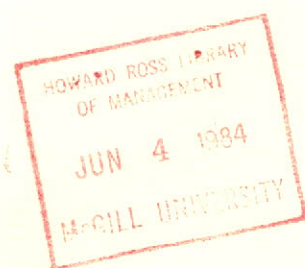




HARDEE FARMS INTERNATIONAL LTD.

26th Annual Report
For the Fiscal Year Ended
March 31, 1984





HARDEE FARMS INTERNATIONAL LTD.

BOARD OF DIRECTORS

* Donald S. Anderson	* James A. McKechnie
* Donald E. Foyston	E. Richard S. McLaughlin
Cecil H. Franklin	† Dalton L. Sinclair
Robert M. Franklin	William A. Stewart
* Francis D. Lace	* Arthur W. Walker

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. H. Kirstine	Vice President Finance and Treasurer
W. R. Abbott	Vice President and Secretary
M. J. Gardner	Assistant Secretary

HEAD OFFICE

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AUDITORS

Coopers & Lybrand
Toronto, Ontario

TRANSFER AGENTS AND REGISTRAR

Guaranty Trust Company of Canada
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Canadian Imperial Bank of Commerce

STOCK LISTING

Toronto Stock Exchange

ANNUAL SHAREHOLDERS' MEETING

9:15 a.m., June 26, 1984
British Columbia Room
Royal York Hotel
100 Front Street West
Toronto, Ontario



HARDEE FARMS INTERNATIONAL LTD.

Report to Shareholders:

Hardee continues to struggle. The 1984 fiscal year was a very poor period for Ontario agriculture. In addition, the processed agricultural food industry remained extremely competitive, particularly in such common commodities as frozen corn and peas as well as canned tomatoes and peas.

The Baxter Canning operation is being adapted to process a growing list of products ancillary to its regular production of seasonal agricultural lines. It is hoped the additional flow-through created will flatten the throughput curve and maintain the plant's ability to continue processing agricultural products as well as the newer generation of specialty items.

As evidence of the sick condition of Ontario's agricultural oriented food processing industry, Hardee on sales of \$28,269,200 was able to generate only a minimal profit of \$112,006 or 2¢ per share after including extraordinary income from tax reductions. The Company's regular operations resulted in a loss of \$72,994 or 1¢ per share.

Attrition in the industry continues to cause plant closures. Despite these, the provincial government spasmodically funds new plant construction to increase competition in already shrinking markets, notably the overseas market for frozen corn.

The fiscal 1984 result, while quite disappointing, could have been much worse but for the effort and integrity of a number of dedicated employees. The continued support of Hardee's valued customers and suppliers is gratefully acknowledged.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "C. H. Franklin", written in a cursive style.

Cecil H. Franklin
Chairman

May 22, 1984



President's Report to Shareholders:

OPERATIONS REVIEW

Following two successive years in which Hardee Farms International Ltd. recorded final net earnings in excess of \$700,000 after income tax recoveries, it is regrettable that the company sustained a small operating loss for the 1984 fiscal year.

Hardee's neutral operating results reflect the exceptional drought conditions which adversely affected vegetable crops throughout Southern Ontario last season. Processing volume fell far short of budget in both the vegetable freezing and seasonal canning divisions with attendant impact on previous earnings levels. Results were also adversely affected throughout much of the year by lower than normal margins on sales of canned tomatoes which continued to reflect the inadequacy of tariff protection against heavily subsidized 1982 imports from European sources.

Diversification over the past few years into non-seasonal and custom canning operations significantly modified agricultural disappointments of the past twelve months. The Baxter Canning Division is unusually well-equipped with physical plant, technical staff and expertise to make high-volume custom packaging services attractively available to major retailers and national brand marketers. Encouraging growth was realized in this phase of the business during the past year and several major long term contracts which hold promising potential remain under negotiation. Such year-round processing activities will continue to be the focus of future planning decisions at Baxter.

HONEYDEW Beverage Division operations, which had suffered erosion for several years, rebounded dramatically in fiscal 1984 with a 50% increase in volume and a correspondingly favourable improvement in bottom-line results. Further gains are expected in the current year through emphasis on the variety of citrus-based fruit drinks available under the familiar HONEYDEW label.

Volume and results of the Freeze-Dry Foods Division were encouraging during fiscal 1984 despite the generally adverse market conditions which prevailed. The outlook for continued good performance from this Division is promising.

Although Hardee's net results for the past year were disappointing, it is gratifying to note that because of diversification the company was able to absorb an unusual agricultural set-back without sustaining the major operating loss which would have resulted from purely seasonal operations. With good prospects for further diversification and given reasonable crop conditions in the months ahead, it is anticipated that Hardee will return to satisfactory operating performance levels in the current year.

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

Arthur W. Walker
President

May 22, 1984



CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1984

ASSETS

	1984 \$	1983 \$
CURRENT ASSETS		
Accounts receivable	3,301,914	4,437,779
Inventories	13,064,651	12,078,599
Prepaid crop and other expenses	1,247,804	656,302
Current portion of mortgages receivable	222,060	172,806
Fixed assets from discontinued operations held for sale	218,140	218,140
	18,054,569	17,563,626
MORTGAGES RECEIVABLE (note 2)	224,514	446,575
FIXED ASSETS (note 3)	6,921,719	7,071,062
HONEYDEW TRADEMARKS	492,970	485,403
GOODWILL	473,547	473,547
	<u>26,167,319</u>	<u>26,040,213</u>

SIGNED ON BEHALF OF THE BOARD

C. H. Franklin, Director

D. S. Smith, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at March 31, 1984 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

	1984 \$	1983 \$
CURRENT LIABILITIES		
Bank advances (note 4)	3,694,878	3,251,375
Accounts payable and accrued liabilities	6,080,444	5,602,580
Current portion of long-term debt	<u>1,369,419</u>	<u>1,141,980</u>
	11,144,741	9,995,935
LONG-TERM DEBT (note 5)	9,135,021	10,554,441
DEFERRED REVENUE (note 6)	<u>285,714</u>	<u>—</u>
	<u>20,565,476</u>	<u>20,550,376</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 7)		
Issued and fully paid — 5,001,201 common shares	4,346,413	4,346,413
RETAINED EARNINGS	<u>1,255,430</u>	<u>1,143,424</u>
	5,601,843	5,489,837
	<u>26,167,319</u>	<u>26,040,213</u>

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1984 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 period.

Toronto, Ontario
May 18, 1984

COOPERS & LYBRAND
Chartered Accountants



CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED MARCH 31, 1984

	1984	Ten months ended March 31, 1983
	\$	\$
SALES	28,269,200	28,004,317
COST OF SALES AND OTHER EXPENSES	26,066,060	25,179,324
DEPRECIATION	666,186	556,513
	<u>26,732,246</u>	<u>25,735,837</u>
EARNINGS FROM OPERATIONS BEFORE INTEREST ..	1,536,954	2,268,480
INTEREST — TAX DEDUCTIBLE (note 5)	880,687	936,028
EARNINGS FROM OPERATIONS BEFORE INCOME TAXES AND INTEREST ON INCOME DEBENTURES ..	656,267	1,332,452
PROVISION FOR INCOME TAXES	185,000	420,000
	<u>471,267</u>	<u>912,452</u>
INTEREST ON INCOME DEBENTURES (note 5)	544,261	618,062
(LOSS) EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	(72,994)	294,390
EXTRAORDINARY ITEM		
Reduction of income taxes resulting from utilization of prior years' losses	185,000	420,000
NET EARNINGS FOR THE YEAR	<u>112,006</u>	<u>714,390</u>
PER SHARE (note 7)		
(Loss) earnings before extraordinary item	(1¢)	6¢
Net earnings for the year	<u>2¢</u>	<u>14¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 1984

	1984	Ten months ended March 31, 1983
	\$	\$
RETAINED EARNINGS — BEGINNING OF YEAR	1,143,424	429,034
Net earnings for the year	112,006	714,390
RETAINED EARNINGS — END OF YEAR	<u>1,255,430</u>	<u>1,143,424</u>

**CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1984**

	1984 \$	Ten months ended March 31, 1983 \$
SOURCE OF FUNDS		
(Loss) earnings for the year before extraordinary item . .	(72,994)	294,390
Depreciation and other items not requiring an outlay of funds	610,727	504,294
Provided from operations	537,733	798,684
Long-term debt incurred	100,000	725,000
Proceeds on disposal of fixed assets	8,400	71,967
Reduction in mortgages receivable	222,061	163,911
Deferred revenue (note 6)	342,857	—
Reduction of income taxes resulting from utilization of prior years' losses	185,000	420,000
	<u>1,396,051</u>	<u>2,179,562</u>
USE OF FUNDS		
Purchase of fixed assets	534,494	1,199,698
Retirement of income debentures	775,000	625,000
Retirement of other long-term debt	744,420	516,980
	<u>2,053,914</u>	<u>2,341,678</u>
DECREASE IN WORKING CAPITAL	(657,863)	(162,116)
WORKING CAPITAL — BEGINNING OF YEAR	7,567,691	7,729,807
WORKING CAPITAL — END OF YEAR	<u>6,909,828</u>	<u>7,567,691</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 1984

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies.

(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 \$	1984 Total \$	1983 Total \$
Sundry mortgages, at interest rates between 11½% and prime plus 2%, due between September 10, 1984 and September 30, 1986	<u>222,060</u>	<u>224,514</u>	<u>446,574</u>	<u>619,381</u>

3. FIXED ASSETS

Fixed assets are as follows:

	1984 \$	1983 \$
Buildings and equipment — at cost	12,170,420	11,676,335
Accumulated depreciation	<u>6,166,106</u>	<u>5,522,678</u>
	6,004,314	6,153,657
Land — at cost	317,405	317,405
Other lands (approximately 4,600 acres) — at values assigned by the directors in 1971	<u>600,000</u>	<u>600,000</u>
	917,405	917,405
	<u>6,921,719</u>	<u>7,071,062</u>

4. BANK INDEBTEDNESS

Bank indebtedness, including advances, long-term loans 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 \$	1984 Total \$	1983 Total \$
Bank loan (note 4), at an interest rate of prime plus 1½%, due April 30, 1987	100,000	300,000	400,000	500,000
Income debentures (notes 4 and 7) at interest rates of one-half of prime plus 1% and 1½%, due May 31, 1986	625,000	7,352,500	7,977,500	8,752,500
Sundry mortgages and notes, at interest rates between nil and 16¾% due between June 30, 1984 and September 23, 1991 . . .	<u>644,419</u>	<u>1,482,521</u>	<u>2,126,940</u>	<u>2,443,921</u>
	1,369,419	9,135,021	10,504,440	11,696,421

Repayments required on long-term debt in fiscal 1986 are \$1,555,928, in fiscal 1987 \$6,969,319, in fiscal 1988 \$254,025 and in fiscal 1989 \$167,717.

Interest on long-term debt for the current year amounted to \$849,615.

Interest on income debentures is not deductible for tax purposes.

6. DEFERRED REVENUE

During the year a subsidiary received an interest free forgivable loan in the amount of \$400,000 of which \$57,143 was forgiven during the year. The balance is forgivable at the rate of \$57,143 per annum to December 16, 1989.

	Current \$	Long-Term \$	Total \$
Deferred revenue	<u>57,143</u>	<u>285,714</u>	<u>342,857</u>

7. CAPITAL STOCK

The common shares of the company 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 \$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.

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 fiscal 1985	—	184,000
expiring in fiscal 1986	<u>42,000</u>	<u>—</u>
	42,000	184,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	<u>2,000,000</u>	<u>1,008,000</u>
The tax effects of the above have not been reflected in the accounts	<u>2,042,000</u>	<u>1,192,000</u>
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>1,102,000</u>	<u>1,383,000</u>
	<u>3,144,000</u>	<u>2,575,000</u>

9. RELATED PARTY TRANSACTIONS

- (a) The company is 59.3% owned by Algonquin Mercantile Corporation, the parent.
- (b) The parent pays certain direct costs on behalf of the company and is reimbursed by the company. The amount due to the parent in respect of these costs at March 31, 1984 is approximately \$535,000. The parent also pays certain joint costs of the company, and is reimbursed by the company for its proportionate share thereof. The amount due to the parent in respect of these costs at March 31, 1984 is approximately \$15,000.

The aggregate of the amounts due to the parent is included in accounts payable and accrued liabilities.

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. Export sales during the period amounted to approximately 15% of sales.



HARDEE FARMS INTERNATIONAL LTD.

THREE YEAR REVIEW

	1984 \$	1983 (10 months) \$	1982 \$
OPERATING RESULTS			
Sales	<u>28,269,200</u>	<u>28,004,317</u>	<u>30,152,580</u>
EARNINGS			
BEFORE THE FOLLOWING	2,203,140	2,824,993	3,327,720
Depreciation	666,186	556,513	593,958
Interest	1,424,948	1,554,090	2,154,472
Income taxes	<u>185,000</u>	<u>420,000</u>	<u>503,000</u>
(LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	(72,994)	294,390	76,290
Extraordinary items	<u>185,000</u>	<u>420,000</u>	<u>680,288</u>
NET EARNINGS	<u>112,006</u>	<u>714,390</u>	<u>756,578</u>
FINANCIAL POSITION			
Total Assets	26,167,319	26,040,213	25,002,062
Total Liabilities	<u>20,565,476</u>	<u>20,550,376</u>	<u>20,226,615</u>
Shareholders' Equity	<u>5,601,843</u>	<u>5,489,837</u>	<u>4,775,447</u>
PER SHARE			
(Loss) Earnings before extraordinary items	(1¢)	6¢	2¢
Net earnings for the year	2¢	14¢	15¢
Book value	\$1.12	\$1.10	95¢
Total shares outstanding	5,001,201	5,001,201	5,001,201



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