

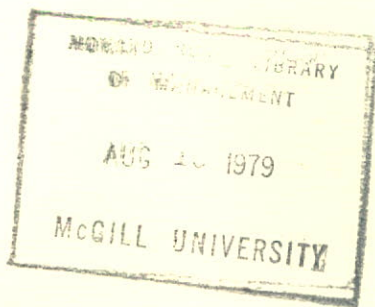


HARDEE FARMS INTERNATIONAL LTD.

20th Annual Report

For the Fiscal Year Ended

June 3, 1978





HARDEE FARMS INTERNATIONAL LTD.

HEAD OFFICE

Suite 200, 931 Yonge Street, Toronto, Ontario M4W 2H7

OPERATING SUBSIDIARIES

The Baxter Canning Co. Limited
7 Stanley Street, Bloomfield, Ontario

Federal Diversiplex Limited
Suite 200, 931 Yonge Street, Toronto, Ontario

Creston Valley Foods Ltd.
P.O. Box 5000, Creston, British Columbia

OPERATING OFFICERS AND DIVISIONS

D.E. Richards — Vice President Western Ontario Operations
P.O. Box 518, Lambeth, Ontario

R.W. McDannold — Vice President Eastern Ontario Operations
7 Stanley Street, Bloomfield, Ontario

B.W. Major — Vice President Bradford Operations
P.O. Box 1030, Bradford, Ontario

R.P. Haupt — Vice President Freeze-Dry Foods
579 Speers Road, Oakville, Ontario

J.F.D. Sampson — Vice President HONEYDEW Products
Suite 200, 931 Yonge Street, Toronto, Ontario

W.C. Piper — President Creston Valley Foods Ltd.
P.O. Box 5000, Creston, British Columbia



HARDEE FARMS INTERNATIONAL LTD.

BOARD OF DIRECTORS

* D.S. Anderson	Toronto
C.H. Franklin	Toronto
R.M. Franklin	Toronto
* F.D. Lace	Toronto
* J.A. McKechnie	Toronto
E.R.S. McLaughlin	Oshawa
W.A. Stewart	London
** D.L. Sinclair	Toronto
* A.W. Walker	Toronto

Audit Committee Chairman (**) and Members (*)

EXECUTIVE OFFICERS

C.H. Franklin	Chairman of the Board and Chief Executive Officer
A.W. Walker	President
R.M. Franklin	Executive Vice President
W.R. Abbott	Vice President and Secretary
D.H. Kirstine	Treasurer

AUDITORS

Coopers & Lybrand	Toronto
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SOLICITORS

Fasken & Calvin	Toronto
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BANKERS

The Royal Bank of Canada
Canadian Imperial Bank of Commerce

STOCK LISTING

Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT

The Canada Trust Company	Toronto, Montreal and Winnipeg
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ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Alberta Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario at 9:30 o'clock in the forenoon on Tuesday, November 21, 1978.



HARDEE FARMS INTERNATIONAL LTD.

Chairman's Report to Shareholders

There is only one description for the fiscal year ended June 3, 1978 — it was a disaster.

For the past two years, the Company has continuously reported both to shareholders and to government the inequities of Ontario Farm Products Marketing Board requirements on one hand and federal government DREE hand-outs in other provinces on the other.

This situation reached its peak this year in the french fry potato market whereby competitors who had been subsidized into production with government funds were able to purchase potatoes at totally uncompetitive prices from farmers in their growing region. There is no way an Ontario processor can compete in the competitive french fry market with this type of competition. Your Company has declined to issue contracts to Ontario growers for potatoes during the current growing season and proposes processing potatoes grown only on company farms or available at competitive prices. Naturally if this trend continues, Ontario will lose its entire processed potato market to more favored subsidized companies and growers in other provinces. The provincial government seems unable to render any assistance in this matter and it is just one more example of unequal federal government interference in the national economy.

The above problems coupled with very unusual growing conditions caused your Company to sustain a serious loss. In all matters within the control of your directors, this situation will not be repeated and any necessary steps have been taken to eliminate loss areas.

Mr. Walker's appended report sets out all the various operating results and conditions.

In spite of the poor result indicated, it is believed by your directors that all personnel rendered utmost effort in the face of very trying market and weather conditions. Their support and the continued patronage of customers and assistance of suppliers is greatly appreciated.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "C. H. Franklin". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

C.H. Franklin, *Chairman*

President's Message

Adverse results of the past year stemmed chiefly from the commodity character of Hardee's basic agricultural business and the fact that several normally contributive activities turned negative within a single twelve month period.

Agriculturally, it will be remembered that for several weeks last fall it rained continuously throughout the Company's entire southern Ontario farming area. A prospective bumper crop in August suddenly became a harvesting nightmare for September and October requiring the bypass of substantial acreages of fall processing crops and reducing both yields and market quality of vegetables stored for sale over the course of succeeding winter and early spring months. Thus, agricultural results were substantially poorer than those of the former year and for the second successive year farming returns remained well below previously established averages. Trading margins of the Bradford and Quebec fresh vegetable produce division were also adversely affected by these unusual fall weather conditions.

Contrary to the circumstances which applied in southern Ontario, growing and harvesting conditions for potato farmers in most parts of North America and Europe were particularly favourable last year so that Canada's domestic potato surplus did not have any significant export outlet and relatively low farm level potato prices prevailed. In spite of this continental situation Ontario potato growers organized under Provincial Marketing Board Regulations, insisted on maintaining pre-season contract prices which were approximately double those being paid at delivery dates by processors elsewhere in Canada. Your Company was thus obliged to take delivery of contracted quantities of potatoes at uncompetitive costs for sale into the most keenly competitive frozen french fried potato market seen in Canada for many years. The result was that for the first time in its history Hardee recorded substantial losses on the production and sale of frozen french fries. This factor alone accounted for most of the past year's reversal in operating results.

For the future this experience has clearly established how unrealistic it is for Ontario producers of agricultural commodities to ignore competitive conditions prevailing outside this Province. It has also emphasized the unfair risk imposed upon Ontario processors where pre-season contracting of storage crops is required under Provincial Marketing Board Regulations. Accordingly, your Company refused to enter into pre-season contracts with Ontario potato growers for the current year and has suspended french fry production until fall when limited processing will be resumed.

September 12, 1978

Markets for seasonal canned commodities such as peas, tomatoes, and tomato juice remained weak throughout the past year and consequently results of The Baxter Canning Company continued to be unsatisfactory. However, significant advances were made in the development of non-seasonal business and the gains from these efforts will be of benefit to the current and future years. The Baxter canning plant is now one of the most modern and efficient in Ontario and management attention is focussed on securing the year round production volume warranted by such an outstanding facility.

In such a generally disappointing report it is encouraging to observe that a favourable shift was experienced in frozen vegetable margins. This return to more reasonable inventory positions for most frozen vegetable processors in North America was accompanied by firmer markets and it is anticipated that this trend will continue into the current year.

Results of the HONEYDEW division were particularly good. The successful introduction of single strength HONEYDEW in convenient 10 ounce cans has revealed interesting new possibilities for further extension of the marketing base open to this popular line of beverages.

Operations of the Freeze-Dry Foods Division were again favourable against those of the previous year due to substantially increased bulk export volume. It is planned that this division's degree of dependence on the needs of other food processors will be reduced in future by the introduction of new retail products and by the further extension of the present recreational food lines.

The Kirkwood Kitchens Division was successful in the retail introduction of convenient frozen quiche products during the past year and is presently active in introducing a frozen western sandwich mix prepared especially for the food service trade. These products with microwave convenience, already successful in Canada, have recently been most favourably received in selected United States markets.

For several years, results of Hardee's Quebec Division have been unfavourable and opportunities for improvement did not appear promising. It was therefore decided that this operation should be disposed of and a small gain was realized on that sale during the past year. A profit was also realized on the sale of a portion of the old Christie

Automotive property in Toronto and has been reflected as extraordinary income in the accompanying accounts.

Unanticipated difficulties were encountered in the agricultural bag business of Bestpac Limited in which Federal Diversiplex Limited held the controlling interest. Competition for North American markets from low wage Asian countries became sufficiently intense that it was decided to terminate operations. The full amount of Federal's investment in this subsidiary has been written off.

Although Federal's extensive agricultural operations provide long-term use for the vacuum-cooling plant and the large controlled crop storage buildings at Bradford, the former main produce packing plant at that location has been inactive for several years. This building together with an adjoining small structure was sold near fiscal year end and the related profit appears as an extraordinary income item of the past year.

Considerable progress was made during the year by Federal's 65% controlled subsidiary Creston Valley Foods Ltd. Test market response to the convenience of retort pouch processed small whole and sliced potatoes has been sufficiently encouraging to warrant a shift in current emphasis toward such unique products rather than on the previously contemplated displacement of frozen french fries where Canadian markets have become almost disastrously competitive. Packaging problems encountered last fall by Creston's pouch supplier resulted in costly production delays but with the supplier's guaranteed assurance that these difficulties have now been overcome, it is anticipated that commercial production volume will be achieved this fall.

Although consolidated results of the past two fiscal years have been extremely disappointing current indicators suggest that barring any unanticipated late season agricultural reversal, actions taken over the past several months should result in a return to profitable operations for the current year.



September 12, 1978

A.W. Walker, President



CONSOLIDATED BALANCE SHEET

AS AT JUNE 3, 1978

ASSETS

	1978 \$	1977 \$
CURRENT ASSETS		
Accounts receivable	3,022,110	2,901,671
Inventories	5,903,586	6,334,071
Prepaid crop and other expenses	1,078,481	1,205,487
Current portion of mortgages receivable	<u>344,492</u>	<u>82,566</u>
	10,348,669	10,523,795
MORTGAGES RECEIVABLE (note 2)	986,232	616,028
INVESTMENT IN AND ADVANCES TO BESTPAC LIMITED (note 8)	—	112,000
INVESTMENT IN UNCONSOLIDATED SUBSIDIARY (note 3)	429,694	159,677
FIXED ASSETS (note 4)	9,729,219	10,503,508
HONEYDEW TRADEMARKS	479,792	488,968
EXCESS OF PURCHASE PRICE OF SHARES OF SUBSIDIARIES OVER BOOK VALUE THEREOF	497,247	509,844
SIGNED ON BEHALF OF THE BOARD	<u>22,470,853</u>	<u>22,913,820</u>
C.H. Franklin, <i>Director</i>		
D.L. Sinclair, <i>Director</i>		

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at June 3, 1978 and the consolidated statements of loss, 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.

LIABILITIES

	1978 \$	1977 \$
CURRENT LIABILITIES		
Bank advances and acceptances (note 5)	6,783,762	6,804,112
Accounts payable and accrued liabilities	2,821,555	2,325,205
Current portion of long-term debt	<u>1,040,025</u>	<u>932,008</u>
	10,645,342	10,061,325
LONG-TERM DEBT (note 6)	5,220,475	4,707,921
DEFERRED INCOME TAXES	134,000	188,000
MINORITY INTEREST (note 7)	<u>421,880</u>	<u>471,672</u>
	<u>16,421,697</u>	<u>15,428,918</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized —

40,250 first preferred shares of the par value
of \$100 each, issuable in series

6,000,000 common shares of no par value

Issued and fully paid —

4,608,678 common shares 3,886,641 3,886,641

RETAINED EARNINGS 2,162,515 3,598,261

6,049,156 7,484,902

22,470,853 22,913,820

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 3, 1978 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.

Toronto, Ontario
July 28, 1978

COOPERS & LYBRAND
Chartered Accountants



CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED JUNE 3, 1978

	1978 \$	1977 \$
SALES.....	28,763,209	28,533,624
COST OF SALES AND OTHER EXPENSES.....	28,390,899	27,600,183
DEPRECIATION.....	661,843	610,256
	<u>29,052,742</u>	<u>28,210,439</u>
LOSS (EARNINGS) FROM OPERATIONS BEFORE INTEREST.....	289,533	(323,185)
INTEREST (note 6).....	1,158,066	1,149,827
LOSS FROM OPERATIONS BEFORE INCOME TAXES.....	1,447,599	826,642
RECOVERY OF (PROVISION FOR) INCOME TAXES		
Current.....	(27,000)	(30,217)
Deferred.....	54,000	329,000
	<u>27,000</u>	<u>298,783</u>
	1,420,599	527,859
MINORITY INTEREST IN LOSS OF SUBSIDIARIES.....	936	125,105
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS.....	1,419,663	402,754
EXTRAORDINARY ITEMS (note 8).....	16,083	(26,048)
NET LOSS FOR THE YEAR.....	<u>1,435,746</u>	<u>376,706</u>
PER COMMON SHARE:		
Loss before extraordinary items.....	<u>31¢</u>	<u>9¢</u>
Net loss for the year.....	<u>31¢</u>	<u>8¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 3, 1978

	1978 \$	1977 \$
RETAINED EARNINGS — BEGINNING OF YEAR....	3,598,261	4,113,421
Net loss for the year.....	1,435,746	376,706
	<u>2,162,515</u>	<u>3,736,715</u>
Dividends.....	—	138,454
RETAINED EARNINGS — END OF YEAR.....	<u>2,162,515</u>	<u>3,598,261</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 3, 1978

	1978 \$	1977 \$
SOURCE OF FUNDS		
Long-term debt incurred	1,321,595	2,572,500
Proceeds on disposal of fixed assets	1,140,548	450,257
Reduction of income taxes arising from prior years	27,000	26,048
Reduction in mortgages receivable	91,796	82,566
	<u>2,580,939</u>	<u>3,131,371</u>
USE OF FUNDS		
Loss for the year before extraordinary items	1,419,663	402,754
Items not requiring an outlay of funds —		
Depreciation	(660,674)	(607,272)
Deferred income taxes	54,000	329,000
	812,989	124,482
Purchase of fixed assets	765,821	2,008,537
Retirement of long-term debt	809,041	1,289,361
Mortgages receivable on disposal of fixed assets	462,000	390,000
Minority interest in net loss of subsidiaries	936	129,936
Purchase of minority interest shares in subsidiaries	15,360	40,102
Trademarks and process development costs	824	44,093
Investment in unconsolidated subsidiary	270,017	—
Investment in and advances to Bestpac Limited	203,094	112,000
Dividends	—	138,454
	<u>3,340,082</u>	<u>4,276,965</u>
DECREASE IN WORKING CAPITAL		
	759,143	1,145,594
WORKING CAPITAL — BEGINNING OF YEAR	<u>462,470</u>	<u>1,608,064</u>
WORKING CAPITAL (DEFICIENCY) —		
END OF YEAR	<u>(296,673)</u>	<u>462,470</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 3, 1978

1. SUMMARY OF ACCOUNTING POLICIES

- (a) Basis of consolidation
The consolidated financial statements include the accounts of the company and all subsidiary companies, except for Creston Valley Foods Ltd. (note 3), at their respective fiscal year-ends with appropriate provision for minority interests. The results of all subsidiaries are included from the dates of acquisition and are accounted for as purchases.
- (b) Inventories
Inventories are valued at the lower of cost and net realizable value.
- (c) Prepaid crop expenses
Crop expenses attributable to the current farm program are included in prepaid crop expenses.
- (d) Fixed assets
Fixed assets are depreciated principally on a straight-line basis over their estimated useful lives as follows:
Buildings — 20 to 40 years
Equipment — 7 to 17 years
- (e) HONEYDEW trademarks
This asset is carried at cost, since it is not anticipated that its inherent worth will decline below cost.
- (f) Excess of purchase price of shares
Acquisition costs of each purchased subsidiary are allocated to that subsidiary's identifiable net assets on the basis of estimated fair values at the date of acquisition with any excess being carried as excess of purchase price of shares of subsidiaries over book value thereof. All such excesses of purchase price arose prior to April, 1974 and are not being amortized so long as there is no evidence of impairment in value.
- (g) Income taxes
The companies follow the tax allocation method of providing for income taxes. Under this method timing differences between reported and taxable income result in adjustments to deferred income taxes.

2. MORTGAGES RECEIVABLE

Mortgages receivable are as follows:

	Current \$	Long-term \$	1978 Total \$	1977 Total \$
10-1/2%, due May 1981, payable in blended quarterly payments of \$10,000	29,543	80,888	110,431	137,065
8%, due August 29, 1982, payable \$28,471 principal per annum, plus interest	56,943	114,586	171,529	171,529
12% due January 1, 1987, payable in blended quarterly payments of \$16,753	25,265	337,025	362,290	390,000
10-1/2%, due September 29, 1978	225,000	—	225,000	—
10%, due March 31, 1983, payable in blended monthly payments of \$4,100	7,044	417,956	425,000	—
11-1/2%, due April 10, 1982, payable in blended monthly pay- ments of \$388	697	35,777	36,474	—
	<u>344,492</u>	<u>986,232</u>	<u>1,330,724</u>	<u>698,594</u>

Mortgages receivable include \$171,529 in U.S. funds.

3. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

During the year Federal Diversiplex Limited (Federal), a subsidiary, invested technology together with cash of \$250,000 to acquire 65% of the issued capital stock of Creston Valley Foods Ltd. (Creston). By agreement with the Province of British Columbia and Hardee Farms International Ltd., Federal may elect prior to April 15, 1980 to withdraw from Creston. If such an election is made, the shares would be returned to the Province after any net current assets are distributed to the shareholders. The unaudited financial position of Creston as at April 1, 1978, Federal's year-end, was:

	\$
Current assets	250,142
Current liabilities	99,588
Net current assets	150,554
Fixed assets	1,668,739
Technology, deferred development costs and other intangibles	687,566
	2,506,859
Long-term debt	1,756,849
Shareholders' equity	750,010

4. FIXED ASSETS

Fixed assets are as follows:

	1978 \$	1977 \$
Buildings and equipment — at cost	13,268,555	13,979,926
Accumulated depreciation	5,953,598	6,029,940
	7,314,957	7,949,986
Land — at cost	1,814,262	1,953,522
Other lands (approximately 4,600 acres) — at values assigned by the directors in 1971	600,000	600,000
	2,414,262	2,553,522
	9,729,219	10,503,508

Two subsidiaries of the company have received forgivable loans from government agencies. As at June 3, 1978, \$50,000 remained to be forgiven in 1978. Based upon the expectation that the operations for which the loans were obtained will continue as required, the amount of the loans have been applied as a reduction in the cost of the related buildings and equipment.

5. BANK ADVANCES AND ACCEPTANCES

Bank advances and acceptances are secured by a pledge of shares in subsidiaries, assignment of book debts, inventories, fire insurance policies and mortgages receivable and a \$3,500,000 debenture on the assets of the company.

6. LONG-TERM DEBT

Long-term debt is as follows:

	Current \$	Long-term \$	1978 Total \$	1977 Total \$
Bank loans at interest rates ranging from prime plus 1-1/2% to prime plus 2% due between October 20, 1979 and June 1, 1985	891,800	4,412,920	5,304,720	4,340,490
Sundry mortgages and notes, at interest rates between 6% and 9.3%, due between January 3, 1979 and June 6, 1987	148,225	807,555	955,780	1,299,439
	1,040,025	5,220,475	6,260,500	5,639,929

Subsequent to the year-end, a subsidiary, The Baxter Canning Co. Limited, arranged additional financing of \$500,000.

Interest on long-term debt for the current year amounted to \$533,525.

7. MINORITY INTEREST

Minority interest is as follows:

	1978 \$	1977 \$
Federal Diversiplex Limited	421,880	462,309
The Baxter Canning Co. Limited	—	9,363
	<u>421,880</u>	<u>471,672</u>

8. EXTRAORDINARY ITEMS

Extraordinary items are as follows:

	1978 \$	1977 \$
Reduction of income taxes arising from prior years	(27,000)	(21,217)
Gain on sale of fixed assets	(251,112)	—
Loss on investment in and advances to Bestpac Limited on discontinuance of operations	315,094	—
	<u>36,982</u>	<u>(21,217)</u>
Minority interest therein	(20,899)	(4,831)
	<u>16,083</u>	<u>(26,048)</u>

9. FUTURE INCOME TAXES

	Hardee Farms International Ltd. \$	Subsidiaries \$
Losses available for tax purposes —		
Expiring in 1982	—	321,000
Expiring in 1983	155,000	647,000
	<u>155,000</u>	<u>968,000</u>
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	1,135,000	604,000
The tax effects of the above have not been reflected in the accounts	1,290,000	1,572,000
In addition future income tax payments could be deferred by refiling tax returns and claiming addi- tional capital cost allowance and deductions in respect of cumulative eligible capital in the amount of approximately	—	1,558,000
	<u>1,290,000</u>	<u>3,130,000</u>

10. ANTI-INFLATION ACT

The company is subject to restraint of dividends under the terms of the Anti-Inflation Act and Regulations, which became effective October 14, 1975.

11. DIRECTORS AND OFFICERS

In accordance with the requirements of Section 122.2 of the Canada Corporations Act, the following information is provided.

	Number	Remuneration
Directors (3 are officers)	9	\$9,325
Officers	11	\$337,526

HARDEE FARMS INTERNATIONAL LTD.

FIVE YEAR REVIEW

	1978 \$	1977 \$	1976 \$	1975 \$	1974 \$
OPERATING RESULTS					
Sales	<u>28,763,209</u>	<u>28,533,624</u>	<u>25,429,490</u>	<u>20,659,966</u>	<u>21,202,336</u>
EARNINGS					
BEFORE THE FOLLOWING	372,310	933,441	2,230,075	2,422,766	2,374,244
Depreciation	661,843	610,256	534,432	439,963	421,313
Interest	1,158,066	1,149,827	865,438	641,142	608,534
Income taxes	(27,000)	(298,783)	395,000	606,800	600,000
Minority interest (loss)	<u>(936)</u>	<u>(125,105)</u>	<u>41,033</u>	<u>9,216</u>	<u>44,063</u>
(LOSS) EARNINGS					
BEFORE EXTRAORDINARY ITEMS	<u>(1,419,663)</u>	<u>(402,754)</u>	<u>394,172</u>	<u>725,645</u>	<u>700,334</u>
Extraordinary items	<u>(16,083)</u>	<u>26,048</u>	<u>277,160</u>	<u>208,544</u>	<u>799,773</u>
NET (LOSS) EARNINGS	<u>(1,435,746)</u>	<u>(376,706)</u>	<u>671,332</u>	<u>934,189</u>	<u>1,500,107</u>
FINANCIAL POSITION					
Total Assets	22,470,853	22,913,820	21,249,087	18,569,154	16,381,360
Total Liabilities	<u>16,421,697</u>	<u>15,428,918</u>	<u>13,249,025</u>	<u>11,171,480</u>	<u>9,923,125</u>
Shareholders' Equity	<u>6,049,156</u>	<u>7,484,902</u>	<u>8,000,062</u>	<u>7,397,674</u>	<u>6,458,235</u>
PER SHARE					
(Loss) earnings before extraordinary items.	(31¢)	(9¢)	9¢	16¢	15¢
Net (loss) earnings for the year	(31¢)	(8¢)	15¢	20¢	33¢
Dividends	—	3¢	1-1/2¢	—	—
Book value	\$1.31	\$1.62	\$1.74	\$1.61	\$1.40
Total shares outstanding	4,608,678	4,608,678	4,608,678	4,608,678	4,603,178

