EXTENDING OUR REACH

SUN-RYPE®

ANNUAL REPORT 1999

Profile

Sun-Rype Products Ltd. is western Canada's largest manufacturer and marketer of juice-based beverages and all-natural fruit snacks with sales in excess of $96 million. Sun-Rype is headquartered in Kelowna - a city nestled in the Okanagan Valley, the heart of BC's premier fruit growing district. It is here that the Company operates one of the most sophisticated juice and fruit snack processing plants in North America. The facility manufactures a wide variety of products including the Company's flagship Blue Label apple juice, various fruit juice blends, and Fruit to Go and Energy to Go all-natural fruit snacks and bars. Beverage products are sold primarily in western Canada and food products are sold throughout Canada.

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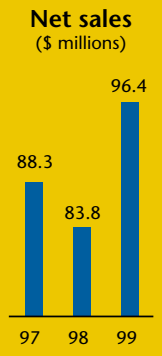
Highlights

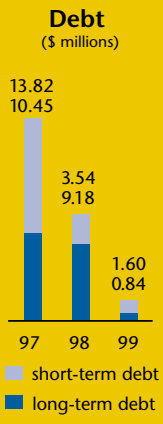
Operating

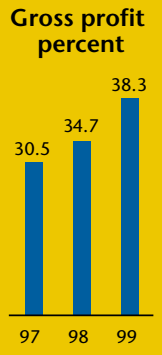
- Achieved record net sales and cash flow
- Doubled net earnings to $3.7 million
- Reduced long-term debt by $8.3 million
- Redeemed Class A multiple-voting shares
- Solidified national distribution for Energy to Go
- Entered the fast-growing chilled beverage segment
- Increased capacity utilization and moved to a 7-day work week

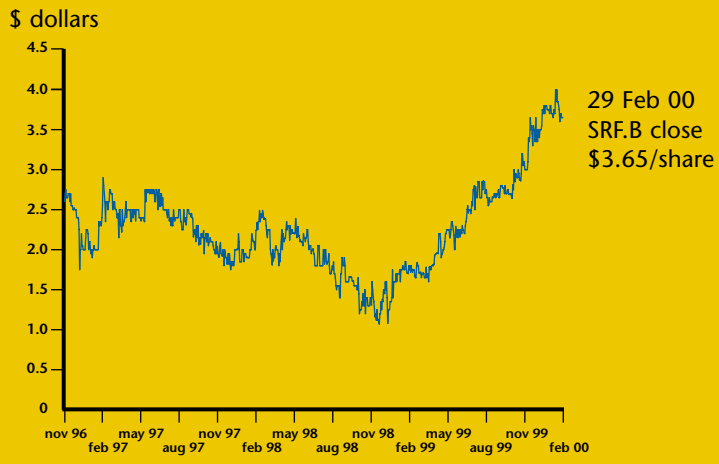


Financial (in thousands of dollars)

	1999	1998	% change
Revenue	96,359	83,811	15
Earnings	3,672	1,814	102
Cash flow	8,094	5,598	45
Debt	2,442	12,719	(81)
Shareholders' equity	18,280	14,149	29







Sun-Rype share price Nov 96 - Feb 00

Letter to the shareholders

By almost any measure, 1999 was Sun-Rype's best year yet. We achieved record financial results. We completed the final step in our transformation from an agricultural co-operative to a modern, public company. We advanced our growth strategy on all fronts. And, thanks to the skill and dedication of our employees–not to mention some very positive market fundamentals–the future has never looked brighter.

Chairman Merv Geen (left) and CEO Lawrence Bates

Record financial results

For the year ended December 31, 1999, Sun-Rype's revenues reached a record $96.4 million, a gain of 15% from a year ago. The increase was attributable to strong overall sales growth in the beverage segment and strong sales growth for Energy to Go and Fruit to Go in the food segment.

Cash flow from operations was $8.1 million, an increase of 45% compared to 1998. These results reflect continued top line growth as well as higher gross profits due to higher volumes and improved manufacturing efficiencies. Net earnings for the year were $3.7 million or $0.37 per share, up 102% from $1.8 million or $0.18 per share the year before. These improvements came despite higher selling, general and administrative expenses, which were 27% of sales compared to 25% a year ago. The main reason for the change was an increased emphasis on consumer and brand advertising in 1999.

Our progress is also reflected in the balance sheet. During 1999, we were able to reduce overall debt by $10.3 million, resulting in an improved debt to equity ratio of 0.13:1.

Better governance

At the same time, Sun-Rype successfully completed its transition to a widely-held, publicly-traded company. The redemption of all the issued and outstanding Class A

multiple-voting shares in December 1999 formally ended the British Columbia Fruit Growers' Association's (BCFGA) voting control of the Company, providing the flexibility we need to meet the challenges of today's marketplace. It also gave rise to a more democratic capital structure that will better serve the interests of all shareholders. We welcome these changes and look forward to continuing our traditional business relationship with a major supplier, the Okanagan Valley apple growers.

By the same token, we have further strengthened the board with the addition of three exceptionally talented individuals. James Eccott, President and Chief Executive Officer of Kelowna-based Dia Met Minerals Ltd., is a seasoned executive and entrepreneur. Tom Knowlton, former Executive Vice President of the Kellogg Company, brings many years of senior-level experience in the domestic and international consumer products industries and Jack Moffatt, former CEO of The Great Atlantic and Pacific Tea Company Canada (A&P grocery chain), provides invaluable perspective on the food distribution industry.

A strategy that's working

In last year's report, we advised that our primary objectives for the year included:
(1) the development of innovative products and
(2) the expansion of the Company's presence into central and eastern Canada.

Over the past year, we have been successful on both counts. For more than 50 years, the Sun-Rype brand has been trusted for the wholesome goodness of our products and an approach to quality that runs from the ingredients we select to our manufacturing and packaging processes. That's why our flagship Blue Label apple juice commands a remarkable 52% market share of the apple juice category in western Canada today. But to achieve the kind of growth we have in mind for this Company, we must leverage our "core" expertise into an exciting range of new products that takes advantage of emerging consumer trends, while expanding our valued customer relationships across the country. Accordingly, product innovation is a key growth driver. Our new, chilled "Fresh Pressed" apple juice – distributed through an alliance with Dairyworld – has taken us into one of the fastest growing segments of the beverage market. Food products that lever our production expertise are also important. Our Fruit to Go fruit snack and Energy to Go fruit energy bar have both enjoyed eager consumer acceptance. These highly nutritious, 100% fruit products now represent 19% of sales compared to just 8% four years ago.

Another growth driver is geographic expansion. Here too, 1999 brought much success as Fruit to Go and Energy to Go continued to spearhead our expansion into central and eastern Canada. As of January 29, 2000, we had achieved a 91% national distribution rate for Fruit to Go according to consumer research firm A.C. Nielsen. At 72%, Energy to Go is not far behind. That's phenomenal success considering these products were not available east of Thunder Bay before 1997.

The year ahead

While 1999 was a great year, we believe the best is yet to come. This is an exciting time in the food industry. An aging North American population is paying far more attention to the importance of exercise and nutrition. This development is good news. Indeed, science is just beginning to prove what many of us have long suspected – that an apple a day really can help keep the doctor away.

Within this positive environment, our strategy remains simple. We will continue to lever our expertise in the production and marketing of

We will continue to build the Sun-Rype brand by creating innovative products and extending our reach beyond traditional markets.

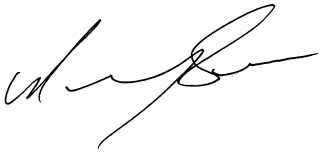
apple and other fruit-based products. And, we will continue to build the Sun-Rype brand by creating innovative products that meet our consumers' changing habits and extend our reach beyond our traditional western Canadian market.

The people of Sun-Rype

In closing, we would be remiss without acknowledging the most fundamental ingredient to our success – the people of Sun-Rype. On behalf of the entire board, we thank them for their efforts.

The interests of all our stakeholders are best advanced when the daily actions of employees are closely aligned with the Company's strategic goals. That's why we conduct monthly forums where all employees – from senior executives to production line staff – openly assess our performance against key objectives. It was in the same collaborative spirit that we recently implemented an Employee Share Ownership Plan. Our employees are understandably pleased with the sizeable gain our shares posted in 1999 – a performance we hope to build upon in the years ahead.

Lawrence Bates
President &
Chief Executive Officer



Merv Geen
Chairman

March 23, 2000

Extending our reach

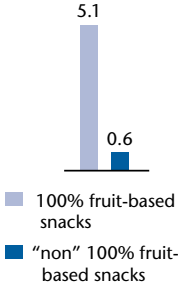
At Sun-Rype, quality, taste and natural goodness have been the key ingredients of our success for more than 50 years. Today, we are the largest manufacturer and marketer of juice-based beverages and all-natural, 100% fruit snack products in western Canada, with a remarkable 52% market share for our flagship Blue Label apple juice and a growing range of popular consumer products.

Yet – thanks to several fundamentals that bode well for our future – the Company's growth has just begun. One of them is a wiser North American population that is taking more responsibility for its own health. Today's consumers practice increasingly active lifestyles and they are focused on the nutritional value of the foods they eat. It's an attitude that is reflected in numerous developments – from the rising popularity of herbal remedies and other nutraceuticals to the controversy around genetically modified foods.

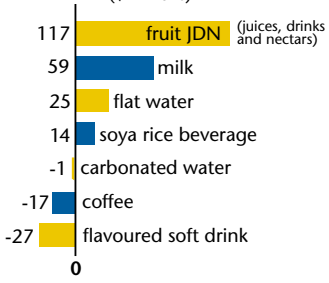
These trends spell opportunity for a company that specifically focuses on naturally wholesome juices and food products. In fact, fruit juice sales grew 12% in 1999, making them the strongest area of growth in the beverage market. Our all-natural fruit-based food products – which deliver high-quality nutrition to time-pressed consumers – are also poised to benefit from rising demand.

The next few pages describe how we are extending our reach – with innovative products in growing markets – to create an abundance of opportunity in the years ahead.

Food category growth
(1999 vs 1998)
($ millions)



Beverage category growth
(1999 vs 1998)
($ millions)

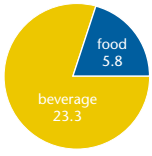


Extending our reach through product innovation

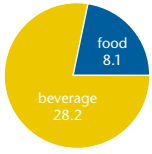
Sun-Rype's success over the past 53 years has been based on strong brand loyalty among western Canadian consumers. And we've earned that allegiance by delivering wholesome products that consistently meet their demands for quality, freshness and value.

Fruit to Go and Energy to Go retail sales
($ millions)

Gross profit food vs beverage
($ millions)



1998



1999

Consumers know Sun-Rype

Our flagship product–Blue Label apple juice–is the foundation of the Company's brand in Canada and the best selling juice in its category. Overall, Sun-Rype is the brand leader in western Canada in the ready-to-serve juice/drinks/nectars segment of the beverage market with a 13% growth rate over the past year and a total market share of 22.5% (more than double our nearest competitor).

While we are proud of that performance, we must expand beyond our traditional markets to achieve double-digit growth in the years ahead. One of our key strategies is to lever our core expertise in the production of apple and other fruit-based juices by developing new products in fast growing categories that meet the changing needs of today's consumers.

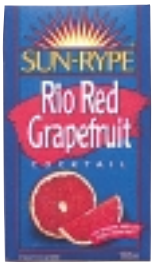
A new kind of snack food

Building on Sun-Rype's hard earned reputation for quality and taste, we are continuing to extend the Sun-Rype brand through new product development, especially in the portable snack food segment of the market.

Today's consumers are more attuned than ever to the nutritional benefits of the foods they eat. Yet, the demands of modern living often don't leave enough time to follow a sensible diet. Thus, industry sales of wholesome, portable snack food products continue to show strong growth, increasing 12% in 1999 and outpacing overall growth rates for both food and snack foods.

Although we have maintained a modest presence in fruit-based food products for several years, our recent expansion into the portable snack food market began with the launch of Fruit to Go–our 100% fruit snack–in March 1997. Since then, the Fruit to Go product line has enjoyed eager consumer acceptance. Today, Fruit to Go is the #1 selling line of fruit snacks in Canada, with retail sales of $16 million and an annual growth rate of 13%. Part of Fruit to Go's success is based on unique positioning. Unlike competing products, Fruit to Go is 100% fruit with no added sugar or other ingredients. Such qualities make it an ideal choice for the lunchbox set as well as their nutrition conscious parents. In fact, Fruit to Go is so different that it's found in the produce department, not the snack aisle, at most local grocers.

In January 1999, we followed the success of Fruit to Go with the launch of Energy to Go, a delicious, 100% fruit energy bar designed for active people who are looking for a healthy boost of energy as part of their work or fitness routine. So far, it seems we have produced another winner; Energy to Go rang up 19% of Company food segment sales in its first year.



It always starts with quality

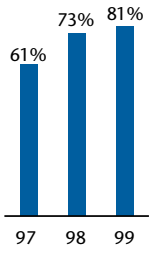
Sun-Rype's production facility in Kelowna, British Columbia is one of the most modern and sophisticated facilities of its kind in North America. Yet it's our old-fashioned approach to quality that continues to set Sun-Rype apart from the competition. Starting with raw materials from one of the world's premier apple growing regions and importing the finest quality ingredients from around the world, we are committed to perfecting our craft at every stage of our operations. At Sun-Rype, we never forget that our success has been built on a reputation for premium quality products and a relentless focus on consumers' needs. It's an attitude that extends to all the products we make.

Eagerly accepted by today's consumers, Fruit to Go and Energy to Go have enjoyed double-digit sales growth since their introduction.

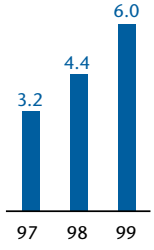
Extending our reach into untapped markets

At Sun-Rype, innovative products that keep pace with consumers' changing needs are an important part of our growth strategy. But the other half of the equation is taking that expanding product line to entirely new markets.

Food distribution rate in central and eastern Canada



Sales growth in central and eastern Canada
($ millions)



Eastward bound

During 1999, we continued our efforts to establish the Sun-Rype brand in promising new markets, especially central and eastern Canada. Our strategy is to lead Sun-Rype's geographic expansion with our popular line of Fruit to Go and Energy to Go 100% fruit snacks and bars. Such products can be economically distributed through the country from our modern manufacturing facility in Kelowna, British Columbia.

A growing, national brand

Supported by comprehensive advertising and marketing campaigns that are already producing results, Fruit to Go and Energy to Go enjoyed distribution rates of 91% and 72% respectively, by January 29, 2000. That's a remarkable accomplishment given the short time these products have been available east of Thunder Bay.

Our investment in the food segment of the business has also helped further strengthen our relationships with leading food industry giants by giving us a truly national capability. The food distribution industry continued to consolidate in 1999, a trend that will increasingly favour those suppliers that can operate on a national basis.

The growing food segment of our business operations is also having a pleasant effect on financial results. Based largely on our new presence in central and eastern Canada, retail sales of Fruit to Go and Energy to Go increased by $5.1 million or 41% in 1999. The focus on these profitable products, combined with the effective withdrawal of Sun-Rype's granola and coffee bar lines from the market, also helped increase the gross profit percent in our food operations to more than 42% compared to 29% in 1998.

Industry-leading partnerships

The other half of Sun-Rype's market expansion strategy is a growing series of industry alliances. Such relationships extend the benefits of our strong brand name and manufacturing capabilities to our chosen partners while giving Sun-Rype access to extensive distribution systems.

Through Pepsi, Sun-Rype benefits from a national contract for supply of certain individual or single-serve products to the vending and convenience store markets. These channels are highly complementary to in-store sales but would otherwise remain outside the reach of Sun-Rype's conventional distribution network.

In April 1999, we entered a similar strategic partnership with Dairyworld Foods – Canada's leading dairy supplier – to manufacture, sell and distribute a full range of chilled Sun-Rype brand juices on a national basis. Through this agreement, in which Sun-Rype assumes responsibility for product development,

quality assurance and consumer marketing, we have successfully entered one of the fastest growing segments of the market.

In January 2000, we also announced the renewal of our co-packing agreement with the Minute Maid Company of Canada for Sun-Rype to package 250 ml Minute Maid products. For the first time, we are also co-packing 250 ml beverage products for Minute Maid's US parent.

Going forward, we intend to keep expanding such relationships. Partnering with other industry leaders is an effective way of entering new markets that would otherwise remain inaccessible, while minimizing our capital investment.

Rising productivity

Each of these distribution channels has also yielded benefits that extend well beyond increased sales and a wider-scale presence for the Sun-Rype brand. They also enable us to make more efficient use of our facilities. During the past year, our plant in Kelowna increased its hours of operation to 24 hours, seven days a week while capacity utilization for our 250 ml line approached 100%.

Fruit to Go and Energy to Go are spearheading growth in the food segment outside our traditional western Canadian market.

Management's discussion and analysis

The following discussion and analysis provides a review of current activities and a comparison of the results of operations of Sun-Rype Products Ltd. for the years ended December 31, 1999 and 1998 and a comparison of financial position as at December 31, 1999 and 1998. It should be read in conjunction with the consolidated financial statements and the accompanying notes.

Highlights of 1999

- Best earnings and cash flow results in 53-year history
- Increased beverage capacity utilization with private label and co-packing agreements
- New royalty agreement with Dairyworld, expanding Sun-Rype juice into chilled market segment
- Integrated consumer media campaign launched across Canada
- Over $10 million reduction in bank debt during 1999
- Solidified national distribution channels for Energy to Go 100% fruit bars
- Renewed collective labour agreement for 3 years
- Class A multiple-voting shares redeemed, resulting in a single class of voting equity shares outstanding

Operating results and general outlook

Sun-Rype doubled its earnings in 1999 compared to 1998. The Company remained focused on its core product lines (pure apple juice, other concentrate-based juices and beverages, and 100% fruit snacks and bars), implementing strategies to strengthen western Canadian sales, building central and eastern Canadian sales of food products and developing stronger brand recognition.

The Company reached a new milestone in 1999 with net sales of $96.4 million, a 15% increase from net sales of $83.8 million in 1998. This gain was attributable to a continuing focus on core products and increased production utilization as the result of the Company's growing private label and co-packing business.

Sun-Rype's objective is to become nationally recognized as Canada's premier brand of apple and fruit-based food and beverage products. The sales strategy is to optimize profitability in western Canada, where Sun-Rype's brand recognition is solid and beverage product lines are relatively mature, while growing new sales in central and eastern Canada with 100% fruit snacks and bars, Fruit to Go and Energy to Go.

In the Fall of 1999, the local process grade apple crop came in at an estimated 50% of normal volumes, with an attendant increase in prices. In order to mitigate the anticipated impact of a significant cost increase in a key raw material, the Company adjusted its sales and marketing strategy, increasing selling prices and changing product mix to shift sales emphasis to more concentrate-based products or products using fewer apples. The financial impact of this apple supply shortage is expected to be minimized with the change in sales strategy, and early indications for the first quarter of 2000 show that sales results are tracking to budget projections.

During the year, management continued to strengthen its balance sheet, reducing long-term obligations by $8.3 million. The Company also concluded a three-year collective agreement with its bargaining unit employees, and with reduced debt levels is in a better situation to take advantage of new business opportunities currently being researched.

Sun-Rype's share structure also underwent changes. The Class A multiple-voting shares ("Class A shares") held by the BC Fruit Growers' Association (BCFGA) were redeemed in December 1999, leaving Class B subordinate-voting shares ("Class B shares") as the only issued and outstanding voting stock.

Sales and profitability review

Sun-Rype recorded $96.4 million in net sales during 1999, compared to $83.8 million in 1998. This 15% increase is attributable to: (1) stronger sales growth in core food products (Fruit to Go and Energy to Go) in central and eastern Canada, partially offset by lower sales from non-core products such as granola and coffee bars which were withdrawn from the marketplace; (2) new private label and co-packing production, including contracts with Minute Maid Canada (and, more recently, Minute Maid USA); and (3) an overall increase in western Canada beverage sales. The Company expects that additional short-term sales growth will come primarily from food sales in central and eastern Canada.

Gross profits in 1999 of $36.9 million or 38.3% of net sales compared favourably to $29.1 million or 34.7% in 1998. The improvement can be attributed to an improved sales mix and lower costs. Both the food and beverage business segments experienced improved margins over 1998 and, to sustain their profitability levels in the future, a brand advertising and marketing campaign continues to support ongoing sales initiatives.

Depreciation and amortization increased by 8% to $4.0 million from $3.7 million in 1998. The primary contributor to this increase was additional capital depreciation from plant equipment additions in both the beverage and food segments. The Company expects that future plant capital may be required in the beverage operations to upgrade to new packaging technologies on mature product lines, and that the food operations may require more capital to expand capacity as demand for food products escalates in conjunction with the growth in central and eastern Canadian sales.

Selling, general and administrative expenses of $25.9 million were up 25% compared to $20.8 million in 1998. Increased sales volumes resulted in a $1.4 million increase in distribution and selling costs such as freight and promotional advertising, while a new consumer research and brand support media campaign resulted in a $2.9 million increase in sales and marketing costs. Some administrative increases were also necessary to support the new sales volumes. As a percentage of net sales, selling, general and administrative expenses increased from 24.8% to 26.8%.

Interest expense decreased to $0.6 million in 1999 from $1.2 million in 1998, primarily as a result of significant reductions in bank debt during the year. Management anticipates that the lower levels of debt will favourably position the Company to finance new business expansion opportunities.

In late 1998, the Company incurred unusual items as part of a restructuring program, including a $1.1 million severance provision to reduce management overhead by consolidating operating activities into one unit. These severance costs were partially offset by recoveries of $0.7 million realized on the 1997 write-off of China assets and from lower than expected China wind-up costs.

Earnings before income taxes were $6.4 million compared to $2.9 million in 1998. The improved profit margins reflect a return to normal activities and a focus on optimizing profitability within the core business product lines.

Income taxes averaged 42.6% of earnings, compared to 37.2% in 1998. This is primarily due to adjustments to deferred taxes and

the recognition of reassessments of prior years' income tax returns.

Net earnings totalled $3.7 million in 1999 compared to $1.8 million in 1998, which translates into earnings per share of $0.37 in 1999 ($0.34 fully diluted) compared to $0.18 ($0.17 fully diluted) in 1998. The Company's share price has also moved up substantially over the past 12 months, ranging from a low of $1.05 in January 1999, to a close of $3.50 per share in December 1999.

Cash flows and working capital

Sun-Rype generated cash from operations of $8.1 million in 1999 compared to $5.6 million in 1998. The Company's strategy in recent years of optimizing core business and expanding targeted opportunities in central and eastern Canada is evident in the current level of cash-generating activity.

Finished goods inventories have been maintained at an average of 1.5 months' sales, which reflects the seasonality of apple production and the Company's need to build inventory after the fall apple picking season to sustain subsequent sales promotions each spring and summer.

Other working capital items remained relatively stable between 1998 and 1999. Accounts receivable grew to $9.2 million from $7.7 million in direct proportion to the level of sales volume increases. Accounts payable increased to $12.1 million from $8.1 million, in large part due to increased costs in support of higher sales volumes, as well as the launch of a marketing and media campaign in the Fall of 1999.

Income taxes payable increased to $2.0 million from $0.7 million mainly as a result of higher taxable income compared to 1998.

Overall working capital requirements in 2000 are not expected to change substantially from 1999.

Capital investment and financing requirements

Capital investment for 1999 remained at modest levels – $1.2 million on plant equipment plus $0.4 million in capital leases – compared to $1.7 million last year. This reflects maintenance level capital expenditures. In the near future, management expects that new equipment may be required for capacity expansion purposes in the food division and for technology and new packaging improvements in the beverage division. Capital expenditures for the year 2000 are expected to be $3.5 million. They include approximately $2.4 million for maintenance capital and $500,000 for new information systems software and hardware with the balance representing one-time outlays for plant and office renovations. All capital expenditures over and above routine maintenance must meet internal rate of return and profitability/payback hurdles prior to implementation.

New product launch costs were lower than usual – only $0.6 million in 1999 compared to $1.0 million in 1998 – as the Company completed the launch of its food product lines, Energy to Go and Fruit to Go. The Company expects to increase the development of new products in 2000.

In terms of financing, Sun-Rype focused primarily on debt reduction in 1998 and 1999; during 1998 the short-term bank facility was reduced by $10.3 million and during 1999 the long-term and short-term bank facilities were reduced by $8.8 million and $1.9 million, respectively. Going forward, the Company expects to apply its cash flows against remaining debt balances, to repurchase up to 500,000 shares under a normal course issuer bid and to reinvest the remainder of funds in appropriate capital investments and plant upgrades. The Company anticipates that 2000 cash flows will remain at levels similar to 1998 and 1999.

Industry trends and issues

Changes in commodity pricing of apples and fruit juice concentrates, seasonal availability of fruit, and changes in crop volumes continue to provide challenges in balancing production supply and production costs with market demand. Sun-Rype generally employs one of two major strategies to deal with this issue: (1) shifting from 100% pure juice products to a line of Sun-Rype branded juice blends requiring fewer apples, or (2) adjusting pricing and promotion strategies on premium priced 100% juice products to maximize profitability during shortfall seasons. These sales and marketing strategies are carefully evaluated under existing market conditions to mitigate risks associated with consumer acceptance.

The Company's long-term future is dependent upon its ability to continue to develop new products that can successfully compete in the grocery market under the Sun-Rype brand. Sun-Rype maintains a research and development department focused on providing appropriate new products to meet targeted business opportunities and realizing cost efficiencies within existing product lines. The success of newly developed products is dependent upon the Company's ability to maintain consumer brand awareness and loyalty and its ability to maintain an adequate level of distribution within the major grocery chains in Canada.

As grocery customers continue to develop a national focus and rationalize their operations, they will increasingly require that suppliers meet national supply and ordering standards. Sun-Rype is naturally positioned to take advantage of this trend with its custom order entry system and its ongoing strategy of expanding operations into central and eastern Canada.

Risks

Supplies

Availability of process grade apples is dependent upon harvest conditions and demand for apples in the US Pacific Northwest. In most years, the Company has been able to source its apple supply from local packing houses. As stated above, Sun-Rype has developed an alternative line of blended juice beverages, which can be marketed during periods when the supply of apples is unusually low.

Apple and Concentrate Prices

Process grade apples are priced as a commodity, dependent upon both local and world supply. Apple concentrate prices change relative to apple prices. Higher supply prices can be recovered partially through higher product selling prices, based on limits of market and consumer acceptance and competition from other juice products.

Foreign Exchange

The Company purchases most of its fruit juice concentrates at prices denominated in US dollars, which results in higher costs when the US dollar strengthens relative to the Canadian dollar. The volume of US dollar denominated purchases is 10% or less of total production costs and does not represent a material risk to the Company. Sun-Rype monitors foreign exchange rates and trends and, when appropriate, purchases forward contracts for its foreign exchange needs. The Company also exports some finished product into the US which mitigates a portion of the foreign exchange risk on US dollar purchases.

Environment

Sun-Rype maintains an environmental policy that reflects conscientious regard for the environment. Audits are conducted on a regular basis to ensure that appropriate management policies and practices toward

waste management, recycling and re-use of products are maintained. Management is of the opinion that expenditures relating to current environmental requirements will not have a material adverse effect on the financial position or earnings of the Company.

Year 2000 compliance
During 1998 and 1999 Sun-Rype assessed the changes needed to prepare the Company's business and manufacturing systems for the Year 2000. An inventory of all systems, an assessment of required changes and a program of remediation work were completed on the Company's six major systems. During the first few weeks of January, no major difficulties were experienced and no further complications are anticipated.

The Company's Year 2000 review also involved correspondence with its key suppliers and others identified as critical players in business operations to ascertain third party readiness for Year 2000. Every reasonable effort has been made to ensure that compliance with Year 2000 readiness is completed by the third parties, and no major difficulties have been experienced with the Company's suppliers to date. However, the Company must rely on the undertakings and representations of others and cannot determine with absolute certainty that the Company may not be affected by the actions of its suppliers or customers.

Capital expenditures of $70,000 were incurred in 1999 for the purchase of hardware and software. Operating costs of $25,000 were incurred in 1999 and $25,000 in 1998 to complete the program changes and testing.

Anticipated future events

Financial statement reporting changes
New CICA reporting requirements effective January 1, 2000, will require the Company to record costs of employee future benefits on a service-earned basis rather than a cash basis. Sun-Rype had contingent liabilities to pay future benefits to its retirees and active employees of approximately $172,000 as at January 1, 1999. This liability is estimated to have increased by $12,000 to a total liability of $184,000 as at December 31, 1999. The employee future benefits adjustment in the first quarter of 2000 will reduce opening retained earnings as at January 1, 1999, by $172,000 and restate and reduce 1999 earnings by $12,000.

New CICA reporting requirements also require that deferred income tax liabilities be recorded based on the Company's current tax situation, effective January 1, 2000. The current deferred tax liability, which is primarily the historical accumulation of income tax timing differences between depreciation and capital cost allowance, will be increased by $306,000 effective January 1, 1999. The first quarter financial statements of Sun-Rype will include the deferred income tax adjustment as a reduction in opening retained earnings as at January 1, 1999, of $306,000. The income statement impact of this adjustment during 1999 is expected to be immaterial, leaving the same $306,000 adjustment to be carried forward to January 1, 2000, retained earnings.

Share restructuring
In December 1999, Sun-Rype redeemed its Class A shares from the BC Fruit Growers' Association. The Company anticipates cancelling this class of shares and reclassifying the remaining Class B shares as the Company's only authorized, issued and outstanding voting-equity shares.

Management's responsibility

The management of Sun-Rype Products Ltd. is responsible for the preparation and integrity of the consolidated financial statements of the Company. The financial statements have been prepared in accordance with generally accepted accounting principles using management's best estimates and judgements where necessary. The financial information contained elsewhere in this annual report is consistent with that in the balance sheet, earnings and cash flow statements.

Sun-Rype Products Ltd. maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of maintaining our system of internal accounting controls should not exceed benefits expected to be derived from the system. The system is supported by written policies and guidelines, and is continuously reviewed.

Deloitte & Touche LLP, independent auditors, are retained to audit Sun-Rype Products Ltd.'s financial statements. Their audit is conducted in accordance with generally accepted auditing standards and provides an independent assessment that helps assure fair representation of the Company's financial position, results of operations and cash flows. Their opinion on the financial statements is published separately in this annual report.

The Board of Directors, through its Audit Committee, comprised of non-management directors, exercises a monitoring role in the Company's financial affairs and statements. The committee meets with management regularly and the independent auditors as required. These meetings include discussions of internal accounting control and the quality of management and financial reporting. The Finance & Administration department of the Company and the independent auditors have full and free access to the Audit Committee.

Management recognizes its responsibility to conduct Company business in accordance with high ethical standards. Our policy statements and ongoing communications and review programs are designed to ensure this responsibility is fully carried out.

Lawrence Bates
President &
Chief Executive Officer

Robert McGowan
Vice President Finance & Administration
Chief Financial Officer

Auditors' report

To the Shareholders of Sun-Rype Products Ltd.

We have audited the consolidated balance sheets of Sun-Rype Products Ltd. as at December 31, 1999 and 1998 and the consolidated statements of earnings and retained earnings (deficit) and cash flows 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 December 31, 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

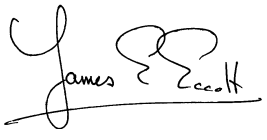
Chartered Accountants
Vancouver, British Columbia
February 4, 2000

Consolidated balance sheets

as at December 31
(in thousands of dollars)

	1999	1998
ASSETS		
Current assets		
Accounts receivable (note 3)	$ 9,176	$ 7,730
Inventories (note 4)	12,105	12,026
Prepaid expenses	189	244
	21,470	20,000
Property, plant and equipment (note 5)	13,644	14,829
Goodwill, net of amortization	138	172
Deferred expenses (note 6)	716	1,677
	$ 35,968	$ 36,678
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness (note 7)	$ 1,607	$ 3,539
Promissory note (note 8)	752	752
Accounts payable and accrued liabilities	12,102	8,098
Income taxes payable	1,952	737
Current portion of long-term obligations (note 9)	577	1,280
	16,990	14,406
Long-term obligations (note 9)	258	7,900
Deferred income taxes	440	223
	17,688	22,529
Shareholders' equity		
Share capital and contributed surplus (note 10)	17,717	17,258
Retained earnings (deficit)	563	(3,109)
	18,280	14,149
	$ 35,968	$ 36,678

APPROVED BY THE BOARD



James E. Eccott
Director

John Withers
Director

The accompanying notes are an integral part of these financial statements.

Consolidated statements of earnings and retained earnings (deficit)

for the years ended December 31
(in thousands of dollars except per share amounts)

	1999	1998
Net sales	$ 96,359	$ 83,811
Cost of sales	59,457	54,728
Gross profit	36,902	29,083
Selling, general & administrative expenses	25,855	20,757
Amortization	4,035	3,739
Interest expense	610	1,230
Other (note 11)	-	467
Earnings before income taxes	6,402	2,890
Income taxes (note 13)	2,730	1,076
Net earnings	3,672	1,814
Deficit, beginning of year	(3,109)	(4,923)
Retained earnings (deficit), end of year	$ 563	($ 3,109)
Earnings per share (note 16)		
Basic	$ 0.37	$ 0.18
Fully diluted	$ 0.34	$ 0.17

The accompanying notes are an integral part of these financial statements.

Consolidated statement of cash flows

for the years ended December 31
(in thousands of dollars)

	1999	1998
Cash provided by (used in):		
Operating activities		
Net earnings	$ 3,672	$ 1,814
Non-cash items:		
Amortization	4,035	3,739
Loss on capital dispositions	115	163
Deferred income taxes	217	(160)
Shares issued for services	55	42
Cash flow from operations	8,094	5,598
Changes in non-cash working capital items (note 14)	3,749	7,792
	11,843	13,390
Financing activities		
Proceeds from issue of long-term debt	5	446
Repayment of long-term debt	(8,768)	(1,719)
Shares purchased and cancelled	(341)	-
Proceeds from issue of shares	745	-
	(8,359)	(1,273)
Investing activities		
Deferred expenses	(570)	(968)
Proceeds on capital dispositions	193	872
Capital expenditures	(1,175)	(1,742)
	(1,552)	(1,838)
Increase in cash position	1,932	10,279
Bank indebtedness, beginning of year	(3,539)	(13,818)
Bank indebtedness, end of year	($ 1,607)	($ 3,539)
Interest paid	$ 446	$ 1,160
Income taxes paid	$ 1,525	$ 53

Supplemental information on non-cash investing activity:
During 1999 the Company acquired additional capital assets in the amount of $419,000 which were financed by a capital lease.

The accompanying notes are an integral part of these financial statements.

Notes to the consolidated statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of Sun-Rype Products Ltd. and its wholly owned subsidiaries.

(b) Inventories

Raw materials and supplies are recorded at the lower of cost, determined on a weighted average basis, and replacement cost.

Finished goods are recorded at the lower of cost and net realizable value. Finished goods include the cost of direct labour, direct materials and variable overheads related to production, applied at a standard rate which is in line with actual costs. Fixed overhead costs are considered a period cost and, as such, are not included in valuing inventory but are expensed in the period they are incurred.

(c) Property, plant and equipment

Property, plant and equipment are recorded at cost, net of investment tax credits. The Company uses the straight line method of providing amortization over the estimated lives of the property, plant and equipment as follows:

Buildings	15 – 40 years
Equipment	
- Processing	5 – 25 years
- Other	3 – 12 years

(d) Goodwill

Goodwill, representing the excess of the purchase price over the estimated fair value of identifiable net assets acquired, is amortized over ten years on a straight-line basis.

(e) Investments

Investments in companies subject to significant influence are recorded on the equity basis. Other long-term investments are recorded at cost and will be written down only if there is a loss in value that is other than a temporary decline.

(f) Product launch costs

The Company capitalizes certain product launch costs, which are deferred and amortized over 36 months commencing with the date of commercialization of the related product.

(g) Income taxes and deferred income taxes

Income taxes are accounted for on the tax allocation basis. Deferred income taxes on the balance sheet reflect the cumulative effect of timing differences between accounting income and taxable income. These differences arise principally from capital cost allowance claimed for tax purposes in excess of amortization recorded as an expense in the accounts.

(h) Foreign currency translation

The Company's foreign subsidiaries are operationally integrated with domestic operations and as a result the Company uses the temporal method to translate transactions and balances denominated in foreign currencies. Under this method monetary items are translated at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenues and expenses are translated at average rates in the month they occurred except for depreciation and amortization which are translated using the same rates as the related assets. Gains and losses on translation are recorded in the statement of earnings except for gains and losses on long-term monetary items which are deferred and amortized over the remaining life of the monetary item.

Notes to the consolidated statements

(i) Stock-based compensation plans

The Company has three stock-based compensation plans, which are described more fully in note 10. Shares issued to members of the board of directors in exchange for services are recorded as a compensation expense in the period services are provided. Stock options issued to senior management or members of the board of directors are not recorded as a compensation expense and any consideration paid by employees or board members upon the exercise of stock options is recorded as an increase to share capital. Contributions by the Company on behalf of employees in connection with the Company's stock purchase plan, which is available to all permanent full-time or part-time employees, are recorded as a compensation expense. Shares are purchased on an eligible employee's behalf by the Company's plan administrator.

(j) Use of estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses disclosed during reporting periods. The actual amounts could differ from those estimates.

2. INVESTMENTS (in thousands of dollars)

The investments consist of the following:

	1999	1998
163 redeemable, non-voting preference shares in the capital of BC Tree Fruits Limited ("BCTF") with a par value of $6,750 each	$ 1,100	$ 1,100
Less:		
163 redeemable non-voting Class C preference shares of the Company with a par value of $6,750 each	(1,100)	(1,100)
Total	-	-

Under the rights and restrictions of the BCTF preference shares, the redemption of any share shall be paid and satisfied by way of the transfer to the holder of a Class C redeemable non-voting preference share in the capital stock of Sun-Rype Products Ltd.

The Class C preference shares have been classified as a liability and offset against the carrying value of the Company's investment in preference shares of BCTF. This is on the basis that payment of the redemption price upon a retraction of the Class C preference shares by BCTF can be satisfied by delivery of the preference shares of BCTF held by the Company, which are of equivalent value.

3. ACCOUNTS RECEIVABLE (in thousands of dollars)

	1999	1998
Trade	$ 8,018	$ 6,610
Other	1,158	1,120
Total	$ 9,176	$ 7,730

4. INVENTORIES (in thousands of dollars)

	1999	1998
Raw materials and supplies	$ 5,398	$ 5,017
Finished goods	6,707	7,009
Total	$ 12,105	$ 12,026

Notes to the consolidated statements

5. PROPERTY, PLANT AND EQUIPMENT (in thousands of dollars)

	1999			1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 203	$ -	$ 203	$ 209
Buildings	12,669	7,736	4,933	5,178
Processing equipment	26,358	18,958	7,400	8,444
Other equipment	5,294	4,186	1,108	998
Total	$ 44,524	$ 30,880	$ 13,644	$ 14,829

Buildings, processing and other equipment includes capital assets under construction with a cost of $143,000 (1998 – $508,000), which will not be amortized until they are put in use. In addition, other equipment includes capital assets financed by a capital lease with a net book value of $370,000 (1998 – Nil).

6. DEFERRED EXPENSES (in thousands of dollars)	1999	1998
Product launch costs	$ 608	$ 1,543
Other	108	134
Total	$ 716	$ 1,677

7. BANK INDEBTEDNESS

The Company has a $15 million line of credit with a Canadian bank which bears interest at the bank's prime lending rate (December 31, 1999 – 6.5%). This facility and the long-term debt facility are secured by a general assignment of book debts and an assignment of inventories and demand debentures creating a fixed and floating charge over all Company assets.

8. PROMISSORY NOTE

The promissory note in the amount of $752,000 is secured by a letter of credit and bears interest at the bank prime rate plus 1/4%.

9. LONG-TERM OBLIGATIONS (in thousands of dollars)	1999	1998
Bank loan bearing interest at prime plus 1/4% and secured as described in note 7 and due in 2000.	$ 483	$ 8,900
Loans from growers, unsecured, and bearing interest at prime rate.	-	280
Capital lease obligations repayable in monthly installments of $9,877 including interest calculated at an average financing rate of 6.75% and secured by specific equipment.	352	-
	835	9,180
Less: current portion (net of imputed interest of $25,000)	(577)	(1,280)
Total	$ 258	$ 7,900

Minimum future payments under long-term obligations are as follows:

2000	$ 602
2001	119
2002	81
2003 – 2006	98
Less: imputed interest	(65)
Total	$ 835

Notes to the consolidated statements

10. SHARE CAPITAL

Authorized

10,000	Class A multiple-voting non-participating shares with a par value of $1.00 each ("Class A shares")
100,000,000	Class B subordinate-voting shares without par value ("Class B shares")
200	Class C redeemable non-voting preference shares of $6,750 par value ("Class C preference shares")

Class A shares

Class A shares entitle the holder to 50,000,000 votes per share. On January 30, 1999, the British Columbia Fruit Growers' Association ("BCFGA") membership voted to divest itself of the nine Class A shares. The nine shares held by the BCFGA were redeemed and cancelled by the Company on December 1, 1999. As at December 31, 1999, there were no Class A shares issued and outstanding.

Class B shares

Class B shares entitle the holder to one vote per share and are fully participating in Company assets upon wind-up.

Class C preference shares

Under the rights and restrictions of the preference shares, the redemption of any share shall be paid and satisfied by way of the transfer to the holder of a redeemable, non-voting preference share in the capital stock of BCTF.

Shareholder rights plan

In 1994 the Company adopted a Shareholder rights plan (the "Rights Plan") to deter coercive and/or unfair takeover strategies. Under the terms of the Rights Plan, the Company authorized the issue of one right for each Class B share issued on or subsequent to the date the Rights Plan was adopted. Generally, if any person or group makes a takeover bid not permitted under the Rights Plan, or acquires 15% or more of the Company's outstanding shares without complying with the Rights Plan, the Rights Plan will entitle those holders of rights to purchase, in effect, shares of the Company at 50% of the then market price.

Employee share ownership plan

Effective July 1, 1999, the Company adopted an employee share ownership plan ("ESOP") enabling all permanent full-time and part-time employees to acquire Class B shares through payroll deductions with financial assistance provided by the Company. The shares are purchased by the administrator of the ESOP on the open market, from the Company or from such other sources as designated by the board of directors. The aggregate number of treasury shares which may be purchased by the administrator is limited to 400,000 shares, subject to specified exceptions. Eligible employees may contribute an amount which shall not exceed 7% of wages and the Company has agreed to contribute 35% of the amount contributed by each eligible employee. All funds and equity shares held by the administrator pursuant to the ESOP are held for the account of the individual eligible employees.

Directors' share compensation plan

The Company is a party to a compensation arrangement whereby a minimum of one half and a maximum of all the annual retainer paid to directors of the Company shall be paid through the issuance of Class B shares. The directors are entitled to elect the percentage between 50% and 100% of their annual retainer which they wish to receive by way of share compensation and the Company is obligated to pay the share compensation on or about June 30 and December 31 of each year. The number of Class B shares to be issued as share compensation to each director is determined by multiplying the percentage elected by the director by the annual retainer and then dividing the dollar value by the purchase price of the Class B shares. The purchase price is determined based on a ten day trading average of the Class B shares during a specified period in June and December. The initial aggregate number of Class B shares issuable under the plan is limited to 100,000 shares.

Issued and fully paid capital (dollar amounts in thousands)

	1999		1998	
	Shares	$	Shares	$
Class A shares				
Opening balance	9	-	9	-
Cancelled shares	(9)	-	-	-
Closing balance	-	-	9	-

Notes to the consolidated statements

	1999		1998	
	Shares	$	Shares	$
Class B shares				
Opening balance	9,930,600	$15,052	9,903,400	$15,010
Issued for services	19,500	55	27,200	42
Issued for cash	320,000	745	-	-
Repurchased and cancelled	(121,400)	(184)	-	-
Closing balance	10,148,700	15,668	9,930,600	15,052
Contributed Surplus				
Opening balance		$ 2,206		$ 2,206
Excess of cost over book value on repurchased and cancelled shares		(157)		-
Closing balance		2,049		2,206
Total		$17,717		$17,258

Class C preference shares

There are 163 Class C preference shares outstanding with a total value of $1,100,250. These have been classified as a liability and offset against the Company's investment in shares of BCTF (see note 2).

Share capital transactions

During 1999, the Company issued 19,500 Class B shares to board members at an average market value of $2.81 per share as part of their compensation arrangement (1998 – 27,200 shares at an average market value of $1.55 per share).

During 1999, the Company repurchased and cancelled 121,400 Class B shares at a weighted average price of $2.81 per share as part of its normal course issuer bid (1998 – Nil). The excess cost over book value of $157,000 for the repurchased and cancelled shares has been applied to contributed surplus (see note 21).

Stock option transactions

Stock option plan

The Company has adopted a stock option plan to provide options to purchase Class B shares of the Company for its employees, officers and directors. The options granted pursuant to this plan are generally exercisable at a price which is equal to or greater than the fair market value of the Class B shares at the time the options are granted. At December 31, 1999, the maximum number of Class B shares reserved for issuance under the stock option plan was 645,000 Class B shares, including 37,500 shares for options which have not yet been issued.

BCFGA stock options

The BCFGA holds options to purchase 400,000 Class B shares at an exercise price of $2.75 which are exercisable at various dates until November 12, 2001. As at December 31, 1999, 240,000 of these options were vested and able to be exercised, with the remainder vesting annually as follows:

Vesting date	Number of options which vest	Aggregate number of options which have vested and may be exercised
November 12, 2000	80,000	320,000
November 12, 2001	80,000	400,000

Notes to the consolidated statements

Stock option activity

	Issued and outstanding options	Weighted average price
Outstanding at January 1, 1998	1,335,000	$ 2.44
Granted	460,000	3.48
Outstanding at December 31, 1998	1,795,000	2.70
Granted	92,500	2.25
Exercised	(320,000)	2.33
Forfeited	(560,000)	3.31
Outstanding at December 31, 1999	1,007,500	2.45

The following table summarizes the options outstanding and exercisable at December 31, 1999:

			Options exercisable	
Number of options outstanding	Average remaining contractual life (years)	Weighted average exercise price	Number of shares exercisable	Weighted average exercise price
265,000	4.0	$ 2.00	265,000	$ 2.00
92,500	4.6	2.25	92,500	2.25
240,000	1.0	2.50	240,000	2.50
410,000	1.9	2.75	250,000	2.75
1,007,500	2.5	$ 2.45	847,500	$ 2.39

Shares reserved for future issuance

As at December 31, 1999, the Company has 1,477,800 Class B shares reserved for issuance pursuant to the following:

Employees, directors & officers share option plan	645,000 shares
Employee share ownership plan	400,000
Board of directors' compensation	32,800
BCFGA share option plan	400,000
	1,477,800 shares

The administrator currently purchases shares under the employee share ownership plan on the open market and has not used any of the 400,000 shares reserved in Treasury.

11. OTHER CHARGES

In 1998 the Company realigned its corporate activities and incurred or provided for additional employee termination costs of $1,123,000. The Company also recorded a recovery of $656,000 on its China investment, consisting of a net gain on sale of equipment of $383,000 and a recovery of $273,000 on settlement of severance and exit costs.

12. PENSION PLAN

The Company maintained a contributory defined benefit pension plan (the "Original Plan") for substantially all of its salaried employees until January 1, 1998, at which time the Original Plan was converted to a contributory defined contribution plan (the "Revised Plan"). At the date of conversion, the Original Plan had an estimated excess of pension fund assets over the value of accrued pension benefits in the amount of approximately $1.1 million. This surplus was utilized principally to provide pension enhancements to members of the Original Plan who retired during 1998 and to fund 1998 employer contributions under the Revised Plan.

Pension costs charged to earnings for the defined contribution plan were $241,000 in 1999 (1998 – Nil).

Notes to the consolidated statements

13. INCOME TAXES

Differences between the statutory rate applicable to the Company and the Company's effective income tax rate applied to the earnings consist of the following:

(dollar amounts in thousands)	1999		1998	
Income tax provision at the combined				
basic Canadian federal and provincial rate	$ 2,919	45.6%	$ 1,318	45.6%
Adjustment in income tax rate resulting from:				
Manufacturing and processing deduction	(448)	(7.0)	(202)	(7.0)
Large corporation tax	(57)	(0.9)	68	2.3
Non-deductible expenses	57	0.9	37	1.3
Other	259	4.0	(145)	(5.0)
Effective income tax provision	$ 2,730	42.6%	$ 1,076	37.2%

The income tax provision consists of the following:		
Current tax expense	$ 2,436	$ 1,234
Deferred tax expense (recovery)	294	(158)
Total income tax provision	$ 2,730	$ 1,076

As at December 31, 1999 the Company has capital loss carry forwards of approximately $2,000,000 available to reduce future capital gains. These capital loss carry forwards have not been recognized in these financial statements.

14. CHANGES IN NON-CASH WORKING CAPITAL ITEMS (in thousands of dollars)

	1999	1998
Accounts receivable	($ 1,446)	$ 2,181
Income taxes receivable	-	800
Inventories	(79)	5,617
Prepaid expenses	55	(21)
Accounts payable and accrued liabilities	4,004	(1,522)
Income taxes payable	1,215	737
Total	$ 3,749	$ 7,792

15. COMMITMENTS

a) The Company has entered into operating lease and rental commitments for certain processing and office equipment and office space for the next five years as follows:

2000	$ 735,000	2003	$ 234,000
2001	$ 630,000	2004	$ 234,000
2002	$ 270,000		

b} The Company also has commitments to pay the BCFGA $100,000 annually until 2002 for certain management and consulting services.

c) Under the terms of certain employment agreements with selected senior officers, the Company is required to provide for compensation to be paid to the individuals in the event of the subsequent termination of the individual's employment. The estimated settlement amount of these obligations is $296,000.

Notes to the consolidated statements

16. EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share have been calculated using the weighted average number of Class B shares which would have been outstanding assuming that additional shares had been issued at the beginning of the period or on the date of issue as applicable, pursuant to the exercise rights of the outstanding stock options. For the purposes of this calculation, funds derived from exercise of the options are assumed to have been invested at an imputed interest rate of 6.0%.

The average number of shares outstanding for the year was 9,983,208 (1998 – 9,908,353).

17. FINANCIAL INSTRUMENTS AND CREDIT RISK

The Company's financial instruments include bank indebtedness, accounts receivable, accounts payable and accrued liabilities, and long-term obligations for which the carrying values approximate fair values. The Company also utilizes foreign exchange forward purchase contracts from time to time to hedge risks associated with anticipated future purchases. There were no such contracts outstanding at December 31, 1999.

The Company's customers consist mainly of wholesale and retail grocery suppliers and food distributors principally located in western Canada. The Company's seven largest customers comprise approximately 75% of sales activity. To cover credit risk, the Company performs ongoing credit evaluations of its customers' financial condition.

The Company's bank borrowings bear interest at rates that vary with changes in the short-term interest rate market. Short and long-term interest expense and the Company's earnings could fluctuate because of changes in the short-term interest rate market.

18. SEGMENTED INFORMATION (in thousands of dollars)

(a) Operating segments

The Company operates primarily in two segments, Beverage and Food. The Beverage segment produces and sells fruit juices, drinks and nectars, whereas the Food segment produces and sells dried fruit snacks, energy bars and fruit bars. Details of segmented operating results and assets are as follows:

1999	Beverage	Food	Corporate/ Common	Total
Net sales	$ 75,496	$ 20,863	-	$ 96,359
Cost of goods sold	(47,292)	(12,165)	-	(59,457)
Gross profit	28,204	8,698	-	36,902
Amortization	(1,630)	(2,026)	($ 379)	(4,035)
Gross profit after amortization	$ 26,574	$ 6,672	($ 379)	$ 32,867

The Company does not allocate selling, general and administrative expenses, interest expense, income taxes and unusual charges to the segments. Inter-segment sales or transfers are recorded at cost.

Inventories	$ 9,546	$ 2,037	$ 522	$ 12,105
Capital expenditures	1,044	32	99	1,175
Property, plant and equipment	8,590	4,202	852	13,644
Deferred charges	47	561	108	716

Notes to the consolidated statements

1998	Beverage	Food	Corporate/ Common	Total
Net sales	$ 63,567	$ 20,244	-	$ 83,811
Cost of goods sold	(40,284)	(14,444)	-	(54,728)
Gross profit	23,283	5,800	-	29,083
Amortization	(1,791)	(1,545)	($ 403)	(3,739)
Gross profit after amortization	$ 21,492	$ 4,255	($ 403)	$ 25,344
Inventories	$ 9,260	$ 2,308	$ 458	$ 12,026
Capital expenditures	637	1,068	37	1,742
Property, plant and equipment	8,812	5,207	810	14,829
Deferred charges	333	1,210	134	1,677

(b) Geographic information

Substantially all of the Company's sales and identifiable assets occur or are located in Canada.

19. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred and no significant problems were encountered by the Company, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Company including those related to customers, suppliers or other third parties, have been fully resolved.

20. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform with the classifications used in 1999.

21. SUBSEQUENT EVENT

On January 25, 1999, the Company commenced a normal course issuer bid, expiring January 24, 2000, authorizing the repurchase and cancellation of up to 729,258 Class B shares of the Company. As at December 31, 1999, 121,400 shares were repurchased for cancellation, and in January 2000, a further 15,000 shares were repurchased for cancellation. All shares repurchased under the normal course issuer bid expiring January 24, 2000 were purchased at an average price of $2.88 per share for a total consideration of $393,120.

In January 2000, the Company applied for and received approval to commence a new normal course issuer bid beginning January 27, 2000 and expiring January 26, 2001 to purchase up to 500,000 Class B shares.

Leadership at Sun-Rype

Merv Geen Chairman
An orchardist since 1966, Mr. Geen is also a director of Kettle Mountain Ginseng Co. Ltd., The Association of Ginseng Growers of British Columbia and a former director of BC Tree Fruits Ltd. and BC Fruit Packers. Mr. Geen has been a director of the Company since 1987 and Chairman of the Board since 1992.

Lawrence Bates Director
Appointed President and Chief Executive Officer of Sun-Rype in 1998, Mr. Bates is a 32-year veteran of the Company who has held several senior positions including Director of Marketing and Sales, Vice President of Marketing and Sales and Vice President and General Manager. Prior to joining Sun-Rype, Mr. Bates spent his early career in food distribution management.

Robert Dawson Director
A non-practicing lawyer, Mr. Dawson has been the owner of Dawson Orchards Ltd. since 1975. Chairman of the Okanagan Valley Tree Fruit Authority since 1990, he is also a director of Okanagan Similkameen Co-operative Growers Association and a former director of BC Tree Fruits Ltd.

James Eccott Director
Mr. Eccott is President and Chief Executive Officer of Kelowna-based Dia Met Minerals Ltd., a diamond exploration company with a 25% interest in the Ekati mine in the Northwest Territories. A resident of Kelowna since 1971, Mr. Eccott also serves on the board of directors for Prism Resources Inc. and Del Roca Energy Ltd.

Kenneth Hallat Director
Mr. Hallat is Chairman and Chief Executive Officer of Novas Capital Corp., a private venture capital company, as well as the M-Chem Group of Companies, a manufacturer and distributor of industrial cleaners and related products. He also serves as a director of several other companies including Sleeman Breweries Ltd. and Marine BioProducts International Corporation.

Standing (l-r): Ken Hallat, Lawrence Bates, Merv Geen, Tom Knowlton, James Eccott.
Seated (l-r): Robert Dawson, Jack Moffatt, John Withers.

Tom Knowlton Director
A seasoned industry executive with extensive Canadian and international consumer products experience, Mr. Knowlton spent 18 years with Kellogg's, most recently as Executive Vice President, Kellogg Company; President, Kellogg North America; and President, Kellogg USA. He also serves as a director of the Wm. Wrigley Jr. Company.

Jack Moffatt Director
President of Celadon Canadian Investments, a firm that advises startup and high-growth companies, Mr. Moffatt has extensive experience in the North American food industry. He is former Chairman and Chief Executive Officer of The Great Atlantic and Pacific Tea Company Canada (A&P grocery chain) and former President, First National Supermarkets in Connecticut.

John Withers Vice Chairman
Vice Chairman of the Board since 1996, Mr. Withers is a retired business executive and private investor. He is the former Executive Vice President and Chief Financial Officer of Allied Strategies Inc., and is currently a director of Sleeman Breweries Ltd., Lasik Vision Corporation and Marine BioProducts International Corporation.

Corporate governance

Since our earliest days as a fruit growers' co-operative, sound corporate governance has been a fundamental and guiding principle at Sun-Rype. We believe that corporate governance is inextricably linked to a company's long-term performance. Furthermore, it is essential for creating a balanced decision-making environment that ensures responsiveness to the needs of various stakeholders groups.

Two events of the past year have helped build on that tradition. The first was the relinquishment of the BCFGA's right to appoint a simple majority of Sun-Rype's directors. The second was the redemption of the Class A multiple-voting shares held by the BCFGA, which now places voting control exclusively in the hands of Sun-Rype's equity investors on a one-share/one-vote basis.

While the Company maintains a close working relationship with the BCFGA, we also welcomed the opportunity to fully democratize the Company's capital structure as well as enhance the diversity of the board. Appointments to the board of directors at last year's AGM have provided added perspective on the needs of our consumers in the packaged goods industry.

With these changes, Sun-Rype continues to comply with both the letter and the spirit of the TSE Guidelines on Corporate Governance including: the separation of the CEO and chairman posts and the maintenance of a majority of independent directors on the board. For a complete description of the Company's corporate governance practices relative to each of the 14 Guidelines, please refer to Sun-Rype's 2000 Management Information Circular.

Six-year historical review

(in thousands of dollars except per share amounts)

		1999	1998	1997	1996	1995	1994
OPERATING RESULTS:							
Net sales		96,359	83,811	88,317	80,183	77,418	80,298
Gross profit		36,902	29,083	26,949	26,453	25,779	26,938
Gross profit %		38.3%	34.7%	30.5%	33.0%	33.3%	33.5%
Selling, general and administrative expenses		25,855	20,757	22,172	19,608	22,296	22,885
Depreciation and amortization		4,035	3,739	3,100	2,349	1,976	1,946
Interest expense		610	1,230	748	871	861	1,025
Restructuring expenses		–	1,123	3,087	–	–	–
Unusual items*		–	(656)	4,408	742	–	–
Income taxes		2,730	1,076	(749)	1,369	369	432
Net earnings		3,672	1,814	(5,817)	1,514	277	650
FINANCIAL POSITION AND CASH FLOW:							
Working capital		4,480	5,594	3,030	9,323	6,052	6,099
Total assets		35,968	36,678	47,319	40,279	37,250	38,319
Long-term debt (including current portion)		835	9,180	10,453	8,003	7,144	8,805
Shareholders' equity		18,280	14,149	12,293	17,752	16,090	15,859
Cash from operations		8,094	5,598	1,267	4,782	2,656	2,579
Cash from operating activities		11,843	13,390	(3,993)	3,792	2,943	7,538
Capital expenditures		1,175	1,742	4,966	1,638	1,364	1,627
FINANCIAL RATIOS:							
After-tax return on net sales		3.8%	2.2%	-6.6%	1.9%	0.4%	0.8%
After-tax return on equity		20.1%	12.8%	-47.3%	8.5%	1.7%	4.1%
After-tax return on assets		10.2%	4.9%	-12.3%	3.8%	0.7%	1.7%
Pre-tax (EBIT) return on invested capital		33.8%	12.9%	-3.9%	15.0%	5.6%	7.4%
Current ratio		1.3	1.4	1.1	1.7	1.4	1.4
Long-term debt: long-term debt + equity		0.04	0.39	0.46	0.31	0.31	0.36
PER SHARE INFORMATION:							
Earnings/share		$0.37	$0.18	$(0.59)	$0.18	$0.03	$0.07
Cash flow/share		$1.19	$1.35	$(0.41)	$0.46	$0.29	$0.81
Book value/share		$1.83	$1.43	$1.25	$2.16	$1.58	$1.71
Share price	–high	$3.75	$2.50	$2.90	$2.95	N/A	N/A
	–low	$1.05	$1.05	$1.75	$1.75	N/A	N/A
	–close	$3.50	$1.40	$2.00	$2.00	N/A	N/A
OPERATING DATA:							
apple tons processed		48,452	39,989	39,709	29,470	42,394	50,325
average apple price per ton		$107	$90	$148	$217	$148	$100
apple juice & apple drinks market share ($ volume)**		55%	52%	50%	42%	43%	45%
fruit snacks market share ($ volume)**		30%	23%	17%	12%	10%	11%

* unusual items included costs for the successful defense against a takeover bid in 1996 and discontinued subsidiary operations in China in 1997 and 1998.

** western Canada market.

Officers & Senior Management

Lawrence Bates
President & Chief Executive Officer

Robert McGowan
Vice-President,
Finance & Administration
Chief Financial Officer

Brad Buchanan
Vice-President, Sales & Marketing

Robert Dick
Vice-President, Manufacturing

Gail Prichard
Corporate Secretary

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