THE HERITAGE GROUP INC.

Annual Report
1982

The Heritage Group Corporate Profile

The Heritage Group, with assets of $120 million and annual sales in excess of $580 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. and Link Services Inc., are engaged in the production, marketing and distribution of over 2,500 fresh and processed meat and fresh and frozen dairy products for the retail and food service industries.

The Group is managed and operated by more than 3,800 employees, many of whom are shareholders. Throughout the 1980's the corporation will build on its position and reputation by aggressively developing new products as new markets and opportunities arise within the food industry.

Corporate Principles

The Heritage Group of Companies will:

1

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

2

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

3

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

4

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

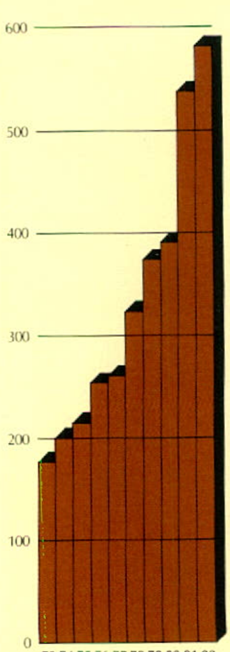
5

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

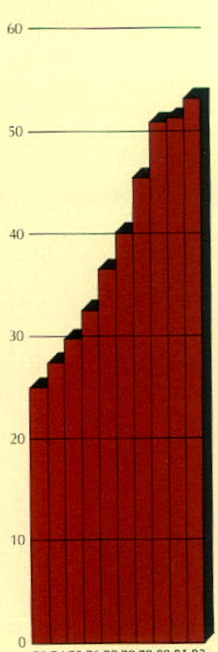
Financial Highlights

	(dollars except where noted) 1982	1981
Sales	**$581,071,000**	$539,364,000
Net earnings	**2,765,000**	1,841,000
Per share	**1.05**	.70
Percent of sales	**.48**	.34
Percent of shareholders' opening equity	**5.40**	3.63
Dividends paid	**1,162,000**	1,390,000
Rate per share	**.44**	.53
Working capital	**22,333,000**	18,816,000
Working capital ratio	**1.60**	1.42
Shareholders' equity at end of year	**53,076,000**	51,219,000
Per share	**20.02**	19.53
Percent return on capital employed at beginning of year	**9.69**	6.41

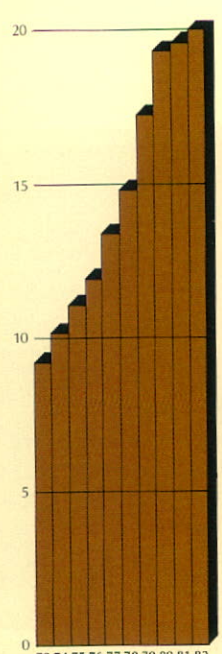
Sales
in millions of dollars



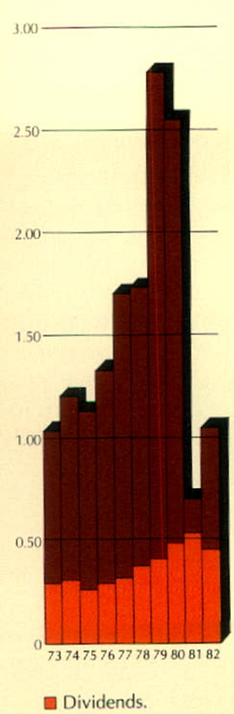
Shareholders' equity at end of year
in millions of dollars



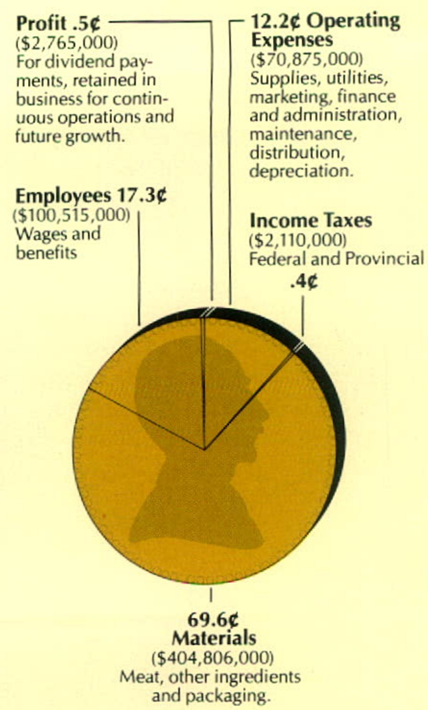
Equity per share at end of year
in dollars



Net earnings per share
in dollars



1982 sales dollar analysis



Report to Shareholders

In 1982, the Heritage Group of companies reported consolidated sales of $581,071,000, as compared to $539,364,000 in 1981. It was the first full year in which sales included those of the subsidiary company, F.G. Bradley Inc. Consolidated earnings increased during the same period from $1,841,000 or $.70 per share in 1981 to $2,765,000 or $1.05 per share in 1982.

All Heritage companies increased dollar sales in 1982, although in some cases actual tonnages produced were lower. Financial results were higher in all companies although these were not in every case the result of higher sales. This was particularly true with J.M. Schneider Inc., by far the largest contributor to the Heritage Group's results, where improved earnings were the result of reductions in the areas of both fixed and variable costs.

As with all other Canadian corporations and individuals, The Heritage Group Inc. operated under circumstances that have been identified as the worst since the Great Depression. Some observers might conclude that because people have to eat, companies in the food sector will continue to prosper regardless of economic conditions. While the effects of the current recession on the Heritage Group have not yet been felt as acutely as in some other sectors of the economy, it should not be assumed that the food industry is immune from inflation, recession, unemployment and poor earnings.

One of the first manifestations of hard economic times is that people's eating habits change. They look for and buy alternative foodstuffs or they simply consume less. Whereas two years ago consumers satisfied their basic protein needs by consuming larger amounts of fresh and processed meats, today they are eating more rice, grain foods and pastas.

Since J.M. Schneider Inc. has a large number of high-quality, labour-intensive processed meat items among its products, there is a pincer effect on earnings as a result of lower or steady prices at the supermarket and escalating costs at the production level. Recognizing this, your company took the initiative by developing new menu ideas, such as the new line of Hearty Meals in the J.M. Tradition, which promote appetizing and imaginative ways to use less expensive meat products in everyday menus. Details of the marketing activities of each subsidiary can be found in the reports on operations of the respective companies.

Shortly after the Federal government announced its 6% – 5% wage restraint guidelines, the Heritage Group proclaimed its support and implemented the program among all management employees. We welcomed the measure as a step toward restoring some confidence and leadership in a badly deteriorating economic climate. The labour agreement reached between the corporation and its major bargaining unit in August 1982 was double the 6% – 5% guidelines with little compensation in terms of increased productivity. Over the life of the contract it is impossible to estimate how much cost will have to be added to each product at a time when we are attempting to produce products within the budgets of hard pressed consumers.

Your company has had an outstanding record for creating jobs in the past decade. But in 1982 there was a net loss of jobs in an otherwise labour-intensive industry. We believe this is a particularly alarming trend. It is the result, as we have pointed out, of prices failing to keep pace with rising costs. In this regard, employees of our companies have a direct stake in their prosperity and the preservation of jobs since labour costs, outside of raw materials, are by far the largest portion of the cost/price equation. The imbalance is exacerbated when productivity gains do not keep pace with increased labour costs. This is a reality with which the entire industry will soon have to come to grips.

We have outlined how domestic economic conditions have a negative effect on our industry. There are other instances where political or bureaucratic interference threatens the strength of the fragile chain that travels from the farmer to the family dinner table. The governments' policies of price management prevalent in at least four sectors of primary food production, and threatening to spill over into others, are ones which reward producers with

fixed prices and production quotas at the expense of processors and consumers who must accept a final price set by free market forces.

Above all, as Canadians, we have natural resources of land, fertilizer, climate and energy that are the world's envy. It is a sorry waste to squander these advantages through marketing systems that are based on social policy rather than sound business principles.

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

Right: Henry G. Beben, Executive Vice-President & Chief Operating Officer of The Heritage Group Inc.

There were three significant corporate developments in 1982. First was the degree of unification that took place within the Group. The catalyst was Link Services Inc., the transportation company that was established in 1981 to provide distribution and systems services to sister companies. As an example of how Link's services are pulling corporate companies together, last year was the first time product from the Bradley plant in Edmonton was trucked south to the Distribution Centre in Calgary and subsequently delivered more rapidly to customers throughout Alberta and British Columbia along with products from other Heritage companies. The range and penetration of Link's distribution systems mean Bradley products can now be sold in a much larger market area.

Secondly, over the years the corporation has had relatively small amounts of international business. Last year there were indications that opportunities do exist in offshore markets. The prospects have been encouraging enough to form a new division, Portage Trade Development, with the objective of exploring and developing foreign markets for Heritage products.

The new division handles all sales of Heritage products outside Canada. In the initial stages, the major market thrust is in the heavily populated northeastern United States. Approximately 75 items from the entire Heritage range of products have been selected, with the help of major brokers, for marketing on the basis of their uniqueness.

Finally, a major capital investment of $6 million was made to build a cheese processing addition to Winchester Cheese Inc., a company of which Natco is a 50% shareholder.

Cheese was a highlight of Natco's performance in 1982. This trend is expected to continue as a result of expanded capacity and new product capabilities.

Shareholders will recall notice in last year's Annual Report of two legal actions arising out of the purchase of F.G. Bradley Inc. The Heritage Group Inc. is continuing to pursue its action for an alleged breach of the terms of the purchase agreement. The other action, initiated by Mr. F.G. Bradley, has been settled at no cost to the corporation.

The general economic prospects for 1983 are not encouraging. Your company is making a concerted effort to stay ahead of market conditions by developing new products and efficiencies. We have reason to believe we will make progress in both these areas in the coming year.

As shareholders have been told previously, we are not satisfied with the return on equity. As the graph on page one of the Report shows, there has been a dramatic decline in return, most noticeably since 1980. Over the last two years your company has generated an average return on equity of only 4.52%. Simple arithmetic shows that investors could have done much better with guaranteed, high interest yielding securities carrying little or no risk.

It is of paramount importance that the return on equity be established in the 15% range as soon as possible so that shareholders will receive a fair return and generate sufficient retained earnings to provide more growth and jobs. All of our shareholders and employees have a major stake in achieving this target.

Fred P. Schneider

Frederick P. Schneider

Henry G. Beben

Henry G. Beben

J.M. Schneider Inc. Report on Operations

During 1982, J.M. Schneider Inc. had mixed fortunes. The company had lower unit and dollar sales while earnings were slightly higher than in 1981. The improvement in earnings was the result of implementing more effective cost controls and installing more streamlined production systems.

Economic conditions made cost control a greater than usual management challenge. These efforts produced positive effects. However, static sales are an alarming trend that must be met with more aggressive marketing.

In 1982, total volume was 1% lower than in 1981.

There is evidence that the overall market for processed meat is shrinking as lifestyles change in favour of foods with lower fat content and cholesterol levels. The economy, along with increased costs, is causing consumers to look for alternative foods for their protein sources.

Sales of fresh meat were comparable with 1982. Particularly encouraging were substantial export sales of pork to Japan. Shortages in that market occurred as the result of a foot and mouth outbreak in Denmark. The company is optimistic about retaining a portion of this business in 1983 and using it as a foothold to develop additional offshore markets.

During 1982, action was taken to improve sales activity in the Province of Quebec. Specific promotional programs were developed to heighten consumer awareness of our products. The combined effect of these actions resulted in a significant increase in market share of our processed products in the Province of Quebec.

While recession-induced food buying habits account for some sales decline, there was upward pressure on all cost components associated with the manufacture of our meat products, to the point where some of these items are tending to price themselves out of the family shopping basket. For example, during the year raw materials fluctuated unpredictably with hogs reaching a never-before level of $98.00 per cwt. During the later portion of 1982, our labour costs increased after signing a two-year agreement with the major bargaining unit. As a result, 2¢ per pound was added to the cost of all our products.

The retail meat and food store shelves is where J.M. Schneider must fight back. Processed meats, with their inherent values, provide consumers with very reasonably priced meat protein alternatives. The marketing thrust for the coming year will emphasize the value and goodness to be had by using these relatively inexpensive products in thrifty nutritious menu items. The marketing theme, "Hearty Meals in the J.M. Tradition", falls back on the traditional value and goodness that is so much a part of Schneider's reputation. An extensive line of poultry products will be launched in 1983.

Although much remains to be done, J.M. Schneider Inc. made impressive gains in the area of cost control during 1982. Inventory control systems improved substantially during the year.

Systems in several production areas of the plant have been adjusted in order to make more effective and efficient use of staff. In co-operation with our sister company Link Services Inc., new computer programs and facilities have been developed and implemented on a co-operative basis that will have a dramatic effect on Schneider's order entry processing and order filling systems.

As the 1980's unfold, the need for planning both short and medium-term becomes acutely apparent. Specific objectives have been established and strategies have been developed.

While the last two years have been difficult in many ways they will have a positive and enduring effect in years to come. The need for efficiency and cost effectiveness in relation to other meat and food products has been demonstrated and will not be lost on us in the future. We will survive and in future years prosper because of these lessons. J.M. Schneider Inc. will be a force to reckon with nationally and internationally.

SCHNEIDERS

Far left: Kenneth G. Murray, President, J.M. Schneider Inc.

Below: A delicious example of how hearty, inexpensive meals can be made in the J.M. tradition.

Left: Still photos from the current J.M. Schneider commercials advertising Hearty Meals.

F.G. Bradley Inc. Report on Operations

In 1982, F.G. Bradley Inc. failed to meet its sales and profit objectives. It was the company's first full year of operations as a member of the Heritage Group.

The institutional, red meat industry suffered in 1982. There were significant sales declines in all market categories. The company's sales to the airline industry declined in direct proportion to the decline in airline passenger traffic. On an industry basis, sales to the dining room and so-called "white table cloth" market were down as much as 40% at certain times during the year as business and credit card entertaining declined. Even the fast food sector, which remains the fastest growing area of the overall market, had substantial declines in per unit volume and sales. As a major supplier to the fast-food chain sector, Bradley's had correspondingly lower unit sales but recorded higher total volume as new units continued to open.

Unfortunately, lower industry-wide sales account for only a portion of the earnings performance. As shareholders were advised in the 1981 Annual Report, the company had a number of operational handicaps. These deficiencies were not completely corrected during the year with the result that management's attention, as far back as a year ago, was diverted from the crucial areas of marketing and product development.

In the wake of last year's optimism, it would be imprudent, under current economic conditions, to forecast a return to more normal results. However, there is evidence that most of our administrative and operating problems are behind us. And despite the fact the company did not generate a profit last year, losses from the previous year were down sharply. There is every reason to believe that trend will continue.

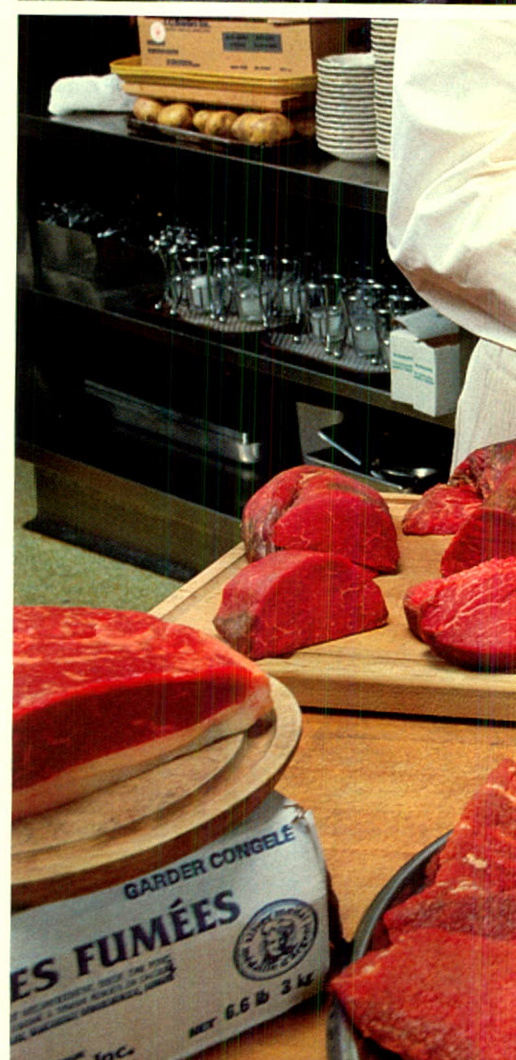
One of the company's particular weaknesses was in the area of accounting and financial controls. During the year the company was fortunate to acquire the service of a former financial executive from J.M. Schneider Inc. who will apply tested financial practices to Bradley's operations.

In the coming year the route to profitable operations will be accomplished in two ways. First, further integration through Link should translate into substantial savings. Already Link's distribution capability has opened up new markets. "On line" order entry and order processing systems will give the company administrative advantages it has never had. In the hands of the new team of product managers, information from the system will make the marketing efforts substantially more sophisticated.

The second means of improving on the previous year's performance is through the introduction of new products. For reasons previously stated, in 1981 there were only five new products. As of this writing, there are approximately 25 new products scheduled for launch in 1983. All of them have been designed to appeal to either the value consciousness in today's market or those seeking convenience, especially as the latter applies to ease of preparation and storage for food servers.

F.G. Bradley Inc. continued to enjoy an enviable reputation for service and quality in its industry. The changes that are taking place in the company can only serve to strengthen the reputation and restore profitability.

Inset: Kenneth G. Woodward, Senior Vice-President, F.G. Bradley Inc.



Right: Sales representative Jim Dean inspects a fresh, portioned meat item with chef Hans Wuthrich. Bradley's traditional strength is in the level of service and attention to detail that goes with its products.

FGBradley


AU SERVICE DES CHEFS DU PAYS
FGBradley
SERVING THE NATION'S FOOD SERVERS
FGBradley
HAUT
6x850g
NET
5.1kg
306520
AU SERVICE DES CHEFS DU PAYS
FGBradley
SERVING THE NATION'S FOOD SERVERS

Link Services Inc. Report on Operations

During 1982, Link Services Inc. made significant progress toward its goal of Group integration by providing warehousing, transportation and administrative services. This integration has been accomplished by the development and implementation of new computer systems with a high degree of user friendliness. These are being located in all Heritage companies. As the overall system takes effect, cost efficiencies will be realized with the result that products from all companies will be able to penetrate new markets more efficiently.

Warehousing

The Calgary Distribution Centre has now been in operation for more than a year. The four million dollar facility has had a marked effect on the reduction of delivery times, providing an expanded product line to more remote areas of western Canada and improving the overall level of service. The success at Calgary in terms of enabling the Heritage companies to expand their product lines into new markets has provided a model for establishing operations in other parts of the country.

Transportation

The most visible part of Link's operations is the J.M. Schneider/Bradley trucks that daily travel the streets and highways of the country. Aboard each truck is product from all companies destined for several different markets. One important result of this rationalization has been that Bradley products have found new markets because they are delivered more frequently to previously inaccessible regional markets.

Delivery routes and schedules are constantly being examined in an effort to eliminate as many "empty miles" from the system as possible. In Alberta, Bradley products are carried to the Distribution Centre in Calgary with two benefits: 1) the Bradley plant in Edmonton has more room for production, and 2) Bradley sales people have an expanded line of products to sell. In eastern Ontario, product from the cheese plant in Winchester is a backhaul for trucks returning from Ottawa and Montreal. The only condition on Link's services is that they be "cost effective" in terms of the corporation's overall transportation needs. In this way, Link is able to provide truly efficient transportation services.

Administration

The third major component of Link's operation is the provision of administrative information services in such areas as: order processing, order filling, and inventory control. The cornerstone is a computer system that is truly responsible to user (Heritage companies) needs.

On the strength of the basic information filed with each order, managers have the kind of information they need for market analysis at their fingertips.

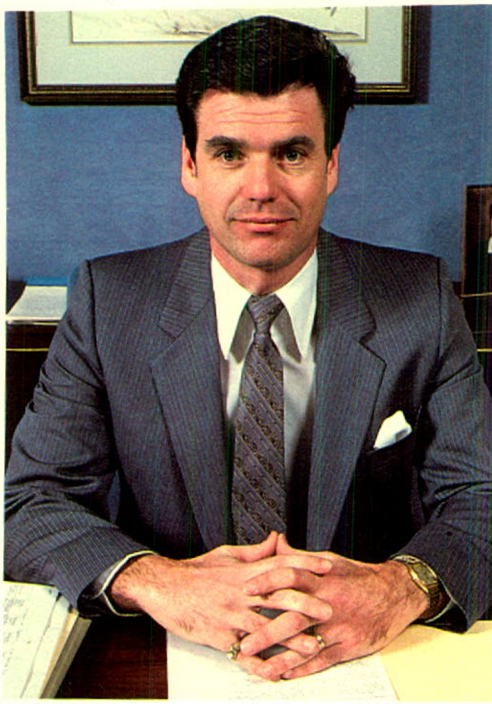
The new information environment that Link has created among Heritage companies is an indication of the forward direction the company is taking and a measure of the support the company provides to its operating counterparts.

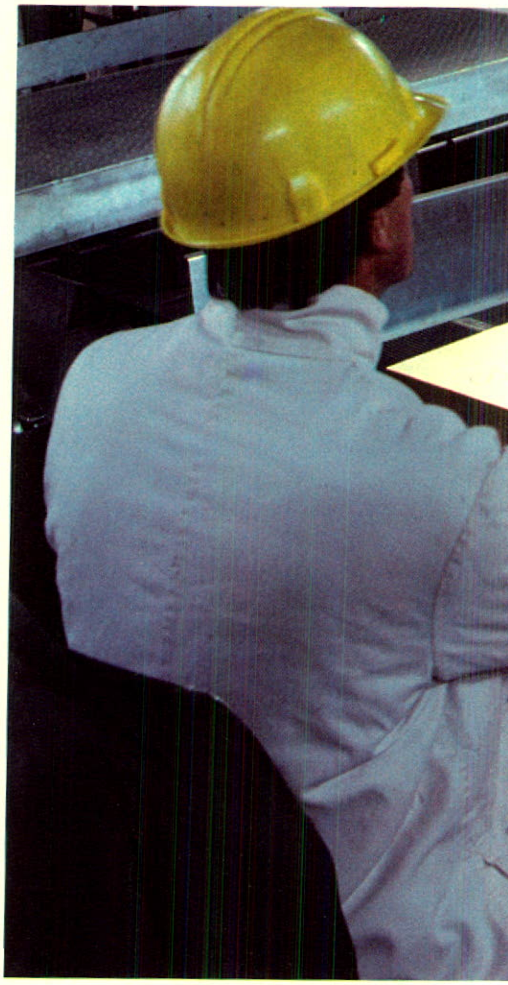
Efficient warehousing and distribution will be a cornerstone of the corporation's future and Link has now an auspicious beginning in attempting to reach this goal.

Top left: Douglas W. Dodds, President, Link Services Inc.

Insert: Link integrates the entire distribution process for the Heritage companies with computer communications, warehousing depots across the country.

Right: Link's function is characterized by this complex system of conveyors and rollers which move orders from the packing to the shipping stage.





LINK SERVICES

National Consolidated Food Brands Inc. Report on Operations

From modest beginnings a little more than 30 months ago, National Consolidated Food Brands Inc. (NATCO) has been on a path of steadily increasing sales and earnings. During the year new product listings among the major retail chains grew from 794 in 1981 to 875 in 1982 – an impressive 10%. Across the board Natco sales have grown by 30%.

The new listings represent products from all Natco lines, particularly cheeses which are marketed under the J.M. Schneider label. Less than a year ago, a major supermarket chain in western Canada carried no cheese listings. Today Schneider cheeses can be found in most of the chain's stores in the major cities. Indeed they can be found from one coast to the other.

In many ways cheese has characterized Natco's success in 1982 and will continue to play a major role in the company's marketing and sales plans for 1983.

Through a 50% joint ownership of Winchester Cheese Inc. in Winchester, Ontario, Natco expects to be the producer of a full line of cheeses by 1985. With this in mind, the lion's share of Heritage's capital investment monies during the past year was spent on a $6 million plant modernization and expansion. The new facilities will enable Winchester immediately to become a significant producer of processed cheeses, a category which represents 48% of the total cheese market.

During the formative months of the company's development, Natco took advantage of its relationship with J.M. Schneider Inc. by using its sales force to sell Natco products to independent grocers. This worked well in the beginning, but toward the end of 1982 the system required adjustment largely because the Natco line was growing too rapidly. For this reason brokers will be engaged to sell the Natco lines to independent stores in Quebec, the Maritimes, Alberta and British Columbia. Despite the commission expense to outside sales agents, the new arrangement is expected to more than pay for itself in the short term.

Identifying new markets and developing new products is one of Natco's primary objectives. In its early months the company launched several new products under both the Grandma Martin and Sweet 'n Sassy brand labels. It is unlikely the same rate of new product development will take place in 1983 although there will be several line extensions added to existing Grandma Martin products.

It is difficult to determine what effect the economy has had on sales. Nevertheless, on the strength of the growth pattern recorded in 1982, Natco is forecasting a stronger and slightly more profitable year in 1983.

Top left: John P. Geminari, General Manager, Natco.

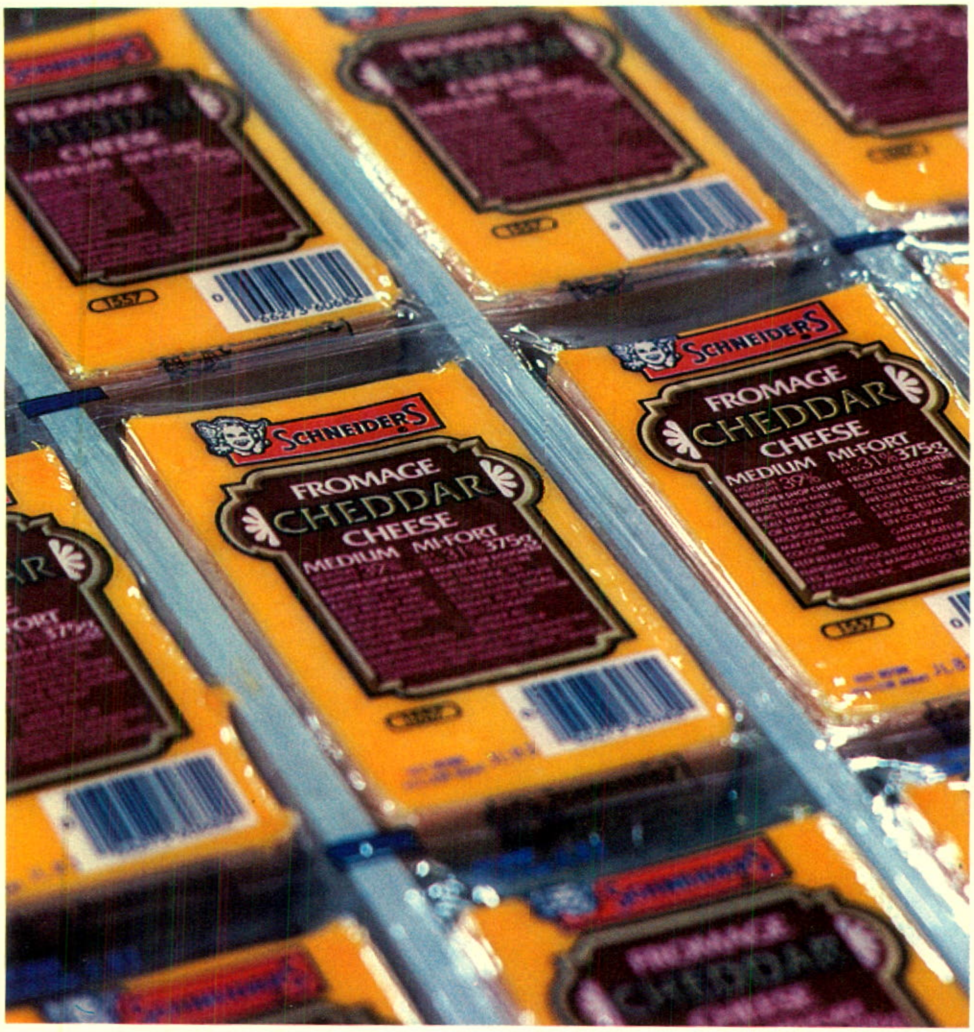
Inset: A sampling of the fine table cheeses produced by Winchester for J.M. Schneider and Natco.

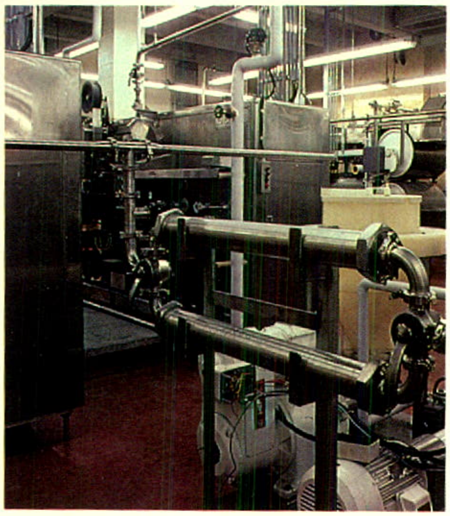
Right: Cheese has been a major part of Natco's growth in the past year.

natco


SCHNEIDERS
FROMAGE
COLBY
375g
FROMAGE
HAVARTI
CHEESE
FROMAGE
FARMERS
FROMAGE
MOZZARELLA
CHEESE
OLD FORT
FROMAGE
CHEDDAR
CHEESE
MEDIUM MI-FORT
FROMAGE
CHEDDAR
CHEESE

Winchester Cheese Inc.
A growing member of the Heritage Group of Companies





Cheese was a natural extension of John Metz Schneider's early meat business. That is why the company has been producing and marketing a complete line of natural cheeses for more than half of its 90 year history. In fact Schneider's is credited with developing Farmer's cheese which has become one of Canada's distinctive table cheeses.

Today Schneider cheeses are marketed by Natco and production takes place at the Winchester Cheese company, of which Natco is a 50% shareholder, in Winchester, Ontario. From here, bulk cheese made to Schneider's exacting standards and purchased from as far as Manitoba and Prince Edward Island, is cut, packaged and shipped to retail customers across Canada.

Overall, sales of natural cheeses represent a little more than half the total domestic cheese market. The balance, 48%, is comprised of processed cheese, primarily cheese slices.

Early in 1983, Winchester Cheese will complete its six million dollar expansion program. The ultra modern processing facilities will give Winchester and Natco the capability of producing a complete line of sliced, processed products for both the retail and food service industries.

Currently there are approximately 20 varieties of sliced, processed products on the market. Eventually Natco will have a processed cheese in each market category. Immediately Natco gains the capacity to produce a full line of natural and processed cheeses for the total domestic market.

Left: Winchester's traditional business is that of cutting and packaging fine cheese. Here cheddar wedges are wrapped on the new vacuum packaging line.

Above right: Bricks of colby cheese are measured to an exact weight before packaging.

Bottom right: The Winchester Cheese company, of which Natco owns 50%, has recently installed a $6 million processed cheese facility which will enable Natco to participate in the total domestic cheese market.

THE HERITAGE GROUP · INC.

Annual Review
1982

Consolidated balance sheet as at October 30, 1982

Assets	(in thousands) 1982	1981
Current assets		
Accounts receivable	$ 25,174	$ 31,245
Inventories	31,932	31,635
Other	2,173	958
Total current assets	59,279	63,838
Investments in associated companies	1,875	1,763
Fixed assets	54,258	56,662
Intangible assets	4,303	4,429
Total assets	$119,715	$126,692

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	1982	1981
	(in thousands)	
Current liabilities		
Outstanding cheques	**$ 5,185**	$ 6,695
Bank advances	**3,637**	9,593
Accounts payable and accrued liabilities	**25,422**	25,697
Income taxes payable	**1,230**	1,245
Principal due within one year on debentures and loans	**1,060**	1,100
Current obligations under capital leases	**412**	692
Total current liabilities	**36,946**	45,022
Long term debt		
Debentures and loans	**23,469**	23,745
Obligations under capital leases	**620**	925
Total long term debt	**24,089**	24,670
Deferred income taxes	**5,604**	5,781
Shareholders' equity		
Capital stock	**8,439**	8,185
Retained earnings	**44,637**	43,034
Total shareholders' equity	**53,076**	51,219
Total liabilities and shareholders' equity	**$119,715**	$126,692

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 30, 1982 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 30, 1982 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 3, 1982

Thorne Riddell

Chartered Accountants

Consolidated statement of earnings year ended October 30, 1982

	1982 (in thousands)	1981
Sales	**$581,071**	$539,364
Expenses		
Cost of products sold	**496,364**	462,864
Marketing, distribution and administrative	**68,596**	63,046
Interest	**5,375**	5,188
Depreciation and amortization	**5,861**	5,129
	576,196	536,227
Earnings before income taxes	**4,875**	3,137
Income taxes	**2,110**	1,296
Net earnings	**$ 2,765**	$ 1,841
Earnings per share	**$1.05**	$.70

Consolidated statement of retained earnings year ended October 30, 1982

	1982 (in thousands)	1981
Balance at beginning of year	**$ 43,034**	$ 42,583
Net earnings	**2,765**	1,841
	45,799	44,424
Dividends		
Class A shares	**997**	1,192
Common shares	**165**	198
	1,162	1,390
Balance at end of year	**$ 44,637**	$ 43,034

The accompanying notes are
an integral part of these statements

Consolidated statement of changes in financial position year ended October 30, 1982

	1982	1981
	(in thousands)	
Working capital derived from		
Operations		
Net earnings	**$ 2,765**	$ 1,841
Items not involving working capital		
Depreciation and amortization	**5,861**	5,129
Deferred income tax reduction	**(177)**	(200)
Share of earnings of associated companies	**(112)**	(141)
	8,337	6,629
Proceeds from term loan	**750**	
Issue of Class A shares	**254**	2
Increase in capital lease obligation	**42**	38
Sale of fixed assets	**40**	572
Issue of debenture on acquisition of businesses		9,500
	9,423	16,741
Working capital applied to		
Additions to fixed assets	**3,329**	8,486
Decrease in non-current portion of long term debt	**1,373**	2,053
Dividends paid	**1,162**	1,390
Additions to machinery and equipment under capital lease	**42**	38
Acquisition of shares of businesses less their working capital of $5,048,000		9,800
	5,906	21,767
Increase (decrease) in working capital	**3,517**	(5,026)
Working capital at beginning of year	**18,816**	23,842
Working capital at end of year	**$22,333**	$18,816

The accompanying notes are
an integral part of this statement

Notes to consolidated financial statements year ended October 30, 1982

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., the accounts of F. G. Bradley Inc. from the closing date of its acquisition on February 23, 1981 and Link Services Inc. from its commencement of operations on November 1, 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

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.

(d. Fixed assets)	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

	1982			1981
	Cost	**Accumulated depreciation**	**Net**	Net
Land and improved areas	**$ 4,526,000**	**$ 238,000**	**$ 4,288,000**	$ 4,307,000
Buildings	**41,187,000**	**13,302,000**	**27,885,000**	28,382,000
Machinery and equipment	**46,333,000**	**25,670,000**	**20,663,000**	21,812,000
Assets under construction	**846,000**		**846,000**	1,055,000
	92,892,000	**39,210,000**	**53,682,000**	55,556,000
Machinery and equipment under capital leases	**2,976,000**	**2,400,000**	**576,000**	1,106,000
	$95,868,000	**$41,610,000**	**$54,258,000**	$56,662,000

The Board of Directors has approved capital expenditures on future projects of $3,877,000. An additional $1,109,000 is expected to be required to complete projects now under construction.

3. Debentures and loans

	1982	1981
Debenture, with interest and principal payable monthly and payments calculated on a 20 year amortization basis, 12½% interest to February 23, 1982, 16⅜% to February 23, 1983 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	**$ 9,317,000**	$ 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	**8,550,000**	9,000,000
Loans payable $30,000 monthly plus interest on $1,491,000 at 10½%, on $2,063,000 at bank prime rate plus 1½% and on $545,000 at 10% until October 15, 1983 and thereafter at bank prime rate plus 1½%, maturing February 15, 1984	**4,099,000**	4,465,000

(Continued on Page 20)

Notes to consolidated financial statements year ended October 30, 1982

8½% Sinking Fund Debentures, with interest payable semi-annually, annual sinking fund payments of $100,000 and maturing June 1, 1991	**1,400,000**	1,500,000
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**	
8% Loan payable $5,000 monthly including interest and maturing September 1, 1988	**268,000**	300,000
9½% Loan payable $3,000 monthly including interest and maturing December 1, 1989	**145,000**	161,000
	24,529,000	24,845,000
Less principal included in current liabilities	**1,060,000**	1,100,000
	$23,469,000	$23,745,000
Interest for the year	**$ 3,219,000**	$ 2,642,000

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

1983	$1,060,000
1984	4,446,000
1985	735,000
1986	9,619,000
1987	661,000

The $9,317,000 debenture is secured by a pledge of all issued and outstanding shares of F. G. Bradley Inc. 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.

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 30, 1982:

1983	$ 510,000
1984	360,000
1985	220,000
1986	107,000
1987	40,000
Later years	18,000
Total minimum lease payments	1,255,000
Less amount representing interest	223,000
Present value of net minimum lease payments	$1,032,000

This amount is reflected in the balance sheet as current and non-current obligations under capital leases of $412,000 and $620,000 respectively.

Operating leases

The following is a schedule of future minimum rental payments required under operating leases as of October 30, 1982:

1983	$2,588,000
1984	1,800,000
1985	1,068,000
1986	605,000
1987	445,000
Later years	654,000
	$7,160,000

5. Capital stock

Authorized

5,401,000 Class A non-voting shares without par value

373,627 Common shares

	1982	1981
Issued		
2,277,528 Class A shares, (1981, 2,248,528 shares)	**$8,205,000**	$7,951,000
373,627 Common shares	**234,000**	234,000
	$8,439,000	$8,185,000

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, all remaining options previously granted were exercised and 29,000 Class A shares were issued at $8.75 per share.

Notes to consolidated financial statements year ended October 30, 1982

6. Commitments

(a) Pension plans

It is estimated that the present value of the unfunded past service obligation under pension plans amounts to $7,945,000. Annual payments of $882,000 are required to liquidate this obligation by July 31, 1997. During the year, $679,000 ($601,000 in 1981) was paid against the past service obligation.

Actuarial revaluations have resulted in cost reductions totalling $1,700,000 which are reflected as a reduction of pension expense in 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) Litigation

The company is alleging that certain covenants and representations made by the vendor in the purchase agreement to acquire F. G. Bradley Inc. have not been met. The company is continuing to pursue its right of redress under the terms of the agreement. The full purchase price is reflected in these financial statements and any recovery will decrease the cost of goodwill.

(c)

	1982	1981
Depreciation	**5,735,000**	5,028,000
Amortization	**126,000**	101,000

(d) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 1982.

Ten Year statistical review

(thousands of dollars except where noted)

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Sales	**581,071**	539,364	391,637	374,374	324,675	262,834	254,970	217,018	202,270	177,191
Earnings										
Earnings before income taxes and extraordinary items	**4,875**	3,137	11,535	12,164	7,766	7,544	7,865	5,610	5,871	4,629
Income taxes	**2,110**	1,296	4,844	4,620	3,079	2,944	3,288	2,545	2,585	1,921
Earnings before extraordinary items	**2,765**	1,841	6,691	7,544	4,687	4,600	4,577	3,065	3,286	2,708
Earnings before extraordinary items as a percent of sales	**.48**	.34	1.71	2.02	1.44	1.75	1.80	1.41	1.62	1.53
Net earnings	**2,765**	1,841	6,691	7,544	4,687	4,600	3,579	3,065	3,286	2,708
Dividends paid	**1,162**	1,390	1,258	1,088	1,011	824	756	702	810	727
Capital expenditures	**3,329**	8,486	6,406	4,104	9,389	11,030	5,377	4,425	2,945	3,733
Depreciation and amortization	**5,861**	5,129	4,725	4,476	3,674	2,652	2,567	1,955	1,671	1,602
Salaries, wages and employee benefits	**100,515**	88,924	71,004	61,538	56,501	47,747	42,084	34,048	30,226	24,718
Average number of employees	**3,817**	3,880	3,327	3,131	3,009	2,874	2,676	2,640	2,567	2,392
Working capital	**22,333**	18,816	23,842	22,304	17,286	18,984	12,774	12,000	11,276	9,713
Working capital ratio	**1.60**	1.42	1.89	2.11	1.92	2.44	1.95	1.91	1.82	1.68
Total assets	**119,715**	126,692	95,537	83,627	76,275	65,057	50,917	48,060	45,741	43,212
Shareholders' equity at end of year	**53,076**	51,219	50,766	45,364	40,118	36,361	32,287	29,810	27,447	24,970
Percent return on equity at beginning of year	**5.40**	3.63	14.75	18.80	12.89	14.25	12.01	11.17	13.16	13.52
Percent return on capital employed at beginning of year*	**9.69**	6.41	20.19	23.49	16.90	20.54	23.04	18.03	20.88	20.36
Number of shares outstanding, in thousands	**2,651**	2,622	2,622	2,624	2,716	2,699	2,695	2,701	2,701	2,701
Number of shareholders	**1,556**	1,588	1,716	1,867	1,977	2,115	2,203	2,385	2,379	2,560
Per share statistics, in dollars										
Net earnings	**1.05**	.70	2.55	2.78	1.73	1.70	1.33	1.13	1.21	1.04
Dividends paid	**.44**	.53	.48	.40	.37	.31	.28	.26	.30	.28
Equity at end of year	**20.02**	19.53	19.36	17.29	14.77	13.47	11.98	11.04	10.16	9.25

*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.

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 International Inc.

* **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**
Waterloo, Ontario
Vice-President

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

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 1983: October 31, 1982 to October 29, 1983 (52 weeks)

Dividend dates
Payable: April 15, 1983
July 15, 1983
October 15, 1983
January 14, 1984
Record: (4 weeks prior to date of dividend payable, closest Friday)
March 18, 1983
June 17, 1983
September 16, 1983
December 16, 1983

Fiscal quarter endings
1st Quarter:
February 19, 1983
containing 16 weeks

2nd Quarter:
May 14, 1983
containing 12 weeks

3rd Quarter:
August 6, 1983
containing 12 weeks

4th Quarter:
October 29, 1983
containing 12 weeks

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

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 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)*
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 Products
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

Plants
1575 Inkster Boulevard
Winnipeg, Manitoba

358 Flora Avenue
Winnipeg, Manitoba

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

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