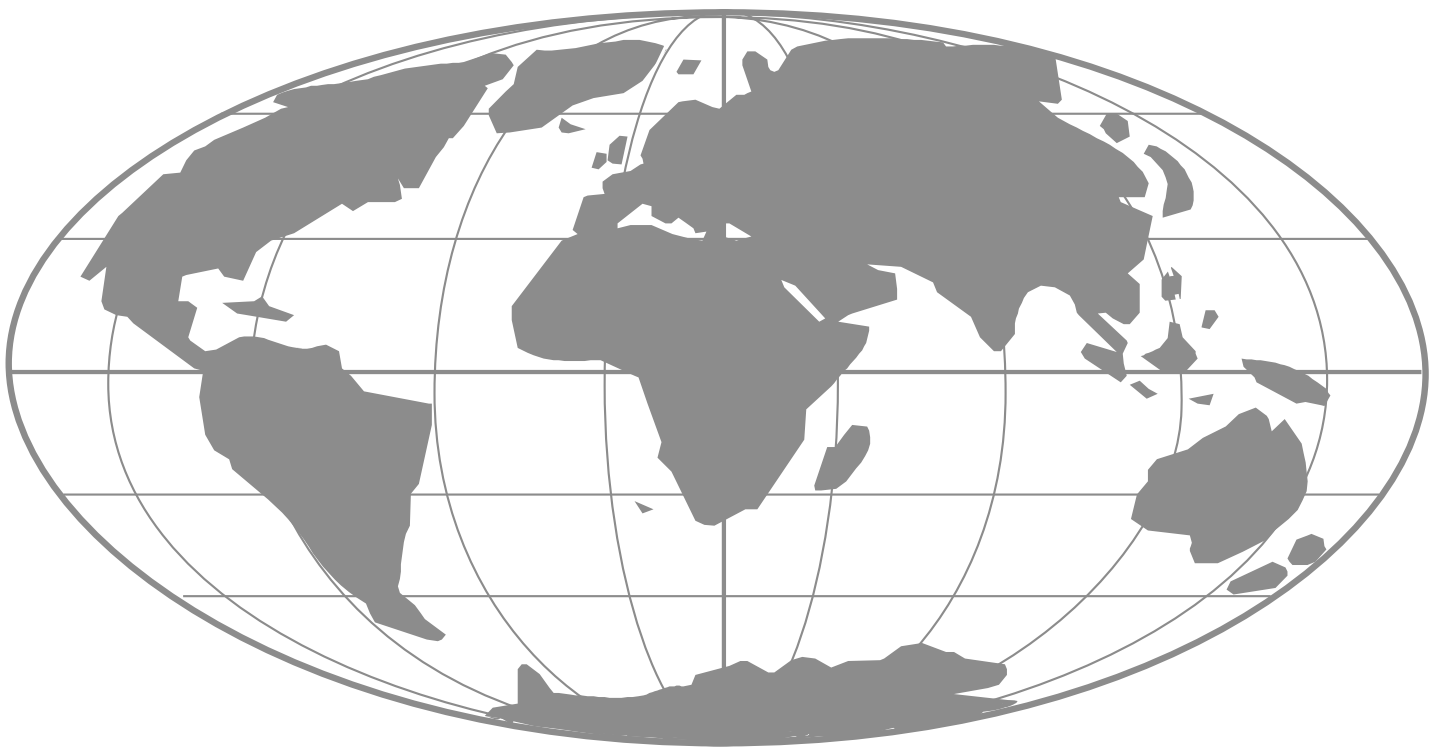


# PERFECT FRY

REPORT 1999

# CORPORATION



## CORPORATE PROFILE

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

The company manufactures counter-top deep fryers with built-in air filtration and fire prevention systems. The super efficient Perfect Fry is slightly bigger than a microwave oven.

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

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 succeed.
- Dedicated employees with a stake in the company's future.
- Proven products serving 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, distribution plan that is carving a profitable niche in the immense world-wide fast food industry.

## 1999 HIGHLIGHTS

- 1) Highest gross sales in the Company's history.
- 2) Significant recognition by large franchise organizations.
- 3) New model - 208 volt.
- 4) New enhanced filter (the best results in the industry).
- 5) The preferred vendor for Shell Oil in the Caribbean.

PERFECT FRY  
The Profit-maker



PFC MODELS:

- Wide range of cooking capacities
- State of the art electronic controls

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## ANNUAL MEETING

Perfect Fry Corporation's Annual Meeting for fiscal year 1999: April 24, 2000 at 9:00 a.m. at 3700, 400 - 3rd Avenue SW, Calgary, Alberta, Canada.

## STOCK EXCHANGE LISTING

Perfect Fry Corporation, symbol PNM, is listed on the Canadian Venture Exchange.  
USA 12G3-2 (b) Exemption Number 82-1609.

## Letter From The Chairman And President

In 1999 Perfect Fry Corporation began to realize the results of the foundation-building efforts of the past couple of years. This year we are reporting the highest gross revenue in the company's history. We interpret these results as encouragement to continue in the current direction. Specifically, to persist in the development of distributor relations, product variation and enhancement, and an advanced corporate infrastructure.

We are very excited and pleased to be able to report such positive results. We recognize that the direction we are taking to broaden and strengthen our distributor base is the foundation for future sales. This foundation of distribution includes the sales efforts of more than 50 distributors, with over 200 sales people, who are now selling the Perfect Fry line of deep-fryers. In addition, we receive support from brokers, food and equipment dealers, and manufacturer's representatives. Building this foundation requires a considerable effort on behalf of the Perfect Fry staff to visit, train and continually support each distributor and their staff. This effort continues to require an appreciable investment of time and funds.

During 1999 we delivered three enhancements to our line of deep-fryers. The computer electronics have been redesigned for totally reliable, safe, and

trouble free operation. We have launched a new 208 volt model which will support approximately 60% of the sales in the higher power installations. Finally, the most important introduction this year was a new filter design. This has been the result of our years of experience and continued efforts to create a truly odorless counter-top deep-fryer. The impact of this design, is not only significant, it is incredible. The Perfect Fry line of fryers are now literally a 100 times lower in odor and grease emissions than that of our competition and of our older design.

Most exciting and promising during 1999, Perfect Fry was approached by a number of very large franchise organizations. Our fryers are currently being tested by some of these organizations, each representing thousands of locations. The impressive capabilities of our equipment, along with the significant marketing efforts of the Perfect Fry staff and the supporting distribution organizations, have all contributed to the popularity of Perfect Fry's new line of deep-fryers.

We are very grateful for the efforts of our staff, our suppliers, and most of all our distributors, as we focus on the needs and the support of our customers. Morale and optimism continue to remain high within the organization, an outlook we would like to pass on to you, our shareholder.

On behalf of the Board,



Jack Senior  
Chairman



Gary Calderwood  
President and CEO

## MANAGEMENT DISCUSSION AND ANALYSIS

### SALES AND MARKETING

The overall image and recognition of the company and our products continues to increase as we have enhanced our distribution base, revised our advertising image and promoted ourselves to large franchise companies. During this past year we again have developed and deepened our relationships with a greater number of distributors. Our current distributors, as a whole, are the highest level of professionals we have ever had the privilege to work with. The resulting sales this past year indicated that no one distributor represented more than 10% of sales, the actual average being closer to 3%. Our advertising image has been rejuvenated with a fresh new look. Perfect Fry now advertises in more than 6 nation wide magazines targeting more than 250,000 subscribers. New efforts this past year included large amounts of time and energy devoted to significant industry franchise companies. One of these companies is now testing the Perfect Fryer at various locations coast to coast, this company could represent a number of years of production. The above efforts require a liberal investment of funds which we expect to capitalize on in the near to medium term future.

### FINANCIAL CONDITION

The financial condition of the company remains strong as we have a 1 to 5 debt to equity ratio and current assets 3.85 times that of liabilities. By adding the amortizations back to the net earnings the company has increased cash flow by \$282,000 this past year. We continue to invest for the future through expenditures

in product development of \$117,000 and fixed assets of \$48,000. The company has returned to profitability of \$119,000 from a prior year loss of \$127,000. This is still lower than expected due to the investment in the sales and marketing efforts in the areas of distribution and especially the franchise companies.

### DEVELOPMENTS AND OPERATIONS

The most significant development this past year is the testing and implementation of an improved air filter for our deep-fryers. The results of this filter are expressed in terms of milligrams of grease per cubic meter of air. The Perfect Fry's filter test came in at 0.039 compared to an industry benchmark of 5.0. This means the Perfect Fry system is 128 times cleaner than is allowed in the industry and is 11 times better than our closest competition.

Almost equally significant has been the redesign of the electronic controls which has enhanced the reliability of the fryer. The occurrence of problems is down to 3% and this number continues to decline. Considering the design and purchase of thousands of parts, followed by assembly, finishing, testing and then shipping to the customer, this is an excellent result. Credit is given to both our suppliers and our employees for this result.

Perfect Fry has also added a new 208 volt model to our line of fryers. Our research indicates that about 60% of all forthcoming installations will be 208 volt. This new model will enhance our flexibility in the future.

Consolidated Financial Statements of

## **PERFECT FRY CORPORATION**

Years ended October 31, 1999 and 1998

### **MANAGEMENT'S REPORT TO THE SHAREHOLDERS**

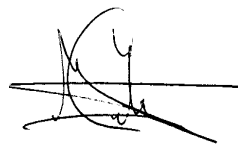
Management is responsible for the production of the Company's financial statements. Management believes that the financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial condition and results of operations in conformity with generally accepted accounting principles. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

The independent auditors appointed by the shareholders of the Company have audited the Company's financial statements in accordance with generally accepted auditing standards and they provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the company has an Audit Committee which meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.



Jack F. Senior  
Chairman of the Board



Gary G. Calderwood  
President and CEO

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Perfect Fry Corporation as at October 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Calgary, Canada  
November 26, 1999

# PERFECT FRY CORPORATION

## Consolidated Balance Sheets

October 31, 1999 and 1998

	1999	1998
<b>Assets</b>		
Current assets:		
Cash	\$ 18,602	\$ -
Accounts receivable	409,091	426,668
Inventories (note 2)	957,060	942,557
Prepaid expenses	26,652	29,202
	<u>1,411,405</u>	<u>1,398,427</u>
Capital assets (note 3)	168,185	165,917
Deferred product development costs (note 4)	736,830	738,149
	<u>\$ 2,316,420</u>	<u>\$ 2,302,493</u>

## Liabilities and Shareholders' Equity

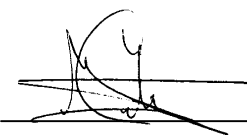
Current liabilities:		
Bank indebtedness (note 5)	\$ -	\$ 279,104
Accounts payable and accrued liabilities	366,554	192,596
	<u>366,554</u>	<u>471,700</u>
Shareholders' equity:		
Share capital (note 6)	1,433,471	1,433,471
Retained earnings	516,395	397,322
	<u>1,949,866</u>	<u>1,830,793</u>
Commitment (note 7)		
	<u>\$ 2,316,420</u>	<u>\$ 2,302,493</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

# PERFECT FRY CORPORATION

## Consolidated Statements of Operations and Retained Earnings

Years ended October 31, 1999 and 1998

	1999	1998
Revenue	\$ 2,475,406	\$ 1,681,360
Costs and expenses:		
Operating, selling and administrative	2,193,769	1,648,639
Amortization:		
Deferred product development costs	118,120	115,920
Capital assets	44,444	43,584
	2,356,333	1,808,143
Net earnings (loss)	119,073	(126,783)
Retained earnings, beginning of year	397,322	524,105
Retained earnings, end of year	\$ 516,395	\$ 397,322
Earnings (loss) per share	\$ 0.01	\$ (0.01)

See accompanying notes to consolidated financial statements.

# PERFECT FRY CORPORATION

## Consolidated Statements of Cash Flows

Years ended October 31, 1999 and 1998

	1999	1998
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ 119,073	\$ (126,783)
Items not affecting cash:		
Amortization of deferred product development costs	118,120	115,920
Amortization of capital assets	44,444	43,584
	281,637	32,721
Changes in non-cash operating working capital	179,582	(106,873)
	461,219	(74,152)
Investing:		
Additions to deferred product development costs	(116,801)	(208,801)
Additions to capital assets	(46,712)	(61,014)
	(163,513)	(269,815)
Increase (decrease) in cash position	297,706	(343,967)
Cash (bank indebtedness), beginning of year	(279,104)	64,863
Cash (bank indebtedness), end of year	\$ 18,602	\$ (279,104)

See accompanying notes to consolidated financial statements.

# PERFECT FRY CORPORATION

## Notes to Consolidated Financial Statements

Years ended October 31, 1999 and 1998

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### 1. Significant accounting policies:

(a) Basis of presentation:

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

(b) Inventories:

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

(c) Capital assets:

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

	Basis	Rate
Office and equipment	Declining-balance	20% to 30%
Leasehold improvements	Straight-line	Over the term of the lease

(d) 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.

During fiscal 1998, management increased its estimate of the useful lives of the deferred product development costs to ten years from three years. This change was accounted for on a prospective basis.

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

(e) Income taxes:

The Company accounts for income taxes using the tax allocation method. Under this method, timing differences between reported and taxable income result in provisions for taxes not currently payable.

(f) Earnings (loss) per share:

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

# PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 2

Years ended October 31, 1999 and 1998

## 1. Significant accounting policies (continued):

(g) Measurement uncertainty:

The preparation of financial statements in accordance with generally accepted accounting principles requires 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 is in the assessment of the net realizable value of inventories and the net recoverable value of deferred product development costs. Actual amounts could differ from those estimates.

## 2. Inventories:

	1999	1998
Finished units	\$ 286,887	\$ 198,055
Parts	670,173	744,502
	\$ 957,060	\$ 942,557

## 3. Capital assets:

1999	Cost	Accumulated amortization	Net book value
Office and equipment	\$ 308,943	\$ 158,493	\$ 150,450
Leasehold improvements	37,983	20,248	17,735
	\$ 346,926	\$ 178,741	\$ 168,185

1998	Cost	Accumulated amortization	Net book value
Office and equipment	\$ 330,499	\$ 184,115	\$ 146,384
Leasehold improvements	36,914	17,381	19,533
	\$ 367,413	\$ 201,496	\$ 165,917

# PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 3

Years ended October 31, 1999 and 1998

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#### 4. Deferred product development costs:

	1999	1998
Deferred product development costs	\$ 1,403,170	\$ 1,286,369
Accumulated amortization	666,340	548,220
	<u>\$ 736,830</u>	<u>\$ 738,149</u>

#### 5. Bank indebtedness:

The Company has a bank operating credit facility of \$500,000. Advances under this facility bear interest at prime plus 1.25% and are secured by all assets of the business.

#### 6. Share capital:

(a) Authorized:

Unlimited number of preferred and common shares.

(b) Issued:

An aggregate of 9,623,648 common shares were outstanding during fiscal 1998 and 1999 with no changes occurring during this two-year period.

(c) Options:

At October 31, 1999, 465,000 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. Of the options outstanding, 250,000 were issued to directors and officers of the Company.

The exercise 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, over the next five years as follows:

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2000	\$ 52,420
2001	52,420
2002	52,420
2003	52,420
2004	13,105

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# PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 4

Years ended October 31, 1999 and 1998

## 8. Export sales:

The Company's sales to customers outside Canada totalled \$1,929,078 in fiscal 1999 and \$1,243,559 in fiscal 1998. Substantially all export sales occurred in the U.S. in 1999 and 1998.

## 9. Income taxes:

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

	1999	1998
Net earnings (loss)	\$ 106,566	\$ (126,783)
Combined Federal and Provincial income tax rate	44.6%	44.6%
Computed income tax provision (recovery)	\$ 47,529	\$ (56,545)
Increase (decrease) resulting from:		
Recognition of loss carry-forwards not previously recognized	(61,295)	–
Non-deductible amortization	11,500	11,500
Loss carry-forwards not recognized	–	41,295
Other	2,266	3,750
	\$ –	\$ –

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:

2001	\$ 363,000
2003	6,000
2005	33,000
	\$ 402,000

In addition the Company has aggregate tax pools, excluding the above non-capital losses, which exceed the net book value of the related capital assets, available for deduction against future years taxable income in the amount of \$2,535,000.

The potential benefit of the above losses and pools has not been recognized in the financial statements.

# PERFECT FRY CORPORATION

Notes to Consolidated Financial Statements, page 5

Years ended October 31, 1999 and 1998

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## **10. 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.

## **11. Uncertainty due to the Year 2000 Issue:**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant system failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

## 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

P. Glenn Calderwood  
Owner-Manager & Director,  
Private Corporations  
Calgary, Alberta

William O. Wright  
President,  
Guidance Financial Consultants  
Wichita, Kansas

### LEGAL COUNSEL

Macleod Dixon  
#3700, 400 3rd Avenue SW  
Calgary, Alberta T2P 4H2

### OFFICERS

Gary G. Calderwood  
President, CEO,  
Secretary-Treasurer

Cynthia C. Horne  
Chief Financial Officer

### AUDITORS

KPMG LLP  
Chartered Accountants  
#1200, 205 5th Avenue SW  
Calgary, Alberta  
T2P 4B9

### TRANSFER AGENT

Montreal Trust  
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Calgary, Alberta  
T2P 3S8

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Fax: (403) 255-1725  
1-800-265-7711  
E-Mail: [invest@perfectfry.com](mailto:invest@perfectfry.com)  
Internet: [www.perfectfry.com](http://www.perfectfry.com)

### INVESTOR RELATIONS

Cynthia C. Horne

### STOCK EXCHANGE LISTING

Canadian Venture Exchange,  
Symbol: PNM

As of October 31, 1999 there  
were 9,623,648 shares issued  
and outstanding.



# PERFECT FRY

REPORT 1999

# CORPORATION

PRINTED IN CANADA

