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THE HERITAGE GROUP INC.

Annual Report
1983

Corporate Principles

The Heritage Group of Companies will:

Produce and market products and provide services superior to those of its competitors.

Act with integrity and fairness in its relations with employees, customers and suppliers.

Continue to produce products of excellence at the lowest cost commensurate with quality, value and reputation.

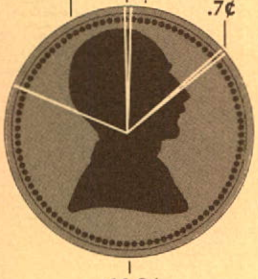
Provide opportunities for the self-development of its employees and, where possible, promote from within.

Generate a return on investment sufficient to insure continued growth in jobs, sales, assets and opportunity.

Financial Highlights

	(dollars except where noted) 1983	1982
Sales	**590,074,000**	581,071,000
Net earnings	**5,181,000**	2,765,000
Per share	**1.95**	1.05
Percent of sales	**.88**	.48
Percent of shareholders' opening equity	**9.76**	5.40
Dividends paid	**1,167,000**	1,162,000
Rate per share	**.44**	.44
Working capital	**21,910,000**	22,333,000
Working capital ratio	**1.49**	1.60
Shareholders' equity at end of year	**57,090,000**	53,076,000
Per share	**21.53**	20.02
Percent return on capital employed at beginning of year	**14.44**	9.69

1983 sales dollar analysis



The Heritage Group Corporate Profile

J.M. Schneider Inc.

F.G. Bradley Inc.

National Consolidated Food Brands Inc.

Link Services Inc.

Portage Trade Development

The Heritage Group, with assets of $126 million and annual sales in excess of $590 million, is one of Canada's largest, integrated food companies.

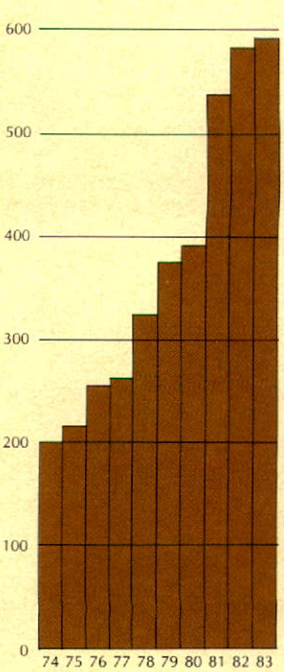
Although the corporation was established only a few years ago, its roots and traditions reach back to before the turn of the century when John Metz Schneider began making sausage as a part-time occupation in Kitchener, Ontario in 1890. Today, J.M. Schneider Inc., the company he founded, is the largest member of the Heritage Group of companies.

The Heritage companies, which include J.M. Schneider Inc., National Consolidated Food Brands Inc., F.G. Bradley Inc., Link Services Inc., and the Portage Trade Development Division, are engaged in the production, marketing and distribution of over 2,500 fresh and processed meat and fresh and frozen dairy and grocery products for the retail and food service industries.

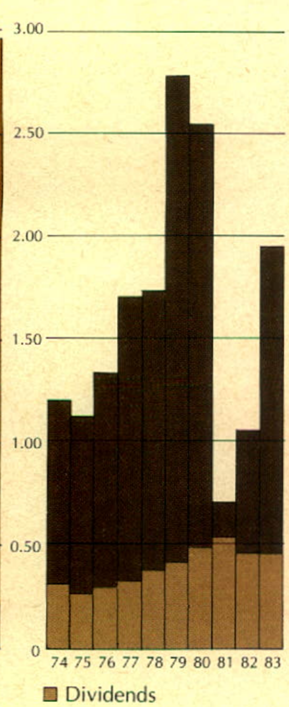
The relationships between the companies are symbolized by the five, interconnected coloured rings. Each company is an autonomous, operating unit that gains strength from its partnership with sister companies. As a result, a synergy is created which gives the Group as a whole a presence and momentum greater than the sum of its parts. Throughout the Report are illustrations and examples of Heritage Group synergy in action.

Financial Charts

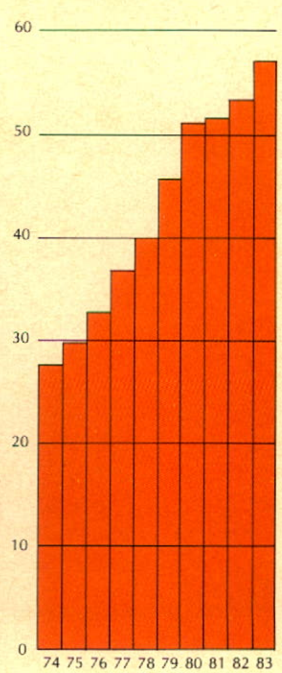
Sales
in millions of dollars



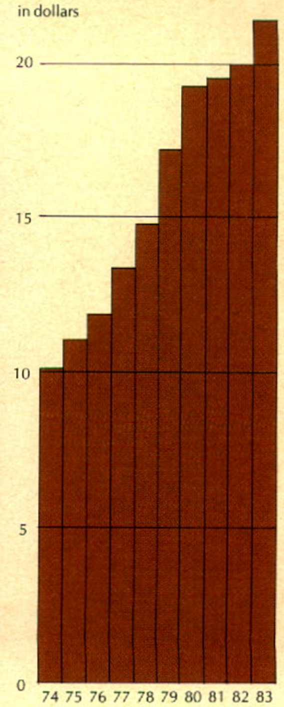
Net earnings per share
in dollars



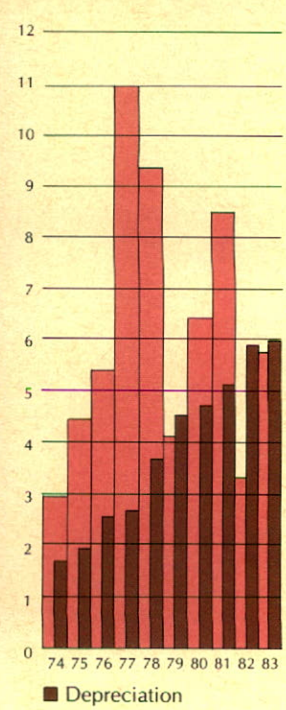
Shareholders' equity at end of year
in millions of dollars



Equity per share at end of year
in dollars



Capital expenditures and Depreciation
in millions of dollars



Report to Shareholders

Frederick P. Schneider
Chairman of the Board and
Chief Executive Officer
The Heritage Group Inc.

In 1983 the Heritage Group of companies reported consolidated sales of $590,074,000 as compared to $581,071,000 in 1982. Consolidated earnings for the same period rose from $2,765,000 or $1.05 per share to $5,181,000 or $1.95 per share.

Shareholders will note that last year's sales and earnings are in line with a trend, now into its third year, which shows progressive increases in earnings since the recent low point in the corporation's fortunes in 1981. There are several reasons for the progress and more importantly, we believe the trend will continue.

The biggest single reason for substantially higher earnings was improved profit from the corporation's largest subsidiary, J.M. Schneider Inc. Noteworthy about the increase was that it was accomplished without an overall increase in sales, which indicates the company made some progress in reducing costs and improving productivity. Coupled with changes in the company's marketing structure, the way has been paved to increase sales against a background of lower costs and improving productivity. While much remains to be done, J.M. Schneider Inc. worked hard in 1983 to meet its performance objectives and the results reflect the effort.

National Consolidated Food Brands Inc., (NATCO) had only modest earnings in 1983 while continuing to show impressive increases in almost all sales categories. Although it would be tempting to manage the company in order to produce higher profits in its early years, we believe it would be neither prudent nor in the company's long term interest to do so.

Natco's earnings' pace has been slow because new products that demand tremendous advertising and promotional costs are continually being added to its list. These costs will decline substantially as established products consolidate their market shares and begin to generate a greater return.

The F.G. Bradley company failed to produce a profit in 1983, largely because of operating inefficiencies that remained from a previous stage of the company's history. We continue to think the company has positive earnings potential and all its efforts are aimed at reaching that goal.

Portage Trade Development, a division of Heritage rather than a subsidiary, completed its first full year of operations in 1983. With its minimal operating costs, the long term prospects appear very encouraging. We believe it is an inexpensive means to familiarize the corporation with the export market, particularly the north eastern United States where there are over 60 million consumers within a 600 mile radius of Kitchener.

As is our practice, each company or division will provide a detailed account of its performance and prospects in subsequent sections of the Report.

The improvement in earnings last year, although below levels considered satisfactory in terms of shareholders' return on equity, was accomplished against an unsettled industry background and amid corporate efforts to bring about the positive working relationships between subsidiaries that support the basic premise of the Heritage Group's foundation.

In 1983, difficulties in the industry throughout North America continued. Several major companies either failed or were drastically reorganized. Analysts described the processed meat industry as "mature", with little or no growth expected for the next 12 months. Changing tastes and the recession caused alterations in the patterns of both fresh and processed meat consumption. Until outdated equipment is replaced and labour rates aligned with costs, there will be continuing difficulties facing the industry.

Currently there are too many companies pursuing a static market in the belief that simply "trading dollars", with an inadequate expectation of profit, will somehow win back the ever-demanding consumer. Such is not likely to happen. Studies show that consumers will continue to be cautious because of continuing unemployment and weak growth in real disposable income. For the balance of the decade, Canadian markets generally will be uncertain, exhibiting slower growth and dramatic changes from historical trends. Markets that do offer room for growth will be highly competitive.

Until recently, the domestic industry failed to realize there was a limit to what consumers were willing to pay before turning to other, less expensive, food items. The recession and successive labour cost increases have made many products uncompetitive. As the American experience has demonstrated, it is impossible to have both high labour content and costs that are unjustified in terms of productivity.

The solution has been to reduce either the labour content and/or seek productivity gains through technology. Evidence of a trend toward more reasonable wage settlements, both in the U.S. and Canadian industries, is an encouraging sign and hopefully will help reverse the trend to alternative foodstuffs by enabling meat to become more competitive again.

The Heritage Group is confident it can avoid the worst of the problems that competitors in the North American industry have suffered. Our confidence is based on the shared values that exist between shareholders, management and employees. Time and again shareholders have demonstrated their commitment to the business by foregoing large dividend payouts in favour of re-investing earnings back into the business. Management is continually seeking ways to keep our costs competitive without sacrificing the corporation's outstanding reputation for quality. Many employees are beginning to understand the role they play in controlling costs and what such co-operation means in terms of corporate prosperity and opportunity for growth. While disagreements can arise over the most effective way of doing things, management is dedicated to the necessity of growth for the simple reason that any company that is growing is likely adding to, rather than subtracting from, its labour force. When any of the three interests in the group lose sight of basic objectives, there is a risk that the equation will lose its balance and threaten growth.

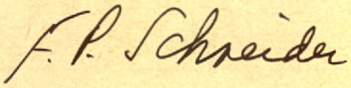
One of the principal objectives behind the establishment of the Heritage Group was to bring independent operating companies in the food industry together so that they could benefit by sharing expertise and market knowledge. The illustrations throughout the Report show examples of this corporate partnership in action. The ways in which these relationships work and are mutually beneficial are the subject of a corporate audio-visual program that will be shown to all employees and other interested parties in 1984.

In December 1983, Mr. Henry G. Beben was appointed President and Chief Operating Officer of The Heritage Group Inc. His appointment recognizes the high level of Mr. Beben's management skills and his continuing contributions to the growth of the corporation.

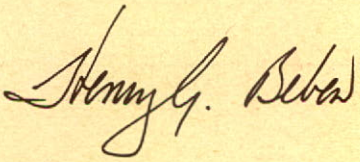
During the year, the board of directors welcomed two new members. Mr. Walter J. Hachborn is president of Home Hardware Stores Limited, of St. Jacobs, Ontario. Mr. Milo D. Shantz is a prominent local businessman and president of Mercedes Developments Limited. Both gentlemen will provide valuable business experience to the deliberations of the board.

As shareholders have been told, management is not satisfied with the return on equity they have earned on their investment for the past several years. There was improvement in 1983 and we expect that trend will continue in 1984. On behalf of the Board of Directors, we wish to thank all employees for their part in the progress we have made.

Henry G. Beben
President and Chief Operating Officer
The Heritage Group Inc.



Frederick P. Schneider



Henry G. Beben

SCHNEIDERS


FG Bradley
MARQUE TASTY SAUCISSES FUMEES
TASTY BRAND WIENERS
Jim Gordon

J.M. Schneider Inc.
Report on Operations

Last year J.M. Schneider Inc. increased its contribution to corporate earnings substantially over the previous year. Several factors contributed.

Changes in the sales and marketing areas enabled the company to sell more aggressively and resulted in a sizeable increase in sales, particularly toward the end of the year.

Several new products launched in 1983 added impetus to the overall marketing effort. The major items were a group of five breaded chicken products marketed under the Golden Basket label. The line received an enthusiastic response from consumers, to the point where it has now been listed with every major retail chain in the country. A number of new products are planned for 1984.

In 1983, the company mounted a major sales effort in Quebec, a province in which our products have never been fully represented. Six new salesmen, one of whom was the salesman-of-the-year, produced the largest percentage increase among all sales districts. Overall consumer acceptance of Schneider products was good throughout the province. The pattern of sales growth in Quebec is expected to continue in 1984.

In addition to the company's regular television advertising, Schneiders produced a series of six, full page advertisements that appeared in daily newspapers across the country. The ads gave examples of how the tradition of quality is applied to all products. They emphasized just what Schneiders means by quality, even though the company has long set an international standard, even for such quality-conscious consumers as the Japanese.

The combination of product quality and greater productivity improved our ability to compete. The company's total volume was lower in 1983, due largely to a three month strike in our Winnipeg plant. Nevertheless, once the strike was settled, production increased steadily.

Some of the company's productivity improvement was the result of a program of Focus Group and Quality Circles among employees at the Courtland Avenue plant in Kitchener. The Focus Groups brought employees of every level from a number of operational areas together to study particular systems or procedures with a view to making them more efficient. With a cross-section of interests represented, problems were examined and solutions proposed in the light of implications they would have for all areas of plant operations. Five Quality Circle groups were assembled in 1983 and more will be formed in the current year.

The Focus Group program drew on the practical experience of production employees to study specific problems in the maintenance area. In both programs, employees have demonstrated eagerness to participate to the point where selecting group members, scheduling study time and implementing results has become a job in itself.

The initial success of these programs is an important start because they demonstrate what can be done. But they should not be viewed as an end in themselves.

The Seventies was a period of unprecedented growth. As the industry has matured, our own growth rate has declined with the result that increasing sales will no longer camouflage operating inefficiencies. In the Eighties, the challenge of becoming more competitive by controlling costs is the most serious the company has ever faced. Focus Groups and Quality Circles are part of the answer but ultimately each employee must assume his or her portion of responsibility to ensure the company's prosperity.

Last year, Schneiders and Link Services joined hands in an effort to implement a new order entry and order processing system. The program will add more flexibility to the system by putting more control in the hands of individual operational areas. Overall, it will enable the company to respond to customers' needs more effectively. The complete system is expected to be operating by mid-1984.

Finally, Schneiders has played an important role in forming operating partnerships with the newer companies in the Heritage Group. There are several examples to date.

The company has worked with Bradleys to produce a wiener for the food service market. We are doing the same with a number of poultry products. On the other hand, Bradley has assumed the sale of some Schneiders food service products in Alberta. Natco and Schneiders are participating jointly in a sales promotion campaign featuring steakettes and cheese slices. Schneiders has helped Portage Trade Development establish itself by assisting in product selection and manufacturing. New opportunities for profitable partnerships are emerging almost daily. It is a process we expect to continue for many years to come.

K. G. Murray

Kenneth G. Murray
President
J.M. Schneider Inc.

Baseball and springtime go together like hot dogs and homeruns. Schneiders and Bradleys make a food service wiener to suit the production conditions at large, public events.

Production facilities and personnel from Schneiders and marketing staff from Bradleys teamed up to develop a wiener for the food service market. John Hennessy (left), Product Manager – Processed Foods for Bradleys and Jim Gordon, Manager of Research and Development for all Heritage companies, look at the final product.

FG Bradley


FGBradley
net 2kg
RIBBON SLICES
PROCESS CHEESE FOOD
PRÉPARATION DE FROMAGE FONDU
TRANCHES RUBAN

F. G. Bradley Inc.
Report on Operations

The food service industry was one of those most severely affected by the recession, and evidence of a recovery within it did not show up until mid-way through the second quarter of 1983. The recession claimed hundreds of marginal operators. However, those that did survive are in a good position to restore profitability as the recovery matures. With the exception of Alberta, where business is still depressed, all sectors of the industry have shown steady improvement since the second quarter of 1983.

Even though the recovery has brought business back to reasonable levels, the recession left a definite mark on our industry and our company. In the fast food area, which has been the fastest growing sector of our company for several years, total sales were higher, in part because new units continued to open. In fact, for the past eighteen months, sales of our Bronze Label products, which are aimed at a specific tier of the market, have increased substantially.

Even though the industry as a whole recovered somewhat in 1983, Bradley was again unable to generate a profit. Digesting many changes since it was purchased as a relatively small, failing company in 1981 has only been part of the problem. In two words, Bradleys problem is "unsatisfactory margins". There remain unfavourable variances between raw material costs, costs of production and selling price.

A processed cheese product was a logical complement to Bradleys large hamburger pattie business. Brian Schmitt (right), National Sales Manager for Bradleys was able to produce the right product with the help of Ron Shypula (middle), a dairy products specialist with the Heritage Group, and Ken McClatchie, Manager – Cheese Operations at Winchester, a Natco joint venture.

The simple solution would be to raise prices, but it would only be a matter of time before such a strategy backfired under current competitive conditions. The only permanent solution is to lower costs. The company's management, in co-operation with expertise from other areas of the corporation, is working continuously to implement accurate reporting systems that will enable Bradley to manage costs more effectively. The highest priority is an inventory reporting system being developed jointly by Bradley and Link Services. In early November, the company began marketing a complete range of products in British Columbia with a sales manager and five new salesmen. The company now has representation in Ontario and throughout western Canada.

Bradley was able to enter the B.C. market on the strength of Link Services new distribution and warehouse centre in North Vancouver.

The development of a food service wiener and of poultry products in co-operation with Schneiders, gave Bradley access to two new markets. The same can be said for Natco and its co-operation in developing a sliced processed cheese product that complements our sale of beef patties to the fast food industry. Work is currently underway to develop products for the huge, so-called "event feeding" market such as sports arenas, amusement parks and public entertainment centres. At the same time the company is learning about the special dietary needs of Canada's growing number of senior citizens. It is estimated that by the year 1990, there will be 2,874,800 Canadians over the age of 65. Early in 1984, Bradley will move its existing warehousing and distribution operations in Winnipeg into Link's new Distribution Centre. The consolidation will eliminate the previous duplication of services. The company's other operational priority is to make the Toronto operation more efficient, in part based on the success of overall company efforts already underway. In the current year the company is forecasting a 6% increase in productivity overall.

The addition of processed cheese slices created a new market for Bradleys. They are sold to food service customers, including most of the major fast food chains.

A series of unexpected setbacks in the past has made forecasting Bradley's prosperity a hazardous undertaking. The company has been on the brink of profitability more than once in the past few years. This year management believes the objective is attainable.

Kenneth G. Woodward

Kenneth G. Woodward
Senior Vice-president
F.G. Bradley Inc.

LINK SERVICES

Link Services Inc.
Report on Operations

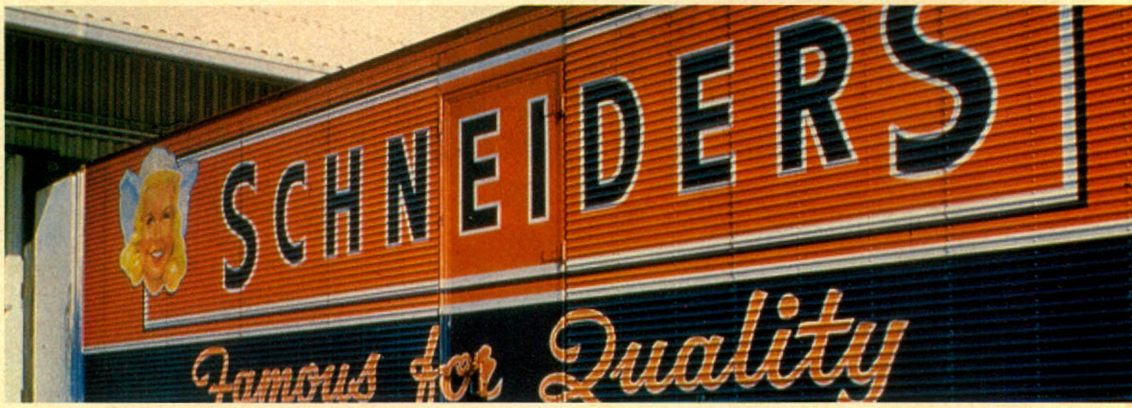
In many ways Link Services exemplifies the theme of this Report since its mandate is to supply sister companies with essential services in the areas of transportation, warehousing and information services. A measure of the company's contribution is reflected by the fact that whenever Link has assumed responsibility for services, participating companies have had an increase in volume.

In November 1983, Link officially opened its newest Distribution Centre in North Vancouver, British Columbia. It is the second of three such centres that will form a distribution and warehousing network serving all western Canada. The Vancouver area centre houses a full line of each company's products and, as has been pointed out, it is the first time Bradley has had such representation in the province. If current trends continue, the new Distribution Centre will be a great benefit in establishing that company's market presence.

Link will continue to integrate those sections of the Bradley distribution network that have not already been absorbed into the system. It is a necessary and logical step toward our objective of making the overall distribution system truly cost efficient.

Link Services western Canadian network was complete in 1983 when warehousing and transportation services were consolidated in the new Dawson Street Distribution Centre in Winnipeg. The new facility serves an area including parts of northwestern Ontario, all of Manitoba and parts of Saskatchewan. In many ways the western network has been a proving ground. With what we have learned in the West, the company can now apply its experience in other parts of the country. For instance, the corporation is now looking East to large, new and highly competitive consumer markets. Link will be a vital factor in the success of these marketing efforts.

Link's distribution centres across the country are the crossroads for products from all the Heritage companies. Even though it has exclusive responsibility for warehousing and transportation, Link General Distribution Manager — Eastern Region Roger Shoemaker (left), frequently confers with counterparts such as Bob Cassidy, Director of Manufacturing — Eastern Operations for Schneiders and Natco Product Manager Brian Hiff about handling specific products.



Link's 200 unit fleet and distribution centres have helped consolidate and expand new markets. As an example, F. G. Bradley products were introduced to the British Columbia market on the strength of Link's new facilities in Vancouver.

In addition to geographic expansion, the Heritage companies are constantly developing new products, many of which require special handling. Such products put different demands on the distribution equipment. Already the company has had to modify, and in some cases design, new units capable of handling everything from sides of beef, to cheese, to frozen desserts.

Reference has already been made to the new order entry processing system which has been a co-operative undertaking between Link and Schneiders. The system is the most recent example of how the company keeps itself in the forefront of data processing technology and in the process provides managers in all companies with information to project sales, schedule production and adjust inventory levels.

Link Services is no longer a small, subsidiary service company. Last year it directly employed almost 400 people and the number will continue to grow. Because of the nature of the services it provides, the importance of Link's contribution will increase proportionately as member companies accomplish their objectives.

Douglas W. Dodds
President
Link Services Inc.

natco

National Consolidated Food Brands Inc.
Report on Operations

Natco's business continued to grow impressively in 1983, although earnings remained modest as they were largely reinvested in new listings with major chain stores, advertising and more sales and product management personnel.

During the year, the company's growth was due largely to its successful lines of natural and processed cheeses. In fact, last year Natco earned the status of becoming one of the major cheese suppliers in Canada.

In March, 1983, the processed cheese manufacturing facility came on stream at the company's joint venture operation in Winchester, Ontario. The market response was overwhelming. At periods during the following months, sales reached 10% of a very competitive market. Until November, when production began to keep pace with orders, there was rarely more than one day's supply available. In addition to generating sales volume, processed cheese products gave Natco recognition and confidence within the trade. Their success also strengthened the morale of both sales and operating personnel.

The company's success with processed cheese came at a time when the market as a whole was shifting. The trend toward specialty cheeses continued to grow. The market demonstrated a growing preference for mildness and variety in taste. As a result, the traditional cheddar market was softer in 1983.

Natco and Schneiders have a close production relationship since Natco's partly owned subsidiary companies manufacture several of their products. Lyn Johns (left), Product Manager – Frozen Foods for Schneiders, and Peter Morris, President of Dorset Foods, examine production of sausage rolls.

In response to the trend, Natco launched a Swiss cheese during the year to complement existing varieties of Colby, Brick, Farmers, Havarti and Mozzarella. Packaging all these products in a more convenient size and economical weight reflected consumer preference for a uniform industry size.

Natco's Grandma Martin products earned the distinction of becoming a major brand in the industry in 1983. Several new products were introduced during the year. Ready-to-serve muffins were added, along with pie pastry dough, pattie shells and puff pastry dough which rounded out the line of bake-up pastries.

While there is no doubt about the acceptance of these products, further progress depends on more complete distribution which in the current economy is both costly and time-consuming. In the current year, many of our existing products will be marketed as either "Bake-up" or "Ready-to-Serve" items, which should satisfy a wider range of consumer preferences.

Other new products slated for development in 1984 will take advantage of our relationship with sister companies both in terms of being complementary to their existing products and being developed in co-operation with common research and development services. Along with Link's distribution capability, such products will further extend Natco's penetration into the grocery area.

In the company's initial years, many of its products were sold to large sectors of the market by either brokers or salesmen from sister companies. Although Natco will continue to use brokers and supporting sales staff, last year the company hired six captive salesmen to sell to independent stores in Ontario, which means our products will get more marketing attention at the crucial retail level.

Grandma Martin frozen dessert products have helped Natco establish itself in the grocery sector of the market. Sheila Cox, Research Technician in the Heritage Group Research and Development Laboratory, makes sure the product conforms to exacting requirements.

While Natco has benefited by sharing existing services with other companies in the Group, it also has become an important cog in the partnership. Dorset Foods of Mississauga Ontario, in which Natco has an interest, manufactures a number of important products for Schneiders. Winchester Cheese has become an exclusive supplier of cheese for such products as Schneider quiche and luncheon meat as well as processed food service cheese products for Bradleys.

Natco intends to concentrate on its marketing program in 1984. The company has budgeted for the largest advertising campaign in its history. With continued strong marketing and product management, Natco is forecasting another year of growth in 1984.

John Geminari

John P. Geminari
President
National Consolidated Food Brands Inc.

PORTAGE trade development développement commercial

Portage Trade Development Report on Operations

Portage Trade Development is a division within the Heritage Group. It was established to expand the corporation's export trade opportunities.

In co-operation with the other operating companies, Portage selected a variety of existing products that, because of their excellence and variety, were judged appropriate for foreign markets. The initial selection represented a cross section of frozen and processed meats, food service items and cheeses, so brokers could choose from an adequate selection and variety.

Having selected the products, each had to be checked and in some cases re-formulated to comply with U.S. Food and Drug Administration regulations. The packaging was made unilingual and was revised to comply with Imperial measures and, finally, agreements had to be reached with several major brokers in large cities in the eastern United States.

Portage has used a deliberate and systematic approach to its preliminary marketing. Even if the company had the resources, there would be little point making huge national advertising expenditures since food markets in the U.S. are regional, with many local producers commanding large shares. Portage began marketing products in the fall of 1983 in cities within reasonable transportation distance of Kitchener. At the same time sales efforts were renewed in the Caribbean where both Schneiders and Bradleys have done business in the past. The marketing effort was supplemented by exposure at several trade shows in various market areas. The company was assisted by government trade commissions as well as receiving financing support from export trade programs, particularly those of the Ontario government.

Portage has already started to receive new export orders. Progress has been most encouraging in the Caribbean market where large orders have been taken for a number of Bradley products. Initial orders from the U.S. have been relatively smaller and as a result, Portage will depend on Link Services ability to process and deliver smaller quantities.

The division's plans for 1984 include adding more products and basically extending the marketing areas as resources allow. The division hopes to bring as many new customers as possible to the Waterloo facilities to acquaint them with the outstanding resources of the Heritage Group. The initial phase of investment and development is complete. 1984 represents the second phase during which the division should begin to see returns on its efforts.

Portage Trade Development has drawn on the personnel and resources of all Heritage companies to establish itself in competitive export markets. Wayne Farrell (left), a Schneiders product development specialist and James Petrozzi (standing), a group product manager, assist in product selection process with Dave Henderson (right), a Natco product manager and Dave Taylor, General Manager of Portage Trade Development.

David R. Taylor

David R. Taylor
General Manager
Portage Trade Development

THE HERITAGE GROUP INC.

Annual Review
1983

Consolidated balance sheet as at October 29, 1983

Assets	(in thousands) 1983	1982
Current assets		
Accounts receivable	**$ 29,144**	$ 25,174
Inventories	**35,308**	31,932
Other	**2,249**	2,173
Total current assets	**66,701**	59,279
Investments in associated companies	**1,995**	1,875
Fixed assets	**54,207**	54,258
Intangible assets	**3,964**	4,303
Total assets	**$126,867**	$119,715

Approved by the Board

F. P. Schneider

F. P. Schneider
Director

D. C. Jamieson

D. C. Jamieson
Director

The accompanying notes are
an integral part of this statement

Liabilities	(in thousands) 1983	1982
Current liabilities		
Outstanding cheques	**$ 8,872**	$ 5,185
Bank advances		3,637
Accounts payable and accrued liabilities	**27,813**	25,422
Income taxes payable	**3,165**	1,230
Principal due within one year on debentures and loans	**4,633**	1,060
Current obligations under capital leases	**308**	412
Total current liabilities	**44,791**	36,946
Long term debt		
Debentures and loans	**19,391**	23,469
Obligations under capital leases	**356**	620
Total long term debt	**19,747**	24,089
Deferred income taxes	**5,239**	5,604
Shareholders' equity		
Capital stock	**8,439**	8,439
Retained earnings	**48,651**	44,637
Total shareholders' equity	**57,090**	53,076
Total liabilities and shareholders' equity	**$126,867**	$119,715

Auditors' Report

To the Shareholders of
The Heritage Group Inc.

We have examined the consolidated balance sheet of The Heritage Group Inc. as at October 29, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 29, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Canada
November 25, 1983

Thorne Riddell

Chartered Accountants

Consolidated statement of earnings year ended October 29, 1983

	(in thousands) 1983	1982
Sales	**$590,074**	$581,071
Expenses		
Cost of products sold and operating expenses	**571,205**	564,960
Interest	**3,557**	5,375
Depreciation and amortization	**5,978**	5,861
	580,740	576,196
Earnings before income taxes	**9,334**	4,875
Income taxes	**4,153**	2,110
Net earnings	**$ 5,181**	$ 2,765
Earnings per share	**$1.95**	$1.05

Consolidated statement of retained earnings year ended October 29, 1983

	(in thousands) 1983	1982
Balance at beginning of year	**$ 44,637**	$ 43,034
Net earnings	**5,181**	2,765
	48,818	45,799
Dividends		
Class A shares	**1,002**	997
Common shares	**165**	165
	1,167	1,162
Balance at end of year	**$ 48,651**	$ 44,637

The accompanying notes are
an integral part of these statements

Consolidated statement of changes in financial position year ended October 29, 1983

	1983	1982
	(in thousands)	
Working capital derived from		
Operations		
Net earnings	**$ 5,181**	$ 2,765
Items not involving working capital		
Depreciation and amortization	**5,978**	5,861
Deferred income tax reduction	**(365)**	(177)
Share of earnings of associated companies	**(120)**	(112)
	10,674	8,337
Proceeds from term loan	**600**	750
Sale of fixed assets	**192**	40
Increase in capital lease obligation	**39**	42
Issue of Class A shares		254
	11,505	9,423
Working capital applied to		
Additions to fixed assets	**5,741**	3,329
Decrease in non-current portion of long term debt	**4,981**	1,373
Dividends paid	**1,167**	1,162
Additions to machinery and equipment under capital lease	**39**	42
	11,928	5,906
Increase (decrease) in working capital	**(423)**	3,517
Working capital at beginning of year	**22,333**	18,816
Working capital at end of year	**$21,910**	$22,333

The accompanying notes are
an integral part of this statement

Notes to consolidated financial statements year ended October 29, 1983

1. Summary of accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the wholly owned subsidiary companies, J. M. Schneider Inc., National Consolidated Foods Brands Inc., F. G. Bradley Inc. and Link Services Inc.

(b) Inventories

Products are valued at lower of cost and net realizable value. Since most products can be sold at any stage in their production, it is not practical to segregate them into raw materials, work in process or finished goods. Cost includes laid down material cost, manufacturing labour and certain elements of overhead to the stage of production completion. Net realizable value is based on the adjusted wholesale trading price at the balance sheet date.

Supplies, which include packaging, maintenance and manufacturing materials, are valued at the lower of cost and replacement cost.

(c) Investments in associated companies

These investments are recorded on the equity basis. The investments therefore include the company's share of undistributed earnings since acquisition and the statement of earnings includes the company's share of earnings for the year. Also included in the investments is the excess of the cost of the shares of the associated companies over the book value of their assets at dates of acquisition which is being amortized over 40 years.

(d) Fixed assets

Fixed assets are stated at cost which includes capitalized interest incurred on major projects during the period of construction. Depreciation is provided on a straight line basis to amortize the cost of the assets over their estimated useful life with estimated useful lives not to exceed certain limits.

	Maximum useful lives	Annual rates of depreciation
Buildings of solid construction	40 years	2.5% to 4%
Buildings of frame construction and improved areas	20 years	5% to 10%
Machinery and equipment	10 years	10% to 20%
Automotive equipment	8 years	12.5% to 20%

Depreciation is not provided on assets under construction.

The capitalized values of machinery and equipment under capital leases are depreciated over the lease terms using a straight line method.

(e) Intangible assets

Goodwill is being amortized on a straight line basis over forty years. The company recognizes permanent impairment in the value of intangible assets by additional charges against earnings.

(f) Pension plans

The unfunded past service obligation under pension plans is charged against earnings in the year in which it is paid.

(g) Earnings per share

Earnings per share are calculated on the weighted average number of shares outstanding in the year.

2. Fixed assets

	1983			1982
	Cost	**Accumulated depreciation**	**Net**	Net
Land and improved areas	**$ 4,658,000**	**$ 267,000**	**$ 4,391,000**	$ 4,288,000
Buildings	**41,772,000**	**14,877,000**	**26,895,000**	27,885,000
Machinery and equipment	**49,356,000**	**29,161,000**	**20,195,000**	20,663,000
Assets under construction	**2,428,000**		**2,428,000**	846,000
	98,214,000	**44,305,000**	**53,909,000**	53,682,000
Machinery and equipment under capital leases	**1,770,000**	**1,472,000**	**298,000**	576,000
	$99,984,000	**$45,777,000**	**$54,207,000**	$54,258,000

The Board of Directors has approved capital expenditures on future projects of $5,922,000. An additional $763,000 is expected to be required to complete projects now under construction.

3. Debentures and loans

	1983	1982
Debenture, with interest and principal payable monthly and payments calculated on a 20 year amortization basis, 16⅜% interest to February 23, 1983, 12.3% to February 23, 1984 and adjusted annually in accordance with a published McLeod, Young, Weir Limited 10 Industrial Bond Index less ½ of 1%. The debenture contains prepayment and redemption privileges exercisable at February 23, 1986 and at five year intervals thereafter	**$ 9,234,000**	$ 9,317,000
10¾% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $450,000 and maturing February 1, 1997	**8,100,000**	8,550,000
Loans payable $30,000 monthly plus interest on $1,358,000 at 10½%, on $2,375,000 at bank prime rate plus 1½% but never less than 9½%, maturing February 15, 1984	**3,733,000**	4,099,000
8½% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $100,000 and maturing June 1, 1991	**1,300,000**	1,400,000

(Continued)

Notes to consolidated financial statements year ended October 29, 1983

13½% Loan payable $17,000 monthly including interest commencing July 1, 1987 and maturing June 1, 1992. Interest to July, 1987 will be forgiven subject to certain conditions	**750,000**	750,000
Non interest bearing mortgage payable $17,000 monthly and maturing July 15, 1986	**550,000**	
8% Loan payable $5,000 monthly including interest and maturing September 1, 1988	**231,000**	268,000
9½% Loan payable $3,000 monthly including interest and maturing December 1, 1989	**126,000**	145,000
	24,024,000	24,529,000
Less principal included in current liabilities	**4,633,000**	1,060,000
	$19,391,000	23,469,000
Interest for the year	**$ 2,724,000**	$ 3,219,000

Principal due within each of the next five years is as follows:

1984	4,633,000
1985	910,000
1986	9,821,000
1987	662,000
1988	746,000

The debentures and loans are secured by fixed and specific charges on certain assets and floating charges on all assets of the company.

A trust indenture securing the sinking fund debentures contains certain covenants some of which limit the creation of additional debt and the entering into long term leases and restrict the use of proceeds from the sale of a substantial part of the company's fixed assets. In addition, the company has undertaken not to declare or pay dividends or otherwise make changes in its capital which would have the effect of reducing the company's equity below $26,000,000.

4. Obligations under leases

Capital leases

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of October 29, 1983:

1984	$370,000
1985	230,000
1986	117,000
1987	50,000
1988	26,000
Total minimum lease payments	$ 793,000
Less amount representing interest	129,000
Present value of net minimum lease payments	$ 664,000

This amount is reflected in the balance sheet as current and non-current obligations under capital leases of $308,000 and $356,000 respectively.

Operating leases
The following is a schedule of future minimum rental payments required under operating leases as of October 29, 1983:

1984	$ 3,981,000
1985	2,757,000
1986	1,882,000
1987	589,000
1988	389,000
Later years	731,000
	$10,329,000

5. Capital stock

Authorized
5,401,000 Class A non-voting shares
373,627 Common shares

	1983	1982
Issued		
2,277,528 Class A shares	**$8,205,000**	$8,205,000
373,627 Common shares	**234,000**	234,000
	$8,439,000	$8,439,000

The holders of the Class A shares are entitled to a 24¢ cumulative annual dividend and equal participation with the holders of common shares in annual dividends in excess of 24¢ and in any distribution of assets of the company to its shareholders.

6. Commitments

(a) Pension plans

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to $924,000. Annual payments of $121,000 are required to liquidate this obligation by August 31, 1996. During the year, $45,000 ($679,000 in 1982) was paid against the past service obligation.

Actuarial revaluations together with net experience gains in the plans, resulted in reserves which have been used to reduce the unfunded liability at October 29, 1983 and to reduce the current service contributions required in 1983 and 1982.

(b) Investments

National Consolidated Food Brands Inc. has entered into agreements which require it to acquire the remaining issued and outstanding shares of associated companies on the happening of certain events and at prices determined according to certain formulae.

7. Other information

(a) Operations

The company operates substantially in one industry, the processing and distribution of meat and related food products.

(b)	**1983**	1982
Depreciation	**$5,639,000**	$5,735,000
Amortization	**339,000**	$ 126,000

Ten Year statistical review

(thousands of dollars except where noted)

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
Sales	**590,074**	581,071	539,364	391,637	374,374	324,675	262,834	254,970	217,018	202,270
Earnings										
Earnings before income taxes and extraordinary items	**9,334**	4,875	3,137	11,535	12,164	7,766	7,544	7,865	5,610	5,871
Income taxes	**4,153**	2,110	1,296	4,844	4,620	3,079	2,944	3,288	2,545	2,585
Earnings before extraordinary items	**5,181**	2,765	1,841	6,691	7,544	4,687	4,600	4,577	3,065	3,286
Earnings before extraordinary items as a percent of sales	**.88**	.48	.34	1.71	2.02	1.44	1.75	1.80	1.41	1.62
Net earnings	**5,181**	2,765	1,841	6,691	7,544	4,687	4,600	3,579	3,065	3,286
Dividends paid	**1,167**	1,162	1,390	1,258	1,088	1,011	824	756	702	810
Capital expenditures	**5,741**	3,329	8,486	6,406	4,104	9,389	11,030	5,377	4,425	2,945
Depreciation and amortization	**5,978**	5,861	5,129	4,725	4,476	3,674	2,652	2,567	1,955	1,671
Salaries, wages and employee benefits	**108,508**	100,515	88,924	71,004	61,538	56,501	47,747	42,084	34,048	30,226
Average number of employees	**3,827**	3,817	3,880	3,327	3,131	3,009	2,874	2,676	2,640	2,567
Working capital	**21,910**	22,333	18,816	23,842	22,304	17,286	18,984	12,774	12,000	11,276
Working capital ratio	**1.49**	1.60	1.42	1.89	2.11	1.92	2.44	1.95	1.91	1.82
Total assets	**126,867**	119,715	126,692	95,537	83,627	76,275	65,057	50,917	48,060	45,741
Shareholders' equity at end of year	**57,090**	53,076	51,219	50,766	45,364	40,118	36,361	32,287	29,810	27,447
Percent return on equity at beginning of year	**9.76**	5.40	3.63	14.75	18.80	12.89	14.25	12.01	11.17	13.16
Percent return on capital employed at beginning of year*	**14.44**	9.69	6.41	20.19	23.49	16.90	20.54	23.04	18.03	20.88
Number of shares outstanding, in thousands	**2,651**	2,651	2,622	2,622	2,624	2,716	2,699	2,695	2,701	2,701
Number of shareholders	**1,388**	1,556	1,588	1,716	1,867	1,977	2,115	2,203	2,385	2,379
Per share statistics, in dollars										
Net earnings	**1.95**	1.05	.70	2.55	2.78	1.73	1.70	1.33	1.13	1.21
Dividends paid	**.44**	.44	.53	.48	.40	.37	.31	.28	.26	.30
Equity at end of year	**21.53**	20.02	19.53	19.36	17.29	14.77	13.47	11.98	11.04	10.16

*Return on capital employed at beginning of year

Return is:
Earnings before income taxes and extraordinary items plus interest on long term debt at the beginning of year less interest earned on temporary investments from proceeds of long term debt.

Capital employed is:
Shareholders' equity, deferred income taxes and long term debt, all at the beginning of the year.

Industry : Meat
Co: Canada Packers

	1979	1980	1981	1982	1983
RoI	20.9 / 451.7	25.6 / 481.4	26.1 / 522.7	30.0 / 544.7	21.0 / 559
Operating Margin	55.4 / ~~2,409~~ 2330	65.7 / ~~2748~~ 2711	71.5 / ~~2940~~ 2842	74.6 / ~~3044~~ 2943	~~67.5~~ ~~[illegible]~~ ~~6[illegible]~~ 67.5 / ~~3114~~ 3001
Profit NI	20.9	25.6	26	30	21
Sales	~~2409~~ 2330	2711	2842	2943	3001
Assets	451.7	481.4	522.7	544.7	559
OP INC.	55.4	65.7	71.5	74.6	67.5
employees	13,000	14,000		15,000	15,000
Assets / employees					
Cash Flows.	–	–	–	–	–
Investments.					
	27,304	35,310	37,013	36,267	40,153

Directors and Officers

Directors

Henry G. Beben
Waterloo, Ontario
President & Chief
Operating Officer

†***Geno F. Francolini**
Tillsonburg, Ontario

***Walter J. Hachborn**
St. Jacobs, Ontario
President,
Home Hardware Stores
Limited

***J. Ruth Jackson**
Kitchener, Ontario

***Dawson C. Jamieson**
Waterloo, Ontario
Senior Vice-President
Corporate Services &
Chief Financial Officer

†**William H. Kaufman**
Kitchener, Ontario
President, Kaufman
Footwear & Kaufman
Furniture, divisions of
William H. Kaufman Inc.

†**Gordon A. Mackay, Q.C.**
Kitchener, Ontario
Senior Partner
Mackay, Kirvan, Seitz

Kenneth G. Murray
Bright, Ontario
President
J. M. Schneider Inc.

†**Frederick P. Schneider**
Kitchener, Ontario
Chairman of the Board
& Chief Executive Officer

†**Herbert J. Schneider**
Waterloo, Ontario
Vice-President

Howard G. Schneider
Kitchener, Ontario
Vice-President & Director
of Research & Development
J. M. Schneider Inc.

Milo D. Shantz
St. Jacobs, Ontario
Chairman of the Board
Mercedes Developments
Limited

*Member of Audit Committee
†Member of Executive Committee

Officers

Frederick P. Schneider
Chairman of the Board
& Chief Executive Officer

Kenneth G. Murray
Vice-Chairman

Henry G. Beben
President & Chief Operating
Officer

Dawson C. Jamieson
Senior Vice-President
Corporate Services &
Chief Financial Officer

Herbert J. Schneider
Vice-President

Gordon A. Mackay, Q.C.
Corporate Secretary

A. Grace Hartleib
Assistant Corporate Secretary

Honorary Director

Norman C. Schneider
Past Chairman

Important dates for shareholders

Company fiscal year 1984:
October 30, 1983 to
October 27, 1984 (52 wks)

Dividend dates
Payable: April 14, 1984
July 14, 1984
October 15, 1984
January 15, 1985
Record: (4 weeks prior
to date of dividend
payable, closest Friday)
March 16, 1984
June 15, 1984
September 14, 1984
December 14, 1984

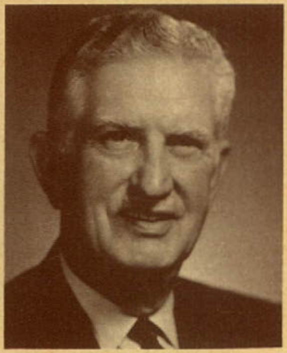
Fiscal quarter endings
1st Quarter:
February 18, 1984
containing 16 weeks

2nd Quarter:
May 12, 1984
containing 12 weeks

3rd Quarter:
August 4, 1984
containing 12 weeks

4th Quarter:
October 27, 1984
containing 12 weeks

In Memoriam



J. Douglas Small
President, J.M. Schneider Inc.
1963-1968

Doug Small passed away last year. He was 80 years old. For more than half his life he worked for J.M. Schneider Inc., joining the sales department in 1926 and retiring as a member of the board of directors in 1973.

Doug Small had an easy-going confidence. His professional energy was focused in the sales and marketing area, which he cultivated and developed during his years of service. Through his dedication, he earned the respect of both employees and customers alike. He became particularly concerned only when a condition threatened the company's high standard of customer service.

J. Douglas Small was one of hundreds of former employees who made an outstanding contribution. But his passing reminds us all of a spirit that represents much that is worthy in the J.M. Schneider tradition.

Corporate Directory

Corporate Head Office
The Heritage Group Inc.
175 Columbia Street West
P.O. Box 1620
Waterloo, Ontario N2J 4M3

Registrar and Transfer Agent
The Canada Trust Company
Toronto, Ontario

Auditors
Thorne Riddell

Shares Listed
The Toronto Stock Exchange

Retail Meat Products
J.M. Schneider Inc.
General Office:
321 Courtland Avenue East
P.O. Box 130
Kitchener, Ontario N2G 3X8

Plants
321 Courtland Avenue East
Kitchener, Ontario

140 Panet Road
Winnipeg, Manitoba

Northumberland Street
Ayr, Ontario

663 Marion Street
Winnipeg, Manitoba

4305 Dawson Street
North Burnaby
British Columbia

Sales Offices
Valhalla Executive Centre
302 The East Mall, Suite 301
Islington, Ontario

1673 Carling Avenue,
Suite 112
Ottawa, Ontario

795 Wonderland Road
Suite 215
Westmount Centre
London, Ontario

128 Larch Street, Suite 303
Sudbury, Ontario

6600 Côte Des Neiges Road
Suite 306
Montreal, Quebec

6080 Young Street, Suite 212
Halifax, Nova Scotia

140 Panet Road
Winnipeg, Manitoba

6450 Roberts Street, Suite 345
Sperling Plaza
Burnaby, British Columbia

4060 78th Avenue S.E.
Calgary, Alberta

Grocery Products
National Consolidated
Food Brands Inc.
General Office:
175 Columbia Street West
P.O. Box 1621
Waterloo, Ontario N2J 4C4

Plants
Winchester Cheese Inc.
(50% owned)
694 St. Lawrence Street South
P.O. Box 490
Winchester, Ontario

Mother Jackson's
Open Kitchens Limited
(48% owned)
132 Simcoe Street
Port Perry, Ontario

Dorset Foods Inc.
(20% owned)
2687 Slough Street
Mississauga, Ontario

Food Service Products
F.G. Bradley Inc.
Corporate and Sales Offices:
200 Ronson Drive
Rexdale, Ontario
M9W 5Z9

Plants
550 Kipling Avenue
Toronto, Ontario

1575 Inkster Boulevard
Winnipeg, Manitoba

358 Flora Avenue
Winnipeg, Manitoba

4120-98th Street
Edmonton, Alberta

Sales Offices
216-301 Weston Street
Winnipeg, Manitoba

205 Donaghy Avenue
North Vancouver
British Columbia

Distribution
Link Services Inc.
General Office:
175 Columbia Street West
P.O. Box 1623
Waterloo, Ontario N2J 4N1

Distribution Centres
321 Courtland Avenue East
Kitchener, Ontario

198 Dawson Road North
Winnipeg, Manitoba

4060-78th Avenue South East
Calgary, Alberta

205 Donaghy Avenue
North Vancouver
British Columbia