

1987 ANNUAL REPORT

COBI FOODS INC.

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LETTER TO SHAREHOLDERS

COBI FOODS INC. sustained reduced losses for the year ended April 30, 1987, of \$3,671,000 on sales of \$102,783,000. This compared with losses before extraordinary items of \$7,451,000 (\$9,251,000 after extraordinary items) on sales of \$81,045,000 for fiscal year ended April 30, 1986. Gross profit increased from 16.6% to 19.0%. Continuous progress was made throughout the year and Fourth Quarter losses were reduced to \$260,000.

Fiscal 1987 was a year of external growth and internal building for COBI. National sales status was achieved with the acquisition and successful development of the Libby's seasonal business and the establishment of a solid COBI presence in the Quebec and the Western Canadian markets.

Sales gains of 26.8% were achieved despite lower than average crop yields on major commodity lines due to unsettled weather conditions during the summer of 1986, both in Nova Scotia and Central Ontario. COBI's canned and frozen vegetable inventory levels coming into the 1987 pack year are at an historic low with little or no carryover.

Plant rationalization and start-up at Berwick was completed on schedule for 1986 crops and resulted in significant operating and overhead savings.

Expansion at our Ingersoll frozen plant-site will be completed on schedule for the new crop. The enlarged facility will be processing green and wax beans, cauliflower, baby carrots, lima beans, peppers, and an increased tonnage of corn in addition to established lines. This increased capacity in Ontario's prime growing region will provide COBI with a continuing secure supply of higher quality and lower cost frozen product.


Customer service levels improved dramatically in fiscal 1987 with the quality, distribution and inventory control programmes started last year providing significant benefits. COBI is currently performing at or above industry standards in these critical areas, and with the significant investments already made in Management Information Systems, customer service will be further enhanced.

Major improvements were made to the line of Graves concentrated juices in 250 ML aseptic packages. A new horizontal packaging profile, the first in North America, is currently being launched in the Ontario market.

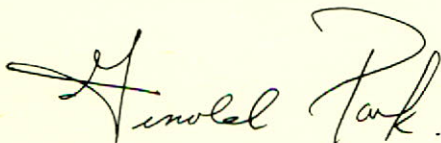
In fiscal 1987 the Toronto Stock Exchange approved a private placement of 3 million common shares, with tax credits attached, of COBI FOODS INC. for \$6 million. Income Debentures of \$20 million were issued to two Canadian Chartered Banks.

In June of 1987, COBI sold to the Jim Pattison Group the license it held in Eastern Canada to manufacture and market Fraser Vale retail frozen products.

We thank all our employees for their creativity, loyalty, and initiative in the past year. Only through their efforts did COBI accomplish so much in so little time. Management is committed to COBI's success and making COBI a profitable, quality-driven, expanding corporation in Canada and the international marketplace.



Norman L. Williams
President & Chief Executive Officer



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

June 22, 1987



CONSOLIDATED BALANCE SHEET

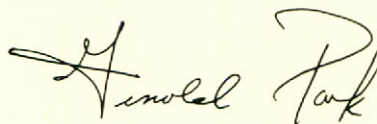
As at April 30

	1987 (\$000)	1986 (\$000)
Assets		
Current Assets		
Accounts receivable	\$12,004	\$10,631
Inventories	47,116	40,008
Prepaid expenses	2,243	1,446
	<u>61,363</u>	<u>52,085</u>
Fixed Assets (Note 3)	29,659	26,873
Other Assets	1,080	1,404
	<u>\$92,102</u>	<u>\$80,362</u>
Liabilities		
Current Liabilities		
Bank loans (Note 4)	\$33,425	\$31,672
Accounts payable and accrued liabilities	12,743	16,028
Current portion of long-term debt (Note 5)	639	600
	<u>46,807</u>	<u>48,300</u>
Long-Term Debt (Notes 4 and 5)	31,184	21,778
	<u>77,991</u>	<u>70,078</u>
Shareholders' Equity		
Capital Stock (Note 6)	24,758	17,260
Deficit	10,647	6,976
	<u>14,111</u>	<u>10,284</u>
	<u>\$92,102</u>	<u>\$80,362</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, 1987 and the consolidated statements of earnings (loss), 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, 1987 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 those utilized by the predecessor companies.

June 12, 1987
Halifax, Nova Scotia

Coopers & Lybrand
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS (LOSS)

For the Year Ended April 30

	1987 (\$000)	1986 (\$000)
Sales	\$102,783	\$81,045
Cost of Sales	83,221	67,572
Gross Profit	19,562	13,473
Expenses		
Selling, general and administrative	18,061	16,495
Interest—		
Short-term debt	3,298	3,786
Long-term debt	1,874	795
	23,233	21,076
	(3,671)	(7,603)
Income Tax Recovery	—	152
Earnings (Loss) Before Extraordinary Item	(3,671)	(7,451)
Extraordinary Item		
Provision for cost of plant closures and reorganization	—	(1,800)
Net Earnings (Loss) for the Year	(\$ 3,671)	(\$ 9,251)
Earnings Per Share		
Earnings (loss) before extraordinary item	(22¢)	(62¢)
Net earnings (loss) for the year	(22¢)	(77¢)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

For the Year Ended April 30

	1987 (\$000)	1986 (\$000)
Retained Earnings (Deficit) — Beginning of Year	(\$ 6,976)	\$ 4,925
Premiums Paid on Redemption of Preference Shares	—	(2,650)
Earnings (Loss) for the Year	(3,671)	(9,251)
Retained Earnings (Deficit) — End of Year	(\$10,647)	(\$ 6,976)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended April 30

	<u>1987</u> <u>(\$000)</u>	<u>1986</u> <u>(\$000)</u>
Operating Activities		
Earnings (loss) before extraordinary item	(\$ 3,671)	(\$ 7,451)
Charges (credits) to earnings not involving cash —		
Depreciation and amortization	2,867	1,858
Other	(160)	(95)
	(964)	(5,688)
Net change in non-cash working capital balances related to operations	(12,078)	(2,092)
Cost of plant closures and reorganization less assets written down	—	(1,070)
	<u>(13,042)</u>	<u>(8,850)</u>
Financing Activities		
Long-term borrowings	26,056	10,436
Repayment of long-term debt	(16,526)	(6,411)
Issue of capital stock	7,498	8,650
Redemption of preference shares	—	(3,300)
	<u>17,028</u>	<u>9,375</u>
Investing Activities		
Proceeds on disposal of fixed assets	657	123
Purchase of fixed assets	(6,181)	(5,632)
Increase of other assets	(215)	—
	<u>(5,739)</u>	<u>(5,509)</u>
Other Activities		
Current bank indebtedness assumed on acquisition	—	(4,982)
Increase in Bank Indebtedness During the Year	(1,753)	(9,966)
Bank Indebtedness — Beginning of Year	(31,672)	(21,706)
Bank Indebtedness — End of Year	<u>(\$33,425)</u>	<u>(\$31,672)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended April 30, 1987

1. Amalgamation and Comparative Figures

Effective on the opening of business on May 1, 1986, Cobi Foods Inc., Hardee Farms International Ltd. and The Baxter Canning Company Limited, were amalgamated under Section 178 of the Canada Business Corporation Act to form a new company named COBI FOODS INC. The comparative figures in these financial statements include the results of operations of the former Cobi Foods Inc. and its subsidiaries for the year ended April 30, 1986, together with the results of operations of Hardee Farms International Ltd. and its subsidiary for the period from November 30, 1985, the effective date of its deemed acquisition, to April 30, 1986.

2. 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 in the Statement Of Earnings (Loss) have been reclassified to conform with the method of presentation utilized in 1987.

3. Fixed Assets

	1987			1986
	Cost (\$000)	Accumulated depreciation (\$000)	Net (\$000)	Net (\$000)
Land	\$ 1,976	\$ —	\$ 1,976	\$ 1,774
Buildings and improvements	14,457	4,250	10,207	9,465
Machinery and equipment	32,106	14,630	17,476	15,634
	<u>\$48,539</u>	<u>\$18,880</u>	<u>\$29,659</u>	<u>\$26,873</u>

4. 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 secured debt.

5. Long-Term Debt

	1987 (\$000)	1986 (\$000)
Income debentures, bearing interest at one-half of bank prime plus 2% (1986 — one-half of prime plus 1% and 1½%), 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	\$ 5,927
Amounts payable to affiliated companies including debentures bearing interest at 10%, non-interest bearing advances and advances bearing interest at bank prime, all with no fixed terms of repayment	7,904	2,404
Mortgages, debentures and secured loans, bearing interest at rates ranging from 5⅞% to 16¾%, due at various dates through 1994	2,191	2,618
Bank loan	—	10,000
Other	1,728	1,429
	<u>31,823</u>	<u>22,378</u>
Less: Current portion	639	600
	<u>\$31,184</u>	<u>\$21,778</u>

5. Long-Term Debt (cont'd)

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)			
1988	1989	1990	1991	1992
<u>\$639</u>	<u>\$710</u>	<u>\$738</u>	<u>\$695</u>	<u>\$20,344</u>

6. 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 —

	1987		1986	
	Shares	(\$000)	Shares	(\$000)
Common shares	<u>19,000,201</u>	<u>\$24,758</u>	<u>15,001,201</u>	<u>\$17,260</u>

(c) During the year the company issued the following common shares —

999,000 shares, pursuant to option agreements for cash considerations of \$1,498,500

3,000,000 shares together with certain share purchase tax credits for cash considerations of \$6,000,000. The total consideration has been allocated to the shares issued.

7. Contingency

In February 1987, an action was commenced by Onex Packaging Inc. in the Supreme Court of Ontario against the company. The action claims 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 early 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.

8. Related Party Transactions

During the year, the company was charged approximately \$4,300,000 (1986 — \$3,600,000) by related companies for the purchase of supplies, services and interest.

9. 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 11% of sales.

10. Future Income Taxes

The company and its subsidiaries have accumulated losses for tax purposes of approximately \$8,200,000 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	
<u>\$100</u>	<u>\$1,700</u>	<u>\$5,700</u>	<u>\$700</u>	

In addition, the undepreciated capital cost as at April 30, 1987 exceeded net book value by approximately \$2,700,000.

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

DIRECTORS

† **Bernadin J. Comeau**
Saulnierville, N.S.
Chairman of the Board
Comeau Seafoods Ltd.

* **Cecil H. Franklin**
Toronto, Ontario
Chairman of the Board
Algonquin Mercantile Corporation

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

†* **David J. Hennigar**
Halifax, 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
Port Williams, 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

Stock Listing

Toronto Stock Exchange

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

Fruit

Apples
Pears
Pumpkin
Blueberries
Pie Filling

Beverages

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



COBI's new alternative to frozen juices. Graves concentrated juice in the Brik Pak was recently launched into Ontario in a unique horizontal package format.



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