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**1990 ANNUAL REPORT**  
**COBI FOODS INC.**

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Mobile University  
1990-1991  
MOBILE UNIVERSITY

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## LETTER TO SHAREHOLDERS

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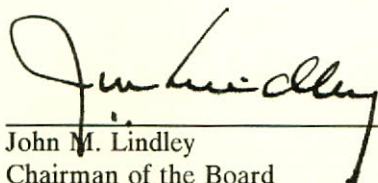
Programmed reductions in packs of several products over the past year have brought all inventories into balance with more realistic marketing objectives. This is reflected in the year's sales volume which, at \$122.4 million, is 10% less than in the previous year.

During the year all of the required Management Information Systems were either created or revised, including product costing and contribution analysis systems.

Collective Labour Agreements were re-negotiated in three of our operations during the year with no disruption to operations.

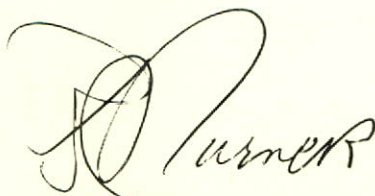
Although the year's \$5.9 million loss is indicative of an ongoing serious situation, performance improved by \$7.9 million compared to the prior year. This is mainly attributable to a comprehensive company-wide overhead reduction program, including the closure of the company's Whitby, Ontario plant and the rationalization of production of its products into other plants. Many cost reduction projects are continuing, however, management is now in a position to significantly elevate its concentration on marketing and product development to the level demanded by a bitterly competitive and kaleidoscopic marketplace.

While there is yet a great deal to do, much was accomplished in Fiscal 1990 by the team of very dedicated employees with confidence that the company's re-aligned philosophy, supported by purposeful systems, disciplines, organization and teamwork, positions it to overcome current and future challenges.



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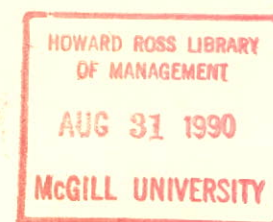
John M. Lindley  
Chairman of the Board



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Richard J. Turner  
President and Chief Executive Officer

July 26, 1990



## MANAGEMENT DISCUSSION AND ANALYSIS

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Fiscal 1990 was marked by a major realignment of corporate priorities. In late 1988, following a management change, the identification and concentration on more profitable products became the focus in place of volume growth.

During the past year Cobi has downsized its managerial structure and support staff. It has closed its Whitby production site in order to enhance the scale of operations at other locations and permit a major shift away from low margin products.

Very competitive market conditions in Fiscal 1990 did not permit expected price increases on the majority of the Company's products. However, the negative impact of this was more than offset by improved production and lower overhead costs.

The continuing strength of the Canadian dollar has lead the Company to considerably reduce its export volume.

### Liquidity and Capital Resources

Late in Fiscal 1989, the Company arranged a line of non-interest bearing credit of up to \$10 million with an affiliate of which \$4.5 million was drawn down at April 30, 1990. Cash utilized in operations was reduced from \$9.9 million in 1989 to \$2.5 million in 1990. The Company maintained its bank line of credit within authorized limits throughout the year. All scheduled debt repayments were met.

### Results of Operations

Earnings before depreciation and interest were \$3.8 million compared to a loss of \$3.8 million the previous year. During the year the Company settled litigation commenced by a former supplier which cost was charged against the opening deficit.



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John G. O'Hara  
Vice-President Finance and Corporate Secretary

July 26, 1990

## AUDITORS' REPORT TO THE SHAREHOLDERS

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We have examined the consolidated balance sheets of COBI FOODS INC. as at April 30, 1990 and 1989 and the consolidated statements of earnings (loss) and retained earnings (deficit) and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 30, 1990 and 1989 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 which, with the exception of the change in the method of calculating overheads in inventories as referred to in note 1(a), have been applied on a consistent basis.

June 25, 1990  
Halifax, Nova Scotia

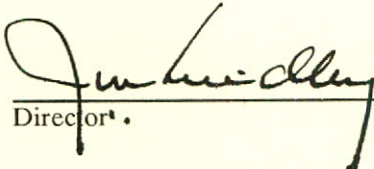
*Coopers & Lybrand*  
Chartered Accountants

## CONSOLIDATED BALANCE SHEET

As at April 30,

	1990 (\$000)	1989 (\$000)
<b>ASSETS (note 2)</b>		
<b>Current assets</b>		
Accounts receivable	7,489	10,658
Inventories	45,477	54,008
Prepaid expenses	1,400	1,333
	<b>54,366</b>	<b>65,999</b>
<b>Fixed assets (note 3)</b>	<b>34,848</b>	<b>36,871</b>
<b>Other assets</b>	<b>749</b>	<b>792</b>
	<b>89,963</b>	<b>103,662</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 2)	32,408	30,901
Demand debenture payable to an affiliated company, non-interest bearing (note 2)	4,500	-
Accounts payable and accrued liabilities	9,738	22,158
Current portion of long-term debt (note 4)	1,836	1,368
	<b>48,482</b>	<b>54,427</b>
<b>Long-term debt (notes 2 and 4)</b>	<b>40,367</b>	<b>42,193</b>
	<b>88,849</b>	<b>96,620</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock (note 5)</b>	<b>35,429</b>	<b>35,429</b>
<b>Deficit</b>	<b>34,315</b>	<b>28,387</b>
	<b>1,114</b>	<b>7,042</b>
	<b>89,963</b>	<b>103,662</b>

Signed on Behalf of the Board

  
Director

  
Director

**CONSOLIDATED STATEMENT OF EARNINGS (LOSS)  
AND RETAINED EARNINGS (DEFICIT)**

Years ended April 30,

	1990 (\$000)	1989 (\$000)
<b>GROSS SALES</b>	122,368	136,099
Trade discounts and freight	19,856	20,422
<b>Net sales</b>	<b>102,512</b>	<b>115,677</b>
<b>COSTS AND EXPENSES</b>		
Cost of sales, selling and administrative	98,710	119,498
Depreciation and amortization	3,915	4,110
Interest -		
Short-term debt	4,026	4,522
Long-term debt	1,789	1,326
	<b>108,440</b>	<b>129,456</b>
<b>Earnings (loss) before extraordinary item</b>	<b>(5,928)</b>	<b>(13,779)</b>
<b>EXTRAORDINARY ITEM</b>		
Reversal of accrued interest on income debenture (note 4)	-	1,923
<b>EARNINGS (LOSS) FOR THE YEAR</b>	<b>(5,928)</b>	<b>(11,856)</b>
<b>Retained earnings (deficit) - beginning of year</b>		
As restated (note 6)	(28,387)	(16,531)
<b>RETAINED EARNINGS (DEFICIT) - END OF YEAR</b>	<b>(34,315)</b>	<b>(28,387)</b>
<b>EARNINGS (LOSS) PER SHARE</b>		
Earnings (loss) before extraordinary item	<u>(23¢)</u>	<u>(53¢)</u>
Earnings (loss) for the year	<u>(23¢)</u>	<u>(45¢)</u>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended April 30,

	1990	1989
	(\$000)	(\$000)
<b>OPERATING ACTIVITIES</b>		
Earnings (loss) before extraordinary item	(5,928)	(13,779)
Charges (credits) to earnings not involving cash -		
Amortization of other assets	43	342
Depreciation and amortization	3,872	3,768
Other	(531)	(250)
	(2,544)	(9,919)
Settlement of lawsuit	(1,148)	-
Reversal of accrued interest on income debenture	-	1,923
Net change in non-cash working capital balances related to operations	361	7,856
	(3,331)	(140)
<b>FINANCING ACTIVITIES</b>		
Short-term borrowings from an affiliated company	4,500	-
Long-term borrowings	-	13,534
Repayment of long-term debt	(1,358)	(768)
	3,142	12,766
<b>INVESTING ACTIVITIES</b>		
Proceeds on disposal of fixed assets	1,068	1,164
Purchase of fixed assets	(2,386)	(8,734)
	(1,318)	(7,570)
<b>DECREASE (INCREASE) IN BANK INDEBTEDNESS DURING THE YEAR</b>		
	(1,507)	5,056
Bank indebtedness - beginning of year	(30,901)	(35,957)
<b>BANK INDEBTEDNESS - END OF YEAR</b>	(32,408)	(30,901)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Years ended April 30, 1990 and 1989

### 1. ACCOUNTING POLICIES

#### (a) Change in accounting policy -

During the year, the company changed its method of accounting for fixed overheads in inventory to include the costs of warehousing and storage. Formerly, these costs were accounted for as period costs. The effect of this change has been to increase inventories at April 30, 1990 by \$666,000 and to increase the loss for the year then ended by \$110,000. The retroactive application of this change has resulted in an increase in inventory at April 30, 1989 of \$776,000 and a reduction of the loss for the year then ended of \$249,000.

#### (b) Summary of significant accounting policies -

##### **Basis of consolidation**

The 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. In addition, prepaid expenses include closure costs relating to the Whitby plant operations. These closure costs will be charged against the anticipated gain to be realized on the sale of the property.

##### **Depreciation**

Depreciation of fixed 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 debenture and the long-term debt.

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**3. FIXED ASSETS**

	1990			1989
	Cost (\$000)	Accumulated depreciation (\$000)	Net (\$000)	Net (\$000)
Land	1,525	-	<b>1,525</b>	1,613
Buildings and improvements	18,053	5,816	<b>12,237</b>	12,361
Machinery and equipment	43,002	21,916	<b>21,086</b>	22,897
	<b>62,580</b>	<b>27,732</b>	<b>34,848</b>	<b>36,871</b>

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**4. LONG-TERM DEBT**

	1990 (\$000)	1989 (\$000)
<b>Loans, mortgages and debentures, bearing interest at rates ranging from 5 7/8% to 13 1/4%, due at various dates through 2004</b>	<b>7,511</b>	<b>8,383</b>
<b>Amounts payable to affiliated companies -</b>		
Income debentures, due December 24, 1991, with no fixed terms of repayment prior to maturity and which have been subordinated to the banks	<b>20,000</b>	<b>20,000</b>
Advances bearing interest at bank prime and non-interest bearing advances, all with no fixed terms of repayment and of which \$6,770,000 has been subordinated to the banks	<b>7,370</b>	<b>7,370</b>
Non-interest bearing debenture, due April 1994, with interim payment requirements	<b>5,475</b>	<b>5,725</b>
<b>Other</b>	<b>1,847</b>	<b>2,083</b>
	<b>42,203</b>	<b>43,561</b>
<b>Less: Current portion</b>	<b>1,836</b>	<b>1,368</b>
	<b>40,367</b>	<b>42,193</b>

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The income debentures may bear interest at one-half of bank prime plus 2%. It appears that no interest on these debentures will be payable with respect to the current and previous years. During the year ended April 30, 1989, interest accrued to April 30, 1988 in the amount of \$1,923,000 was recorded as an extraordinary gain.

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4. **LONG-TERM DEBT** (continued)

The aggregate amount of payments required in each of the next five years to meet retirement provisions is as follows:

		(\$000)
Year ending April 30,	1991	1,836
	1992	22,329
	1993	3,512
	1994	6,115
	1995	143

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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 granted certain employees and directors options 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 432,000 shares are available for purchase under the terms of these agreements.

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**6. PRIOR PERIOD ADJUSTMENT**

The deficit at the beginning of the years has been increased to record the following:

	<b>1990</b>	1989
	(\$000)	(\$000)
Settlement of a legal action commenced by a supplier in 1987	<b>1,148</b>	1,148
Effect of the change in the method of accounting for fixed overheads in inventory	<b>(776)</b>	(527)
Net increase in deficit	<b>372</b>	621

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**7. CONTINGENCY**

In April 1990, a legal action was commenced by a supplier against the company. The action claims damages for an alleged breach of contract and makes other allegations. The company has filed a statement of defense denying all of the allegations. Litigation is in the early stages. The company considers that the question of any future liability remains subject to legal uncertainties and accordingly that no provision is appropriate.

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**8. PENSION PLANS**

The company sponsors defined-benefit pension plans covering substantially all salaried employees and most hourly employees. The company's actuarial obligations for pension benefits arising from service prior to April 30, 1990 are estimated to be \$6,770,000 (1989 - \$5,930,000). The actuarial estimate of the market value of the assets available to meet these obligations at April 30, 1990 is \$6,723,000 (1989 - \$5,653,000).

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**9. RELATED PARTY TRANSACTIONS**

During the year, the company was charged approximately \$6,000,000 (1989 - \$5,400,000) by related companies for supplies, services, and interest.

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**10. SEGMENTED INFORMATION**

As a food processor engaged in the canning, freezing and freeze-drying of vegetables, other food products and beverages, the company operates in only one line of business. Export sales during the year amounted to approximately 7% of sales (1989 - 10%).

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**11. FUTURE INCOME TAXES**

The company and its subsidiaries have accumulated losses for tax purposes of approximately \$22,500,000 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,	1991	100
	1992	1,700
	1993	5,700
	1994	600
	1995	3,200
	1996	8,600
	1997	2,600

In addition, the undepreciated capital cost of fixed assets as at April 30, 1990 exceeded their net book value by approximately \$12,000,000.

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  
Executive Vice-President  
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

**Frederic B. Ladly**  
Toronto, Ontario  
President and Chief Executive Officer  
Extendicare Health Services 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

† **Angela Peters**  
Halifax, N.S.  
Corporate Director and Consultant

**Richard J. Turner**  
Canning, N.S.  
President and Chief Executive Officer  
Cobi Foods Inc.

† Member of Audit Committee

## OFFICERS

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John M. Lindley  
Chairman of the Board

John J. Jodrey  
Vice-Chairman of the Board

Richard J. Turner  
President and Chief Executive Officer

John G. O'Hara, C.G.A.  
Vice-President Finance and Corporate Secretary

Colin M. Lang, C.G.A.  
Vice-President Administrative Services

## 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**

Central Guaranty Trust Company  
Principal: 1645 Granville Street, Halifax, N.S.  
Branch: 88 University Avenue, Toronto, Ont.

### **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  
Honeydew  
Libby's  
Nature's Best  
Stokely Van Camp's

### **Foodservice**

Cobi  
Honeydew  
Kirkwood

## MAJOR PRODUCT GROUPS

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### **Beverages**

Apple Juice  
Cranberry Cocktail  
Drinks  
Orange Juice  
Pure Juice Blends  
Tomato Juice

### **Fruit**

Apples  
Blueberries  
Pears  
Pie Filling  
Pumpkin

### **Vegetables**

Baked Beans  
Blends & Mixes  
Brussels Sprouts  
Carrots  
Cauliflower  
Corn  
Kidney Beans  
Lima Beans  
Peas  
Potatoes  
Sauerkraut  
Tomatoes  
Wax & Green Beans



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