



**HARDEE FARMS INTERNATIONAL LTD.**

19th Annual Report

For the Fiscal Year Ended

May 28, 1977

HOWARD ROSS LIBRARY  
OF MANAGEMENT

AUG 1 1978

MCGILL UNIVERSITY









## 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      | Denfield |
| *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                      |
| L.P. Katz     | Controller  |
| D.H. Kirstine | Treasurer   |

### AUDITORS

|                   |         |
|-------------------|---------|
| Coopers & Lybrand | Toronto |
|-------------------|---------|

### SOLICITORS

|                 |         |
|-----------------|---------|
| Fasken & Calvin | Toronto |
|-----------------|---------|

### 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

### ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held in the Quebec Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario at 10:00 o'clock in the forenoon on Tuesday, November 15, 1977



# 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

Bestpac Limited  
P.O. Box 1030, Bradford, Ontario.

## 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 600, 931 Yonge Street, Toronto, Ontario

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





## CHAIRMAN'S REPORT TO SHAREHOLDERS

The fiscal year ended May 28, 1977, was a negative one with respect to earnings. However, in transactions subsequent to the year end, the Company's working capital position has been increased by \$1,000,000.

Although sales increased to \$28,533,624 from the previous \$25,429,490, earnings, before extraordinary items, declined to a loss of \$402,754 from a previous year profit of \$394,172, an adverse turnaround of \$796,926.

The two divisions chiefly responsible for this drop were the Lambeth/Ingersoll Freezing Division and The Baxter Canning Division.

With respect to the Lambeth/Ingersoll Freezing Division, extremely difficult growing conditions coupled with market and price problems caused a sharp reversal of the previous profitable trend.

In the case of Baxter, the throughput was insufficient to fully utilize the expanded facilities and an adverse price situation developed compounded by low cost import competition.

In both of the above divisions, the lack of correlation between provincial marketing board regulated prices and raw vegetables and world competitive prices for processed products continues to present real problems.

Your Company's proportionate ownership in Federal Diversiplex Limited is now 86.2% and in The Baxter Canning Co. Limited 71.4%.

Federal continues to expand its operations both through the purchase of agricultural land and by acquisition. During the year Federal purchased an 80% interest in Bestpac Limited, a company which will be engaged in the manufacture of knitted agricultural bags, shade netting and other textile related products using plastic filaments processed through the company's own extrusion and plastic fibre production facilities.

In April, 1977, Federal acquired a 65% interest in Creston Valley Foods Ltd. Creston Valley Foods Ltd. was formed in April, 1977, to take over a 40 million pound finished product annual capacity potato processing plant on a 100 acre site at Creston, British Columbia, which had been newly constructed with several million dollars of provincial government assistance. The Creston plant plans production of two to three million pounds of retort pouch packaged french fry potato strips in the fall of 1977 to establish commercial production capability and to permit domestic and export market testing. Associated with Federal Diversiplex Limited as shareholders in the venture are Canadian Venture Capital Corporation (1974) Limited, an affiliate of Triarch Corporation Limited, and the original group of growers at Creston through their incorporated company, Creston Agro Enterprises Ltd.

The death of Mr. R.A. McNair on August 20, 1977 is recorded with regret. Mr. McNair was a long time director of Hardee and his valued counsel and sparkling personality will be sadly missed.

The excellent work of all personnel and the continued support of customers and suppliers is deeply appreciated.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "C. H. Franklin". The signature is written in a cursive, flowing style with a large, prominent "C" and "F".

C.H. Franklin, Chairman

September 13, 1977





## PRESIDENT'S MESSAGE

Consolidated operating results for the year ended May 28, 1977 as shown in the accompanying financial statements were extremely disappointing.

Major adversities were experienced by both the frozen and canned vegetable segments of the business throughout the past year which covered a difficult period for the entire primary agricultural processing industry in North America. Soft retail markets, excess inventory positions, rising costs, and increased competition from imported products combined to produce unsatisfactory returns for Hardee and other primary processors.

Operating results of the Frozen Vegetable Division were particularly penalized by extremely unfavourable growing conditions in southwestern Ontario. Several weeks of very dry weather after an abnormally cool planting season were followed by heavy rains through most of the harvest. Reduced crop yields, excessive harvesting expenses, and high plant processing costs were the result. This unusual combination of agricultural conditions was limited to Hardee's particular growing areas of southwestern Ontario whereas in most other areas in North America production yields were substantially above expectations so that frozen vegetable markets remained weak.

The Baxter Canning Division was particularly affected by massive imports into Canada of canned whole tomatoes from several low wage countries. After two years of representations to Ottawa an import surtax was imposed by the federal government in the latter part of the year and although this was too late to be of benefit for the fiscal year 1977, this import tax should be of assistance for the future. The Department of National Revenue through its Anti-Dumping Directorate has also recently commenced investigations into canned whole tomato importations from Taiwan, Spain, Italy, Israel and Bulgaria to establish whether charges of dumping should be laid. The outcome from these developments could significantly affect Baxter's future operations.

It is increasingly evident that processors must be given compensating federal import tariff protection for controlled commodities sold to Canadian processors at prices established under regulations of various farm products marketing boards. Alternatively the pricing policies of these agencies must be more responsive to competitive conditions on an international scale if a viable Canadian processing industry is to continue.

In spite of the poor overall earnings performance, fiscal 1976-77 was a progressive year in several important ways. The major expansion and modernization programs in progress over the past two years at Baxter and Lambeth/Ingersoll were completed and should enhance future results. Federal's purchase of 400 acres of potato land near Shelburne, Ontario together with a large potato storage building on that property has further extended Hardee's broad agricultural base. Substantial capital equipment improvements were also completed at the Bradford division. Now that these projects have been finalized current capital outlays on plant and equipment will be significantly reduced and the Company should begin to realize the benefits from completed production cost improvement installations.

Operations of the Freeze-Dry Foods Division were particularly buoyant during the past fiscal year and growth in both domestic and export demand for Hardee's freeze-dried products is expected to continue. Several high quality instant dinners were added this year to the successful recreation food line for which broader market penetration is being achieved.

Sales volume and operating results of the HONEYDEW frozen concentrate division also increased during the past year. A single strength orange HONEYDEW drink in 10 ounce pull-tab cans is currently being introduced to supermarket shelves and consumer acceptance has been sufficiently enthusiastic that the flavour range will be extended next year. A newly formulated honey-flavoured hot chocolate beverage for sale from specially adapted high convenience dispensers will be made available to fast food counters this fall. A unique hot spiced apple drink was test-marketed with encouraging response during the past year and will shortly be made available to the food service trade.

The Kirkwood Kitchens division is now in process of introducing retail frozen quiche products developed during the past year to complement the similar line established over the past several months with the catering and food service trades. Special attention has been given to provision of microwave convenience for these products and there has been strong response to this feature.

Perhaps the most significant development holding major future promise for the Company was Federal's acquisition of a controlling 65% interest in Creston Valley Foods Ltd. The technology and production capability acquired through this investment together with technology internally developed over the past three years under Federal's former Redi-Brand program gives your Company the potential to take an early lead in the introduction of retort pouch processed potatoes and other vegetables to North American markets. The retort pouch process produces shelf stable high quality foods that require no refrigeration or special handling during storage or transportation. This process is regarded as having practically unlimited potential for the food processing industry. A major technological breakthrough developed shortly after Federal's acquisition of Creston Valley when two large United States container manufacturing companies announced United States Food and Drug Administration and Department of Agriculture approvals of a new pouch material which overcomes certain obstacles presented by previous laminates. Several major U.S. companies have since announced advancement of retort pouch programs which had been delayed pending resolution of earlier difficulties. Creston Valley intends to vigorously pursue the opportunities now opened by this breakthrough and Creston's advantage in facility and technology gives a substantial headstart over others in this exciting new method of food processing.

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

September 13, 1977

A.W. Walker, President



## HARDEE FARMS INTERNATIONAL LTD.

### FIVE YEAR REVIEW

|  | 1977<br>\$                  | 1976<br>\$                  | 1975<br>\$                  | 1974<br>\$              | 1973<br>\$            |
|--|-----------------------------|-----------------------------|-----------------------------|-------------------------|-----------------------|
| <b>OPERATING RESULTS</b>                         |                             |                             |                             |                         |                       |
| SALES — foodstuffs .....                         | 28,533,624                  | 25,429,490                  | 20,659,966                  | 15,471,062              | 13,479,753            |
| — dairy and snack .....                          | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>5,731,274</u>        | <u>7,578,438</u>      |
|  | <u>28,533,624</u>           | <u>25,429,490</u>           | <u>20,659,966</u>           | <u>21,202,336</u>       | <u>21,058,191</u>     |
| EARNINGS   |                             |                             |                             |                         |                       |
| BEFORE THE FOLLOWING .....                       | 933,441                     | 2,230,075                   | 2,422,766                   | 2,374,244               | 1,747,653             |
| Depreciation .....                               | 610,256                     | 534,432                     | 439,963                     | 421,313                 | 387,162               |
| Interest .....                                   | 1,149,827                   | 865,438                     | 641,142                     | 608,534                 | 533,849               |
| Income taxes .....                               | (298,783)                   | 395,000                     | 606,800                     | 600,000                 | 325,000               |
| Minority interest (loss) .....                   | <u>(125,105)</u>            | <u>41,033</u>               | <u>9,216</u>                | <u>44,063</u>           | <u>(12,738)</u>       |
| EARNINGS (LOSS)                                  |                             |                             |                             |                         |                       |
| BEFORE EXTRAORDINARY ITEMS .....                 | <b>(402,754)</b>            | <b>394,172</b>              | <b>725,645</b>              | <b>700,334</b>          | <b>514,380</b>        |
| Extraordinary items — income taxes .....         | 26,048                      | 277,160                     | 208,544                     | 546,500                 | 320,060               |
| — other .....                                    | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>253,273</u>          | <u>160,000</u>        |
| NET EARNINGS (LOSS) .....                        | <u><b>(376,706)</b></u>     | <u><b>671,332</b></u>       | <u><b>934,189</b></u>       | <u><b>1,500,107</b></u> | <u><b>994,440</b></u> |
| <b>FINANCIAL POSITION</b>                        |                             |                             |                             |                         |                       |
| Total Assets .....                               | 22,913,820                  | 21,249,087                  | 18,569,154                  | 16,381,360              | 15,206,985            |
| Total Liabilities .....                          | <u>15,428,918</u>           | <u>13,249,025</u>           | <u>11,171,480</u>           | <u>9,923,125</u>        | <u>10,249,532</u>     |
| Shareholders' Equity .....                       | <u>7,484,902</u>            | <u>8,000,062</u>            | <u>7,397,674</u>            | <u>6,458,235</u>        | <u>4,957,453</u>      |
| <b>PER SHARE</b>                                 |                             |                             |                             |                         |                       |
| Earnings (loss) before extraordinary items ..... | (9¢)                        | 9¢                          | 16¢                         | 15¢                     | 11¢                   |
| Net earnings (loss) for the year .....           | (8¢)                        | 15¢                         | 20¢                         | 33¢                     | 22¢                   |
| Dividends .....                                  | 3¢                          | 1-1/2¢                      | —                           | —                       | —                     |
| Book value .....                                 | \$1.62                      | \$1.74                      | \$1.61                      | \$1.40                  | \$1.08                |
| Total shares outstanding .....                   | 4,608,678                   | 4,608,678                   | 4,608,678                   | 4,603,178               | 4,602,728             |





## CONSOLIDATED BALANCE SHEET

AS AT MAY 28, 1977

### ASSETS

|   | 1977              | 1976              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| CURRENT ASSETS  |                   |                   |
| Accounts receivable .....   | 2,901,671         | 2,534,023         |
| Inventories .....   | 6,334,071         | 6,565,530         |
| Prepaid crop and other expenses .....   | 1,205,487         | 1,009,605         |
| Current portion of mortgages and debenture<br>receivable .....                    | <u>82,566</u>     | <u>144,412</u>    |
|   | 10,523,795        | 10,253,570        |
| INVESTMENT IN AND ADVANCES<br>TO BESTPAC LIMITED (note 2) .....                   | 112,000           | —                 |
| MORTGAGES AND DEBENTURE<br>RECEIVABLE (note 3) .....                              | 616,028           | 308,594           |
| FIXED ASSETS (note 4) .....   | 10,503,508        | 9,552,500         |
| HONEYDEW TRADEMARKS AND<br>GOODWILL .....   | 488,968           | 452,809           |
| PROCESS DEVELOPMENT<br>COSTS (note 5) .....                                       | 159,677           | 116,548           |
| EXCESS OF PURCHASE PRICE OF SHARES OF<br>SUBSIDIARIES OVER BOOK VALUE THEREOF ... | 509,844           | 565,066           |
| SIGNED ON BEHALF OF THE BOARD   |                   |                   |
| C.H. Franklin, <i>Director</i>  | <u>22,913,820</u> | <u>21,249,087</u> |
| F.D. Lace, <i>Director</i>  |                   |                   |

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Hardee Farms International Ltd. as at May 28, 1977 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

|   | 1977              | 1976              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| CURRENT LIABILITIES                               |                   |                   |
| Bank Advances (note 6) . . . . .                  | 6,804,112         | 4,811,748         |
| Accounts payable and accrued liabilities. . . . . | 2,325,205         | 2,343,035         |
| Current portion of long-term debt. . . . .        | 932,008           | 1,490,723         |
|   | <u>10,061,325</u> | <u>8,645,506</u>  |
| LONG-TERM DEBT (note 7). . . . .                  | 4,707,921         | 3,424,782         |
| DEFERRED INCOME TAXES . . . . .                   | 188,000           | 517,000           |
| MINORITY INTEREST (note 8). . . . .               | 471,672           | 661,737           |
|   | <u>15,428,918</u> | <u>13,249,025</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 (note 9) . . . . . 3,598,261 4,113,421

7,484,902 8,000,062

22,913,820 21,249,087

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 28, 1977 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 14, 1977

COOPERS & LYBRAND  
Chartered Accountants





## CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED MAY 28, 1977

|   | 1977<br>\$              | 1976<br>\$            |
|---|-------------------------|-----------------------|
| SALES .....                                     | 28,533,624              | 25,429,490            |
| COST OF SALES AND OTHER EXPENSES .....          | 27,600,183              | 23,199,415            |
| DEPRECIATION .....                              | 610,256                 | 534,432               |
|   | <u>28,210,439</u>       | <u>23,733,847</u>     |
| EARNINGS FROM OPERATIONS                        |                         |                       |
| BEFORE INTEREST .....                           | 323,185                 | 1,695,643             |
| INTEREST (note 7) .....                         | <u>1,149,827</u>        | <u>865,438</u>        |
| (LOSS) EARNINGS FROM OPERATIONS                 |                         |                       |
| BEFORE PROVISION FOR INCOME TAXES .....         | <u>(826,642)</u>        | <u>830,205</u>        |
| PROVISION FOR INCOME TAXES                      |                         |                       |
| Current .....                                   | 30,217                  | 315,000               |
| Deferred .....                                  | <u>(329,000)</u>        | <u>80,000</u>         |
|   | <u>(298,783)</u>        | <u>395,000</u>        |
|   | <u>(527,859)</u>        | <u>435,205</u>        |
| MINORITY INTEREST IN (LOSS) EARNINGS            |                         |                       |
| OF SUBSIDIARIES .....                           | <u>(125,105)</u>        | <u>41,033</u>         |
| (LOSS) EARNINGS FOR THE YEAR BEFORE             |                         |                       |
| EXTRAORDINARY ITEM .....                        | <u>(402,754)</u>        | <u>394,172</u>        |
| EXTRAORDINARY ITEM (note 10) .....              | <u>26,048</u>           | <u>277,160</u>        |
| NET (LOSS) EARNINGS FOR THE YEAR .....          | <u><u>(376,706)</u></u> | <u><u>671,332</u></u> |
| PER COMMON SHARE:                               |                         |                       |
| (Loss) earnings before extraordinary item. .... | <u>(9¢)</u>             | <u>9¢</u>             |
| Net (loss) earnings for the year .....          | <u><u>(8¢)</u></u>      | <u><u>15¢</u></u>     |

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED MAY 28, 1977

|   | 1977<br>\$              | 1976<br>\$              |
|---|-------------------------|-------------------------|
| RETAINED EARNINGS — BEGINNING OF YEAR ....    | 4,113,421               | 3,511,033               |
| Net (loss) earnings for the year .....        | <u>(376,706)</u>        | <u>671,332</u>          |
|   | 3,736,715               | 4,182,365               |
| Dividends .....                               | <u>138,454</u>          | <u>68,944</u>           |
| RETAINED EARNINGS — END OF YEAR (note 9) .... | <u><u>3,598,261</u></u> | <u><u>4,113,421</u></u> |



**CONSOLIDATED STATEMENT OF  
CHANGES IN FINANCIAL POSITION**  
FOR THE YEAR ENDED MAY 28, 1977

|   | 1977<br>\$       | 1976<br>\$       |
|---|------------------|------------------|
| <b>SOURCE OF FUNDS</b>  |                  |                  |
| (Loss) earnings for the year before<br>extraordinary item . . . . .   | (402,754)        | 394,172          |
| Items not requiring an outlay of funds —                              |                  |                  |
| Depreciation . . . . .  | 607,272          | 532,642          |
| Deferred income taxes . . . . .                                       | (329,000)        | 80,000           |
|   | (124,482)        | 1,006,814        |
| Reduction of income taxes arising<br>from prior years . . . . .       | 26,048           | 277,160          |
| Proceeds on disposal of fixed assets . . . . .                        | 450,257          | 35,000           |
| Reduction in mortgages and debenture<br>receivable . . . . .          | 82,566           | 144,930          |
| Long-term debt incurred . . . . .                                     | 2,572,500        | 1,733,222        |
| Deferred income taxes . . . . .                                       | —                | 280,500          |
|   | <u>3,006,889</u> | <u>3,477,626</u> |
| <b>USE OF FUNDS</b>   |                  |                  |
| Purchase of fixed assets . . . . .                                    | 2,008,537        | 1,721,386        |
| Retirement of long-term debt . . . . .                                | 1,289,361        | 1,486,526        |
| Investment in and advances to Bestpac Limited . . . . .               | 112,000          | —                |
| Mortgage receivable from disposal of fixed assets . . . . .           | 390,000          | —                |
| Minority interest in net loss<br>(earnings) of subsidiaries . . . . . | 129,936          | (86,873)         |
| Purchase of minority interest shares<br>in subsidiaries . . . . .     | 40,102           | 665,073          |
| Trademarks and process development costs . . . . .                    | 44,093           | 77,834           |
| Dividends paid . . . . .  | 138,454          | 68,944           |
|   | <u>4,152,483</u> | <u>3,932,890</u> |
| DECREASE IN WORKING CAPITAL . . . . .                                 | 1,145,594        | 455,264          |
| WORKING CAPITAL — BEGINNING OF YEAR . . . . .                         | <u>1,608,064</u> | <u>2,063,328</u> |
| WORKING CAPITAL — END OF YEAR . . . . .                               | <u>462,470</u>   | <u>1,608,064</u> |





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MAY 28, 1977

### 1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies, except Bestpac Limited (see note 2), 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 diminishing balance basis over their estimated useful lives as follows:

Buildings — 20 to 40 years

Equipment — 7 to 17 years

(e) 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.

(f) HONEYDEW trademarks

This asset is carried at cost, since it is not anticipated that its inherent worth will decline below cost.

(g) Goodwill

The excess of the company's investment in a division over its underlying equity amounting to \$35,000 will be amortized over a three year period commencing in 1978.

(h) 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. INVESTMENT IN AND ADVANCES TO BESTPAC LIMITED

During the year a subsidiary acquired, in several stages, an 80% interest in Bestpac Limited, the last of which was made on March 18, 1977. Since its incorporation some eighteen months earlier, Bestpac Limited has been developing a process for the manufacture of a product with several potential uses, the economic success of which will be evaluated during the current year. Pending such evaluation, the subsidiary's investment in Bestpac Limited is being carried at cost. Subsequent to the subsidiary's fiscal year-end additional advances of \$35,000 have been made to Bestpac Limited.



### 3. MORTGAGES AND DEBENTURE RECEIVABLE

|  | Current<br>\$ | Long-term<br>\$ | 1977<br>Total<br>\$ | 1976<br>Total<br>\$ |
|--|---------------|-----------------|---------------------|---------------------|
| 10-1/2%, due May 1981, payable<br>\$10,000 principal and interest<br>quarterly . . . . .     | 26,634        | 110,431         | 137,065             | 161,077             |
| 8%, due August 29, 1982, payable<br>\$28,471 principal per<br>annum, plus interest . . . . . | 28,471        | 143,058         | 171,529             | 200,000             |
| 12%, due January 1, 1987, Payable<br>\$16,872 principal and interest<br>quarterly . . . . .  | 27,461        | 362,539         | 390,000             | —                   |
| Chattel mortgage, interest at 2%<br>over prime, due July 1, 1977 . . . .                     | —             | —               | —                   | 37,842              |
| 7-1/4% convertible sinking fund<br>debenture, due December 16,<br>1976. . . . .              | —             | —               | —                   | 54,087              |
|  | <u>82,566</u> | <u>616,028</u>  | <u>698,594</u>      | <u>453,006</u>      |

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

### 4. FIXED ASSETS

Fixed assets are as follows:

|  | 1977<br>\$        | 1976<br>\$       |
|--|-------------------|------------------|
| Buildings and equipment — at cost . . . . .  | 13,979,926        | 12,377,727       |
| Accumulated depreciation . . . . .   | <u>6,029,940</u>  | <u>5,496,609</u> |
|  | 7,949,986         | 6,881,118        |
| Land — at cost . . . . .   | 1,953,522         | 1,671,382        |
| Land valued on basis of lease option outstanding . . . .   | —                 | 400,000          |
| Other lands (approximately 4,600 acres) at values<br>assigned by the directors in 1971 . . . . . | <u>600,000</u>    | <u>600,000</u>   |
|  | <u>2,553,522</u>  | <u>2,671,382</u> |
|  | <u>10,503,508</u> | <u>9,552,500</u> |

Two subsidiaries of the company have received forgivable loans from government agencies. As at May 28, 1977, \$147,500 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. PROCESS DEVELOPMENT COSTS

Process development costs represent the expenditures, net of government assistance, on research in the processing and marketing of potatoes and vegetables in retortable pouches, marketed to date under the Redi-Brand name. The technology developed as a result of these costs is part of the technology which together with cash of \$250,000 was invested by a subsidiary subsequent to its fiscal year-end to acquire 65% of the issued capital stock of Creston Valley Foods Ltd.

### 6. BANK ADVANCES

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



## 7. LONG-TERM DEBT

|  | Current<br>\$  | Long-term<br>\$  | 1977<br>Total<br>\$ | 1976<br>Total<br>\$ |
|--|----------------|------------------|---------------------|---------------------|
| Bank loans at interest ranging from prime plus 1-1/2% to prime plus 2% due between October 20, 1979 and June 1, 1985. .... | 627,004        | 3,713,486        | 4,340,490           | 3,186,327           |
| 6% convertible notes due December 31, 1976 not yet presented for retirement . . . .  | 11,325         | —                | 11,325              | 711,555             |
| Sundry mortgages and notes, at interest between 6% and 9.3%, due between December 1, 1977 and June 6, 1987. ....           | 293,679        | 994,435          | 1,288,114           | 1,017,623           |
|  | <u>932,008</u> | <u>4,707,921</u> | <u>5,639,929</u>    | <u>4,915,505</u>    |

Interest on long-term debt for the current year amounted to \$494,218.

## 8. MINORITY INTEREST

|  |                |                |
|--|----------------|----------------|
| Minority interest is as follows:         | 1977<br>\$     | 1976<br>\$     |
| Federal Diversiplex Limited . . . . .    | 462,309        | 499,326        |
| The Baxter Canning Co. Limited . . . . . | 9,363          | 162,411        |
|  | <u>471,672</u> | <u>661,737</u> |

## 9. RETAINED EARNINGS

Retained earnings represent the earnings of the company since the date of reorganization, May 27, 1972.

## 10. EXTRAORDINARY ITEM

|  |               |                |
|--|---------------|----------------|
|  | 1977<br>\$    | 1976<br>\$     |
| Reduction of income taxes arising from prior years . . . . | 21,217        | 323,000        |
| Minority interest thereon . . . . .                        | (4,831)       | 45,840         |
|  | <u>26,048</u> | <u>277,160</u> |

## 11. INCOME TAXES

The company and its subsidiaries may reduce future income subject to taxes by amounts of approximately \$499,000 and \$601,000 respectively through the deduction, in diminishing amounts over several years, of capital cost allowances and other write-offs the equivalent of which have already been recorded in the accounts but not yet claimed for tax purposes.

In addition, the company has certain subsidiaries with losses available for tax purposes of approximately \$380,000, the tax effect of which has not been reflected in the accounts.

## 12. ANTI-INFLATION ACT

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

## 13. 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 (2 are officers) . . . . . | 9      | \$9,125      |
| Officers. . . . .                    | 10     | \$276,762    |







