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Hawker Siddeley Canada Ltd.

1967 Annual Report

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Tuesday, May 28th, 1968 at 11:00 a.m., E.D.T. A notice of the meeting, an information circular and a proxy form for the convenience of those shareholders holding common shares are enclosed with this report.

On peut se procurer un exemplaire en français de ce Rapport annuel en écrivant au Secrétaire, Hawker Siddeley Canada Ltd.

Financial highlights

(in thousands of dollars except per share data)

	1967	1966	1965	1964	1963	1962	1961
Consolidated net sales	$256,803	279,107	267,507	245,257	220,138	227,670	219,457
Pre-production and start-up costs at Contrecoeur	3,676	3,206	757	—	—	—	—
Interest expense	6,505	5,410	3,658	2,071	1,216	1,968	1,606
Development expenditures	543	864	719	1,035	940	1,232	908
Depreciation	11,038	10,568	10,720	9,970	10,053	11,388	12,285
Income (loss) before taxes	(10,364)	3,276	2,110	8,704	6,436	3,114	(3,710)
Taxes on income	(1,531)	671	436	4,351	3,044	805	(718)
Income (loss) of subsidiaries attributable to minority shareholders	(2,153)	334	807	1,333	1,200	942	671
Net income (loss)	(6,680)	2,271	867	3,020	2,192	1,367	(3,663)
Per preferred share	(47.72)	16.22	6.19	21.58	15.66	9.76	(26.17)
Per common share**	(.92)	.18	.01	.27	.17	.07	(.55)
Preferred dividends paid	805	805	805	805	805	805	805
Per preferred share	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Other charges (credits) net to retained earnings	20,050	(18)	(2,553)	—	—	—	4,750
Working capital	47,032	67,518	85,923	71,458	64,554	65,733	54,891
Capital expenditures	19,919	45,271	29,376	26,876	13,357	6,680	5,305
Invested in fixed assets (cost)	266,197*	312,870*	306,927	301,216	280,056	273,089	293,676
Invested in fixed assets (net)	154,891*	165,531*	145,981	136,540	122,589	120,568	137,756

*Excluding coal mining properties carried in investments and other assets.

**After preferred dividend requirements

Hawker Siddeley Canada Ltd.

Head Office: 7 King Street East, Toronto 1, Ontario.

Directors

Sir Roy Dobson, London, England, Chairman
T. J. Emmert, Toronto, Ontario, President and Chief Executive Officer
Sir Aubrey Burke, London, England
A. A. Bailie, Toronto, Ontario, Senior Vice-President and Treasurer
R. A. Jodrey, Hantsport, Nova Scotia
A. S. Pattillo, Q.C., Toronto, Ontario
J. H. Ready, Toronto, Ontario, Vice-President and Secretary
W. P. Scott, Toronto, Ontario
Colin W. Webster, Montreal, Quebec

Executive Management

T. J. Emmert, President and Chief Executive Officer
A. A. Bailie, Senior Vice-President and Treasurer
W. B. Boggs, Vice-President
I. E. Bull, Comptroller
J. E. Clubb, Vice-President (Executive Vice-President, Dominion Steel and Coal Corporation, Limited)
C. H. Drury, Vice-President (Executive Vice-President, Dominion Steel and Coal Corporation, Limited)
R. E. Henderson, Vice-President (Canadian Car Division)
J. N. Kelly, Assistant to the President
D. G. Kettering, Vice-President, Marketing Planning
A. W. McKenzie (President, Canadian General Transit Company, Limited)
F. P. Mitchell (President, Orenda Limited)
J. G. Mitchell, Vice-President (Railway Equipment Division)
W. W. Muir, Vice-President, Personnel and Industrial Relations
J. H. Ready, Vice-President and Secretary
W. D. Walker, Vice-President, Manufacturing Services

Auditors

Price Waterhouse & Co., Toronto, Ontario, Canada

Registrar and Transfer Agent

National Trust Company, Limited, Toronto, Montreal, Winnipeg and Vancouver, Canada.

To the Shareholders

Your directors submit, herewith, the report and consolidated accounts of Hawker Siddeley Canada Ltd., for the year ended December 31, 1967.

As indicated in the Semi-Annual Report, 1967 proved to be an unsatisfactory year for the company. Consolidated net sales at $256,803,436 were down $22,303,278 from last year. A consolidated net loss of $6,680,218 was incurred compared with consolidated net income of $2,270,768 in 1966. Allowing for preferred share dividend requirements, the net loss for 1967 was equivalent to 92 cents per common share compared with net income in 1966 of 18 cents per common share.

The lower sales volume largely reflects a significant decline in demand for our steel product lines combined with intensified competition by imported steel in market areas traditionally served by the company. In addition, virtually all other product lines were adversely affected by the economic situation.

Loss from operations before income taxes and the interests of minority shareholders in the operating results of subsidiaries amounted to $10,363,562 compared with income from operations of $3,275,460 in the previous year. The most significant operational losses arose in two subsidiary companies, Dominion Steel and Coal Corporation, Limited, (Dosco), (77 percent-owned), and Orenda Limited, (60 percent-owned).

In Dosco a loss of $12,272,754 before income tax adjustments was incurred. Several factors contributed to this loss: a depressed level of sales; strike costs at Montreal Works; pre-production and start-up costs of the flat steel products rolling mill facilities at Contrecoeur; increased interest costs; and the high cost of operating the basic steel mill at Sydney, Nova Scotia. In addition, the operating units which provide products for the construction industry were adversely affected by labour disputes in that industry and a general slackening of building activity in Quebec.

Non-competitive production costs, coupled with high shipping costs between the mill and major market areas in Canada resulted in the decision being made in October, 1967, to disengage from the steel operations at Sydney, Nova Scotia. The Government of Nova Scotia immediately announced the intention of seeking the means to continue the operation of the mill. Negotiations between the provincial government and Dosco resulted in an agreement by which the Province of Nova Scotia agreed to acquire substantially all the assets of the Sydney Works as of December 31, 1967, and to sell semi-finished steel to Dosco until April 30, 1969, at agreed prices which are competitive with world market prices. As provided for in the agreement, the considerations to be received by Dosco for the assets as a result of this sale are in the process of being determined by appointed auditors and valuers. Pending final determination, provisions of $20,049,897 have been charged to retained earnings account in anticipation of costs and losses which may be sustained. Further details are given in Note 1 to the financial statements.

Under an agreement dated January 12, 1968, between Dosco and Sydney Steel Corporation, (Sysco), all pension obligations to employees and former employees of the Sydney Works of Dosco are to be assumed by Sysco. Additional details are set out in Note 6 to the financial statements.

In October 1967, the Government of Quebec announced that it had authorized Sidérurgie du Québec, (Sidbec), to open negotiations with a view to acquiring certain Dosco steel facilities located outside the Maritime Provinces. Discussions are proceeding with Sidbec and with other companies which have expressed interest.

With respect to coal operations, the Cape Breton Development Corporation, (Devco), established by the Canadian Government on July 7, 1967, was empowered with the authority to acquire Dosco's coal mining interests on Cape Breton Island, Nova Scotia. Virtually all of the assets relating to these coal mining interests were expropriated by Devco on March 30, 1968. Additional information is set out in Note 2 to the financial statements.

At Orenda Limited, substantial organization, tooling and rearrangement expenses and the excessive costs of initial manufacture of new products at high volumes were absorbed in the first nine months of 1967. However, Orenda returned to profitable operation in the latter months of the year.

Acceptable results were achieved by a number of operating units. Canadian General Transit Company, Limited (55 percent-owned) continued to improve in both volume and profit. The Railway Equipment Division (Trenton Works of Dosco) improved its performance during the year. Dosco Overseas Engineering Limited, a United Kingdom subsidiary wholly-owned by Dosco which manufactures and services equipment for coal mining, continued to perform well. Sales of parts for proprietary products of the Can-Car Division both in Canada and the U.S.A. were maintained at a high level and profits were satisfactory.

The financial results for 1968 will be improved by reason of the elimination of non-competitive costs incurred during 1967 at Dosco's Sydney Works and by improved conditions at Orenda Limited. However, this year will again be difficult in view of the general state of the economy and the increasing costs of labour and money not offset by productivity improvements or product price increases. Because of this, and uncertainty as to the final adjustments to retained earnings account which may arise on disposal of the Sydney Works of Dosco, the Board of Directors decided to suspend payment of the quarterly dividend due April 2, 1968, in respect of the issued and outstanding 5¾% cumulative preferred shares of the company.

The company will continue throughout 1968 to rationalize its product lines, facilities and productive capabilities. Those activities which are unlikely to make an adequate contribution will be phased out, and where appropriate, steps will be taken to strengthen those operations which have demonstrated records of profitability or an attractive growth potential. The rationalization process will be accompanied by complementary changes in management organization.

During the year, Sir Thomas Sopwith and the Honourable J. A. Brillant retired from the Board of Directors. Sir Thomas had served from the inception of the company in 1945. Mr. Brillant joined the Board in 1963. Their wise counsel and advice was greatly appreciated.

The number of registered shareholders at December 31, 1967, totalled 14,091 of whom 13,549 were resident in Canada. Their support and that of the company's personnel is greatly appreciated by the Board of Directors.

Submitted on behalf of the Board

President and Chief Executive Officer

Toronto, Ont., April 18, 1968

The year in review

FINANCE

Consolidated net sales of $256,803,436 in 1967 reflect a decrease of 8 percent from the volume of $279,106,714 recorded in 1966. Consolidated net loss for 1967 is $6,680,218 after adjustments for income taxes and the interests of minority shareholders in the net operating results of subsidiaries. Net income in 1966 amounted to $2,270,768. Full preferred share dividends of $805,024 were paid in 1967 from retained earnings account. Allowing for preferred share dividend requirements, the net loss for 1967 is equivalent to 92 cents per common share as compared with net income of 18 cents last year.

Loss from operations before income tax adjustments and the interests of minority shareholders in the operating results of subsidiaries amounted to $10,363,562 in 1967, compared to an operating income of $3,275,460 in 1966.

As of December 31, 1967, Dominion Steel and Coal Corporation, Limited, (Dosco), a 77 percent-owned subsidiary, sold most of the assets and the operations of its Sydney Works to the Province of Nova Scotia. As provided for in the agreement, the considerations for the assets sold are being determined by auditors and valuers. Pending final determination, provisions of $20,049,897 have been charged to retained earnings account in anticipation of costs and losses which may be sustained. Further details are given in Note 1 to the financial statements.

Under an agreement dated January 12, 1968, between Dosco and Sydney Steel Corporation, (Sysco), all pension obligations to employees and former employees of the Sydney Works of Dosco are to be assumed by Sysco. Additional details are set out in Note 6 to the financial statements.

The Government of Canada, pursuant to its announced intention of December 29, 1966, established the Cape Breton Development Corporation, (Devco), on July 7, 1967. That Corporation was empowered to acquire all or any part of the coal mining properties and related activities owned or controlled by Dosco on Cape Breton Island, Nova Scotia. Virtually all of the assets relating to these operations were expropriated by Devco on March 30, 1968. Additional information is given in Note 2 to the financial statements.

Working capital at the end of 1967 amounted to $47,031,732, a decrease of $20,486,733 since December 31, 1966. Capital expenditures during 1967 amounted to $19,919,280 as compared with $45,271,011 in 1966. In 1967, capital expenditures were primarily for the expansion of the railway tank car fleet of Canadian General Transit Company, Limited, equipments at Orenda Limited to broaden its capability and reduce costs, and completion of the flat rolled steel products mill at Contrecoeur. During the year, long term debt securities of $4,147,500 were issued by Canadian General Transit Company, Limited. Further information on changes in working capital is set out in the Statement of Source and Application of Working Capital included in this report.

HAWKER SIDDELEY CANADA LTD.

Canadian Steel Foundries Division

A sharp reduction in spending for maintenance inventories by Canadian railways, and uncertain market conditions in the cement, mining, and pulp and paper industries, combined to depress steel casting sales. An exception to this otherwise general trend was the demand for steam turbine castings for power projects which increased appreciably.

The program to modernize manufacturing processes at the plant in Montreal continued throughout the year. It included changes in materials and sand mixes aimed at substantially reducing production costs and providing a marked improvement in casting quality. In addition, the expansion of cleaning shop facilities for both large and medium size castings was completed. Two open hearth furnaces were demolished following a conversion to electric steel melting made possible by the installation of a new 20-ton electric furnace.

Canadian Car Fort William Division

The initial manufacturing program to produce lightweight passenger cars for the Ontario Government commuter service, was completed during the year. Forty locomotive-drawn coaches and nine self-propelled cars were delivered for operation between Hamilton and Pickering, Ontario. The early success of this service, which has carried more than 18,000 passengers in one day, has led to an order for 14 additional coaches. Deliveries will start towards the end of 1968.

Work continued at the plant on 15 passenger coaches, 5 buffeteria cars and 5 parlour cars, all of lightweight construction, for use by Canadian National Railways in Southwestern Ontario.

Railway caboose shells of the most up-to-date design produced at the Trenton Works were fitted with modern interiors and operating systems before being delivered to the railway customer. The number involved in this initial order was 150.

A reduction in capital expenditure programs by the woodland industries curtailed domestic sales of "Tree Farmer" log skidder vehicles. However, export sales of the machine increased both to the U.S.A. and new markets elsewhere in the world, particularly Africa. Prospects for still further improvements in foreign sales are encouraging.

The prototype of a new machine, also for woodland use, was produced and tested. Known as a "Tree Processor", the machine removes the limbs from full trees, shears the trunks into predetermined lengths and loads them on trailers.

Logging and highway trailer sales declined as a result of a generally depressed market and production rates were reduced accordingly. Market share, however, was maintained.

Canadian Car (Pacific) Division

Sales volume of the successful Chip-N-Saw machine, designed and produced by the division at its Vancouver plant, was higher than in 1966. The bulk of the sales was to customers in the U.S.A.

A design program to further improve the machine's capabilities was undertaken, resulting in a new version which can accept larger logs, thereby enhancing the marketability of the line. The Edge Chipper, a specialized chipping machine which edges and sizes rough cut lumber was refined and is gaining acceptance in the sawmill industry.

General engineering work during 1967 was at a low level.

Canadian Car Parts Sales Division

Sales volume of this division, which provides spare parts for city transit buses, railway passenger cars, highway trailers and "Tree Farmers", reached a record high level in 1967. Much of the increase was due to the growing number of "Tree Farmer" log-skidders in use in the U.S.A.

Merchandising Equipment Division

A reduction in the sales volume of vending equipment manufactured by this division was experienced. The continuing importation of used equipment, and recent tariff reductions on new machines brought into the country, could prove harmful to domestic production.

DOMINION STEEL AND COAL CORPORATION, LIMITED

(77 percent-owned)

Steel

Basic steel production at the Sydney and Montreal Works totalled 712,119 tons, compared with 816,762 tons in 1966. Although the Montreal Works established a production record, output at Sydney was at the lowest level since 1961.

Increased imports of low-cost steel, a severe decline in construction industry demands, and the general economic situation, were contributing factors in a reduction of steel products shipments to domestic customers by 20 percent as compared with 1966.

Although an improvement in export sales, mainly rails and rods, was experienced, it was not sufficient to offset the decrease in domestic sales, and total shipments declined 15 percent.

Hot rolled strip and sheets were added to the line of steel products when the slabbing and hot strip mills at Contrecoeur were brought into operation. Customer acceptance of the products from the flat rolled steel products mills continues to improve as the hot and cold mills become more fully integrated. These new mills have not yet reached standard productivity levels.

Shipments from the rod and bar mill at Contrecoeur, Quebec, fell 20 percent below 1966 because of unsatisfactory market conditions. However, mill efficiency continued to improve.

Further improvements to production facilities were made at the Montreal Works. Three additional wire drawing machines were installed to increase the capacity for fine and heavy-duty wire, together with a new wire cleaning process.

Steel tonnage produced by the continuous casting process at Montreal Works increased significantly compared with the 1966 figure. The range of products made from Concast billets of improved quality was expanded to include high-strength bolts, spring wire and high carbon rods.

Hot rolled and slit skelp was produced for the first time at Contrecoeur for use by Montreal Works in the manufacture of pipe.

Truscon Division

A marked decrease in demand for steel building products by the construction industry resulted in a lower sales volume at Truscon Division. The situation was further aggravated in the case of reinforcing steel by increased competition from fabricators using low-cost imported stock.

Canadian Bridge Division

A prolonged strike by steel erectors in Ontario, and the general deferment of industrial building and expansion programs, caused a decline in the overall sales volume.

The division was successful in obtaining contracts for the Burrard Inlet lift bridge at Vancouver, B.C., and the 4,056-foot suspension bridge to be erected between Halifax and Dartmouth, Nova Scotia. The bridges are scheduled for completion in 1968 and 1969 respectively.

Delays in calling for tenders on several large power projects reduced the market for transmission towers during the year, and competition for the available business was exceptionally keen.

Halifax Shipyards Division

A decrease in ship repair work was offset by construction of steel fishing trawlers. Eight trawlers were completed and delivered during the year and, in the absence of significant Naval work, represent the major product line of the Yard.

Efficiency and productivity continued to improve throughout the year. A new electronically-controlled steel plate cutting machine was brought into operation and proved effective in providing improved fabricating capacity at substantially reduced costs.

The Federal Government's decisions to cut back and defer Naval shipbuilding, and to reduce commercial ship construction subsidies, carry adverse implications for the shipbuilding industry in Canada.

Trenton Works

Except for a short production gap at year-end, railway equipment manufacturing activities at Trenton Works, Nova Scotia, were at a high level. Freight car production totalled 1,490 units of various types, in addition to 460 tanks cars. A new type of alloy steel mine car was designed at the plant and 516 of the new cars were delivered.

Rail car production included 150 railway cabooses of an advanced design for Canadian National Railways, which provide greatly improved facilities for freight train crews. The caboose shells were fabricated at the Trenton Works and moved to the Hawker Siddeley plant at Fort William, Ontario, for finishing.

Measures were taken to upgrade the plant's railway equipment axle production facilities during 1967. A continuous, five-stage heat treatment furnace and a new axle lathe were the major items installed.

In anticipation of a demand for cars to carry Alberta coal by rail to the west coast for export to Japan, a new type of car, known as the Bulkmaster, has been developed. A prototype model is undergoing service trials by the railways.

Trenton Works entered 1968 with orders for 800 railway cars. There are indications, however, that volume in 1968 may not reach last year's level.

Work is also being carried out in conjunction with the Canadian Bridge Division to produce girders and deck panels for the new Halifax-Dartmouth suspension bridge.

Dosco Overseas Engineering Limited

This wholly-owned subsidiary of Dosco, based in the United Kingdom, designs and manufactures equipment for coal mining. It enjoyed another satisfactory year in 1967.

ORENDA LIMITED

(60 percent-owned)

Sales of aircraft jet engine components in 1967 were more than double those of the previous year. Components were manufactured mainly for the Pratt & Whitney Division of United Aircraft Corporation, Hartford, Conn., U.S.A. (40 percent shareholder). The volume of this type of work is expected to double in 1968.

Aircraft jet engine manufacture was also active. The first J.85-CAN-15 aircraft engine for Canadian-built CF-5 aircraft was delivered on schedule in May. A continuing manufacturing program for this product line into 1970 was assured following conclusion of contract negotiations to produce similar engines for CF-5 aircraft ordered from Canada by The Netherlands.

Delivery of seven J.79 aircraft jet engines completed a program in which 478 engines of this type have been built for the Canadian Government and the air forces of several NATO countries.

At the close of the year, orders on hand for industrial gas turbines were higher than at any time since Orenda first entered the industrial gas turbine field in 1960. Among the units on order are six gas turbine emergency generator units for the Hydro-Electric Power Commission of Ontario. They are to be installed in the new generating station at Pickering, Ontario, where they will represent the first application of gas turbines in a nuclear power plant.

An industrial gas turbine generating set was installed in Mexico. This sale marks the first use of gas turbine power by a major electric utility in Latin America. Another milestone was reached with the receipt of Orenda's first order for pumping and compression units from a major natural gas pipeline company in the United States.

A program to develop the 600-horsepower OT-4 gas turbine engine was discontinued at the end of September 1967, following a Federal Government decision not to provide further financing. However, evaluation of the engine as a propulsion unit in U.S. Army tanks was completed and trials with a U.S. Navy minesweeper installation will continue in 1968.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED

(55 percent-owned)

Revenue in 1967 increased in line with the addition of new tank cars to the company's fleet, but profit margins continued to come under pressure due to the rising cost of money and increasing competition. While the net increase in number of company-owned units of the tank car fleet was modest, due to the retirement of older cars, the majority of new cars added were of much larger capacity. Plans for the future include leasing of new types of railway bulk carriers and new repair facilities to better serve the cars under lease.

CANADIAN STEEL WHEEL LIMITED
(50 percent-owned)

Although operating efficiency of the company, which is jointly owned with English Steel Corporation, continued to be satisfactory, there was a decline in demand by the railways for steel wheels in the latter half of the year.

PERSONNEL AND INDUSTRIAL RELATIONS

At the end of 1967, the employees at Dosco's Sydney Works were offered employment by the Sydney Steel Corporation. There were 16,925 employees on the company's payroll at the beginning of 1968.

Labour relations were affected by the general unrest which persisted in North America during the year. Operations were disrupted at some of the company's facilities. A serious strike at the Montreal Works, which started in October 1966, was not settled until January 23, 1967. There were illegal work stoppages at Orenda, Contrecoeur, and Sydney.

During the year, the company made its first permanent placements from the groups recruited under the University Graduate Training Plan. Training programs for supervision and management were conducted on a continuing basis, and extensive use was again made of management development programs conducted by Canadian universities.

Consolidated statement of income and retained earnings for the year ended December 31, 1967

	1967	1966
Consolidated net sales	$256,803,436	$279,106,714
Income from operations before the items shown below	$ 10,986,010	$ 22,466,011
Income from investments	413,552	857,488
	11,399,562	23,323,499
Deduct:		
Pre-production and start-up costs on new facilities at Contrecoeur	3,676,110	3,205,995
Interest on bank loans	2,415,039	2,018,895
Interest and discount on long term debt	4,090,358	3,391,352
Development expenditures	543,483	864,292
Provision for depreciation	11,038,134	10,567,505
	21,763,124	20,048,039
(Loss) income from operations before income taxes	(10,363,562)	3,275,460
Income taxes (Note 7)	(1,530,933)	671,000
	(8,832,629)	2,604,460
Interest of minority shareholders in net (loss) income of subsidiaries	(2,152,411)	333,692
Net (loss) income for the year	(6,680,218)	2,270,768
Retained earnings at beginning of year	32,367,078	30,883,432
	25,686,860	33,154,200
Extraordinary items:		
Deferred income taxes no longer required	—	4,412,201
Other, less minority interests—		
Provisions for estimated costs and losses arising from sale of almost all of the assets and the business of Sydney Works (Note 1)	(20,049,897)	—
Profit on sale of land	—	516,824
Loss on closure of Wabana mining operation, less applicable income taxes	—	(4,911,123)
	(20,049,897)	17,902
	5,636,963	33,172,102
Dividends on preferred shares	805,024	805,024
Retained earnings at end of year	$ 4,831,939	$ 32,367,078

See accompanying notes to consolidated financial statements.

Consolidated balance sheet—December 31, 1967

ASSETS	1967	1966
Current assets:		
Cash	$ 242,457	$ 259,299
Short term investments, at cost (approximately market value)	2,159,532	3,758,797
Accounts receivable	47,709,042	55,007,837
Due from subsidiary not consolidated	248,203	797,899
Assets sold to Province of Nova Scotia (Note 1)	14,056,124	—
Inventories at lower of cost and estimated realizable value, less progress payments	55,757,011	78,991,049
Prepaid expenses	1,088,249	732,012
	121,260,618	139,546,893
Investments and other assets:		
Coal mining interests (Note 2)—		
Investment in subsidiary not consolidated	1,027,956	1,027,956
Coal mining properties	2,499,171	2,836,451
Investment in associated company, at cost (Note 3)	4,470,000	4,845,000
Mortgages and notes receivable	3,061,822	3,212,548
Other investments and deposits	1,499,313	1,915,210
	12,558,262	13,837,165
Fixed assets, at cost:		
Land, buildings, machinery and equipment	266,196,567	312,870,110
Less—Accumulated depreciation	111,305,468	147,339,342
	154,891,099	165,530,768
Unamortized discount on long term debt	1,085,727	1,167,817
	$289,795,706	$320,082,643

LIABILITIES	1967	1966
Current liabilities:		
Bank advances (Note 4)	$ 38,268,776	$ 28,187,158
Accounts payable and accrued liabilities	29,988,345	37,135,538
Income and other taxes	2,380,259	2,820,208
Long term debt due within one year	1,631,070	1,705,695
Due to affiliated companies	1,960,436	2,179,829
	74,228,886	72,028,428
Long term debt (Note 5)	68,523,207	66,368,777
Provisions:		
Contingencies (Note 6)	9,432,508	12,357,424
Special costs and losses (Note 1)	6,000,000	—
	15,432,508	12,357,424
Deferred income taxes (Note 7)	4,805,642	7,397,448
Interest of minority shareholders in subsidiaries	24,529,945	32,119,909
Capital stock and retained earnings:		
Preferred and common shares (Note 8)	97,443,579	97,443,579
Retained earnings	4,831,939	32,367,078
	102,275,518	129,810,657
	$289,795,706	$320,082,643

Approved on behalf of the Board:

T. J. Emmert, Director

A. A. Bailie, Director

See accompanying notes to consolidated financial statements.

Consolidated statement of source and application of working capital for the year ended December 31, 1967

	1967	1966
Source:		
Net (loss) income for the year	$(6,680,218)	$ 2,270,768
Non-cash items included in determination of net (loss) income—		
Depreciation	11,038,134	10,567,505
Amortization of discount on long term debt	118,196	116,343
Deferred income taxes	(2,591,806)	(1,595,478)
(Loss) income of subsidiaries attributable to minority interests	(2,152,411)	333,692
Funds (lost) provided from operations	(268,105)	11,692,830
Fixed asset disposals	422,289	3,022,380
Estimated proceeds on sale of Sydney Works	14,056,124	—
Decrease in investment in associated company	375,000	425,000
Decrease in mortgages and notes receivable	150,726	(1,568,420)
Decrease in other investments and deposits	415,897	(309,537)
Proceeds from issue of long term debt	4,111,394	16,531,855
Shares issued by subsidiary to minority shareholders	900,000	4,900,000
Common shares issued on exercise of options	—	7,500
	20,163,325	34,701,608
Application:		
Additions to fixed assets	19,919,280	45,271,011
Reduction of long term debt	1,993,070	1,817,695
Pensions charged to provision for contingencies	2,924,916	1,752,467
Dividends paid—		
To preferred shareholders of Hawker Siddeley Canada Ltd.	805,024	805,024
To minority shareholders of subsidiary	387,450	332,100
Current assets included in sale of Sydney Works	14,620,318	—
Current assets written off on closure of Wabana mining operation	—	3,128,279
	40,650,058	53,106,576
Decrease in working capital	20,486,733	18,404,968
Working capital at beginning of year	67,518,465	85,923,433
Working capital at end of year	$47,031,732	$67,518,465

Notes to consolidated financial statements for the year ended December 31, 1967

1. By an agreement dated November 22, 1967 Dominion Steel and Coal Corporation, Limited (Dosco), a 77% owned subsidiary, sold almost all of the assets and the business of its Sydney Works to the Province of Nova Scotia effective as of December 31, 1967. Pending the determinations by auditors and valuers of the considerations for the assets sold, as provided for in the agreement, the book values of the assets have been reduced by a provision of $20,000,000 to an estimated realizable value of $14,056,124.

Provision of $6,000,000 has also been made in the accounts for special costs and losses which may be incurred by Dosco on long term contracts and other commitments relating to the operations of the Sydney Works.

The provisions aggregating $26,000,000 less $5,950,103 applicable to minority interests have been charged to retained earnings.

It is not yet possible to assess accurately the losses on the assets sold and the costs and losses on long term contracts and other commitments with respect to the Sydney Works. In the opinion of management the amounts provided are a reasonable estimate at this time.

2. Pursuant to its announced intention on December 29, 1966 the Government of Canada passed legislation on July 7, 1967 to establish the Cape Breton Development Corporation and empowered it to acquire Dosco's coal mining interests on Cape Breton Island. These interests are represented by an investment of $1,027,956 in Dominion Coal Company, Limited (Domco), a subsidiary not consolidated, and a coal mining operation carried on by Dosco. The properties of the coal mining operation are included in the accounts at December 31, 1967 at depreciated cost of $2,499,171. The major part of the coal mining operation and virtually all of the assets of Domco were expropriated March 30, 1968. No progress has yet been made to establish the compensation to be paid under the relevant legislation, nor has any provision been made in the accounts for losses which may be incurred by Dosco.

For 1967 and prior years the accounts of Domco have not been consolidated with those of Dosco because its operations have been dependent upon the government's policy of granting subvention assistance and, for many years, such operations have neither contributed to nor received contributions from the earnings of Dosco.

3. The book value attributable to the investment in shares and notes of Canadian Steel Wheel Limited (50% owned) amounted to $4,590,323 at July 31, 1967, the close of that company's latest fiscal year.

4. Bank advances at December 31, 1967 include bank advances to Dosco of $17,356,406 secured by a general assignment of its accounts receivable and an assignment of its inventories.

5. Long Term Debt:

	Current	Long Term
Dominion Steel and Coal Corporation, Limited—		
5¾% Sinking Fund Debentures Series A, due June 1, 1984; annual sinking fund retirement —$750,000 commencing in 1969	$ —	$15,000,000
6% Sinking Fund Debentures Series B, due July 15, 1985; annual sinking fund retirement—$750,000 commencing in 1970	—	15,000,000
5¾% Sinking Fund Debentures Series C, due July 15, 1985; annual sinking fund retirement—U.S. $400,000 commencing in 1970 (U.S. $8,000,000)	—	8,667,496
Canadian General Transit Company, Limited—		
4½%-6¾% Equipment Trust Certificates due 1968-1980	347,000	3,092,000
6% Serial First Mortgage Equipment Notes due 1968-1984	115,000	1,840,000
6¾% First Mortgage Sinking Fund Equipment Notes due 1968-1986	250,000	4,500,000
7½% First Mortgage Equipment Notes due 1968-1987	100,000	1,900,000
5%-7% First Mortgage Sinking Fund Equipment Notes due 1968-1986 (U.S. $12,575,000)	699,070	12,233,711
Hawker Siddeley Canada Ltd.—		
6% Mortgage due 1968-1969	120,000	90,000
Orenda Limited—		
6% Notes due December 2, 1971	—	6,200,000
	$1,631,070	$68,523,207

6. In accordance with previous policy, unfunded pensions paid in respect of past service during the year ended December 31, 1967 of $1,788,854 have been charged to the provision for contingencies set aside for that purpose.

At December 31, 1967 the present value of unfunded past service pension costs is approximately $10,600,000. These costs, after deducting income taxes as applicable, will be charged as incurred to the provision for contingencies.

Subject to the fulfilment of certain conditions, all pension obligations to employees and former employees of the Sydney Works of Dosco are to be assumed by Sydney Steel Corporation (the Crown company incorporated to operate the Sydney Works). Dosco has agreed to transfer to trustees the pro rata share of the assets of Dosco's pension plans and to make a payment of $1,136,062. This amount has been charged to the provision for contingencies and included in accounts payable at December 31, 1967.

7. Deferred income taxes set aside in prior years have provided a tax credit of $2,591,806 in 1967 which, after provision of $1,060,873 for taxes payable by subsidiaries, results in a net credit of $1,530,933 to operations for the year.

8. Preferred and Common Shares:

Preferred shares of the par value of $100 each issuable in series—	
Authorized—250,000 shares	
Issued—240,000 5¾% Cumulative redeemable shares	
Outstanding—140,000 shares	$14,000,000
Common shares without nominal or par value—	
Authorized—10,000,000 shares	
Issued—8,117,341 shares	83,443,579
	$97,443,579

The preferred shares are redeemable at the option of the company at $105 per share.

At December 31, 1967 there were outstanding options on 50,000 shares at $5.75 per share expiring in 1971 and on 299,350 shares at prices from $5.875 to $8.50 per share expiring in 1974-1976. Of the foregoing, 140,300 shares are optioned to officers and to directors who are or were officers at the time the options were granted.

9. For the year 1967 the remuneration of directors, including amounts received as officers, was $267,300 and the remuneration of other senior officers amounted to $314,842 from the Company and its consolidated subsidiaries and to $23,625 from the subsidiary not consolidated.

Auditors' report

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. and consolidated subsidiaries as at December 31, 1967 and the consolidated statements of income and retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to final determination of the costs and losses referred to in Notes 1 and 2 to the consolidated financial statements, these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

Toronto, Ont., April 16, 1968

Products and services

Steel
Bale ties
Barbed wire
Bars and shapes
Bolts, nuts and screws
Castings and forgings
Nails and staples
Pipe and pipe nipples
Railway axles
Reinforcing bars and rods
Special fasteners
Steel sheet and strip
Steel wheels
Track bolts and spikes
Welded wire fabric
Wire, high and low carbon
Wire rods

Steel fabricating and equipment
Bridges
"Dosco Dintheader"
"Dosco Roadway Cutter-Loader"
Hydraulic presses
Merchandising equipment
Metal lath
Mining equipment
Roof decking
Steel flooring and structures
Steel joists
Tanks, storage and pressure
Transmission towers and masts
Various steel and aluminum construction products
Winches

Transportation
Highway trailers
Industrial and mine cars
Marine forgings and metal-working
Naval and merchant shipbuilding and repair
Off-highway vehicles
Railway rolling stock
Railway tank car rentals and leasing
Rapid transit passenger cars (subway, commuter, and mainline)
Storage terminals

Power
Aircraft gas turbines
Components for nuclear application
Engineering, design, laboratory, photography, printing, testing and computing services
Industrial gas turbines for electrical power generation, liquid and gas pumping, heating and air conditioning
Marine and vehicular gas turbines

Woodland Industries Equipment
"Chip-N-Saw" machines
"Tree Farmer" (Rubber-tired skidder)
"Tree Processor" (Slasher and delimber)
Logging equipment
Sawmill and chipping equipment

Divisions and subsidiaries

Divisions
Canadian Car Division, Toronto, Fort William, Ont., and Montreal, Que.
Canadian Car (Pacific) Division, Vancouver, B.C.
Canadian Steel Foundries Division, Montreal, Que.
Merchandising Equipment Division, Malton, Ont.
Railway Equipment Division, Montreal, Que.

Subsidiaries
Dominion Steel and Coal Corporation, Limited, Montreal, Que., and its subsidiary companies (77%)
Orenda Limited, Malton, Ont. (60%)
Canadian General Transit Company, Limited, Montreal, Que., Toronto, Ont. and Moose Jaw, Sask. (55%)
Can-Car Inc., Atlanta, Ga., U.S.A. (100%)
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (60%)

Associate Company
Canadian Steel Wheel Limited, Montreal, Que. (50%)

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