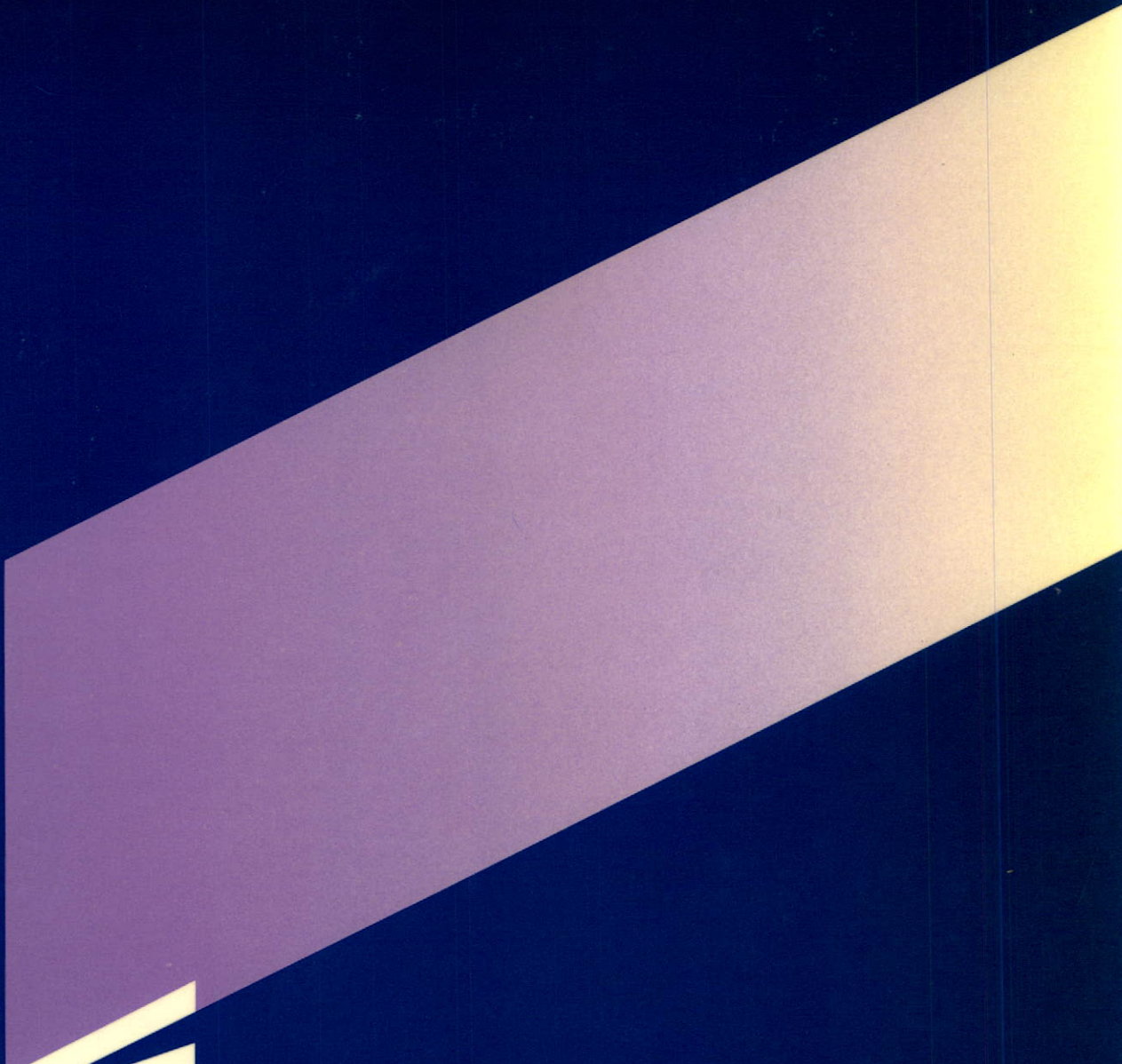


Imasco

Annual Report 1989



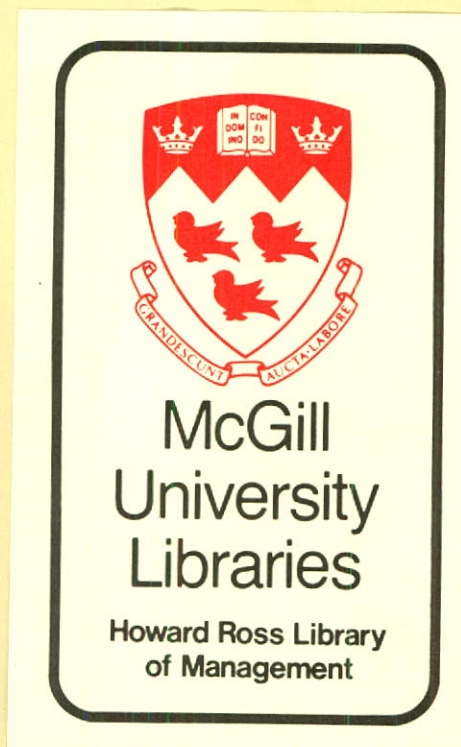
Contents

1	Financial Highlights
2	Imasco Limited
	<i>An overview of Imasco and its principal operations</i>
4	To Our Shareholders
	<i>The Chairman comments on key developments and value creation</i>
6	The Board of Directors
8	Imperial Tobacco
	<i>Consistent earnings and market share growth continued in 1989</i>
10	Canada Trust
	<i>Imasco's second largest earnings source on a fully consolidated basis</i>
12	Hardee's Food Systems
	<i>An exciting acquisition caps a year of good performance despite difficult market conditions</i>
14	Shoppers Drug Mart
	<i>Emphasis on the core business led to outstanding results in all regions</i>
16	Peoples Drug Stores
	<i>Profitable again and concentrated in its strongest markets</i>
18	The UCS Group
	<i>Record sales and earnings for the fifth consecutive year</i>
19	Involvement in the Community
	<i>Tangible initiatives to strengthen the community</i>
20	Locations
	<i>Imasco's presence across the continent</i>
22	Unaudited Statement of Earnings
	Assuming Consolidation of Imasco Enterprises
23	Management's Discussion and Analysis
31	Management's Responsibility for Consolidated Financial Statements
31	Auditors' Report
32	Summary of Significant Accounting Policies
33	Consolidated Financial Statements
36	Notes to the Consolidated Financial Statements
48	Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
51	Divisional Statistical Highlights
	Five year review
53	CT Financial Services Inc.
	Statistical Highlights
	Three year review
54	Selected Ten Year Financial Data
56	Quarterly Consolidated Financial Information
57	Officers and Divisional and Corporate Information

The Annual and Special Meeting of Shareholders will be held on May 1, 1990 at 14:30 at Le Centre Sheraton 1201 René-Lévesque Boulevard West Montréal, Québec

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

Le Secrétaire
 Imasco Limitée
 600, boulevard de Maisonneuve ouest
 20^e étage
 Montréal, Québec
 H3A 3K7



Imasco Limited

	1989	1988	1987	% change 1988-89	% change 1987-88
Millions of dollars, except "Common Share" amounts					
System-wide sales*	14,715.6	13,836.5	12,951.5	6	7
Revenues	5,724.7	6,000.6	5,924.4	(5)	1
Operating earnings	692.0	636.7	578.4	9	10
Earnings before extraordinary items	366.1	314.3	282.7	16	11
Cash flow from operations	427.7	371.0	331.9	15	12
Total assets	5,378.0	5,310.2	5,656.6	1	(6)
Shareholders' equity	2,610.4	2,261.0	2,254.3	15	—

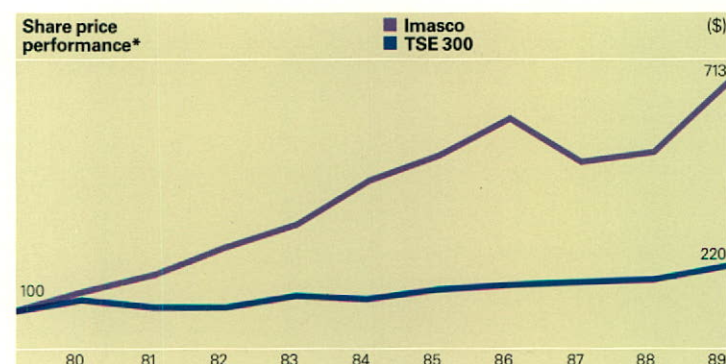
Operating Companies

System-wide sales*					
Imperial Tobacco	2,385.6	2,018.1	1,926.0	18	5
Hardee's	4,146.7	4,058.9	4,059.1	2	—
Shoppers Drug Mart	2,597.7	2,355.6	2,073.4	10	14
Peoples Drug Stores	1,207.2	1,841.6	1,850.2	(34)	—
The UCS Group	286.1	256.6	235.3	12	9
Imasco Enterprises (Canada Trust)	4,272.0	3,457.4	2,866.6	24	21
Operating earnings					
Imperial Tobacco	334.0	308.0	279.1	8	10
Hardee's	118.6	130.3	137.3	(9)	(5)
Shoppers Drug Mart	70.6	57.1	51.3	24	11
Peoples Drug Stores	8.0	(8.3)	(22.5)	—	—
The UCS Group	8.3	7.5	6.7	10	13
Equity in net earnings of					
Imasco Enterprises (Canada Trust)	152.5	142.1	126.5	7	12

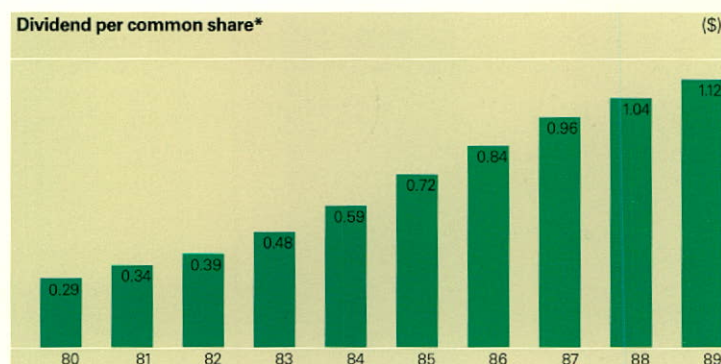
Common Shares

Earnings per share before					
extraordinary items	\$2.87	\$2.51	\$2.24	14	12
Dividends per share	\$1.12	\$1.04	\$0.96	8	8
Average shares outstanding (in thousands)	119,237	119,191	119,159	—	—

* Includes licensed restaurants and associate drug stores, and the revenues of Imasco Enterprises. Intersegmental transactions have been eliminated.



* Based on an initial \$100 investment and year end closing values.



* Based on calendar years.



Imasco's mission is to create shareholder value as a leading North American consumer products and services company. Formed in 1970 to diversify the interests of Imperial Tobacco, Imasco has since acquired and further developed other outstanding businesses in the consumer sector.

Acquired businesses have been selected on the basis of quality, market leadership and potential for growth. On a fully consolidated basis acquired businesses contribute 63% of Imasco's operating earnings.

The corporate management structure is highly decentralized and operating companies are encouraged to aggressively pursue the development of their businesses and related trademarks. Combining the experience and expertise that flow from the individual operating companies creates a unique opportunity for Imasco to add value to all of its operations and assets.

Since 1970, Imasco's compound rate of growth in net earnings has been 18% and the annual pre-tax return to shareholders has been approximately 21%.



Imperial Tobacco was established in 1912 to manufacture and distribute a full range of quality tobacco products for the Canadian market. Its cigarette trademarks include the two largest selling brand families in Canada, Player's and du Maurier.

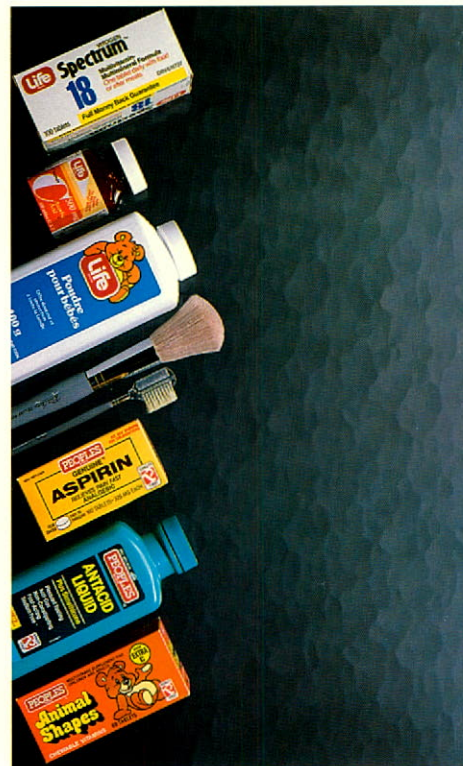
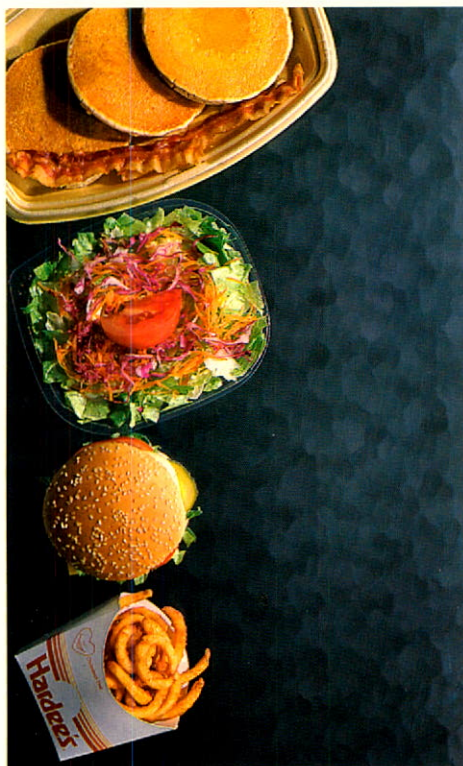
For many years Imperial Tobacco has been steadily increasing its share of the Canadian cigarette market and in 1989 the company's market share reached 57.9%. Success has been based on recognizing and satisfying consumer preferences with products of the highest quality.

Although total cigarette consumption in Canada is declining, Imperial Tobacco's contribution to Imasco's earnings continues to grow. This is due not only to Imperial's market leadership but also to its determination to remain the low cost producer in Canada.



Canada Trust, acquired in 1986, is a market leader in Canadian retail financial services with total assets under administration of \$74.1 billion and operations in all ten provinces. A complete range of savings and loan services is provided through a network of 331 branches while 22 offices in major centres offer personal and pension trust services. Other activities include commercial and corporate lending, real estate brokerage, investment counselling and real estate management and investment.

The success of Canada Trust is based on innovative marketing, convenient hours, quality products and friendly service. These attributes have led to consistent and impressive growth in core services such as personal deposits and loans and residential mortgages.



Hardee's Food Systems, Imasco's U.S. fast service restaurant operation, became a wholly owned subsidiary in 1981. Hardee's has grown steadily under Imasco's ownership and at year end consisted of 3,298 restaurants. Hardee's sister company, Fast Food Merchandisers, supplies food and paper products to the Hardee's system and to a growing number of other customers.

Based on system-wide sales, average unit sales volume and customer traffic, Hardee's currently ranks third in the sandwich category of the quick service restaurant industry. Well executed plans that respond to consumer needs and expectations are fundamental to the success of Hardee's. Each and every aspect of the company's operations is constantly under review to ensure that products and services are relevant to today's consumers, and that Hardee's succeeds in its mission of being the best fast food chain in America.

The Imasco Drug Retailing Group oversees the operations of Shoppers Drug Mart/Pharmaprix in Canada and Peoples Drug Stores in the United States.

Shoppers Drug Mart became part of Imasco in 1978 and has steadily expanded its presence in the retail drug store sector. With 633 stores, Shoppers Drug Mart is the leading drug store group in Canada by a wide margin. The company's positioning statement, "Everything you want in a drugstore", expresses the Shoppers Drug Mart commitment to its customers and is the cornerstone of its success.

Peoples Drug Stores was acquired in 1984. The company's market appeal is based on consumer trust in Peoples' pharmacists, convenient locations and the selection of products offered. Peoples' performance deteriorated between 1985 and 1987. In mid-1987 a comprehensive three-year plan was initiated to restore profitability. The plan was accelerated in 1989 with the sale of 325 stores in regions where potential was limited. The reorganized chain, which is once again profitable, consists of 490 well positioned stores in its strongest markets.

The UCS Group is Canada's leading small space specialty retailer operating 531 outlets across the country.

Over the years The UCS Group has adapted its store concepts and product mix to meet changing consumer needs. The company now serves a broad cross-section of consumers, offering tobacco products, confectionery, snack foods, reading materials, souvenirs, gifts, novelties and greeting cards. Stores range in size from 100 to 1,300 square feet and operate in high traffic areas such as shopping malls, commercial centres, airports and hotels.

The UCS Group also operates a growing number of tax and duty free outlets in Canadian airports.

I am pleased to report that 1989 was a year of considerable progress towards attainment of the financial and business goals of Imasco. It was also a year in which our ability to create shareholder value came under close scrutiny by the investment community. It therefore seems timely to begin my report with a discussion on Imasco's approach to value creation.

1989 performance

While Imasco's corporate structure is decentralized, our management group has a strong sense of unity and a shared determination to achieve excellence. An important common thread is the corporate business plan which sets out Imasco's overall mission and identifies a set of convictions, objectives and strategies that are common to every operating company. Taken together these elements serve to define Imasco and the approach that we collectively take to create value. The most important of these elements are:

- operational excellence and an emphasis on increasing the productivity of our assets;
- the delivery of goods and services that are of the highest quality and integrity;
- recognition of the importance of responding to the changing needs of customers in a more timely and effective way than our competitors;
- the careful application and enhancement of corporate and brand trademarks, which are among our most valuable assets;
- the systematic development of the best available human resources;
- a responsible and constructive approach to the community.

While many of these elements are qualitative, Imasco's style of management is results-oriented and we measure our success by a set of financial performance objectives. Our 1989 performance was on plan and reflects the progress being made against our objectives:

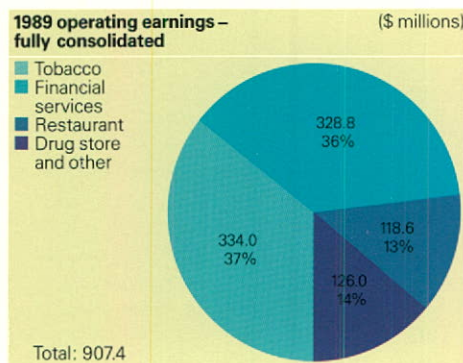
- earnings increased 16% to \$366.1 million. Over the past three years, our compound growth rate in net earnings has been 17% and the longer term goal is to reach 20%.

- return on common shareholders' equity increased to 15.9% from 14.6% last year. Our long term goal for this measure is also 20%.
- the ratio of long term debt to total capital at December 31, 1989 was 41.1%. This contrasts with 48.3% at December 31, 1988 and our objective is to achieve further reductions in this ratio over time.

Operating company highlights

Operating earnings for 1989 were \$692.0 million, an increase of 9%. It is important for shareholders to recognize that, because we account for our investment in Canada Trust by the equity method, our reported figures tend to understate the importance of financial services to our earnings. If reported on a fully consolidated basis, Canada Trust's contribution would have been \$328.8 million, bringing Imasco's total operating earnings to \$907.4 million in 1989.

On this basis, the contribution of each of Imasco's principal lines of business to operating earnings in 1989 is depicted below.



Outstanding results were achieved by *Imperial Tobacco* where, despite the difficult marketing environment, operating earnings were up 8%. At *Shoppers Drug Mart* the operational focus was on further strengthening the productivity and profitability of existing stores. This strategy was an unqualified success and operating earnings growth was 24% on a system-wide sales increase of 10%. *The UCS Group* achieved earnings growth of 10% on the strength of a clear business plan and professional management.

Canada Trust also had a strong year. In 1989 net earnings attributable to common share-

holders increased 4% to \$240.2 million. However, 1988 earnings included non-recurring gains of approximately \$30 million, net of tax, and there were no comparable items in 1989. Adjusted for these non-recurring gains, Canada Trust's 1989 net earnings increase was 19%.

Canada Trust continues to enjoy one of the highest credit ratings of any financial institution and is well positioned for continued growth in assets and earnings. The major constraint on future growth is the continued delay of the Federal Government in revising the business powers of trust companies. Delay prolongs the disadvantages that Canada Trust has to contend with in its competition with the domestic and foreign owned banks.

The earnings of *Hardee's Food Systems* were less than expected in 1989. Fierce competition and price discounting put Hardee's to the test as never before. Drawing on its ability to quickly respond to changing consumer preferences, Hardee's was able to record a 2% increase in comparable operating earnings and expand its system to 3,298 restaurants. Hardee's share of customer traffic in its category of the restaurant industry was stable at 9.9%.

In such a competitive environment there is often opportunity. In January 1990, Hardee's reached an agreement to purchase the 600-unit Roy Rogers chain. The acquisition is an excellent fit and will ultimately lead to a strong presence for Hardee's in the Washington, Baltimore, Philadelphia and New York markets.

Hardee's faces a future as exciting as it is challenging. Stiff competition may well result in further industry consolidation. Consumers will demand even more varied menus and labour shortages are leading to increased automation. We are confident that Hardee's and its sister company, Fast Food Merchandisers, have the business vision, people, systems and dedication to be leaders in this new environment.

This statement is both a tribute to and the legacy of Jack Laughery who has been the chief executive officer of Hardee's and FFM since 1975. Jack has been the strong hand at Hardee's through 15 consecutive years of growth culminating in its present stature as the third largest fast service hamburger restaurant chain in the United States.

In 1989 Jack confirmed his intention to take early retirement in 1991. In preparation for this, Bill Prather has been appointed chief executive officer of Hardee's and Bob Autry has been appointed chief executive officer of Fast Food Merchandisers. Both leaders have outstanding credentials and both were recruited by Jack who will continue as chairman of Hardee's and FFM on a full time basis until his retirement and on a part time basis for a further three years. Jack will also continue to contribute to the overall progress of Imasco by remaining on our Board and becoming a member of the Executive Committee.

Peoples Drug Stores returned to profitability in 1989. Operating earnings were \$8.0 million compared with losses of \$8.3 million in 1988 and \$22.5 million in 1987. An important component of the turnaround was the successful divestment of 325 stores in markets where Peoples saw limited potential. Peoples' able and dedicated management team is revitalizing the performance of the 490 remaining stores. Under the leadership of David Bloom and David Eisenberg, who has added the role of president to his responsibilities as chief operating officer, 1990 is expected to be another year of earnings growth.

Hoylake offer for B.A.T

One of the major international business stories of 1989 was the offer for B.A.T Industries initiated by the Hoylake group on July 11. While the offer has since lapsed, Hoylake has publicly stated that a new bid will be launched, if and when regulatory clearances are obtained.

B.A.T participated in the formation of Imperial Tobacco in 1912 and continues to hold approximately 40% of Imasco's outstanding common shares. While we have been careful to maintain our focus on the pursuit of Imasco's business goals, we nevertheless continue to monitor developments related to the ownership of B.A.T. The value Imasco has created over the years is for the benefit of our shareholders and we are determined to deliver this value in both the short and long term.

The Hoylake bid has resulted in unprecedented attention to Imasco by the investing public and the financial markets are now more than ever aware of the quality of our

assets and our strong financial performance. Imperial Tobacco, Canada Trust, Hardee's and Shoppers Drug Mart are quite correctly recognized by investors and financial analysts as outstanding assets. Moreover, the strength of our trademarks and the consumer loyalty they inspire, the consistent growth of our tobacco earnings and our high level of cash flow from operations are increasingly recognized as superb corporate assets that support a high valuation for Imasco shares.

In fact, Imasco has been delivering outstanding value to its shareholders for many years. One hundred dollars invested in Imasco stock in 1979 was worth \$713 at the end of 1989. In excess of 44% of Imasco's previous year earnings was paid to common shareholders in dividends last year and the dividend in 1990 has been increased by 14% to \$1.28 on an annualized basis.

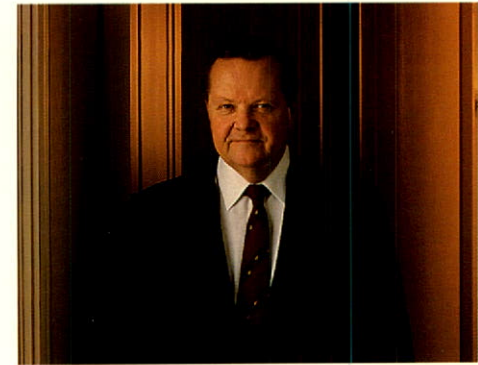
Board of Directors

In the course of the year, Jean H. Richer, C.M., a director since 1976, retired from the Board. Jean was an enthusiastic, knowledgeable and good humoured Board member with a tenacious commitment to Imasco and shareholder interests. His retirement is a loss to us all. We are fortunate that Bernard Roy, Q.C., a partner in the law firm of Ogilvy Renault has agreed to join the Board. Bernard was appointed August 2 to fill the vacancy created by Jean's retirement and will stand for election at this year's Annual Meeting of Shareholders.

Three other first-time nominees will stand for election this year: Raymond Guyatt, executive vice-president, chief financial officer and treasurer of Imasco, Bill Prather, president and chief executive officer of Hardee's and Torrance Wylie, executive vice-president of Imasco. All three are outstanding executives who have made valuable contributions to Imasco's development over the years. I look forward to their further contributions and guidance as Board members.

Outlook

The challenges Imasco faced in 1989 were admirably met by the approximately 190,000 men and women throughout North America whose efforts, energy and intelligence are building a most successful company. The Board of Directors gratefully



acknowledges their valuable contribution. Working together, we will continue to vigorously advance Imasco's mission.

Looking ahead, Imperial Tobacco will continue to lead its industry, producing strong cash flow and profits. At the same time, the societal trends that have shaped the consumer marketplace of the '80s – an aging population, more double income families, more working women and lifestyles that place a premium on time saving products and services – will be even more pronounced in the '90s. Imasco has fully anticipated these trends and invested accordingly. Canada Trust, Hardee's, Shoppers Drug Mart/Pharmaprix and Peoples Drug Stores have the products, services and leading edge business technologies that will allow each to thrive in the marketplace of the future. I confidently expect to see further progress on each of Imasco's financial and non-financial objectives in the current year and beyond.

On behalf of the Board of Directors,

A handwritten signature in dark ink, reading "Purdy Crawford".

Purdy Crawford
Chairman, President and
Chief Executive Officer

Montréal, February 7, 1990

1

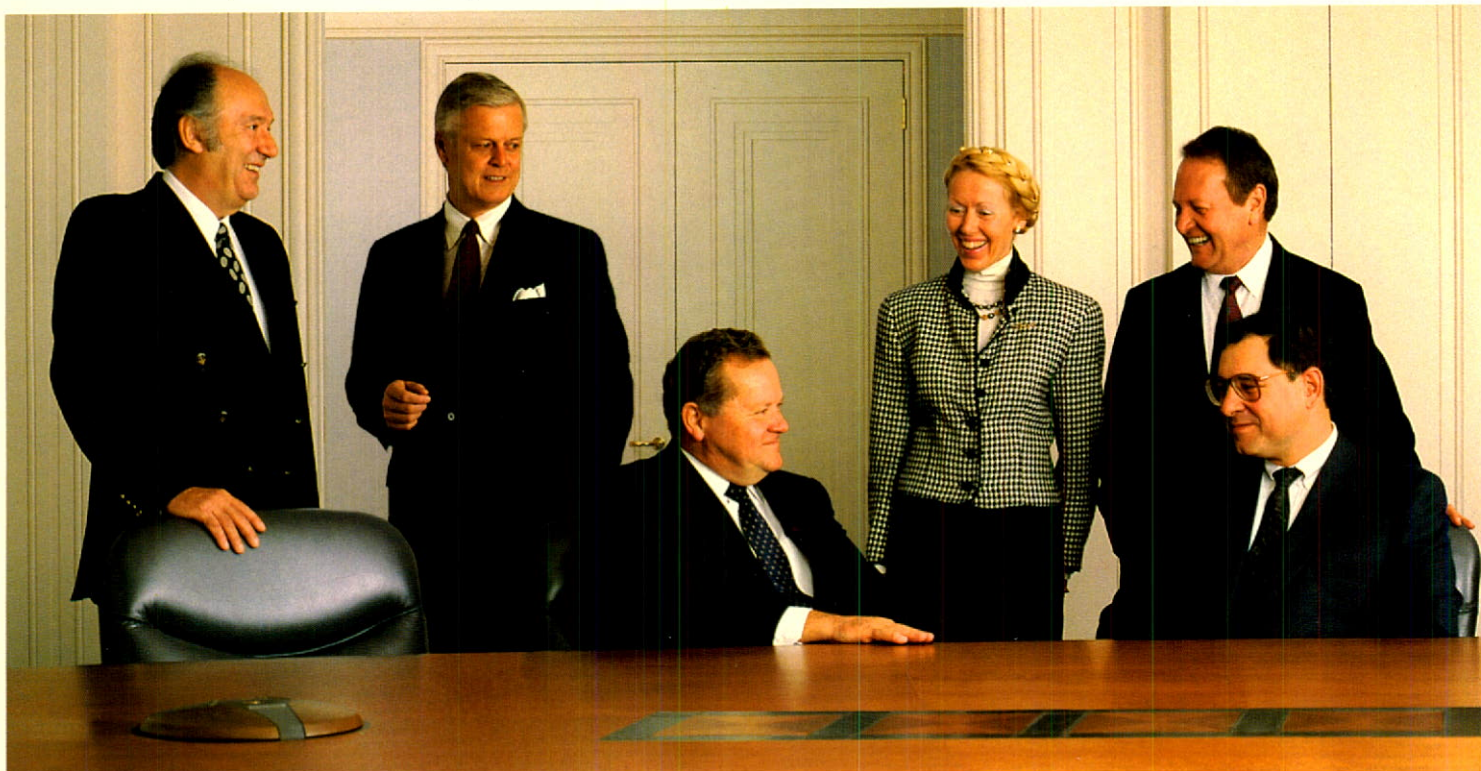
2

3

4

5

6



Jean-Louis Mercier

Ste-Julie-de-Verchères, Québec. Director since 1980. Vice-Chairman, Imasco Limited; Chairman and Chief Executive Officer, Imperial Tobacco Limited; President and Director, Imasco Pension Fund Society.

2 Russell E. Palmer

Bryn Mawr, Pennsylvania. Director since 1989. Member of the Executive Committee and the Management Resources and Compensation Committee of the Board of Directors. Dean, The Wharton School, University of Pennsylvania. Director of Alco Standard Corporation, Allied-Signal Inc., Bankers Trust New York Corporation, Federal Home Loan Mortgage Corporation, GTE Corporation, Safeguard Scientifics, Inc., The May Department Stores Company.

3 Purdy Crawford

Westmount, Québec. Director since 1973. Chairman, President and Chief Executive Officer, Imasco Limited. Chairman of the Executive Committee and the Nominating Committee of the Board of Directors. Director of CT Financial Services Inc., Dominion Textile Inc., Inco Limited, Nova Scotia Resources Limited, Sydney Steel Corporation, Chairman of the Board of Regents, Mount Allison University. Member of the Board of Governors, Royal Victoria Hospital Corp.

4 Nan-Bowles de Gaspé Beaubien

Westmount, Québec. Director since 1987. Member of the Executive Committee, the Management Resources and Compensation Committee and the Nominating Committee of the Board of Directors. Vice-Chairperson and Director, Gasbeau Inc. Director of Telemedia Inc., Campbell Soup Company Ltd., Confederation Life Insurance Company, Canadian Association of Family Enterprise, Institute for Research on Public Policy, National Centre for Management Research and Development – Women in Management Program, Terry Fox Humanitarian Award Committee, University of Western Ontario.

5 Jack A. Laughery

Rocky Mount, North Carolina. Director since 1981. Chairman, Hardee's Food Systems, Inc., Fast Food Merchandisers, Inc. Member of the Executive Committee of the Board of Directors. Director of First Union National Bank Corporation, Charlotte, NC, First Union National Bank, Rocky Mount, NC, The Governor's Council of Management and Development, Advisory Budget Commission, North Carolina Zoological Society. Member of the Republican National Committee.

6 Brian M. Levitt

Toronto, Ontario. Director since 1989. Member of the Executive Committee and the Audit Committee of the Board of Directors. Senior Partner, Osler, Hoskin & Harcourt. Director of CT Financial Services Inc., Finsco Services Limited, Montcrest School.



7 David R. Bloom

Thornhill, Ontario. Director since 1983. Chairman and Chief Executive Officer, Imasco Drug Retailing Group, Shoppers Drug Mart. Director of CT Financial Services Inc., Canada Junior Chamber/Jaycees, Color Your World, Juvenile Diabetes Foundation, Retail Council of Canada. Governor, Mount Sinai Hospital.

8 Murray B. Koffler, C.M.

Willowdale, Ontario. Director since 1978. Chairman of the Management Resources and Compensation Committee; member of the Executive Committee, the Audit Committee and the Nominating Committee of the Board of Directors. Honorary Chairman, Shoppers Drug Mart. Chairman, The Koffler Group, King Ranch Health Spa and Fitness Resort. Vice-President and Director, Four Seasons Hotels, Ltd. Director of Canadian Jewish News, Canadian Council for Native Business.

9 Paul Paré, O.C.

Montréal, Québec. Director since 1964. Former Chairman and Chief Executive Officer of Imasco Limited. Member of the Executive Committee, the Management Resources and Compensation Committee and the Nominating Committee of the Board of Directors. Director of Canadian Investment Fund, Ltd., Canadian Pacific Limited, Canadian Pacific Forest Products Limited, IBM Canada Ltd., Liquid Carbonic Canada Ltd., Morgan Stanley Advisory Board, The SNC Group, Telemedia Inc., Timminco Limited.

10 Angela C. Peters

Halifax, Nova Scotia. Director since 1987. Member of the Executive Committee and the Management Resources and Compensation Committee of the Board of Directors. Director of Cobi Foods Inc., Prudential Corporation Canada, Xerox Canada Inc. Member of Standards Council of Canada Committee, Advisory Committee to the Federal Minister on Business Immigration.

11 The Hon. William R. Bennett, P.C.

Westbank, British Columbia. Director since 1987. Chairman of the Audit Committee and member of the Executive Committee of the Board of Directors. Director of Canadian Pacific Forest Products Limited, Prime Resources Group Inc., Teck Corporation. Governor, Olympic Trust.

12 Bernard A. Roy, O.C.

Town of Mount Royal, Québec. Director since 1989. Member of the Executive Committee and the Audit Committee of the Board of Directors. Partner, Ogilvy Renault. Director of Domtar Inc. Member of the Board of Governors of the University of Montréal, Royal Victoria Hospital Corp., Stanstead College.

Highlights of operations

in millions of dollars, except as noted

	1989	1988	Twelve months ended December 31		
			1987	1986	1985
Revenues	2,385.6	2,018.1	1,926.0	1,754.6	1,701.8
Revenues, net of sales and excise taxes	896.2	862.0	816.2	712.0	757.5
Operating earnings	334.0	308.0	279.1	208.1	243.7
Operating margins (%)	37.3	35.7	34.2	29.2	32.2
Market share - domestic cigarettes (%)	57.9	56.2	54.4	51.5	52.6
Capital expenditures	22.9	18.9	25.6	23.3	16.6

Imperial Tobacco's share of the Canadian manufactured cigarette market increased 1.7 points to 57.9%.

The transfer of cigar production from the Montréal plant to Joliette was successfully completed, improving the productivity of both plants.

All packaging was changed to meet the requirements of the Tobacco Products Control Act.

Over one million Canadians attended sports and cultural events sponsored by Player's Ltd., du Maurier Ltd. and du Maurier Arts Ltd.

In 1989 Imperial Tobacco recorded another strong financial performance and further market share gains. Operating earnings rose by 8% to \$334.0 million and at year end, Imperial's share of the Canadian manufactured cigarette market stood at 57.9%, an increase of 1.7 share points. In the fine cut tobacco market, Imperial Tobacco's share declined by 1.6 share points to 47.2%.

Canadian cigarette manufacturers were expecting a modest decline in consumption in 1989. However, the April federal budget struck a major blow to industry forecasts. The excise duty on manufactured cigarettes increased by an incredible 161% and on fine cut tobacco, by 654%. Seven provinces also raised tobacco taxes and Canadian smokers faced overall price increases of up to 35% on manufactured cigarettes and 89% on fine cut tobacco. Industry volume of manufactured cigarettes fell 7% to 47.6 billion units and Imperial's volume dropped 4% to 27.5 billion units.

The Tobacco Products Control Act

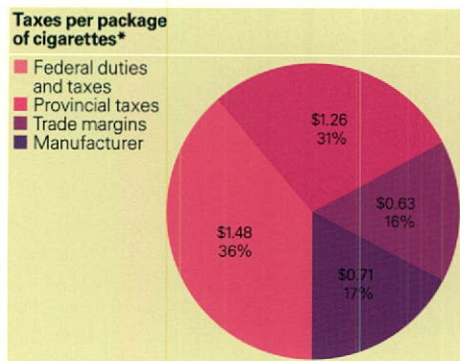
Under the Tobacco Products Control Act, major packaging changes were made during

the year, incorporating newly mandated health warnings. The modifications were costly and disruptive. The total expense of approximately \$10 million was charged to current year earnings. The Federal Health and Welfare Minister has announced that new regulations will force another redesign of our packaging, effective June 1, 1991.

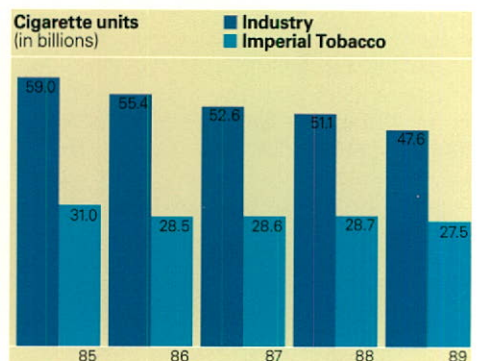
In September 1989 Imperial's legal challenge to the constitutionality of the Act began before the Québec Superior Court. We are arguing that the sections of the Act that prohibit communication with our customers through advertising infringe on the guarantees of freedom of expression contained in the Canadian Charter of Rights and Freedoms. We are also arguing that tobacco advertising is not within the jurisdiction of the Federal Government. The legal challenge is as yet unresolved.

Trademark strength

Against this very difficult background, Imperial Tobacco's major brands performed remarkably well. Player's, the company's leading family of cigarettes, increased its share of the Canadian market by 0.5 share

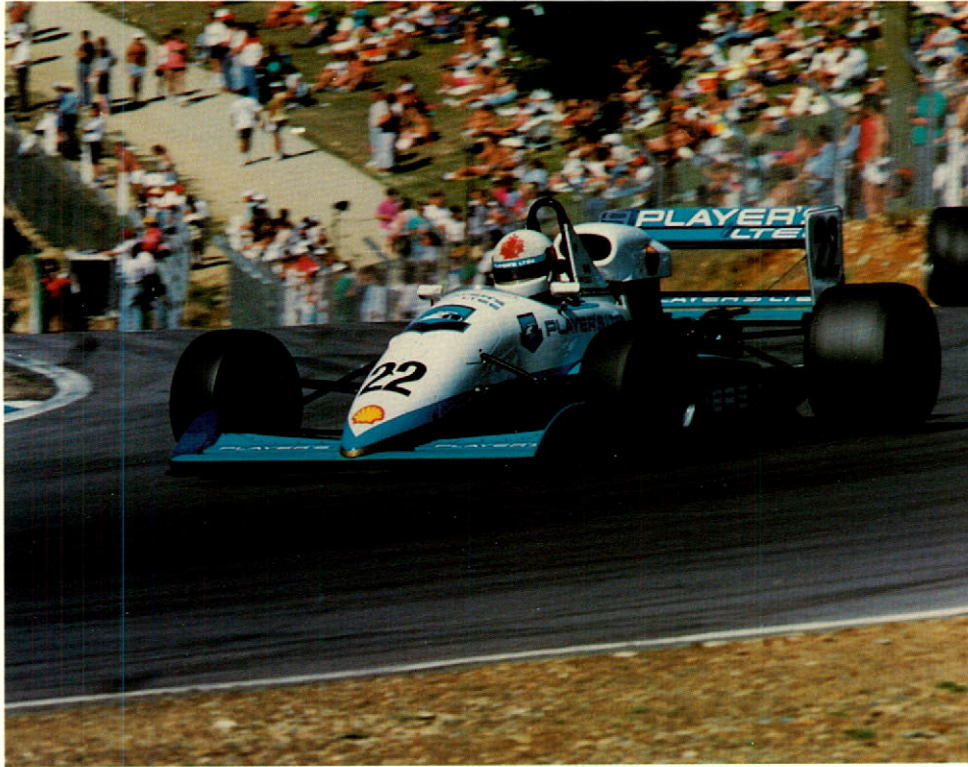


*Based on a \$4.08 retail price in the Province of Ontario, November 1989.



Canadians were offered a wide range of cultural and sports events by Player's Ltd., du Maurier Ltd. and du Maurier Arts Ltd. throughout 1989.

Jean-Louis Mercier, Chairman and Chief Executive Officer (l.) with Wilmat Tennyson, President and Chief Operating Officer (r.).



points to 25.4%. The Player's family of Player's Plain, Player's Filter, Player's Medium, Player's Light and Player's Extra Light is consolidating its position as Canada's most popular brand.

The du Maurier family, which includes du Maurier, du Maurier Light, du Maurier Extra Light and du Maurier Special, is the second most popular cigarette brand in the country. In 1989 it increased its market share by 1.2 share points to 22.0%. Both Player's and du Maurier underwent packaging updates in 1989, adopting contemporary designs which were well received by consumers.

Matinée, Matinée Special Mild, Matinée Extra Mild and Matinée Slims make up Imperial's third major brand family. Collectively, the family enjoyed a good year, growing to 6.1% of the market, an increase of 0.3 share points over 1988.

Sponsorships

Canadians were offered a wide range of first class cultural and sports events by Player's Ltd., du Maurier Ltd. and du Maurier Arts Ltd. throughout 1989. In all, these companies

sponsored 116 major events from coast to coast.

Player's Ltd. staged six motor races in the Formula Atlantic Series and 17 races in the Player's Ltd./GM Motorsport Series across Canada. Unique championships such as the Player's Ltd. Pacific in Vancouver and the Player's Ltd. 500 in Calgary were also well attended. World class tennis, with top-ranked international competitors, attracted large audiences at the Player's Ltd. Challenge and Player's Ltd. International.

Both sporting and cultural events were presented by du Maurier Ltd. Professional golf in Toronto and Montréal, jazz festivals in Toronto and Vancouver and equestrian events in Calgary and Halifax lived up to their traditions of excellence. For its part, du Maurier Arts Ltd. gave vital financial support to 68 of the country's top performing arts groups.

Productivity

Cigar making operations were successfully transferred from Montréal to Joliette in 1989, improving productivity at both loca-

tions. At head office a number of employees retired in accordance with our 1988 position reduction plan. The program supports Imperial's long term commitment to productivity growth and creates employee development opportunities within the organization. Management development and continuity are essential to Imperial's success, now and in the future.

Imperial Leaf Tobacco

A good growing season produced a Canadian flue-cured tobacco crop of approximately 160 million pounds. Imperial expects to purchase about 75 million pounds, of which 11 million pounds will be exported to overseas manufacturers.

Outlook

The controversy surrounding smoking has escalated in recent years and yet we are as confident as ever about the future of Imperial Tobacco. Millions of Canadians continue to smoke and among them our major trademarks enjoy an excellent reputation for quality. Imperial's share of the cigarette market is increasing year after year, and the high calibre of our people is the envy of the industry. On the strength of these important assets, we expect continued earnings growth and market share increases in 1990.

Jean-Louis Mercier
Chairman and Chief Executive Officer

Highlights of operations

in millions of dollars, except as noted

	Twelve months ended December 31		
	1989	1988	1987
Assets under administration (at book value)	74,096.0	67,401.0	60,626.0
Corporate assets	32,666.0	29,219.2	25,514.8
Deposits	30,483.1	27,398.8	23,937.4
Loans	24,201.1	22,661.7	19,679.3
Net earnings attributable to common shareholders	240.2	232.0	201.0
Return on common shareholders' averaged equity (%)	17.3	19.0	19.4

Total personal deposits are estimated to be the fourth largest among Canadian financial institutions.

Return on common shareholders' averaged equity was 17.3% compared with an average of 7.7% for Canada's six largest banks.

The popularity of Canada's number one retirement savings plan continued. The portfolio increased 12% to \$7.9 billion.

A total of 331 financial services branches, 22 personal and pension trust services offices and 275 company-operated and franchised real estate offices are now in operation.

The JohnnyCash and SuperComptant money machine network now consists of 275 banking machines in 255 branches, fulfilling plans to have this service available in all regions of the country.

Canada Trust is the commonly used name for CT Financial Services Inc. and its principal operating companies, Canada Trustco Mortgage Company and The Canada Trust Company. Imasco Enterprises Inc., through its subsidiary Imasco Financial Corporation, currently holds approximately 98% of the common shares of CT Financial Services Inc.

Imasco accounts for the operations of Imasco Enterprises by the equity method and the net earnings of Imasco Enterprises form part of Imasco's operating earnings. In addition to Canada Trust, Imasco Enterprises consolidates the assets, liabilities and results of certain other financial services and real estate activities and investments. Condensed Consolidated Financial Statements of Imasco Enterprises and the related notes commence on page 48.

CT Financial Services is a public reporting company with shares trading on the Toronto and Montréal stock exchanges. Most of the following information is based on CT Financial Services' Annual Report. Copies of the report can be obtained from Corporate Communications, Canada Trust Tower, 275 Dundas Street, London, Ontario, N6A 4S4.

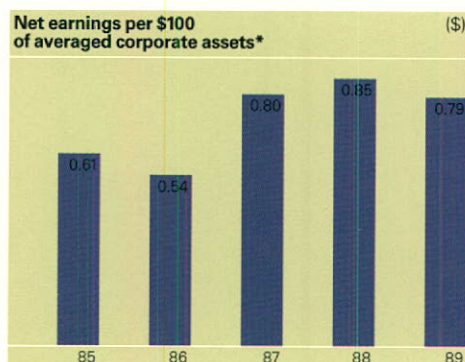
Highlights of 1989

In 1989, Canada Trust's net earnings attributable to common shareholders increased 4% to \$240.2 million. However, in 1988 Canada Trust recorded non-recurring gains from the sale of its equity position in RoyNat Inc. and a partial recovery on Dome Petroleum loans and shares. After adjusting for these gains, Canada Trust's 1989 earnings increase was 19%. Expressed as an annualized return on averaged corporate assets, net earnings were \$0.79 per \$100 of assets, compared with \$0.85 in 1988 and an average of \$0.42 for the six major Canadian chartered banks in their 1989 fiscal year.

The company's return on common shareholders' averaged equity was 17.3% compared with 19.0% in the prior year. For Canada's six largest banks this measure was 7.7% on average for fiscal 1989.

The ratio of operating expenses to averaged corporate assets was 2.18% compared with 2.26% in 1988.

Assets under administration, measured at book value, increased 10% to \$74.1 billion.



*CT Financial Services Inc.





Assets under administration include corporate assets which increased 12% to \$32.7 billion; and personal, pension and pooled trust funds which increased 8% to \$41.4 billion.

Competition

The principal competitors of Canada Trust are the six major chartered banks. Despite their large marketing budgets and branch networks, Canada Trust continues to be successful in meeting this competition. Success is based on innovative marketing, eight-to-eight hours, quality products and friendly service. These attributes have led to consistent and impressive growth in core services such as personal deposits and loans and residential mortgages.

Canada Trust enjoys one of the highest credit ratings of any Canadian financial institution and is well positioned for continued growth in assets and earnings. A constraint on future growth is the continued delay of the Federal Government in revising the business powers of trust companies. Delay prolongs the disadvantages that Canada Trust has to contend with in its competition with the domestic and foreign owned banks.

Retail banking

Approximately 93% of Canada Trust's 1989 net earnings was derived from intermediary services which involve investing depositors' and shareholders' funds in income producing assets such as mortgages and other loans. Most of the funds are provided by depositors through personal savings accounts, term deposits and a range of specialized savings products such as retirement savings plans.

Net investment income is interest earned on loans and income from securities less interest paid on deposits and other borrowings. On an accrual basis, net investment income amounted to \$751 million in 1989 compared with \$654 million at the end of 1988, a growth rate of 15%.

Trust services

Canada Trust provides a full range of personal, pension and custody services through 22 offices which are located in major Canadian cities. In 1989, this division generated after tax earnings of \$6.1 million, up slightly from 1988.

During 1989, Canada Trust launched The Summit, a private banking service in its Toronto trust services branch. The Summit provides a complete range of financial services – from teller service and travellers cheques to credit, mutual funds, tax and estate planning and investment management. A key feature is a high level of personal service delivered by account managers with support from appropriate specialists.

Other activities

Truscan Realty holds and manages all real estate investments (including company-owned branch premises) and is involved in property development, leasing and management. In 1989 the estimated market value of real estate investment properties grew to \$692.6 million from \$514.6 million in 1988. Truscan Realty's net earnings for the year were \$7.2 million.

In real estate brokerage services, gross revenues were \$249 million, down from \$254 million in the prior year. The general slowdown in real estate sales, particularly in the eastern Canadian markets, as well as increased competition were the primary factors affecting the real estate brokerage performance during the year. Net earnings decreased to \$1.1 million from \$2.9 million in 1988. A reassessment and repositioning of the real estate brokerage operations is underway and more positive results are expected in 1990.

Outlook

In the 1989 CT Financial Services' Annual Report, the year ahead is discussed in the following terms: "The operating environment in 1990 for CT Financial Services Inc. is anticipated to be more challenging than that of 1989. Notwithstanding, net earnings are expected to rise by at least ten per cent."

Highlights of operations*

in millions of dollars, except as noted	1989	1988	Twelve months ended December 31		
			1987	1986	1985
System-wide sales	4,146.7	4,058.9	4,059.1	3,721.6	3,248.4
Revenues	1,786.5	1,756.9	1,801.7	1,642.0	1,457.0
Operating earnings	118.6	130.3	137.3	129.0	117.1
Operating margins (%)	6.6	7.4	7.6	7.9	8.0
Share of traffic (%)	9.9	9.9	9.6	9.1	8.9
Average sales per restaurant (thousands of US dollars)	922	920	877	837	801
Capital expenditures	155.3	209.9	217.0	135.6	99.9

* Because of exchange rate fluctuations, actual performance is understated. Highlights in US dollars are presented on page 52.

Restaurant openings totalled 276 and 50 new licensees were approved.

Breakfast accounted for 30% of sales and Hardee's continues to lead the industry in this important segment.

Successful new menu items, notably Crispy Curl™ fries, the grilled chicken sandwich and pancakes, attracted millions of new customers to Hardee's restaurants.

Innovative restaurant training and motivation programs were implemented, resulting in a 25% decline in employee turnover.

Fast Food Merchandisers continued to set new supply records and established two more distribution centres.

In 1989 system-wide sales, revenues and comparable operating earnings all increased 2%. Average unit volumes climbed to US \$922,000 and Hardee's share of traffic in the sandwich category of the quick service restaurant industry was stable at 9.9%. It was a year in which Hardee's and its principal competitors battled as never before to maintain market share.

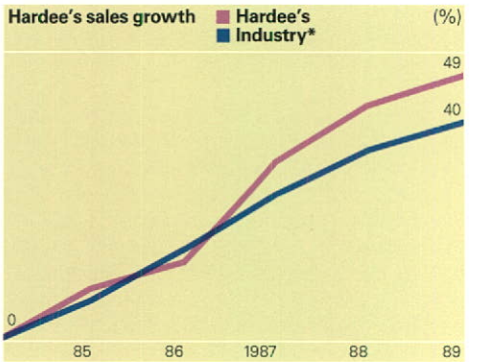
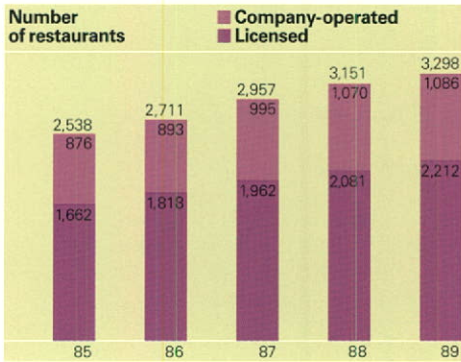
Throughout the year we adhered to our core strategy of doing more than our competitors to meet changing customer expectations. Above all, Hardee's continued success has been due to the consistent high quality of its food products, an industry-leading market research program and the ability to respond quickly with relevant new menu items and services. Recent additions to the menu include a grilled chicken sandwich, Crispy Curl™ fries and pancakes. These products follow a series of successful initiatives taken in 1988 including changing to all-vegetable cooking oil in order to lower fat and cholesterol levels in fried products and introducing salads and more desserts to the menu.

Since 1987 Hardee's has invested over \$3 million in its Served with Pride program

which teaches restaurant employees the basics of the business. In addition nearly 3,500 managers have completed advanced training in restaurant operations at the Hardee's Management Development and Training Center or regional facilities. To measure the success of these programs we commissioned an in-depth research study. The results demonstrate a marked improvement in customer assessments of food, quality and cleanliness in our restaurants.

An industry in transition

Industry sales growth slowed in 1989 and is estimated to have been only slightly above the rate of inflation. Customer traffic was flat. At the root of these trends is a gradual slowing of the economy, less population growth and more competition from outside the traditional quick service restaurant industry. Home delivery, prepared frozen meals and specialty food outlets are now seen as alternatives to quick service restaurants. At the same time, the number of restaurants is growing. Successful companies like Hardee's are expanding their systems and smaller chains are attempting to carve out market share in their home regions. In short

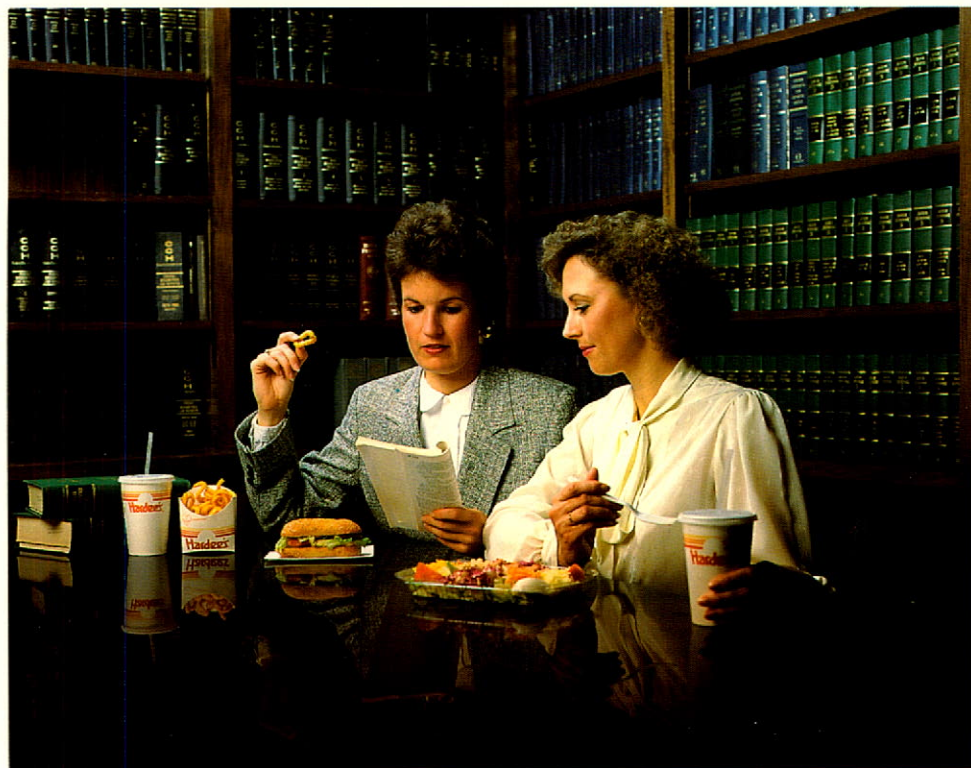


*Quick service restaurant sandwich category. Source: CREST.

The many new products and programs are in tune with today's market and will further enhance the value of Hardee's to its customers.

Hardee's continues to lead the industry in breakfast sales. In 1989 pancakes were added to the menu.

Jack Laughery, Chairman of Hardee's and Fast Food Merchandisers (c.), Bill Prather, President and Chief Executive Officer, Hardee's (l.) and Bob Autry, President and Chief Executive Officer, Fast Food Merchandisers (r.).



the fundamentals of the quick service restaurant market have changed dramatically and the battle for market share continues.

Opportunities for growth

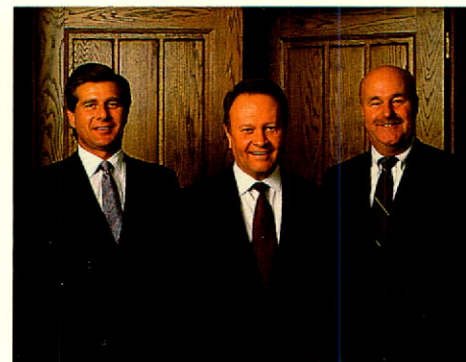
With change there is opportunity and this is certainly true for Hardee's. Given the new face of our industry, some rationalization is likely to take place in the years ahead. Hardee's is better positioned than most major chains to capitalize on attractive acquisition opportunities. We are well financed and successful and have significant growth

opportunities in markets where Hardee's is under represented.

The Roy Rogers acquisition, announced in January, is a prime example of how industry rationalization can benefit both Hardee's and our licensees. It will lead to a strong presence in large northeastern markets and combining the two chains provides significant operations, advertising and distribution efficiencies. Over time we expect that the majority, if not all, of the 600 Roy Rogers restaurants will be converted to Hardee's. This will provide added national recognition for our trademark to the benefit of each and every Hardee's restaurant in the country.

By enhancing and making careful use of our established market research capabilities we expect to continue to outpace the industry in 1990. Our research has led to better marketing, improved customer service and many popular new menu items. We will continue to refine our program and act decisively on our findings.

Cost containment is a major opportunity and a critical value ingredient for our customers. We have responded with automated



equipment to improve food quality and maximize restaurant productivity. Approximately two-thirds of Hardee's restaurants now have our unique Top Side Cooker and the balance are committed to installations during 1990. Another example is an automated soft drink dispensing system that has been installed in many Hardee's restaurants. Containing rising food and distribution expenses is equally important. Fast Food Merchandisers, our manufacturing and distribution arm, is therefore an important strategic asset. FFM's tremendous purchasing power, quality control and distribution efficiencies are contributing to better quality and value for our customers.

In staff development we have an opportunity to excel and improve customer service. Here again, we are well on our way with recruitment and training programs that have been developed in recent years. We will continue to refine these innovative programs in order to hire, train and motivate the best available people for careers at Hardee's and Fast Food Merchandisers.

Outlook

The year ahead promises to be both challenging and exciting for Hardee's. Competitive pressures will continue but our many new products and programs are in tune with today's market and will further enhance the value of Hardee's to our customers. We confidently expect solid gains in sales and earnings next year as we pursue Hardee's goal of being the best in the industry.

Jack A. Laughery

Jack A. Laughery
Chairman



Highlights of operations

in millions of dollars, except as noted

	1989	1988	Twelve months ended December 31		
			1987	1986	1985
System-wide sales	2,597.7	2,355.6	2,073.4	1,775.0	1,522.3
Revenues*	136.2	114.9	95.7	86.6	73.4
Operating earnings	70.6	57.1	51.3	48.9	42.5
Operating margins (%)*	51.8	49.7	53.6	56.5	57.9
Average sales per store	4.1	4.2	4.1	3.9	3.6
Average sales per square foot (dollars)	736	728	700	663	613
Number of stores	633	613	586	543	431
Capital expenditures	24.0	28.0	27.6	23.3	16.4

*Restated for the years 1986 through to 1988 to exclude Howie's.

System-wide sales grew to \$2.6 billion. Operating earnings increased 24% on a sales increase of 10%.

Based on Statistics Canada figures, the company's share of the Canadian drug store market was 33%.

The company's trademarked products – Life Brand, Shoppers Drug Mart, Pharmaprix and Rialto – accounted for 6% of total store sales.

Increased use of dedicated distribution centres in all regions resulted in less out-of-stocks and tighter control of inventory costs.

Shoppers Drug Mart and Pharmaprix promotional flyers now reach over seven million Canadian households, 51 times a year.

During 1989 Shoppers Drug Mart/Pharmaprix had an excellent year in all regions of the country. System-wide sales increased 10% and, on a comparable store basis, sales were up 7.9%. We achieved sales per square foot of \$736, among the highest in the entire North American drug store industry. Operating earnings reached \$70.6 million, up 24% over last year. The major emphasis in 1989 was on further strengthening the productivity and profitability of existing stores, in particular the former Super X Drugs and Howie's stores that were converted to the Shoppers Drug Mart format. Some modest expansion was undertaken largely to improve existing market penetration and tap new markets. At year end 27 stores had been acquired or opened and seven closed, bringing the group total to 633 stores nation-wide.

Shoppers Drug Mart/Pharmaprix is Canada's largest drug store group. Over the years the most important contributor to our business growth and profitability has been the Associate concept and the strong emphasis that it places on our pharmacists. The Associates are responsible for their own stores and their association with the company provides many benefits including national advertising

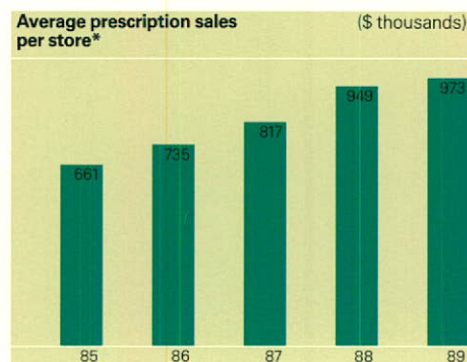
programs and excellent purchasing opportunities from suppliers. To help the Associate and the store management team fulfil their responsibilities, every store receives assistance and retailing know-how supplied by regional and corporate offices.

Our strong corporate brands program is another important factor in the success of Shoppers Drug Mart/Pharmaprix. With over 1,000 products available exclusively at our stores, this program strengthens consumer loyalty and increases customer traffic. Products are offered under the trademarks Life Brand, Shoppers Drug Mart, Pharmaprix and Rialto. Each product is equal or better in quality to the nationally advertised equivalent and is extensively tested before being sold.

Competition

Traditional competitors are primarily regional chains and independent drug stores. Food outlets with drug departments represent a growing challenge. These stores stress the convenience of one-stop shopping.

Our positioning statement, "Everything you want in a drugstore", sets us apart from the



*1989 includes 64 former Super X locations with lower average prescription sales per store.





competition and indicates our dedication to the key customer benefits of trust, savings, selection, service and convenience. Moreover, in 37 locations we are meeting the challenge of food/drug combinations head-on with Food Basket stores. These stores incorporate a traditional Shoppers Drug Mart with sections of selected foods for time-pressed customers.

The role of drug stores in the community health care system takes on additional importance every year. Health care occurs in the home with increasing regularity because of constraints on the public health care system, the aging population and scarce hospital space. As part of this trend, issues such as prescription pricing, third party insurance plans and Sunday shopping hours gained prominence in 1989.

Our pharmacists are playing an active role in the resolution of these issues and are committed to consumers' health care needs. For example, we operate four 24-hour stores, mainly close to major hospitals, and many others have extended hours of operation. There are now 18 Shoppers Drug Mart Home Health Care Centres and more are

planned. These centres specialize in supplies for chronic or post-operative patients and persons recovering from injuries.

Marketing

Marketing activities include: promotional flyers; television, radio and print advertising; joint promotions with other national retailers and suppliers; and sponsorships.

Sponsorships at the local level are centered on amateur sports. Over 1,000 community sports teams are supported by their local Shoppers Drug Mart stores. Nationally the company sponsors the Federal Government's Fair Play program which encourages fairness and good sportsmanship among young athletes.

Investment

A critical component of sustained growth is forward-looking investment. In the past year 58 existing stores were renovated or upgraded. A computerized bookkeeping system and software that produces valuable data for marketing and operational decisions are performing well. All of our stores are



slated to receive these systems in the next three years. Point of sale terminals are also being introduced but at a more conservative pace. Pharmacy computers, which are so necessary for staff productivity and patient-counselling, are now in every store.

Customer service and store productivity were improved in 1989 with the expansion of the dedicated warehouse system. The warehouses are independently owned but hold selected stock exclusively for Shoppers Drug Mart stores. A total of 1,200 products are now available through the system. Dedicated warehouses provide the Associates with easily managed order quantities and timely deliveries, resulting in higher stock turns and increased profits.

Our in-house training facility, the Koffler Academy, is continually updating the skills and knowledge of office and store employees. This workforce development leads to greater productivity, better service and more promotions from within the company.

Outlook

Shoppers Drug Mart has consistently demonstrated its ability to grow and prosper through excellence in all areas of its operations. The past year was our most successful ever and we are confident that we have laid the groundwork for another outstanding year in 1990. We will once again emphasize retailing fundamentals: people, positioning, productivity and technology. We expect further growth in market share, sales and earnings.

David R. Bloom

David R. Bloom
Chairman and Chief Executive Officer

Highlights of operations*

in millions of dollars, except as noted

	1989	1988	Twelve months ended December 31		
			1987	1986	1985
Revenues	1,207.2	1,841.6	1,850.2	1,922.5	1,737.3
Operating earnings	8.0	(8.3)	(22.5)	0.1	52.5
Operating margins (%)	0.7	(0.5)	(1.2)	—	3.0
Average sales per store (millions of US dollars)	2.1	1.8	1.7	1.7	1.5
Average sales per square foot (US dollars)	250	217	208	192	185
Number of stores	490	829	819	830	824
Capital expenditures	12.4	41.9	29.1	32.7	58.5

*Highlights of operations expressed in US dollars are presented on page 52.

Peoples returned to profitability in 1989. Operating earnings were \$8.0 million which compares with a loss of \$8.3 million in 1988.

The divestiture of 325 stores in regions of limited potential was successfully completed.

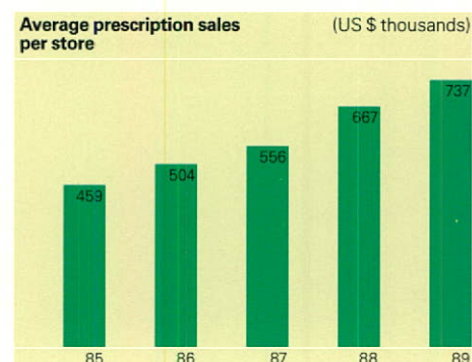
There is now a pharmacy computer in every store. The installation of point of sale scanning cash registers is proceeding with 140 stores now on line and plans for an additional 100 stores in 1990.

Comparable store sales increased 6.7% and comparable prescription sales increased 9.9% over 1988.

The most significant event for Peoples in 1989 was the return to profitability. Operating earnings were \$8.0 million compared with an operating loss of \$8.3 million last year. Higher comparable store sales, a careful monitoring of gross margins and lower expenses were key factors in the turnaround. Another strength has been our people. The most difficult years now appear to be behind us and Peoples' employees can be justifiably proud of their achievements.

Another important accomplishment was the successful divestiture of 325 stores in regions where potential was limited, following the restructuring plan initiated in January. The plan called for the divestment of three complete divisions and the selling program was substantially completed by August.

The scaled-down Peoples remains a significant player in the U.S. drug store industry, ranking as the tenth largest chain measured by store count and the twelfth largest in dollar volume. Our major market areas have estimated combined drug store sales of \$3 billion. Peoples ranks as number one in market share in all but one of its principal metropolitan markets.



The industry

Chain drug stores continue to grow in number and sales volume and now account for approximately 62% of total industry sales. The chain drug store industry's toughest competition comes from mass merchandisers, combination food/drug retailers and deep discount drug stores.

The key to meeting this competition is emphasizing the traditional strengths of the community drug store. In essence these are a strong emphasis on health care, convenience, value and customer service. Peoples' business plan for 1990 encompasses a series of initiatives to address each of these issues. Taken together they will add strength to our competitive position and value to the Peoples' trademark.

Health care

Prescriptions, accounting for 33% of total sales, rank as the number one category for Peoples Drug Stores and average prescription sales per store grew 9.9% in 1989. Over-the-counter drugs follow with 12% of sales and health and beauty aids are third at 9%. This sales mix is indicative of the strong emphasis that we are placing on health care and related product categories.

We are also committed to further supporting the role of the Peoples' pharmacist as a community health care professional. An important initiative in this respect is our 24 hour pharmacy program. Currently 13 stores have a pharmacist on duty round the clock.

Computerized pharmacy records are also contributing to better health care for our customers. The installation of pharmacy computers throughout the Peoples chain is now

Currently 13 Peoples Drug Stores have a pharmacist on duty round the clock.

The installation of pharmacy computers throughout the chain is now complete, providing pharmacists with an important professional tool.

David Bloom, Chairman and Chief Executive Officer, Imasco Drug Retailing Group (L.) with David Eisenberg, President and Chief Operating Officer, Peoples (r.).



complete providing our pharmacists with an important professional tool to meet customer needs. Another example is our pharmacy outreach program which includes a widely acclaimed pamphlet series on health and social issues; public health screening through our mobile clinic, the Wellness Express; and speaking engagements by Peoples' pharmacists to community groups.

Convenience

A fundamental strength of Peoples has always been our convenient store locations

but there is more to convenience than location. Convenience also means stocking the products that customers want and providing easy access through efficient store layouts.

Our emphasis on consumer research will continue in 1990 with six major research projects, keeping Peoples in touch with customers' wants and needs. Using data from our electronic cash register scanning network, now in 140 stores, we are able to refine product mix while maintaining margins and reducing inventory. By the end of 1990 the scanning network will span 50% of our stores. We also plan to continue our aggressive store renovation program, with 69 stores slated to be remodelled in 1990.

Value

Research conducted in 1987 indicated that Peoples was suffering from a poor price image. Since that time we have been carefully monitoring key product prices on a market-by-market basis to ensure that Peoples is competitive. Store and administration expenses will be further reduced and a new computer, expected to be operational by year end, will process health insurance

claims more quickly and accurately than in the past.

Another source of customer value is Peoples' wide range of private label products. We stepped up the program in 1989 with new packaging featuring our Quality First symbol. Our commitment to these products is backed by a "no questions asked" money back guarantee.

Service

The foundation of superior customer service is staff training and motivation. Peoples is currently testing satellite training centres where new employees spend their first two days learning the various aspects of their jobs. We believe that this program will complement the on-the-job training that has been in effect and will reduce turnover and increase customer satisfaction. We have also instituted a new employee recognition program which rewards employees for their conscientious approach to customer service.

Outlook

The turnaround at Peoples is well underway. The return to profitability in 1989 is a major milestone in the recovery plan and our progress is fuelling optimism and dedication throughout the company. In 1990 we will again increase sales, improve margins and tightly control expenses as we move closer to our longer term goal of profitability equal to or better than the industry leaders.

David R. Bloom
Chairman and Chief Executive Officer
Imasco Drug Retailing Group



Highlights of operations

in millions of dollars, except as noted

	1989	1988	Twelve months ended December 31		
			1987	1986	1985
Revenues	286.1	256.6	235.3	206.0	187.8
Operating earnings	8.3	7.5	6.7	6.6	5.5
Operating margins (%)	2.9	2.9	2.9	3.2	2.9
Average sales per store (thousands of dollars)	543	489	461	432	410
Average sales per square foot (dollars)	790	718	675	651	629
Number of stores	531	525	524	494	460
Capital expenditures	5.3	4.9	6.9	4.1	3.0

The UCS Group now operates 531 stores in five divisions: Woolco/Woolworth, Specialty Stores, Hotel/Airport, Den for Men/Au Masculin and Tax and Duty Free.

Record sales and earnings were achieved for the fifth consecutive year.

Tax and Duty Free shops contributed significantly to total sales and placed the company in an excellent position to expand this division.

Book departments were introduced into selected Woolco stores and have enhanced existing operations.

Major employee programs have been developed and implemented to highlight customer service, improve productivity and help in the recruitment of new staff.

The UCS Group ended the year with record-breaking results and a clear business plan to maintain its momentum into the next decade. Total sales were \$286.1 million, a 12% increase over the prior year. The major contributor to the rise in sales was the Woolco/Woolworth division. Operating earnings reached \$8.3 million, 2.9% of revenues. Tobacco products and accessories accounted for 56% of total sales. UCS is attracting more and more smokers with a wide selection of products catering to their needs. As a category, tobacco sales increased 14% over the prior year.

In all five divisions of the company, the product mix has been expanded. Confectionery, reading materials and tobacco are still the core products but gifts and souvenirs are rapidly gaining prominence, especially in hotel, resort and airport stores. The Tax and Duty Free division is developing well and has attractive growth potential.

Competition

The UCS Group faces widespread competition. Our core products are carried by supermarkets, drug stores, convenience stores and other specialty retailers. The UCS advantage is based on selection, convenience of locations and service.

We continually invest in the renovation of stores. In 1989, 51 locations were refurbished at a cost of \$3.2 million. A similar number of stores will be remodelled in 1990, including the conversion of some Woolco Smoke Shops to the new concept of Smoke Shop/Book Store which is producing encouraging results.

During the year, employee policies were instituted to better communicate corporate



plans and emphasize the importance of putting the customer first. The goal is also to recruit and retain the best available people and improve their productivity. A new program, People Are Really Terrific, underscores management's serious commitment to staff at all levels of the organization. Operational efficiency has also been enhanced. All retail locations are now linked with the corporate office and other stores through data/message terminals.

Outlook

Management appointments made during the year have strengthened corporate departments and divisional operations. The company moves into the new decade with a corporate environment based on entrepreneurship and disciplined teamwork. We have every confidence that 1990 will be another year of improved productivity and solid earnings growth.

Norman Latowsky
President and Chief Executive Officer

Involvement in the Community

As Imasco has grown and entered new areas of business over the years, so too has it continued to enlarge its support for the many communities in which it operates. All members of the Corporation are ever mindful of the beneficial influence that Imasco can have through good corporate citizenship. Through concrete actions and cash contributions, Imasco and its family of companies are helping to improve the quality of life today and in the future.

Corporate donations

In 1969 Imasco established the Corporate Donations Committee, consisting of eight members representing Imasco's corporate centre and its three wholly owned Canadian divisions. Each year the Board of Directors establishes an annual budget for the Corporate Donations Committee which meets regularly to consider requests for assistance from organizations across Canada. In 1989 the Committee considered 837 requests and contributed \$2.5 million to organizations involved in public welfare, aid to the disadvantaged, health, education, cultural, recreational and youth activities.

Imperial Tobacco, Shoppers Drug Mart and The UCS Group are also active in helping smaller, but no less worthy, charities at the local level. In addition, Canada Trust, Hardee's and Peoples maintain separate donations programs. In 1989 direct donations from these operating companies totalled approximately \$4 million.

du Maurier Arts Ltd.

In 1971 Imperial Tobacco established the unique du Maurier Council for the Arts. Since then the Council and its successor, du Maurier Arts Ltd., have distributed over \$7 million to the performing and interpretative arts in Canada. In 1989, just over \$700,000 was distributed.

Job Creation Initiative

The Montréal Job Creation Initiative was established in 1986 with a funding commitment of \$7 million over five years. Its purpose is to help persons start or develop their own businesses, and the goal is to create 1,000 new jobs in the small business sector. Applicants for participation in the program receive the free help and support of a team of business specialists.

The Montréal Job Creation Initiative also operates the Montréal Enterprise Centre which provides shared services and low rents to the entrepreneurs. In 1989, expenditures related to the Montréal Job Creation Initiative totalled \$1.5 million.

By the end of 1989 the project had received some 2,957 enquiries and helped establish 213 new businesses which have created 1,738 new job opportunities in the greater Montréal area.

Disabled students

Cases of individual need or merit are not overlooked. Through the Imasco Scholarship Fund for Disabled Students, established in 1981, qualifying disabled students are helped to pursue university level education. The fund, which was originally endowed with \$100,000, has been increased to \$250,000 over the years. To date a total of 101 scholarships have been awarded to 57 students.

Hurricane Hugo

One of the more imaginative initiatives undertaken during the year was the assistance Hardee's provided to victims of Hurricane Hugo. Hardee's worked closely with the Mayor of Charleston, SC, licensees and suppliers to assemble the "Hurricane Hugo Express Train". In all, over \$500,000 worth of food, paper products and needed materials was loaded into three rail cars and delivered to Charleston at the time of the crisis. As a follow-up, a truckload of toys was sent to the city's children in time for Christmas.

Sponsorships

Operating companies are also very active in sponsorship activities. Sponsorships serve

to associate Imasco's many well-known trademarks with major community programs and events across North America. Best known to Canadians are events sponsored by subsidiaries of Imperial Tobacco, a company with a long and proud history of generous support for sports and the arts in Canada.

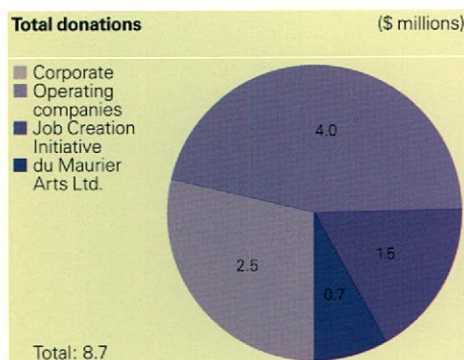
However, other divisions also have significant programs. Hardee's has a number of important associations, among them: the Special Olympics, the Duke University Medical Center and a P.G.A. Tour event, The Hardee's Golf Classic. Shoppers Drug Mart is active in community sports and drug abuse and health information programs; most of the emphasis at Peoples is in the area of community health.

Support for democracy in Canada

Imasco gives money to political parties and other organizations which support the principles of a strong private business sector and democratic government. It is the position of the Corporation that it has the right, if not an obligation, to do so. In 1989 the Board of Directors approved contributions of \$119,400 to federal and provincial political parties. Imasco neither asked for, expected nor received any consideration for this money other than the satisfaction of having contributed to the democratic political process.

Employees

Imasco encourages employees at all levels to take an active part in community affairs. Employees are also encouraged to become members of trade and professional associations to improve their knowledge and skills. In 1989 some 600 employees participated through company-paid memberships in associations throughout North America.





Imperial Tobacco, Montréal, Québec

Imperial Tobacco is Canada's leading tobacco enterprise with operations ranging from leaf tobacco buying and processing to the manufacture and distribution of the finest quality tobacco products. The company has manufacturing facilities in Montréal and Joliette, Québec and Guelph, Ontario, with leaf processing plants in Joliette and LaSalle, Québec and Aylmer, Ontario. Sales and/or distribution centres are situated in St. John's, Moncton, Montréal, Ottawa, Toronto, Winnipeg, Calgary and Vancouver.



Canada Trust, London, Ontario

Canada Trust, one of the largest financial institutions in Canada, has 331 retail financial services branches across the country and 22 personal and pension trust offices in major Canadian cities. Canada Trust is also one of Canada's leading real estate brokers with 275 company-operated and franchised offices from coast to coast.



Hardee's, Rocky Mount, North Carolina

Hardee's Food Systems consists of 3,298 restaurants of which 2,212 restaurants are licensed and 1,086 are company-operated. The restaurants are located in 39 states, the District of Columbia and nine overseas countries. Restaurants are concentrated in the southeastern and midwestern United States and Hardee's is a market leader in these regions. Fast Food Merchandisers, the food processing and distribution arm of Hardee's, has three manufacturing plants and 11 strategically located distribution centres.



Shoppers Drug Mart, Toronto, Ontario

Shoppers Drug Mart /Pharmaprix is the leading drug store group in Canada. The 633 Associate-operated stores are located in all ten provinces and one territory.



Peoples Drug Stores, Alexandria, Virginia

Peoples operates 490 stores in Washington, DC, the mid-Atlantic region and Pennsylvania. The stores are serviced by five regional distribution centres in Virginia, Maryland and Pennsylvania.



The UCS Group, Toronto, Ontario

The UCS Group, Canada's leading small space specialty retailer, has 531 stores doing business in all Canadian provinces, except Prince Edward Island, and one territory. The stores report through five divisions: Woolco/ Woolworth, Specialty Stores, Hotel/Airport, Den for Men/Au Masculin and Tax and Duty Free.

Contents

22	Unaudited Statement of Earnings Assuming Consolidation of Imasco Enterprises
23	Management's Discussion and Analysis
31	Management's Responsibility for Consolidated Financial Statements
31	Auditors' Report
32	Summary of Significant Accounting Policies
33	Consolidated Financial Statements
36	Notes to the Consolidated Financial Statements
48	Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
51	Divisional Statistical Highlights Five year review
53	CT Financial Services Inc. Statistical Highlights Three year review
54	Selected Ten Year Financial Data
56	Quarterly Consolidated Financial Information

Unaudited Statement of Earnings
Assuming Consolidation of Imasco Enterprises
For the years ended December 31

In the consolidated financial statements of the Corporation which commence on page 32, the Corporation accounts for its investment in Imasco Enterprises by the equity method. The Corporation's equity in the net earnings of Imasco Enterprises is shown as a single amount in operating earnings. The following unaudited statement of earnings has been prepared on a basis which assumes that the accounts of Imasco Enterprises, including CT Financial Services, are consolidated with those of the Corporation. Under this approach, the equity in net earnings of Imasco Enterprises is eliminated and the components of the net earnings of Imasco Enterprises are added to those of the Corporation. As a result, the amounts otherwise reported for revenues, operating earnings, interest expense and provision for income taxes are increased. Minority interest includes dividends on the preferred shares of Imasco Financial Corporation and CT Financial Services and its subsidiaries, and includes the net earnings of CT Financial Services attributable to common shares of that company not owned by the Corporation. There is no impact on the net earnings or earnings per common share of the Corporation.

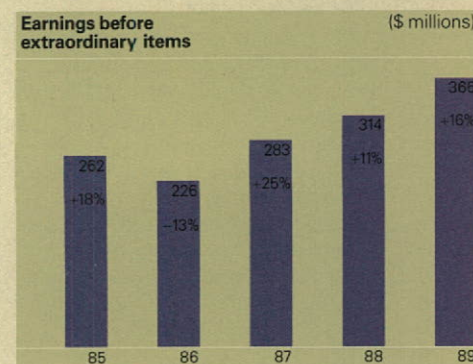
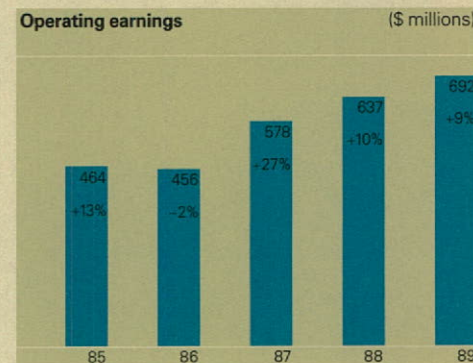
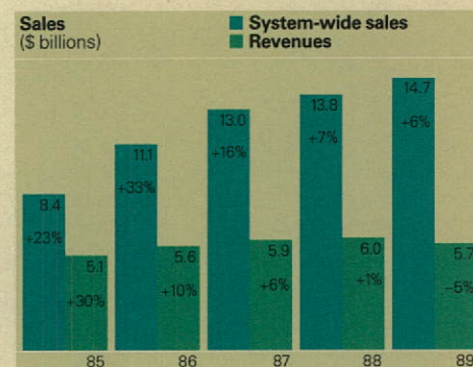
	1989	1988	1987
Millions of dollars, except "Earnings per common share"			
Revenues	9,893.9	9,373.8	8,780.1
Sales and excise taxes	1,489.4	1,156.1	1,109.8
	8,404.5	8,217.7	7,670.3
Operating costs	4,738.3	5,284.5	5,121.3
Interest on customer deposits	2,758.8	2,093.2	1,813.0
Operating earnings	907.4	840.0	736.0
Corporate expense	31.6	28.5	29.6
Interest expense	247.4	261.2	220.3
Earnings before income taxes and minority interest	628.4	550.3	486.1
Provision for income taxes	207.2	189.2	158.2
Minority interest	55.1	46.8	45.2
Earnings before extraordinary items	366.1	314.3	282.7
Extraordinary items	—	(110.0)	(29.1)
Net earnings	366.1	204.3	253.6
Net earnings attributed to			
Preference shares	24.3	15.1	15.1
Common shares	341.8	189.2	238.5
	366.1	204.3	253.6
Earnings per common share			
Before extraordinary items	\$2.87	\$2.51	\$2.24
After extraordinary items	\$2.87	\$1.59	\$1.99
Operating earnings by segment			
Tobacco	334.0	308.0	279.1
Financial services ¹	328.8	328.3	286.1
Restaurant	118.6	130.3	137.3
Drug store			
Shoppers Drug Mart	70.6	57.1	51.3
Peoples Drug Stores	8.0	(8.3)	(22.5)
Other ²	47.4	24.6	4.7
	907.4	840.0	736.0

¹ Represents CT Financial Services' pre-tax earnings, before interest expense on notes and mortgages and net of amortization of fair value arising on acquisition. (Refer to page 53)

² Includes The UCS Group and the remaining operations of the former Genstar Corporation.

Management's Discussion and Analysis

Results of operations



The consolidated financial statements of the Corporation follow commencing on page 32. The following comments and analyses are presented in order to provide an overview of the Corporation's results of operations and financial condition. The accompanying charts illustrate the performance of the Corporation over the past five years.

Earnings before extraordinary items in 1989 increased 16% to \$366.1 million. Increases were also reported in system-wide sales and operating earnings while revenues declined, primarily as a result of the disposition of 325 stores in the Peoples Drug Stores segment. During 1988 earnings before extraordinary items were \$314.3 million, an increase of 11% over 1987 and system-wide sales, revenues and operating earnings also increased over 1987. Factors giving rise to the changes in system-wide sales, revenues and operating earnings during the last two fiscal years are outlined in the discussion of divisional results which follows.

The Corporation accounts for its investment in Imasco Enterprises by the equity method because the financial structure and operations differ significantly from the Corporation's other businesses. Use of the equity method of accounting as opposed to the consolidation method has no effect on the net earnings reported by the Corporation; however, the composition thereof is affected. The Corporation's application of the equity method results in the net earnings of Imasco Enterprises being added to its operating earnings. Consequently, the amounts reported for operating earnings, interest expense and provision for income taxes are less than would be reported if the Corporation were to consolidate its investment in Imasco Enterprises. This is illustrated in the unaudited Statement of Earnings presented as supplementary information on page 22 in which the investment in Imasco Enterprises is accounted for by the consolidation method. On this basis, the percentage contribution of each of the Corporation's principal lines of business to total operating earnings in 1989 would have been: tobacco 37%, financial services 36%, restaurant 13%, drug store and other 14%. On the same basis, the contributions to 1988 operating earnings would have been: tobacco 37%, financial services 39%, restaurant 15%, drug store and other 9%. In both years, non-tobacco businesses produced 63% of total operating earnings on a consolidated basis.

Interest expense in 1989 totalled \$196.2 million, a decrease of 10% from 1988. This decrease is due to a reduction in the total debt of the Corporation in 1989. Total debt, including long term debt, capital lease obligations and bank and other short term loans, net of cash and short term investments amounted to \$1.8 billion at December 31, 1989, down \$374 million from the previous year end. This reduction is principally the result of an issue of \$150 million of Perpetual First Preference shares Series D and cash generated from business disposals in the Peoples Drug Stores and Hardee's segments.

Higher interest rates in 1989 partially offset the benefits of reduced debt levels. The weighted average interest rate experienced by the Corporation on variable rate debt was approximately 10.8% during 1989 compared with approximately 9.1% in 1988. In managing the exposure to interest rate fluctuations, the Corporation continually assesses its mix of fixed and variable interest rate debt. With increased rates in 1989, the Corporation benefitted from having increased its ratio of fixed rate debt to variable rate debt during 1988 and early 1989. This was achieved by several debt refinancings and through the use of interest rate swaps which are discussed further under "Liquidity and capital resources".

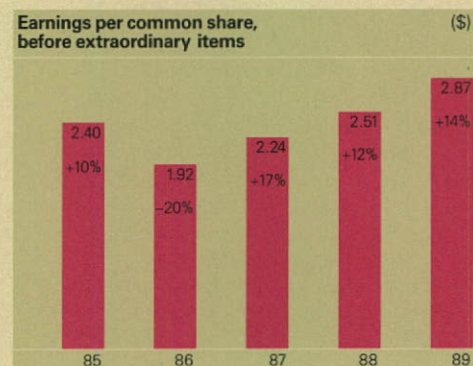
Interest coverage, the ratio of earnings before interest and taxes to interest expense, was 3.4 in 1989 compared with 2.8 in 1988 and 2.9 in 1987.

The increase in interest expense in 1988 to \$217.6 million from \$186.8 million in the previous year was largely due to the deferral in 1987 of \$40.6 million of carrying charges relating to certain former Genstar businesses held for disposal. During 1988, with the closing of the disposal account on December 31, 1987, no such deferrals were recorded. During 1988 the weighted average interest rate on variable rate debt of the Corporation increased from approximately 8.1% to approximately 9.1% and total debt decreased to \$2.1 billion from \$2.5 billion at the previous year end.

The effective income tax rate of the Corporation during 1989, excluding equity earnings, increased to 31.5% from 30.7% during 1988. The increase is primarily due to a change in the

Management's Discussion and Analysis

Results of operations (continued)



mix of earnings. The 1988 effective rate had decreased from the 1987 rate of 33.7%, reflecting the benefit of lower corporate tax rates which arose from tax reform in Canada and the United States as well as a change in the mix of earnings to jurisdictions with lower rates of corporate taxation. The effective tax rate of the Corporation is lower than the combined federal and provincial income tax rate in Canada. As indicated in the reconciliation of the effective income tax rate outlined on page 42, this is primarily the result of the Corporation earning income in jurisdictions where it is subject to lower rates of taxation than in Canada. This benefit is dependent upon the continued existence of certain international tax treaties.

Earnings per common share before extraordinary items amounted to \$2.87 for 1989 compared with \$2.51 for 1988, an increase of 14%. The earnings per common share percentage increase is not as large as the percentage increase in earnings before extraordinary items as a result of the issue of \$150 million Perpetual First Preference shares Series D in March 1989. The cash proceeds from the share issue were used to repay long term debt and consequently reduced interest charges and increased net earnings. Conversely, the dividends on the new preference shares reduced both the earnings attributable to holders of common shares and earnings per common share.

During 1988 the Corporation recorded an extraordinary charge against earnings of \$110.0 million as a result of a program to reorganize the operations of Peoples Drug Stores and dispose of the operations of Grisanti, Inc. This extraordinary charge reduced 1988 net earnings to \$204.3 million or \$1.59 per common share. During 1989 the disposals contemplated under this program were substantially completed. The provision recorded in 1988 was sufficient to cover the costs associated with the program.

The Corporation has significant operations in the United States and consequently is faced with the risk posed by fluctuations in exchange rates. The Corporation minimizes this risk by maintaining borrowings in US dollars. Consequently, when the Canadian dollar strengthens in relation to the US dollar, as has been the case during the periods under review, the negative impact that results from converting US dollar operating earnings into Canadian dollars is offset by a positive impact on the conversion of US dollar interest expense. Maintaining borrowings in US dollars also serves to offset the erosion in the value of the Corporation's net assets which could occur as a result of foreign exchange fluctuations.

The average rate of exchange was approximately US \$1 = Cdn \$1.18 during 1989, US \$1 = Cdn \$1.23 during 1988 and US \$1 = Cdn \$1.33 during 1987. Had the exchange rate during 1989 remained the same as during 1988, the Corporation's net earnings would have been approximately \$3 million higher than reported. Similarly, 1988 earnings before extraordinary items would have been \$5 million higher if there had been no change in exchange rates from 1987.

Imperial Tobacco

Revenues during 1989 increased 18% to \$2.4 billion and, after deducting sales and excise taxes, net revenues increased 4% to \$896.2 million. During 1988 gross revenues increased by 5% to \$2.0 billion and net revenues increased by 6% to \$862.0 million. The net revenue increases in both years are related to price increases. The incidence of smoking continues to decline at increasing rates. Industry shipments decreased 7% during 1989 compared with 3% during 1988. Imperial Tobacco's domestic shipments of manufactured cigarettes decreased by 4% during 1989 and were slightly higher in 1988 than in 1987. Imperial Tobacco has continued to achieve annual market share increases. Based upon Statistics Canada figures Imperial Tobacco's share of the domestic cigarette market for the year ended December 31, 1989 increased to 57.9% from 56.2% in 1988 and 54.4% in 1987. These increases reflect the strength of Imperial Tobacco's major trademarks and demonstrate the company's ability to compete effectively in the marketplace.

Operating earnings increased by 8% to \$334.0 million in 1989. During 1988 operating earnings increased 10% to \$308.0 million. The increases in both years reflect continued productivity improvements and higher prices.

The Canadian tobacco industry and Imperial Tobacco have experienced substantial tobacco tax increases both from the Federal and Provincial Governments. These may affect the medium

Management's Discussion and Analysis**Results of operations** (continued)

and long term profitability of the industry. The Tobacco Products Control Act passed by the Canadian Government, with effect January 1, 1989, prohibits the advertising and promotion of tobacco products, with some transitional provisions, and governs the labelling and monitoring of such products. Imperial Tobacco and other Canadian manufacturers have challenged the constitutional validity of this Act. Various federal, provincial and municipal laws also restrict the freedom to smoke in public places. Some of the provisions of the Tobacco Products Control Act and the formulation and implementation of its regulations may also have a negative effect on Imperial Tobacco's operating earnings.

Imasco Enterprises/CT Financial Services

Imasco Enterprises' revenues for 1989 totalled \$4.3 billion compared with \$3.5 billion in 1988, an increase of 24%. CT Financial Services, the principal operating subsidiary of Imasco Enterprises, contributed the majority of the increase. CT Financial's investment income increased 27% to \$3.5 billion and fees increased 8% to \$219.6 million while gross real estate sales commissions decreased 2%.

Imasco Enterprises' revenues increased by 21% during 1988 from \$2.9 billion in 1987. During 1988 CT Financial's investment income increased by 13% to \$2.8 billion, fees increased by 14% to \$203.6 million and gross real estate sales commissions were up 3% to \$254.2 million.

The revenues of Imasco Enterprises are included in the system-wide sales of the Corporation but are excluded from consolidated revenues since the Corporation accounts for its investment in Imasco Enterprises by the equity method.

The Corporation's equity in the net earnings of Imasco Enterprises for 1989 was \$152.5 million compared with \$142.1 million in 1988, an increase of 7%. A reconciliation of the net earnings of CT Financial to the Corporation's equity in the net earnings of Imasco Enterprises is presented on page 53.

CT Financial's 1989 net earnings attributed to common shares amounted to \$240.2 million, up 4% from the previous year. The return on average common shareholders' equity was 17.3% compared with 19.0% in 1988 and the return on average corporate assets was \$0.79 per \$100 of assets compared with \$0.85 in 1988. During 1989 \$30 million was charged to earnings as provision for investment losses primarily to provide for losses on credit card receivables. In management's opinion, the high level of credit card losses experienced during the year was attributable to card marketing initiatives. As a result of these losses, CT Financial has tightened credit standards and has increased collection activities. Loss experience is expected to improve in 1990.

CT Financial's net earnings in 1988 included the impact of two non-recurring events: the sale of an equity position in RoyNat Inc. and the partial recovery of Dome Petroleum loans and of an investment therein. These two items contributed approximately \$30 million to net earnings in 1988 and affect the comparison with 1989 earnings. Changes in the economic cycle and more competitive lending conditions in 1989 resulted in loan growth of 7% being less than deposit growth of 11%. This, in addition to a change in deposit mix, negatively affected the net interest rate differential in 1989. The net interest rate differential on a taxable equivalent basis before provision for investment losses was 2.37% compared with 2.46% in 1988. Net investment income on a taxable equivalent basis was \$861 million compared with \$759 million at December 31, 1988 and \$717 million at December 31, 1987.

The Corporation's equity in the net earnings of Imasco Enterprises for 1988 was \$142.1 million compared with \$126.5 million in 1987. CT Financial recorded net earnings of \$232.0 million in 1988, an increase of 15% over 1987 net earnings of \$201.0 million. Net earnings for 1988 expressed as an annualized return on average corporate assets represented \$0.85 per \$100 compared with \$0.80 in 1987. On a fully diluted basis the return on average common shareholders' equity was 19.0% compared with 19.4% in 1987.

Management's Discussion and Analysis

Results of operations (continued)

Hardee's Food Systems

System-wide sales amounted to \$4.1 billion during 1989, up 2% from 1988. In US dollars, 1989 system-wide sales increased 6% to US \$3.5 billion. Revenues in Canadian dollars increased 2% in 1989 to \$1.8 billion and in US dollars revenues increased 5%. Revenues in US dollars derived from sales by company restaurants, sales by the manufacturing and distribution business, Fast Food Merchandisers, and service and licence fees all increased. The number of company-operated restaurants under the Hardee's concept increased by 48 to 1,086 and licensed Hardee's restaurants increased by 133 to 2,205. Seven licensed restaurants continued to operate under the Burger Chef name. System-wide average sales volume per restaurant increased to US \$922,000 from US \$920,000 in 1988. During 1989 the competition for market share was fierce with competitors discounting prices to maintain customer traffic levels. Hardee's share of customer traffic in the sandwich category of the quick service restaurant industry was 9.9%, unchanged from 1988.

During 1988 US dollar revenues increased by 5% as a result of a larger restaurant base, increased volume from existing restaurants and increased service and licence fees. Share of customer traffic during 1988 increased to 9.9% from 9.6% in 1987 and system-wide average sales volume per restaurant increased by US \$43,000 to US \$920,000. FFM revenues declined due to the loss of business of a major restaurant licensee.

Operating earnings for 1989 decreased 9% to \$118.6 million. Exchange rate fluctuations and the sale and leaseback of company restaurants in 1988 affect the comparison between 1989 and 1988. After adjustment for the real estate sale and leaseback transactions, operating earnings in US dollars increased 2% in 1989.

During late 1988 Hardee's decided to divest the Grisanti's chain of restaurants and to concentrate resources on the core business. The sale of the Grisanti's restaurants during 1989 did not materially affect the comparability of 1989 operating earnings with the prior year.

Operating earnings for the year ended December 31, 1988 decreased 5% to \$130.3 million; however, in US dollars and adjusted for the February 1988 sale and leaseback transaction, operating earnings increased 18% over 1987.

Hardee's and other fast service restaurant competitors will be affected by the increases in U.S. federal minimum wage rates effective April 1, 1990 and April 1, 1991. It is anticipated that the additional costs arising from this legislation will be recovered through enhanced productivity and increased prices.

Hardee's encourages multi-unit development by licensees. As a result, a substantial number of licensed restaurants are operated by a small number of licensees. Hardee's success is partially dependent on the success of these licensees and the ability to continue long-standing relationships with them. The two largest licensees operated 738 restaurants or approximately 33% of the licensed restaurants. These two licensees have licence agreements for each restaurant location which will expire at various times over the next 20 years.

On January 30, 1990 the Corporation announced that Hardee's had reached an agreement to acquire the Roy Rogers restaurant business for approximately \$438 million (US \$365 million). The acquisition is subject to U.S. regulatory approval and is expected to be completed by the end of March 1990. The Roy Rogers chain consists of 600 restaurants (363 company-operated and 237 licensed) located primarily in the metropolitan Washington, Baltimore, Philadelphia and New York areas. Hardee's previously was under represented or not represented in these markets. The two chains have complementary menus and there are very few conflicts between Roy Rogers sites and existing Hardee's restaurants. Plans call for converting the company-operated Roy Rogers restaurants to the Hardee's format within the next two years and encouraging the licensees to do likewise. The acquisition will be financed with cash on hand of approximately \$240 million (US \$200 million), the remainder being provided through existing borrowing facilities. The impact of the acquisition on the Corporation's net earnings is expected to be neutral in 1990 and positive thereafter.

Management's Discussion and Analysis**Results of operations** (continued)**Shoppers Drug Mart**

System-wide sales for 1989 increased 10% to \$2.6 billion while revenues decreased 30% to \$136.2 million. The decline in revenues reflects the conversion of the company-operated Howie's discount drug stores to associate-operated Shoppers Drug Mart stores. Sales of these stores in 1988 were \$80.0 million and, if they are excluded from 1988 revenues, revenues in 1989 increased 19%. This increase in revenues is due both to an increase in the number of stores and to improved performance from existing stores. The number of stores in the Shoppers Drug Mart network increased by 20 to 633 at December 31, 1989. Comparable store sales for Shoppers Drug Mart/Pharmaprix locations increased 7.9% and comparable prescription sales increased 10.6%. These results reflect increases in customer traffic and the average sale per customer.

Revenues during 1988 increased 14% to \$194.9 million and the number of retail locations increased by 27. During 1988 Shoppers Drug Mart/Pharmaprix comparable store sales increased 10.0% and comparable prescription sales increased 15.3% over 1987.

Operating earnings during 1989 increased 24% to \$70.6 million reflecting increased revenues and improved gross margins at the store level. The gross margin improvement is due to asset productivity programs and to a shift in sales mix away from lower margin tobacco products. The prior year operating earnings increase of 11% to \$57.1 million was mainly due to increased revenues. Gross margins during 1988 were virtually unchanged from 1987. The conversion of Howie's stores to Shoppers Drug Mart in 1989 and the conversion of Super X stores in 1988 resulted in increased earnings and improved return on capital invested.

Sunday closing legislation and limitations on compensation provided on prescriptions covered by government and health insurance plans are major issues facing Shoppers Drug Mart. Shoppers Drug Mart actively participates in studies and consultations in the development of any legislation that may affect the interests of its customers and business.

Peoples Drug Stores

During the fourth quarter of 1988 the Corporation adopted a formal plan to restructure the operations of Peoples Drug Stores. This plan was based upon a comprehensive review of the Corporation's under performing assets and resulted in a decision to divest Peoples' Reed, Lane, Midwest and Bud's Deep Discount divisions. During 1989, agreements were completed on the sale of 325 stores and only five Bud's stores remained to be sold at year end.

During 1989 revenues in Canadian dollars decreased 34% to \$1.2 billion reflecting both the impact of the strengthened Canadian dollar and the store divestment program. In US dollars revenues decreased 32%. On a comparable store basis revenues increased 6.7% and comparable prescription sales increased 9.9%. Customer counts were unchanged and average sales per customer increased during 1989.

During 1988 revenues in Canadian dollars were unchanged from 1987 at \$1.8 billion but were up 7% in US dollars. On a comparable store basis US dollar revenues increased 5.9% and comparable prescription sales increased 14.8% from 1987.

Peoples reported operating earnings of \$8.0 million in 1989 compared with an operating loss of \$8.3 million in 1988 and an operating loss of \$22.5 million in 1987. In US dollars 1989 operating earnings were US \$6.8 million compared with an operating loss of US \$6.6 million in 1988 and an operating loss of US \$16.9 million in 1987. The results of the restructuring have been positive. Together with the improved performance indicators previously mentioned, gross margins have improved and overheads have been reduced. Despite the improvement, operating margins remain lower than those of industry leaders.

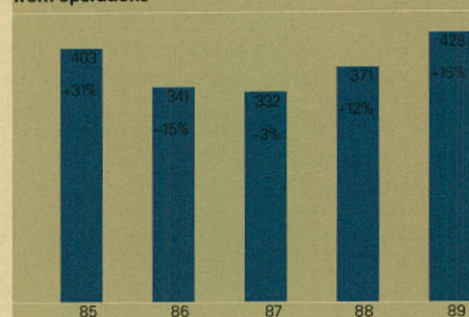
Increases in the U.S. federal minimum wage rates will apply to Peoples. The increased costs, which will be minimal, should be recovered through higher sales per square foot and other efficiencies.

Management's Discussion and Analysis

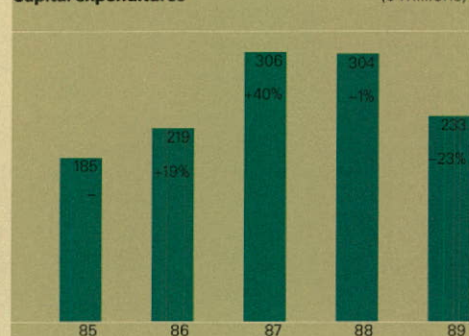
Results of operations (continued)

Financial condition

Funds provided from operations (\$ millions)



Capital expenditures (\$ millions)



The UCS Group

Revenues for 1989 increased 12% to \$286.1 million. The number of retail locations increased by six to 531. On a comparable store basis revenues were up 11%. Revenues during 1988 increased 9% to \$256.6 million and the number of stores increased from 524 to 525. Operating earnings for 1989 were \$8.3 million, an increase of 10% from 1988 due to increased revenues and improved margins. Operating earnings for 1988 were \$7.5 million, 13% ahead of 1987.

Funds provided from operations

Funds provided from operations during 1989 increased to \$427.7 million from \$371.0 million in 1988 due to improved earnings. During 1989 the operations of Imasco Enterprises contributed \$64.5 million to the Corporation's funds from operations compared with \$61.9 million in 1988. The primary source of cash during 1989 for Imasco Enterprises was dividends paid by CT Financial Services and the sale of certain venture capital investments. Imasco Enterprises' third party cash requirements are primarily for the payment of dividends on Imasco Financial Corporation preferred shares (a wholly owned subsidiary of Imasco Enterprises) and interest payments on indebtedness. Dividends received by Imasco Enterprises from CT Financial Services amounted to \$87.2 million compared with \$75.5 million in 1988.

Cash provided from operating activities, which takes into account fluctuations in working capital elements used in operations, amounted to \$342.1 million in 1989. Cash requirements for working capital at December 31, 1989, excluding the impact of business disposals, were approximately \$82 million greater than at December 31, 1988. This is primarily due to higher working capital requirements at Imperial Tobacco and Peoples Drug Stores. Cash provided from operating activities amounted to \$429.3 million in 1988, of which approximately \$67 million was generated from working capital reductions.

Capital expenditures

Additions to property, plant and equipment during 1989 amounted to \$232.7 million, down from \$303.9 million in 1988. Capital spending at Hardee's was significantly reduced in 1989 which accounts for most of the decline. Funds generated from the first sale and leaseback transaction completed in February 1988 permitted Hardee's to embark on a more aggressive capital spending program during that year and consequently reduced requirements in 1989. Capital expenditures on property, plant and equipment by industry segment are listed on page 47. The majority of the Corporation's capital spending continues to be made at Hardee's. The spending in this segment, as well as at Shoppers Drug Mart, Peoples Drug Stores and The UCS Group, is primarily on location remodellings and openings. Imperial Tobacco's capital spending is primarily productivity oriented. In 1990 capital expenditures, excluding business acquisitions, are expected to be slightly lower than in 1989 and will be funded through operations. Subsequent to the acquisition of the Roy Rogers restaurant business announced in January 1990, Hardee's will review and adjust its development plan. As part of this review it is expected that new store development will be temporarily reduced.

Dividends

Dividend payments on all classes of shares totalled \$157.8 million in 1989 compared with \$139.1 million in 1988. These are listed by class of shares on page 43. The increase is due to the issue of \$150 million Perpetual First Preference shares Series D during the year and the increase in the dividend rate per common share to \$1.12 from \$1.04 the previous year. The 1989 per common share dividend represented approximately 45% of the previous year's earnings per common share before extraordinary items compared with 46% in 1988 and 50% in 1987. Based on the indicated annual dividend rate of \$1.28 per common share and the outstanding capital stock at December 31, 1989, total dividend requirements for 1990 on all classes of shares of Imasco Limited are expected to approximate \$180 million and will be funded by operations. The indicated common share dividend rate for 1990 represents 45% of 1989 earnings per common share.

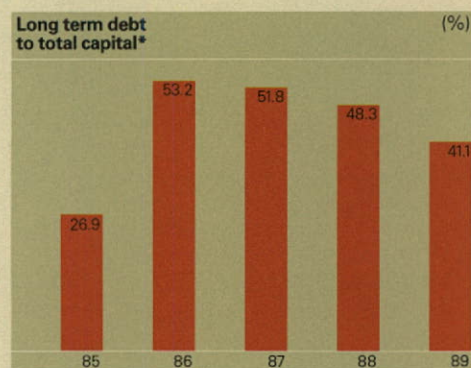
Management's Discussion and Analysis

Financial condition (continued)

Liquidity and capital resources

The Corporation continues to generate its required cash resources. During 1989 funds provided from operations were sufficient to cover capital expenditures and dividend payments. This capability is expected to continue for the foreseeable future. Cash resources, net of short term borrowings, existing at December 31, 1989 amounted to \$96.5 million compared with \$30.0 million at December 31, 1988 and a deficiency of \$64.8 million the previous year. The working capital requirements of the Corporation vary on a seasonal and yearly basis. Working capital at December 31, 1989 amounted to \$616.5 million compared with \$566.5 million in 1988 and \$644.6 million in 1987. Despite the yearly fluctuations in working capital amounts, the ratio of current assets to current liabilities has remained relatively stable over the last three years at 1.8:1 at December 31, 1989 and 1.7:1 at December 31, 1988 and 1987. The Corporation maintains committed credit facilities with various financial institutions which make available significant financial resources and provide the Corporation with the flexibility to meet short and long term borrowing requirements. As at December 31, 1989 the Corporation had US \$1.5 billion available under committed long term credit facilities, of which US \$816 million was being utilized by direct borrowings and to back up issues of promissory notes in Canada and Europe.

In February 1988 the Corporation entered into agreements pursuant to which it established a US \$250 million note issuance facility with a syndicate of financial institutions in Europe. This facility provides the Corporation with an alternative source of financing. As at December 31, 1989 US \$117 million was issued under this facility, up from US \$92 million as at December 31, 1988.



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

During 1989 the Corporation continued to reduce its level of indebtedness. At December 31, 1989 its long term debt was reduced to \$1.8 billion from \$2.1 billion at December 31, 1988 and \$2.4 billion at December 31, 1987. The ratio of long term debt to total capital was 41.1% at December 31, 1989 compared with 48.3% and 51.8% at the two previous year ends.

On March 22, 1989 the Corporation issued \$150 million of Perpetual First Preference shares Series D. The net proceeds from this issue were used to repay long term floating rate indebtedness. Proceeds from the business dispositions in the Peoples and Hardee's segments contributed to the reduction in the total indebtedness of the Corporation. On the translation of US dollar debt into Canadian dollars the strengthened Canadian dollar also contributed to the lower level of debt reported.

During 1988 two sale and leaseback transactions involving 279 and 101 Hardee's restaurant properties, completed in February and December, provided cash of approximately US \$185 million and US \$72 million. Principal payments on long term debt and obligations under capital leases due during 1990 are approximately \$10.2 million.

Because the Corporation accounts for its investment in Imasco Enterprises by the equity method its capital structure does not include third party debt and securities of Imasco Enterprises Inc. and its subsidiaries. Debentures issued by Imasco Enterprises Inc. and its wholly owned subsidiary, Imasco Financial Corporation, are listed on page 50. In addition, Imasco Financial Corporation has \$300 million Series A First Preferred shares outstanding. Each share is retractable at the holder's option on October 22, 1990 and annually thereafter at the stated value and is redeemable on or after October 22, 1990 for the same consideration. If these shares are redeemed or retracted the cash requirement would likely be financed by debt or by a combination of debt and non-participating equity issued by the Corporation. Imasco Enterprises funds its interest and dividend requirements internally through operations.

In recent years, in order to minimize its exposure to interest rate fluctuations, the Corporation embarked on a program to reduce the amount of its floating rate indebtedness. In June 1989 \$31.3 million of notes were issued under a medium term note program with maturities five and seven years from the date of issue. Proceeds were used to repay floating rate indebtedness. In January 1989 the Corporation fixed the interest rate on US \$50 million of indebtedness through two interest rate swap transactions.

Management's Discussion and Analysis**Financial condition** (continued)

During 1988, as part of this program, the Corporation fixed the interest rate on \$558.5 million of indebtedness through the following transactions: the issue of \$150 million aggregate principal amount of 10½% Debentures due 1998; the issue on the Eurodollar market of \$100 million of 10½% Notes due 1993; the issue of \$198.9 million of notes under the medium term note program with maturities ranging from two to five years; and \$109.6 million under two interest rate swap transactions. As a result of these transactions and the reduction in long term debt, fixed rate debt at December 31, 1989 accounted for approximately 67% of long term debt compared with 54% at December 31, 1988 and 25% at December 31, 1987.

Outlook**Liquidity for 1990**

Imasco believes that its cash and liquid investments at the end of 1989, its projected internally generated funds and financing available under various credit facilities will be adequate to meet its cash requirements for 1990.

Hoylake bid for B.A.T Industries p.l.c.

In July 1989 Hoylake Investments Limited commenced an unsolicited bid for all the outstanding common shares of the Corporation's principal shareholder, B.A.T Industries p.l.c. Hoylake had indicated that if it were to acquire B.A.T it would divest all non-tobacco operations, but its intentions with respect to the Corporation were not made clear. In the circumstances, the services of legal and financial advisors were engaged in order to assess the potential impact of the bid on the Corporation and its shareholders. The offer has since lapsed and Hoylake is attempting to obtain certain regulatory approvals in order to launch a new bid. Hoylake has publicly stated that it will do so if and when such regulatory clearances are obtained.

Goods and Services Tax

The Federal Government has introduced draft legislation to replace its current Federal Sales Tax with a Goods and Services Tax (GST), effective January 1, 1991. The GST is a broader based tax than the current Federal Sales Tax and, with certain exceptions, will apply to all goods and services consumed in carrying on the Corporation's Canadian businesses. The new system will allow an input credit for the tax paid on goods and services consumed which will be applied against GST collected on sales made in Canada. Most financial services will be exempt from GST, however, no input credit will be available as an offset for the goods and services consumed in carrying on this business. The impact of GST cannot be fully determined prior to the release of the final legislation and the implementation of the tax.

Inflation

In recent years inflation has not had a material impact on the operations of the Corporation. The potential impact of inflation on the Corporation is most pronounced in the financial services sector. In the past sharp changes in the inflation rate led to material changes in the borrowing and depositing practices of customers. Inflation expectations are reflected in interest rate expectations of depositors and borrowers and in the selection of deposit and loan instruments. CT Financial attempts to control the potential effects of changing inflation expectations by paying close attention to asset-liability management policies.

**Management's Responsibility for
Consolidated Financial Statements**

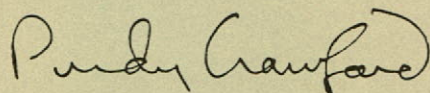
The accompanying consolidated financial statements of Imasco Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's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

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

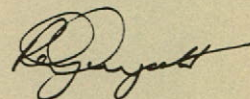
Management of Imasco and its subsidiaries in fulfilling their responsibilities developed and continue to maintain a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for 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 the presence of management.

The financial statements have been examined by Deloitte & Touche, Chartered Accountants, and their report follows.



Purdy Crawford
Chairman, President and
Chief Executive Officer



Raymond E. Guyatt, C.A.
Executive Vice-President,
Chief Financial Officer and Treasurer

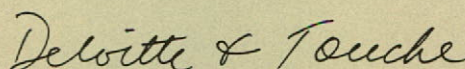
February 7, 1990

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheets of Imasco Limited as at December 31, 1989, 1988 and 1987 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years ended December 31, 1989 and 1988. 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 December 31, 1989, 1988 and 1987 and the results of its operations and the changes in its financial position for each of the years ended December 31, 1989 and 1988 in accordance with generally accepted accounting principles applied on a consistent basis.



Chartered Accountants
Montréal, Canada

February 7, 1990

Summary of Significant Accounting Policies

	The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect the policies listed below.
Basis of presentation	<p>The consolidated financial statements include the accounts of the Corporation and its subsidiaries except Imasco Enterprises Inc. and its subsidiaries which include CT Financial Services Inc. Imasco Enterprises Inc., a financial services company, is accounted for by the equity method because its financial structure and operations differ significantly from the Corporation's other businesses. Certain subsidiaries with limited activity, which were formerly subsidiaries of Imasco Enterprises Inc. and are not significant as a whole, continue to be accounted for by the equity method. The condensed consolidated financial statements of Imasco Enterprises Inc. which commence on page 48 form an integral part of the consolidated financial statements of the Corporation.</p> <p>Certain comparative figures have been reclassified to conform to the current year's presentation.</p>
Change in fiscal year end	Effective April 1, 1987 the Corporation changed its fiscal year end from March 31 to December 31. The results of operations and changes in financial position presented for the 12 months ended December 31, 1987, and the notes relating thereto, have been prepared for comparative purposes and are unaudited. Audited statements of earnings, retained earnings and changes in financial position were prepared for the nine months ended December 31, 1987 and have previously been reported.
Licence and service fee income	Initial licence fee (Restaurant): recognized as income upon the opening of a 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.
Inventories	Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially as follows: Tobacco – average cost; Restaurant and Drug store – first-in, first-out; The UCS Group – retail inventory method.
Investments and notes receivable	Investments are stated at cost and are written down to reflect impairments in value which are other than temporary. Notes receivable are stated at their estimated net realizable value.
Deferred charges	<p>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 over the life of the instruments to which they relate except as follows:</p> <p>Drug store opening costs (Shoppers Drug Mart): recovered from Pharmacist Associates over three years, commencing in the thirteenth month after opening.</p> <p>Restaurant, other drug store and retail store opening costs: first year of operation.</p> <p>Software development costs: over a period not to exceed 23 months.</p>
Property, plant and equipment	Property, plant and equipment are accounted for at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 20 to 45 years for buildings and from two to 20 years for equipment. Leasehold improvements and property under capital leases are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets and the term of the lease.
Goodwill	Goodwill and related costs arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives not exceeding 40 years.

Consolidated Statement of Earnings		1989	1988	1987
		Millions of dollars, except "Earnings per common share"		
Revenues		5,724.7	6,000.6	5,924.4
Sales and excise taxes		1,489.4	1,156.1	1,109.8
		4,235.3	4,844.5	4,814.6
Operating costs		3,695.8	4,349.9	4,362.7
		539.5	494.6	451.9
Equity in net earnings of				
Imasco Enterprises (Note 4)		152.5	142.1	126.5
Operating earnings		692.0	636.7	578.4
Corporate expense		31.6	28.5	29.6
Interest expense (Note 10)		196.2	217.6	186.8
Earnings before income taxes		464.2	390.6	362.0
Provision for income taxes (Note 11)		98.1	76.3	79.3
Earnings before extraordinary items		366.1	314.3	282.7
Extraordinary items (Note 12)		—	(110.0)	(29.1)
Net earnings		366.1	204.3	253.6
Net earnings attributed to				
Preference shares		24.3	15.1	15.1
Common shares		341.8	189.2	238.5
		366.1	204.3	253.6
Earnings per common share (Note 8)				
Before extraordinary items		\$2.87	\$2.51	\$2.24
After extraordinary items		\$2.87	\$1.59	\$1.99

Consolidated Statement of Retained Earnings		1989	1988	1987
		Millions of dollars		
Beginning of year		1,299.1	1,233.9	1,110.3
Net earnings		366.1	204.3	253.6
Dividends (Note 13)		(157.8)	(139.1)	(129.5)
Costs of issuing shares, net of tax		(0.8)	—	—
Costs of issuing securities by a non-consolidated subsidiary, net of tax		(0.9)	—	(0.5)
End of year		1,505.7	1,299.1	1,233.9

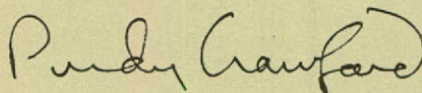
The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

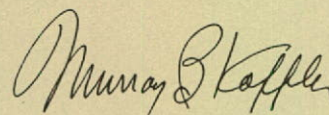
Consolidated Balance Sheet		1989	1988	1987
			Millions of dollars	
Assets	Cash and short term investments	301.8	132.0	207.7
	Accounts and other receivables	331.3	282.8	325.3
	Inventories	767.8	900.8	980.5
	Prepaid expenses	35.0	48.1	28.
	Current assets	1,435.9	1,363.7	1,541.6
	Investments and notes receivable (Note 1)	113.5	103.9	91.9
	Deferred charges (Note 2)	63.1	82.6	75.9
	Property, plant and equipment (Note 3)	911.4	942.4	1,094.5
	Goodwill	153.9	162.2	239.2
	Investment in Imasco Enterprises (Note 4)	2,700.2	2,655.4	2,613.5
	Other assets	3,942.1	3,946.5	4,115.0
		5,378.0	5,310.2	5,656.6
Liabilities	Bank and other short term loans	205.3	102.0	272.5
	Accounts payable and accrued liabilities	502.9	612.0	504.3
	Income, excise and other taxes	101.0	68.4	98.3
	Current portion of long term debt and capital lease obligations	10.2	14.8	21.9
	Current liabilities	819.4	797.2	897.0
	Long term debt (Note 5)	1,820.0	2,116.0	2,420.9
	Capital lease obligations (Note 6)	20.6	27.6	33.2
	Deferred income taxes	22.1	15.0	51.2
	Other liabilities	1,862.7	2,158.6	2,505.3
Deferred credits	Deferred gain (Note 7)	85.5	93.4	—
Shareholders' equity	Capital stock (Note 8)	1,155.5	1,004.4	1,004.4
	Unrealized (loss) gain on foreign currency translation	(50.8)	(42.5)	16.0
	Retained earnings	1,505.7	1,299.1	1,233.9
	Shareholders' equity	2,610.4	2,261.0	2,254.3
		5,378.0	5,310.2	5,656.6

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

Approved by the Board,



Purdy Crawford, Director



Murray B. Koffler, c.m., Director

Consolidated Statement of Changes in Financial Position		1989	1988	1987
		Millions of dollars		
Operating activities	Earnings before extraordinary items	366.1	314.3	282.7
	Items not affecting cash			
	Equity earnings not received in cash	(88.0)	(80.2)	(125.4)
	Depreciation and amortization	157.7	158.5	159.5
	Other items	(8.1)	(21.6)	15.1
	Funds provided from operations	427.7	371.0	331.9
	Change in non-cash operating working capital	(81.5)	66.8	5.5
	Unrealized foreign exchange	(4.1)	(8.5)	16.0
	Total cash from operating activities	342.1	429.3	353.4
Financing activities	Issue of long term debt	31.5	450.4	541.1
	Repayment of long term debt	(311.5)	(701.9)	(512.8)
	Issue of shares, net of issue costs	150.3	—	2.2
	Dividend payments	(157.8)	(139.1)	(129.5)
	Change in capital lease obligations	(6.2)	(2.4)	6.9
	Total cash used for financing activities	(293.7)	(393.0)	(92.1)
Investing activities	Business disposals	201.1	—	—
	Business acquisitions	—	—	(22.2)
	Other changes in the			
	investment in Imasco Enterprises	43.2	38.3	199.1
	Purchases of property, plant and equipment	(232.7)	(303.9)	(306.3)
	Disposals of property, plant and equipment	30.9	361.9	29.1
	Deferred charges	(7.8)	(19.6)	(27.7)
	Change in investments and notes receivable	(16.6)	(18.2)	4.5
	Total cash from (used for) investing activities	18.1	58.5	(123.5)
Cash and cash equivalents	From operating activities	342.1	429.3	353.4
	Used for financing activities	(293.7)	(393.0)	(92.1)
	From (used for) investing activities	18.1	58.5	(123.5)
	Increase for the year	66.5	94.8	137.8
	Beginning of year	30.0	(64.8)	(202.6)
	End of year	96.5	30.0	(64.8)
	Cash and short term investments	301.8	132.0	207.7
	Bank and other short term loans	(205.3)	(102.0)	(272.5)
		96.5	30.0	(64.8)

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

Notes to the Consolidated Financial Statements

1. Investments and notes receivable	1989	1988	1987
Notes receivable – restaurant licensees and drug store Associates	57.1	50.4	59.2
Real estate partnership (Note 7)	17.1	19.1	–
Ulster Petroleums Ltd.	–	5.0	11.4
Other	39.3	29.4	21.3
	113.5	103.9	91.9

2. Deferred charges	1989	1988	1987
Cost of leases acquired and other acquisition costs	38.6	40.8	32.1
Financing costs	7.6	10.3	8.1
Promotion and advertising costs	4.6	10.0	10.3
Costs of opening facilities	5.2	6.5	7.6
Software development costs	1.9	5.1	8.3
Other	5.2	9.9	9.5
	63.1	82.6	75.9

Amortization of deferred charges amounted to \$22.2 million during 1989 (1988 – \$12.1 million; 1987 – \$17.0 million).

3. Property, plant and equipment	1989	1988	1987
Land	59.8	52.5	121.4
Buildings	267.7	242.2	351.4
Equipment	815.1	822.2	755.8
Leasehold improvements	403.5	415.6	417.1
Property under capital leases	38.9	43.6	47.9
	1,585.0	1,576.1	1,693.6
Accumulated depreciation and amortization	(673.6)	(633.7)	(599.1)
	911.4	942.4	1,094.5

Depreciation and amortization expense on property, plant and equipment excluding property under capital leases amounted to \$128.9 million during 1989 (1988 – \$138.0 million; 1987 – \$133.2 million). Amortization expense on property under capital leases amounted to \$1.6 million during 1989 (1988 – \$1.6 million; 1987 – \$2.4 million). Accumulated amortization on property under capital leases amounted to \$22.8 million at December 31, 1989 (1988 – \$22.1 million; 1987 – \$22.9 million).

Notes to the Consolidated Financial Statements

4. Investment in Imasco Enterprises

The Corporation's investment in Imasco Enterprises represents the investments in Imasco Enterprises Inc., which is composed primarily of an indirect ownership interest in 98.1% of the common shares of CT Financial Services Inc., and other companies with limited activities which were previously subsidiaries of Imasco Enterprises Inc.

Condensed consolidated financial statements of Imasco Enterprises Inc. are presented commencing on page 48.

A reconciliation of Imasco Enterprises Inc.'s net earnings to the Corporation's equity in net earnings of Imasco Enterprises is as follows:

	1989	1988	1987
Net earnings – Imasco Enterprises Inc.	221.3	196.1	135.9
– Other	(6.0)	–	–
Net interest expense on advances from			
Imasco Enterprises Inc. and other	(102.8)	(84.1)	(11.0)
Amortization of intangibles	(2.2)	(2.2)	(2.2)
Tax recovery on interest expense above	42.2	32.3	3.8
Equity in net earnings of Imasco Enterprises	152.5	142.1	126.5

A reconciliation of Imasco Enterprises Inc.'s shareholders' equity to the Corporation's investment in Imasco Enterprises is as follows:

	1989	1988	1987
Shareholders' equity – Imasco Enterprises Inc.	3,243.9	3,299.4	3,317.9
– Other	66.6	–	–
Intangibles net of accumulated amortization of			
\$8.0 million (1988 – \$5.8 million; 1987 – \$3.6 million)	63.1	65.3	67.5
Net advances from Imasco Enterprises Inc.			
and other	(673.4)	(709.3)	(771.9)
Investment in Imasco Enterprises	2,700.2	2,655.4	2,613.5

The intangibles resulted from acquisition expenses and financing costs capitalized by the Corporation.

Notes to the Consolidated Financial Statements

5. Long term debt

	1989	1988	1987
Term loans ^{1,2,3}	<u>766.3</u>	<u>1,072.5</u>	<u>1,796.3</u>
Debentures			
10½% due November 1996	200.0	200.0	200.0
10½% due April 1998	150.0	150.0	—
10¼% due December 2001	150.0	150.0	150.0
	<u>500.0</u>	<u>500.0</u>	<u>350.0</u>
Notes payable			
8½% due November 1991 ²	173.8	178.9	195.0
10½% due July 1993	100.9	101.1	—
9¼% payable to October 1993 ²	4.6	6.0	7.8
10¾% payable to September 1994 ²	23.2	28.6	36.4
Medium term notes ⁴	230.2	198.9	—
	<u>532.7</u>	<u>513.5</u>	<u>239.2</u>
Industrial revenue bonds ^{2,5}	21.9	23.1	26.1
Other long term obligations ²	6.2	18.6	28.4
	<u>1,827.1</u>	<u>2,127.7</u>	<u>2,440.0</u>
Payments due within one year ⁶	(7.1)	(11.7)	(19.1)
	<u>1,820.0</u>	<u>2,116.0</u>	<u>2,420.9</u>

¹ Term loans consisting of unsecured promissory notes, some of which mature within one year, are supported by committed bank term credit facilities of \$1.7 billion (US \$1.5 billion) expiring in 1996. Term loans outstanding at December 31, 1989 carry a weighted average interest rate of 10.9% (1988 – 10.3%; 1987 – 8.6%). At December 31, 1987 term loans also included bankers acceptances.

² All or partly payable in US dollars. The aggregate principal amount of long term debt payable in US dollars at December 31, 1989 was \$722.6 million (US \$623.8 million), at December 31, 1988 was \$722.8 million (US \$606.1 million) and at December 31, 1987 was \$740.9 million (US \$569.9 million).

³ Interest payments on \$50 million floating rate term loans and on US \$100 million floating rate term loans have effectively been converted to fixed interest rates of approximately 10.8% and 9.8% for terms ending up to 1994.

⁴ Medium term notes consist of unsecured notes issued for periods ranging from two to seven years and carry a weighted average interest rate of 10.7% at December 31, 1989 (1988 – 10.8%).

⁵ Industrial revenue bonds of a subsidiary mature on various dates to 2002 and carry a weighted average interest rate of 8.0% at December 31, 1989 (1988 – 7.2%; 1987 – 6.4%). The bonds are secured by property, plant and equipment with a net book value of approximately \$27.5 million (1988 – \$25.6 million; 1987 – \$32.6 million).

⁶ Long term debt repayment requirements over the next five years are estimated as follows: 1990 – \$7.1 million; 1991 – \$214.6 million; 1992 – \$38.4 million; 1993 – \$173.1 million; 1994 – \$31.2 million.

Notes to the Consolidated Financial Statements

6. Capital lease obligations

The Corporation has commitments with respect to property in the Restaurant and Drug Store segments recorded under capital leases expiring on various dates through to the year 2009.

The minimum annual commitments under such leases are approximately as follows:

	1989	1988	1987
1st year	6.2	7.2	7.9
2nd year	5.7	6.9	7.7
3rd year	5.0	6.4	7.3
4th year	4.1	5.6	6.7
5th year	3.1	4.5	6.3
6th year and thereafter	22.0	27.9	32.3
Total minimum commitments	46.1	58.5	68.2
Interest at a weighted average rate of 13.2%			
(1988 – 13.7%; 1987 – 13.4%)	(22.4)	(27.8)	(32.2)
Payments due within one year	(3.1)	(3.1)	(2.8)
	20.6	27.6	33.2

7. Deferred gain

During 1988 two sale and leaseback transactions were completed in the Restaurant segment which, in total, generated net cash proceeds of approximately \$321 million. The gains resulting from these transactions have been deferred and total \$85.5 million at December 31, 1989 (1988 – \$93.4 million).

The first transaction completed in February 1988, pursuant to which the land and buildings of 279 restaurant properties were sold to a partnership capitalized by a subsidiary of the Corporation and an unrelated third party and subsequently leased back, generated net cash proceeds of approximately \$235 million. The Corporation, through a subsidiary, maintains a 50% interest in the partnership and accounts for its investment in the partnership by the equity method. Its share of partnership earnings for 1989 amounted to \$0.9 million (1988 – \$0.5 million) and is included in the Restaurant segment operating earnings. The deferred gain arising from this transaction totals \$70.6 million at December 31, 1989 (1988 – \$77.0 million) and is being amortized on the basis of 50% over the 15 year life of the lease and 50% over 25 years, a period which approximates the estimated remaining lives of the assets sold to the partnership.

On December 29, 1988 a second transaction was completed pursuant to which the land and buildings of 101 restaurant properties were sold to an unrelated third party for net proceeds of approximately \$86 million and leased back for an initial minimum period of 15 years. The deferred gain which amounts to \$14.9 million at December 31, 1989 (1988 – \$16.4 million) is being amortized over the term of the lease. The leases under both transactions are accounted for as operating leases.

Imasco Limited
For the years ended December 31

All tabular figures are in millions of dollars,
except number of shares data

Notes to the Consolidated Financial Statements

8. Capital stock

Authorized:
1,650,000 6% Cumulative Preference shares.
An unlimited number of First and Second Preference shares, issuable in series.
120,500,000 common shares.

Issued and outstanding:

	1989	1988	1987
1,191,888 6% Cumulative Preference shares	5.8	5.8	5.8
8,000,000 7.375% Retractable First Preference shares Series C ¹	200.0	200.0	200.0
300 7.90% Perpetual First Preference shares Series D ²	150.0	—	—
119,246,833 common shares (1988 and 1987 – 119,190,833) ^{3,4,5}	799.7	798.6	798.6
	1,155.5	1,004.4	1,004.4

¹ Retractable First Preference shares Series C of a stated value of \$25.00 each bear a cumulative preferential dividend of 7.375%. Each share is retractable at the holder's option on July 17, 1993 at \$25.00 per share plus accrued and unpaid dividends and is redeemable on and after July 17, 1991 at \$26.00 per share before July 17, 1992; thereafter and before July 17, 1993 at \$25.50 per share; and on and after July 17, 1993 at \$25.00, together in each case with accrued and unpaid dividends.

² During 1989, 300 Perpetual First Preference shares Series D were issued at \$500,000.00 per share. The dividend rate has been set at 7.90% until June 30, 1994 and thereafter can be reset through negotiations with the holders. The shares are redeemable at the Corporation's option at par plus accrued and unpaid dividends on, or anytime after, June 30, 1994.

³ Changes in common shares issued and outstanding were:

	Shares	Amount
December 31, 1987 and December 31, 1988	119,190,833	798.6
Issued at \$18.50 to \$26.375 on the exercise of stock options	56,000	1.1
December 31, 1989	119,246,833	799.7

⁴ At December 31, 1989 there were stock options outstanding in respect of 1,217,520 common shares granted to certain employees of the Corporation with a weighted average exercise price of \$29.92. These options expire at various dates to 1996.

⁵ The weighted average number of shares outstanding used in the determination of earnings per common share at December 31, 1989 was 119,236,554 (1988 – 119,190,833; 1987 – 119,158,594).

Notes to the Consolidated Financial Statements

9. Retirement benefits

Pension benefits are available to substantially all full time employees under the Corporation's defined benefit plans. Benefits under these plans are based on the employee's years of service and final average pay. Pension funding is provided based on actuarial estimates and is subject to limitations under applicable income tax regulations.

Effective April 1, 1987 the Corporation changed its method of accounting for pension expense, on a prospective basis, as required under accounting standards issued by the Canadian Institute of Chartered Accountants. The accounting change decreased pension expense by \$1.4 million during 1987.

Pension expense is summarized below:

	1989	1988	Nine months ended December 31 1987
Service cost on benefits earned	11.6	10.1	8.1
Interest cost on projected benefit obligations	38.3	32.2	22.9
Expected return on plan assets	(43.1)	(36.0)	(26.3)
Amortization of net transition assets and other gains and losses	0.1	(5.2)	(3.5)
Total pension expense	6.9	1.1	1.2

The status of the Corporation's pension plans was as follows:

	1989	1988	1987
Plan assets at market related value	488.7	465.4	461.6
Projected benefit obligations	(445.4)	(428.1)	(393.3)
Excess of plan assets over projected benefit obligations	43.3	37.3	68.3
Unrecognized net transition assets and other gains and losses	(35.6)	(27.3)	(62.3)
Net pension asset	7.7	10.0	6.0

The projected benefit obligations were determined using assumed discount rates ranging from 8% to 8½% (1988 and 1987 – 8% to 8½%) and assumed rates of compensation increases ranging from 6% to 6½% (1988 – 6% to 6½%; 1987 – 6% to 7½%). The assumed rates of return on assets range from 8% to 8½% (1988 and 1987 – 8% to 8½%). The Corporation has immunized itself against future changes in the projected benefit obligation related to certain Canadian retirees which amounts to approximately \$150 million. The assumed discount rate used to project this obligation and the assumed rate of return on the related assets are both 11%.

The Corporation provides limited health benefits to eligible employees upon retirement. The cost of these benefits is expensed as incurred.

Imasco Limited
For the years ended December 31

All tabular figures are in millions of dollars,
except tax rate data

Notes to the Consolidated Financial Statements

10. Interest expense

	1989	1988	1987
Interest on long term debt	202.8	223.5	177.3
Interest on capital leases	4.0	4.5	4.3
Other interest – net	(10.6)	(10.4)	5.2
	196.2	217.6	186.8

Interest expense capitalized during the year ended December 31, 1989 amounted to \$0.8 million (1988 – \$1.1 million; 1987 – \$41.4 million). These amounts represent interest on funds expended on construction projects until project completion in the Restaurant segment. The 1987 amount also includes carrying charges on the “net assets held for disposal” arising from the acquisition of Genstar Corporation.

11. Income taxes

The effective income tax rate on earnings reported varies from year to year due to factors such as changes in statutory income tax rates, 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 earnings.

The effective income tax rate of the Corporation is calculated from its consolidated statement of earnings as follows:

	1989	1988	1987
Provision for income taxes	98.1	76.3	79.3
Earnings before income taxes	464.2	390.6	362.0
Equity in net earnings of Imasco Enterprises	(152.5)	(142.1)	(126.5)
Pre-tax earnings excluding equity earnings	311.7	248.5	235.5
Effective income tax rate	31.5%	30.7%	33.7%

The principal factors causing the difference between the effective income tax rate and the combined federal and provincial tax rate in Canada are as follows:

	1989	1988	1987
Combined federal and provincial income tax rate	40.0%	41.6%	44.0%
Foreign income taxed at lower rates	(8.4)	(8.5)	(9.0)
Manufacturing and processing allowances	(0.5)	(1.1)	(3.4)
Other items	0.4	(1.3)	2.1
Effective income tax rate excluding equity earnings	31.5%	30.7%	33.7%

The components of the provision for income taxes are as follows:

	1989	1988	1987
Current	91.1	88.1	64.6
Deferred	7.0	(11.8)	14.7
	98.1	76.3	79.3

Notes to the Consolidated Financial Statements

12. Extraordinary items

During the fourth quarter of 1988, the Corporation recorded extraordinary provisions to reorganize the operations of Peoples Drug Stores and to dispose of the operations of Grisanti, Inc. The 1988 provision for Peoples Drug Stores resulted from expected losses on disposal of approximately 240 stores in Ohio and Indiana and the Reed Drug Stores division which operated 85 stores principally in Georgia. The total 1988 provision amounted to \$99.7 million and included the net losses expected from the operation of the stores until disposal together with the anticipated costs of disposal. A provision was also recorded to reflect the estimated loss on disposal of Grisanti, Inc. and the write-down of other smaller investments. The provision, which totalled \$34.9 million, included expected net operating losses and costs of disposal. The business disposals contemplated under the 1988 restructuring program were substantially completed during 1989. The provisions recorded at that time were sufficient to cover the actual costs incurred.

	1989	1988	1987
Provision for reorganization of Peoples Drug Stores, net of tax recovery of \$17.7 million (1987 – \$14.3 million)	–	(82.0)	(24.4)
Provision for disposal of Grisanti, Inc., and write-down of other investments, net of tax recovery of \$6.9 million	–	(28.0)	–
Provision for disposal of Imperial Tobacco's Québec City plant and other investments, net of tax recovery of \$3.2 million	–	–	(4.7)
	–	(110.0)	(29.1)

13. Dividends

	1989	1988	1987
6% Cumulative Preference shares	0.3	0.3	0.3
7.375% Retractable First Preference shares			
Series C	14.8	14.8	14.8
7.90% Perpetual First Preference shares			
Series D	9.2	–	–
Common shares	133.5	124.0	114.4
	157.8	139.1	129.5

Notes to the Consolidated Financial Statements

14. 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, net of amounts assumed by drug store Associates and other third parties, are approximately as follows:

	1989	1988	1987
1st year	115.3	115.1	79.4
2nd year	110.1	128.1	75.9
3rd year	106.0	122.5	73.9
4th year	99.9	117.9	68.7
5th year	89.6	110.9	61.4

The minimum rental commitments existing at December 31, 1989 before deducting amounts assumed by drug store Associates and third parties are approximately as follows: 1990 – \$179.5 million; 1991 – \$170.7 million; 1992 – \$162.7 million; 1993 – \$152.0 million; 1994 – \$136.6 million. 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 \$156.6 million for the year ended December 31, 1989 (1988 – \$144.6 million; 1987 – \$85.1 million). In addition, the Corporation has operating lease commitments for equipment which are for terms of one to 10 years, with an annual rental of approximately \$25.2 million.

15. Related party transactions

B.A.T Industries p.l.c., through the ownership of 40.4% of the common 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:

	1989	1988	1987
i. Payment of fees for research and development, marketing and manufacturing services	0.8	0.9	0.9
ii. Export sales of leaf tobacco	6.9	8.4	2.0
iii. Purchases of materials	7.7	5.5	7.2

In conformity with the 1986 letter of undertakings to the Minister of Finance, as amended, no prohibited transactions have been initiated between the Corporation and CT Financial Services Inc. and its subsidiaries.

16. Subsequent event

On January 30, 1990 the Corporation announced it had reached an agreement to acquire the Roy Rogers restaurant business from Marriott Corporation for approximately \$438 million (US \$365 million). The acquisition is subject to U.S. regulatory approval and is expected to be completed by the end of March 1990. The Roy Rogers chain consists of 600 restaurants (363 company-operated and 237 licensed) located primarily in the metropolitan Washington, Baltimore, Philadelphia and New York areas. The company-operated Roy Rogers restaurants will be converted to the Hardee's format and licensees will be encouraged to do likewise. This acquisition will be financed with cash on hand of approximately \$240 million (US \$200 million), the remainder being provided through existing borrowing facilities.

Notes to the Consolidated Financial Statements

17. Other information

- a. Research and development costs charged to earnings during the year amounted to \$2.2 million (1988 – \$2.2 million; 1987 – \$2.5 million).
 - b. Goodwill amortization related to consolidated segments and charged to earnings during the year amounted to \$5.0 million (1988 – \$6.8 million; 1987 – \$6.9 million).
 - c. During 1987, the Restaurant segment acquired a chain of 19 restaurants for a cash consideration of \$22.3 million, net of cash acquired.
 - d. The Corporation has provided guarantees to various banks in respect of certain borrowings by drug store Associates. The total of these guarantees at December 31, 1989 was \$87.3 million (1988 – \$71.6 million; 1987 – \$67.4 million).
 - e. For balance sheet purposes, amounts denominated in US dollars have been converted into Canadian dollars at the rate of exchange in effect at year end as follows: December 31, 1989 – US \$1 = Cdn \$1.16; December 31, 1988 – US \$1 = Cdn \$1.19; December 31, 1987 – US \$1 = Cdn \$1.30.
 - f. The Corporation and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business. In addition, certain of the subsidiaries acquired as part of the Genstar transaction are subject to numerous claims and suits, some of which are asbestos related. Certain of these claims and suits allege significant damage. In the opinion of management, all such claims and suits are adequately covered by insurance or are provided for in the financial statements, or if not so covered or provided for, the results are not expected to materially affect the Corporation's financial position.
 - g. In addition to retirement benefits available under qualified, fully funded, defined benefit plans, certain former employees of Genstar Corporation are participants in unfunded non-qualified supplementary executive retirement and deferred income plans pursuant to which participants deferred compensation. The obligations to make payouts under such nonqualified plans are unfunded and unsecured promises to participants to pay money in the future. An indirectly wholly owned subsidiary is the beneficiary of certain life insurance policies. Proceeds from such policies will be added to general assets and together with corporate funds will be sufficient to cover the payments under the supplementary executive retirement and deferred income plans.
 - h. On December 21, 1987 the Minister of State for Finance released a discussion draft of a new Federal Trust and Loan Companies Act 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 CT Financial Services Inc. by December 31, 1991 to no more than 65% of the voting shares outstanding. As no legislation has been introduced in Parliament, the Corporation believes that this date will be extended.
-

Notes to the Consolidated Financial Statements

18. 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 – Hardee's: operates, licenses, supplies and services a system of fast service restaurants primarily in the United States.

Drug store – Shoppers Drug Mart and Peoples Drug Stores (a U.S. drug store chain): 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, confectionery, reading materials and gifts. – Imasco corporate activities.

Non-consolidated segment:

Financial services – Imasco Enterprises: includes primarily the operations of CT Financial Services Inc. which is engaged in savings, loans, trust and real estate brokerage services.

		1989	1988	1987
Revenues	Tobacco	2,385.6	2,018.1	1,926.0
	Restaurant	1,786.5	1,756.9	1,801.7
	Drug store			
	Shoppers Drug Mart	136.2	194.9	170.3
	Peoples Drug Stores	1,207.2	1,841.6	1,850.2
	Other	286.1	256.6	235.3
	Intersegmental ²	(76.9)	(67.5)	(59.1)
		5,724.7	6,000.6	5,924.4
Operating earnings	Tobacco	334.0	308.0	279.1
	Restaurant	118.6	130.3	137.3
	Drug store			
	Shoppers Drug Mart	70.6	57.1	51.3
	Peoples Drug Stores	8.0	(8.3)	(22.5)
	Other	8.3	7.5	6.7
		539.5	494.6	451.9
	Equity in net earnings of Imasco Enterprises	152.5	142.1	126.5
		692.0	636.7	578.4
Depreciation and amortization expense	Tobacco	23.2	17.4	19.8
	Restaurant	78.9	78.0	75.5
	Drug store			
	Shoppers Drug Mart	26.6	20.6	17.9
	Peoples Drug Stores	25.3	39.1	43.6
	Other	3.7	3.4	2.7
		157.7	158.5	159.5

¹ For the periods reported on, other than the Restaurant and the Peoples Drug Stores segments, industry segments outside Canada were not significant.

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

Notes to the Consolidated Financial Statements

18. Segmented financial information

(continued)		1989	1988	1987
Capital expenditures ³	Tobacco	22.9	18.9	25.6
	Restaurant	155.3	209.9	217.0
	Drug store			
	Shoppers Drug Mart	24.0	28.0	27.6
	Peoples Drug Stores	12.4	41.9	29.1
	Other	18.1	5.2	7.0
		232.7	303.9	306.3
Property, plant and equipment ⁴	Tobacco	118.8	113.3	110.6
	Restaurant	539.1	516.7	671.8
	Drug store			
	Shoppers Drug Mart	95.3	90.9	79.4
	Peoples Drug Stores	123.3	198.2	210.6
	Other	34.9	23.3	22.1
		911.4	942.4	1,094.5
Inventories	Tobacco	381.0	321.4	360.4
	Restaurant	66.5	66.8	70.1
	Drug store			
	Shoppers Drug Mart	0.5	14.2	19.5
	Peoples Drug Stores	282.4	463.0	491.3
	Other	37.4	35.4	39.2
		767.8	900.8	980.5
Capital employed ⁵	Tobacco	558.1	496.4	513.9
	Restaurant	618.3	587.7	777.5
	Drug store			
	Shoppers Drug Mart	204.1	209.8	194.2
	Peoples Drug Stores	369.4	523.5	703.6
	Other	41.4	45.6	40.7
		1,791.3	1,863.0	2,229.9
Reconciliation of capital employed and excess of assets over current liabilities	Capital employed	1,791.3	1,863.0	2,229.9
	Investment in Imasco Enterprises	2,700.2	2,655.4	2,613.5
	Other corporate assets	358.4	170.6	257.0
		4,849.9	4,689.0	5,100.4
	Corporate current liabilities	(291.3)	(176.0)	(340.8)
	Excess of assets over current liabilities	4,558.6	4,513.0	4,759.6

³ Capital expenditures on property, plant and equipment.

⁴ Property, plant and equipment is presented net of accumulated depreciation and amortization.

⁵ Capital employed of each consolidated segment consists of directly identifiable assets at net book value, less current liabilities, excluding income taxes payable and bank and other debt. Corporate assets and corporate current liabilities are also excluded.

**Condensed Consolidated Financial Statements
of Imasco Enterprises Inc.**

The following summary presents the condensed consolidated statement of earnings and the condensed consolidated balance sheet of Imasco Enterprises Inc. Notes to the condensed consolidated financial statements follow this summary.

Condensed Consolidated Statement of Earnings	1989	1988	1987
Revenues			
Investment income	3,503.1	2,747.7	2,388.4
Fees, commissions and other revenues	649.9	625.6	467.3
Interest income on advances to affiliates	102.4	84.1	11.0
	<u>4,255.4</u>	<u>3,457.4</u>	<u>2,866.7</u>
Expenses			
Interest on customer deposits	2,758.7	2,093.1	1,813.0
Other	1,071.6	976.2	789.9
	<u>3,830.3</u>	<u>3,069.3</u>	<u>2,602.9</u>
Earnings before income taxes and minority interest	425.1	388.1	263.8
Provision for income taxes	148.7	145.2	82.7
Minority interest	55.1	46.8	45.2
Net earnings	<u>221.3</u>	<u>196.1</u>	<u>135.9</u>

Condensed Consolidated Balance Sheet	1989	1988	1987
Assets			
Cash and short term notes	2,876.2	2,223.2	1,463.1
Securities	4,884.2	3,986.9	4,195.2
Loans	24,270.1	22,701.3	19,712.4
Real estate investment properties	804.5	620.0	564.6
Advances to affiliates	675.3	709.3	775.0
Property, equipment and other assets	347.2	398.6	405.6
Intangibles	1,432.9	1,480.5	1,520.5
	<u>35,290.4</u>	<u>32,119.8</u>	<u>28,636.4</u>
Liabilities, minority interest and shareholders' equity			
Liabilities			
Deposits	30,497.3	27,431.1	23,996.7
Borrowings, notes and mortgages	651.3	505.5	425.2
Other	283.7	372.2	382.1
Advances from affiliates	—	—	3.1
Minority interest	614.2	511.6	511.4
Shareholders' equity	3,243.9	3,299.4	3,317.9
	<u>35,290.4</u>	<u>32,119.8</u>	<u>28,636.4</u>

**Condensed Consolidated Financial Statements
of Imasco Enterprises Inc.**

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.

A. Basis of presentation

The condensed consolidated financial statements for the years ended December 31, 1989 and December 31, 1988 include the accounts of Imasco Enterprises Inc. and its subsidiaries which include CT Financial Services Inc. Prior to December 31, 1987 Imasco Enterprises Inc. had designated certain assets and liabilities as being held for disposal. Earnings and carrying charges resulting from these net assets were not recorded in the condensed consolidated statement of earnings. Effective December 31, 1987 the remaining net assets which included Genstar Development Company, Genstar Mortgage Corporation, a one-third limited partnership interest in Sutter Hill Ventures, a portfolio of venture capital investments and certain other assets and liabilities were consolidated in the condensed balance sheet.

These remaining net assets were assigned a value of \$150 million including \$30 million allocated to intangibles. The excess of the initial estimated net proceeds from the disposal program over the combined value of the remaining net assets and cash proceeds received totalled \$418 million and was allocated to the investment in CT Financial Services Inc. as intangibles. These allocations were treated as a change in accounting estimate and the resulting amortization is being recorded on a prospective basis.

Commencing January 1, 1988 the results associated with these net assets and related carrying charges were recorded in the condensed consolidated statement of earnings.

B. Advances to affiliates

The advances to affiliates consist principally of demand notes that bear interest at a rate based upon the prime rate charged by a major Canadian bank.

C. Loans

	1989	1988	1987
Mortgages	17,633.9	15,949.6	13,932.2
Consumer and collateral	3,377.1	3,265.0	2,697.4
Corporate term	2,126.4	2,426.9	2,361.3
Other	1,132.7	1,059.8	721.5
	<u>24,270.1</u>	<u>22,701.3</u>	<u>19,712.4</u>

D. Non-performing investments

	1989	1988	1987
Delinquent loans and reduced rate mortgages	62.0	24.0	19.6
Real estate acquired in settlement of loans	20.6	15.0	17.5
	<u>82.6</u>	<u>39.0</u>	<u>37.1</u>

E. Allowance for investment losses

	1989	1988	1987
Beginning of year	60.1	59.6	73.5
Provision charged to (recovered from) earnings	42.4	(23.3)	(8.8)
Investment losses and write-offs, net of recoveries	(25.0)	23.8	(5.1)
End of year	<u>77.5</u>	<u>60.1</u>	<u>59.6</u>

Condensed Consolidated Financial Statements
of Imasco Enterprises Inc.

Notes to the Condensed Consolidated Financial Statements of Imasco Enterprises Inc.
(continued)

F. Intangibles

Intangibles arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives not exceeding 40 years.

Amortization of intangibles charged to earnings during the year amounted to \$39.7 million (1988 – \$40.0 million; 1987 – \$36.3 million).

G. Borrowings, notes and mortgages

	1989	1988	1987
Imasco Enterprises Inc.			
10¾% to 11¾% debentures due to 1999 ¹	69.1	74.7	78.2
10% to 12% mortgages due to 1993 ^{2,3}	41.5	13.8	19.2
9¾% note payable to 1993 ²	36.5	48.4	64.5
Short term notes at variable rates ³	86.9	89.4	94.9
Bank borrowings	28.0	3.5	2.7
	<u>262.0</u>	<u>229.8</u>	<u>259.5</u>
Imasco Financial Corporation			
11¾% debentures due 1995	75.0	75.0	75.0
Bank borrowings	–	24.9	0.2
	<u>75.0</u>	<u>99.9</u>	<u>75.2</u>
CT Financial Services Inc. and subsidiaries			
10¼% to 13¼% notes due to 2009	152.0	118.8	18.7
Mortgages due to 2012 at various rates ²	162.3	57.0	71.8
	<u>314.3</u>	<u>175.8</u>	<u>90.5</u>
	<u>651.3</u>	<u>505.5</u>	<u>425.2</u>

¹ Secured by a floating charge on all assets of Imasco Enterprises Inc.

² Secured by assets of \$323.0 million at December 31, 1989 (\$167.6 million at December 31, 1988; \$192.6 million at December 31, 1987).

³ Payable in part in US dollars.

H. Minority interest

	1989	1988	1987
Preferred shares of Imasco Financial Corporation¹	300.0	300.0	300.0
Common shares and retained earnings of CT Financial Services Inc.	27.4	20.9	15.8
Preference shares of CT Financial Services Inc. and its subsidiaries	286.8	190.7	195.6
	<u>614.2</u>	<u>511.6</u>	<u>511.4</u>

¹ Retractable at the holder's option on October 22, 1990 and annually thereafter at \$25.00 plus all accrued and unpaid dividends at the date of retraction and redeemable on or after October 22, 1990 for the same consideration.

I. Other information

Imasco Financial Corporation, CT Financial Services Inc., Canada Trustco Mortgage Company and Truscan Realty Limited all have capital stock listed on various securities exchanges and issue annual reports.

Divisional Statistical Highlights
Five year review
For the years ended December 31

		1989	1988	1987	1986	1985
Canadian Divisions		Millions of dollars, except "Number of stores"				
Imperial Tobacco	Revenues	2,385.6	2,018.1	1,926.0	1,754.6	1,701.8
	Sales and excise taxes	1,489.4	1,156.1	1,109.8	1,042.6	944.3
	Operating earnings	334.0	308.0	279.1	208.1	243.7
	Inventories	381.0	321.4	360.4	396.5	343.4
	Property, plant and equipment – net	118.8	113.3	110.6	112.0	102.1
	Capital expenditures ¹	22.9	18.9	25.6	23.3	16.6
Shoppers Drug Mart	System-wide sales	2,597.7	2,355.6	2,073.4	1,775.0	1,522.3
	Revenues					
	Sales ²	–	80.0	74.6	41.5	–
	Service fees and other	136.2	114.9	95.7	86.6	73.4
	Operating earnings	70.6	57.1	51.3	48.9	42.5
	Inventories	0.5	14.2	19.5	14.4	5.8
	Property, plant and equipment – net	95.3	90.9	79.4	65.0	49.6
	Capital expenditures ¹	24.0	28.0	27.6	23.3	16.4
	Number of stores	633	613	586	543	431
	Revenues	286.1	256.6	235.3	206.0	187.8
The UCS Group	Operating earnings	8.3	7.5	6.7	6.6	5.5
	Inventories	37.4	35.4	39.2	33.1	31.9
	Property, plant and equipment – net	21.2	19.9	18.9	15.2	10.6
	Capital expenditures ¹	5.3	4.9	6.9	4.1	3.0
	Number of stores	531	525	524	494	460

¹ Capital expenditures on property, plant and equipment.

² In 1986 includes the sales of company-operated stores effective April 1. Revenues of these stores were previously reported as though they were operated by Associates.

Divisional Statistical Highlights
Five year review
For the years ended December 31

		1989	1988	1987	1986	1985
U.S. Divisions	Millions of US dollars , except "Number of restaurants" and "Number of stores"					
Hardee's Food Systems	System-wide sales	3,503.2	3,305.5	3,063.7	2,676.5	2,376.5
	Revenues					
	Sales					
	Company-operated					
	restaurants	920.2	887.9	761.6	667.7	623.4
	Other	523.4	483.4	544.9	468.0	403.1
	Service and licence fees	65.7	59.6	53.6	46.2	39.9
	Operating earnings ¹	100.3	106.7	103.7	92.9	85.6
	Inventories	57.4	56.0	53.9	39.2	35.1
	Property, plant and					
	equipment – net	465.4	433.3	516.7	399.0	354.2
	Capital expenditures ²	131.1	170.9	163.7	97.7	73.3
	Number of restaurants					
	Company-operated	1,086	1,070	995	893	876
	Licensed	2,212	2,081	1,962	1,818	1,662
Peoples Drug Stores		3,298	3,151	2,957	2,711	2,538
	Revenues	1,020.1	1,497.6	1,396.0	1,383.0	1,272.8
	Operating earnings ¹	6.8	(6.6)	(16.9)	(0.2)	38.4
	Inventories	243.8	388.2	377.9	333.8	342.9
	Property, plant and					
	equipment – net	106.4	166.2	162.0	175.7	179.1
	Capital expenditures ²	10.5	34.0	21.6	23.4	42.6
	Number of stores	490	829	819	830	824

¹ Includes the amortization of purchase price allocations arising from acquisition.

² Capital expenditures on property, plant and equipment.

CT Financial Services Inc.¹
Statistical Highlights
Three year review
For the years ended December 31

		1989	1988	1987
Millions of dollars, except "Per common share", "Locations" and "Financial ratios"				
Operations	Investment income	3,541.8	2,783.9	2,456.4
	Net investment income after provision			
	for investment losses	721.2	678.9	582.5
	Fees, net commissions and other income	311.6	297.8	274.5
	Earnings before operating expenses	1,032.8	976.7	857.1
	Earnings before income taxes and dividends on			
	preference shares of subsidiary companies	357.2	359.0	302.5
	Income taxes	93.2	110.8	86.0
	Dividends on preference shares of			
	subsidiary companies	18.0	16.2	15.5
	Net earnings	246.0	232.0	201.0
	Dividends on preference shares	5.8	—	—
	Net earnings attributable to common shareholders	240.2	232.0	201.0
Per common share	Net earnings	\$2.03	\$1.97	\$1.74
	Dividends paid	\$0.75	\$0.65	\$0.65
	Book value	\$12.25	\$10.95	\$9.61
Financial position	Assets under administration (at book value)	74,096.0	67,401.0	60,626.0
	Corporate assets	32,666.0	29,219.2	25,514.8
	Loans	24,201.1	22,661.7	19,679.3
	Deposits	30,483.1	27,398.8	23,937.4
	Shareholders' equity	1,551.1	1,294.0	1,133.2
Locations	Financial services branches	331	317	311
	Real estate offices	275	278	259
	Trust services offices	22	22	22
Financial ratios	Return on common shareholders' averaged equity	17.3%	19.0%	19.4%
	Return on averaged corporate assets	0.79%	0.85%	0.80%
	Loan loss experience as a percentage			
	of loans outstanding	0.103%	(0.105%)	0.026%
	Allowance for investment losses as			
Reconciliation to Imasco Limited equity in net earnings of Imasco Enterprises	a multiple of non-performing investments	0.8	1.6	1.7
	Net earnings attributable to common shareholders	240.2	232.0	201.0
	Minority interest	(31.3)	(30.6)	(29.7)
	Fair value amortization	(42.1)	(40.0)	(29.4)
	Financing and other activities – net of tax	(14.3)	(19.3)	(15.4)
	Equity in net earnings of Imasco Enterprises	152.5	142.1	126.5
Contribution to Imasco Limited operating earnings assuming consolidation	Earnings before income taxes	357.2	359.0	302.5
	Interest on notes and mortgages	13.7	9.3	13.0
	Fair value amortization	(42.1)	(40.0)	(29.4)
	Operating earnings	328.8	328.3	286.1

¹ The highlights presented above have been extracted from CT Financial Services Inc.'s annual report for the year ended December 31, 1989. Certain figures for 1988 and 1987 have been reclassified to conform with financial statement presentation adopted for 1989.

Selected Ten Year Financial Data
For the years ended December 31

		1989	1988
Operations	System-wide sales	14,715.6	13,836.5
	Revenues	5,724.7	6,000.6
	Depreciation and amortization expense	157.7	158.5
	Operating earnings ¹	692.0	636.7
	Corporate expense	31.6	28.5
	Interest expense	196.2	217.6
	Provision for income taxes	98.1	76.3
	Earnings before extraordinary items	366.1	314.3
	Net earnings after extraordinary items	366.1	204.3
	Earnings per common share before extraordinary items ²	\$2.87	\$2.51
Dividend record	On preference shares	24.3	15.1
	On common shares	133.5	124.0
	Per common share ²	\$1.12	\$1.04
Funds provided	From operations	427.7	371.0
Capital expenditures	On property, plant and equipment	232.7	303.9
Financial position	Current assets	1,435.9	1,363.7
	Current liabilities	819.4	797.2
	Working capital	616.5	566.5
	Property, plant and equipment		
	Before accumulated depreciation and amortization	1,585.0	1,576.1
	Net of accumulated depreciation and amortization	911.4	942.4
	Total assets	5,378.0	5,310.2
	Long term debt	1,820.0	2,116.0
	Excess of assets over liabilities	2,695.9	2,354.4
Shareholders' equity	Preference shareholders	355.8	205.8
	Common shareholders ³	2,254.6	2,055.2
	Per common share ²	\$18.91	\$17.24
Financial ratios	Return on average common shareholders' equity ⁴	15.9%	14.6%
	Return on average total assets	6.9%	5.7%
	Interest coverage ratio	3.4x	2.8x
	Current ratio	1.8:1	1.7:1
	Debt to total capital ratio ⁵	41.1%	48.3%
	Common dividend payout ratio ⁶	44.6%	46.4%

¹ Operating earnings for the years 1980 and 1981 have been restated to include equity earnings 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 and November 23, 1982.

³ Common shareholders' equity includes unrealized loss or gain on foreign currency translation.

⁴ Net earnings before extraordinary items less dividends on preference shares as a percentage of average shareholders' equity.

⁵ Long term debt as a percentage of long term debt and total equity.

⁶ Dividend per common share as a percentage of prior year earnings per common share before extraordinary items.

1987	1986	1985	1984	1983	1982	1981	1980
Millions of dollars, except "Per common share" and "Financial ratios"							
12,951.5	11,132.2	8,371.8	6,826.7	5,303.7	4,695.2	3,623.1	1,973.4
5,924.4	5,596.6	5,110.2	3,942.6	2,854.9	2,599.5	2,082.4	1,267.4
159.5	141.1	134.4	98.2	72.7	64.4	45.9	18.1
578.4	455.6	464.1	410.4	330.0	295.9	237.5	156.2
29.6	23.3	19.2	16.5	14.6	12.9	11.2	8.2
186.8	127.6	34.5	48.6	26.3	43.4	32.8	15.1
79.3	78.3	148.8	122.9	104.3	87.5	70.2	50.9
282.7	226.4	261.6	222.4	184.9	152.1	123.4	82.0
253.6	226.4	261.6	211.2	211.7	152.1	118.7	82.0
\$2.24	\$1.92	\$2.40	\$2.19	\$1.81	\$1.72	\$1.40	\$0.99
15.1	7.1	0.3	2.1	8.6	9.0	7.6	0.3
114.4	95.8	78.4	59.1	43.4	32.1	28.0	23.8
\$0.96	\$0.84	\$0.72	\$0.59	\$0.475	\$0.388	\$0.338	\$0.288
331.9	340.6	402.9	307.7	260.9	235.7	176.0	101.2
306.3	219.0	184.8	184.6	101.0	109.5	105.5	42.2
1,541.6	1,434.2	1,609.7	1,349.0	927.2	757.3	638.4	427.6
897.0	862.8	808.1	613.8	391.9	332.8	329.7	235.7
644.6	571.4	801.6	735.2	535.3	424.5	308.7	191.9
1,693.6	1,521.2	1,348.6	1,135.8	825.8	799.9	649.8	250.6
1,094.5	989.1	912.2	785.5	533.1	534.0	427.4	143.5
5,656.6	5,505.5	2,905.7	2,560.9	1,658.5	1,479.0	1,235.9	743.4
2,420.9	2,425.8	546.9	597.6	226.8	269.7	270.0	100.3
2,254.3	2,137.1	1,488.6	1,285.6	968.6	798.7	578.0	390.3
205.8	205.8	5.8	5.8	98.8	110.7	110.3	5.8
2,048.5	1,931.3	1,482.8	1,279.8	869.9	688.0	467.6	384.5
\$17.19	\$16.22	\$13.62	\$11.75	\$9.43	\$7.57	\$5.65	\$4.64
13.4%	12.8%	18.9%	20.5%	22.6%	24.8%	27.2%	23.0%
5.1%	5.4%	9.6%	10.5%	11.8%	11.2%	12.5%	11.8%
2.9x	3.4x	12.9x	8.1x	12.0x	6.5x	6.9x	9.8x
1.7:1	1.7:1	2.0:1	2.2:1	2.4:1	2.3:1	1.9:1	1.8:1
51.8%	53.2%	26.9%	31.7%	19.0%	25.2%	31.8%	20.4%
50.0%	35.0%	32.9%	32.6%	27.6%	27.7%	34.1%	36.5%

Quarterly Consolidated Financial Information

		Millions of dollars, except "Per common share"				
1989		March	June	September	December	Total
	System-wide sales	3,281.4	3,612.5	3,883.9	3,937.8	14,715.6
	Revenues	1,233.3	1,407.4	1,549.0	1,535.0	5,724.7
	Operating earnings	125.7	171.0	190.2	205.1	692.0
	Corporate expense	8.1	7.9	7.7	7.9	31.6
	Interest expense	55.8	51.6	46.3	42.5	196.2
	Provision for income taxes	7.7	21.2	32.7	36.5	98.1
	Earnings before extraordinary items	54.1	90.3	103.5	118.2	366.1
	Per common share					
	Earnings before extraordinary items	\$0.42	\$0.70	\$0.81	\$0.94	\$2.87
	Dividends	\$0.28	\$0.28	\$0.28	\$0.28	\$1.12
	Market price – High	32½	35⅝	40½	38⅞	
	– Low	27⅞	29½	33⅞	35¼	
1988		March	June	September	December	Total
	System-wide sales	3,167.2	3,379.8	3,582.7	3,706.8	13,836.5
	Revenues	1,422.8	1,472.0	1,545.0	1,560.8	6,000.6
	Operating earnings	113.1	153.6	177.6	192.4	636.7
	Corporate expense	7.3	6.8	6.8	7.6	28.5
	Interest expense	56.4	52.1	54.0	55.1	217.6
	Provision for income taxes	4.8	17.4	27.8	26.3	76.3
	Earnings before extraordinary items	44.6	77.3	89.0	103.4	314.3
	Per common share					
	Earnings before extraordinary items	\$0.34	\$0.62	\$0.71	\$0.84	\$2.51
	Dividends	\$0.26	\$0.26	\$0.26	\$0.26	\$1.04
	Market price – High	29½	29½	27½	28¼	
	– Low	23¾	25⅞	24¾	25½	
1987		March	June	September	December	Total
	System-wide sales	2,878.1	3,149.9	3,322.2	3,601.3	12,951.5
	Revenues	1,311.0	1,426.9	1,512.9	1,673.6	5,924.4
	Operating earnings	84.1	141.5	161.3	191.5	578.4
	Corporate expense	6.5	6.2	6.8	10.1	29.6
	Interest expense	37.9	44.2	51.0	53.7	186.8
	Provision for income taxes	2.0	20.9	26.5	29.9	79.3
	Earnings before extraordinary items	37.7	70.2	77.0	97.8	282.7
	Per common share					
	Earnings before extraordinary items	\$0.28	\$0.56	\$0.61	\$0.79	\$2.24
	Dividends	\$0.24	\$0.24	\$0.24	\$0.24	\$0.96
	Market price – High	39½	38⅞	37	33¼	
	– Low	32⅞	32¼	32¾	22¾	

Imasco Limited
Officers and Divisional Information

Officers

Purdy Crawford
Chairman, President and Chief Executive Officer

Jean-Louis Mercier
Vice-Chairman

Raymond E. Guyatt, C.A.
Executive Vice-President, Chief Financial Officer and Treasurer

Torrance J. Wylie
Executive Vice-President

W. John Bennett
Senior Vice-President

Roy R. Schwartz
Senior Vice-President, Legal and Corporate Development

Robert C. Bégin, C.A.
Vice-President, Treasury Services

Pierre Duhamel, C.A.
Vice-President and Controller

Ron Farrell
Vice-President, Administration

Hugh W. McAdams, C.A.
Vice-President, Corporate Finance

Peter McBride
Vice-President, Public Affairs

Annette Verschuren
Vice-President, Corporate Development

Rodrick K. MacKinnon
Secretary and Counsel

Denis Faucher, C.A.
Assistant Treasurer

Pierre Leclerc
Assistant Secretary

Imperial Tobacco Limited

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

Jean-Louis Mercier
Chairman and Chief Executive Officer

Wilmat Tennyson
President and Chief Operating Officer

Roger S. Ackman
Vice-President, General Counsel and Secretary

R. 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

Édouard Darche, C.A.
Controller

General Cigar Company
Montréal, Québec

Imperial Leaf Tobacco
Aylmer, Ontario

du Maurier Arts Ltd.
Montréal, Québec

du Maurier Ltd.
Montréal, Québec

Matinée Ltd.
Montréal, Québec

Player's Ltd.
Montréal, Québec

Hardee's Food Systems, Inc.

1233 Hardee's Boulevard
Rocky Mount, North Carolina, 27804-2815
U.S.A.

Jack A. Laughery
Chairman

William E. Prather, Jr.
President and Chief Executive Officer

Paul R. Lovin
Executive Vice-President and Chief Operating Officer

Breen O. Condon
Executive Vice-President, General Counsel and Secretary

Ralph E. Peterson
Executive Vice-President and Chief Financial Officer

James L. Jaffre
Executive Vice-President, Marketing

Wayne Knox
Executive Vice-President, International and Strategic Planning

Gerald L. McGinnis
Executive Vice-President, Development

Jesse M. Harrington, III
Senior Vice-President and Treasurer

John D. Merritt
Senior Vice-President, Public Relations

Edna Morris
Senior Vice-President, Human Resources

Thomas H. Sparks
Senior Vice-President, Administration

John F. Schmutz
Vice-President, Legal, and Assistant Secretary

Fast Food Merchandisers, Inc.

Robert F. Autry
President and Chief Executive Officer

F. Winslow Goins
Executive Vice-President, Distribution Services

Burger Chef Systems, Inc.

College Park Pyramids
P.O. Box 927
Indianapolis, Indiana, 46206
U.S.A.

Robert E. Haberkamp
President and Chief Operating Officer

Imasco Limited
Officers and Divisional Information
(continued)

Imasco Drug Retailing Group

David R. Bloom
Chairman and Chief Executive Officer

Shoppers Drug Mart

225 Yorkland Blvd.
Toronto, Ontario
M2J 4Y7

Pharmaprix
Montréal, Québec

Murray B. Koffler, C.M.
Honorary Chairman

David R. Bloom
Chairman and Chief Executive Officer

Herbert R. Binder
President and Chief Operating Officer

Kenneth A. Sloan, C.A.
Senior Executive Vice-President,
Finance and Planning, and Chief
Financial Officer

Dale Daley
Senior Executive Vice-President,
Operations Services

Marvin A. Goldberg
Senior Executive Vice-President, Legal
and Corporate Affairs, and Secretary

Stanley A. Thomas
Senior Executive Vice-President, Marketing

Fred K. Van Laare
Senior Executive Vice-President,
Operations

Louis M. Goelman
Executive Vice-President, Merchandising
and Distribution

Isadore Snyder
Executive Vice-President, Retail
Development

Malcolm G. Swartz, C.A.
Executive Vice-President, Administration

Bob Yorston
Executive Vice-President, Atlantic

Claude Allard
Executive Vice-President, Pharmaprix

Albert Krakauer
Executive Vice-President, Ontario

Brian P. Relph
Executive Vice-President, Ontario

David H. MacDonald
President, Shoppers Drug Mart West

Raymond A. Hallett
Senior Vice-President, Human
Resources

Arthur Konviser
Senior Vice-President, Public Affairs

Gordon Stromberg
Senior Vice-President, Advertising

Peoples Drug Stores, Incorporated

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

David H. Eisenberg
President and Chief Operating Officer

Richard L. Hall
Executive Vice-President and Chief
Financial Officer

I. Howard Diener
Executive Vice-President, Marketing

David C. Forman
Executive Vice-President, Human
Resources

Mary M. Mahon
Executive Vice-President, Legal

Kenneth C. Simmons
Executive Vice-President, Operations

Larry J. Merlo
Regional Senior Vice-President

James L. Johnston
Regional Senior Vice-President

Harvey I. Baum
Regional Senior Vice-President

Robert A. Gabler
Regional Senior Vice-President

Imasco Enterprises Inc.

1040 West Georgia Street
Vancouver, BC
V6E 4H3

Purdy Crawford
Chairman, President and Chief
Executive Officer

Imasco Financial Corporation

600 de Maisonneuve Blvd. West
Montréal, Québec
H3A 3K7

W. John Bennett
Chairman, President and Chief
Executive Officer

CT Financial Services Inc.

275 Dundas Street
London, Ontario
N6A 4S4

Mervyn L. Lahn
Chairman and Chief Executive Officer

Peter C. Maurice
President and Chief Operating Officer

John D. Richardson
Executive Vice-Chairman and Chief
Financial Officer

The UCS Group

50 Overlea Blvd.
Toronto, Ontario
M4H 1B9

Norman Latowsky
President and Chief Executive Officer

Imasco B.V.

Herengracht 495
1017 BT Amsterdam
The Netherlands

Alan J. Perrier, C.A.
President and Managing Director

Fribourg Branch
34, rue de Lausanne
CH-1701 Fribourg
Switzerland

John F. Mathers, C.A.
Managing Director

Corporate Information

The Corporation	Incorporated by Federal Charter April 3, 1912 Continued under the Canada Business Corporations Act August 6, 1976			
Auditors	Deloitte & Touche Chartered Accountants 800 Tour de la Place Victoria Suite 3000 P.O. Box 325 Montréal, Québec H4Z 1H8			
Transfer agent and registrar	Montreal Trust Company Halifax, Montréal, Toronto, Winnipeg, Regina, Vancouver			
Stock exchange listings	Montréal, Toronto, Vancouver			
Symbols	Common shares			
IMS	7.375% Retractable First Preference shares Series C			
IMS.PR.C	6% Cumulative Preference shares			
IMS.PR.A				
Value of shares on valuation day, December 22, 1971	Common \$2.50 6% Cumulative Preference \$4.60			
Financial calendar	Fiscal year end: December 31 Interim reports mailed: May, August, November Dividend dates: Common shares, 7.375% Retractable First Preference shares Series C, 7.90% Perpetual First Preference shares Series D Quarterly: March, June, September, December 6% Cumulative Preference shares Semiannually: March, September Debentures 10½% due November 1996, interest payable May 20 and November 20 10½% due April 1998, interest payable April 28 and October 28 10¼% due December 2001, interest payable June 18 and December 18 Notes 8½% US due November 1991, interest payable November 13 10½% due July 1993, interest payable July 7 Medium term notes, interest payable February 15 and August 15			
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, 1800 McGill College Avenue, Montréal, Québec, Canada H3H 3K9.			
Shareholdings as at December 31, 1989	Common shares	6% Preference shares	7.375% Preference shares Series C	7.90% Preference shares Series D
Canada	57.52%	98.26%	100%	100%
U.S.A.	1.34%	0.08%	—	—
U.K.	41.09%	1.52%	—	—
Other countries	0.05%	0.14%	—	—
	100%	100%	100%	100%

