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HARDEE FARMS INTERNATIONAL LTD.

21st Annual Report
For the Fiscal Year Ended
June 2, 1979

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

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

OPERATING OFFICERS AND DIVISIONS

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

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

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

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

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

W.C. Piper — Vice President . . . . Creston Operations
P.O. Box 5000, Creston, British Columbia

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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

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

Guaranty Trust Company of Canada .... Toronto

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Simcoe Room of The Sheraton Centre, 123 Queen Street West, Toronto, Ontario at 10:00 o'clock in the forenoon on Tuesday November 13, 1979.

HARDEE FARMS INTERNATIONAL LTD.

Chairman's Report to Shareholders

The fiscal year ended June 2, 1979, showed a substantial recovery from the large loss of the preceding year. Although it would be more gratifying to be able to report a profit, your Directors consider the 1979 net loss of $135,816 a most important development inasmuch as there is every evidence that the financial affairs of Hardee will continue to improve.

Mr. Walker's accompanying report provides an overview of significant operating results and conditions, but there are also certain corporate matters which should be highlighted.

During the fiscal year Federal Diversiplex Limited was amalgamated into Hardee by the issuance of 324,237 common shares. This should materially reduce corporate costs for the merged companies.

Subsequent to the year-end, the minority shareholders of The Baxter Canning Co. Limited offered to exchange their Baxter shares for notes and shares of Hardee. As of this date required regulatory approvals have been obtained and Hardee has accepted the offer whereby 6% five year promissory notes to the value of $115,950 are being issued for all remaining Baxter preference shares and 68,286 Hardee common shares are being exchanged for Baxter common shares to bring Hardee's control to 99.1% of Baxter. This will permit a virtual unification of the two companies and will accommodate financing which Baxter could not independently obtain.

With achievement of the desired turnaround in Hardee's operating results, attention is now being directed to the restoration of a satisfactory working capital position.

In this regard certain excess farm acreage has recently been sold for amounts substantially greater than book value and the Company has offered to enter into sale or leaseback arrangements for its extensive and valuable prime agricultural lands. In addition, with rising current interest in peat, for various uses, Hardee's 3,800 acre undeveloped peat property at Alfred, Ontario is being offered for sale or joint venture development. These actions have already generated sufficient funds to establish a positive working capital base and expected additional realizations should further strengthen that position while simultaneously reducing the impact of high interest costs on future operating results.

The operating improvement is a direct result of concentrated effort by all personnel. This performance coupled with the continued loyal support of suppliers and customers is gratefully acknowledged.

On behalf of the Board,

C. H. Franklin

September 6, 1979 C.H. Franklin, *Chairman*

President's Report

Although operating results for the year ended June 2, 1979, remained at a basically unsatisfactory level, the improvement of $1,227,022 over the loss of the preceding year is evidence of an encouraging trend. Except for the increase of $365,659 in interest expense, operations for the 1979 fiscal year would have reflected a modest profit instead of the loss of $192,641 incurred before extraordinary income. We are hopeful that economic conditions may soon provide a measure of relief from the abnormally high interest rates which have prevailed over the past twelve months.

Results from agricultural operations were much improved in spite of lower than average returns from certain crops. Trading margins for frozen vegetables and frozen french fried potatoes regained some of the ground lost in the two preceding years and continue at this date to move toward more satisfactory levels.

Of major significance to the past year was Hardee's previously announced decision to curtail production of frozen french fries in response to the unrealistic pricing of raw potatoes by Ontario growers through their Potato Marketing Board. Although this meant a loss of sales volume for Hardee and the surrender of established markets to processors from other provinces it was the only way open to your Company to avoid repetition of the major losses forced upon it by potato growers in the 1978 fiscal year. It remains detrimental to the long term best interest of Ontario potato growers that they should endeavour to impose unrealistic raw potato prices in the face of overwhelming unregulated competition from other provinces. While this circumstance prevails Hardee will continue to limit annual french fry processing commitments to the volume of raw potatoes harvested from company controlled farms.

Of particular encouragement in the past year was the increase in non-seasonal production volume at the Baxter plant. With the canning of drinks, juices, and other non-seasonal products this operation is now busy on a year round basis with significant improvement in results over those attainable when the plant was inactive for almost six months in each year. Unfortunately the gains from these new activities have been insufficient to offset the inadequate margins realized from seasonal vegetable canning operations. The vegetable canning industry has been in a depressed state for several years now and it is hoped that conditions will soon improve so that the full potential of your Company's excellent Baxter facility may be realized.

Hardee's non-agricultural activities continue to perform well. Results of the HONEYDEW Beverage Division were again improved and volume has further strengthened in the current year. The Freeze-Dry Foods Division's domestic operations were favourable but a reduction in bulk export volume held overall results below the record level experienced a year ago.

Curtailment of frozen french fry operations and extremely competitive conditions in the fresh produce business have combined during the past two years to significantly reduce the historic contribution of the Bradford Divison to Hardee's consolidated results. Special attention is being directed toward establishing longer term perspectives for this operation with particular emphasis on the very substantial value of assets employed in its agricultural operations. Sale and leaseback potential are under active consideration to insure that the adequacy of return on investment will be maintained.

Outlook for your Company's 65% controlled subsidiary Creston Valley Foods Ltd. remains promising but the past year was particularly frustrating to progress in bringing Creston's revolutionary new products to production on a commercial scale. Following the preceding year's failure of the pouch closing equipment supplied by the Continental Can Company of Canada Limited to perform satisfactorily, operations were resumed at Creston in the fall of 1978 under the assurance of an equipment performance guarantee provided by Continental. Unfortunately, although the replacement equipment operated in a satisfactory manner, Continental's resin supplier then failed to deliver raw material to meet requirements so that Continental was unable to provide retortable pouches for 1979 production at dates even close to the delivery anticipated when Creston's purchase commitment was made in September, 1978. As a consequence Creston Valley Foods was again obliged to shelve its full scale retort pouch marketing plans for yet another year. The costs associated with the two year setback due to equipment and pouch supply problems have been substantial. However, marketing of the relatively limited supply of approximately three-quarter million pounds of retort pouched potato products actually processed in 1979 has met with most enthusiastic customer response in both domestic and export markets. Numerous approaches have been made by parties seeking export marketing and production licensing arrangements under the patents and technology owned exclusively by Creston Valley Foods Ltd. In view of these strongly positive considerations Creston has transferred its pouch supply contract to another supplier under a guarantee of deliveries and is in process of negotiating with government authorities and others for development assistance grants and financing sufficient to permit resumption of full scale operations this fall.

In the face of the extreme adversities experienced by Hardee in its 1978 fiscal year it is even more gratifying to observe that with the further gains presently anticipated the outlook for return to profitable operations in the current fiscal year is favourable.

AWWalker

September 6, 1979

A.W. Walker, *President*

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CONSOLIDATED BALANCE SHEET

AS AT JUNE 2, 1979

ASSETS

	1979	1978
	$	$
CURRENT ASSETS		
Accounts receivable	3,073,151	3,022,110
Inventories	7,488,936	5,903,586
Prepaid crop and other expenses	1,324,360	1,078,481
Current portion of mortgages receivable	179,261	344,492
	12,065,708	10,348,669
MORTGAGES RECEIVABLE (note 2)	887,964	986,232
INVESTMENT IN UNCONSOLIDATED SUBSIDIARY (note 3)	429,294	429,694
FIXED ASSETS (note 4)	9,319,363	9,729,219
HONEYDEW TRADEMARKS	473,921	479,792
GOODWILL	483,547	497,247
	23,659,797	22,470,853

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 June 2, 1979 and the consolidated statements of loss, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

LIABILITIES

	1979	1978
	$	$
CURRENT LIABILITIES		
Bank advances and acceptances (note 5)	7,868,217	6,783,762
Accounts payable and accrued liabilities	3,878,179	2,821,555
Current portion of long-term debt	1,053,416	1,040,025
	12,799,812	10,645,342
LONG-TERM DEBT (note 6)	4,555,159	5,220,475
DEFERRED INCOME TAXES	—	134,000
MINORITY INTEREST (note 7)	—	421,880
	17,354,971	16,421,697

SHAREHOLDERS' EQUITY

	1979	1978
CAPITAL STOCK (note 11)		
Authorized — 6,000,000 common shares of no par value		
Issued and fully paid —		
4,932,915 common shares	4,278,127	3,886,641
RETAINED EARNINGS	2,026,699	2,162,515
	6,304,826	6,049,156
	23,659,797	22,470,853

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 2, 1979 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 20, 1979

COOPERS & LYBRAND
Chartered Accountants

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CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED JUNE 2, 1979

	1979	1978
	$	$
SALES	28,725,848	28,763,209
COST OF SALES AND OTHER EXPENSES	26,913,031	28,390,899
DEPRECIATION	619,172	661,843
	27,532,203	29,052,742
EARNINGS (LOSS) FROM OPERATIONS BEFORE INTEREST	1,193,645	(289,533)
INTEREST (note 6)	1,523,725	1,158,066
LOSS FROM OPERATIONS BEFORE INCOME TAXES	330,080	1,447,599
RECOVERY OF (PROVISION FOR) INCOME TAXES		
Current	4,750	(27,000)
Deferred	134,000	54,000
	138,750	27,000
	191,330	1,420,599
MINORITY INTEREST IN EARNINGS (LOSS) OF SUBSIDIARIES	1,311	(936)
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	192,641	1,419,663
EXTRAORDINARY ITEM (note 8)	56,825	(16,083)
NET LOSS FOR THE YEAR	135,816	1,435,746
PER COMMON SHARE:		
Loss before extraordinary item	4¢	31¢
Net loss for the year	3¢	31¢

The loss per common share has been calculated on the weighted average number of shares outstanding during the year.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 2, 1979

	1979	1978
	$	$
RETAINED EARNINGS — BEGINNING OF YEAR	2,162,515	3,598,261
Net loss for the year	135,816	1,435,746
RETAINED EARNINGS — END OF YEAR	2,026,699	2,162,515

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 2, 1979

	1979	1978
	$	$
SOURCE OF FUNDS		
Loss for the year before extraordinary item	(192,641)	(1,419,663)
Items not requiring an outlay of funds —		
Depreciation	587,245	660,674
Deferred income taxes	(134,000)	(54,000)
	260,604	(812,989)
Reduction of income taxes arising from prior years	—	27,000
Proceeds on disposal of fixed assets	383,406	1,140,548
Reduction in mortgages receivable	98,268	91,796
Long-term debt incurred	500,000	1,321,595
Minority interest in net earnings (loss) of subsidiary	1,311	(936)
	1,243,589	1,767,014
USE OF FUNDS		
Purchase of fixed assets	493,034	765,821
Retirement of long-term debt	1,165,316	809,041
Investment in and advances to Bestpac Limited	—	203,094
Mortgage receivable on disposal of fixed assets	—	462,000
Investment in unconsolidated subsidiary	—	270,017
Purchase of minority interest shares in subsidiaries	19,198	15,360
Trademarks and process development costs	3,472	824
	1,681,020	2,526,157
DECREASE IN WORKING CAPITAL	437,431	759,143
WORKING CAPITAL (DEFICIENCY) — BEGINNING OF YEAR	(296,673)	462,470
WORKING CAPITAL (DEFICIENCY) — END OF YEAR	(734,104)	(296,673)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 2, 1979

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies, except for Creston Valley Foods Ltd. (note 3), at their respective fiscal year-ends with appropriate provision for minority interests. The acquisitions of subsidiaries are accounted for as purchases and the results of all subsidiares 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 excess of purchase price of shares of subsidiaries over book value thereof. Upon wind-up or amalgamation of those subsidiaries the excess has been carried forward 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.

(g) Income taxes

The companies follow the tax allocation method of providing for income taxes. Under this method timing differences between reported and taxable income result in adjustments to deferred income taxes.

2. MORTGAGES RECEIVABLE

Mortgages receivable are as follows:

	Current $	Long-term $	1979 Total $	1978 Total $
Sundry mortgages, at interest rates between 8% and 12%, due between June 17, 1979 and January 1, 1987	179,261	887,964	1,067,225	1,330,724

Mortgages receivable include $114,387 in U.S. funds.

3. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

The company has invested technology together with cash of $250,000 to acquire 65% of the issued capital stock of Creston Valley Foods Ltd. (Creston). By agreement with the Province of British Columbia, the company may elect prior to April 15, 1980 to withdraw from Creston. If such an election is made, the shares would be returned to the Province after any net current assets are distributed to the shareholders. The audited financial position of Creston as at March 31, 1979 was as follows:

	$
Current assets	285,670
Current liabilities	298,664
Working capital deficiency	(12,994)
Fixed assets	1,698,220
Technology, deferred development costs and other intangibles	1,145,079
	2,830,305
Long-term debt	1,756,601
Shareholders' equity	1,073,704

4. FIXED ASSETS

Fixed assets are as follows:	1979	1978
	$	$
Buildings and equipment — at cost	13,421,985	13,268,555
Accumulated depreciation	6,386,861	5,953,598
	7,035,124	7,314,957
Land — at cost	1,684,239	1,814,262
Other lands (approximately 4,600 acres) — at values assigned by the directors in 1971	600,000	600,000
	2,284,239	2,414,262
	9,319,363	9,729,219

5. BANK ADVANCES AND ACCEPTANCES

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

6. LONG-TERM DEBT

Long-term debt is as follows:

	Current	Long-term	1979 Total	1978 Total
	$	$	$	$
Bank loans, at interest rates ranging from prime plus 1-1/2% to prime plus 2%, due between November 16, 1979 and October 15, 1985	923,655	3,409,265	4,332,920	5,304,720
Sundry mortgages and notes, at interest rates between 6% and 12-1/4%, due between January 1, 1981 and June 15, 1990	129,761	1,145,894	1,275,655	955,780
	1,053,416	4,555,159	5,608,575	6,260,500

Interest on long-term debt for the current year amounted to $646,009.

7. MINORITY INTEREST

Minority interest is as follows:

	1979 $	1978 $
Federal Diversiplex Limited	—	421,880

8. EXTRAORDINARY ITEM

Extraordinary item is as follows:

	1979 $	1978 $
Gain on sale of fixed assets	56,825	251,112
Reduction of income taxes arising from prior years	—	27,000
Loss on investment in and advances to Bestpac Limited on discontinuance of operations	—	(315,094)
	56,825	(36,982)
Minority interest therein	—	20,899
	56,825	(16,083)

9. 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	—	479,000
Expiring in 1983	—	647,000
Expiring in 1984	—	435,000
	—	1,561,000
Excess of depreciation recorded in the accounts over capital cost allowance claimed for tax purposes	1,262,000	322,000
The tax effects of the above have not been reflected in the accounts	1,262,000	1,883,000
In addition future income tax payments could be deferred by refiling tax returns and claiming additional capital cost allowance in the amount of approximately	1,593,000	1,073,000
	2,855,000	2,956,000

10. AMALGAMATION

On December 16, 1978, Hardee Farms International Ltd. (Hardee) and Federal Diversiplex Limited (Federal) were amalgamated under the provisions of Section 137 of the Canada Corporations Act. Under the terms of the amalgamation, the shareholders of Federal (other than Hardee) received three common shares of Hardee for each Federal share held.

Details of the amalgamation, which has been accounted for by the purchase method, are as follows:

	$
Net assets acquired —	
Current assets	1,500,500
Current liabilities	1,326,142
Working capital	174,358
Fixed assets	2,097,250
Other assets	1,364,945
	3,636,553
Long-term debt	406,500
	3,230,053
Minority interest therein acquired — 12.1%	391,486

Consideration given —	Number of shares	$
Shares of Hardee outstanding —		
beginning of year	4,608,678	3,886,641
Issued on amalgamation	324,237	391,486
Shares of Hardee outstanding — end of year	4,932,915	4,278,127

The earnings of Federal Diversiplex Limited for the 14 month period April 1, 1978 to June 2, 1979 have been included in the current year's consolidated operating results.

11. CAPITAL STOCK

The authorized capital of the amalgamated company is 6,000,000 common shares without nominal or par value.

The authorized and issued capital of Hardee and Federal was converted into the authorized and issued capital of the amalgamated company as follows:

(a) The 4,608,678 issued common shares without nominal or par value of Hardee were converted share for share into 4,608,678 issued and fully paid common shares without nominal or par value of the amalgamated company;

(b) The 108,079 issued common shares without nominal or par value of Federal beneficially owned by shareholders other than Hardee were converted into 324,237 issued and fully paid common shares without nominal or par value of the amalgamated company on the basis of three common shares of the amalgamated company for each common share of Federal;

(c) The 783,301 issued common shares without nominal or par value of Federal beneficially owned by Hardee were cancelled without repayment of capital; and

(d) The 40,250 authorized first preferred shares of the par value of $100 each issuable in series of Hardee were cancelled.

12. DIRECTORS AND OFFICERS

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

	Number	Remuneration
Directors (3 are officers)	11	$ 14,700
Officers	13	$ 436,931

HARDEE FARMS INTERNATIONAL LTD.
FIVE YEAR REVIEW

	1979 $	1978 $	1977 $	1976 $	1975 $
OPERATING RESULTS					
Sales	28,725,848	28,763,209	28,533,624	25,429,490	20,659,966
EARNINGS BEFORE THE FOLLOWING	1,812,817	372,310	933,441	2,230,075	2,422,766
Depreciation	619,172	661,843	610,256	534,432	439,963
Interest	1,523,725	1,158,066	1,149,827	865,438	641,142
Income taxes	(138,750)	(27,000)	(298,783)	395,000	606,800
Minority interest earnings (loss)	1,311	(936)	(125,105)	41,033	9,216
(LOSS) EARNINGS BEFORE EXTRAORDINARY ITEMS	**(192,641)**	**(1,419,663)**	**(402,754)**	**394,172**	**725,645**
Extraordinary items	56,825	(16,083)	26,048	277,160	208,544
NET (LOSS) EARNINGS	**(135,816)**	**(1,435,746)**	**(376,706)**	**671,332**	**934,189**
FINANCIAL POSITION					
Total Assets	23,659,797	22,470,853	22,913,820	21,249,087	18,569,154
Total Liabilities	17,354,971	16,421,697	15,428,918	13,249,025	11,171,480
Shareholders' Equity	6,304,826	6,049,156	7,484,902	8,000,062	7,397,674
PER SHARE					
(Loss) earnings before extraordinary items	(4¢)	(31¢)	(9¢)	9¢	16¢
Net (loss) earnings for the year	(3¢)	(31¢)	(8¢)	15¢	20¢
Dividends	—	—	3¢	1-1/2¢	—
Book value	$1.28	$1.31	$1.62	$1.74	$1.61
Total shares outstanding	4,932,915	4,608,678	4,608,678	4,608,678	4,608,678