

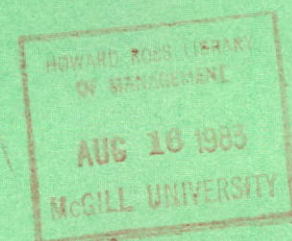


HARDEE FARMS INTERNATIONAL LTD.

23rd Annual Report

For the Fiscal Year Ended

May 30, 1981





HARDEE FARMS INTERNATIONAL LTD.

HEAD OFFICE

Suite 200, 931 Yonge Street, Toronto, Ontario M4W 2H7/416-962-8600

OPERATING DIVISIONS AND MARKET AREAS

Lambeth/Ingersoll Frozen Division

P.O. Box 518
Lambeth, Ontario
519/652-3584

Freeze Dry Foods Division

579 Speers Road
Oakville, Ontario
416/925-3168

Baxter Canning Division

7 Stanley Street
Bloomfield, Ontario
613/393-3140

Honeydew Products Division

Suite 200, 931 Yonge Street
Toronto, Ontario
416/922-7255

Bradford Fresh Produce Division

P.O. Box 1030
Bradford, Ontario
416/775-3345

Kirkwood Kitchens Division

Suite 200, 931 Yonge Street
Toronto, Ontario
416/922-7255

ANNUAL MEETING

The Annual Meeting of
Shareholders will be held in the Library
Main Mezzanine Floor of the Royal York Hotel
100 Front Street West
Toronto, Ontario at 10:15 o'clock
in the forenoon on Tuesday
November 17, 1981



HARDEE FARMS INTERNATIONAL LTD.

BOARD OF DIRECTORS

* D. S. Anderson	Toronto
G. L. Davis	Toronto
* D. E. Foyston	Toronto
C. H. Franklin	Toronto
R. M. Franklin	Toronto
* F. D. Lace	Toronto
* J. A. McKechnie	Victoria
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
D. E. Richards	Senior Vice President
R. W. McDannold	Senior Vice President
W. R. Abbott	Vice President and Secretary
D. H. Kirstine	Vice President Finance and Treasurer
R. P. Haupt	Vice President

AUDITORS

Coopers & Lybrand	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

Guaranty Trust Company of Canada	Toronto
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Chairman's Report to Shareholders:

The most significant event affecting the future of Hardee Farms International Ltd. occurred shortly after the 1981 fiscal year end following lengthy and complex negotiations between the company, its bankers, and the income tax authorities. On June 29, 1981, documents were executed whereby \$9,050,000 of Hardee's short and long-term bank indebtedness was converted to Income Debentures which mature in May, 1986, and bear interest at one-half of the prime bank rate plus one per cent.

Currently well-advanced negotiations are expected to result in the further conversion to Income Debentures of long-term bank debt outstanding in the amount of \$990,000.

Under these arrangements Hardee has granted stock options to its bankers whereby they may purchase a total of 300,000 common treasury shares at the price of 75 cents per share at any time prior to May 31, 1983; \$1.00 per share thereafter until May 31, 1984; \$1.25 per share thereafter until May 31, 1985; and \$1.50 per share thereafter until May 31, 1986, the option expiry date. A similar five year option covering 33,000 common shares will be granted upon completion of the anticipated further issue of Income Debentures.

Although interest payable on Income Debentures is not a deductible expense for income tax purposes, Hardee can reduce future taxable income by \$5,371,000 through utilization of accumulated losses and unclaimed capital cost allowances carried forward from prior years. In addition, a subsidiary company can similarly reduce future taxable income by \$3,248,000.

This Income Debenture financing has the effect of increasing Hardee's Working Capital by \$5,300,000 over the amount shown in the accompanying financial statements at May 30, 1981, and of reducing interest costs on the principal balance by approximately one-half. At present prime bank rates the reduction in Hardee's interest costs should exceed \$1,000,000 in the current fiscal year.

These arrangements will correct the chronic imbalance which has developed over the past several years between operating results and related interest costs.

For the year ended May 30, 1981, interest costs exceeded pre-interest earnings from operations by \$932,238. This reflected an increase of \$263,623 in interest expense during the year and a decline of \$316,496 in earnings from operations chiefly as a result of disappointing harvest conditions which adversely affected farming results and processing volume for the 1980-81 fiscal year.

Extraordinary income of \$95,727 from the disposal of assets following discontinuation in 1980 of the Bradford produce packaging operations, reduced the final net loss to \$836,511 for the year. Further proceeds will be realized from this source in the current year and will be applied toward reduction of debt and related interest costs.

Although results for 1980-81 were very disappointing there are current indications that a long overdue turnaround is being realized so that better things may now be expected. Information covering ongoing activities is included in the accompanying President's Report.

Despite the difficulties of the past year significant progress has been made in important areas of our business. The major contribution of our many valued customers, suppliers, and employees is again acknowledged with appreciation.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "C. H. Franklin". The signature is fluid and cursive, with a large initial "C" and a long, sweeping underline.

C. H. Franklin, Chairman.

October 6, 1981.

President's Report to Shareholders:

Operations for the year ended May 30, 1981, resulted in a loss of \$932,238 on sales of \$27,182,956 against a loss of \$352,119 on sales of \$25,624,228 for the preceding year.

Prevailing crop and harvest conditions were below normal in the 1980 season and the related reductions in farming profit and plant throughput substantially account for the decline of \$316,496 in pre-interest earnings.

Interest costs increased by \$263,623 in the current year reflecting the continuing effect of the record high interest rates to which Hardee has been exposed. It is gratifying to now anticipate the future relief from this burden which will result from the Income Debenture financing described elsewhere in this annual report.

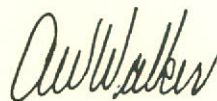
Canning operations again showed encouraging improvement. The non-seasonal processing of drinks, juices and other items on a custom or co-pack basis has grown rapidly and now represents a significant proportion of the production volume at this Division. The contribution realized from such activities has been a vital element in the satisfactory progress made by Baxter Canning over the course of the past few years. Plans for future growth at Baxter place primary emphasis on further expanding the non-seasonal element of the business. This will help to reduce Hardee's dependence on favourable agricultural conditions as a prerequisite to acceptable operating results.

Operations of the Frozen Vegetable Division for the past year were disappointing. Chiefly, this was a reflection of adverse weather at harvest time. Trading margins were relatively stable and customer demand for Hardee frozen vegetables remained strong throughout the year. New and modern potato peeling equipment incorporating the latest in process technology was installed at the Lambeth plant. Heavily-powered and very efficient automated harvesting machinery was also acquired to reduce the extent to which bad weather may impact future harvests.

Both the HONEYDEW and Freeze Dry Foods Divisions produced results which were less than those realized in the preceding year. Competitive conditions at the retail level for frozen citrus concentrates had a negative affect on HONEYDEW beverage operations in the latter part of the fiscal year. Introductory planning and development of a very high quality frozen concentrated orange juice containing Florida orange blossom honey was completed during the year so that marketing of this new HONEYDEW product under the brand name "Premium" was initiated three months ago. Preliminary consumer response has exceeded expectations and opens prospects for additional brand development possibilities.

For several years Hardee's Freeze Dry Foods Division enjoyed a preferred position as the custom supplier of freeze dried noodles, meats, vegetables, and other ingredients to prominent North American producers of instant convenience soup mixes. Reducing consumer demand for instant soup products resulted in curtailed activity for this Division during the past year. However, significant international demand for freeze dried corn and other freeze dried items has since developed so that a return to desired production volume has now been achieved.

Present circumstances point to satisfactory operating levels for all segments of the Company in the current year. These positive operating prospects in combination with the benefits established through the recent Income Debenture financing provide a new and promising base from which to measure Hardee's future.



A. W. Walker, President.

October 6, 1981.



CONSOLIDATED BALANCE SHEET

AS AT MAY 30, 1981

ASSETS

	1981 \$	1980 \$
CURRENT ASSETS		
Accounts receivable	2,840,840	3,684,592
Inventories	10,329,894	8,703,229
Prepaid crop and other expenses	1,547,201	1,139,340
Current portion of mortgages receivable	157,497	120,439
Fixed assets from discontinued operations held for sale	670,262	1,125,967
	<u>15,545,694</u>	<u>14,773,567</u>
MORTGAGES RECEIVABLE (notes 3 and 10)	1,060,537	1,220,512
FIXED ASSETS (note 4)	6,527,435	6,593,547
HONEYDEW TRADEMARKS	474,336	474,461
GOODWILL	473,547	473,547

SIGNED ON BEHALF OF THE BOARD

C. H. Franklin, Director

D. L. Sinclair, Director

<u>24,081,549</u>	<u>23,535,634</u>
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AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at May 30, 1981 and the consolidated statements of loss, deficit 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

	1981 \$	1980 \$
CURRENT LIABILITIES		
Bank advances and acceptances (notes 5 and 10)	8,341,292	7,796,366
Accounts payable and accrued liabilities	5,888,765	4,847,051
Current portion of long-term debt	887,351	1,119,221
	<u>15,117,408</u>	<u>13,762,638</u>
LONG-TERM DEBT (notes 6 and 10)	4,945,272	4,917,616
	<u>20,062,680</u>	<u>18,680,254</u>
CONTINGENCY (note 11)		

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 2)		
Issued and fully paid —		
5,001,201 common shares of no par value	4,346,413	4,346,413
(DEFICIT) RETAINED EARNINGS	(327,544)	508,967
	<u>4,018,869</u>	<u>4,855,380</u>
	<u>24,081,549</u>	<u>23,535,634</u>

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

Toronto, Ontario
July 24, 1981

COOPERS & LYBRAND
Chartered Accountants



CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED MAY 30, 1981

	1981 \$	1980 \$
SALES	27,182,956	25,624,228
COST OF SALES AND OTHER EXPENSES	25,223,766	23,385,317
DEPRECIATION	589,872	553,097
	<u>25,813,638</u>	<u>23,938,414</u>
EARNINGS FROM OPERATIONS BEFORE INTEREST ..	1,369,318	1,685,814
INTEREST (note 6)	<u>2,301,556</u>	<u>2,037,933</u>
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEMS	932,238	352,119
EXTRAORDINARY ITEMS (note 7)	<u>(95,727)</u>	<u>1,165,613</u>
NET LOSS FOR THE YEAR	<u>836,511</u>	<u>1,517,732</u>
PER COMMON SHARE:		
Loss before extraordinary items	<u>19¢</u>	<u>7¢</u>
Net loss for the year	<u>17¢</u>	<u>30¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED MAY 30, 1981

	1981 \$	1980 \$
RETAINED EARNINGS — BEGINNING OF YEAR	508,967	2,026,699
Net loss for the year	<u>836,511</u>	<u>1,517,732</u>
(DEFICIT) RETAINED EARNINGS — END OF YEAR ..	<u>(327,544)</u>	<u>508,967</u>

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION**
FOR THE YEAR ENDED MAY 30, 1981

	1981 \$	1980 \$
SOURCE OF FUNDS		
Proceeds on disposal of fixed assets	41,537	2,368,423
Long-term debt incurred	715,000	1,566,685
Reduction in mortgages receivable	159,975	120,395
Capital stock issued	—	68,286
Fixed assets from discontinued operations held for sale	—	1,125,967
	<u>916,512</u>	<u>5,249,756</u>
USE OF FUNDS		
Loss for the year before extraordinary items	932,238	352,119
Depreciation and other items not requiring an outlay of funds	684,254	646,716
	<u>247,984</u>	<u>(294,597)</u>
Purchase of fixed assets	563,827	363,542
Retirement of long-term debt	687,344	1,204,228
Loss from discontinued operations	—	646,124
Mortgages receivable on disposal of fixed assets	—	452,943
Purchase of minority interest shares in subsidiaries	—	192,067
Investment in and advances to unconsolidated subsidiary	—	940,416
	<u>1,499,155</u>	<u>3,504,723</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(582,643)	1,745,033
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	1,010,929	(734,104)
WORKING CAPITAL — END OF YEAR	<u>428,286</u>	<u>1,010,929</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 30, 1981

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies at their respective fiscal year-ends. The acquisitions of subsidiaries are accounted for as purchases and the results of all subsidiaries are included from the dates of acquisition.

(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) Goodwill

Upon the acquisition of each purchased subsidiary, which is now a division, the acquisition costs were 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 goodwill. All such goodwill arose prior to April, 1974 and is not being amortized so long as there is no evidence of impairment in value.

2. SHARE CAPITAL

During the year the company was continued under the Canada Business Corporations Act. Under the Articles of Continuance, the common shares of the company are without nominal or par value and are authorized in unlimited number.

3. MORTGAGES RECEIVABLE

Mortgages receivable are as follows:

	Current \$	Long-term \$	1981 Total \$	1980 Total \$
Sundry mortgages, at interest rates between 8% and 13%, due between November 1, 1981 and January 1, 1987	157,497	1,060,537	1,218,034	1,340,951

Mortgages receivable include \$57,245 in U.S. funds.

See also note 10.

4. FIXED ASSETS

Fixed assets are as follows:

	1981 \$	1980 \$
Buildings and equipment — at cost	10,332,273	9,838,935
Accumulated depreciation	<u>4,712,637</u>	<u>4,139,868</u>
	5,619,636	5,699,067
Land — at cost	307,799	294,480
Other lands (approximately 4,600 acres) — at values assigned by the directors in 1971	<u>600,000</u>	<u>600,000</u>
	907,799	894,480
	<u>6,527,435</u>	<u>6,593,547</u>

5. BANK INDEBTEDNESS

Bank indebtedness, including advances, acceptances and long-term loans, is secured by a pledge of shares in a subsidiary, assignment of book debts, inventories, fire insurance policies, mortgages receivable and debentures on the assets of the company and the above subsidiary.

See also note 10.

6. LONG-TERM DEBT

Long-term debt is as follows:

	Current \$	Long-term \$	1981 Total \$	1980 Total \$
Bank loans (note 5), at interest rates ranging from prime plus 1½% to prime plus 2%, due between December 31, 1981 and August 31, 1988	725,000	4,115,000	4,840,000	4,775,000
Sundry mortgages and notes, at interest rates between 6% and 12¼%, due between August 1, 1981 and June 15, 1990	<u>162,351</u>	<u>830,272</u>	<u>992,623</u>	<u>1,261,837</u>
	887,351	4,945,272	5,832,623	6,036,837

Repayments required on long-term debt in 1983 are \$736,344, in 1984 \$719,482, in 1985 \$728,134 and in 1986 \$714,648.

Interest on long-term debt for the current year amounted to \$913,582.

7. EXTRAORDINARY ITEMS

	1981	1980
	\$	\$
Gain on disposal of fixed assets	(95,727)	—
Write-off on retort pouch processing	—	1,369,710
Net gain from discontinued operations	—	(204,097)
	<u>(95,727)</u>	<u>1,165,613</u>

8. FUTURE INCOME TAXES

The following amounts are available to reduce future income taxes:

	Hardee Farms International Ltd. \$	Subsidiary \$
Losses available for tax purposes —		
Expiring in 1982	—	392,000
Expiring in 1983	—	559,000
Expiring in 1984	—	436,000
Expiring in 1985	1,499,000	184,000
Expiring in 1986	656,000	—
	<u>2,155,000</u>	<u>1,571,000</u>
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	<u>2,207,000</u>	<u>525,000</u>
The tax effects of the above have not been reflected in the accounts	4,362,000	2,096,000
In addition, future income tax payments could be deferred by refiling tax returns and claiming additional capital cost allowance in the amount of approximately	<u>1,009,000</u>	<u>1,152,000</u>
	<u>5,371,000</u>	<u>3,248,000</u>

9. RELATED PARTY TRANSACTIONS

- The company is 53.7% owned by Algonquin Mercantile Corporation, the parent company.
- The parent company pays certain joint costs of the company, and is reimbursed for its proportionate share thereof.

10. SUBSEQUENT EVENT

On June 29, 1981, the company converted a substantial portion of its bank indebtedness, including long-term bank debt, to income debentures.

\$

Debt converted:

Demand advances	5,300,000
Long-term loans	<u>3,750,000</u>
Income debentures issued	<u>9,050,000</u>

The income debentures, due May 31, 1986, are at an interest rate of one-half of prime plus 1% and are repayable \$500,000 per annum.

The issue of these income debentures has the effect of increasing working capital by \$5,300,000.

As a condition of converting this bank indebtedness to income debentures, the company disposed of certain mortgages receivable to its parent. The mortgages receivable, at average interest rates of 12.3%, have a face value of \$880,000 and, on a discounted basis, the net proceeds on disposal were \$761,000.

The company is negotiating with another bank towards the conversion of \$990,000 of existing bank indebtedness into an income debenture which will carry terms and conditions similar to those described above.

Neither the increase in working capital, nor the provision for loss on disposal of the mortgages, have been reflected in the financial statements of the company.

11. CONTINGENCY

An action has been brought against the company in the Supreme Court of Ontario by a supplier of machinery and supplies to Creston Valley Foods Ltd. ("Creston") during the period when the company owned 65% of Creston's issued and outstanding shares. The action is for claims aggregating approximately \$200,000 with interest thereon. The company, on the advice of counsel, believes that it has meritorious defences to the action, which defences it will pursue vigorously. The company has instructed counsel to commence an action against that supplier for damages in respect of the substantial losses suffered by it in connection with the Creston operations. No provision has been made in these financial statements in respect of either the claim against the company or the company's claim against the supplier. Any amount awarded to or against the company as a result of these actions will be accounted for as a prior period adjustment to the extraordinary loss provided for in 1980 in respect of the Creston operations.

HARDEE FARMS INTERNATIONAL LTD.

FIVE YEAR REVIEW

	1981 \$	1980 \$	1979 \$	1978 \$	1977 \$
OPERATING RESULTS					
Sales	<u>27,182,956</u>	<u>25,624,228</u>	<u>21,462,112</u>	<u>28,763,209</u>	<u>28,533,624</u>
EARNINGS					
BEFORE THE FOLLOWING	1,959,190	2,238,911	1,493,172	372,310	933,441
Depreciation	589,872	553,097	507,899	661,843	610,256
Interest	2,301,556	2,037,933	1,467,953	1,158,066	1,149,827
Income taxes	—	—	(138,750)	(27,000)	(298,783)
Minority interest earnings (loss)	—	—	1,311	(936)	(125,105)
Earnings from discontinued operations	—	—	(152,600)	—	—
LOSS BEFORE EXTRAORDINARY ITEMS	<u>932,238</u>	<u>352,119</u>	<u>192,641</u>	<u>1,419,663</u>	<u>402,754</u>
Extraordinary items	<u>(95,727)</u>	<u>1,165,613</u>	<u>(56,825)</u>	<u>16,083</u>	<u>(26,048)</u>
NET LOSS	<u>836,511</u>	<u>1,517,732</u>	<u>135,816</u>	<u>1,435,746</u>	<u>376,706</u>

FINANCIAL POSITION

Total Assets	24,081,549	23,535,634	23,659,797	22,470,853	22,913,820
Total Liabilities	<u>20,062,680</u>	<u>18,680,254</u>	<u>17,354,971</u>	<u>16,421,697</u>	<u>15,428,918</u>
Shareholders' Equity	<u>4,018,869</u>	<u>4,855,380</u>	<u>6,304,826</u>	<u>6,049,156</u>	<u>7,484,902</u>

PER SHARE

Loss before extraordinary items	19¢	7¢	4¢	31¢	9¢
Net loss for the year	17¢	30¢	3¢	31¢	8¢
Dividends	—	—	—	—	3¢
Book value	80¢	97¢	\$1.28	\$1.31	\$1.62
Total shares outstanding	5,001,201	5,001,201	4,932,915	4,608,678	4,608,678

