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1989 ANNUAL REPORT

COBI FOODS INC.

COBI Foods Inc.



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## LETTER TO SHAREHOLDERS

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Sales in the past year declined by 7% to \$136,099,000. Sales of frozen product increased by 6% while canned product sales decreased by 10% in F/89 compared with F/88.

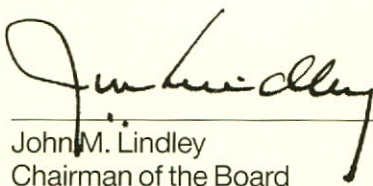
The net loss of \$12,105,000 compared with \$5,263,000 in the prior year. This loss included \$7,000,000 of write-offs and down-sizing costs.

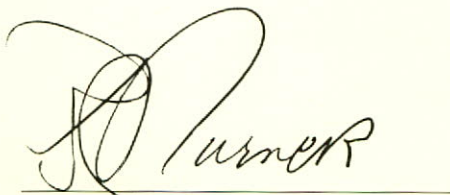
In November the Board of Directors changed the corporation's top management team. The previous policies orientated towards rapid growth created unacceptable cash requirements and unsatisfactory performance levels. The new team has improved management systems and rationalized staff requirements which together with product and line rationalization have positioned the Company to return to acceptable margin levels.

The Manufacturing Resource Planning (MRP) system is now in place at all producing plants, and significant benefits will be achieved from it in F/90.

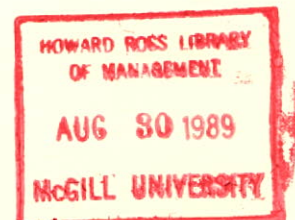
Collective Labour Agreements were renegotiated at 7 of our plants during the year with no disruption to operations.

Although F/89 was a very difficult year and the future will also present many challenges, the willing corporate-wide embracing of a back-to-basics philosophy by an experienced, determined staff is encouraging, and will be key to corporate recovery.

  
\_\_\_\_\_  
John M. Lindley  
Chairman of the Board

  
\_\_\_\_\_  
Richard J. Turner  
President & Chief Executive Officer

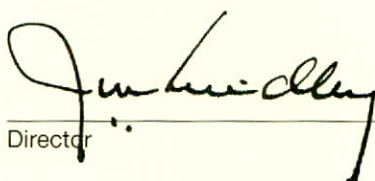
July 28, 1989

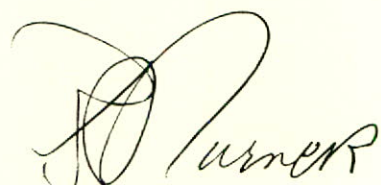


## CONSOLIDATED BALANCE SHEET

As at April 30	1989 (\$000)	1988 (\$000)
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable	\$ 10,658	\$ 14,494
Inventories	53,232	50,675
Prepaid expenses	1,333	3,016
	65,223	68,185
<b>Fixed Assets</b> (Note 3)	36,871	32,820
<b>Other Assets</b>	792	1,134
	\$102,886	\$102,139
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 2)	\$ 30,901	\$ 35,957
Accounts payable and accrued liabilities	21,010	15,868
Current portion of long-term debt (Note 4)	1,368	712
	53,279	52,537
<b>Long-Term Debt</b> (Notes 2 and 4)	42,193	30,083
	95,472	82,620
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (Note 5)	35,429	35,429
<b>Deficit</b>	28,015	15,910
	7,414	19,519
	\$102,886	\$102,139

Signed on Behalf of the Board

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of COBI FOODS INC. as at April 30, 1989 and the consolidated statements of earnings (loss) and retained earnings (deficit) and changes in financial position for the year then ended. Our examination was 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, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

June 29, 1989  
Halifax, Nova Scotia

  
 Chartered Accountants

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

For the Year Ended April 30

	<u>1989</u> <u>(\$000)</u>	<u>1988</u> <u>(\$000)</u>
<b>Gross Sales</b>	<b>\$136,099</b>	<b>\$147,883</b>
Less: Trade discounts and freight	<u>20,422</u>	<u>22,921</u>
<b>Net Sales</b>	<b><u>115,677</u></b>	<b><u>124,962</u></b>
<b>Costs and Expenses</b>		
Cost of sales, selling and administrative	119,747	121,195
Depreciation and amortization	4,110	3,277
Interest—		
Short-term debt	4,522	3,327
Long-term debt	<u>1,326</u>	<u>2,341</u>
	<b><u>129,705</u></b>	<b><u>130,140</u></b>
	<b>( 14,028)</b>	<b>( 5,178)</b>
<b>Unusual Items</b>		
Gain on sale of franchise and surplus land	—	1,932
Write-off of new product development and acquisition costs	<u>—</u>	<u>( 2,017)</u>
	<u>—</u>	<u>( 85)</u>
<b>Earnings (Loss) Before Extraordinary Item</b>	<b>( 14,028)</b>	<b>( 5,263)</b>
<b>Extraordinary Item</b>		
Reversal of accrued interest on income debenture (Note 4)	<u>1,923</u>	<u>—</u>
<b>Earnings (Loss) For the Year</b>	<b>( 12,105)</b>	<b>( 5,263)</b>
<b>Retained Earnings (Deficit) – Beginning of Year</b>	<b>( 15,910)</b>	<b>( 10,647)</b>
<b>Retained Earnings (Deficit) – End of Year</b>	<b><u>(\$ 28,015)</u></b>	<b><u>(\$ 15,910)</u></b>
<b>Earnings (Loss) Per Share</b>		
Earnings (loss) before extraordinary item	<u>( 54c)</u>	<u>( 23c)</u>
Earnings (loss) for the year	<b><u>( 46c)</u></b>	<b><u>( 23c)</u></b>

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended April 30

	<u>1989</u> <u>(\$000)</u>	<u>1988</u> <u>(\$000)</u>
<b>Operating Activities</b>		
Earnings (loss) before extraordinary item	(\$14,028)	(\$ 5,263)
Charges (credits) to earnings not involving cash –		
Amortization of other assets	342	–
Depreciation and amortization	3,768	3,277
Other	( 250)	( 987)
	<u>( 10,168)</u>	<u>( 2,973)</u>
Reversal of accrued interest on income debenture	1,923	–
Net change in non-cash working capital balances related to operations	<u>8,105</u>	<u>( 3,697)</u>
	<u>( 140)</u>	<u>( 6,670)</u>
<b>Financing Activities</b>		
Long-term borrowings	13,534	760
Repayment of long-term debt	( 768)	( 1,788)
Issue of capital stock	–	10,671
	<u>12,766</u>	<u>9,643</u>
<b>Investing Activities</b>		
Proceeds on disposal of fixed assets	1,164	1,602
Purchase of fixed assets	( 8,734)	( 6,983)
Increase in other assets	–	( 124)
	<u>( 7,570)</u>	<u>( 5,505)</u>
<b>Decrease (Increase) in Bank Indebtedness During the Year</b>	<b>5,056</b>	<b>( 2,532)</b>
<b>Bank Indebtedness – Beginning of Year</b>	<b>( 35,957)</b>	<b>( 33,425)</b>
<b>Bank Indebtedness – End of Year</b>	<b><u>(\$30,901)</u></b>	<b><u>(\$35,957)</u></b>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended April 30, 1989

## 1. 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.

### Depreciation

Depreciation of buildings, improvements, machinery and equipment 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 16 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 and some of the long-term debt.

## 3. Fixed Assets

	1989			1988
	Cost (\$000)	Accumulated depreciation (\$000)	Net (\$000)	Net (\$000)
Land	\$ 1,613	—	\$ 1,613	\$ 1,944
Buildings and improvements	17,705	5,344	12,361	10,980
Machinery and equipment	42,307	19,410	22,897	19,896
	<u>\$61,625</u>	<u>\$24,754</u>	<u>\$36,871</u>	<u>\$32,820</u>

## 4. Long-Term Debt

	1989 (\$000)	1988 (\$000)
Loans, mortgages and debentures, bearing interest at rates ranging from 5 $\frac{7}{8}$ % to 13 $\frac{1}{4}$ %, due at various dates through 2004	\$ 8,373	\$ 1,974
Amounts payable to affiliated companies—		
Income debentures, due December 24, 1991, with no fixed terms of repayment prior to maturity	20,000	20,000
Advances bearing interest at bank prime and non-interest bearing advances, all with no fixed terms of repayment and of which \$6,670,000 has been subordinated to the banks	7,370	7,370
Non-interest bearing debenture, due April 1994, with interim payment requirements	5,725	—
Other	2,093	1,451
	<u>43,561</u>	<u>30,795</u>
Less: Current portion	<u>1,368</u>	<u>712</u>
	<u>\$42,193</u>	<u>\$30,083</u>

During the year, the income debentures payable were acquired from the company's bankers by affiliated companies. These 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 current and previous years. Accordingly, interest accrued to April 30, 1988 in the amount of \$1,923,000 has been recorded as an extraordinary gain.

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

Year ending April 30	(\$000)				
	1990	1991	1992	1993	1994
	<u>1,368</u>	<u>1,824</u>	<u>22,326</u>	<u>3,877</u>	<u>5,737</u>

## 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>

### (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 for a six year term to December 1993 and a total of 571,500 shares are available for purchase under the terms of these agreements.

## 6. Contingency

The company has been named as defendant in a legal action claiming substantial damages for alleged breach of contract, intentional and negligent misrepresentations and other allegations. The company has filed a statement of defense denying all of the allegations. Litigation is in the discovery stages. The company considers that the question of any future liability remains subject to legal and other uncertainties and accordingly that no provision is appropriate.

## 7. Related Party Transactions

During the year, the company was charged approximately \$5,400,000 (1988 – \$4,000,000) by related companies for supplies, services, and interest.

## 8. 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 13% (1988 – 10%) of sales.

## 9. Future Income Taxes

The company and its subsidiaries have accumulated losses for tax purposes of approximately \$18,000,000 which may be carried forward and used to reduce taxable income in future years. These losses may be claimed no later than:

Year ending April 30						(\$000)
1991	1992	1993	1994	1995	1996	
<u>100</u>	<u>1,700</u>	<u>5,700</u>	<u>600</u>	<u>3,200</u>	<u>6,700</u>	

In addition, the undepreciated capital cost of fixed assets as at April 30, 1989 exceeded the net book value by approximately \$8,000,000.

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

## 10. Subsequent Event

Subsequent to year-end, the company issued a demand debenture in the amount of \$10,000,000 to an affiliated company of which \$3,000,000 has been drawn to June 29, 1989. The company has granted a floating charge on its assets, subject to the prior charges referred to in note 2, as security for the debenture.



## 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**  
Bedford, N.S.  
President & Chief Executive Officer  
National Sea Products Limited

**Robert M. Franklin**  
Toronto, Ontario  
Vice-Chairman & Chief Executive Officer  
Algonquin Mercantile Corporation

† **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

**John M. Lindley**  
Campbellville, Ontario  
Corporate Director

† **J. Thomas MacQuarrie, Q.C.**  
Halifax, N.S.  
Senior Partner  
Stewart, MacKeen & Covert

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

**Richard J. Turner**  
Canning, N.S.  
President & 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 & 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  
Halifax, N.S.

### **Listed**

Common Shares  
The Toronto Stock Exchange  
Symbol CFJ

### **Head Office**

P.O. Box 1000  
Collins Road  
Port Williams, N.S.  
B0P 1T0

### **Auditors**

Coopers & Lybrand

### **Solicitors**

Stewart, MacKeen & Covert

## 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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