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1988 ANNUAL REPORT

COBI FOODS INC.



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LETTER TO SHAREHOLDERS

Sales volume increased by 26% over last year's level with marked gains achieved in both Western Canada and Quebec. Total sales were \$147,883,000 compared with fiscal/87's total of \$117,526,000. These dramatic gains in market share were not achieved without cost and losses of \$5,263,000 compared with the previous years losses of \$3,671,000.

Fiscal/88 was another year of aggressive regional expansion with additional sales personnel positioned in Western Canada and Quebec. The sale of the Fraservale franchise, while it created a financial gain, presented a marketing challenge to COBI. The licensing of the Libby franchise for frozen vegetables, coupled with the introduction of COBI's innovative Zip-Lock Poly Bag positioned the Company to become an increasingly strong supplier in the frozen food sector.

COBI's canned and frozen vegetable inventories, as well as its beverage inventories, are at budgeted levels with little or no carryover coming into the 1988 pack year.

COBI continues to constantly improve the quality and efficiency of its physical assets with major projects designed to improve efficiency, reduce costs, and enhance quality. One of these projects, at our Whitby corn facility, will increase canned corn capacity by 30%. This increased production will enable the company to sell more aggressively into the European marketplace, reduce our demand for seasonal labour, and significantly improve the work place environment.

As part of COBI's ongoing commitment to protect the environment and safely handle a 35% increase in plant production, work has been started on a \$1.5 million waste disposal and water conservation program at the Bloomfield factory in Eastern Ontario.

High speed automatic shrink-wrap labelling lines will be operational in both Whitby and Bloomfield by the second quarter of fiscal/89. While representing a substantial investment, these labelling lines will not only address the needs of the Canadian grocery trade, but will improve customer service, reduce finished goods inventory and result in over-all lower costs.

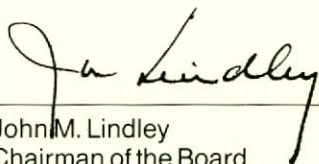
Implementation of the Manufacturing Resource Planning (MRP) system continues ahead of schedule and on budget. Four plants are currently on stream and COBI is already realizing the benefits of lower direct costs. When fully implemented the two year MRP project will have the anticipated bottom line impact.

Test market results of COBI's new "Apple and Fruit Sauce" product line are positive and the product will be launched nationally in the fall of 1988. Likewise, consumer acceptance of Libby 1 kg frozen vegetables in the unique re-sealable poly bag continues to be encouraging and distribution is continuing to grow in those areas where the product is offered.

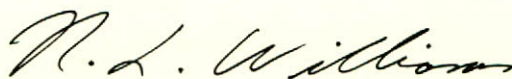
Labour contracts were successfully negotiated at both our Oakville and Bloomfield plants with no disruption to operations.

A total of \$10,671,000 of new equity was raised by a private placement and a four for one rights issue.

Fiscal/88 was a year of challenge and commitment with COBI continuing to realize its ambition of becoming a major force in the Canadian food processing industry. While much has been accomplished, much remains to be done, and only through the continued imagination, dedication, drive and hard work of employees has so much been accomplished. Management is particularly grateful to all employees for their commitment to making COBI a profitable and successful Canadian corporation.

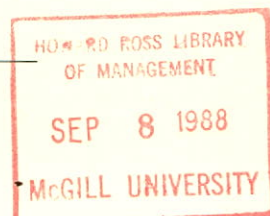


John M. Lindley
Chairman of the Board



Norman L. Williams
President & Chief Executive Officer

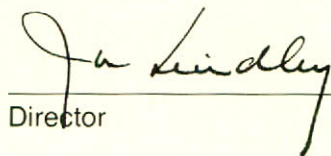
June 28, 1988




CONSOLIDATED BALANCE SHEET

As at April 30	1988 (\$000)	1987 (\$000)
Assets		
Current Assets		
Accounts receivable	\$ 14,494	\$ 12,004
Inventories	50,675	47,116
Prepaid expenses	3,016	2,243
	<u>68,185</u>	<u>61,363</u>
Fixed Assets (Note 2)	32,820	29,659
Other Assets	1,134	1,080
	<u>\$102,139</u>	<u>\$ 92,102</u>
Liabilities		
Current Liabilities		
Bank loans (Note 3)	\$ 35,957	\$ 33,425
Accounts payable and accrued liabilities	15,868	12,743
Current portion of long-term debt (Note 4)	712	639
	<u>52,537</u>	<u>46,807</u>
Long-Term Debt (Notes 3 and 4)	30,083	31,184
	<u>82,620</u>	<u>77,991</u>
Shareholders' Equity		
Capital Stock (Note 5)	35,429	24,758
Deficit	15,910	10,647
	<u>19,519</u>	<u>14,111</u>
	<u>\$102,139</u>	<u>\$ 92,102</u>

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, 1988 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, 1988 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 17, 1988
 Halifax, Nova Scotia


 Chartered Accountants

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

For the Year Ended April 30

	<u>1988</u> <u>(\$000)</u>	<u>1987</u> <u>(\$000)</u>
Gross Sales	\$147,883	\$117,526
Less: Trade discounts and freight	<u>22,921</u>	<u>17,035</u>
Net Sales	<u>124,962</u>	<u>100,491</u>
Costs and Expenses		
Cost of sales, selling and administrative	121,195	96,123
Depreciation and amortization	3,277	2,867
Interest —		
Short-term debt	3,327	3,298
Long-term debt	<u>2,341</u>	<u>1,874</u>
	<u>130,140</u>	<u>104,162</u>
	<u>(5,178)</u>	<u>(3,671)</u>
Unusual Items		
Gain on sale of franchise and surplus land	1,932	—
Write-off of new product development and acquisition costs	<u>(2,017)</u>	<u>—</u>
	<u>(85)</u>	<u>—</u>
Earnings (Loss) for the Year	(5,263)	(3,671)
Retained Earnings (Deficit) — Beginning of Year	(10,647)	(6,976)
Retained Earnings (Deficit) — End of Year	<u>(\$ 15,910)</u>	<u>(\$ 10,647)</u>
Earnings (Loss) Per Share	<u>(23¢)</u>	<u>(22¢)</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended April 30

	<u>1988</u> <u>(\$000)</u>	<u>1987</u> <u>(\$000)</u>
Operating Activities		
Earnings (loss) for the year	(\$ 5,263)	(\$ 3,671)
Charges (credits) to earnings not involving cash —		
Depreciation and amortization	3,277	2,867
Other	<u>(987)</u>	<u>(160)</u>
	(2,973)	(964)
Net change in non-cash working capital balances related to operations	<u>(3,697)</u>	<u>(12,078)</u>
	<u>(6,670)</u>	<u>(13,042)</u>
Financing Activities		
Long-term borrowings	760	26,056
Repayment of long-term debt	<u>(1,788)</u>	<u>(16,526)</u>
Issue of capital stock	<u>10,671</u>	<u>7,498</u>
	<u>9,643</u>	<u>17,028</u>
Investing Activities		
Proceeds on disposal of fixed assets	1,602	657
Purchase of fixed assets	<u>(6,983)</u>	<u>(6,181)</u>
Increase in other assets	<u>(124)</u>	<u>(215)</u>
	<u>(5,505)</u>	<u>(5,739)</u>
Increase in Bank Indebtedness During the Year	<u>(2,532)</u>	<u>(1,753)</u>
Bank Indebtedness — Beginning of Year	<u>(33,425)</u>	<u>(31,672)</u>
Bank Indebtedness — End of Year	<u>(\$35,957)</u>	<u>(\$33,425)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended April 30, 1988

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 50 years and for machinery and equipment range from 4 to 10 years.

Comparative figures. Some comparative figures have been reclassified to conform with the method of presentation utilized in 1988.

2. Fixed Assets

	1988			1987
	Cost (\$000)	Accumulated depreciation (\$000)	Net (\$000)	Net (\$000)
Land	\$ 1,944	\$ —	\$ 1,944	\$ 1,976
Buildings and improvements	15,884	4,904	10,980	10,207
Machinery and equipment	36,546	16,650	19,896	17,476
	<u>\$54,374</u>	<u>\$21,554</u>	<u>\$32,820</u>	<u>\$29,659</u>

3. Security for Debt

All of the company's assets have been pledged as security, either directly or through floating charge debentures, for the bank loans, the income debentures and other mortgages and debentures.

4. Long-Term Debt

	1988 (\$000)	1987 (\$000)
Income debentures, bearing interest at one-half of bank prime plus 2%, due December 1991, with no fixed terms of repayment prior to maturity, and for which interest is accrued, but payment is dependent upon future profitability	\$20,000	\$20,000
Amounts payable to affiliated companies including a loan bearing interest at 10%, non-interest bearing advances and advances bearing interest at bank prime, all with no fixed terms of repayment	7,370	7,904
Mortgages and debentures, bearing interest at rates ranging from 5 ⁷ / ₈ % to 13 ¹ / ₄ % due at various dates through 1994	1,974	2,191
Other	1,451	1,728
	<u>30,795</u>	<u>31,823</u>
Less: Current portion	712	639
	<u>\$30,083</u>	<u>\$31,184</u>

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

Year ending April 30	(\$000)				
	1989	1990	1991	1992	1993
	<u>712</u>	<u>753</u>	<u>468</u>	<u>20,362</u>	<u>629</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 —

	1988		1987	
	Shares	(\$000)	Shares	(\$000)
Common shares	<u>26,125,255</u>	<u>\$35,429</u>	<u>19,000,201</u>	<u>\$24,758</u>

(c) Issues during the year —

During the year 1,900,000 shares were issued for \$2,850,000 under the terms of a private placement to an affiliated company and an additional 5,225,054 shares were issued pursuant to a rights issue for \$7,820,566.

(d) Stock Option Agreements —

In December 1987, the company granted certain employees and directors options to purchase common shares of the company for a price of 99¢ per share. The options are effective for a six year term and a total of 680,000 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 \$4,000,000 (1987 — \$4,300,000) by related companies for the purchase of 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 10% of sales.

9. Future Income Taxes

The company and its subsidiaries have accumulated losses for tax purposes of approximately \$10,100,000 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	1992	1993	1994	1995
	<u>100</u>	<u>1,700</u>	<u>5,700</u>	<u>700</u>	<u>1,900</u>

In addition, the undepreciated capital cost of fixed assets as at April 30, 1988 exceeded net book value by approximately \$4,600,000.

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

DIRECTORS

† **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

Arnold G. Park
New Minas, N.S.
Executive Vice-President &
Chief Operating Officer
Cobi Foods Inc.

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

* **Norman L. Williams**
Halifax, N.S.
President & Chief Executive Officer
Cobi Foods Inc.

*Member of Executive Committee

†Member of Audit Committee

OFFICERS

John M. Lindley
Chairman of the Board

Norman L. Williams
President & Chief Executive Officer

Arnold G. Park
Executive Vice-President & Chief Operating Officer

Robert J. Hickey, C.A.
Vice-President Financial & Administrative Services,
and Secretary

GENERAL INFORMATION

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

Transfer Agent
Guaranty Trust Company of Canada
Toronto, Ontario

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

Retail

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

Foodservice

Cobi
Kirkwood
Honeydew

MAJOR PRODUCT GROUPS

Vegetables

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

Fruit

Apples
Pears
Pumpkin
Blueberries
Pie Filling

Beverages

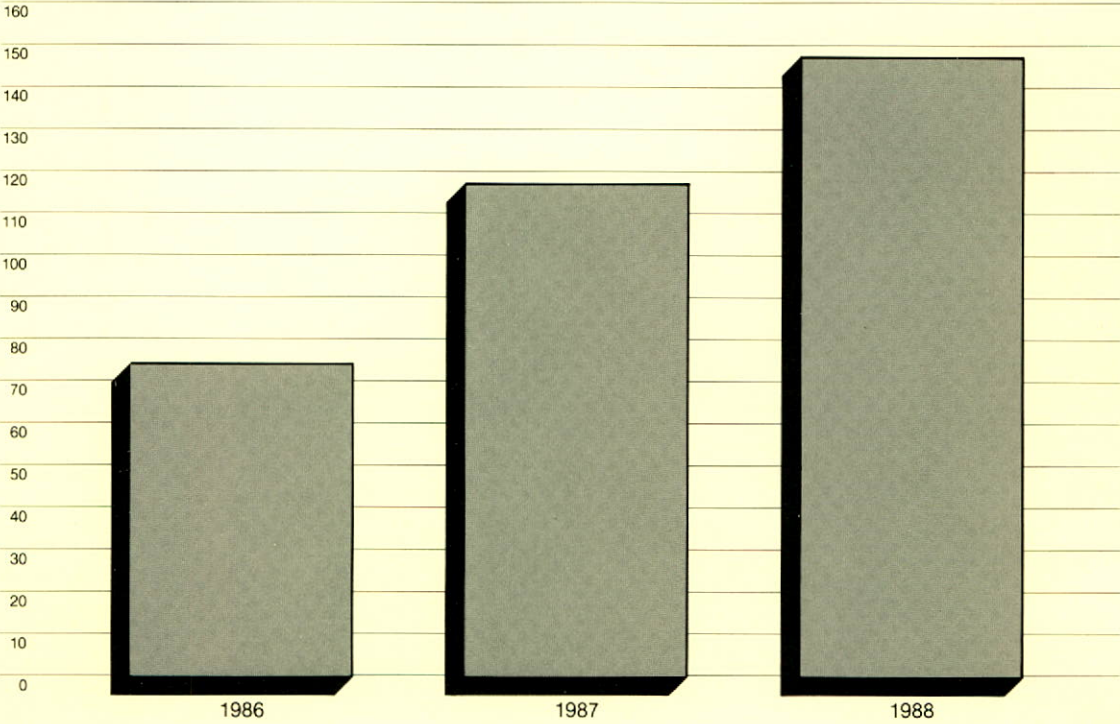
Apple Juice
Tomato Juice
Orange Juice
Cranberry Cocktail
Pure Juice Blends
Drinks



Two of the new products introduced by Cobi during the past year — new recloseable packaging for Libby's frozen vegetables and Graves new value added apple and fruit sauces.

ANNUAL SALES

(Millions of Dollars)





Cobi Foods Inc. Aliments Cobi Inc.
P.O. Box 1000, Port Williams
Nova Scotia, Canada, B0P 1T0
(902) 542-5722 Telex 019-32127
Fax (902) 542-4444