

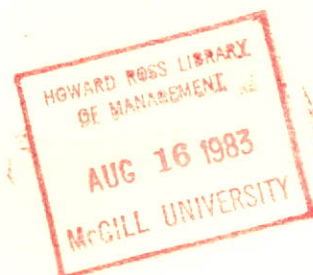


**HARDEE FARMS INTERNATIONAL LTD.**

24th Annual Report

For the Fiscal Year Ended

May 29, 1982





## **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



## HARDEE FARMS INTERNATIONAL LTD.

### BOARD OF DIRECTORS

* D. S. Anderson	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
R. M. Franklin	Vice Chairman
A. W. Walker	President
R. W. McDannold	Executive Vice President
D. E. Richards	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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### 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 16, 1982





## Chairman's Report to Shareholders:

The 1982 fiscal year was a turnaround year in the affairs of Hardee Farms International Ltd.

Sales volume of \$30,152,580 compared to \$27,182,956 in the 1981 year for an increase of 11%, and operating earnings amounted to \$76,290 for the year ended May 29, 1982 against a comparable loss of \$932,238 in the preceding year for an improvement of \$1,008,528 in operating results.

After inclusion of income tax reductions and other extraordinary items, final net earnings amounted to \$756,578 or 15¢ per share for 1982 by comparison with a final net loss of \$836,511 or 17¢ per share for 1981.

During the early part of the 1982 fiscal year bank debt in the aggregate amount of \$10,040,000 was converted to 5 year term income debentures bearing interest primarily at one half of the prime bank rate plus one per cent. This refinancing was most significant and very timely as it not only corrected a chronic imbalance in the company's working capital but also gained Hardee a period of vital relief from the potentially crippling escalation of interest rates in recent years. As a major result of this debt conversion, working capital was increased by \$7,301,521 over the previous year to stand at \$7,729,807 at 1982 fiscal year end.

The improvement of \$1,008,528 in operating earnings was realized after providing \$503,000 for income taxes chiefly in recognition of the fact that interest on income debentures is not a deductible expense for income tax purposes. However, no income tax is actually payable against the current operating results as the company will utilize an offsetting portion of its right to reduce taxable income by the application of accumulated losses and unclaimed capital cost allowances carried forward from prior years. Accordingly, a tax recovery of \$503,000 has been credited as extraordinary income

in the accompanying financial statements. After offsetting taxable income of the 1982 fiscal year there remain amounts aggregating approximately \$7,352,000 by which future taxable income of the company may be reduced or related income tax payments may be deferred. Attention is directed to financial statement Note 7 for details of these important balances.

During the year there were two changes in the responsibilities of senior personnel. Mr. Robert M. Franklin, formerly Executive Vice President, was appointed Vice Chairman of the Board, and Mr. Roy W. McDannold was appointed Executive Vice President with responsibility for the operations of the Canning, Freeze Drying, and HONEYDEW Beverage divisions of the company.

In March, 1982, the Board of Directors lost a respected colleague in the passing of Mr. Ghent L. Davis, who had been a Director since 1971. His counsel, support, and friendship will be missed.

It is gratifying to be able to report that after several extremely difficult years and much effort on the part of all concerned, a return to modest profitability has been achieved. The past year has also established a basis for confidence that continued improvement in results may be anticipated.

The loyalty and dedication of the company's operating personnel is again acknowledged together with an expression of sincere appreciation for their continued support and that of Hardee's many valued customers, suppliers, and others closely associated with the business.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "C. H. Franklin".  
C. H. Franklin, Chairman.

September 14, 1982.





## **President's Report to Shareholders:**

Earnings from operations before interest and income taxes for fiscal 1982 amounted to \$2,733,762 against \$1,369,318 in the preceding year for an improvement of \$1,364,444. Achievement of this significant recovery during a recessionary period reflects favourably on the effectiveness of actions taken following several adverse years.

Stronger margins for processed vegetables and improved agricultural results were the major factors underlying the improvement.

Operations of the Baxter Canning Division made the largest contribution toward increased results despite a disappointing tomato harvest in the fall of 1981. Non-seasonal volume in the canning of drinks, juices, confectionery products, and other items continues to strengthen, contributing to year round labour stability and production cost efficiencies. Sales and results from the canning of seasonal commodities again showed encouraging improvement.

Operations of the Frozen Vegetable Division were significantly better than those of the preceding year and related agricultural results benefitted from the use of new automated field equipment which overcame weather adversities at harvest time. Progress and outlook for this division remain favourable.

Results from both of Hardee's non-agricultural divisions showed improvement during the past year. Strong international demand for freeze dried corn and a special project involving the restoration of valuable documents which had sustained potentially destructive water damage were the major influences advancing results of the Freeze Dry Division. Although operations of the HONEYDEW Beverage Division showed modest improvement, performance remained below expectations due to highly competitive conditions which continue to prevail at the retail level for frozen citrus concentrates. It is anticipated that

improvements will be effected during the current year through stronger marketing support and cost efficiencies expected from the installation of frozen concentrate production facilities at the Baxter canning plant.

Current prospects for continued improvement in all segments of the business are strong.

A handwritten signature in dark ink, appearing to read "A. W. Walker".

A. W. Walker, President.

September 14, 1982.



## CONSOLIDATED BALANCE SHEET

AS AT MAY 29, 1982

### ASSETS

	1982 \$	1981 \$
CURRENT ASSETS		
Cash .....	872,329	—
Accounts receivable .....	3,038,076	2,840,840
Inventories .....	11,344,290	10,329,894
Prepaid crop and other expenses .....	1,439,792	1,547,201
Current portion of mortgages receivable .....	72,374	157,497
Fixed assets from discontinued operations held for sale .....	218,140	670,262
	<u>16,985,001</u>	<u>15,545,694</u>
MORTGAGES RECEIVABLE (note 2) .....	610,486	1,060,537
FIXED ASSETS (note 3) .....	6,454,973	6,527,435
HONEYDEW TRADEMARKS .....	478,055	474,336
GOODWILL .....	473,547	473,547
	<u>25,002,062</u>	<u>24,081,549</u>

### SIGNED ON BEHALF OF THE BOARD

C. H. Franklin, Director

D. L. Sinclair, Director

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at May 29, 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.

## LIABILITIES

	1982 \$	1981 \$
CURRENT LIABILITIES		
Bank advances (note 4) . . . . .	2,741,357	8,341,292
Accounts payable and accrued liabilities . . . . .	6,089,992	5,888,765
Current portion of long-term debt . . . . .	<u>423,845</u>	<u>887,351</u>
	9,255,194	15,117,408
LONG-TERM DEBT (note 5) . . . . .	<u>10,971,421</u>	<u>4,945,272</u>
	<u>20,226,615</u>	<u>20,062,680</u>
CONTINGENCY (note 9)		

## SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
Issued and fully paid —		
5,001,201 common shares of no par value . . . . .	4,346,413	4,346,413
RETAINED EARNINGS (DEFICIT) . . . . .	<u>429,034</u>	<u>(327,544)</u>
	<u>4,775,447</u>	<u>4,018,869</u>
	<u>25,002,062</u>	<u>24,081,549</u>

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 29, 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.

Toronto, Ontario  
July 12, 1982

COOPERS & LYBRAND  
Chartered Accountants





## CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED MAY 29, 1982

	1982 \$	1981 \$
SALES . . . . .	30,152,580	27,182,956
COST OF SALES AND OTHER EXPENSES . . . . .	26,824,860	25,223,766
DEPRECIATION . . . . .	593,958	589,872
	<u>27,418,818</u>	<u>25,813,638</u>
EARNINGS FROM OPERATIONS BEFORE INTEREST . .	2,733,762	1,369,318
INTEREST — TAX DEDUCTIBLE (note 5) . . . . .	1,263,491	2,301,556
EARNINGS (LOSS) FROM OPERATIONS BEFORE INCOME TAXES AND INTEREST ON INCOME DEBENTURES . . . . .	1,470,271	(932,238)
PROVISION FOR INCOME TAXES . . . . .	503,000	—
	<u>967,271</u>	<u>(932,238)</u>
INTEREST ON INCOME DEBENTURES (note 5) . . . . .	890,981	—
EARNINGS (LOSS) FOR THE YEAR BEFORE EXTRAORDINARY ITEMS . . . . .	<u>76,290</u>	<u>(932,238)</u>
EXTRAORDINARY ITEMS		
Net gain on disposal of fixed assets and mortgages . . . . .	177,288	95,727
Reduction of income taxes resulting from utilization of prior years' losses . . . . .	503,000	—
	<u>680,288</u>	<u>95,727</u>
NET EARNINGS (LOSS) FOR THE YEAR . . . . .	<u>756,578</u>	<u>(836,511)</u>
PER SHARE (note 6)		
Earnings (loss) before extraordinary items . . . . .	2¢	(19¢)
Net earnings (loss) for the year . . . . .	<u>15¢</u>	<u>(17¢)</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MAY 29, 1982

	1982 \$	1981 \$
RETAINED EARNINGS (DEFICIT) — BEGINNING OF YEAR . . . . .	(327,544)	508,967
Net earnings (loss) for the year . . . . .	756,578	(836,511)
RETAINED EARNINGS (DEFICIT) — END OF YEAR . .	<u>429,034</u>	<u>(327,544)</u>



**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED MAY 29, 1982**

	1982 \$	1981 \$
<b>SOURCE OF FUNDS</b>		
Earnings (loss) for the year before extraordinary items . .	76,290	(932,238)
Depreciation and other items not requiring an outlay of funds . . . . .	862,493	684,254
	<u>938,783</u>	<u>(247,984)</u>
Long-term debt incurred . . . . .	1,499,993	715,000
Proceeds on disposal of fixed assets . . . . .	220,313	41,537
Reduction in mortgages receivable . . . . .	54,979	159,975
Reduction of income taxes resulting from utilization of prior years' losses . . . . .	503,000	—
Proceeds on disposal of mortgages (less current portion) . .	694,714	—
Proceeds on issue of income debentures . . . . . \$10,040,000		
Less: Long-term debt repaid . . . . . <u>4,740,000</u>	<u>5,300,000</u>	<u>—</u>
	<u>9,211,782</u>	<u>668,528</u>
<b>USE OF FUNDS</b>		
Purchase of fixed assets . . . . .	702,570	563,827
Retirement of income debentures . . . . .	662,500	—
Retirement of other long-term debt . . . . .	111,344	687,344
Mortgages receivable on disposal of fixed assets . . . . .	428,847	—
Purchase of minority interest shares in subsidiary . . . . .	5,000	—
	<u>1,910,261</u>	<u>1,251,171</u>
INCREASE (DECREASE) IN WORKING CAPITAL . . . . .	7,301,521	(582,643)
WORKING CAPITAL — BEGINNING OF YEAR . . . . .	<u>428,286</u>	<u>1,010,929</u>
WORKING CAPITAL — END OF YEAR . . . . .	<u><u>7,729,807</u></u>	<u><u>428,286</u></u>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 29, 1982

### 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, with cost generally determined on a first in, first out basis.

#### (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. MORTGAGES RECEIVABLE

Mortgages receivable are as follows:

	Current \$	Long-term \$	1982 Total \$	1981 Total \$
Sundry mortgages, at interest rates between 8% and prime plus 2%, due between August 29, 1982 and April 1, 1987 .....	<u>72,374</u>	<u>610,486</u>	<u>682,860</u>	<u>1,218,034</u>

### 3. FIXED ASSETS

Fixed assets are as follows:

	1982 \$	1981 \$
Buildings and equipment — at cost . . . . .	10,564,051	10,332,273
Accumulated depreciation . . . . .	<u>5,026,483</u>	<u>4,712,637</u>
	5,537,568	5,619,636
Land — at cost . . . . .	317,405	307,799
Other lands (approximately 4,600 acres) — at values assigned by the directors in 1971 . . . . .	<u>600,000</u>	<u>600,000</u>
	917,405	907,799
	<u>6,454,973</u>	<u>6,527,435</u>

### 4. BANK INDEBTEDNESS

Bank indebtedness, including advances and income debentures, 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.

### 5. LONG-TERM DEBT

Long-term debt is as follows:

	Current \$	Long-term \$	1982 Total \$	1981 Total \$
Income debentures (notes 4, 6 and 8) at interest rates ranging from one-half of prime plus 1% and one-half of prime plus 1½%, due May 31, 1986 . . . . .	312,500	8,752,500	9,065,000	—
Sundry mortgages and notes, at interest rates between 6% and prime, due between August 15, 1982 and June 15, 1990 . . . . .	111,345	2,218,921	2,330,266	992,623
Bank loans, at interest rates ranging from prime plus 1½% to prime plus 2% . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,840,000</u>
	423,845	10,971,421	11,395,266	5,832,623



Repayments required on long-term debt in 1984 are \$1,331,980, in 1985 \$1,228,135, in 1986 \$7,979,642 and in 1987 \$100,533.

Interest on long-term debt for the current year amounted to \$1,175,948.

Interest on income debentures is not deductible for tax purposes.

#### 6. CAPITAL STOCK

The common shares of the company are without nominal or par value and are authorized in unlimited number.

As a condition of issuing the income debentures, the holders of these debentures received options to acquire 333,000 common shares of the company at 75¢ per share to May 31, 1983, \$1.00 per share to May 31, 1984, \$1.25 per share to May 31, 1985 and \$1.50 per share to May 31, 1986. No material dilution of earnings per share would result if all outstanding options were exercised.

Under the terms of the income debentures, permission of the income debenture holders is required to pay dividends.

#### 7. 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 1983 . . . . .	—	521,000
expiring in 1984 . . . . .	—	436,000
expiring in 1985 . . . . .	62,000	184,000
expiring in 1986 . . . . .	<u>637,000</u>	<u>—</u>
	699,000	1,141,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes . . . . .	<u>2,680,000</u>	<u>665,000</u>
The tax effects of the above have not been reflected in the accounts . . . . .	3,379,000	1,806,000
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>940,000</u>	<u>1,227,000</u>
	<u><u>4,319,000</u></u>	<u><u>3,033,000</u></u>

8. RELATED PARTY TRANSACTIONS

- (a) The company is 56.1% owned by Algonquin Mercantile Corporation, the parent company.
- (b) The parent company pays certain joint costs of the company, and is reimbursed by the company for its proportionate share thereof.
- (c) As a condition of converting 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% had a face value of \$880,000 and when disposed of, on a discounted basis, resulted in a loss of \$129,000.

9. CONTINGENCY

An action has been brought by a supplier against the company in the Supreme Court of Ontario for claims aggregating approximately \$200,000 with interest thereon, which in the opinion of counsel are without merit. The company has notified the supplier of its intention to claim in excess of \$2,000,000 for losses sustained as a result of the supplier's actions. No provision has been made in these financial statements for either claim.

10. SEGMENTED INFORMATION

As a food processor engaged in the canning, freezing and freeze-drying of vegetables, other food products and beverages, the company operates in only one line of business.



# HARDEE FARMS INTERNATIONAL LTD.

## FIVE YEAR REVIEW

	1982 \$	1981 \$	1980 \$	1979 \$	1978 \$
<b>OPERATING RESULTS</b>					
Sales .....	<u>30,152,580</u>	<u>27,182,956</u>	<u>25,624,228</u>	<u>21,462,112</u>	<u>28,763,209</u>
EARNINGS					
BEFORE THE FOLLOWING .....	3,327,720	1,959,190	2,238,911	1,493,172	372,310
Depreciation .....	593,958	589,872	553,097	507,899	661,843
Interest .....	2,154,472	2,301,556	2,037,933	1,467,953	1,158,066
Income taxes .....	503,000	—	—	(138,750)	(27,000)
Minority interest earnings (loss) .....	—	—	—	1,311	(936)
Earnings from discontinued operations .....	—	—	—	(152,600)	—
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS .....	76,290	(932,238)	(352,119)	(192,641)	(1,419,663)
Extraordinary items .....	<u>680,288</u>	<u>95,727</u>	<u>(1,165,613)</u>	<u>56,825</u>	<u>(16,083)</u>
NET EARNINGS (LOSS) .....	<u>756,578</u>	<u>(836,511)</u>	<u>(1,517,732)</u>	<u>(135,816)</u>	<u>(1,435,746)</u>
<b>FINANCIAL POSITION</b>					
Total Assets .....	25,002,062	24,081,549	23,535,634	23,659,797	22,470,853
Total Liabilities .....	<u>20,226,615</u>	<u>20,062,680</u>	<u>18,680,254</u>	<u>17,354,971</u>	<u>16,421,697</u>
Shareholders' Equity .....	<u>4,775,447</u>	<u>4,018,869</u>	<u>4,855,380</u>	<u>6,304,826</u>	<u>6,049,156</u>
<b>PER SHARE</b>					
Earnings (loss) before extraordinary items .....	2¢	(19¢)	(7¢)	(4¢)	(31¢)
Net earnings (loss) for the year .....	15¢	(17¢)	(30¢)	(3¢)	(31¢)
Book value .....	95¢	80¢	97¢	\$1.28	\$1.31
Total shares outstanding .....	5,001,201	5,001,201	5,001,201	4,932,915	4,608,678





