1968 Annual Report

# hawker siddeley canada LTD

# Contents



## Notice of Annual and Special General Meeting

The Annual and Special General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Thursday, May 15th, 1969 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 Secretaire, Hawker Siddeley Canada Ltd.

# Hawker Siddeley Canada Ltd.

Head Office
7 King Street East, Toronto 1, Ontario

Directors

Sir Arnold Hall, London, England
A. S. Kennedy, London, England
A. S. Pattillo, Q.C., Toronto, Ontario
R. S. Faulkner, Toronto, Ontario
A. A. Bailie, Toronto, Ontario
R. A. Jodrey, Hantsport, Nova Scotia
K. L. Phillips, London, England
J. F. Robertson, London, England
W. P. Scott, Toronto, Ontario
Colin W. Webster, Montreal, Quebec

Executive Management

Sir Arnold Hall, Chairman
A. S. Kennedy, Vice Chairman
A. S. Pattillo, Q.C., Vice Chairman
R. S. Faulkner, President and Chief Executive Officer
A. A. Bailie, Vice President, Finance, and Treasurer
I. E. Bull, Vice President and Comptroller
M. E. Davis, Vice President
R. E. Henderson, Vice President (Canadian Car Division)
A. W. McKenzie, (President, Canadian General Transit Company, Limited)
F. P. Mitchell, (President, Orenda Limited)
J. G. Mitchell, Vice President (Railway Equipment Division)
J. H. Ready, Vice President and Secretary

Auditors

Price Waterhouse & Co., Toronto, Ontario

Registrar and Transfer Agent

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

## Financial data in brief–1968

(In thousands of dollars except per share data)

| | |
|---|---|
| Consolidated net sales | $172,475 |
| Interest expense | 3,644 |
| Depreciation | 5,922 |
| Income from operations before taxes | 7,088 |
| Income taxes | 2,571 |
| Income of subsidiaries attributable to minority shareholders | 1,579 |
| Net income for the year (excluding extraordinary items) | 2,938 |
| Per preferred share* | 20.99 |
| Per common share** | .26 |
| Extraordinary items charged to deficit account | 29,164 |
| Working capital | 34,230 |
| Capital expenditures | 16,095 |
| Invested in fixed assets (net) | 92,343 |

*No preferred dividends were declared or paid with respect to 1968.

**After preferred dividend requirements.

# To the Shareholders

Your directors submit herewith the accounts of Hawker Siddeley Canada Ltd. and its consolidated subsidiaries for the year ended December 31, 1968, and report as follows:

While Shareholders will be aware of the major changes to the Company's structure which have taken place in 1968, it is thought appropriate to remark generally on what has occurred, particularly as they affect comparisons between 1967 and 1968.

Following sale of the Sydney Steel Works at the end of 1967 to the Province of Nova Scotia, negotiations with Sidbec for the sale of the Company's 77% shareholding in Dominion Steel and Coal Corporation, Limited (Dosco) were concluded in December 1968. Hawker Industries Limited (Industries) was formed to acquire from Dosco effective from January 1, 1968 its Halifax Shipyards, Trenton Works and Canadian Bridge Divisions together with its colliery interests and Dosco Overseas Engineering Limited. The shares of Industries were offered on a pro rata basis to all Dosco Shareholders. By Agreement, the Company purchased 77% of the shares of Industries and undertook to purchase any remaining shares of Industries not otherwise subscribed for. While the offer is still open, it is apparent that not more than 1% of its capital stock will be purchased by other shareholders, and the consolidated accounts for 1968 have been prepared accordingly.

As a result of the arrangements described above and the expropriation of the colliery interests in March, 1968, the Company is no longer concerned with coal production or production of basic steel, but remains vitally interested in fabricating steel products through its existing plants and the former divisions of Dosco now owned by Industries.

The divestment of the control of Dosco permitted a reduction of the central management staff to a level commensurate with the operations now being carried on. Apart from the disposal of activities which were producing heavy losses, management changes have been made and the remaining operations are under review. Particular attention will be given to the improvement of production facilities where such action can be expected to improve profitability.

Approval is being sought for a reorganisation of capital as a result of the loss incurred on the disposal of the investment in Dosco. This would eliminate the Deficit and enable the Company to resume payment of dividends at an earlier date than would otherwise be feasible.

## Income

Consolidated net income of $2.9 million, before extraordinary items, was earned in 1968 on consolidated net sales of $172 million. This net income is equivalent to 26 cents per share on the issued and outstanding Common shares of the Company after allowing $805,000 in respect of the cumulative dividend entitlement of the issued and outstanding Preferred shares. Preferred share dividends were suspended in 1968 and no dividend payments were made in respect of that year. The consolidated net loss reported for the preceding year amounted to \$6.7 million on sales of \$257 million and reflected a loss of 92 cents per common share.

If the Company and its consolidated subsidiaries had been constituted in the year 1967 as they are now, it is estimated that consolidated net income for that year would have been in the region of \$1.9 million on consolidated net sales of about \$172 million.

The financial results and position of Dosco are excluded from the attached consolidated annual accounts of the Company; however, those of Industries are included since it acquired from Dosco its operational divisions and subsidiaries as of January 1, 1968.

## (Deficit) retained earnings

Your Directors have considered it prudent to appropriate as a reserve for contingencies \$4,831,939 being an amount equivalent to the balance of retained earnings as at December 31, 1967.

Extraordinary items aggregating \$29,163,831 have been segregated from income and charged to deficit. This amount reflects the loss and related costs on the disposal of Dosco shares and the provision for estimated further losses to be incurred in connection with long term contracts taken over by Hawker Industries Limited.

## Working capital

Working capital at the end of 1968 amounted to \$34,230,425 a reduction of \$12,801,307 since December 31, 1967. The sale of the Dosco shares, the purchase of shares of Industries and debentures of Dosco resulted in a reduction of working capital of \$8,748,115. These reductions stem primarily from the acceptance of \$5,000,000 of notes due December 31, 1974 from Sidbec in partial satisfaction of the sale price of the Dosco shares and from the purchase of debentures of Dosco having a par value of \$3,566,450 under commitments to buy entered into with debenture holders pursuant to the arrangements made with them to permit Dosco's holdings of shares of Industries to be divested. The Company has no plans for immediate disposal of these notes or debentures.

Capital expenditures of \$16,094,998 were made largely for expansion of the railway tank car fleet of Canadian General Transit Company, Limited and for the acquisition of machine shop equipment for Orenda Limited. During 1968, Canadian General Transit Company, Limited, through the issue of long term debt securities, raised \$6,218,438 to finance the acquisition of rolling stock.

Further information on changes in working capital may be found in the Statement of Source and Application of Working Capital included in this report.

## Hawker Siddeley Canada Ltd.

**Canadian Car Fort William Division**

The plant was closed for six weeks during the summer due to a strike of shop employees. This strike reduced the sales volume below the anticipated figure. However, sales were similar to the 1967 volume.

During the year, fifteen passenger coaches, five buffeteria cars and five parlor cars were delivered to Canadian National Railways for its "Tempo" service. Fourteen additional coaches for the highly successful Ontario Government GO commuter service were also delivered.

In Canada, and particularly in Eastern Canada, demand for Woodlands Skidder equipment was slow. However, export markets which account for somewhat higher than 50% of sales of this equipment showed encouraging growth outside of the U.S.A. market.

Further progress towards developing a fully mechanized wood harvesting system was made during the year. A new tree harvesting machine, the Can-Car Clipper, was designed and will be introduced in 1969. This machine severs standing trees and piles them ready to be fed into the Can-Car Tree Processor which was introduced in 1968. The Processor removes limbs from the tree and shears the trunk into desired lengths.

Can-Car highway trailer sales improved considerably in the latter half of the year. At the end of the year the division had a good level of orders on hand with prospects for continuation of the improvement through 1969.

**Canadian Car (Pacific) Division**

The Chip-N-Saw and related equipment for sawmill operations designed and produced by this Vancouver division, is in increasing demand. Export sales, particularly to the United States, form a major portion of the sales of this equipment. Prospects of additional export sales to countries outside of North America are encouraging. The division commenced 1969 with a good order book and anticipates further steady improvement. New models of the Chip-N-Saw, including the Mark II Quad Band unit, have been added.

**Canadian Steel Foundries Division**

The demand by Canadian railways for castings for both new equipment and maintenance remained below normal throughout 1968 and resulted in the lowest volume of railway castings sold for the past several years. Industrial castings shipped during the year were also less than for 1967, although the value of orders booked for such castings increased over the year before. These orders include many calling for long term delivery. As a result total tonnage produced in 1968 was the lowest since 1963.

This Montreal plant has recently received orders for several Francis runner castings for the hydro-electric project at Churchill Falls. These large castings each have an estimated finished weight of 222,000 pounds in carbon steel or 190,000 pounds in stainless steel.

Installation of a high-pressure moulding unit to improve productivity in the 50 to 500-pound range of castings was completed during the year.

## Hawker Industries Limited (approximately 99% owned)

**Canadian Bridge Division**

A prolonged strike of plant employees during June and July resulted in reduced production for the year. However, completion of work in progress at the end of 1967, together with the 1968 business, provided a sales volume well ahead of the previous year.

The railway bridge under construction at Burrard Inlet, Vancouver, B.C., is now almost completed. The bridge across the Narrows between Halifax and Dartmouth, Nova Scotia, is in progress and completion is expected by the end of 1969.

Production of electronic structures, transmission towers and masts remained steady and shipments were well ahead of 1967 although orders for structural steel continued low.

**Halifax Shipyards Division**

The shipyard completed and delivered six steel fishing trawlers in 1968 and commenced work on the first off-shore oil drill rig to be built at Halifax. This will be completed in 1969. An order for a second rig has recently been received.

Ship repair volume continued high and activity at both the Halifax and Dartmouth yards remained at a substantial level throughout the year.

**Trenton Works Division**

Reduced orders from the Canadian railways resulted in less activity at this plant than in the year 1967. Railway cars delivered in 1968 totalled 1263 units, including 600 covered hopper cars for the Canadian Pacific Railway. An order received late in 1968 for 300 mechanical refrigerator cars is now in production. There have been recent indications that the railway car market is improving.

This division, in conjunction with the Canadian Bridge Division, is fabricating bridge girders and decking for the new Halifax-Dartmouth bridge.

Trenton Division is the sole source of railway axles in Canada. In 1968 its facilities for producing axles were improved by the installation of a new automatic axle lathe.

**Dosco Overseas Engineering Limited**

This subsidiary, which carries on business in the United Kingdom, had a successful year. There was a marked improvement over 1967 in sales volume, particularly in sales of the Dosco Roadway Cutter Loader.

Development of heading machines and auxiliary equipment is continuing. Although the decision of the United Kingdom Government to limit capital expenditure has an effect on sales, the Company's leading position in the heading machine field is advantageous.

Continuation of a good level of business is expected throughout 1969.

**Interest in Collieries**

As explained in the Notes to the financial statements, Industries acquired from Dosco the assets of Old Sydney Collieries and of

Acadia Coal together with 26,521 preferred shares of Dominion Coal Company, Limited (Domco) and all the common shares of that company. The assets and business of Acadia Coal have been sold. On March 30, 1968, Cape Breton Development Corporation (Devco), a Crown corporation, expropriated virtually all of the operating assets of Old Sydney Collieries and those of Domco and its subsidiary companies.

Discussions surrounding compensation to be paid for the expropriated assets have been held with officers and representatives of Devco. However, no progress has been made in reaching a settlement. Preliminary steps are now being taken to commence proceedings in the Exchequer Court of Canada.

**Orenda Limited** (60% owned)

A six weeks strike of all hourly paid employees handicapped the company. Nevertheless, a 25% increase in sales over 1967 was achieved in the year 1968.

The J.85-CAN-15 jet engine for the Canadian built CF-5 aircraft reached full production during the year. This level of production will be sustained through 1969 and 1970. Further orders may develop for this engine, however, plans are being made to compensate for the possible phasing out of aircraft jet engine production at the end of 1970. Present planning includes increasing the volume of jet engine component work together with increased emphasis on the manufacture and sale of industrial gas turbine units. Components manufactured for the Pratt & Whitney Division of United Aircraft Corporation, Hartford, Connecticut (40% shareholder) increased substantially during the year and contributed to the large volume of exports of the company.

Repair and overhaul work and sales of engine spares in both the domestic and foreign markets continued at a sizeable volume.

Orenda industrial gas turbines received increasing acceptance in both the domestic and foreign markets. These turbine units are used to generate electricity and to pump natural gas and oil through transportation lines in Canada and other countries. The company began the year 1969 with a good order book and excellent prospects for additional business in this field.

**Canadian General Transit Company, Limited** (55% owned)

Increased interest and fleet maintenance costs in 1968 brought pressure on profit margins. However, additions to the company's fleet provided an increase in revenue for the year 1968. The tank car additions added 3.7 million gallons capacity and were mostly of the new larger sizes of tank car. The company plans to increase its fleet commensurate with market demand.

In the fall of 1968 construction of a new repair plant at Red Deer, Alberta, was begun. This plant will be completed and ready for operation this spring when it will provide improved service for the company's customers.

### Canadian Steel Wheel Limited (50% owned)

Demand by the railways for steel wheels was at a low level in 1968. However, the company, based in Montreal and jointly owned by Hawker Siddeley Canada and English Steel Corporation, should improve its position in 1969 by increasing its sales of industrial circular products and of steel ingots.

### Directors and Officers

It is with deep regret that your Directors record the death of Sir Roy Dobson, founder of the Company, who was President from its inception in 1945 until 1951 when he became Chairman, a position he held until just before his death in July, 1968.

Sir Arnold Hall, Chairman and Managing Director of Hawker Siddeley Group Limited, was elected a Director of the Company and appointed Chairman of the Board, May 28, 1968. Mr. A. S. Kennedy, Mr. K. L. Phillips and Mr. J. F. Robertson were elected Directors to fill existing vacancies on the Board.

On January 31, 1969, Mr. R. S. Faulkner was appointed President and Chief Executive Officer of the Company succeeding Mr. T. J. Emmert. At the same time, Mr. A. S. Kennedy and Mr. A. S. Pattillo were appointed Vice Chairmen of the Board.

Submitted on behalf of the Board

A. A. HALL
Chairman

Toronto, Ontario, March 27, 1969

# Auditors' Report

To the Shareholders of Hawker Siddeley Canada Ltd.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. as at December 31, 1968 and the consolidated statements of income and retained earnings (deficit) 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 3 and 8 to the consolidated financial statements, these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and their 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, Ontario, March 20, 1969

**Consolidated statement of income**
for the year ended December 31, 1968

| | 1968* | 1967 |
|---|---|---|
| Consolidated net sales | $172,474,688 | $256,803,436 |
| Income from operations before the items shown below | $ 16,179,477 | $ 10,442,527 |
| Income from investments | 474,581 | 413,552 |
| | 16,654,058 | 10,856,079 |
| *Deduct:* | | |
| Interest on bank advances | 1,620,340 | 2,415,039 |
| Interest and discount on long term debt | 2,023,732 | 4,090,358 |
| Provision for depreciation | 5,922,044 | 11,038,134 |
| Pre-production and start-up costs at Contrecoeur facilities of Dosco | — | 3,676,110 |
| | 9,566,116 | 21,219,641 |
| Income (loss) from operations before income taxes | 7,087,942 | (10,363,562) |
| Income taxes (Note 9) | 2,570,749 | (1,530,933) |
| | 4,517,193 | (8,832,629) |
| Interest of minority shareholders in net income (loss) of subsidiaries | 1,578,891 | (2,152,411) |
| Net income (loss) for the year (excluding extraordinary items) | $ 2,938,302 | $ (6,680,218) |

*Not comparable with 1967 (see Note 1)

*See accompanying notes to consolidated financial statements.*

**Consolidated statement of retained earnings (deficit)**
for the year ended December 31, 1968

| | 1968 | 1967 |
|---|---|---|
| Balance at beginning of year | $ 4,831,939 | $ 32,367,078 |
| Appropriated as reserve for contingencies | 4,831,939 | — |
| | — | 32,367,078 |
| Net income (loss) for the year (excluding extraordinary items) | 2,938,302 | (6,680,218) |
| | 2,938,302 | 25,686,860 |
| *Extraordinary items:* | | |
| Loss and costs on sale of shares in Dosco (Note 2)– | | |
| Loss on shares | 24,363,546 | — |
| Costs | 511,835 | — |
| Severance costs on reorganization of executive staff following sale of Dosco shares | 823,450 | — |
| Provisions, after minority interests— | | |
| Special costs and losses by Hawker Industries Limited (Note 8) | 3,465,000 | — |
| Estimated costs and losses arising from sale of most of the assets and the business of Sydney Works of Dosco | — | 20,049,897 |
| | 29,163,831 | 20,049,897 |
| | (26,225,529) | 5,636,963 |
| Dividends on preferred shares | — | 805,024 |
| (Deficit) retained earnings at end of year | $(26,225,529) | $ 4,831,939 |

*See accompanying notes to consolidated financial statements.*

Hawker Siddeley Canada Ltd. and consolidated subsidiaries

# Consolidated Balance Sheet December 31, 1968

| Assets | 1968* | 1967 |
|---|---|---|
| *Current Assets:* | | |
| Cash | $ 705,816 | $ 242,457 |
| Short term investments, at cost (approximately market value) | 3,768,314 | 2,159,532 |
| Accounts receivable | 39,267,909 | 47,709,042 |
| Due from Sidbec (Note 2) | 20,109,370 | — |
| Due from Dominion Steel and Coal Corporation, Limited | 5,682,912 | — |
| Due from subsidiary not consolidated | 7,317 | 248,203 |
| Assets sold to Province of Nova Scotia | — | 14,056,124 |
| Inventories at lower of cost and estimated realizable value, less progress payments | 33,692,958 | 55,757,011 |
| Prepaid expenses | 772,437 | 1,088,249 |
| | 104,007,033 | 121,260,618 |
| *Investments and Other Assets:* | | |
| Coal mining interests (Note 3)– | | |
| Investment in subsidiary not consolidated | 331,514 | 1,027,956 |
| Coal mining inventories and properties | 1,541,204 | 2,499,171 |
| Investment in associated company, at cost (Note 4) | 4,295,000 | 4,470,000 |
| Notes due from Sidbec (Note 2) | 5,000,000 | — |
| Debentures of Dominion Steel and Coal Corporation, Limited, at cost (Note 2) | 3,566,450 | — |
| Mortgages and notes receivable | 656,413 | 3,061,822 |
| Other investments and deposits | 42,630 | 1,499,313 |
| | 15,433,211 | 12,558,262 |
| *Fixed Assets,* at cost: | | |
| Land, buildings, machinery and equipment | 175,994,615 | 266,196,567 |
| Less—Accumulated depreciation | 83,651,376 | 111,305,468 |
| | 92,343,239 | 154,891,099 |
| *Unamortized Discount on Long Term Debt* | 179,712 | 1,085,727 |
| | $211,963,195 | $289,795,706 |

*Not comparable with 1967 (see Note 1)

*See accompanying notes to consolidated financial statements.*

| Liabilities | 1968* | 1967 |
|---|---|---|
| *Current Liabilities:* | | |
| Bank advances (Note 5) | $ 22,159,060 | $ 38,268,776 |
| Accounts payable and accrued liabilities (Note 5) | 27,805,125 | 29,988,345 |
| Payable for shares in Hawker Industries Limited (Note 2) | 14,652,425 | — |
| Income and other taxes | 1,790,021 | 2,380,259 |
| Long term debt due within one year (Note 6) | 1,786,992 | 1,631,070 |
| Due to affiliated companies | 1,582,985 | 1,960,436 |
| | 69,776,608 | 74,228,886 |
| *Long Term Debt* (Note 6) | 34,197,156 | 68,523,207 |
| *Provisions:* | | |
| Unfunded pensions (Note 7) | 8,422,179 | 9,432,508 |
| Special costs and losses (Note 8) | 5,333,549 | 6,000,000 |
| | 13,755,728 | 15,432,508 |
| Deferred Income Taxes (Note 9) | 5,235,391 | 4,805,642 |
| Interest of Minority Shareholders in Subsidiaries | 12,948,323 | 24,529,945 |
| *Shareholders' Equity:* | | |
| Preferred and common shares (Note 10) | 97,443,579 | 97,443,579 |
| Reserve for contingencies | 4,831,939 | — |
| (Deficit) retained earnings | (26,225,529) | 4,831,939 |
| | 76,049,989 | 102,275,518 |
| | $211,963,195 | $289,795,706 |

Approved on behalf of the Board:
A. A. Hall, Director
A. A. Bailie, Director

## Consolidated statement of source and application of working capital for the year ended December 31, 1968

| | 1968* | 1967 |
|---|---|---|
| *Source:* | | |
| Net income (loss) for the year | $ 2,938,302 | $ (6,680,218) |
| Non-cash items included in determination of net income (loss)— | | |
| Depreciation | 5,922,044 | 11,038,134 |
| Amortization of discount on long term debt | 12,122 | 118,196 |
| Deferred income taxes (Note 9) | 1,612,391 | (2,591,806) |
| Income (loss) of subsidiaries attributable to minority interests | 1,578,891 | (2,152,411) |
| Funds provided (lost) from operations | 12,063,750 | (268,105) |
| Proceeds from issue of long term debt | 6,218,438 | 4,111,394 |
| Fixed asset disposals | 265,039 | 422,289 |
| Decrease in investment in associated company | 175,000 | 375,000 |
| Shares issued by subsidiary to minority shareholders | 1,800,000 | 900,000 |
| Other items—net | 940,755 | 566,623 |
| | 21,462,982 | 6,107,201 |
| *Application:* | | |
| Additions to fixed assets | 16,094,998 | 19,919,280 |
| Reduction of long term debt | 1,876,992 | 1,993,070 |
| Pensions charged to provision for unfunded pensions (Note 7) | 776,288 | 2,924,916 |
| Dividends paid— | | |
| To preferred shareholders of Hawker Siddeley Canada Ltd. | — | 805,024 |
| To minority shareholders of subsidiary | 384,300 | 387,450 |
| Net charge to provision for special costs and losses (Note 8) | 5,416,451 | — |
| Expropriated inventories of Old Sydney Collieries Division reclassified to non-current assets (Note 3) | 967,145 | — |
| | 25,516,174 | 26,029,740 |
| (Decrease) in working capital before the items set out below | (4,053,192) | (19,922,539) |
| Sale price of Dosco shares to Sidbec (Note 2) | 25,109,370 | — |
| Notes due from Sidbec (Note 2) | (5,000,000) | — |
| Purchase price of shares in Hawker Industries Limited (Note 2) | (14,652,425) | — |
| Payable for debentures of Dosco (Note 2) | (3,566,450) | — |
| Excess of Dosco working capital over working capital of Hawker Industries Limited | (9,303,325) | — |
| Costs on sale of Dosco shares (Note 2) | (511,835) | — |
| Severance costs on reorganization of executive staff | (823,450) | — |
| Estimated proceeds on sale of Sydney Works | — | 14,056,124 |
| Current assets included in sale of Sydney Works | — | (14,620,318) |
| | (8,748,115) | (564,194) |
| (Decrease) in working capital | (12,801,307) | (20,486,733) |
| Working capital at beginning of year | 47,031,732 | 67,518,465 |
| Working capital at end of year | $ 34,230,425 | $ 47,031,732 |

*Not comparable with 1967 (see Note 1)

*See accompanying notes to consolidated financial statements.*

## Notes to consolidated financial statements
for the year ended December 31, 1968

1. **Principles of Consolidation:**
The consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited (Industries). In prior years, when Domco was a partly-owned subsidiary of Dominion Steel and Coal Corporation, Limited (Dosco), its accounts were not consolidated because the operations of the company were dependent upon the government's policy of granting subvention assistance. These operating conditions continued until March 30, 1968 when Domco ceased operations on the expropriation of substantially all of its assets (see note 3).

The accounts of Dosco, a former 77%-owned subsidiary, have been eliminated from the consolidated financial statements as of January 1, 1968 and the accounts of Industries have been included from January 1, 1968, subject to a minority interest of 1% (see note 2). As a result of these substantial changes the consolidated financial statements for 1968 are not comparable with those for the prior year.

2. **Sale of Dosco shares and acquisition of shares in Hawker Industries Limited:**
Particulars of the sale by Hawker Siddeley Canada Ltd. (Hawker) of its holdings of 2,282,670 shares in Dosco and the related transactions are as follows:

(a) Dosco shares were sold to Sidbec, a corporation owned by the Province of Quebec, at $11 per share with the total price of $25,109,370 satisfied by the receipt of $20,109,370 on January 31, 1969 and the issue by Sidbec of non-interest bearing notes for $5,000,000 due January 31, 1974. The loss on the sale of $24,363,546 and related costs of $511,835 have been charged to (deficit) retained earnings.

(b) Effective from January 1, 1968 Hawker Industries Limited, a non-operating subsidiary of Dosco, acquired the undernoted assets and operations from Dosco:

The Halifax Shipyards, Trenton and Canadian Bridge Divisions;

All the issued common shares and 26,521 preferred shares of Domco, all the coal mining assets and operations of Acadia Coal and Old Sydney Collieries Divisions and certain miscellaneous accounts receivable including those related to the former mining operations carried on by the Wabana and Limestone Divisions;

All the issued shares of Dosco Overseas Engineering Limited and of Dominion Shipping Company, Limited; and

The account receivable from the Province of Nova Scotia on sale of fixed assets including rolls and moulds of Sydney Works Division.

In addition, two non-operating subsidiaries of Dosco holding coal mining fixed assets sold these assets to Industries.

The purchase price for the above assets and operations totalling $36,542,366 was satisfied as follows:

| | |
|---|---|
| Assumption of the liabilities incurred in the ordinary course of carrying on the operations acquired | $ 5,478,999 |
| Assumption of all unascertained liabilities of Dosco in connection with the disengagement from its Sydney Works operations and its coal operations (see note 8) | 7,250,000 |
| Assumption of unfunded pension obligations (see note 7) | 8,628,660 |
| | 21,357,659 |
| The issue to Dosco of 2,959,886 shares in the capital of Industries at $5 per share | 14,799,430 |
| Balance payable | 385,277 |
| | $36,542,366 |

(c)

| | |
|---|---|
| Hawker purchased from Dosco 2,282,670 shares of Industries at $5 per share | $11,413,350 |
| Additional shares of Industries which it is assumed Hawker will purchase from Dosco (see comment below) 647,815 shares at $5 per share | 3,239,075 |
| | $14,652,425 |

Dosco made an offer, terminating March 28, 1969, to sell to its shareholders on a share-for-share basis, 2,960,086 shares of Industries, being the 200 shares which were outstanding plus the 2,959,886 shares referred to in (b) above, at a price of $5 per share. In accordance with the arrangements with Dosco, Hawker has purchased and paid on January 31, 1969 for all of the 2,282,670 shares of Industries offered to it and has agreed to take up and pay for the shares not purchased by the other shareholders of Dosco. As a result Dosco will entirely dispose of its interest in Industries. At the time the accounts of Hawker were closed for the year ended December 31, 1968 the offer to the other shareholders of Dosco to purchase shares of Industries was still outstanding but for the purpose of preparing the accompanying consolidated financial statements it has been assumed that not more than 1% of the shares of Industries will be purchased by such shareholders.

(d) Hawker offered to purchase from the Debentureholders of Dosco 10% of the outstanding debentures at a price of \$100 per \$100 principal amount of debentures. Under this offer, which terminated March 7, 1969, Hawker purchased the following debentures:

| | |
|---|---|
| 5¾% Sinking fund debentures, Series A, due June 1, 1984 | \$ 1,395,000 |
| 6% Sinking fund debentures, Series B, due July 15, 1985 | 1,312,700 |
| 5¾% Sinking fund debentures, Series C, due July 15, 1985 (U.S. \$800,000) | 858,750 |
| | \$ 3,566,450 |

* * *

Under the provisions of the agreements for the purchase by Industries of the assets summarized in (b) above, Hawker guaranteed the performance or discharge by Industries of all the obligations and liabilities of Dosco assumed by Industries. Hawker has also provided Sidbec with a number of representations and warranties respecting the financial position and other affairs of Dosco and its subsidiaries. Management is not aware, at the present time, of any significant costs to be incurred in respect of this guarantee and the representations and warranties.

3. **Coal Mining Interests:**

Forming part of the assets and operations acquired by Industries from Dosco were all the issued common shares and 26,521 preferred shares of Domco and all the coal mining operations carried on by the Acadia Coal and Old Sydney Collieries Divisions. As of March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the assets of the Old Sydney Collieries Division. The investment in Domco is included in the accounts at cost to Industries and the expropriated coal mining assets are included at book value at the date of expropriation. The compensation to be paid on the expropriations has yet to be established and no provision has been made in the accounts for losses which may be incurred. The Acadia Coal Division ceased operations on March 30, 1968 and subsequently the assets of the Division were sold.

4. **Investment in Associated Company:**

The book value attributable to the investment in shares and notes of Canadian Steel Wheel Limited (50%-owned) amounted to \$4,328,852 at July 31, 1968, the close of that company's latest fiscal year.

5. **Bank Advances and Accounts Payable:**

Bank advances at December 31, 1968 include bank advances to Industries of \$624,596 secured by a general assignment of its accounts receivable and an assignment of its inventories. An account payable of \$1,450,000 to the Province of Nova Scotia on December 31, 1969 (see note 8) is secured by a debenture charge on the fixed assets of Halifax Shipyards Division.

6. **Long Term Debt:**

| | | |
|---|---|---|
| Canadian General Transit Company, Limited (55%-owned) – | | |
| Equipment Trust Certificates | | |
| 4% – 6¾% due 1969 – 1980 | | \$ 3,092,000 |
| First Mortgage Equipment Notes | | |
| 6%-7½% due 1969-1987 | | 3,740,000 |
| 8½% due 1969-1971 and \$2,550,000 in 1972 | | 3,000,000 |
| First Mortgage Sinking Fund Equipment Notes | | |
| 6¾% due 1969-1986 | | 4,500,000 |
| 5%-7¾% due 1969-1988 (U.S. \$14,375,000) | | 15,452,148 |
| | | 29,784,148 |
| Less—Due within one year included in current liabilities | | 1,786,992 |
| | | 27,997,156 |
| Orenda Limited (60%-owned) – | | |
| 6% Notes due December 2, 1971 | \$15,600,000 | |
| Less—Payable to Hawker Siddeley Canada Ltd. and eliminated on consolidation | 9,400,000 | |
| | | 6,200,000 |
| | | \$34,197,156 |

For Canadian General Transit Company, Limited and Orenda Limited the combined working capital and the combined investment in fixed assets, after deducting accumulated depreciation, amounted to $12,630,491 and $65,375,328, respectively, at December 31, 1968.

**7. Provision for Unfunded Pensions:**

In accordance with previous policy, unfunded pensions paid in respect of past service during the year ended December 31, 1968 of $776,288 have been charged to the provision for unfunded pensions set aside for that purpose. At December 31, 1968 the present value of unfunded past service pension costs is approximately $8,550,000.

In part satisfaction of the purchase price for the assets and operations acquired by Industries from Dosco an amount of $8,628,660 was allowed for the unfunded obligations in respect of past service assumed by Industries. The balance in the provision for unfunded pensions at December 31, 1968 includes this amount less applicable pensions paid during 1968.

**8. Provision for Special Costs and Losses:**

As at December 31, 1967 a provision of $6,000,000 was made in the accounts of Dosco for special costs and losses on long term contracts and other commitments relating to the operations of its former Sydney Works. On sale of Dosco shares and acquisition of shares in Industries that provision was, in effect, replaced by an amount of $7,250,000 assigned to the assumption by Industries of all unascertained liabilities in connection with the disengagement of Dosco from its Sydney Works operations and its coal operations. Costs and losses incurred and to be incurred in connection with these liabilities are referred to as "special costs and losses".

During the year ended December 31, 1968 the undernoted amounts were charged to the provision for special costs and losses:

| | |
|---|---|
| Payments to be made to the Province of Nova Scotia as consideration, for the most part, for a complete release to Dosco of its remaining obligations under the agreement dated November 22, 1967 by which the Province acquired Dosco's Sydney Works (included in accounts payable – $1,095,000 paid in January 1969 and balance payable December 31, 1969) | $ 2,545,000 |
| Payments made or agreed to be made to December 31, 1969 for the marketing or use of commodities and services under the obligations for long term contracts of Dosco relating to the operation of its former Sydney Works ($722,719 paid in 1968 and balance payable in 1969 is included in accounts payable) | 1,603,719 |
| Payment made in December 1968 for cancellation of a sub-charter of a bulk cargo vessel | 750,000 |
| Other, including loss of $67,927 on sale of assets of Acadia Coal Division | 517,732 |
| | $ 5,416,451 |

The significant continuing obligations arising out of the disengagement of Dosco from the operations of its former Sydney Works involve long term contracts for the purchase of commodities and services commonly used in the production of iron and basic steel. These commodities and services are normally marketable as such. It is not possible to determine accurately the eventual cost to Industries of selling these commodities since deliveries in some instances extend over a period of years during which the demand of potential customers will vary.

As of December 31, 1968 a further amount of $3,500,000, less $35,000 applicable to minority interests in Industries, was charged to (deficit) retained earnings and set aside in the provision for special costs and losses. In the opinion of management the balance of $5,333,549 available in the provision is a reasonable estimate at this time of the additional special costs and losses which may be incurred.

**9. Income Taxes:**

The application of losses carried forward in subsidiary companies has reduced income taxes for 1968 by approximately $1,100,000. Had these losses not been available, net income for 1968, after adjustment for the interest of minority shareholders, would have been reduced by approximately $750,000.

Income taxes for 1968 include $1,612,391 set aside on the consolidated balance sheet for deferred income taxes.

**10. 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.

Dividends on the preferred shares have been paid to January 2, 1968 and are in arrears since that date in the amount of $805,000.

At March 20, 1969 there were outstanding options expiring in 1974 to 1976 to subscribe for 182,550 unissued common shares at prices from $6.00 to $8.50 per share. Of the foregoing, 34,000 shares are optioned to officers and directors. None of these shares are optioned to directors who are not officers.

**11. Remuneration of Directors and Officers:**

For the year 1968 the remuneration of directors, including amounts received as officers, was $270,017 and the remuneration of other senior officers amounted to $266,181.

# Products and Services

## Steel Fabricating and Equipment
Bridges
Castings and forgings
"Dosco Dintheader"
"Dosco Roadway Cutter Loader"
Mining equipment
Off-shore oil drilling units
Railway axles
Steel wheels
Tanks, storage and pressure
Transmission towers and masts

## Transportation
Highway trailers
Industrial and mine cars
Marine forgings and metalworking
Naval and merchant shipbuilding and repair
Railway rolling stock
Railway tank car rentals and leasing
Rapid transit passenger cars (subway, commuter and mainline)
Storage terminals, liquids

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

## Woodland Industries Equipment
"Chip-N-Saw" machines
"Tree Farmer" (rubber-tired skidder)
"Tree Processor" (slasher and de-limber)
"Tree Feller" (shear)
"Clipper" (shear and piler)
Logging equipment
Sawmill and chipping equipment

# Divisions and Subsidiaries

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

## Subsidiaries
Hawker Industries Limited, Toronto, Ont. (approx. 99%)
- Halifax Shipyards Division, Halifax, N.S.
- Trenton Works Division, Trenton, N.S.
- Canadian Bridge Division, Walkerville, Ont.
- Dosco Overseas Engineering Limited, Aylesbury, England

Orenda Limited, Malton, Ont. (60%)
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (60%)
Canadian General Transit Company, Limited, Montreal, Que., Moose Jaw, Sask., Red Deer, Alta. (55%)
Can-Car Inc., Atlanta, Ga., U.S.A. (100%)

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

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