



## Corporate Profile

Perfect Fry Corporation is a public company headquartered in Calgary, Alberta, Canada. It's aggressive pioneer spirit is a cornerstone in Perfect Fry's entrepreneurial quest for success.

The Company manufactures counter-top deep fryers with self-contained patented air filtration and fire prevention systems. The quick, clean, and compact Perfect Fry is slightly bigger than a microwave oven.

Perfect Fry's main market niche is fast food retailers who sell popular french fries and other tasty deep fried finger foods at snack bars, food kiosks, concession stands, convenience stores, and sport & recreation outlets.

Perfect Fry's main sales force is an international network of independent distributors and dealers supported by targeted marketing and sales promotion programs.

Perfect Fry offers investors the basic elements for equity growth:

- Experienced management, with incentive to exceed.
- Dedicated employees with a stake in the company's future
- Proven products that service a strong consumer demand: patented and continuously updated by research and development.
- A rapidly expanding distribution network.
- Access to capital to finance rapid growth.
- A production, marketing, and distribution plan that is carving a profitable niche in the immense world-wide fast food Industry.

Stock Exchange Listing: PNM, Canadian Venture Exchange  
U.S.A. 12G3-2(b) Exemption Number 82-1609

## HIGHLIGHTS OF SIX MONTHS ENDING APRIL 30, 2001

- Appointment of the Indiana-based husband and wife team, Greg & Vickey Aguirre, to the position of US Vice President of Sales, effective February 1.
- Release of a new generation of sales and marketing tools for the Company's distribution network.
- New distributors appointed for Chicago, Oklahoma, Wisconsin, and Florida.
- Ongoing testing with numerous chains, in Canada, Australia and United States.
- Development of numerous add-on products, the first becoming available Summer 2001.

Here's One Formula You Can Bank On!



The Countertop Deep Fryer System that is versatile, compact, low maintenance, odorless, self contained and more importantly affordable... imagine all this in one unit!

no vents • no hoods • no hassle ... no kidding!

[www.perfectfry.com](http://www.perfectfry.com)  1-800-245-7711

## MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of the Company for the six months ended April 30, 2001 and the audited consolidated financial statements for the year ended October 31, 2000. All figures are expressed in Canadian dollars.

**REVENUES** – Among significant developments in the current fiscal year is the re-launching of our Sales and Marketing efforts in the United States. During this transitional period the Company has experienced weaker U.S. sales resulting in a 15% decline in our overall sales. However, since the beginning of 2001, our new marketing initiatives have been launched and are starting to pay off. One key initiative was filling the new position of U.S. Vice-President of Sales (being handled jointly by the husband and wife team of Greg and Vickey Aguirre) effective February 1, 2001.

Looking beyond the current reporting period, our unaudited results for the first seven (7) months to the end of May 2001, indicate that year-to-date revenues and the number of units sold are essentially back at par with the revenues and sales for the same period last year. Another early indicator of a positive trend is that unit sales in the US during May 2001 have more than doubled over May last year.

**EXPENSES** - As part of our re-launching of Sales and Marketing in the US, the Company incurred heavier selling costs attributable primarily to higher sales commissions, expansion of our distribution network and production of new sales materials. However, this increase was largely offset by reduced general and administrative costs. Again, based on the first seven (7) operating months, the overall expenses are at par with the expenses for the comparable period last year.

**NET EARNINGS** – While the Net Earnings during the 6-month reporting period are down from \$94,438 last year to \$6,521 this year – it should be noted that the Net Earnings for the first seven (7) operating months have improved several-fold over the 6-month results, and are at par with last year's seven month results after taking into account the above-mentioned additional sales and marketing expenditures.

**LIQUIDITY** – Our working capital position (current assets minus current liabilities) has improved by 14% at the end of the six months to \$1.35 million as compared to \$1.19 million at the end of the same period last year.

**OUTLOOK** – While the outlook for the US economy, which is our largest market, remains uncertain, we remain cautiously optimistic that our new Sales and Marketing efforts in the U.S. will continue to deliver improving results. We also look forward to the commercial introduction of several add-on products to complement our existing lines of compact fryers, which is scheduled for this summer.

**Forward Looking Statement** – Certain statements in this report contain forward looking statements which are based on Perfect Fry Corporation's current expectations and assumptions, and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Such risks include, among others, general business and economic conditions and competitive actions.

## LETTER TO SHAREHOLDERS

The second quarter of Fiscal 2001 has been exciting, productive and encouraging. During the quarter, we:

- expanded our marketing team,
- added to our distribution network,
- increased our installed base of on-trial locations,
- released a new generation of marketing and sales tools, and,
- prepared for the commercial introduction this Summer of the first of several new add-on products to complement our Perfect Fry line of compact fryers.

The highly experienced husband and wife marketing team, Greg and Vickey Aguirre, joined Perfect Fry Corporation on February 1 as U.S. Vice-President of Sales. Their mandate is to expand our distribution network in the U.S. and to help distributors increase the market penetration of our revolutionary stand-alone fryer. They demonstrated their contribution, helping U.S. sales for May 2001 reaching 77 units compared with 34 units in May last year. Accordingly, revenue for May this year was a healthy \$309,924 compared with \$157,844 for May last year.

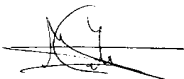
During the quarter we also completed the re-design, re-development and introduction of a new generation of sales and marketing tools to support the Company's international distribution network. I'm pleased to say that early feedback has been strongly favorable; some distributors described the materials as the best marketing and sales support materials they've ever seen.

Perfect Fry has growing distribution networks in Canada, the U.S., Australia, and discussions are underway in other targeted countries. We were also pleased during the quarter to welcome into the Perfect Fry organization new distributors in four territories in the U.S.—for Oklahoma, Wisconsin, Chicago and Florida. This brings to 33 the number of distributors representing our product in the large and attractive U.S. market.

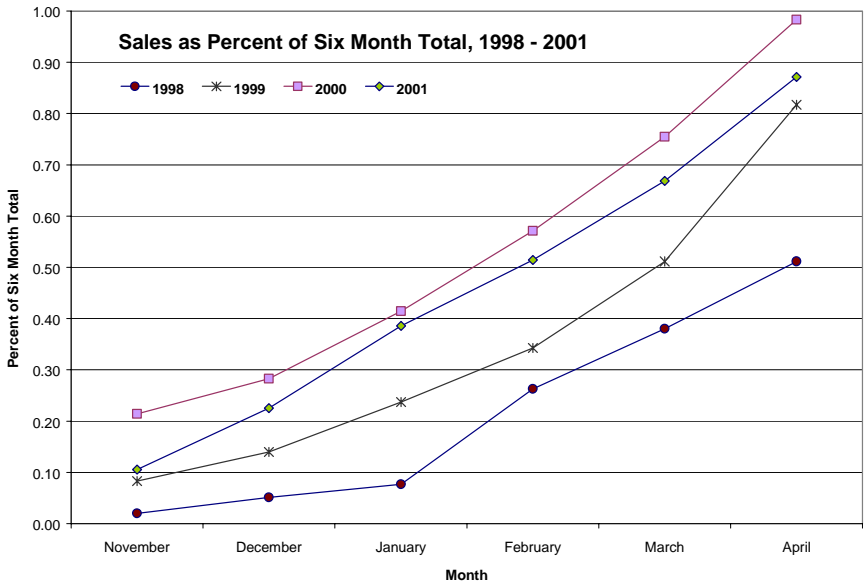
Our research and development investment continues to be productive. The Company has been developing a series of add-on products. The first of the latest group of products should be ready for commercial introduction this Summer. These products complement Perfect Fryers in place and enhance their value to our customers, while growing our service and accessory revenue stream.

Revenue held up surprisingly well during the quarter, despite reports of a difficult economic environment. Revenue for the six months was \$1,245,047 compared with the same period last year of \$1,429,374. We absorbed into the second quarter expenses associated with our new marketing team and production of the new generation of marketing and sales support materials. These one-time expenses plus an increase in interest charges, to \$23,078 from \$14,799 in the quarter last year, reduced net earnings to \$6,521 for the quarter compared with \$94,438 in the same period last year. With the strong increase in U.S. sales in May, total sales now are moving ahead of last year despite the economic uncertainties, and we fully expect match by the end of the year revenue of Fiscal 2000.

Sincerely,



Gary G. Calderwood  
President & CEO  
June 22, 2001




# PERFECT FRY CORPORATION

## CONSOLIDATED BALANCE SHEETS

Six Months Ended April 30, 2001 AND 2000 (Unaudited)

	2001	2000
	\$	\$
<b>ASSETS</b>		
Current		
Accounts Receivable	629,701	721,121
Inventories (Note 2)	1,458,815	1,521,921
Prepaid Expenses	19,761	19,231
	<u>2,108,277</u>	<u>2,262,273</u>
Capital (Note 3)	163,122	181,222
Deferred Product Development Costs (Note 4)	649,180	678,924
	<u>2,920,579</u>	<u>3,122,419</u>
<b>LIABILITIES</b>		
Current liabilities		
Bank Indebtedness (Note 5)	501,046	501,216
Accounts Payable and accrued liabilities	256,776	572,578
	<u>757,822</u>	<u>1,073,794</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	1,461,470	1,435,471
Retained earnings	701,287	613,154
	<u>2,162,757</u>	<u>2,048,625</u>
	<u>2,920,579</u>	<u>3,122,419</u>
Commitment (Note 7)		

On behalf of the Board,



Gary G. Calderwood, Director



Jack F. Senior, Director

**PERFECT FRY CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
Six Months Ended April 30, 2001 AND 2000 (Unaudited)

	2001	2000
	\$	\$
<b>REVENUE</b>	1,245,047	1,429,374
<b>COSTS AND EXPENSES</b>		
Operating, selling and admin.	1,132,648	1,237,337
Interest	23,078	14,799
Amortization		
-patents, processes and other	60,000	60,000
-capital assets	22,800	22,800
	<u>1,238,526</u>	<u>1,334,936</u>
<b>NET EARNINGS</b>	<u>6,521</u>	<u>94,438</u>
RETAINED EARNINGS, beginning of year	694,765	516,395
RETAINED EARNINGS, April 30	701,286	610,833
<b>EARNINGS PER SHARE</b>	<u>0.00</u>	<u>0.01</u>

**PERFECT FRY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Six Months Ended April 30, 2001 AND 2000 (Unaudited)

	<b>2001</b>	<b>2000</b>
	\$	\$
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATIONS</b>		
Net Earnings	6,521	94,438
Items not affecting cash		
Amortization of deferred product development costs	60,000	60,000
Amortization of capital assets	<u>22,800</u>	<u>22,800</u>
	89,321	177,238
Changes in non-cash working capital		
Accounts receivable	(251,675)	(312,030)
Inventory	63,730	(564,859)
Prepays	(13,512)	7,421
Accounts Payable and accrued liabilities	<u>(62,823)</u>	<u>208,343</u>
	(264,280)	(661,125)
<b>INVESTING</b>		
Additions of deferred product development costs	(1,029)	(2,096)
Additions for capital assets	<u>(15,096)</u>	<u>(35,835)</u>
	(16,125)	(37,931)
<b>FINANCING</b>		
Issuance of shares	<u>-</u>	<u>2,000</u>
	-	2,000
<b>INCREASE (DECREASE) IN CASH</b>	(191,084)	(519,818)
<b>CASH, BEGINNING OF PERIOD</b>	(309,961)	18,602
<b>CASH, END OF PERIOD</b>	(501,045)	(501,216)

Note:

Interest Paid	23,078	14,798
Income Taxes Paid	-	-

At April 30, 2001 an aggregate of 9,788,656 common shares were outstanding. At April 30, 2001 435,000 options to acquire common shares were outstanding with an exercise price of \$0.30 and 140,000 option to acquire common shares were outstanding with an exercise price of \$0.20 and expiring from time to time up to June 13, 2004. Of the options outstanding, 350,000 were issued to directors and officers of the Company.

# PERFECT FRY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended April 30, 2001 AND 2000 (Unaudited)

### 1. Significant Accounting Policies

#### Basis of Presentation

These consolidated financial statements include the account of the Company and those of its subsidiary companies, all of which are wholly-owned.

#### Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined using the weighted average method and includes material, direct labor and overhead.

#### Capital Assets

Capital assets are recorded at cost. Amortization is provided as follows:

Office and equipment	20% to 30% declining balance method
Leasehold improvements	Straight-line over the term of the lease

#### Deferred Product Development Costs

Product development costs are expensed to operations unless they meet specific criteria related to technical, market and financial feasibility, in which case they are deferred and amortized on a straight-line basis over ten years. Research costs are expensed as incurred.

The value of the residual unamortized balance of deferred product development costs is assessed at least annually with reference to the related projected undiscounted cash flows.

#### Income Taxes

In the year ended October 31, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes as provided for in the new recommendations of The Canadian Institute of Chartered Accountants. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

#### Earnings per share

Earnings per share are calculated using the weighted average number of common shares outstanding during the year.

#### Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, costs, and expenses during the reporting period. In the consolidated financial statements of the Company, the most significant areas for which management is required to make near-term estimates as in the assessment of the net realizable value of accounts receivable and inventories, the net recoverable value of deferred product development costs and the assessment of the likely realization of future tax assets. Actual amounts could differ from those estimates.

# PERFECT FRY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

Six Months Ending April 30, 2001 AND 2000 (Unaudited)

### 2. Inventories

	2001	2000
	\$	\$
Finished units	610,514	495,696
Parts	848,001	1,026,225
	<u>1,458,515</u>	<u>1,521,921</u>

### 3. Capital Assets

	2001		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office and equipment	364,268	219,608	144,660
Leasehold improvements	<u>41,641</u>	<u>23,180</u>	<u>18,461</u>
	<u>405,909</u>	<u>242,788</u>	<u>163,122</u>

	2000		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office and equipment	337,914	177,982	159,932
Leasehold improvements	<u>41,538</u>	<u>20,248</u>	<u>21,290</u>
	<u>379,452</u>	<u>198,230</u>	<u>181,222</u>

### 4. Deferred Product Development Costs

	2001	2000
	\$	\$
Deferred product development costs	1,505,929	1,402,263
Accumulated Amortization	<u>856,749</u>	<u>723,339</u>
	<u>649,180</u>	<u>678,924</u>

### 5. Bank Indebtedness

The Company has a bank operation credit facility of \$750,000. Advances under this facility bear interest at prime plus 1.25% and are secured by all assets of the business.

# PERFECT FRY CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

Six Months Ending April 30, 2001 AND 2000 (Unaudited)

### 6. Share Capital

Authorized

Unlimited number of preferred and common shares.

Issued

An aggregate of 9,788,656 common shares were outstanding at April 30, 2001. 140,000 share options were exercised in the first six months of fiscal year 2000.

Options

At April 30, 2001, 435,000 options to acquire common shares were outstanding with an exercise price of \$0.30 and expiring from time to time up to June 13, 2004, and 140,000 options to acquire common shares were outstanding with an exercise price of \$0.20 and expiring from time to time up to April 29, 2002. Of the options outstanding, 350,000 were issued to directors and officers of the Company.

The exercise of any of the outstanding share options would not be dilutive to earnings per share.

### 7. Commitment

The Company is committed to future annual operating lease payments for facilities, not including operating costs as follows:

2001	\$52,420
2002	\$52,420
2003	\$52,420
2004	\$13,105

### 8. Export Sales

The Company's sales to customers outside Canada totaled approximately \$854,831 in the first six months of fiscal 2001, compared to approximately \$1,151,860 for the same period in fiscal 2000. Substantially all export sales occurred in the U.S. in the first six months of 2001 and 2000.

### 9. Financial Instruments

Financial instruments of the Company include cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities. The fair values of all financial instruments are estimated to approximate their carrying values due to their short-term nature.

## PERFECT FRY CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTD.)

Six Months Ended April 30, 2001 AND 2000 (Unaudited)

#### 10. Income Taxes

In the year ended October 31, 2000, the Company adopted the liability method of tax allocation for accounting for income taxes. There was no material impact on the consolidated financial statements for the years ended October 31, 2000 and October 31, 1999.

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the differences is as follows:

	2000	1999
	\$	\$
Net earnings	178,369	119,073
Combined Federal and Provincial income tax rate	44.6%	44.6%
Computed income tax provision	79,552	53,106
Increase (decrease) resulting from		
Recognition of future tax assets		
Previously allowed for	(93,660)	(66,872)
Non-deductible amortization	11,500	11,500
Other	2,608	2,266
Net provision for income taxes	<u>-</u>	<u>-</u>

The Company has non-capital losses for income tax purposes, which may be carried forward to reduce taxable income in future years (subject to confirmation by income tax authorities). The losses expire as follows:

	2000	1999
	\$	\$
2001	115,500	363,000
2003	6,000	6,000
2005	108,500	33,000
	<u>230,000</u>	<u>402,000</u>

Significant components of the Company's future tax assets as of October 31, 2000 are as follows:

	2000	1999
	\$	\$
Operating losses carried forward at 44.6%	102,500	180,000
Tax values of capital assets in excess of Accounting values at 44.6%	792,000	808,000
Capital losses carried forward at 44.6%	189,000	189,000
Investment tax credits carried forward	100,000	100,000
Total future tax assets	1,183,500	1,277,000
Valuation allowance	(1,183,500)	(1,277,000)
Net future tax assets	<u>-</u>	<u>-</u>

## **CORPORATE DIRECTORY**

### **BOARD OF DIRECTORS**

Jack F. Senior, Chairman  
President,  
Speedi Gourmet Ltd.  
Vancouver, B.C.

Gary G. Calderwood  
President and CEO  
Perfect Fry Corporation

William O. Wright  
President  
Guidance Financial Consultants  
Wichita, Kansas

Gordon Sigurdson  
President  
Harlan Fairbanks Co Ltd.  
Winnipeg, MB

### **OFFICERS**

Gary G. Calderwood  
President, CEO,  
Secretary-Treasurer

Sharon L. Wyatt  
Chief Financial Officer

### **AUDITORS**

Dart Bryant  
Chartered Accountants  
404 - 13th Avenue NE  
Calgary, Alberta T2E 1C2

### **TRANSFER AGENT**

ComputerShare Trust Company of  
Canada  
600, 530 8th Ave SW  
Calgary, Alberta T2P 3S8

### **LEGAL COUNSEL**

Fraser Milner Casgrain  
30th Floor, 237 - 4 Ave SW  
Calgary, Alberta T2P 4X7

### **INTERNATIONAL HEAD OFFICE**

Perfect Fry Corporation  
615 71st Avenue SE  
Calgary, Alberta, Canada T2H 0S7

Telephone: (403) 255-7712  
Canada, USA: 1-800-265-7711  
International: 011-403-255-7712

Fax: (403) 255-1725

International: 011-403-255-1725

E-mail: [invest@perfectfry.com](mailto:invest@perfectfry.com)

Internet: <http://www.perfectfry.com>

### **INVESTOR RELATIONS**

Gary G. Calderwood

### **STOCK EXCHANGE LISTING**

Canadian Venture Exchange  
Symbol: PNM