



GRANDMA LEE'S

GRANDMA LEE'S

BAKERY AND EATING PLACE


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FOURPORN

GRANDMA LEE'S INC.
ANNUAL
REPORT
1981



GRANDMA LEE'S
BAKERY AND EATING PLACE



® TRADE MARK OF GRANDMA LEE'S INT'L. HDGS. LTD.







GRANDMA LEE'S INC.
and Subsidiary Companies

Annual Report 1981

CONTENTS:

Financial Highlights	2
Report to the Shareholders	3
Six Year Review	6
Financial Statements	7
Six Year Operating History	19
Corporate Directory	20

The Annual General Meeting of Shareholders will be held in the
Hotel Bonaventure, Montreal, Quebec,
November 18, 1981, at 2:00 p.m.

Front Cover — 2 Bridge Street opposite Big Ben, London, England



® TRADE MARK OF GRANDMA LEE'S INT'L. HLDGS. LTD.

GRANDMA LEE'S INC.
and Subsidiary Companies

Financial Highlights

	1981	1980
	(\$)	(\$)
Revenues	12,608,901	7,514,202
Net Operating Earnings	6,581,469	2,557,113
Net Earnings before Extraordinary Item	4,617,649	1,498,252
Net Earnings	4,752,002	1,697,705
Total Assets	21,157,714	11,129,397
Per Common Share		
Net Operating Earnings	1.16	.47
Net Earnings before Extraordinary Item	.82	.28
Net Earnings	.85	.33
Common Shares Outstanding Weighted Average	5,600,915	5,059,070
At Year End	5,855,599	5,451,766



GRANDMA LEE'S INC.

and Subsidiary Companies

To Our Shareholders

The fiscal year ended June 30, 1981 was the most significant twelve months in your Company's history. It was the sixth consecutive year that Grandma Lee's achieved record net earnings and revenues.

Net earnings for the year ended June 30, 1981 were \$4,752,002 as compared to \$1,679,705 for the previous year. This increase of \$3,072,297 represents a gain of 182% for the year.

Earnings per share rose to 85¢ from 33¢ the year before.

These earnings included an extraordinary gain of \$134,353 or 3¢ per share in 1981 as compared to \$259,492 or 5¢ per share for the previous year.

Taking into effect the total conversion of the convertible preferred shares outstanding at the year end, the net earnings on a fully diluted basis were 73¢ per share for the year ended June 30, 1981 as compared to 32¢ for last year.

It should be noted that the number of shares outstanding increased during the year from 5,451,766 to 5,855,599. If our net earnings were based on the same number of shares outstanding as last year, our earnings per share would have been approximately 9¢ per share higher or 94¢ per share as compared to 33¢ in 1980.

Earnings per share have increased at an average annual rate of 97.2% during the past six years.

Return on average assets for 1981 was 29.4%, while our return on average equity was 98.4%.

Shareholders equity increased by \$8,114,533 or 128% to \$14,449,640 from \$6,335,107 from the year before.

The shareholders equity now represents 68% of the total assets of the Company as compared to 57% a year earlier. This ratio indicates the proportion of assets provided by the Shareholders and is particularly appropriate with the current economic conditions of high inflation and interest rates.

Revenues were \$12,608,901, an increase of \$5,094,699 or 68% over the revenues of \$7,514,202 for the previous twelve month period.

The improvement in sales are largely attributable to the increased number of outlets opened in Canada in the last twelve months, the increase in the average cheque per customer, the resultant increase in average store sales, as well as the entry of GRANDMA LEE'S into the United States market.

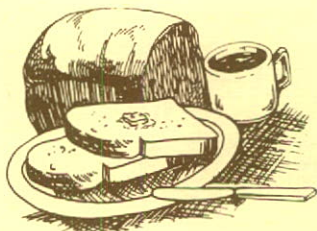
GRANDMA LEE'S reached a number of milestones in 1981:

- * First international unit opened in England.
- * Units now sold in all ten (10) Provinces in Canada.
- * Opened free-standing units successfully.
- * Successfully introduced a breakfast programme.
- * Began our U.S.A. market penetration.
- * Completed a \$3,000,000 private placement of preference shares
- * Listed common shares in the United States

GRANDMA LEE'S expansion of new outlets continued at its previous accelerated rate, during the fiscal year just ended. During the year thirty-seven (37) GRANDMA LEE'S restaurants opened, while another forty-five (45) were under construction at year's end.

Another important milestone was achieved in 1981 as we sold a franchise store in New Brunswick. We are now represented in all ten (10) Provinces in Canada.

The success of our free standing store in Buffalo, N.Y., which opened in mid-year, has meant increasing investor and franchise interest from many parts of the U.S.A.



Several areas have been sold as Master Franchises, including Florida, Washington, D.C., and Maryland, and a number of others are in the final stages of negotiation.

We have identified the U.S.A. as our prime market objective in the coming year. GRANDMA LEE'S OF AMERICA is now Head Officed in Buffalo, New York, which is easily accessible to all GRANDMA LEE'S personnel in Mississauga. We have continued to increase our management team in Canada with strong experienced personnel, allowing us the management depth to focus on expansion in the U.S.A. immediately, without jeopardizing our business in Canada. We expect to add qualified American personnel over the next fiscal year.

During this time period, we opened our first unit in the United Kingdom. The picture on the front cover reflects the ease with which we were able to transfer the concept overseas. The unit is located at 2 Bridge Street, directly across from "Big Ben," and has attracted extensive customer interest from the four corners of the world. More importantly, sales reached a record level from the outset and it is now our highest volume store. A second London location has been purchased at Victoria Station and will be opened in the near future.

We have completed an agreement in Finland with ARCTIA LTD. who own and operate twelve (12) Hotels and thirty-five (35) Restaurants. They are a major factor in the hospitality and leisure business in that country. Representatives of several other countries have approached us, and we are now taking the strategic steps to achieve our objective of further penetration into International Markets.

In order to finance the Company's expansion plans, the Company completed a \$3,000,000 private placement of First Preferred Series "C" shares during the year.

A strong reason for the continued growth of GRANDMA LEE'S has been the high quality of licensees that have joined "GRANDMA'S" family. These ambitious entrepreneurs have been attracted to GRANDMA LEE'S where there is an excellent return on their investment.

Your management has always recognized that the most successful ingredient to the growth of any company is its people. The dedication of GRANDMA LEE'S employees is best exemplified by their active participation in purchasing almost half the Class "C" Preferred Shares.

In keeping with our previous commitment to "growth through people," several key management additions were made during the past year.

In addition, the Company has continued to upgrade and strengthen the quality of its employees in every aspect of the business. Several key personnel have been added in the training, research and development, operations and finance areas of the business.

These management changes and appointments reflect the rapid rate of growth that your company is experiencing and represents management's planning to insure that growth is going to be maintained.

Many of our store operators have provided new ideas re store design, layout, equipment, merchandising and menu. To capitalize on this, and to provide expertise and leadership in the expansion of the concept in the years ahead, we have developed an extensive Research and Development Department, located in a Company owned store in the Metropolitan Toronto area.

All new menu items are developed in this store, and then thoroughly tested in several other stores in co-operation with our licensees. In the past year, this Department has produced a complete breakfast programme, featuring Ham and Egg on a Bun, which is now being introduced nationally.

Plans for this year include a national "roll out" of a previously successfully tested Sunday Brunch Programme, continued development of our Salad Bar Programme, and a more in depth study of the opportunities open to us in the Supper Business. Our menu has now been completely computerized, and with each new ingredient price change, we can establish a new retail price immediately, allowing our operators to protect their store profit margins at the earliest opportunity.



We have continued to upgrade our store training programme which has now been extended to seven (7) weeks, including the time GRANDMA LEE'S Store Operations Department spends with the licensees on the actual store opening. Further, we have now introduced a new Area Franchise programme as a result of our intended rapid expansion into the United States Market. Each new area franchisor now receives an indoctrination programme of six months, partially spent at Head Office, and partially with experienced GRANDMA LEE'S staff in the new area.

The extended store network, now allows for increased consumer advertising and we are in the midst of updating our Consumer Research on a national basis in Canada which will impact upon our marketing thrust over the next few years. Further Consumer Research is planned early in the new fiscal year in both the United States and the United Kingdom markets. Initial research in both store markets has indicated total consumer acceptance of the concept in its present form.

GRANDMA LEE'S has continued to maintain the relatively low investment required to open a store. During this period of inflation and high interest rates, your management has been very satisfied with the persistent consumer interest in a GRANDMA LEE'S franchise.

Utilizing the existing government incentives, we have put together a strong financial assistance programme that has been a key factor in the increased sale of franchises.

In order to facilitate the interest of our American Shareholders, the Company had its common shares called for trading in June 1981 on the over the counter market in New York and they are quoted on the National Association of Securities Dealers NASDAQ System in the United States under the symbol GLICF.

In December 1980, Mr. Winton Derby resigned from the Board. In the same month, Mr. Richard R. Kennedy, Senior Partner in the Toronto law firm of Kennedy, Sherman & Marin, was appointed to the Board.

In September 1981, Mr. Herman Ratelle resigned from your Board.


We are pleased to announce the appointment of Mr. David F. Marvin to the Board. Mr. Marvin is Vice-President of E.I. Dupont De Nemours & Company of Wilmington, Delaware.

The Board wishes to sincerely thank Messrs. Derby and Ratelle for their valuable assistance during the past several years.

Our plans for the coming fiscal year are quite ambitious, and we are pointed towards rapid expansion of the concept in the United States, while at the same time broadening our base in Canada and continuing to expand internationally overseas. We believe that in the 1982 fiscal year, we will start to realize the positive effects of our efforts in the United States and overseas in the form of a significant number of outlets opening in these markets.

As stated in last year's report, we fully expect that we are the restaurant concept of the 1980's, and that we will continue to achieve above average results.

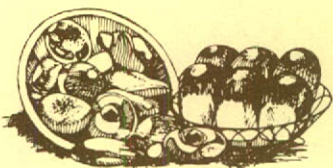
On behalf of the Board of Directors,



A.R. BIGGS
Chairman, Chief Executive Officer



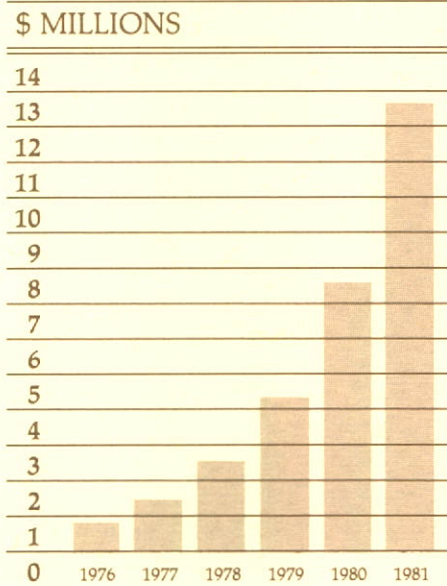
W.W. HOOD
President, Chief Operating Officer



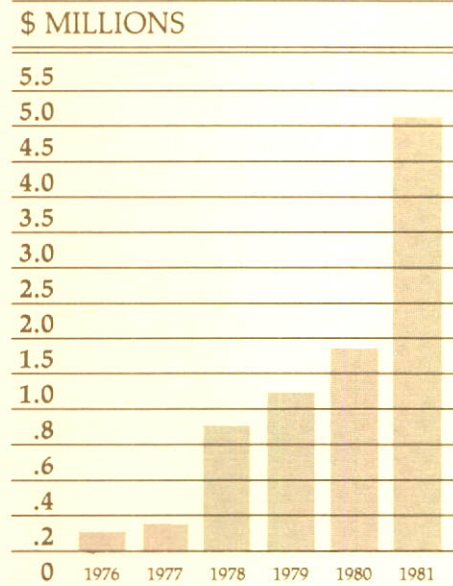
GRANDMA LEE'S INC. and Subsidiary Companies

Six Year Review

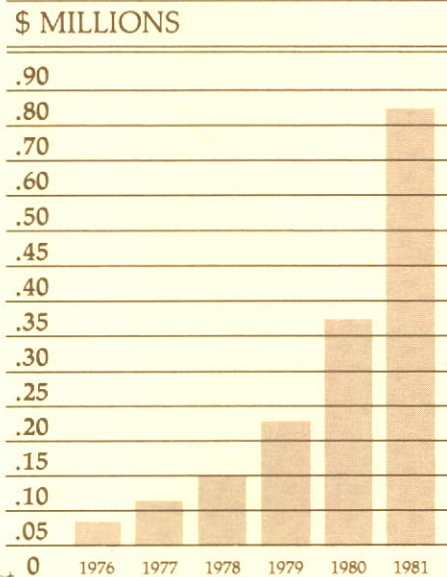
REVENUES



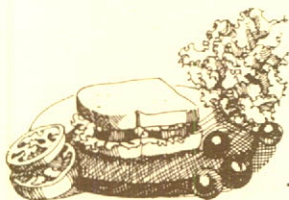
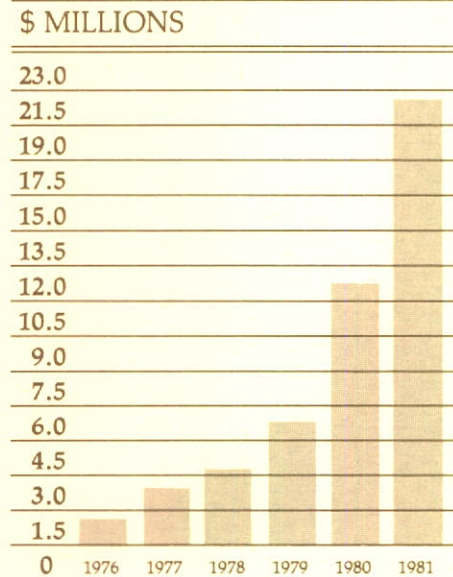
NET EARNINGS



EARNINGS PER SHARE



TOTAL ASSETS

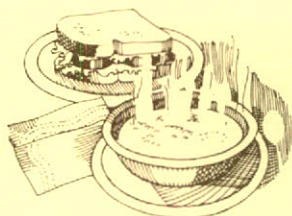


GRANDMA LEE'S INC.
and Subsidiary Companies

Consolidated Statement of Earnings
For The Year Ended June 30, 1981

	<u>1981</u>	<u>1980</u>
Revenues		
Sales — affiliated companies	\$ 1,565,915	\$ 335,208
— other	10,537,918	6,678,266
Gain on sale of assets	276,810	348,880
Investment income	251,662	118,735
Gain (loss) on foreign exchange translation	(23,404)	33,113
	<u>12,608,901</u>	<u>7,514,202</u>
Earnings Before The Following	7,250,502	3,047,544
Depreciation	71,713	61,884
Amortization of deferred costs	286,488	207,967
Amortization of excess of costs on consolidation	62,010	18,205
Interest on long-term debt	166,711	132,821
Other interest	82,111	69,554
	<u>669,033</u>	<u>490,431</u>
Earnings Before Income Taxes and Extraordinary Item	6,581,469	2,557,113
Income taxes — current	356,353	259,492
— deferred	1,607,467	799,369
	<u>1,963,820</u>	<u>1,058,861</u>
Earnings Before Extraordinary Item	4,617,649	1,498,252
Extraordinary item —		
Reduction of current year's income taxes arising from application of prior years' losses	134,353	259,492
	<u>4,752,002</u>	<u>1,757,744</u>
Net Earnings Before Minority Interest	4,752,002	1,757,744
Minority shareholders' interest in the net earnings of subsidiary companies	—	60,039
Net Earnings	\$ 4,752,002	\$1,697,705
Earnings Per Common Share Before Extraordinary Item	.82	.28
Earnings Per Common Share	.85	.33

Fully diluted earnings per common share
See Note 13



GRANDMA LEE'S INC.
and Subsidiary Companies

Consolidated Balance Sheet
AS AT JUNE 30, 1981

ASSETS

	<u>1981</u>	<u>1980</u>
Current Assets		
Cash	\$ 2,158,207	\$ 811,797
Accounts receivable — note 2	4,187,350	2,268,829
Notes receivable — note 4	1,499,178	483,970
Inventories — note 3	225,444	146,437
Prepaid expenses	89,016	67,306
	<u>8,159,195</u>	<u>3,778,339</u>
Notes and Long-Term Receivables — note 4	5,480,264	1,987,278
Investments In and Advances To Companies Owned 50% or Less — note 5	2,214,760	621,976
Franchise Rights Reacquired	608,910	550,222
Fixed Assets — note 6	880,843	729,199
Other Assets — note 7	1,385,125	1,071,616
Excess of Cost of Shares of Subsidiary Companies Over Book Value of Net Assets Acquired — note 8	2,428,617	2,390,767
	<u>\$21,157,714</u>	<u>\$11,129,397</u>

APPROVED BY THE BOARD:

Alan R. B... Director.

R. J. Hobbs Director.



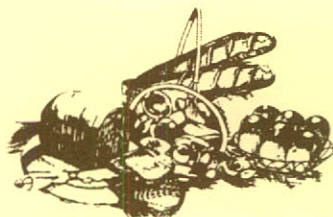
GRANDMA LEE'S INC.
and Subsidiary Companies

LIABILITIES

	1981	1980
Current Liabilities		
Bank indebtedness	\$ 171,868	\$ 306,842
Accounts payable and accrued liabilities	2,002,175	1,242,234
Notes payable	48,875	300,000
Income taxes payable	222,000	—
Current portion of long-term debt — note 9	195,200	157,185
	<u>2,639,118</u>	<u>2,006,261</u>
Long-Term Debt — note 9	964,776	994,863
Deferred Income Taxes — note 10	3,077,980	1,470,513
Minority Interest — note 11	26,200	322,653

SHAREHOLDERS' EQUITY

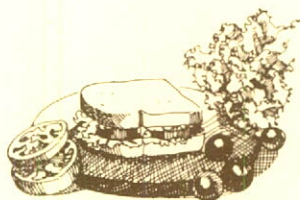
Capital Stock — note 12		
Preferred shares	4,163,480	1,562,056
Common shares	3,175,114	2,227,432
	<u>7,338,594</u>	<u>3,789,488</u>
Retained Earnings	7,111,046	2,545,619
	<u>14,449,640</u>	<u>6,335,107</u>
	<u>\$21,157,714</u>	<u>\$11,129,397</u>



GRANDMA LEE'S INC.
and Subsidiary Companies

Consolidated Statement of Retained Earnings
FOR THE YEAR ENDED JUNE 30, 1981

	1981	1980
Balance at Beginning of Year	\$2,545,619	\$ 985,396
Net Earnings For The Year	4,752,002	1,697,705
	7,297,621	2,683,101
Less:		
Increase in investment by minority interest	—	94,473
Premium on redemption of shares	—	4,707
Dividends on preferred shares	186,575	38,302
	186,575	137,482
Balance At End of Year	\$7,111,046	2,545,619



GRANDMA LEE'S INC.
and Subsidiary Companies

**Consolidated Statement of Changes in Financial Position
FOR THE YEAR ENDED JUNE 30, 1981**

	1981	1980
Source of Funds		
Net earnings for the year	\$4,752,002	\$1,697,705
Add items not requiring an outlay of funds —		
depreciation	71,713	61,884
amortization	348,498	226,172
deferred income taxes	1,607,467	799,369
gain on sale of assets	(276,810)	(348,880)
Funds provided by operations	6,502,870	2,436,250
Increase in long-term debt	—	339,125
Increase in minority interest — net	—	7,639
Proceeds from sale of assets	969,468	779,332
Issue of preferred shares	3,000,000	1,000,000
Issue of common shares	947,683	937,389
	<u>11,420,021</u>	<u>5,499,735</u>
Application of Funds		
Decrease in long-term debt	30,087	—
Increase in notes receivable	3,492,986	1,225,438
Acquisition of investments	1,592,784	293,009
Purchase of fixed assets	916,016	785,890
Cost of issue of shares	117,548	9,388
Purchase of other assets	599,997	474,568
Franchise rights reacquired	58,688	147,503
Conversion and redemption of preferred shares	281,028	60,000
Excess of cost of shares of subsidiaries over book value of net assets acquired	99,860	1,581,151
Dividend and premium on redemption of preferred shares	186,575	43,009
Decrease in minority interest	296,453	—
	<u>7,672,022</u>	<u>4,619,956</u>
Increase in Working Capital	3,747,999	879,779
Working capital at beginning of year	1,772,078	892,299
Working Capital at End of Year	<u>\$5,520,077</u>	<u>\$1,772,078</u>



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GRANDMA LEE'S INC.
and Subsidiary Companies

**Notes to Consolidated Financial Statements
FOR THE YEAR ENDED JUNE 30, 1981**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Grandma Lee's Inc. and all companies in which it holds more than a 50% interest. Investments in companies in which Grandma Lee's Inc. holds a 50% interest or less and is able to exercise a significant influence are accounted for on the equity method.

The excess of cost of shares of subsidiary companies over book value at the dates of acquisition, adjusted for subsequent purchases of minority interests, is being amortized on the straight-line basis over a 40 year period. All significant inter-company transactions have been eliminated.

(b) Foreign exchange translation

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items and at rates closest to the transaction date for non-current assets and liabilities.

Income and expenses are translated at the average rates prevailing during the year, except for depreciation and amortization which are translated at historical exchange rates.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value, cost being determined on the first-in, first-out basis.

(d) Franchise rights reacquired

The costs related to the reacquiring of certain territorial franchise rights are not amortized as the company is continuing negotiations for their resale. Any gain or loss on disposal will be recognized in the income of the year in which the transaction occurs.

(e) Depreciation of fixed assets

The company computes depreciation on the straight-line method based on the following rates:

Furniture, fixtures and equipment	— 5% - 10%
Mobile equipment	— 15%
Leasehold improvements	— term of lease

(f) Other assets

Deferred costs

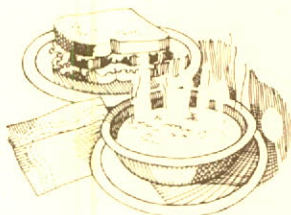
Advertising programs are amortized over 24 months.

Franchise development, product development, store openings, licensee aids and materials, stock exchange listings and research and development related to the establishment of "eating places," are amortized over 60 months.

Intangible assets

Patents, trademarks, copyrights, licenses, formulae and franchise rights are amortized over 20 years.

Costs related to negotiations for corporate acquisitions are transferred to the respective investment account when the acquisitions are completed. If negotiations are terminated without acquisition, the applicable costs are charged against earnings.



(g) **Income recognition**

Initial franchise fees are recorded as income when the contracts with the franchisees are signed.

Continuing fees from franchisees are recorded as income on the accrual basis as earned.

Gains on sales of company-owned franchises are recorded as income when the sales are completed and all significant stipulated conditions are met.

2. ACCOUNTS RECEIVABLE

	1981	1980
Trade accounts, net of allowance for doubtful accounts	\$2,818,219	\$2,014,447
Subscriptions from shareholders	685,200	254,382
Other	683,931	—
	<u>\$4,187,350</u>	<u>\$2,268,829</u>

3. INVENTORIES

Raw materials	\$ 25,057	\$ 15,029
Work in process and finished goods	200,387	131,408
	<u>\$ 225,444</u>	<u>\$ 146,437</u>

4. NOTES AND LONG-TERM RECEIVABLES

Notes receivables at varying rates of interest	\$3,435,312	\$1,290,565
Other long-term receivables	3,544,130	1,180,683
	6,979,442	2,471,248
Less portion of notes receivable included in current assets	1,499,178	483,970
	<u>\$5,480,264</u>	<u>\$1,987,278</u>

5. INVESTMENTS IN AND ADVANCES TO COMPANIES OWNED 50% OR LESS

At cost plus equity in undistributed net income or loss since acquisition		
Companies 20% to 50% owned		
Preferred and common shares (cost \$272,290)	\$ 259,422	\$ 289,994
At cost		
Companies less than 20% owned		
Common shares	127,747	127,222
of which securities with a cost of \$126,500 have a market value of \$89,000 based on the last sale during the year		
Preferred shares		
— acquired on sale of certain master franchise territories	964,000	—
Advances to affiliated companies, non-interest bearing	863,591	204,760
	<u>\$2,214,760</u>	<u>\$621,976</u>

6. FIXED ASSETS

	Cost	Accumulated Depreciation	1981 Net	1980 Net
Store and office equipment	\$ 489,490	\$ 51,347	\$ 438,143	\$ 243,640
Rental equipment	221,837	31,402	190,435	257,912
Mobile equipment	12,709	2,479	10,230	8,924
Leasehold improvements	293,099	51,064	242,035	218,723
	<u>\$1,017,135</u>	<u>\$ 136,292</u>	<u>\$ 880,843</u>	<u>729,199</u>



7. OTHER ASSETS	Cost	Accumulated Amortization	1981 Net	1980 Net
DEFERRED COSTS -				
Franchise develop- ment & store openings	\$ 804,682	\$ 229,259	\$ 575,423	\$ 359,344
Licensee aids & materials	162,853	41,052	121,801	73,262
Listing costs	49,816	14,268	35,548	31,877
Product development & advertising programs	217,359	121,473	95,886	64,100
Research & development	340,589	144,796	195,793	214,778
	<u>1,575,299</u>	<u>550,848</u>	<u>1,024,451</u>	<u>743,361</u>
INTANGIBLE ASSETS -				
Patents, trademarks, copyrights, licenses and formulae	117,205	19,069	98,136	86,621
Franchise rights	201,500	25,604	175,896	200,957
Organization expenses	50,045	1,532	48,513	3,862
Acquisition costs	38,129	—	38,129	36,815
	<u>406,879</u>	<u>46,205</u>	<u>360,674</u>	<u>328,255</u>
	<u>\$1,982,178</u>	<u>\$ 597,053</u>	<u>\$1,385,125</u>	<u>\$1,071,616</u>
8. EXCESS OF COST OF SHARES IN SUBSIDIARY COMPANIES OVER BOOK VALUE OF NET ASSETS ACQUIRED				
Cost			\$2,546,245	\$2,446,385
Accumulated amortization			<u>117,628</u>	<u>55,618</u>
			<u>\$2,428,617</u>	<u>\$2,390,767</u>
9. LONG-TERM DEBT				
Bank term loan, secured by a general assignment of accounts and a note receivable of \$320,000 and a fixed and floating charge debenture on the assets of Grandma Lee's of Canada Ltd. for \$830,000; at current bank rates, repayable in quarterly instalments of \$10,000 (\$12,000 in 1980)			\$ 450,000	\$ 409,000
Bank demand term loan at current bank rates, secured by certain accounts receivable and a chattel mortgage of \$57,000 on store equipment and fixtures			75,814	—
Bank demand term loan unsecured, at current bank rates, repayable at a minimum of \$25,000 U.S. per annum			456,000	435,784
Bank term loans, at various current bank rates, repayable in monthly and annual instalments of approximately \$22,000 per annum (\$43,000 in 1980)			110,000	192,369
Federal Business Development Bank loans, at various current bank rates, repayable in mon- thly instalments of \$1,761, secured by certain store assets			68,162	89,895
Other loans and notes payable			—	25,000
			<u>1,159,976</u>	<u>1,152,048</u>
Less: portion included in current liabilities			<u>195,200</u>	<u>157,185</u>
			<u>\$ 964,776</u>	<u>\$ 994,863</u>



10. DEFERRED INCOME TAXES

The deferred income taxes of \$3,077,980 at June 30, 1981 result mainly from the following timing differences:

Depreciation and amortization of deferred charges — where amounts claimed for tax purposes exceed the amounts recorded in the accounts

Deferred expenses — which are claimed for tax purposes when incurred.

Revenue from sales of franchises — which are not reported for tax purposes until payment is received or balance due within one year.

11. MINORITY INTERESTS IN SUBSIDIARY COMPANIES

	1981	1980
Preferred shares	\$ 26,200	\$ 78,600
Common share equity	—	244,053
	<u>\$ 26,200</u>	<u>322,653</u>

The above preferred shares are 8% non-cumulative, redeemable with a par value of \$10 each, issued by one of the company's subsidiaries to outside interests. These preferred shares are redeemable at par at the rate of 10% or more semi-annually commencing June 30, 1977 and continuing on December 31 and June 30 of each succeeding year until paid in full on or before June 1982. Upon payment of each instalment the Escrow Agent shall deliver to the subsidiary the number of the preferred shares proportionate to the instalment.

During the year the company acquired the minority interest in various subsidiaries for a consideration equal to the face value of the shares so acquired.

12. CAPITAL STOCK

(a) Authorized

- 500,000 — first preferred shares at \$10 par value, issuable in series
- 16,000 — 8% non-cumulative, redeemable subordinate preferred shares at \$10 par value
- 10,000,000 — common shares without par value, for a total consideration not to exceed \$10,000,000.

(b) Issued and fully paid

	1981		1980	
	No. of Shares	Amount	No. of Shares	Amount
FIRST PREFERRED SHARES				
— 8% cumulative, redeemable, convertible shares — series A				
Balance at beginning of year	60,000	\$ 600,000	60,000	\$ 600,000
Less cost of issue	—	37,944	—	37,944
	<u>60,000</u>	<u>562,056</u>	<u>60,000</u>	<u>562,056</u>
Less converted during the year	30,000	281,028	—	—
Balance at end of year	<u>30,000</u>	<u>281,028</u>	<u>60,000</u>	<u>562,056</u>



Issued and fully paid	1981		1980	
	No. of Shares	Amount	No. of Shares	Amount
FIRST PREFERRED SHARES				
— 10% cumulative, redeemable, convertible shares — series B				
Balance at end of year	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>
— 10% cumulative, redeemable, convertible shares — series C				
Issued during the year	<u>300,000</u>	<u>3,000,000</u>	—	—
Less cost of issue	<u>—</u>	<u>117,548</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>300,000</u>	<u>2,882,452</u>	<u>—</u>	<u>—</u>
Total preferred shares		<u>\$4,163,480</u>		<u>\$1,562,056</u>
COMMON SHARES				
Balance at beginning of year	<u>5,451,766</u>	<u>\$2,227,431</u>	<u>4,992,845</u>	<u>\$1,290,043</u>
Issued during the year	<u>403,833</u>	<u>947,683</u>	<u>458,921</u>	<u>937,389</u>
Balance at end of year	<u>5,855,599</u>	<u>\$3,175,114</u>	<u>5,451,766</u>	<u>\$2,227,432</u>

Redemption of preferred shares

The company may redeem the whole or any part thereof of the preferred shares on and after June 30, 1981 (series A), June 30, 1982 (series B) and December 31, 1982 (series C) at the following prices:

Up to:	June 30		December 31
	Series A	Series B	Series C
1982	\$12.00	\$ -	\$ -
1983	11.60	12.75	10.50
1984	11.20	12.20	10.50
1985	10.80	11.65	10.50
1986	10.40	11.10	10.40
1987	-	10.55	10.30
1988	10.00	10.00	10.20
1989	10.00	10.00	10.10
Thereafter	10.00	10.00	10.00

Any holders of these preferred shares have the right at any time prior to June 30, 1988 (series A), June 30, 1990 (series B) and December 31, 1990 (series C) to convert such shares to fully paid and non-assessable common shares on



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the basis of 5 common shares for each series A share, 3.63 common shares for each series B share and 2.1 common shares for each series C share so converted.

The company has allotted and reserved 1,145,215 common shares for the conversion of the series A, B, and C preferred shares.

13. FULLY DILUTED EARNINGS PER COMMON SHARE

1981		1980	
Earnings before extraordinary item	Net earnings for year	Earnings before extraordinary item	Net earnings for year
\$0.71	\$0.73	\$0.27	\$0.32

Earnings per common share have been calculated by dividing net earnings adjusted for preferred share dividends by the weighted average number of shares outstanding during the year. Fully diluted earnings per common share have been calculated on the basis of converting all of the preferred shares at the beginning of the year or at the date of issue if later.

14. COMMON SHARES — Key employee stock purchase plan

The company has a stock purchase plan for its senior officers and employees, certain of whom are shareholders and directors of the company.

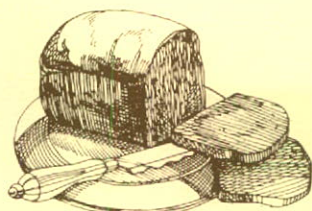
Under this plan a total of 500,000 common shares have been set aside of which 174,500 were issued during the year. At year end, 3,148 of these shares remained unissued. After the total of these shares have been issued the company is restricted from granting options or issue shares under this plan in excess of 5% of the issued capital stock outstanding.

15. STATUTORY INFORMATION

Remuneration of directors and senior officers of the company amounted to \$297,000 (\$126,000 in 1980).

16. COMPARATIVE FIGURES

Certain figures for the year ended June 30, 1980 shown for comparative purposes have been reclassified to conform to the method of presentation adopted in the current year. This has no material effect on the operations or financial position previously reported.



GRANDMA LEE'S INC.
and Subsidiary Companies

AUDITORS' REPORT

To the Shareholders of
Grandma Lee's Inc.

We have examined the consolidated balance sheet of Grandma Lee's Inc. as at June 30, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. 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 and according to the best of our information and the explanations given to us and as shown by the books of the company, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at June 30, 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.

Kendall, Trudol & Co.

CHARTERED ACCOUNTANTS
Montreal, Canada
September 18, 1981

GRANDMA LEE'S INC.
and Subsidiary Companies

Six-Year Operating History in (000)

	1981	1980	1979	1978	1977	1976
Operating Results (\$000)						
Revenues	\$12,609	\$ 7,515	\$ 4,259	\$ 2,678	\$ 1,390	\$ 810
Net Operating Earnings	6,581	2,557	1,308	764	238	155
Income Taxes	1,964	1,059	457	289	63	—
Net Earnings	4,752	1,698	887	475	238	80
Financial Position (\$000)						
Current Assets	\$ 8,159	3,979	1,957	1,067	1,630	579
Current Liabilities	2,639	2,006	1,065	861	747	363
Shareholders' Equity	14,450	6,335	2,907	1,441	1,483	166
Total Assets	21,158	11,129	5,519	3,216	2,527	1,353
Financial Ratios						
Working Capital Ratio	3.1:1	1.98:1	1.8:1	1.24:1	2:1	1.6:1
Net Income on Net Revenue	37%	23%	21%	18%	17%	10%
Shareholders' Equity to Total Assets68	.57	.53	.45	.59	.12
Earnings Per Share85	.33	.18	.10	.06	.03



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GRANDMA LEE'S INC.

and Subsidiary Companies

Grandma Lee's Inc. Corporate Directory

BOARD OF DIRECTORS

Allan R. Biggs,
Toronto, Ontario
Chairman and Chief Executive Officer

David Freeze,
Calgary, Alberta
President
Wesco Investments Limited

Richard J. Hobbs,
Toronto, Ontario
President and Chief Executive Officer
McLeod-Stedman Inc.

William L. Holt,
London, England
Vice President
Stronat International Ltd.

Richard R. Kennedy,
Toronto, Ontario
Partner
Kennedy, Sherman & Marin

George Long,
Minneapolis, Minnesota
President
Mayfield Corporation

David F. Marvin
Wilmington, Delaware
Vice President
E.I. DuPont De Nemours & Company

OFFICERS OF THE COMPANY

Allan R. Biggs
Chairman and Chief Executive Officer

William W. Hood
President and Chief Operating Officer

Josef Meyer
Vice President

Howard H. Rosenberg
Treasurer

Herman J. Ratelle
Secretary

Gordon T. Hanson
Vice President, Assistant Secretary

Carole L. Rampling
Assistant Secretary

AUDITORS

Kendall, Trudel & Co.
Montreal, P.Q.

SOLICITORS

Lafleur, Brown, De Grandpre
Montreal, Quebec

Davies, Ward & Beck
Toronto, Ontario

Barnett, Ratelle, Hennessey,
Vander Vort, Stasel and Herzog
Minneapolis, Minnesota

PRINCIPAL BANKERS

Toronto Dominion Bank
Canadian Imperial Bank of Commerce
Northwestern National Bank

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada

STOCK EXCHANGE LISTINGS

Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
NASDAQ

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Suite 720
800 Place Victoria
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H4Z 1E4

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3258 Wharton Way
Mississauga, Ontario
L4X 2C4
(416) 625-5055

American Office
250 Summer Street,
Buffalo, N.Y.
14222
(716) 882-1525



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