1992 ANNUAL REPORT

COBI FOODS INC.

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LETTER TO SHAREHOLDERS

Fiscal 1992 sales decreased by 19% from the previous year principally due to the sale of the apple juice and beverage business, and planned withdrawal from some product lines. Operating losses before special items were $3,460,000 compared to $4,926,000 the previous year. Net income after special items was $516,000 versus a loss of $15,666,000 for the last year. The forgiveness of $3,500,000 debenture principal by the major shareholders had a significant positive impact on the results for the year.

Following the sale of its apple juice and beverage business, Cobi's operations were reorganized into four operating divisions: Canned Foods, Frozen Foods, Honeydew, and Freeze-Dry. This resulted in reduced staff at the corporate office. We believe that this has enhanced management focus in the marketplace, resulting in better operating performance.

Campbell & Burns Machinery Division, an agricultural equipment dealership subsidiary of Cobi in Prince Edward Island, was closed effective June 26, 1992.

A new packaging room has been added to our frozen vegetable operation in Ingersoll, Ontario at a cost of approximately $1.5 million during the year. This has enhanced product quality and greatly improved productivity.

Cobi is fortunate in that its employees are capable, loyal and dedicated, and have been sparing no efforts to transform Cobi into a profitable company. We are cognizant of their efforts and deeply grateful for their many contributions and support during the year.

During the year the corporation has successfully completed wage negotiations at the Berwick and Hillaton plants in Nova Scotia, and at the Ingersoll plant and Bloomfield Distribution Centre in Ontario.

Angela Peters resigned from the Board on March 16, 1992. The corporation gratefully acknowledges her contribution since its formation by amalgamation on May 1, 1986.

John M. Lindley
Chairman of the Board

S. Rama Atluru
President and Chief Executive Officer

August 6, 1992

MANAGEMENT DISCUSSION AND ANALYSIS

The corporation is a medium sized processor and marketer of canned and frozen vegetables and fruit, canned beans with pork and kidney beans and Honeydew frozen fruit-flavoured beverage concentrates for retail, food service and industrial markets. The corporation also manufactures, mostly on a custom basis, freeze-dried foods primarily for industrial customers.

The corporation markets products across Canada under the brand names of Graves, Libby's, Stokely-Van Camp, Avon, Nature's Best, Cobi, Hilo and Honeydew. Sales are also made under generic and private labels for major retail chains and food service distributors which service hotels, restaurants and institutions. The corporation also exports products to Europe and the U.S.A.

The corporation is organized into four operating divisions: Canned Foods, Frozen Foods, Honeydew and Freeze-Dry.

The corporation recorded sales of $91,460,000 for the fiscal year ending April 30, 1992, compared to $112,704,000 the previous year. The reduction is largely attributable to the sale of the juice and beverage business, planned withdrawal from canned tomato products, and some minor declines in canned vegetable products due to product shortages prior to the 1991 pack season. Net income for the year was $516,000 (2¢ per share) compared to a loss of $15,666,000 (60¢ per share) the previous year.

During the third and fourth quarters, the competitive pressures intensified in the processed vegetable markets as a result of softening demand which lead to eroding profit margins.

In September, 1991, the corporation sold its juice and beverage operations in the Maritime Provinces to A. Lassonde & Fils Inc., and in October, 1991, its orchard lands, orchard crops and related equipment to Stirling Fruit Farms Ltd. In June, 1992, the corporation closed its farm machinery distributorship in Prince Edward Island.

During the year, Ontario distribution activities were moved from leased warehouse facilities in Picton, Ontario to the company-owned warehouse in Bloomfield, Ontario. Also, Atlantic Canada distribution activities were moved from Port Williams, Nova Scotia to Berwick, Nova Scotia.

Honeydew frozen concentrate manufacturing facilities are scheduled to be moved in the summer of 1992 from Bloomfield to Ingersoll, Ontario.

Virtually all finished goods and raw materials inventories are now current.

The corporation has successfully concluded wage contracts with unionized employees at the Berwick and Hillaton plants in Nova Scotia, and at the Ingersoll plant and Bloomfield distribution centre in Ontario.

Liquidity and Capital Reserves

Net cash inflow from operations improved to $8.8 million, compared to $6.2 million in fiscal 1991. Investment in receivables and inventories decreased from $44.0 million to $30.0 million, with bank indebtedness dropping by $10.3 million during the year. A new loan agreement was signed with the corporation's bankers. All scheduled debt repayments were met except a $750,000 principal repayment owing to the Nova Scotia Business Capital Corporation which was due on April 30, 1992. The corporation is presently renegotiating repayment terms of debt totalling $10.5 million with the Nova

Scotia Business Capital Corporation ($5.0 million) and Scotia Investments Limited, an affiliated company ($5.5 million).

Results of Operations

A general decline in interest rate levels, as well as reductions in short-term debt levels, favourably impacted on net earnings. Depreciation and amortization expense decreased $1.0 million from the prior year, due to writedowns during 1991 of idle plant and equipment to net realizable values, and sale of the juice and beverage business.

Earnings before depreciation, interest, and unusual items were $2.6 million compared to $3.7 million the previous year. Plant and administrative overhead expenses were adjusted during the year, in line with the restructuring of the company.

S. Rama Atluru
President and Chief Executive Officer

August 6, 1992

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cobi Foods Inc. as at April 30, 1992 and 1991 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, 1992 and 1991 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.

Coopers & Lybrand

CHARTERED ACCOUNTANTS

June 19, 1992
Halifax, Nova Scotia

CONSOLIDATED BALANCE SHEETS

As at April 30,	1992 ($000)	1991 ($000)
ASSETS (note 2)		
Current assets		
Accounts receivable	**5,176**	6,104
Inventories	**24,783**	37,867
Prepaid expenses	**347**	542
Deferred closure costs	**1,172**	1,172
	31,478	45,685
Capital assets (note 3)	**20,599**	24,100
Other assets	**664**	707
	52,741	70,492
LIABILITIES		
Current liabilities		
Bank indebtedness (note 2)	**16,128**	26,436
Demand debenture payable to an affiliated company, non-interest bearing (note 2)	**1,500**	6,000
Accounts payable and accrued liabilities	**8,317**	11,735
Current portion of long-term debt (note 4)	**2,751**	2,838
	28,696	47,009
Long-term debt (notes 2 and 4)	**38,081**	38,035
	66,777	85,044
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	**35,429**	35,429
Deficit	**(49,465)**	(49,981)
	(14,036)	(14,552)
	52,741	70,492

Signed on Behalf of the Board

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended April 30,

	1992 ($000)	1991 ($000)
GROSS SALES	**91,460**	112,704
Trade discounts and freight	**15,321**	19,061
Net sales	**76,139**	93,643
COSTS AND EXPENSES		
Cost of sales, selling and administrative	**73,526**	89,954
Depreciation and amortization	**2,381**	3,399
Interest -		
Short-term debt	**1,653**	3,487
Long-term debt	**2,039**	1,729
	79,599	98,569
Loss before the following	**(3,460)**	(4,926)
Gain on sale of beverage business and farmlands	**976**	-
Gain on reduction of debenture principal (note 6)	**3,500**	-
Plant closures and reorganization costs (note 7)	**(500)**	(10,740)
NET INCOME (LOSS) FOR THE YEAR	**516**	(15,666)
Deficit - Beginning of Year	**(49,981)**	(34,315)
DEFICIT - END OF YEAR	**(49,465)**	(49,981)
NET INCOME (LOSS) PER SHARE	**02¢**	(60¢)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended April 30,	1992 ($000)	1991 ($000)
OPERATING ACTIVITIES		
Net income (loss) for the year	**516**	(15,666)
Charges (credits) to income not involving cash -		
Depreciation and amortization	**2,381**	3,399
Accrued debenture interest	**570**	-
Gain on sales of assets	**(1,866)**	-
Gain on reduction of debenture principal	**(3,500)**	-
Write down of capital assets	**-**	7,922
Other	**(52)**	(120)
	(1,951)	(4,465)
Net change in non-cash working capital balances related to operations	**10,789**	10,678
	8,838	6,213
FINANCING ACTIVITIES		
Short-term borrowings from an affiliated company	**-**	1,500
Repayment of long-term debt	**(1,611)**	(1,330)
	(1,611)	170
INVESTING ACTIVITIES		
Proceeds on sale of assets	**5,087**	907
Purchase of capital assets	**(2,006)**	(1,318)
	3,081	(411)
DECREASE IN BANK INDEBTEDNESS DURING THE YEAR	**10,308**	5,972
Bank Indebtedness - Beginning of Year	**(26,436)**	(32,408)
BANK INDEBTEDNESS - END OF YEAR	**(16,128)**	(26,436)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended April 30, 1992 and 1991

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.

Prepaid expenses

Prepaid expenses include advances to growers and cost of growing crops which are deferred until the crops are harvested.

Deferred closure costs

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

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 debenture and the long-term debt.

3. CAPITAL ASSETS

	1992			1991
	Cost ($000)	Accumulated depreciation ($000)	**Net ($000)**	Net ($000)
Land	711	-	**711**	1,187
Buildings and improvements	17,495	6,027	**11,468**	11,873
Machinery and equipment	23,580	15,160	**8,420**	11,040
	41,786	21,187	**20,599**	24,100

4. LONG-TERM DEBT

	1992 ($000)	1991 ($000)
Loans, mortgages and debentures, bearing interest at rates ranging from 0.0% to 12.4%, due at various dates through 1997	**6,060**	7,128
Amounts payable to affiliated companies -		
Debentures, bearing interest at bank prime plus 1/4% and repayable within 366 days upon receiving written notice demanding repayment and which have been subordinated to the banks' position	**17,070**	20,000
Advances, bearing interest at rates ranging from prime plus 1/4% to 12.55% and a non-interest bearing advance, all with no fixed terms of repayment and of which $6,770,000 has been subordinated to the banks' position	**7,370**	7,370
Non-interest bearing debenture due April, 1994 and a non-interest bearing demand debenture repayable in annual principal payments of $500,000	**9,975**	5,475
Other - non-interest bearing, due at various dates through 2002	**357**	900
	40,832	40,873
Less: Current portion	**2,751**	2,838
	38,081	38,035

The company is renegotiating the repayment terms of a debenture payable to the Nova Scotia Business Capital Corporation with a balance owing of $4,975,124 at April 30, 1992. A principal payment of $750,000, which was due on April 30, 1992 has not been paid.

The aggregate amount of payments required in each of the next five years to meet retirement provisions (assuming no repayment of the debentures payable to affiliated companies is required) is as follows:

		($000)
Year ending April 30,	1993	2,751
	1994	9,346
	1995	596
	1996	594
	1997	605

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	26,125,255	35,429
(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 183,500 shares are available for purchase under the terms of these agreements.

6. RELATED PARTY TRANSACTIONS

(a) Debt reduction -

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

(b) Transactions -

During the year, the company was charged approximately $4,300,000 (1991 -$4,400,000) by related companies for supplies, services and interest.

7. PLANT CLOSURES AND REORGANIZATION COSTS

As a result of the company's plans to reorganize and rationalize its investment in plant and warehouse facilities in Ontario and Atlantic Canada, a provision of $500,000 (1991 - $10,740,000) has been made in the accounts to record the anticipated costs related to this reorganization. The provision includes the following:

	1992 ($000)	1991 ($000)
Write-down of capital assets to net realizable values	-	7,922
Other costs	**500**	3,990
	500	11,912
Less: Deferred closure costs	-	(1,172)
	500	10,740

8. PENSION PLANS

The company sponsors a defined-benefit pension plan covering substantially all hourly employees and a money-purchase plan covering all of the executive employees. The pension plan for salaried employees was converted from a defined benefit plan to a money-purchase plan effective January 1, 1992. An actuarial valuation of all plans was made on December 31, 1990 by W. F. Morneau and Associates and was then extrapolated to April 30, 1992. The company's actuarial obligations for pension benefits arising from service prior to April 30, 1992 are estimated to be $3,132,000 (1991 - $3,354,000). The actuarial estimate of the market value of the assets available to meet these obligations at April 30, 1992 is $3,387,000 (1991 -$3,387,000).

9. FUTURE INCOME TAXES

The company and its subsidiaries have accumulated losses for tax purposes of approximately $23,700,000 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,	1993	3,800
	1994	500
	1995	3,300
	1996	8,600
	1997	2,700
	1998	2,300
	1999	2,500

In addition, the undepreciated capital cost of capital assets as at April 30, 1992 exceeded their net book value by approximately $23,000,000.

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

DIRECTORS

S. Rama Atluru
Vancouver, B.C.
President and Chief Executive Officer
Cobi Foods Inc.

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

†David J. Hennigar
Bedford, N.S.
Atlantic Regional Director
Burns Fry Limited

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

Frederik B. Ladly
Toronto, Ontario
President and Chief Executive Officer
Crownx Inc.

John M. Lindley
Campbellville, Ontario
Chairman of the Board
Cobi Foods Inc.

†J. Thomas MacQuarrie, Q.C.
Halifax, N.S.
Senior Partner
Stewart McKelvey Stirling Scales

Richard J. Turner
Canning, N.S.
Corporate Director

†Member of Audit Committee

OFFICERS

John M. Lindley
Chairman of the Board

John J. Jodrey
Vice-Chairman of the Board

S. Rama Atluru
President and Chief Executive Officer

Leonard D. McCully, F.C.A.
Corporate Secretary

Colin M. Lang, C.G.A.
Assistant Secretary

Archie W. MacPherson, C.A.
Assistant Secretary

GENERAL INFORMATION

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
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B3J 3C5

Listed
Common Shares
The Toronto Stock Exchange
Symbol CFJ

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Auditors
Coopers & Lybrand

Solicitors
Stewart McKelvey Stirling Scales

NATIONAL AND REGIONAL BRANDS

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

Foodservice
Cobi
Honeydew
Kirkwood

MAJOR PRODUCT GROUPS

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
Corn
Kidney Beans
Lima Beans
Peas
Potatoes
Sauerkraut
Tomatoes
Wax & Green Beans

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