THE HERITAGE GROUP INC.

Annual Report
1981

Corporate Profile

The Heritage Group Inc. was established less than two years ago as an 'umbrella' corporation to oversee the activities of subsidiary companies and stimulate growth by making the most economical use of common resources.

During its corporate life, Heritage has accomplished its five initial objectives, which include:

- establishing J.M. Schneider Inc. as the processed meat, retail subsidiary;
- establishing National Consolidated Food Brands Inc. (Natco) as a non-meat, grocery subsidiary;
- forming a separate transportation company, Link Services Inc., to serve all Heritage companies;
- providing common data processing and systems services to all Heritage companies, and
- increasing the corporation's share of the food service and hospitality market through acquisition of the F.G. Bradley Company.

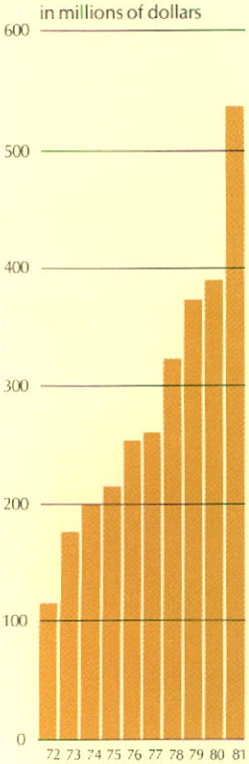
There are now four operating subsidiaries within the Group: J.M. Schneider Inc., National Consolidated Food Brands Inc. (Natco), F.G. Bradley Inc., and the recently formed transportation subsidiary, Link Services Inc.

Although the Heritage Group's primary function is that of a resource and support organization, it has developed a strong identity of its own. The investment community and shareholders now recognize Heritage as the corporate reporting body. Heritage provides a leadership function, particularly in the area of exploring opportunities to further diversify through the establishment of new companies or acquisitions.

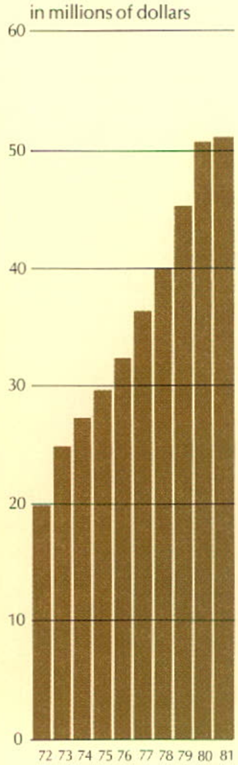
Financial Highlights

	(dollars except where noted) 1981	1980
Sales	**$539,364,000**	$391,637,000
Net earnings	**1,841,000**	6,691,000
Per share	**.70**	2.55
Percent of sales	**.34**	1.71
Percent of shareholders' opening equity	**3.63**	14.75
Dividends paid	**1,390,000**	1,258,000
Rate per share	**53¢**	48¢
Working capital	**18,816,000**	23,842,000
Working capital ratio	**1.42**	1.89
Shareholders' equity at end of year	**51,219,000**	50,766,000
Per share	**19.53**	19.36
Percent return on capital employed at beginning of year	**6.41**	20.19

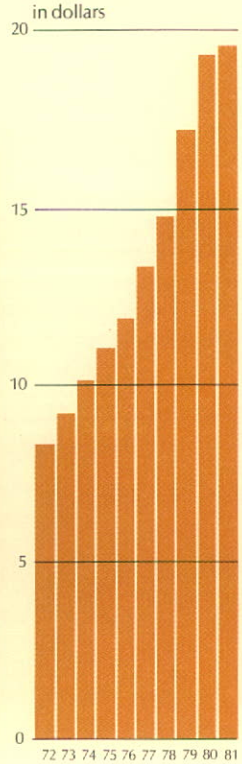
Sales
in millions of dollars



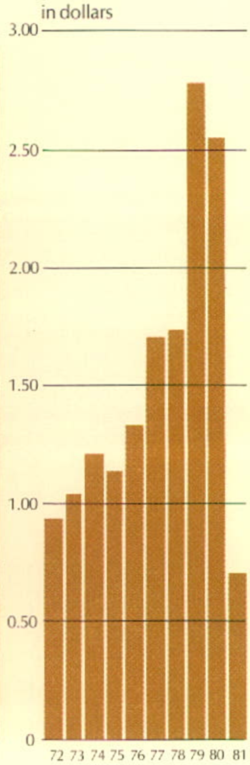
Shareholders' equity at end of year
in millions of dollars



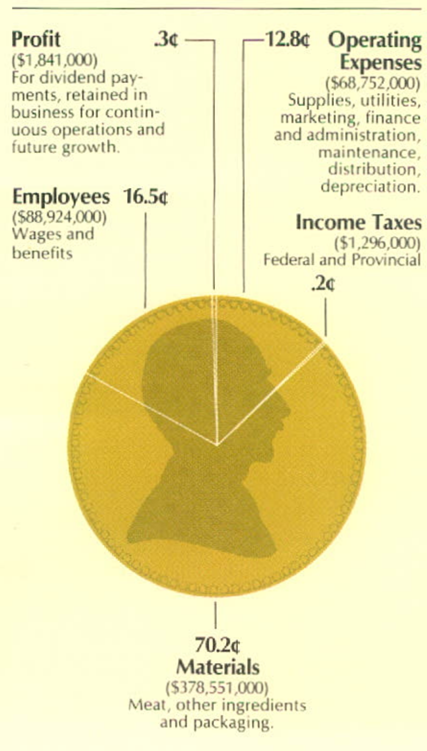
Equity per share at end of year
in dollars



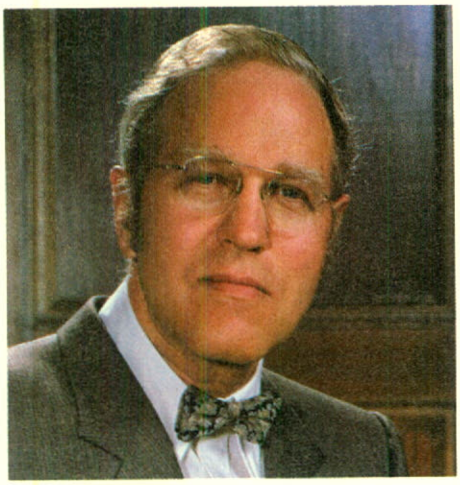
Net earnings per share
in dollars



1981 sales dollar analysis



Chairman's Letter to Shareholders



Frederick P. Schneider
Chairman of the Board and President
The Heritage Group Inc.

In 1981 member companies of The Heritage Group Inc. enjoyed record sales of $539,364,000 compared to sales in the previous year of $391,637,000. It is important to note that consolidated sales and earnings for 1981 include those from F.G. Bradley Inc., acquired February 23, 1981. Excluding Bradley sales during the period, The Heritage Group Inc. had sales of $454,153,000.

Unfortunately, record sales did not generate corresponding earnings. In fact in 1981, including Bradley figures, earnings declined from $6,691,000 or $2.55 per share in 1980 to $1,841,000 or $.70 per share in 1981.

There were three general reasons for the decline in earnings last year. J.M. Schneider Inc., the company which accounts for the lion's share of the Heritage Group's earnings, suffered lower earnings.

At the time of acquisition, the F.G. Bradley Company was showing a loss from operations. In the 8 months Heritage has had a hand in the Bradley operations, the company's fiscal situation has improved to the point where we believe Bradley's will show a small profit in 1982.

As is sometimes the case when establishing a new venture, optimistic expectations can overtake the realities of the marketplace. Our recently created grocery subsidiary, Natco, experienced higher than anticipated start-up costs in the areas of product development and marketing, and it may be a year before the company surpasses its current level of nominal earnings.

A more detailed account of our subsidiaries' operations is found in the reports on operations of the respective companies later in this report.

Before discussing major corporate developments in the past year, I would like to draw shareholders' attention to two more general problems which threaten the long term prosperity.

Inflation has disrupted capital markets and made it very difficult for companies to raise money. As a result, our ratio of current liabilities to assets was affected negatively because of high short term borrowing associated with the Bradley acquisition.

Closer to home, there is another prospect which threatens the long term profitability of our business. I refer to the questionable benefits of government regulation in the areas of supply and price management of raw materials.

In part because rural Canada still enjoys a disproportionate level of political influence, and in part because politicians tend to view agricultural problems as largely those of the producer, price management in the livestock sector has become an acknowledged means of regulating the industry. While price and supply management may satisfy the producers' problems, it creates problems of another kind for other partners in the production chain. In the two sectors of the livestock industry where price and supply management have been introduced, chickens and turkeys, the processing industry is in grave difficulty. Opportunities have evaporated for the individual producer. Judgmental errors in managing poultry supply are masked by price setting that punishes the processor with losses in periods of oversupply.

The most significant corporate development in 1981 was the purchase of F.G. Bradley Inc., which produces portioned, fresh meat products for the food service industry. This acquisition of an established company gives The Heritage Group Inc. greater access to this expanding sector of the market. In the foreseeable future, other Heritage companies will be able to sell their products into new markets made accessible by the Bradley acquisition. Correspondingly, Bradley will be in a position to take advantage of the Heritage expertise, particularly in the areas of product development, transportation and systems. This cross-selling in markets is an example of integration among the Heritage companies. The results should be more exposure for all our products and therefore greater sales and earnings.

Close behind the Bradley acquisition, in terms of corporate significance, was the opening of the Calgary Distribution Centre. The new Centre is a major link in Heritage's chain of distribution facilities throughout Western Canada.

Product from all the Heritage companies is stored in and shipped from the Distribution Centre. Its operation has substantially reduced customer delivery times throughout Alberta and to parts of British Columbia and Saskatchewan. Inevitably this improvement in service will result in higher sales.

During 1981, the distribution and transportation functions were amalgamated under a separate company within the group. The new company, called Link Services Inc., will provide distribution services for all the Heritage companies and in the process become an effective distributor of our frozen and refrigerated foods.

Link, together with other Heritage companies, will benefit from the corporation's computer establishment which began operating in 1981. The hardware of the system is now in place with access terminals throughout the organization. This system will provide the reporting function for all companies. It will also provide analytical and program maintenance for all systems as well as custom systems for individual companies. These economies of scale, which are part of the rationale behind the formation of the Heritage Group, can be clearly seen in the computer area.

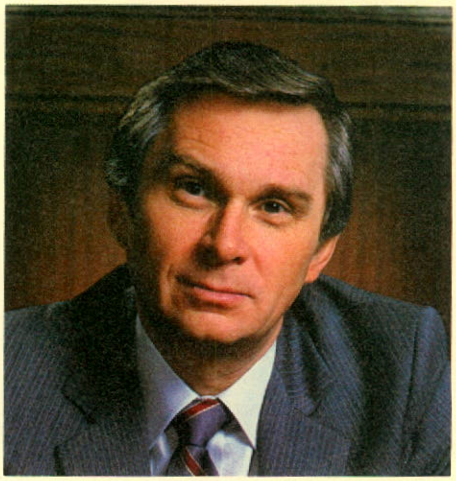
All companies in the Heritage Group have continued to design and produce new products to meet changing demands in consumer tastes. To mention just a few, J.M. Schneider Inc. has produced a new line of 'Lite' meat products designed for those who want a reduced calorie intake in their meat diet. Shoppers will have noticed that many Schneider meat products are packaged in the new 're-closeable' pack. To date the new packaging concept has met with a good response from consumers.

In the second interim report for the period ended May 16, 1981, shareholders were notified of a claim against a breach of the terms of the purchase of F.G. Bradley Inc. In essence we believe that there was a deterioration in the company's balance sheet between the time the offer was accepted and the time The Heritage Group Inc. actually took over. It is on this basis your company is seeking an adjustment under the terms of the agreement. As it stands, the matter is before the courts, but it is safe to say the action in no way constitutes a liability for Heritage shareholders.

Also with respect to the Bradley acquisition, a dispute has developed between the vendors and a former owner. Because the ownership of the company changed hands before this dispute could be settled, The Heritage Group Inc. has been implicated as a party to this incident. Our solicitors advise us that the pending claim is of no serious consequence to Heritage shareholders.

During 1981, The Heritage Group Inc. was pleased to welcome Mr. W.H. Kaufman as a member of the Heritage Board of Directors. Mr. Kaufman is a successful businessman and community leader in the Kitchener-Waterloo Ontario area. In addition to being president of Kaufman Footwear and Kaufman Furniture, Mr. Kaufman is a director of a number of other businesses and charitable organizations.

Two Directors will have left the Board by our Annual Meeting April 28, 1982. Mr. M.L. Lahn resigned late in calendar 1981 and Mr. M.R. Good is ineligible for re-election having reached our mandatory retirement age. Both these men added many years of valuable experience to the Board's deliberations. On behalf of the shareholders, I wish to thank both gentlemen for their contribution. Their counsel will be missed.



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

In addition to his responsibility as president of both F.G. Bradley Inc. and Natco, Mr. H.G. Beben has been appointed Executive Vice-President and Chief Operating Officer of the Heritage Group. In this new role, Mr. Beben will oversee the operations of the three subsidiary companies, J.M. Schneider Inc., F.G. Bradley Inc., and National Consolidated Food Brands Inc., and thereby streamline the general management functions at the senior executive level.

In the light of discouraging economic and consumer forecasts, sales and earnings predictions must be tempered with more than the usual amount of caution.

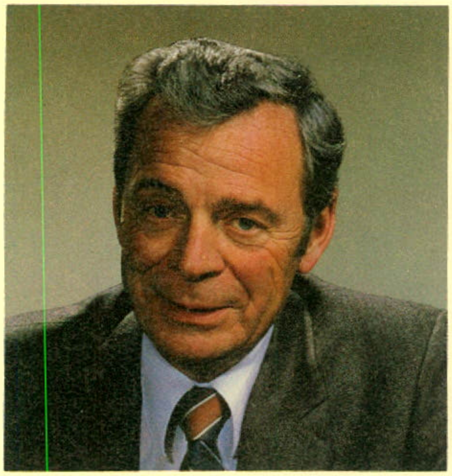
In closing, on behalf of the shareholders and the senior management of all the Heritage companies, I would like to extend my personal appreciation to all employees for their dedicated service during the past year.

F. P. Schneider

F. P. Schneider
Chairman of the Board and President

In 1981, J.M. Schneider Inc. launched its new line of 'Lite' meat products. The 'Lite' family reflects a growing trend among consumers for meats with a reduced caloric content.

J.M. Schneider Inc.
Report on Operations



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

In fiscal 1981, J.M. Schneider Inc. failed to achieve its volume and profit objectives. The cost of raw materials continued to escalate without corresponding increases in selling prices. From this perspective, 1981 was an unsatisfactory year.

Despite the decline in profits the company made significant gains in the areas of product development, packaging and improvements in systems and procedures to control costs.

In the past several years consumers have become more health-conscious in their eating habits. They also have expressed a preference for foods that are convenient and economical.

In response to these market trends, J.M. Schneider Inc. introduced its new line of 'Lite' products in 1981 after three years of development. The name 'Lite' indicates to consumers a product whose caloric content has been reduced by more than 50%. The line was launched with four products and plans are to extend the product variety in 1982.

During the year our new, re-closeable, sliced luncheon meat packaging became available nationally. Since being introduced four years ago in Western Canada, consumers have responded well to this innovation that prolongs product freshness. All the new 'Lite' luncheon meats use the re-closeable package.

The Employee Suggestion System that has operated for the past several years at J.M. Schneider Inc. and has yielded hundreds of thousands of dollars in operational improvements, was productive again in 1981. Through suggestions that totalled $320,000 in savings—twice the previous year's total—the company improved its standard costs and implemented significant cost reduction programs.

In keeping with the policy of promotion from within and general management development, the company added emphasis to its management retraining programs in 1981. Effective management will be our most valuable asset in the future as consumers demand more and more value for their shrinking meat dollars.

There were no significant capital expenditures in 1981 other than those associated with the Calgary Distribution Centre. The Company ended production at its Flora Avenue plant in Winnipeg because volume would no longer support the fixed costs of operations.

During 1981 the company's pork and beef suppliers were under severe cost pressure. It appears 1982 will bring more of the same. As a concerned and responsible corporate citizen, J.M. Schneider Inc. is working with producer groups, government agencies and other buyers with the objective of insuring a continuous supply of raw materials. Long term continuity of supply will be accomplished only when the supply/demand system is allowed to determine prices freely, freedom of movement generates supply in areas capable of minimizing costs, and when the foregoing are combined with an actuarially sound insurance program funded by producers.

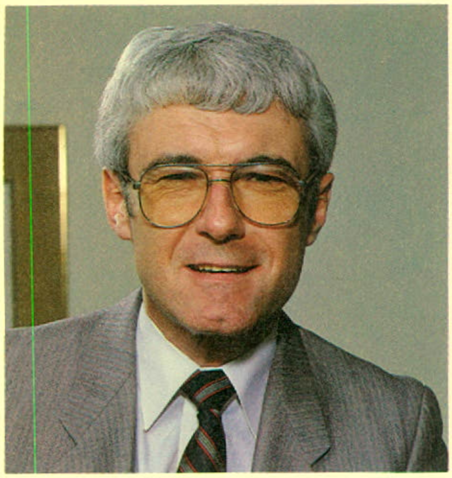
Over the years J.M. Schneider's success has been based on the quality of its people and products. The company will use both these resources to produce improved earnings in 1982.

At top, 'Lite' luncheon meat comes off the production line. The three new 'Lite' products feature new, re-closeable packages.

Below, 'Lite' wieners are being packed for shipment at the main J.M. Schneider production plant in Kitchener, Ontario.

The restaurant business comprises a major segment of the food service industry. Bradley's fresh, portioned meat products are sold in many of the finest restaurants in the country.

F.G. Bradley Inc.
Report on Operations



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

F.G. Bradley Inc., has been a member of the Heritage Group since February 1981 when it became the corporation's first major acquisition. The company was incorporated in the early sixties to supply restaurants and institutional food markets with quality, customer-portioned, fresh meat products.

The Heritage Group Inc. and F.G. Bradley get a number of advantages through the acquisition. Both Bradley and J.M. Schneider Inc. are in the meat business and to some extent share the same markets. Similarly they have both earned reputations for purveying high quality meat products. Through Bradley, the Heritage Group gains a distinctive presence in and a larger share of the hospitality and food service market which is the fastest growing sector of the food industry.

F.G. Bradley gains a wealth of new products from J.M. Schneider and Natco. The relationship between the companies will enable Bradley to expand into new markets, often with products developed in co-operation with sister companies. Correspondingly, Schneider and Natco products will find their way into food service markets. The latter is another example of how Heritage companies fit together to produce overall market growth.

During fiscal 1981, Bradley's earnings were hampered by slower sales throughout the industry, although in other ways, they reflected certain deficiencies in the company's operations brought about by rapid growth.

Shareholders will be encouraged to learn that your company has taken specific steps to overcome some of Bradley's operating problems. The company has moved its executive offices out of the main Toronto plant to provide more space for administration. It is in the process of adopting more efficient accounting practices that have already proven successful for Heritage companies. Bradley is now using a more scientific approach to marketing and product development to see that sales efforts are directed at the most profitable markets. Through its new association with other Heritage companies, the company is quickly acquiring a national perspective on its markets and operations rather than that of a regional producer. All these changes are designed to make the company's administrative and marketing practices more efficient. There is no intention of tampering with the basic marketing and operating concepts that have made the F.G. Bradley Company unique.

Bradley is the largest supplier to the fast-food chain sector of the market. A significant portion of the company's Toronto plant produces ground meats. The Edmonton plant produces all types and sizes of ground meats for Alberta and British Columbia. Volume for these products from the Edmonton facility should increase significantly as the company expands into the Vancouver and Victoria areas.

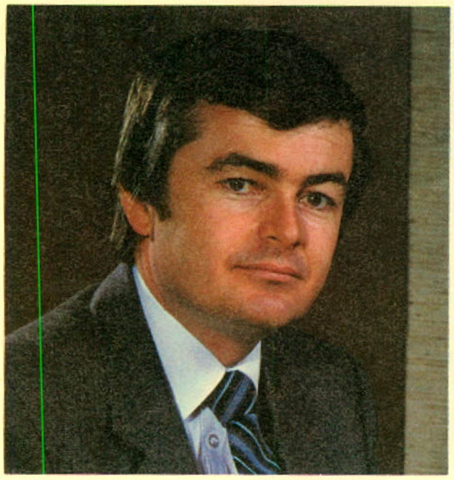
Part of the strength of Bradley's marketing is its ability to provide customer service. At top, meat is being portioned to exact customer specifications. Below, when the urge hits, nothing beats a juicy hamburger. Bradley supplies beef burgers to many of the major, fast-food chains.

The company expects overall real growth in the order of 4.5% in 1982. The growth will come from expanding market share by selling more products into existing markets and introducing new products into new and existing markets.

Accordingly, Bradley has projected an increase in sales of some $24 million over 1981. Increased sales coupled with operating efficiencies in the new year, should begin to yield a profit in 1982.

From left-to-right are Grandma Martin pecan tarts, Sweet'n Sassy coconut and chocolate frozen desserts, Grandma Martin apple crepes, chocolate chip and chocolate almond cookies.

National Consolidated Food Brands Inc. Report on Operations



Jack Foster
General Manager
Natco

During its first full year of operation, National Consolidated Food Brands Inc. (Natco) had sales of $39,019,000. (Since the company began operations in April 1980, there are no comparative, annual figures.) The company had earnings of $187,000 or $.07 per Heritage share.

Natco is a wholly-owned subsidiary of The Heritage Group Inc., established to give the corporation access to new markets in the area of frozen and refrigerated grocery products. The operations of the company are facilitated by applying corporate strengths in product development, systems, finance and distribution.

In many ways 1981 was a learning year for Natco. For the first time a company within the organization directed all its sales efforts at grocery and dairy buyers of the major retail chains. Previously, Heritage efforts were aimed primarily at meat buyers. It was also the first time sales forces from different companies within the Group worked together in a common marketing effort. While Natco sales personnel concentrated on the chain stores, the J.M. Schneider sales force sold Natco products to independent grocers.

During the year Natco continued to get its products listed with the major retail chains. Since competition for such listings is intense in all product categories, it is a mark of success that Natco listings grew from 450 to 794.

The sales force from J.M. Schneider Inc. is responsible for selling Natco products to independent retailers, most of whom are existing Schneider customers. Natco gives the Schneider sales force a wider range of quality products. Raising productivity of the sales forces in this way was one of the anticipated advantages of sharing corporate experience and assets.

Natco was incorporated originally to create and develop new products. With this in mind, the company assumed responsibility for marketing J.M. Schneider cheeses that hitherto had not had the marketing attention they deserved. To enhance the appeal of the cheese lines, most now have new packages, still with the Schneider label, and in many cases are being sold in new sizes to facilitate store displays and conform with changing consumption patterns.

Grandma Martin products are in the freezer sections of most of the major chain stores. New varieties of crepes and frozen cookies have recently been added to the existing lines of pie shells, tarts and quiches.

To underscore the importance of new product development, Natco has appointed bakery and cheese specialists with responsibility for product development and improvement.

Among Natco products, Sweet'n Sassy frozen desserts have caught the imagination of both the trade and consumers. In fact from the time the line was introduced it has been a struggle to meet demand.

Despite the strong market performance of most Natco products, it was unrealistic to expect the company to generate significant earnings during its first year of operations. Start-up costs particularly in the area of advertising and promotion, were high. With a strong marketing investment in the Natco brands, the way is now paved for a more economical sales effort as new products are introduced.

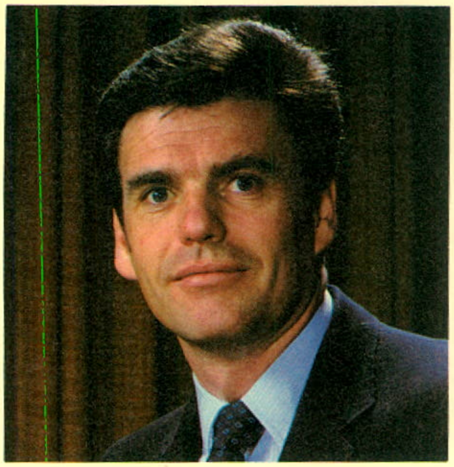
The foundation of Grandma Martin products is pastry. At top, a batch of freshly baked pies comes out of the oven.
Below, Grandma Martin frozen cookies come in four flavours; chocolate chip, chocolate almond, peanut butter and oatmeal.

The last quarter of 1981 was the strongest sales period for the young company. Each product category showed growth and the rate of new listings increased at a faster pace than in any previous period. The forecast for 1982 is for an overall growth in sales of 25% and a small contribution to corporate earnings.

LINK SERVICES

Link Services Inc. will continue to be known by the bright orange and blue trucks with the Dutch girl on the side that travel the highways from coast-to-coast.

Link Services Inc.
Report on Operations



Douglas W. Dodds
President
Link Services Inc.

Link Services Inc. is the name of a new, subsidiary company established to provide complete transportation and distribution services for Heritage companies.

Over the years, the J.M. Schneider Company prospered primarily because it produced quality products that maintained their freshness from the moment they were made to the time they were served. The key to product freshness was the development of an efficient national distribution system that enabled J.M. Schneider Inc. to expand its markets by providing prompt customer deliveries. National distribution in turn helped the company establish a national pricing policy. Indeed, Schneider's ability to deliver frozen and refrigerated products was one of the strengths on which the Heritage Group was founded.

Under Link Services, distribution becomes a corporate function to be used and paid for by other Heritage companies. Link's operations go beyond transportation to encompass all movements once a finished product leaves the production line on its way to the consumer, and in some cases all movements from the source of supply to the beginning of the production line. For example, Link is responsible for order filling, picking, assembly and loading as well as transportation.

Link Services accomplishes three, major corporate objectives.

1) Distribution related functions are more efficient and standards easier to plan. Both inventory management and deliveries are more cost-effective.
2) Administrative problems related to distribution are removed, leaving the companies free to concentrate on production and marketing.
3) Shipping costs are controlled, thereby saving substantial amounts in fuel costs.

Most product shipments take place between distribution centres in Kitchener, Winnipeg, Vancouver and the recently opened warehouse facility in Calgary. These centres are an integral part of the distribution network and therefore are an important aspect of Link's operations.

The Calgary Distribution Centre began operations officially on June 3, 1981. It is the first time in the corporation's history that products from all the family companies have been housed under one roof.

The opening of the Centre has led to significant improvements in the corporation's distribution and marketing practices. Coupled with the Bradley production facilities in Edmonton, the corporation now has a permanent presence in the major markets of Alberta. As a result, service to customers supplied by the Calgary Centre will improve in terms of the availability of more product and shorter delivery times. Eventually, these improvements will produce increased sales.

In sharp contrast to the trucks of the modern Link fleet, in the early 1900's, J.M. Schneider transported his products on vehicles such as this.

Link Services Inc. operates one of the largest private trucking fleets in Canada, with more than 180 vehicles operating to and from distribution centres coast-to-coast. As a captive company within the Heritage Group, Link is in the best position to supply vital distribution services to all Heritage companies.

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, Montreal, Winnipeg
& Vancouver

Auditors
Thorne Riddell

Shares Listed
The Toronto Stock Exchange

Meat Subsidiary
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

1500 Kootenay Street
Vancouver, 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 Cote Des Neiges Road
Suite 306
Montreal, Quebec

6080 Young Street, Suite 212
Halifax, Nova Scotia

Asta Industrial Park
301 Weston Street, Suite 216
Winnipeg, Manitoba

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

Centre 70, 7015 MacLeod Trail
Suite 700
Calgary, Alberta

Grocery Subsidiary
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)*
St. Lawrence Street South
P.O. Box 347
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 Subsidiary
F. G. Bradley Inc.
Corporate and Sales Offices:
200 Ronson Drive
Rexdale, Ontario
M9W 5Z9

Offices & Plants:
550 Kipling Avenue
Toronto, Ontario

4120-98th Street
Edmonton, Alberta

Office:
389 Sutherland Avenue
Winnipeg, Manitoba

Plant:
1575 Inkster Boulevard
Winnipeg, Manitoba

Distribution Subsidiary
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

140 Panet Road
Winnipeg, Manitoba

4060-78th Avenue South East
Calgary, Alberta

4305 Dawson Street
North Burnaby
British Columbia

1725 MacDonald Avenue
Burnaby, British Columbia

THE HERITAGE GROUP INC.

Annual Financial Review
1981

Consolidated balance sheet as at October 31, 1981

Assets	1981	1980
	(in thousands)	
Current assets		
Cash and term deposits		$ 3,111
Accounts receivable	**$ 31,245**	22,561
Inventories	**31,635**	24,156
Other	**958**	693
Total current assets	**63,838**	50,521
Investments in associated companies	**1,763**	1,622
Fixed assets	**56,662**	41,523
Intangible assets	**4,429**	1,871
Total assets	**$126,692**	$95,537

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) 1981	1980
Current liabilities		
Outstanding cheques	**$ 6,695**	$ 4,138
Bank advances	**9,593**	
Accounts payable and accrued liabilities	**25,697**	21,603
Income taxes payable	**1,245**	152
Principal due within one year on debentures and loans	**1,100**	100
Current obligations under capital leases	**692**	686
Total current liabilities	**45,022**	26,679
Long term debt		
Debentures and loans	**23,745**	10,500
Obligations under capital leases	**925**	1,892
Total long term debt	**24,670**	12,392
Deferred income taxes	**5,781**	5,700
Shareholders' equity		
Capital stock	**8,185**	8,183
Retained earnings	**43,034**	42,583
Total shareholders' equity	**51,219**	50,766
Total liabilities and shareholders' equity	**$126,692**	$95,537

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 31, 1981 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 31, 1981 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
December 8, 1981

Thorne Riddell
Chartered Accountants

Consolidated statement of earnings year ended October 31, 1981

	1981 (in thousands)	1980
Sales	**$539,364**	$391,637
Expenses		
Raw materials	**359,468**	246,217
Packaging materials	**19,083**	15,936
Manufacturing	**84,313**	69,830
Marketing and distribution	**47,282**	32,162
Administrative and general	**15,764**	9,806
Interest on long term debt	**2,642**	1,426
Other interest	**2,546**	
Depreciation and amortization	**5,129**	4,725
	536,227	380,102
Earnings before income taxes	**3,137**	11,535
Income taxes	**1,296**	4,844
Net earnings	**$ 1,841**	$ 6,691
Earnings per share	**$.70**	$2.55

Consolidated statement of retained earnings year ended October 31, 1981

	1981 (in thousands)	1980
Balance at beginning of year	**$42,583**	$37,182
Net earnings	**1,841**	6,691
	44,424	43,873
Acquisition of Class A shares		32
Dividends:		
Class A shares	**1,192**	1,079
Common shares	**198**	179
	1,390	1,290
Balance at end of year	**$43,034**	$42,583

The accompanying notes are an integral part of these statements

Consolidated statement of changes in financial position year ended October 31, 1981

	1981	1980
	(in thousands)	
Working capital derived from		
Operations		
Net earnings	**$ 1,841**	$ 6,691
Items not involving working capital		
Depreciation and amortization	**5,129**	4,725
Deferred income taxes (reduction)	**(200)**	146
Share of earnings of associated companies	**(141)**	(11)
	6,629	11,551
Issue of debenture on acquisition of businesses	**9,500**	
Sale of fixed assets	**572**	68
Increase in capital lease obligation	**38**	599
Issue of Class A shares	**2**	14
	16,741	12,232
Working capital applied to		
Acquisition of shares of businesses less their working capital of $5,048,000	**9,800**	
Additions to fixed assets	**8,486**	6,406
Decrease in non-current portion of long term debt	**2,053**	775
Dividends paid	**1,390**	1,258
Additions to machinery and equipment under capital lease	**38**	599
Investment in associated companies		1,611
Acquisition of Class A shares		45
	21,767	10,694
Increase (decrease) in working capital	**(5,026)**	1,538
Working capital at beginning of year	**23,842**	22,304
Working capital at end of year	**$18,816**	$23,842

The accompanying notes are an integral part of this statement

Notes to consolidated financial statements year ended October 31, 1981

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. and National Consolidated Food Brands Inc. and the accounts of F.G. Bradley Co. Limited from the closing date of its acquisition on February 23, 1981.

(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 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	Approximate 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. Acquisitions

On February 23, 1981 the company acquired 100% of the outstanding shares of F. G. Bradley Co. Limited, a food service company. The transaction has been accounted for on the purchase method with results of operations included in these financial statements from date of acquisition.

On November 1, 1980 the company acquired 50% of the outstanding shares of Winchester Cheese Inc., a cheese cutting and packaging plant. The transaction has been accounted for on the purchase method with its proportionate share of operations included in these financial statements from date of acquisition.

Details of the acquisitions are as follows:

Net assets acquired at assigned values (book value, $5,689,000)

Current assets	$33,234,000	
Fixed assets	12,215,000	$45,449,000
Current liabilities	28,186,000	
Long term debt	4,793,000	
Deferred income taxes	281,000	33,260,000
		12,189,000
Excess of cost of shares over assigned values of net assets		2,659,000
		$14,848,000
Consideration given at fair value		
Cash		$ 3,348,000
Issue of debenture		9,500,000
Inventories		2,000,000
		$14,848,000

The purchase of the shares of F.G. Bradley Co. Limited closed February 23, 1981. The Heritage Group Inc. carried out investigations subsequent to the closing and is alleging that certain covenants and representations made by the vendor have not been met. The company is pursuing its right of redress under the terms of the purchase agreement. The full purchase price is reflected in these financial statements and the recovery will decrease the amount of the excess of the cost of shares over assigned values of net assets.

Frederick G. Bradley and his personal holding company have instituted an action against Heritage and others alleging that Frederick G. Bradley is the beneficial owner of all of the issued and outstanding shares of F.G. Bradley Co. Limited. It is the opinion of Counsel for the company that the action has no substance. In the event that the action is successful or partially successful, Heritage is to be fully indemnified for any damages suffered and has the option to put the shares of Bradley back to the vendor of the shares at their then fair market value.

3. Fixed assets

	1981			1980
	Cost	Accumulated depreciation	Net	Net
Land and improved areas	$ 4,524,000	$ 217,000	$ 4,307,000	$ 2,641,000
Buildings	40,149,000	11,767,000	28,382,000	19,340,000
Machinery and equipment	44,695,000	22,883,000	21,812,000	14,732,000
Assets under construction	1,055,000		1,055,000	2,723,000
	90,423,000	34,867,000	55,556,000	39,436,000
Machinery and equipment under capital leases	3,283,000	2,177,000	1,106,000	2,087,000
	$93,706,000	$37,044,000	$56,662,000	$41,523,000

The Board of Directors has approved future capital expenditures of $4,500,000 of which approximately $2,150,000 relates to projects now under construction.

4. Debentures and loans

	1981	1980
Debenture, with interest and principal payable monthly and payments calculated on a 20 year amortization basis, 12½% interest to February 23, 1982 and thereafter 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	$ 9,419,000	
10¾% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $450,000 commencing in 1982 and maturing February 1, 1997	9,000,000	$ 9,000,000
Loans payable $30,495 monthly plus interest on $1,623,000 at 10½%, on $2,246,000 at bank prime rate plus 1½% and on $596,000 at 10% until October 15, 1983 and thereafter at bank prime rate plus 1½%, maturing February 15, 1984	4,465,000	
8½% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $100,000 and maturing June 1, 1991	1,500,000	1,600,000
8% Loan payable $5,000 monthly including interest and maturing September 1, 1988	300,000	
9½% Loan payable $3,000 monthly including interest and maturing December 1, 1989	161,000	
	24,845,000	10,600,000
Less principal included in current liabilities	1,100,000	100,000
	$23,745,000	$10,500,000

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

1982	$1,100,000
1983	1,200,000
1984	4,600,000
1985	900,000
1986	9,600,000

The $9,419,000 debenture is secured by a pledge of all issued and outstanding shares of F.G. Bradley Co. Limited and a second floating charge over all property and assets of The Heritage Group Inc. Fixed and specific charges on certain land, buildings and machinery and equipment have been given as security for certain debentures and loans. A floating charge on all assets of the company has been given as security for the sinking fund debentures.

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.

5. 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 31, 1981:

1982	$ 788,000
1983	495,000
1984	346,000
1985	205,000
1986	93,000
Later years	51,000
Total minimum lease payments	1,978,000
Less amount representing interest	361,000
Present value of net minimum lease payments	$1,617,000

This amount is reflected in the balance sheet as current and non-current obligations under capital leases of $692,000 and $925,000 respectively.

Operating leases

The following is a schedule of future minimum rental payments required under operating leases as of October 31, 1981:

1982	$1,514,000
1983	864,000
1984	336,000
1985	225,000
1986	224,000
Later years	690,000
	$3,853,000

6. Capital stock

Authorized

5,401,000 Class A shares without par value
373,627 Common shares

	1981	1980
Issued		
2,248,528 Class A shares, (1980, 2,248,328 shares)	**$7,951,000**	$7,949,000
373,627 Common shares	**234,000**	234,000
	$8,185,000	$8,183,000

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.

In accordance with a bylaw confirmed at a general meeting of shareholders held on April 30, 1980, the Stock Option Plan for Executives and Key Employees and the Employees' Payroll Deduction Capital Stock Purchase Plan were rescinded and no further options may be granted under these plans. During the year, an option previously granted was exercised and 200 Class A shares were issued at $8.75 per share. At October 31, 1981, options, granted in 1977 and expiring April 6, 1982, were outstanding for the purchase, at $8.75 per share, of 29,000 Class A shares which shares have been reserved.

7. Commitments

(a) Pension plans
It is estimated that the present value of the unfunded past service obligation under pension plans amounts to $5,839,000. Annual payments of $606,000 are required to liquidate this obligation by December 31, 1995. During the year, $601,000 ($646,000 in 1980) was paid against the past service obligation.

(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.

8. Other information

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

Important dates for shareholders

Company fiscal year 1982: November 1, 1981 to October 30, 1982 (52 weeks).

Dividend dates
Payable: April 15, 1982,
July 15, 1982,
October 15, 1982,
January 15, 1983.

Record: (4 weeks prior to date of dividend payable, closest Friday)
March 19, 1982,
June 18, 1982,
September 17, 1982,
December 17, 1982.

Fiscal quarter endings
1st Quarter:
February 20, 1982,
containing 16 weeks

2nd Quarter:
May 15, 1982,
containing 12 weeks

3rd Quarter:
August 7, 1982,
containing 12 weeks

4th Quarter:
October 30, 1982,
containing 12 weeks

Ten year statistical review

(thousands of dollars except where noted)	1981	1980	1979
Sales	**539,364**	391,637	374,374
Earnings			
Earnings before income taxes and extraordinary items	**3,137**	11,535	12,164
Income taxes	**1,296**	4,844	4,620
Earnings before extraordinary items	**1,841**	6,691	7,544
Earnings before extraordinary items as a percent of sales	**.34**	1.71	2.02
Net earnings	**1,841**	6,691	7,544
Dividends paid	**1,390**	1,258	1,088
Capital expenditures	**8,486**	6,406	4,104
Depreciation and amortization	**5,129**	4,725	4,476
Salaries, wages and employee benefits	**88,924**	71,004	61,538
Average number of employees	**3,880**	3,327	3,131
Working capital	**18,816**	23,842	22,304
Working capital ratio	**1.42**	1.89	2.11
Total assets	**126,692**	95,537	83,627
Shareholders' equity at end of year	**51,219**	50,766	45,364
Percent return on equity at beginning of year	**3.63**	14.75	18.80
*Percent return on capital employed at beginning of year	**6.41**	20.19	23.49
Number of shares outstanding, in thousands	**2,622**	2,622	2,624
Number of shareholders	**1,588**	1,716	1,867
Per share statistics, in dollars			
Net earnings	**.70**	2.55	2.78
Dividends paid	**.53**	.48	.40
Equity at end of year	**19.53**	19.36	17.29

*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 of proceeds of long term debt.

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

1978	1977	1976	1975	1974	1973	1972
324,675	262,834	254,970	217,018	202,270	177,191	116,465
7,766	7,544	7,865	5,610	5,871	4,629	3,715
3,079	2,944	3,288	2,545	2,585	1,921	1,708
4,687	4,600	4,577	3,065	3,286	2,708	2,007
1.44	1.75	1.80	1.41	1.62	1.53	1.72
4,687	4,600	3,579	3,065	3,286	2,708	2,007
1,011	824	756	702	810	727	601
9,389	11,030	5,377	4,425	2,945	3,733	2,950
3,674	2,652	2,567	1,955	1,671	1,602	1,382
56,501	47,747	42,084	34,048	30,226	24,718	21,537
3,009	2,874	2,676	2,640	2,567	2,392	2,244
17,286	18,984	12,774	12,000	11,276	9,713	8,504
1.92	2.44	1.95	1.91	1.82	1.68	2.04
76,275	65,057	50,917	48,060	45,741	43,212	31,781
40,118	36,361	32,287	29,810	27,447	24,970	20,032
12.89	14.25	12.01	11.17	13.16	13.52	13.89
16.90	20.54	23.04	18.03	20.88	20.36	21.82
2,716	2,699	2,695	2,701	2,701	2,701	2,395
1,977	2,115	2,203	2,385	2,379	2,560	2,217
1.73	1.70	1.33	1.13	1.21	1.04	.93
.37	.31	.28	.26	.30	.28	.28
14.77	13.47	11.98	11.04	10.16	9.25	8.36

Directors and Officers

Directors

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

†***Geno F. Francolini**
Tillsonburg, Ontario
Vice-Chairman
& Chief Executive Officer
Livingston Industries Limited

†***Milton R. Good**
Breslau, Ontario

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
& President

†**Herbert J. Schneider**
Kitchener, Ontario
Vice-President, Personnel
& Public Relations
J.M. Schneider Inc.

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

*Member of Audit Committee
†Member of Executive Committee

Officers

Frederick P. Schneider
Chairman of the Board
& President

Kenneth G. Murray
Vice-Chairman

Henry G. Beben
Executive Vice-President
& Chief Operating Officer

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

Gordon A. Mackay, Q.C.
Corporate Secretary

A. Grace Hartleib
Assistant Corporate Secretary

Honorary Director

Norman C. Schneider
Past Chairman