

1993 ANNUAL REPORT  
COBI FOODS INC.

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Annual Report  
MCGILL UNIVERSITY

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## LETTER TO SHAREHOLDERS

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Cobi Foods Inc. recorded net sales of \$54,800,000 for the year ending April 30th, 1993 compared to \$76,100,000 the previous year. Operating losses before special items were \$5,500,000 compared to \$3,500,000 the previous year.

Net Loss for the year of \$5,500,000 compares to 1992's income of \$500,000 which included \$4,000,000 of unusual gains related to the forgiveness of debenture principal and sale of the beverage business and farmlands.

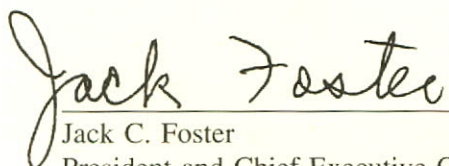
During this past year Rama Atluru and Richard Turner retired from the Board of Directors. We thank them for their contribution. New appointments to the board this past year were Mr. Jack Foster, President and Chief Executive Officer of Cobi Foods Inc., and Mr. Bruce Jodrey, Chairman and Chief Executive Officer of CKF Inc.

We thank all our employees for their initiative, loyalty and dedication this past year and for their continuing commitment.



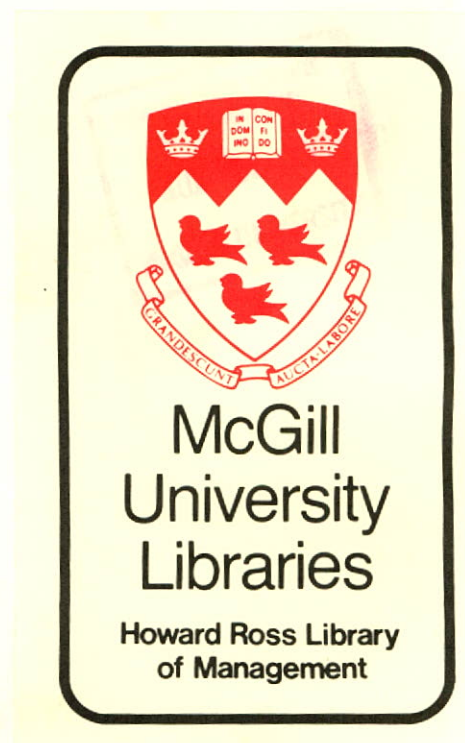
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George E. Bishop  
Chairman of the Board



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Jack C. Foster  
President and Chief Executive Officer



July 21, 1993

## MANAGEMENT DISCUSSION AND ANALYSIS

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Cobi Foods Inc. is a medium sized company primarily engaged in the processing of canned and frozen fruit and vegetables for sale to retailers, the Food Service industry, industrial customers and the export market. In addition, Cobi is engaged in the production of freeze dried foods and Honeydew fruit drinks.

The company markets products across Canada under the brand names Graves, Avon, Nature's Best, Cobi, Stokely Van Camp, Libby's, Hilo and Honeydew.

The company recorded net sales of \$54,800,000 for the fiscal year ending April 30, 1993 compared to \$76,100,000 the previous year. The reduction is primarily due to the sale of Cobi's beverage division, withdrawal from canned tomato products, and to intense competitive pressures in the continuing businesses. The net loss for the year was \$5,500,000 (21¢ per share) compared to a net income of \$500,000 (2¢ per share) the previous year.

During the year Cobi's office facility in Port Williams, Nova Scotia was sold and will be relocated to the manufacturing facility in Berwick, Nova Scotia as of August 1993.

Poor crop yields and a six week strike at the Ingersoll plant contributed to poor operating results in Cobi's Frozen Division. While market conditions for all Cobi's products continue to be extremely competitive, every possible effort is being made to reduce costs and improve efficiencies.

### **Liquidity and Capital Reserves**

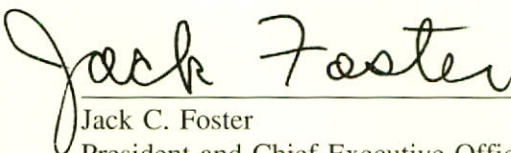
Net cash used in operations totalled \$600,000, compared to net inflow of \$8.8 million in fiscal 1992. Investment in receivables and inventories decreased from \$30.0 million to \$26.0 million, with bank indebtedness dropping by \$600,000 during the year.

Amendments to existing banking agreements were negotiated during the year. New loan agreements were negotiated, converting \$5.0 million of debt to income debentures.

During fiscal 1993, loans with affiliated companies were restructured and consolidated, leaving only \$600,000 out of a total of \$35.0 million as interest-bearing advances.

### **Results of Operations**

Continued low interest rates impacted favourably on net earnings, as did the extensive restructuring of the company's various debt agreements.

  
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Jack C. Foster  
President and Chief Executive Officer

July 21, 1993

## AUDITORS' REPORT TO THE SHAREHOLDERS

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June 30, 1993

### To the Shareholders of Cobi Foods Inc.

We have audited the consolidated balance sheets of Cobi Foods Inc. as at April 30, 1993 and 1992 and the consolidated statements of operations and deficit and changes in financial position 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 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 April 30, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS

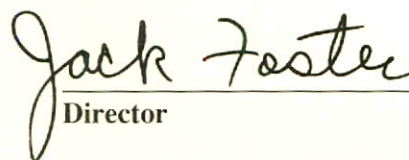
## CONSOLIDATED BALANCE SHEETS

As at April 30,	1993 (\$000)	1992 (\$000)
<b>ASSETS (note 2)</b>		
<b>Current assets</b>		
Accounts receivable	3,162	5,176
Mortgage receivable	800	-
Inventories	22,128	24,783
Prepaid expenses	31	347
Deferred closure costs	1,172	1,172
	<b>27,293</b>	<b>31,478</b>
<b>Capital assets (note 3)</b>	<b>18,197</b>	<b>20,599</b>
<b>Other assets</b>	<b>622</b>	<b>664</b>
	<b>46,112</b>	<b>52,741</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 2)	15,569	16,128
Demand loan payable to an affiliated company, non-interest bearing (note 2)	2,550	1,500
Accounts payable and accrued liabilities	6,077	8,317
Current portion of long-term debt (note 4)	776	2,751
	<b>24,972</b>	<b>28,696</b>
<b>Long-term debt (notes 2 and 4)</b>	<b>40,668</b>	<b>38,081</b>
	<b>65,640</b>	<b>66,777</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>Capital stock (note 5)</b>	<b>35,429</b>	<b>35,429</b>
<b>Deficit</b>	<b>(54,957)</b>	<b>(49,465)</b>
	<b>(19,528)</b>	<b>(14,036)</b>
	<b>46,112</b>	<b>52,741</b>

### Signed on Behalf of the Board



Director



Director

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended April 30,	1993 (\$000)	1992 (\$000)
<b>NET SALES</b>	<b>54,799</b>	<b>76,139</b>
<b>COSTS AND EXPENSES</b>		
Cost of sales, selling and administrative	55,633	73,526
Depreciation and amortization	2,159	2,381
Interest -		
Short-term debt	1,035	1,653
Long-term debt	1,464	2,039
	<b>60,291</b>	<b>79,599</b>
<b>Loss before the following</b>	<b>(5,492)</b>	<b>(3,460)</b>
Gain on sale of beverage business and farmlands	-	976
Gain on reduction of debenture principal	-	3,500
Plant closures and reorganization costs	-	(500)
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<b>(5,492)</b>	<b>516</b>
<b>Deficit - beginning of year</b>	<b>(49,465)</b>	<b>(49,981)</b>
<b>DEFICIT - END OF YEAR</b>	<b>(54,957)</b>	<b>(49,465)</b>
<b>NET INCOME (LOSS) PER SHARE</b>	<b><u>(21)¢</u></b>	<b><u>02¢</u></b>

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended April 30,	1993 (\$000)	1992 (\$000)
<b>OPERATING ACTIVITIES</b>		
Net income (loss) for the year	(5,492)	516
Charges (credits) to operations not involving cash -		
Depreciation and amortization	2,159	2,381
Accrued interest capitalized	1,115	570
Gain on sales of capital assets	(247)	(1,866)
Gain on reduction of debenture principal	-	(3,500)
Other	(117)	(52)
	(2,582)	(1,951)
Net change in non-cash working capital balances related to operations	1,945	10,789
	(637)	8,838
<b>FINANCING ACTIVITIES</b>		
Borrowings from affiliated companies	1,158	-
Repayment of long-term debt	(494)	(1,611)
	664	(1,611)
<b>INVESTING ACTIVITIES</b>		
Proceeds on sales of capital assets	1,624	5,087
Purchase of capital assets	(1,092)	(2,006)
	532	3,081
<b>DECREASE IN BANK INDEBTEDNESS DURING THE YEAR</b>	<b>559</b>	<b>10,308</b>
Bank indebtedness - beginning of year	(16,128)	(26,436)
<b>BANK INDEBTEDNESS - END OF YEAR</b>	<b>(15,569)</b>	<b>(16,128)</b>



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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For the years ended April 30, 1993 and 1992

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidation

These consolidated financial statements include the accounts of the company and all subsidiary companies. The purchase method has been used to account for all acquisitions.

#### Inventories

Inventories are valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

#### Deferred closure costs

Deferred closure costs will be charged against the anticipated gain to be realized on the sale of property.

#### Depreciation

Depreciation of capital assets is calculated using the straight-line basis over their estimated useful lives. The estimated useful lives for buildings and improvements range from 20 to 40 years and for machinery and equipment range from 4 to 12 years.

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### 2. SECURITY FOR DEBT

All of the company's assets have been pledged as security, either directly or through floating charge debentures, for the bank indebtedness, the demand loan payable and the long-term debt.

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### 3. CAPITAL ASSETS

	<u>1993</u>			<u>1992</u>
	Cost (\$000)	Accumulated depreciation (\$000)	Net (\$000)	Net (\$000)
Land	687	-	<b>687</b>	711
Buildings and improvements	15,534	5,441	<b>10,093</b>	11,468
Machinery and equipment	24,052	16,635	<b>7,417</b>	8,420
	<u>40,273</u>	<u>22,076</u>	<b>18,197</b>	<u>20,599</u>

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#### 4. LONG-TERM DEBT

	1993 (\$000)	1992 (\$000)
Mortgages and loans, bearing interest at rates of prime less 8% and 10½%, due at various dates in 1993	689	6,060
Income debenture, with interest charges and principal repayments based upon net distributable income (as defined), bearing a maximum interest rate of 15%	5,539	-
Amounts payable to affiliated companies, certain amounts of which have been subordinated to the banks' position and the income debenture holder -		
Loans, non-interest bearing, repayable one year plus one day from demand, secured by debentures bearing interest at bank prime	33,205	-
Other loans, of which \$1,270,000 is non-interest bearing and \$600,000 bears interest at prime plus 1%, with no fixed terms of repayment	1,870	7,370
Debentures, bearing interest at bank prime plus ¼%	-	17,070
Non-interest bearing debentures	-	9,975
Other non-interest bearing loans, due at various dates through 1995	141	357
	<b>41,444</b>	40,832
Less: Current portion	776	2,751
	<b>40,668</b>	38,081

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The aggregate amount of principal payments required in each of the next five years to meet retirement provisions (excluding any repayment of the income debentures and amounts payable to affiliated companies) is as follows:

	(\$000)
Year ending April 30, 1994	776
1995	-
1996	54
1997	-
1998	-

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**5. CAPITAL STOCK**

**(a) Authorized -**

An unlimited number of common shares without nominal or par value

An unlimited number of non-voting equity shares without nominal or par value which rank equally with the common shares

An unlimited number of preference shares which shall be issued in series by the directors, each such series carrying such rights and conditions as the directors may determine.

**(b) Issued and fully paid -**

	shares	(\$000)
Common shares	<u>26,125,255</u>	<u>35,429</u>

(unchanged during each of the years)

**(c) Stock option agreements -**

The company has outstanding options to certain employees and directors to purchase common shares of the company for prices ranging from 62¢ to \$1.04 per share. The options are effective to December 1994 and a total of 150,000 shares are available for purchase under the terms of these agreements.

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**6. RELATED PARTY TRANSACTIONS**

**(a) Transactions**

During the year, the company was charged approximately \$2,740,000 (1992 -\$4,300,000) by related companies for supplies, services and interest.

**(b) Debt reduction**

During fiscal 1992, the principal balance owing on debentures payable to affiliated companies was reduced by \$3,500,000 by the debt holders.

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**7. FUTURE INCOME TAXES**

The company and its subsidiaries have accumulated losses for income tax purposes of approximately \$23,900,000 which may be carried forward and used to reduce taxable income in future years. These losses may be claimed no later than:

	(\$000)
Year ending April 30, 1994	500
1995	3,300
1996	8,600
1997	2,700
1998	2,300
1999	2,500
2000	4,000

In addition, the undepreciated capital cost of capital assets as at April 30, 1993 exceeded their net book value by approximately \$27,000,000.

The potential income tax benefits associated with the above items have not been recorded in the accounts.

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## DIRECTORS

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**George E. Bishop**

Gaspereau, N.S.  
President  
Scotia Investments Limited

†**Bernardin J. Comeau**

Saulnierville, N.S.  
Chairman of the Board  
Comeau's Sea Foods Limited

**Gordon E. M. Cummings**

Oakville, Ontario  
Chief Executive Officer  
United Co-operatives of Ontario

**Jack C. Foster**

Mississauga, Ontario  
President and Chief Executive Officer  
Cobi Foods Inc.

†**David J. Hennigar**

Bedford, N.S.  
Atlantic Regional Director  
Burns Fry Limited

**Bruce J. Jodrey**

Windsor, N.S.  
Chairman and Chief Executive Officer  
CKF Inc.

**John J. Jodrey**

Hantsport, N.S.  
Chairman of the Board  
Scotia Investments Limited

**Frederick B. Ladly**

Toronto, Ontario  
President and Chief Executive Officer  
Crownx Inc.

**John M. Lindley**

Campbellville, Ontario  
Corporate Director

†**J. Thomas MacQuarrie, Q.C.**

Halifax, N.S.  
Senior Partner  
Stewart McKelvey Stirling Scales

†Member of Audit Committee

## OFFICERS

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**George E. Bishop**

Chairman of the Board

**John J. Jodrey**

Vice-Chairman of the Board

**Jack C. Foster**

President and Chief Executive Officer

**Nicholas S. Betts**

Executive Vice-President

**Douglas L. Thorne**

Vice-President and General Manager, Canned Foods

**Leonard D. McCully**

Corporate Secretary

**Archie W. MacPherson**

Assistant Secretary

**David R. Perry**

Corporate Controller

## GENERAL INFORMATION

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### **Banks**

The Canadian Imperial Bank of Commerce  
The Royal Bank of Canada  
The Bank of Nova Scotia

### **Transfer Agent**

Montreal Trust  
P. O. Box 2187  
Halifax, N.S.  
B3J 3C5

### **Listed**

Common Shares  
The Toronto Stock Exchange  
Symbol CFJ

### **Head Office**

P. O. Box 1000, Collins Road  
Port Williams, N.S.  
BOP 1TO

### **Auditors**

Coopers & Lybrand

### **Solicitors**

Stewart McKelvey Stirling Scales

## NATIONAL AND REGIONAL BRANDS

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### Retail

Avon  
Graves  
Hardee Farms  
Hilo  
Honeydew  
Libby's  
Nature's Best  
Stokely Van Camp's

### Food Service

Cobi  
Honeydew  
Kirkwood

## MAJOR PRODUCT GROUPS

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### Beverages

Apple and Other Juices (Food Service Only)  
Frozen Concentrates  
Tomato Juice

### Fruit

Apples  
Blueberries  
Pie Filling  
Pumpkin

### Vegetables

Baked Beans  
Bean Salad  
Beets  
Blends & Mixes  
Brussels Sprouts  
Carrots  
Cauliflower  
Chick Peas  
Chili  
Corn  
Kidney Beans  
Lima Beans  
Onion Rings  
Peas  
Potatoes  
Sauerkraut  
Wax & Green Beans



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Cobi Foods Inc. Aliments Cobi Inc.  
P.O. Box 1000, Port Williams  
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