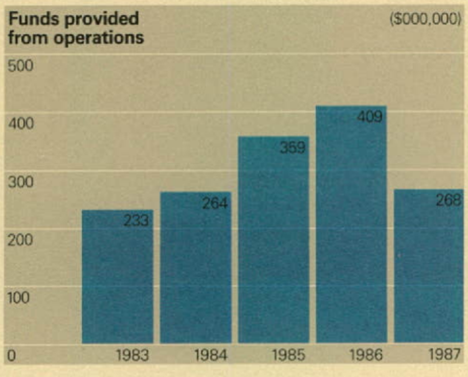
Revenues were $213.3 million in fiscal 1987 compared with $191.1 million in fiscal 1986, an increase of 12%, reflecting the net addition of 36 stores, bringing the total to 500. Fiscal 1985 revenues were $176.1 million.

Operating earnings increased 2% from $6.3 million in fiscal 1986 to $6.4 million in fiscal 1987. Fiscal 1986 operating earnings were 57% ahead of fiscal 1985.

Imasco Enterprises Inc.

Included in operating earnings of the Corporation is its equity in the net earnings of Imasco Enterprises Inc. The Corporation's equity in net earnings of Imasco Enterprises Inc. amounted to $88.6 million and includes its share of the net earnings of Canada Trustco Mortgage Company from May 1, 1986, the date of its acquisition, adjusted for the amortization of purchase price allocations. Additional information pertaining to this acquisition is presented in Notes 1 and 5 on pages 41 and 42 respectively.

Financial condition



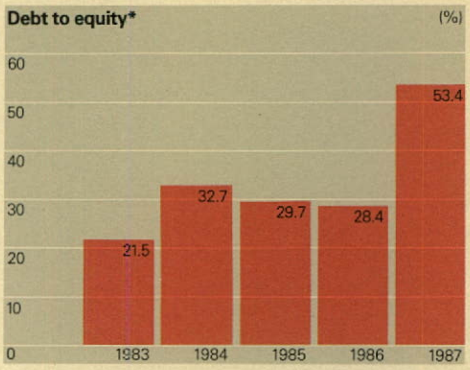
Funds provided from operations

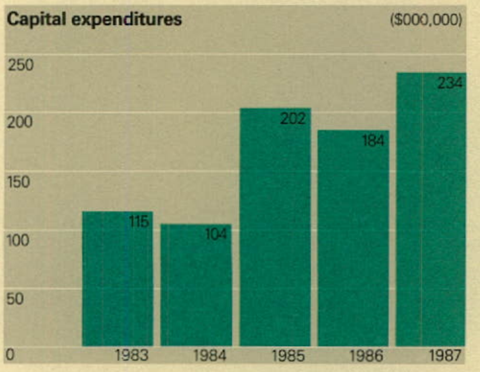
Working capital provided from operations amounted to $268.3 million in fiscal 1987, a decrease of $141 million from fiscal 1986. The decrease is attributable to reduced earnings in fiscal 1987 and equity earnings from Imasco Enterprises Inc. not received as cash. Working capital provided from operations in fiscal 1985 was $359.5 million.

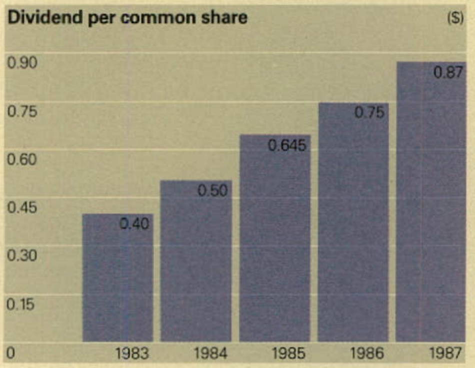
Total cash and cash equivalents provided from operating activities were $271.5 million in fiscal 1987 compared with $407.7 million in fiscal 1986 and $107.6 million in fiscal 1985. The decrease in fiscal 1987 is primarily due to lower working capital provided from operations, as mentioned above. In fiscal 1987, the sum of capital expenditures and dividends exceeded cash provided from operating activities by $74.6 million with the excess funded from existing cash balances and by debt.

Management's Discussion and Analysis

Financial condition (continued)







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

Liquidity and capital resources

The acquisition of Genstar Corporation during fiscal 1987 had a significant impact upon the capital structure and liquidity of the Corporation.

At March 31, 1987 the Corporation's cash and cash equivalents position was a deficiency of $197.2 million compared with a surplus of $126.5 million at the end of fiscal 1986 and a deficiency of $64.2 million at March 31, 1985. Working capital at March 31, 1987 was $489 million, $878.3 million at March 31, 1986 and $708.2 million at March 31, 1985. The decline in working capital reflects the reduced cash position outlined above. The current ratios at these points were 1.6:1; 2.1:1 and 1.9:1 respectively. Current assets at March 31, 1987 were 24% of total assets compared with 56% at the end of fiscal 1986 and 54% the previous year. Though the Corporation's level of liquidity declined during fiscal 1987, management is satisfied that the Corporation's continued favourable liquidity enables it to meet short term obligations. During fiscal 1987 the Corporation continued to maintain credit facilities with various banks which make available significant financial resources and provide the flexibility to meet seasonal cash requirements. As at March 31, 1987 the Corporation had available unused credit facilities of approximately $2.9 billion.

The entire cost of the Genstar Corporation acquisition of approximately $2.6 billion has been financed externally with approximately $535.9 million net proceeds from the issue of 10 million common shares and 8 million 7.375% Retractable First Preference shares Series C. The balance was funded from various forms of indebtedness. (Refer to page 41, Note 1.) Due primarily to this acquisition, the Corporation's long term debt to equity ratio rose to 53.4% from 28.4% at March 31, 1986 and 29.7% at March 31, 1985. Improvement in the long term debt to equity ratio is anticipated in the coming year as funds made available from the disposal of the non-financial service assets and operations of Genstar Corporation, as well as internally generated funds, will be used to reduce the level of debt. Although the acquisition of Genstar Corporation has significantly altered the capital structure of the Corporation, management is satisfied that its financial position is strong and that adequate resources remain available to support operations and expansion.

Capital expenditures

Capital expenditures for fiscal 1987 were $233.9 million compared with $184.1 million in fiscal 1986 and $202.1 million in fiscal 1985. Capital spending continues to be heaviest in the Imasco USA division with expenditures primarily directed towards new restaurant openings and the remodelling of existing restaurants. Imasco USA capital expenditures amounted to $166.3 million in fiscal 1987 compared with $87.3 million in fiscal 1986 and $119.6 million in fiscal 1985. The Corporation's capital expenditures during the next 12 months are expected to exceed $250 million with the largest increase in the Imasco USA division. Internally generated funds are expected to finance the majority of this spending.

Common share data

The Corporation's common shares are listed on the Montréal, Toronto and Vancouver stock exchanges. The number of holders of common shares was 16,776 at March 31, 1987 with 119,122,833 shares outstanding.

During fiscal 1987 the Corporation paid dividends at the rate of 87 cents per common share which compares with 75 cents in fiscal 1986 and 64.5 cents in fiscal 1985. Total dividend payments were $101.5 million compared with $81.7 million in fiscal 1986. This increase reflects the higher dividend rate in fiscal 1987 and the issue of 10 million common shares in June 1986.

Management's Responsibility for Consolidated Financial Statements

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

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

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

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of non-executive directors. The Audit Committee meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The shareholders' auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Deloitte Haskins & Sells, Chartered Accountants, and their report is presented below.

Purdy Crawford

Purdy Crawford
President and Chief Executive Officer

Daniel E. Somers
Executive Vice-President, Chief Financial Officer and Treasurer

May 4, 1987

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheets of Imasco Limited as at March 31, 1987, 1986 and 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three year period ended March 31, 1987. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at March 31, 1987, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the years in the three year period ended March 31, 1987 in accordance with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Chartered Accountants
Montréal, Canada

May 4, 1987

Summary of Accounting Policies

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

Basis of presentation

The consolidated financial statements include the accounts of all subsidiaries except Imasco Enterprises Inc., a financial services subsidiary, which is accounted for on the equity method because its financial structure and operations differ significantly from the Corporation's other businesses. Acquisitions are accounted for on the purchase method of accounting and the results of operations of acquired businesses are included from their effective dates of acquisition. Goodwill and related costs arising from acquisitions of subsidiaries are capitalized and amortized on a straight-line basis over their estimated useful lives not exceeding 40 years.

Licence and service fee income

Initial licence fee (Restaurant) – recognized as income upon the opening of a licensed restaurant.
Continuing service fees (Restaurant and Shoppers Drug Mart) – recognized as income as a variable percentage of sales of licensed restaurants and associate drug stores.

Earnings per common share

Earnings per common share are calculated after deducting dividends on preference shares and using the weighted average number of common shares outstanding during the year. Fully diluted earnings per common share are computed as though outstanding stock options had been exercised at the later of the beginning of the year or the date of issue of the stock option.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially as follows:
Tobacco: average cost
Drug Store – Peoples Drug Stores: first-in, first-out
– Shoppers Drug Mart: first-in, first-out
Restaurant: first-in, first-out
Other – The UCS Group: retail inventory method

Investments and receivables

Investments and receivables are stated at cost.

Fixed assets

Fixed assets are accounted for at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 14 to 45 years for buildings and from three to 25 years for equipment.
Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the term of the respective lease.
Property under capital leases is amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the term of the lease.

Deferred charges

Deferred charges are stated at cost less amortization accumulated on a straight-line basis.
The amortization periods for the principal elements of deferred charges are as follows:
Software development costs (Peoples Drug Stores): over their estimated useful lives of three to seven years.
Financing costs: term of the issue to which they relate.
Drug store opening costs (Shoppers Drug Mart – associate stores): recovered from Pharmacist Associates over three years, commencing in the thirteenth month after opening.
Restaurant, other drug store and retail store opening costs: first year of operation.
Restaurant and retail leases acquired: term of the lease.
Other deferred charges: one to 20 years.

Consolidated Statement of Earnings

	1987	1986	1985
	Thousands of dollars except "Earnings per common share"		
Revenues	**5,625,074**	**5,325,134**	**4,353,254**
Sales and excise taxes	1,058,867	1,014,354	727,281
	4,566,207	4,310,780	3,625,973
Operating costs	4,206,667	3,844,910	3,193,941
	359,540	465,870	432,032
Equity in net earnings of Imasco Enterprises Inc. (Note 5)	88,620	–	–
Operating earnings	**448,160**	**465,870**	**432,032**
Corporate expenses	23,425	20,020	17,308
Interest – net (Note 11)	156,788	38,658	49,300
Earnings before income taxes	267,947	407,192	365,424
Income taxes (Note 12)	55,301	145,447	131,316
Earnings before extraordinary items	**212,646**	**261,745**	**234,108**
Extraordinary items (Note 13)	(29,079)	–	–
Net earnings	**183,567**	**261,745**	**234,108**
Earnings per common share			
Before extraordinary items	**$1.73**	**$2.40**	**$2.25**
After extraordinary items	**$1.48**	**$2.40**	**$2.25**

Consolidated Statement of Retained Earnings

	1987	1986	1985
	Thousands of dollars		
Retained earnings, beginning of the year	**1,024,229**	**844,502**	**677,815**
Net earnings	183,567	261,745	234,108
Dividends (Note 10)	(112,247)	(82,018)	(67,421)
Costs of issuing shares, net of tax of 6,078	(9,101)	–	–
Retained earnings, end of year	**1,086,448**	**1,024,229**	**844,502**

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

Consolidated Balance Sheet		**1987**	1986	1985
			Thousands of dollars	
Current assets	Cash and short term investments	40,229	373,905	270,741
	Accounts and notes receivable	264,773	232,627	282,750
	Inventories	970,888	1,026,881	909,704
	Prepaid expenses	29,481	29,347	16,603
	Total current assets	1,305,371	1,662,760	1,479,798
Current liabilities	Bank and other short term loans	237,429	247,408	334,932
	Accounts payable and accrued liabilities	499,199	439,302	368,239
	Income, excise and other taxes	49,282	71,450	50,541
	Current portion of long term debt and capital leases	30,485	26,297	17,882
	Total current liabilities	816,395	784,457	771,594
	Working capital	**488,976**	**878,303**	**708,204**
Other assets	Investments and receivables (Note 2)	101,505	82,174	96,087
	Deferred charges (Note 3)	63,885	52,844	48,301
	Fixed assets (Note 4)	970,763	921,506	867,618
	Goodwill	237,358	244,925	249,768
	Investment in Imasco Enterprises Inc. (Note 5)	2,721,069	22,435	–
	Total other assets	4,094,580	1,323,884	1,261,774
	Excess of assets over current liabilities	**4,583,556**	**2,202,187**	**1,969,978**
Other liabilities	Long term debt (Note 6)	2,410,978	603,106	560,008
	Long term obligations under capital leases (Note 9)	21,465	26,406	30,544
	Deferred income taxes	48,195	55,584	53,645
	Total other liabilities	2,480,638	685,096	644,197
	Excess of assets over liabilities	**2,102,918**	**1,517,091**	**1,325,781**
Shareholders' equity	Capital stock (Note 7)	1,002,857	453,758	453,445
	Unrealized gain on foreign currency translation	13,613	39,104	27,834
	Retained earnings	1,086,448	1,024,229	844,502
	Total shareholders' equity	**2,102,918**	**1,517,091**	**1,325,781**

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

Approved by the Board,

Purdy Crawford

Purdy Crawford, Director

Peter Kilburn

Peter Kilburn, Director

Consolidated Statement of Changes in Financial Position		**1987**	1986	1985
			Thousands of dollars	
Operating activities	Earnings before extraordinary items	212,646	261,745	234,108
	Items not affecting working capital	55,656	147,543	125,376
	Working capital provided from operations	**268,302**	**409,288**	**359,484**
	Decrease (increase) in non-cash operating working capital	12,794	19,201	(236,462)
	Deferred charges	(19,738)	(17,971)	(9,375)
	Unrealized foreign exchange	10,153	(2,799)	(6,058)
	Total cash from operating activities	**271,511**	**407,719**	**107,589**
Financing activities	Issue of shares, net of issue costs	539,636	–	157,250
	Issue of long term debt	3,261,071	85,151	93,092
	Repayment of long term debt	(1,408,751)	(72,399)	(50,915)
	Payments under capital leases	(4,381)	(4,576)	(3,580)
	Treasury shares issued in excess of (less than) common shares purchased for cancellation	362	313	(287)
	Total cash from financing activities	**2,387,937**	**8,489**	**195,560**
Investing activities	Business acquisitions	(2,605,032)	(22,435)	(173,735)
	Additional investment in Imasco Enterprises Inc.	(22,372)	–	–
	Extraordinary items	(2,393)	66,536	–
	Purchases of fixed assets	(233,860)	(184,109)	(202,078)
	Proceeds from disposal of fixed assets	14,436	20,074	28,350
	Disposal of investments and receivables collected	29,828	31,003	28,824
	Increase in investments and receivables	(51,505)	(54,571)	(13,033)
	Total cash used for investing activities	**(2,870,898)**	**(143,502)**	**(331,672)**
Cash and cash equivalents	From operating activities	271,511	407,719	107,589
	From financing activities	2,387,937	8,489	195,560
	(For) investing activities	(2,870,898)	(143,502)	(331,672)
	(For) dividends	**(112,247)**	**(82,018)**	**(67,421)**
	Increase (decrease) for year	(323,697)	190,688	(95,944)
	Beginning of year	126,497	(64,191)	31,753
	End of year	**(197,200)**	**126,497**	**(64,191)**

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

Cash and cash equivalents include cash and short term investments, net of bank and other short term loans.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements	**1987**	1986	1985

1. Significant events

On March 24, 1986 the Corporation, through a wholly owned subsidiary, Imasco Enterprises Inc., commenced an offer to purchase all of the outstanding common shares of Genstar Corporation. The offer, as subsequently amended, provided for the payment in cash of $58 per share and expired on August 1, 1986 by which date 97% of such shares had been tendered. The balance of Genstar Corporation's common shares were acquired pursuant to the compulsory acquisition rights under Section 199 of the Canada Business Corporations Act. The entire cost of the acquisition of approximately $2.6 billion was financed by floating rate bank indebtedness. This indebtedness was subsequently reduced by $535.9 million net proceeds from the issue of 10 million common shares and 8 million 7.375% Retractable First Preference shares Series C and partially refinanced by issues of $200 million 10½% Debentures due 1996, $150 million 10¼% Debentures due 2001 and US $150 million 8⅛% Notes due November 13, 1991.
At the time of acquisition, Genstar Corporation was a diversified company which, directly or through subsidiaries, provided a broad range of financial services, manufactured building materials, provided specialized industrial services and was active in land and real estate development. Effective December 29, 1986 Genstar Corporation was dissolved by resolution of its Board of Directors. Pursuant to this resolution, the assets of Genstar Corporation have been distributed to Imasco Enterprises Inc. and all the liabilities and obligations and the former operations of Genstar Corporation have been assumed by Imasco Enterprises Inc.
The Corporation, subject to governmental regulations, intends to retain its current investment in Canada Trustco Mortgage Company which is held by Genstar Financial Corporation and which represents the most significant portion of the financial services businesses acquired.
The Corporation is engaged in a programme to divest all of the remaining assets and operations of the former Genstar Corporation. These assets have been designated as "net assets held for disposal" and have been assigned a value of $800 million representing the estimated proceeds resulting from their disposal, net of debt and income taxes.
As at May 1, 1986 the effective date of the acquisition, Genstar Corporation, through its wholly owned subsidiary Genstar Financial Corporation, owned 98.9% of the common shares of Canada Trustco Mortgage Company.
Details of the acquisition, which has been accounted for on the purchase method of accounting, are as follows:

Assets at assigned values	
Cash and short term notes	2,891,247
Securities	3,981,807
Loans	15,312,420
Investment properties	275,043
Land, premises and equipment	152,582
Other	371,956
Identifiable intangibles – financial intermediary	162,000
– fiduciary	90,000
– real estate brokerage	31,500
Residual intangible	933,442
Net assets held for disposal	800,000
	25,001,997
Liabilities at assigned values	
Deposits	21,425,760
Other	558,245
Minority interest	407,916
	22,391,921
Total cash consideration	**2,610,076**
Cash consideration paid during fiscal 1986	22,435
Cash consideration paid during fiscal 1987	2,587,641

Reference to the Corporation's investment in Imasco Enterprises Inc. is made in Note 5.
In addition, Shoppers Drug Mart and The UCS Group have acquired businesses during fiscal 1987 for a total cash consideration of $17,391,000 including cash deficiency acquired.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements

1. Significant events (continued)

Effective April 1, 1984 the Corporation acquired all of the outstanding common shares and 8¾% convertible subordinated debentures of Peoples Drug Stores and subsidiaries for a total cash consideration of $398.4 million. Effective December 1, 1984 the Corporation, through its wholly owned subsidiary, Peoples Drug Stores, acquired all of the outstanding common shares of Rea and Derick, a U.S. drug store chain, for a total cash consideration of $114.2 million. As a result, net assets acquired amounted to $334.1 million and goodwill arising from the acquisitions amounted to $178.5 million. In addition, the Restaurant segment acquired a business in fiscal 1985 for a total cash consideration of $9.3 million.

2. Investments and receivables

	1987	1986	1985
Notes receivable – restaurant licencees and drug store associates	59,476	54,047	53,329
Canadian Westgrowth Ltd.	13,112	12,114	11,110
Canada Northwest Energy Limited	–	–	16,632
Notes receivable – other	6,312	6,806	2,292
Other investments and receivables	22,605	9,207	12,724
	101,505	**82,174**	**96,087**

3. Deferred charges

	1987	1986	1985
Software development costs	10,432	14,208	13,609
Cost of leases acquired and other acquisition costs	20,912	8,421	5,634
Opening costs of facilities	7,557	7,999	4,216
Financing costs	9,389	3,520	4,137
Other deferred charges	15,595	18,696	20,705
	63,885	**52,844**	**48,301**

Deferred software development costs are composed primarily of software acquired in the Peoples Drug Stores and Rea and Derick acquisitions as well as software costs uniquely associated with the development of the Fredericksburg distribution centre in the Peoples Drug Stores segment. Other software development costs are expensed as incurred.
Amortization of deferred charges amounted to $12,327,000 (1986 – $9,791,000; 1985 – $9,503,000).

4. Fixed assets

	1987	1986	1985
Land	101,496	93,046	90,257
Buildings	299,262	275,701	254,709
Equipment	677,002	622,301	542,574
Leasehold improvements	392,282	348,160	314,214
Property under capital leases	35,051	40,135	41,610
	1,505,093	1,379,343	1,243,364
Accumulated depreciation and amortization	534,330	457,837	375,746
Net fixed assets	**970,763**	**921,506**	**867,618**

Depreciation and amortization expense on fixed assets excluding property under capital leases amounted to $123,650,000 (1986 – $116,394,000; 1985 – $93,161,000). Amortization expense on property under capital leases amounted to $2,352,000 (1986 – $2,440,000; 1985 – $2,287,000). Accumulated amortization on property under capital leases amounted to $22,565,000 (1986 – $23,735,000; 1985 – $22,406,000).

5. Investment in Imasco Enterprises Inc.

Imasco Enterprises Inc. is composed primarily of the operations of Canada Trustco Mortgage Company and the remaining assets and operations of the former Genstar Corporation which are being held for disposal.
The Corporation accounts for the operations of Imasco Enterprises Inc. on the equity method because its financial structure and operations differ significantly from the Corporation's other businesses. The financial statements of Imasco Enterprises Inc. include the results of operations of Canada Trustco Mortgage Company from May 1, 1986, adjusted to include the amortization of a portion of the purchase price premium paid upon the acquisition.
The other businesses of the former Genstar Corporation have been accounted for as an investment at cost and reported as "Net assets held for disposal". Earnings and carrying charges relating thereto are not recorded in the consolidated statement of earnings of Imasco Enterprises Inc. At the completion of the disposal process, the net proceeds in excess of, or less than, the assigned value including carrying charges will be credited or charged to Imasco Enterprises Inc.'s investment in Canada Trustco Mortgage Company.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements	**1987**	1986	1985

5. Investment in Imasco Enterprises Inc. (continued)

The following summary presents the condensed consolidated statement of earnings of Imasco Enterprises Inc. for the period from incorporation, March 19, 1986 to March 31, 1987 and the condensed consolidated balance sheet as at March 31, 1987.

Condensed Consolidated Statement of Earnings
(unaudited)

Revenues	
Investment income	2,103,728
Fees and other revenues	370,646
	2,474,374
Expenses	
Interest on customer deposits	1,643,139
Other	710,259
	2,353,398
Earnings before income taxes	120,976
Income taxes	30,359
Net earnings	**90,617**

The net earnings presented above are $1,997,000 greater than the equity in net earnings of Imasco Enterprises Inc. reported by the Corporation due to the amortization of additional acquisition expenses and deferred financing costs incurred by the Corporation.

Condensed Consolidated Balance Sheet
(unaudited)

Assets	
Cash and short term notes	1,111,291
Loans, securities and other investments	23,822,813
Land, premises and equipment	189,067
Net assets held for disposal	800,000
Intangible and other assets	1,138,682
	27,061,853
Liabilities, minority interest and shareholders' equity	
Liabilities	
Deposits	23,566,023
Notes, mortgages and other liabilities	333,688
Minority interest	509,579
Shareholders' equity	2,652,563
	27,061,853

The fiscal year end of Imasco Enterprises Inc. does not coincide with that of the Corporation. The above condensed financial statements were prepared to cover the period ending with the fiscal year end of the Corporation. Audited financial statements for Imasco Enterprises Inc. were prepared as of its fiscal year end, December 31, 1986.
A reconciliation of Imasco Enterprises Inc.'s shareholders' equity to the Corporation's investment in Imasco Enterprises Inc. is as follows:

Shareholders' equity as above	2,652,563
Additional acquisition expenses and deferred financing costs, net of amortization of $1,997,000	57,723
Advances from affiliates	7,865
Unrealized foreign exchange	2,918
Investment in Imasco Enterprises Inc.	**2,721,069**

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements		**1987**	1986	1985
6. Long term debt	Debentures			
	15½% due January 1989 [1,2]	–	69,790	68,180
	10½% due November 1996	200,000	–	–
	10¼% due December 2001	150,000	–	–
		350,000	69,790	68,180
	Sinking fund debentures			
	8½% Series A due March 1991 [2]	–	19,250	20,300
	10⅞% Series B due August 1995 [2]	–	20,100	21,000
	10¼% Series C due October 1990 [1,2]	–	13,220	15,690
	9% due July 1992 [2]	–	4,110	5,186
		–	56,680	62,176
	Notes payable			
	8⅛% due November 1991 [1]	195,825	–	–
	9¼% payable in annual instalments to October 1993 [1,3]	9,138	11,166	12,272
	10¾% payable in annual instalments to September 1994 [1,3]	41,776	50,249	54,544
		246,739	61,415	66,816
	Term loans [1,4]	1,771,310	358,910	325,991
	Industrial revenue bonds [1,3,5]	27,637	31,583	28,750
	Other long term obligations [1,3]	43,211	51,068	26,148
		2,438,897	629,446	578,061
	Sinking fund debentures held in treasury	–	(2,905)	(2,718)
	Payments due within one year [6]	(27,919)	(23,435)	(15,335)
		2,410,978	**603,106**	**560,008**

[1] All or partly payable in US dollars. The aggregate principal amount of long term debt payable in US dollars at March 31, 1987 was $751,269,000 (US $575,465,000), at March 31, 1986 was $541,147,000 (US $387,697,000) and at March 31, 1985 was $517,714,000 (US $384,015,000).

[2] During fiscal 1987 all of the sinking fund debentures and the 15½% debentures due January 1989 were redeemed by the Corporation.

[3] The net book value of land, buildings and equipment securing notes, industrial revenue bonds and other long term obligations at March 31, 1987 was approximately $32,178,000 (March 31, 1986 – $36,723,000; March 31, 1985 – $41,553,000).

[4] Term loans consist of unsecured promissory notes and bankers acceptances maturing within one year which are supported by long term non-cancellable bank term credit facilities of $2,839,000,000 expiring from 1993 to 1996. Term loans outstanding at March 31, 1987 carry an average interest rate of 7.3% (March 31, 1986 – 7.8%; March 31, 1985 – 9.2%).

[5] Industrial revenue bonds mature at various dates to 2000 and carry an average interest rate of 5.8% at March 31, 1987 (March 31, 1986 – 6.7%; March 31, 1985 – 7.1%).

[6] Long term debt maturing during the next five years is as follows:

1988	27,919
1989	19,727
1990	8,561
1991	8,857
1992	204,612

All tabular figures are in thousands of dollars

Notes to the Consolidated Financial Statements

7. Capital stock

Authorized:
a) 1,650,000 6% Cumulative Preference shares.
b) An unlimited number of first and second preference shares, issuable in series.
c) 120,000,000 common shares.
Issued and outstanding:

	1987	1986	1985
a) 1,191,888 6% Cumulative Preference shares	5,800	5,800	5,800
b) 8,000,000 7.375% Retractable First Preference shares Series C	200,000	–	–
c) 119,122,833 common shares (1986 – 108,908,146; 1985 – 108,898,364)	797,057	447,958	447,645
	1,002,857	**453,758**	**453,445**

Weighted average number of shares outstanding used in the determination of earnings per common share are:

	1987	1986	1985
Basic	116,865,915	108,904,477	104,095,256
Fully diluted	117,423,207	109,349,219	104,095,256

During the year 10 million common shares were issued at a price of $34.50 per share and 8 million 7.375% Retractable First Preference shares Series C were issued at $25 per share. In addition, 202,000 common shares were issued as a result of the exercise of stock options at an average price of $18.50 per share, and 25,769 common shares were issued in payment of quarterly dividends under the Shareholders' Stock Dividend Plans, at an average stated value per share of $32.93.
During the year 13,082 common shares were purchased for cancellation at an average cost of $37.12.
At March 31, 1987 there were stock options outstanding in respect of 576,000 common shares granted to certain executives of the Corporation with an average option price of $29.42. These options expire at various dates between fiscal 1990 and 1992. The exercise of the stock options would not dilute earnings per common share.

8. Operating lease commitments

The Corporation has commitments with respect to real estate operating leases, most of which are for terms of three to 20 years. The minimum annual commitments under such leases are approximately as follows:

	Rental commitment	Assumed by Associates	Net rental commitment
1988	121,842	48,389	73,453
1989	116,302	46,332	69,970
1990	107,791	41,582	66,209
1991	99,149	36,923	62,226
1992	90,140	33,614	56,526

The minimum annual rental commitments as listed above do not give effect to escalation and percentage-of-sales clauses in certain of the leases. Net rentals under leases, including escalation and percentage-of-sales payments, amounted to $110,393,000 in 1987 (1986 – $101,102,000; 1985 – $77,302,000). In addition, the Corporation has operating lease commitments for equipment which are for terms of one to six years, with an annual rental of approximately $19,172,000.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements

		1987	1986	1985
9. Capital lease commitments	The Corporation has commitments with respect to property in the Restaurant and Drug Store segments recorded under capital leases expiring on various dates through the year 2007. The minimum annual commitments under such leases are approximately as follows:			
	1988	6,295		
	1989	6,090		
	1990	5,787		
	1991	5,291		
	1992	4,705		
	1993 and thereafter	12,450		
	Total minimum commitments	40,618		
	Imputed interest at 12.3%	(16,587)		
	Payments due within one year	(2,566)		
	Long term obligations under capital leases	**21,465**		
10. Dividends	6% Cumulative Preference shares	348	348	348
	7.375% Retractable First Preference shares Series C	10,406	–	–
	Common shares	101,493	81,670	67,073
		112,247	**82,018**	**67,421**
	Dividends for the year ended March 31, 1987 consisted of cash payments of $111,398,000 and of 25,769 common shares with an aggregate stated value of $849,000. These shares were issued under the Shareholders' Stock Dividend Plans which entitled holders of certain classes of shares to receive common shares in lieu of cash dividends. These plans were terminated in fiscal 1987.			
11. Interest expense – net	Interest on long term debt	143,404	52,088	53,693
	Interest on capital leases	3,987	4,585	4,616
	Other interest expense – net	9,397	(18,015)	(9,009)
		156,788	**38,658**	**49,300**
12. Income taxes	The effective income tax rate on consolidated earnings reported in these financial statements varies from year to year due to factors such as changes in the statutory income tax rate structure, the imposition of temporary surtaxes, variations in special tax incentives made available under tax legislation and differences in the extent to which they may be claimed, and differences in the geographic and industrial mix of consolidated earnings. The principal factors causing the difference between the effective income tax rate and the aggregate statutory income tax rate in Canada are as follows:			
	Combined federal and provincial income tax rate	47.5%	47.5%	47.5%
	Equity in subsidiary net earnings	(10.2)	–	–
	Foreign income taxed at lower rates	(9.4)	(6.1)	(5.2)
	Manufacturing and processing allowances	(4.7)	(3.4)	(3.7)
	Other items	(2.6)	(2.3)	(2.7)
	Effective income tax rate	**20.6%**	**35.7%**	**35.9%**

13. Extraordinary items

The Corporation has undertaken a programme to restructure the operations of Peoples Drug Stores. As part of this restructuring, the Corporation has disposed of the 32 Shoppers Drug Mart stores in Florida and intends to dispose of certain other assets and operations of Peoples Drug Stores. The remaining assets to be disposed consist primarily of the operations of B. H. Krueger, a manufacturer of fragrances, lotions and powders, and of 81 drug stores principally located in fringe or secondary markets. The Corporation has estimated the cost of this programme to be approximately $38,764,000. This provision includes net losses expected to be incurred from the operation of these units during the next fiscal year and the anticipated costs of disposal.

In January 1987 Imperial Tobacco announced plans to close its Québec City plant. Excessive federal and provincial taxation on the sale of tobacco products and consequent declines in sales volumes have made this production capacity unnecessary.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements

	1987	1986	1985

13. Extraordinary items (continued)

Costs associated with the disposition of the Québec City plant and the loss on the disposition of a smaller investment are expected to be approximately $7,846,000.

	1987	1986	1985
Provision for costs of restructuring Peoples Drug Stores, net of tax recovery of $14,343,000	24,421	–	–
Provision for costs of disposal of Québec City plant and other investment, net of tax recovery of $3,188,000	4,658	–	–
Gain on sale of investment in Canada Northwest Energy Limited, net of tax of $11,194,000	–	(30,048)	–
Provision for cost of special voluntary early retirement programme, net of tax recovery of $11,035,000	–	16,401	–
Loss on disposal of business operations and investments, net of tax recovery of $2,600,000	–	13,647	–
	29,079	–	–

14. Related party transactions

a) B.A.T Industries p.l.c., through the ownership of shares of the Corporation, is defined as a related party. Transactions with B.A.T Industries p.l.c. and its subsidiaries were as follows:

	1987	1986	1985
i) Payment of fees for research and development, marketing and manufacturing services	1,281	1,225	1,330
ii) Export sales of leaf tobacco	8,955	10,859	7,202
iii) Dividend income from BAC Cosmetiques Inc.	–	–	122
iv) Purchases of materials	7,927	7,170	11,051

b) On April 17, 1986 Imasco Limited signed a letter of undertaking to the Minister of Finance stating its intent that Imasco Limited would not engage in self-dealing with Canada Trustco Mortgage Company and its subsidiaries and would take steps to preserve its arm's length relationship with Canada Trustco Mortgage Company with respect to its officers, directors and auditors. In addition, it agreed that neither Imasco Limited nor any of its affiliates would acquire control of any company offering financial services in Canada until the earlier of December 31, 1987 or nine months after Bill C-103 comes into force. Similarly, on May 21, 1986 Canada Trustco Mortgage Company signed a letter of undertaking to the Minister of Finance stating its resolve to abstain from related party transactions.
Canada Trustco Mortgage Company, as a trust and loan institution, is regulated by various Canadian federal and provincial legislations, the federal portion of which is administered by the Superintendent of Insurance, Canada, under broad powers granted by the legislation. Regulatory approval would be required for any loan from Canada Trustco Mortgage Company to the Corporation or affiliates of the Corporation.
On December 18, 1986 the Minister of State for Finance tabled a policy paper which outlined significant changes to be legislated in respect of the regulation of the financial services industry, the powers of financial institutions and the ownership of financial institutions. Included is a provision which, if enacted as proposed, would require the Corporation to reduce its shareholding in Canada Trustco Mortgage Company by December 31, 1991 to no more than 65% of the voting shares outstanding.

15. Other information

a) The current service costs of the various pension and retirement plans are charged to earnings as they accrue. There was no unfunded liability for past service benefits as at March 31, 1987.
b) Research and development costs charged to earnings during the year amounted to $2,897,000 (1986 – $4,453,000; 1985 – $5,019,000).
c) The Corporation has provided guarantees to various banks in respect of certain borrowings by drug store Associates. The total of these guarantees at March 31, 1987 was $61,955,000 (1986 – $45,125,000; 1985 – $41,834,000); the outstanding indebtedness of the Associates was $32,022,000 (1986 – $21,800,000; 1985 – $24,441,000).
d) Goodwill amortization charged to earnings during the year amounted to $6,887,000 (1986 – $6,840,000; 1985 – $6,752,000).
e) Certain comparative figures have been reclassified to conform to the current year's presentation.
f) The Corporation and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, the results are not expected to materially affect the Corporation's financial position.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements

16. Segmented financial information

Financial information is presented according to the following industry segments. [1]
Consolidated segments:
Tobacco – Imperial Tobacco: manufactures and distributes tobacco products.
Restaurant – Imasco USA: operates, licenses, supplies and services a system of fast service restaurants primarily in the United States.
Drug Store – Peoples Drug Stores (a U.S. drug store chain) and Shoppers Drug Mart: retail operations which specialize in prescription drugs, health and beauty aids and a broad mix of consumer products.
Other – The UCS Group: retail operations specializing in tobacco products and gifts; and the operations of Imasco Resources.
Divested operations: The Tinder Box International.
Non consolidated segment:
Financial services – Imasco Enterprises Inc.: includes the operations of Canada Trustco Mortgage Company engaged in savings, loans, trust and real estate brokerage services.

		1987	1986	1985
Revenues	Tobacco	1,787,614	1,769,776	1,451,130
	Restaurant	1,656,350	1,508,710	1,321,248
	Drug Store – Peoples Drug Stores	1,875,273	1,831,271	1,359,261
	– Shoppers Drug Mart	144,267	78,360	66,146
	Other	213,335	191,146	176,088
	Divested operations	–	–	23,250
	Intersegmental [2]	(51,765)	(54,129)	(43,869)
		5,625,074	**5,325,134**	**4,353,254**
Operating earnings	Tobacco	210,009	246,015	224,024
	Restaurant	128,316	118,768	108,289
	Drug Store – Peoples Drug Stores	(32,117)	46,444	55,307
	– Shoppers Drug Mart	46,882	46,555	38,283
	Other	6,450	8,088	7,192
	Divested operations	–	–	(1,063)
		359,540	465,870	432,032
	Equity in net earnings of Imasco Enterprises Inc.	88,620	–	–
		448,160	**465,870**	**432,032**
Depreciation and amortization expense	Tobacco	16,732	14,482	12,162
	Restaurant	68,096	63,045	53,374
	Drug Store – Peoples Drug Stores	42,488	43,267	31,226
	– Shoppers Drug Mart	15,583	12,995	11,766
	Other	2,317	1,676	1,569
	Divested operations	–	–	1,606
		145,216	**135,465**	**111,703**
Capital expenditures	Tobacco	14,866	20,350	19,900
	Restaurant	166,288	87,294	119,613
	Drug Store – Peoples Drug Stores	25,577	53,983	46,978
	– Shoppers Drug Mart	22,694	19,211	10,868
	Other	4,435	3,271	2,502
	Divested operations	–	–	2,217
		233,860	**184,109**	**202,078**

[1] As at March 31, 1987, other than the Restaurant and the Peoples Drug Stores segments, operations outside Canada are not significant.

[2] Intersegmental transactions consist of sales from Imperial Tobacco to The UCS Group at normal wholesale selling prices.

All tabular figures are in thousands of dollars.

Notes to the Consolidated Financial Statements		**1987**	1986	1985
16. Segmented financial information (continued)				
Net fixed assets	Tobacco	108,694	108,990	101,995
	Restaurant	551,791	496,392	474,867
	Drug Store – Peoples Drug Stores	225,377	251,732	225,109
	– Shoppers Drug Mart	69,230	53,538	48,896
	Other	15,671	10,854	9,877
	Divested operations	–	–	6,874
		970,763	**921,506**	**867,618**
Inventories	Tobacco	420,152	403,580	443,769
	Restaurant	60,513	49,914	51,969
	Drug Store – Peoples Drug Stores	442,109	536,431	373,138
	– Shoppers Drug Mart	15,692	6,602	2,602
	Other	32,422	30,354	28,576
	Divested operations	–	–	9,650
		970,888	**1,026,881**	**909,704**
Capital employed [3]	Tobacco	548,779	531,017	534,300
	Restaurant	620,224	568,097	555,458
	Drug Store – Peoples Drug Stores	682,761	817,489	652,480
	– Shoppers Drug Mart	168,266	117,873	106,810
	Other	38,721	35,389	55,403
	Divested operations	–	–	16,840
		2,058,751	**2,069,865**	**1,921,291**
Reconciliation of capital employed and excess of assets over current liabilities	Capital employed	2,058,751	2,069,865	1,921,291
	Investment in Imasco Enterprises Inc.	2,721,069	22,435	–
	Other corporate assets	98,757	420,832	390,953
		4,878,577	2,513,132	2,312,244
	Less: Corporate current liabilities	295,021	310,945	342,266
	Excess of assets over current liabilities	**4,583,556**	**2,202,187**	**1,969,978**

[3] Capital employed consists of directly identifiable assets at net book value, less current liabilities, excluding income taxes payable and bank and other debt. In addition, capital employed of each consolidated segment excludes corporate assets and corporate current liabilities.

Selected Ten Year Financial Data
For the years ended March 31

		1987	1986
Operations	System-wide sales	9,430,534	8,688,642
	Revenues	5,625,074	5,325,134
	Fixed asset depreciation and amortization expense	126,002	118,834
	Operating earnings [1]	448,160	465,870
	Corporate expenses	23,425	20,020
	Interest	156,788	38,658
	Income taxes	55,301	145,447
	Earnings, before extraordinary items	212,646	261,745
	Net earnings, after extraordinary items	183,567	261,745
	Earnings per common share, before extraordinary items [2]		
	basic	1.73	2.40
	fully diluted	1.73	2.40
Dividend record	On preference shares	10,754	348
	On common shares	101,493	81,670
	Per common share [2]	0.87	0.75
Working capital provided	From operations	268,302	409,288
Capital expenditures	On fixed assets	233,860	184,109
Financial position	Current assets	1,305,371	1,662,760
	Current liabilities	816,395	784,457
	Working capital	488,976	878,303
	Fixed assets		
	Before depreciation and amortization	1,505,093	1,379,343
	Net of depreciation and amortization	970,763	921,506
	Total assets	5,399,951	2,986,644
	Long term debt	2,410,978	603,106
	Excess of assets over liabilities	2,102,918	1,517,091
Shareholders' equity	Preference shareholders	205,800	5,800
	Common shareholders [3]	1,883,505	1,472,187
	Per common share [2]	15.81	13.52
Financial ratios	Return on average shareholders' equity	11.7%	18.4%
	Return on average total assets	5.1%	9.1%
	Interest coverage ratio	2.7x	11.5x
	Current ratio	1.6:1	2.1:1
	Debt to equity ratio [4]	53.4%	28.4%
	Common dividend payout ratio [5]	50.3%	31.2%

1 Operating earnings for the years 1978 to 1981 have been restated to include equity income in order to conform to the current year's presentation.
2 Prior years' amounts are restated to reflect the subdivisions of common shares on a two for one basis on March 22, 1985, November 23, 1982 and July 30, 1980.
3 Common shareholders' equity excludes unrealized gain on foreign currency translation.
4 Long term debt as a percentage of long term debt and total equity.
5 Common dividends as a percentage of net earnings before extraordinary items less dividends on preference shares.

Thousands of dollars, except "Per common share" amounts and "Financial ratios"

1985	1984	1983	1982	1981	1980	1979	1978
7,346,472	5,382,021	4,953,519	3,853,785	2,264,940	1,721,809	1,586,748	1,070,687
4,353,254	2,873,151	2,713,901	2,190,756	1,423,707	1,150,538	1,161,526	1,049,421
95,448	64,818	58,456	45,412	19,739	13,178	11,984	8,050
432,032	339,608	300,347	246,974	168,833	132,085	114,785	84,248
17,308	16,040	13,179	10,885	9,634	7,424	6,584	5,729
49,300	21,082	41,804	35,600	18,128	13,308	11,339	7,955
131,316	108,314	88,601	76,313	51,521	43,125	40,455	27,486
234,108	194,172	156,763	124,176	89,550	68,228	56,407	43,078
234,108	205,080	161,594	119,513	89,550	68,228	57,721	40,734
2.25	2.03	1.73	1.39	1.07	0.83	0.70	0.55
2.25	1.90	1.62	1.32	1.06	0.82	0.68	0.55
348	8,232	8,970	9,006	1,188	418	1,281	348
67,073	45,895	33,930	28,985	24,844	20,640	16,016	13,921
0.645	0.50	0.40	0.35	0.30	0.25	0.205	0.18
359,484	264,212	232,658	191,527	109,908	88,356	76,074	54,896
202,078	104,074	114,675	106,705	53,686	37,102	31,055	17,170
1,479,798	917,363	802,020	622,008	537,229	405,592	386,403	354,351
771,594	497,777	407,263	367,317	364,880	218,030	193,407	138,258
708,204	419,586	394,757	254,691	172,349	187,562	192,996	216,093
1,243,364	844,160	818,729	725,901	567,325	212,771	179,980	140,584
867,618	552,045	541,213	494,976	377,492	116,955	93,826	70,221
2,741,572	2,029,897	1,530,063	1,315,117	1,086,363	677,257	607,077	478,821
560,008	480,470	225,353	278,412	153,936	96,921	99,967	95,511
1,325,781	988,021	823,161	593,870	512,348	344,305	297,974	232,876
5,800	5,800	109,304	110,325	110,325	5,800	17,483	5,800
1,292,147	968,497	713,857	483,545	402,023	338,505	280,491	227,076
11.87	9.49	7.85	5.84	4.86	4.09	3.49	2.94
20.2%	21.4%	22.1%	22.5%	20.9%	21.2%	21.3%	19.6%
9.8%	10.9%	11.0%	10.3%	10.2%	10.6%	10.4%	9.2%
8.4x	15.3x	6.9x	6.6x	8.8x	9.4x	9.5x	9.9x
1.9:1	1.8:1	2.0:1	1.7:1	1.5:1	1.9:1	2.0:1	2.6:1
29.7%	32.7%	21.5%	31.9%	23.1%	22.0%	25.1%	29.1%
28.7%	24.7%	23.0%	25.2%	28.1%	30.4%	29.1%	32.6%

Divisional Statistical Highlights
Five year review for years ended March 31

		1987	1986	1985	1984	1983
Canadian Divisions		Thousands of dollars, except "Number of stores"				
Imperial Tobacco	Revenues	1,787,614	1,769,776	1,451,130	1,358,935	1,242,899
	Sales and excise taxes	1,058,867	1,014,354	727,281	667,820	592,435
	Operating earnings	210,009	246,015	224,024	205,209	182,268
	Inventories	420,152	403,580	443,769	447,770	404,937
	Fixed assets – net	108,694	108,990	101,995	93,230	90,190
	Depreciation expense [1]	13,958	12,898	10,832	9,070	8,545
	Capital expenditures	14,866	20,350	19,900	12,989	26,778
Shoppers Drug Mart	System-wide sales	1,834,007	1,583,704	1,371,324	1,290,688	1,142,906
	Revenues					
	Sales	57,528[2]	–	–	–	16,319
	Service fees	86,739	78,360	66,146	60,707	52,976
	Operating earnings	46,882	46,555	38,283	32,632	28,437
	Inventories	15,692	6,602	2,602	2,200	2,987
	Fixed assets – net	69,230	53,538	48,896	48,389	45,857
	Depreciation expense [1]	11,542	9,347	8,994	8,342	7,207
	Capital expenditures	22,694	19,211	10,868	11,456	9,023
	Number of stores	553	434	447	435	440
The UCS Group	Revenues	213,335	191,146	176,088	165,963	150,713
	Operating earnings	6,450	6,303	4,016	5,974	3,808
	Inventories	32,422	30,354	28,576	28,218	26,319
	Fixed assets – net	15,671	10,756	9,624	9,025	8,978
	Depreciation expense [1]	2,277	1,645	1,539	1,350	1,249
	Capital expenditures	4,435	3,263	2,453	2,804	2,690
	Number of stores	500	464	455	457	453
U.S. Divisions		Thousands of US dollars, except "Number of restaurants" and "Number of stores"				
Imasco USA	System-wide sales	2,745,790	2,440,648	2,197,895	1,917,231	1,718,419
	Revenues					
	Sales					
	Company-owned restaurants	676,583	634,990	599,404	579,156	544,625
	Other	481,745	418,206	365,717	304,413	232,627
	Service and licence fees	47,547	41,243	37,058	31,685	29,565
	Operating earnings [3]	93,763	87,000	82,991	75,269	60,289
	Inventories	46,352	35,760	38,112	36,980	33,864
	Fixed assets – net	418,078	351,341	343,852	302,966	285,436
	Depreciation expense [1]	47,359	43,541	37,755	33,887	30,051
	Capital expenditures	121,432	63,353	90,650	58,114	56,581
	Number of restaurants					
	Company-owned	905	879	870	825	840
	Licensed	1,842	1,708	1,541	1,404	1,314
		2,747	2,587	2,411	2,229	2,154
Peoples Drug Stores [4]	Revenues	1,365,880	1,326,875	1,028,742	791,147	688,409
	Operating earnings [3]	(19,463)	40,097	47,706	29,344	25,471
	Inventories	442,109	384,317	273,642	153,697	129,420
	Fixed assets – net	225,378	180,350	165,084	51,013	44,498
	Depreciation expense [1]	24,243	25,247	17,239	6,697	5,899
	Capital expenditures	18,619	39,185	35,423	15,183	11,117
	Number of stores	831	832	765	575	554

[1] Represents depreciation and amortization expense on fixed assets.
[2] Reflects for the first time the sales of company-owned stores. Previously, revenues of these stores were reported as though these stores were operated by Associates.
[3] Excludes the amortization of purchase price allocations arising from acquisition.
[4] Peoples Drug Stores, Incorporated became a wholly owned subsidiary April 1, 1984. Statistical highlights prior to the year ended March 31, 1985 are for the years ended September 1983 and 1982.

Canada Trustco Mortgage Company
Statistical Highlights
Three year review for years ended December 31

		1986	1985	1984
		Thousands of dollars except "Per common share" and "Statistical data"		
Operations	Investment income	2,352,500	2,200,182	2,032,949
	Net investment income after provision for possible investment losses	424,680	358,233	297,758
	Fees, net commissions and other income	240,069	216,302	222,182
	Earnings before operating expenses	664,749	574,535	519,940
	Earnings before income taxes	147,447	153,549	146,952
	Net earnings	133,879	135,467	125,784
Per common share	Net earnings			
	Basic	3.29	3.62	3.72
	Fully diluted	3.23	3.45	3.43
	Dividends paid	1.30	2.74	1.28
Financial position	Assets under administration	52,444,000	49,226,000	42,509,000
	Personal, pension and pooled trust funds	28,348,000	27,656,000	23,235,000
	Deposits	22,814,000	20,158,000	18,073,000
	Loans	16,807,000	15,211,000	12,845,000
	Shareholders' equity	1,025,000	951,000	744,000
Statistical data	Number of shares outstanding			
	Preference	4,877,280	4,904,452	2,535,426
	Common – basic	37,818,761	37,747,943	32,435,485
	– fully diluted	39,279,418	39,216,828	35,593,721
	Financial services branches	300	315	311
	Real estate offices	177	173	171
	Trust services offices	22	23	32

Imasco Enterprises Inc., a wholly owned subsidiary of the Corporation, owns in excess of 98% of the outstanding voting shares of Canada Trustco Mortgage Company. The accounts of Canada Trustco Mortgage Company are not consolidated with those of the Corporation. The Corporation accounts for Imasco Enterprises Inc. on the equity method. The fiscal year end of Canada Trustco Mortgage Company does not coincide with that of the Corporation. The highlights presented above have been taken from Canada Trustco Mortgage Company's annual report for the year ended December 31, 1986.

Quarterly Consolidated Financial Information
(unaudited)

		Fourth	Third	Second	First
		Thousands of dollars except "Per common share" amounts			
Fiscal 1987	System-wide sales	2,212,729	2,548,336	2,418,172	2,251,297
	Revenues	1,310,978	1,507,993	1,439,755	1,366,348
	Operating earnings	84,102	136,151	119,718	108,189
	Corporate expenses	6,553	6,537	5,351	4,984
	Interest – net	37,875	42,813	41,891	34,209
	Income taxes	2,034	20,327	16,870	16,070
	Earnings before extraordinary items	37,640	66,474	55,606	52,926
	Net earnings	8,561	66,474	55,606	52,926
	Per common share				
	Earnings before extraordinary items	0.28	0.53	0.44	0.48
	Net earnings	0.03	0.53	0.44	0.48
	Dividends	0.24	0.21	0.21	0.21
	Market price [1]				
	High	39½	35	36⅞	40
	Low	32⅛	31	30½	32
	Number of shares traded [2]	10,355	6,006	5,414	8,360
Fiscal 1986	System-wide sales	2,105,337	2,366,395	2,183,481	2,033,429
	Revenues	1,282,536	1,458,521	1,337,871	1,246,206
	Operating earnings	91,548	135,617	126,256	112,449
	Corporate expenses	6,387	4,959	4,289	4,385
	Interest – net	8,716	8,386	10,127	11,429
	Income taxes	25,065	46,378	39,487	34,517
	Net earnings	51,380	75,894	72,353	62,118
	Per common share				
	Net earnings	0.47	0.70	0.66	0.57
	Dividends	0.21	0.18	0.18	0.18
	Market price [1]				
	High	35	28⅜	28¼	29¾
	Low	24¼	22⅝	23½	25⅛
	Number of shares traded [2]	6,651	6,286	5,836	5,529
Fiscal 1985	System-wide sales	1,788,529	2,041,237	1,805,356	1,711,350
	Revenues	1,067,609	1,221,949	1,047,202	1,016,494
	Operating earnings	89,745	129,083	113,116	100,088
	Corporate expenses	5,566	4,097	3,833	3,812
	Interest – net	4,527	14,666	14,215	15,892
	Income taxes	28,461	41,326	33,086	28,443
	Net earnings	51,191	68,994	61,982	51,941
	Per common share				
	Net earnings	0.47	0.67	0.60	0.51
	Dividends	0.18	0.155	0.155	0.155
	Market price [1]				
	High	28¼	24⅜	21⅝	19⅞
	Low	22⅝	20	19	17⅜
	Number of shares traded [2]	4,501	1,772	2,612	2,129

[1] Market prices reflect prices quoted on the Toronto Stock Exchange.
[2] The number of shares traded (in thousands) reflects the combined volume of shares traded on the Toronto, Montréal and Vancouver stock exchanges.

Officers

Paul Paré, O.C.
Chairman of the Board
Purdy Crawford
President and
Chief Executive Officer
Roderick C. Foster, C.A.
Executive Vice-President
Daniel E. Somers
Executive Vice-President, Chief Financial
Officer and Treasurer
William J. Harris
Senior Vice-President, Administration
Torrance J. Wylie
Senior Vice-President
Roger S. Ackman
Vice-President and General Counsel
Robert C. Bégin, C.A.
Vice-President, Treasury Services
Pierre Duhamel, C.A.
Vice-President, Corporate Finance
Richard L. Hall
Vice-President and Corporate Comptroller
Paul K. Ryan, F.C.I.S.
Vice-President and Secretary
Roy R. Schwartz
Vice-President, Corporate Development
Lise Pratte
Assistant Secretary

Imperial Tobacco Limited

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

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

Jean-Louis Mercier
Chairman and Chief Executive Officer
Wilmat Tennyson
President and Chief Operating Officer
Donald Brown
Vice-President, Marketing
Michael A. Courtney
Vice-President, Finance
Marius Dagneau
Vice-President, Human Resources
Patrick J. Dunn
Vice-President, Research and Development
André Laporte
Vice-President, Manufacturing
Thomas F. Lee
Vice-President, Materials Management
Roland Bouchard
Secretary
Édouard Darche, C.A.
Comptroller

General Cigar Company
Montréal, Québec

Manufactures and distributes cigars.

Imperial Leaf Tobacco

John Street North
Aylmer, Ontario
N5H 2R8

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

Imasco USA, Inc.

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

Operates and licenses 2,747 fast food restaurants principally in the United States, manufacturing and distribution facilities, and a small chain of Italian restaurants.

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

Hardee's Food Systems, Inc.

William E. Prather, Jr.
President and Chief Operating Officer
Ralph E. Peterson
Executive Vice-President and Chief Financial Officer
Gary L. Langstaff
Executive Vice-President, Marketing
Paul R. Lovin, Jr.
Executive Vice-President, Operations

Fast Food Merchandisers, Inc.

Hugh Todd, Jr.
Chairman, President and Chief Executive Officer
F. Winslow Goins
Executive Vice-President, Distribution Services
Robert F. Autry
Senior Vice-President, Sales and Management
Dean N. Spangler
Senior Vice-President, Manufacturing

Grisanti, Inc.

9300 Shelbyville Road
Suite 1006
Louisville, Kentucky, 40222
U.S.A.

Michael J. Grisanti
President and Chief Operating Officer

Burger Chef Systems, Inc.

College Park Pyramids
P. O. Box 927
Indianapolis, Indiana, 46268
U.S.A.

Robert E. Haberkamp
President and Chief Operating Officer

Imasco Drug Retailing Group

Oversees the operations of Shoppers Drug Mart and Peoples Drug Stores.

David R. Bloom
Chairman and Chief Executive Officer

Shoppers Drug Mart

225 Yorkland Blvd.
Toronto, Ontario
M2J 4Y7

Top Drug Mart, Toronto, Ontario
Pharmaprix, Montréal, Québec
Super X Drugs, Downsview, Ontario

A group of 553 licensed and company-owned drug stores operating in Canada.

Murray B. Koffler, C.M.
Honorary Chairman
David R. Bloom
Chairman, President and Chief Executive Officer
Herbert R. Binder
Senior Executive Vice-President and Chief Operating Officer, Shoppers Drug Mart
Raymond E. Guyatt, C.A.
Senior Executive Vice-President, Finance and Planning, and Chief Financial Officer
Stanley A. Thomas
Senior Executive Vice-President, Marketing
Irving Bain
Executive Vice-President, Retail Development
Dale Daley
Executive Vice-President, Atlantic
Louis M. Goelman
Executive Vice-President, Merchandising and Distribution
Marvin A. Goldberg
Executive Vice-President, Legal and Corporate Affairs and Secretary
Albert A. Krakauer
Executive Vice-President, Shoppers Drug Mart, Ontario East
Michel R. Lesieur
Executive Vice-President, Pharmaprix
David H. MacDonald
President, Shoppers Drug Mart West
Brian P. Relph
Executive Vice-President, Shoppers Drug Mart, Ontario West
Malcolm G. Swartz, C.A.
Executive Vice-President, Administration
Howard Trifler
Executive Vice-President and Chief Operating Officer, Howie's Division
Fred Van Laare
Executive Vice-President, Operations, Shoppers Drug Mart Division
Irving Horowitz
President, Super X Drugs
Stanley Glazer
Senior Executive Vice-President and Chief Operating Officer, Super X Drugs

Peoples Drug Stores, Incorporated

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

A chain of 831 drug stores situated in six major metropolitan markets: Washington, DC; Atlanta, Georgia; Indianapolis, Indiana; Tidewater, Virginia; Toledo, Ohio and Harrisburg, Pennsylvania.

David H. Eisenberg
Senior Executive Vice-President and Chief Operating Officer
Richard L. Barker
Executive Vice-President and Chief Financial Officer
William J. Eagleson
Executive Vice-President, Distribution
Frederick Edwards
Executive Vice-President, Marketing
Jeffrey M. Fantle
Executive Vice-President, Operations
David C. Forman
Executive Vice-President, Human Resources
James N. Schwarz
Executive Vice-President, General Counsel and Corporate Secretary
Charles H. Sonnenberg
Executive Vice-President, Information Systems
Joseph A. Pollard
Senior Vice-President, Corporate Relations and Advertising
Jerry V. Wilson
Senior Vice-President, Security
John Crisafulli
Divisional Senior Vice-President, Reed
Robert Gabler
Divisional Senior Vice-President, Health Mart

George Hampu
Divisional Senior Vice-President, Lane
Harland D. Hotham
Divisional Senior Vice-President, Peoples Mid-West
James L. Johnston
Divisional Senior Vice-President, Rea and Derick
Kenneth C. Simmons
Divisional Senior Vice-President, Peoples Mid-Atlantic
Leonard J. De Mino
Corporate Vice-President of Pharmacy
Robert A. Seubert
Comptroller
G. Michael Martin
Treasurer

The UCS Group

50 Overlea Blvd.
Toronto, Ontario
M4H 1B9

A chain of 500 retail tobacco and gift shops.

Norman Latowsky
President and Chief Executive Officer
John F. Mathers, C.A.
Senior Vice-President, Finance and Administration

Imasco B.V.

Herengracht 495,
1017 BT
Amsterdam,
The Netherlands

Finances associated businesses.

Matthews Glezos
President

Fribourg Branch
30 St. Pierre Street
1700 Fribourg, Switzerland

Alan J. Perrier
Managing Director

Imasco Enterprises Inc.

4 Westmount Square
Montréal, Québec
H3Z 2S8

A wholly owned subsidiary of Imasco Limited incorporated to acquire Genstar Corporation, and holds in excess of 98% of the outstanding common shares of Canada Trustco Mortgage Company.

Purdy Crawford
Chairman and Chief Executive Officer
Roderick C. Foster, C.A.
President and Chief Operating Officer
Daniel E. Somers
Vice-Chairman and
Executive Vice-President
John A. West
Executive Vice-President
William J. Harris
Senior Vice-President
J. Ernest Hartz, Jr.
Senior Vice-President and
General Counsel
Paul J. Kehoe
Senior Vice-President
Richard D. Paterson
Senior Vice-President and
Chief Financial Officer
Torrance J. Wylie
Senior Vice-President

Corporate Information

The Corporation	Incorporated under Federal Charter April 3, 1912 Continued under the Canada Business Corporations Act August 6, 1976
Auditors	Deloitte Haskins & Sells Chartered Accountants 1 Place Ville-Marie Montréal, Canada H3B 2W3
Transfer agent and registrar	Montreal Trust Company Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary, Vancouver

Stock exchange listings	Montréal	Toronto	Vancouver	Value of shares on valuation day, December 22, 1971:
Symbols				
Common	IMS	IMS	IMS	Common $2.50
7.375% Preference Series C	IMSPRC	IMS.PR.C	IMS.PR.C	
6% Cumulative Preference	IMSC	IMSN	IMS/PR	6% Cumulative Preference $4.60

Financial calendar 1987

Fiscal year end: December 31

Interim reports mailed: August, November

Dividend dates:
Common shares
Quarterly: March, June, September, December
7.375% Retractable First Preference shares Series C
Quarterly: March, June, September, December
6% Cumulative Preference shares
Semiannually: March, September

Debentures
10½% due November 1996, interest payable May 20 and November 20
10¼% due December 2001, interest payable June 18 and December 18

Notes
8⅛% US due November 1991, interest payable November 14

Direct dividend deposit

The Corporation offers to its Canadian shareholders a direct dividend deposit service for convenience and security. The dividend payments are transferred electronically to the shareholder's bank account on the date they become due. Shareholders wishing to take advantage of this service should direct their request to Montreal Trust Company, Stock Transfer Department, 1 Place Ville-Marie, Montréal, Québec, Canada H3B 4A8.

Shareholdings as at March 31, 1987

	Common shares	6% Preference shares	7.375% Preference shares Series C
Canada	57.52%	74.27%	99.999%
U.S.A.	11.27%	.07%	.001%
U.K.	31.10%	25.51%	–
Other countries	0.11%	.15%	–
	100%	100%	100%

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