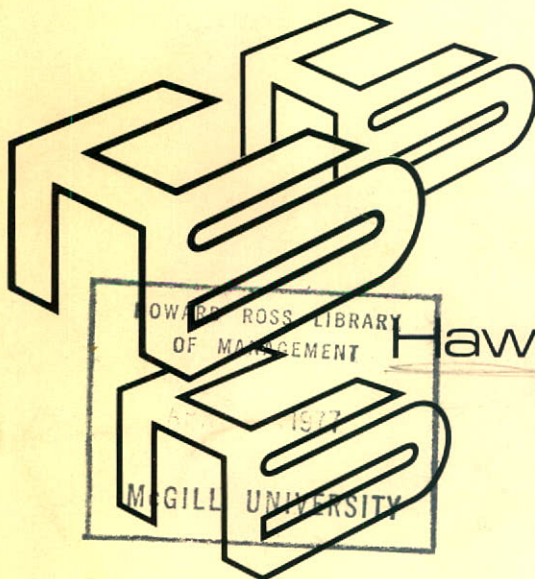


1976 ANNUAL REPORT



Hawker Siddeley Canada LTD.

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Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Upper Canada Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 27th, 1977 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.

Financial Data

	1976	1975	1974	1973	1972
Summary of operations (thousands of dollars)					
Revenue:					
Sales	\$335,081	365,234	325,015	253,628	209,398
Income from investments	695	331	682	489	937
	<u>335,776</u>	<u>365,565</u>	<u>325,697</u>	<u>254,117</u>	<u>210,335</u>
Costs and expenses:					
Cost of sales, selling, general and administrative expenses exclusive of the following	301,896	324,140	290,023	225,730	188,966
Interest	6,529	7,713	6,626	4,433	4,289
Depreciation and amortization	10,477	9,915	8,933	8,907	7,923
	<u>318,902</u>	<u>341,768</u>	<u>305,582</u>	<u>239,070</u>	<u>201,178</u>
Income from operations before taxes	16,874	23,797	20,115	15,047	9,157
Income taxes	8,070	11,311	9,889	7,261	4,896
Interest of minority shareholders	1,266	1,014	963	1,585	882
Income before exchange loss	7,538	11,472	9,263	6,201	3,379
Exchange loss	(1,187)	(1,125)	(2)	3	(106)
Income before extraordinary items	6,351	10,347	9,261	6,204	3,273
Extraordinary items	653	1,516	545	1,721	348
Net income for the year	<u>\$ 7,004</u>	<u>11,863</u>	<u>9,806</u>	<u>7,925</u>	<u>3,621</u>
Per common share					
Income before extraordinary items	\$.68	1.17	1.04	.66	.30
Net income .....	.76	1.36	1.11	.88	.35
Dividends declared .....	.36	.36	.32	.20	.07
Equity	11.52	11.12	10.12	9.33	8.67
Other statistics (thousands of dollars)					
Dividends					
— preferred shares	\$ 805	805	805	805	805
— common shares	2,927	2,927	2,601	1,625	568
Working capital	48,607	45,353	37,916	37,169	31,390
Capital expenditures					
— Railway rolling stock leasing fleet	791	14,898	11,582	7,533	3,157
— Other	8,132	11,259	12,276	5,875	4,387
Shareholders' equity					
— preferred shares	14,000	14,000	14,000	14,000	14,000
— common shares — share capital	54,320	54,320	54,320	54,320	54,280
— retained earnings	39,335	36,063	27,932	21,532	16,037
	107,655				84,317
Other share data					
Shares issued and outstanding					
— preferred	140,000	140,000	140,000	140,000	140,000
— common	—	8,129,341	8,129,341	8,129,341	8,117,341
— common class "A" convertible	7,885,812	—	—	—	—
— common class "B" convertible	243,529	—	—	—	—
Number of shareholders					
— preferred	1,465	1,540	1,583	1,636	1,675
— common	—	8,692	8,683	8,729	9,119
— common class "A" convertible	8,141	—	—	—	—
— common class "B" convertible	128	—	—	—	—
Principal Shareholder — Hawker Siddeley Group Limited					
percentage holdings					
— preferred	41.79%	41.79%	41.79%	41.79%	41.79%
— common	59.25%	59.25%	59.25%	59.25%	59.34%

Notes:

(1) Information for 1972 has been restated for prior years' adjustments recorded in 1973 and the years 1972 to 1975 have been restated to conform with the exchange loss presentation adopted in 1976.

(2) Retained earnings in 1972 include a reserve for contingencies in that year which was transferred to retained earnings in 1973.

To the Shareholders

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Ltd., and its subsidiary companies for the year ended December 31, 1976.

1. FINANCIAL

1.1 Sales

Consolidated sales were \$335 million (\$365 million — 1975) including direct exports of \$61 million (\$90 million — 1975). Information concerning export sales and the sales volume of foreign subsidiaries is given on page 18 of this report. The distribution of consolidated sales by broad classes of business is shown in Note 2 to the financial statements.

1.2 Income

Income from operations before an extraordinary item of income was \$6.351 million (\$10.347 million — 1975) producing earnings of 68 cents for each of the outstanding Class A and Class B common shares (\$1.17 per share — 1975). Net income was \$7.004 million (\$11.863 million — 1975) equivalent to 76 cents per common share (\$1.36 per share — 1975).

1.3 Extraordinary Item

A tax provision of \$653,000 included in income before extraordinary items became surplus due to utilization of costs and expenses recorded in prior years and was credited to income.

1.4 Other Financial Matters

- (a) Included in the income before extraordinary items is a net exchange loss of \$1.187 million (\$1.125 million — 1975) arising primarily as a result of the reduced value of sterling over the year which affected the book amount of net assets of United Kingdom subsidiaries when translated to Canadian dollars at the exchange rate prevailing on December 31, 1976.
- (b) A provision has been made in 1976 of \$1.750 million (\$1.048 million after taxation and minority interests) for costs and losses anticipated at Halifax Shipyards Division.
- (c) On September 30, 1976, the Government of Canada granted Supplementary Letters Patent reclassifying the Company's common shares as Class A convertible common shares and creating an equal number of Class B convertible common shares eligible for "tax deferred" dividends when declared. These two classes of common shares are inter-convertible on a share-for-share basis on request of registered owners. As of December 31, 1976, 243,529 Class B common shares were

issued and outstanding on conversion of Class A common shares.

1.5 Dividends

In 1976 the Company declared and paid the four quarterly preferred share dividends as they became due. For the former common shares, three quarterly dividends of 9¢ were declared and paid. In the fourth quarter a dividend of 9¢ was declared on each of the issued and outstanding Class A and Class B convertible common shares payable January 21, 1977 to shareholders of record December 31, 1976.

2. DIRECTORS

On January 27, 1977 Mr. R.R. Kenderdine resigned from the Board and Mr. F.H. Wood was appointed a director and a vice-chairman of the Company.

3. COMMENTS

The year 1976 was one in which demand within Canada for a number of the Company's products was poor, reflecting the general economic situation, and in which export business was more difficult to obtain because the rise of wages had, at least temporarily, outstripped productivity in relation to what had occurred in competitive countries. Demand was particularly sluggish for railway freight cars and sawmill and forestry equipment, so that the Company's plant producing products for these markets became severely under-loaded. Our shipbuilding area, in common with the situation in the majority of the industry world wide, was unable to attract new orders. In contrast, operations which are dependent on the mining and aerospace equipment areas maintained a high level of activity, and both production and order intake for passenger railcars were good.

The year also had its difficulties in industrial relations, caused to a large extent by dissatisfaction with wage restraint imposed by the Anti-Inflation legislation.

The fall which occurred during 1976 of the pound sterling in relation to the Canadian dollar brought a significant charge to the profit and loss account, representing the diminishing values as expressed in Canadian dollars of the value of the Company's assets in the United Kingdom, and this is shown as a separate item in the accounts. Additionally, the fall of sterling reduced, in dollar terms, profits earned in the U.K. subsidiary, Dosco Overseas Engineering Ltd.

Before stating the net profit for the year, the Board has thought it prudent to make a provision for possible costs or losses which may be associated with com-

pletion of the current major contracts and with subsequent adjustments made necessary at Halifax Shipyards as a result of the acute world depression in shipbuilding activity, having in mind that the program of oil rig construction carried out at the Yard for some years has now come to an end, and the oil drilling industry is unlikely to be seeking further equipment of this type on any scale for some time to come.

During the year, manufacture of highway trailers and the Tree Farmer skidder was moved from the Thunder Bay plant to premises at Mississauga, Ontario. These premises had become available as a result of the adjustment to the operations of Orenda in previous years, and the move was desirable, not only because it brought these products nearer their marketplace, but because it freed space at Thunder Bay for railcar activity to meet the excellent order intake which has been achieved for this product.

The costs of establishing the new locations have been fully written off in the accounts for 1976.

During 1976 four major labour agreement renewals

were concluded. Two major renewals are due for negotiation in 1977.

Although there are now distinct upward movements in the market in the U.S.A., there are as yet no confident signs of improvement in the Canadian economy as it affects the Company. During 1977 we are likely to see a continuation of high activity in the sectors of the Company dealing in the mining and passenger railcar areas, but strong improvements in other sectors, particularly in rail freight, sawmill and forestry equipment, may well be slow.

The Directors wish to record their thanks to all whose efforts in difficult circumstances have contributed to the year's results.

Submitted on behalf of the Board,

A.A. Hall
R.S. Faulkner

Toronto, Ontario, March 18, 1977.

Comments on Operations

HAWKER SIDDELEY CANADA LTD.

Canadian Car Division

1976 was an active and an important year for the Division. Particularly significant was a major reorganization program, initiated in the latter part of 1975, which involved the transfer of both the highway trailer and forestry equipment businesses to Mississauga, Ontario, and reorganization of the Thunder Bay plant to concentrate fully on the design and production of railway passenger cars.

Apart from the manufacture of highway trailers and log skidders needed to support the market during the relocation period, the main activity in the plant during the year related to rail cars. An order for 30 commuter cars for GO Transit was completed, and the first cars of a 134-car order for the Toronto Transit Commission and a 200-car order for Ferrocarriles Nacionales de Mexico were delivered during the latter part of the year. Tooling for a third production line, to produce bi-level commuter cars for GO Transit, was well advanced.

In the course of the year, an order was obtained to supply 190 mass transit cars to the Massachusetts Bay Transportation Authority, Boston. Delivery of the two types of cars involved is scheduled in 1978 and 1979.

With orders for some 600 cars of various types in hand at the year end, a high level of plant utilization should be maintained over the next two years. New business prospects for transit-type vehicles in both domestic and export markets are encouraging and efforts are being directed towards extending the current order position.

Canadian Car (Pacific) Division

This Division had a difficult year. Recovery of its prime markets in the forest industries of both Canada and the United States was considerably slower than anticipated and there was a seven-week strike by employees in June and July.

These two factors severely reduced the levels of activity and profitability in the first half of the year, and although there was steady improvement in both market conditions and plant utilization during the second half, overall results were disappointing.

While much of the year's production related to the range of proven Chip-N-Saw machines, the Division developed and sold a number of its new Model 5000 Canter for computer-controlled, full-taper sawing of logs. Among a variety of general engineering projects

undertaken was the construction of a ship-mounted crane specially designed for salvage operations.

The family of Chip-N-Saw machines developed and produced by the Division remains the most technically advanced and competitive in the sawmill equipment industry. Nevertheless, a strong development program has been pursued to maintain this leadership in the market and to broaden product base.

Among new development programs are those for a series of machines for making wafer board, a high production-rate sugar cane separator, and field testing and further development of high-energy sonic devices for drilling and coring.

Prototype units of the latter equipment have performed successfully in seismic programs in the Arctic, the Tar Sands of northern Alberta and with hydro-electric power authorities.

The recovery trend in the market for the forest products industry generally is anticipated to continue through 1977 and the Division is expected to have a better year ahead.

Can-Car Trailer Division

During the year highway trailer production was transferred from the Thunder Bay plant to Mississauga, Ontario, where it has been established as a separate operating unit. By year end, reorganization of the factory had been completed and the flow of all ancillary equipment firmly established.

Sales during the year were at a good level in eastern Canada but a less satisfactory share was obtained of the trailer market in central and western regions.

The new Division enters 1977 with a reasonably sound order book and a return to more satisfactory trading results should be achieved.

Canadian Steel Foundries Division

A sharp decline in demand for railway rolling stock castings in the fourth quarter resulted in total output for the year falling short of the very high level achieved in 1975. Nonetheless, the foundry operated at near capacity for most of the year with satisfactory results.

On the industrial side of the business a variety of steel castings, some weighing up to 120 tons, were supplied to the steel and mining industries and to major utilities. A large tonnage of castings was also produced for oil and gas transmission equipment, and good progress was made in sales of special alloy and

high integrity castings, a market segment in which the Division has made particular effort in recent years.

Several important export orders were obtained during the year but expansion of business in offshore markets, particularly in the United States, was difficult to achieve against intensified competition from domestic as well as European producers. The mine-ware casting market has met with good success and this product line has developed into an important segment of the Division's business.

A substantial capital expenditure program was pursued, aimed at upgrading certain operations as well as improving working conditions. In addition, several research and development programs were initiated to further consolidate the Division's prominent place in the casting market.

Improved demand for industrial castings is expected, particularly in the United States, to provide opportunities to strengthen the present sound order position.

The order book for railway castings, on the other hand, is extremely low, but the situation could improve in 1977 with the announcement of the Government's intention to purchase further grain cars, the interest being shown by domestic railways in placing orders for new equipment, and several prospects in export business.

Canadian Steel Wheel Division

Although the Division entered 1976 with several months backlog of work, the sharp decline in demand both for new rolling stock and replacements by the domestic railways severely influenced the levels of new order intake and plant utilization for most of the year. This factor and a recurrence of labour unrest in the plant resulted in sales and profits falling below expectations.

The bulk of activity in the plant was again heavily dependent on wheels for freight cars and locomotives. Special shapes for rapid transit wheels and a wide variety of industrial applications provided a useful volume of work.

The Division continued its efforts to develop a stronger export sales component but while some useful orders were booked, competition from European and Japanese producers has become much more intense. Capital programs continued to be directed towards improved plant efficiency and environmental considerations.

A recent decision by the Federal Government to add to its fleet of grain cars will provide additional work in 1977. If improved market conditions prevail throughout the year, the results of this Division are expected to respond favourably.

Forestry Equipment Division

Both production and sales of forestry equipment, principally the "Tree Farmer" line of log skidders, continued at a low level throughout the year reflecting the depressed state of the market in recent times.

Because of the need to expand rail car production at Thunder Bay it had been decided to transfer the manufacturing and support operations to facilities in Mississauga, Ontario and this move, which was well underway at the turn of the year, had its affect on the results of the Division.

The market outlook has been improving gradually over the last six months, particularly in the United States. This trend is expected to continue and results should benefit accordingly.

Orenda Division

Although a large portion of the Division's total production continued to be exported, sales to domestic customers in 1976 exceeded those to export market for the first time in many years.

The main activities related to the manufacture of jet engine components, the repair and overhaul of aircraft jet engines for the Canadian Armed Forces, and the manufacture of components for nuclear power stations.

Most of the industrial gas turbines made by the Division are in service with the oil and gas industries. Economic conditions sharply reduced the utilization of many of these engines during the year, but a useful volume of spare parts, repair and overhaul, and uprating business was obtained.

The continuing decline in aerospace business around the world has reduced demand for new and repeat business and has increased competition, particularly in the United States. To some extent, this situation will be offset by an improved volume of aircraft engine repair and overhaul work for the Canadian Armed Forces in 1977.

Additional orders for nuclear power components are expected as more reactor units are built, but the pace of demand is slow due to capital expenditure limitations within the utility companies.

HAWKER INDUSTRIES LIMITED

(Approx. 99% owned)

Canadian Bridge Division

An improved level of activity resulted from the Division having achieved a larger share of domestic and export markets for power transmission and communications structures.

During the year, steel structures were supplied to every province in Canada and export orders for towers and sub-station structures were completed for the United States, Pakistan, Tunisia and Bangladesh.

A new type of "improved appearance" sub-station structure, was designed and supplied for the first time to a power utility in Nova Scotia. For the Canadian Broadcasting Corporation's extended coverage program, 52 masts were supplied, which will bring microwave signals to remote areas across Canada. Electric power transmission structures were delivered for the first phase of inter-connecting lines in the grid at the James Bay project in Quebec.

Within the plant, automation of punching equipment used in the production of steel components for towers was completed. Development of the tower testing facilities continued to enable tests to be conducted from a central control point on all types of structures capable of carrying up to 1.5 million volts. This test site is receiving growing recognition in trade circles as the Canadian test facility for tower structures.

Production equipment for the fabrication of log skidder chassis components for the Forestry Equipment Division is now installed at Canadian Bridge Division which will supply them to the Mississauga-based operation.

While the market conditions through 1977 are not likely to strengthen significantly, this Division is expected to maintain its improved performance trend.

Halifax Shipyards Division

The main activity at the Halifax plant was concentrated on two major construction jobs designated Sedco 709 and Sedco 471.

Sedco 709 is a semi-submersible offshore drilling vessel, the fourth and most sophisticated of its class built at the Halifax Yard. Fitted with eight thruster units totalling 20,000 h.p., the vessel is able to move from one location to another under its own power and, through a complex control system, to accurately maintain a fixed drilling position at sea without the use of anchors.

Sedco 471 is a 470-foot drill ship specifically designed to perform drilling operations in very deep water. It has the most advanced technical features including a full dynamic positioning capability. Delivery is scheduled for the latter part of 1977.

Ship repair activity at both the Halifax plant and Dartmouth Marine Slips was severely affected by the stevedores strike which interrupted operations in the Port of Halifax and by the several work stoppages in the Division during the year.

The surplus capacity for new ship construction which exists throughout the world, including the eastern Canadian yards, severely diminished the likelihood of new construction orders being obtained in the immediate future. While every effort continues to be made to win new orders, a considerable decline in yard activity is inevitable in the fourth quarter of 1977 after completion of the drill ship.

Trenton Works Division

Activity in the principal product lines was below 1975 levels. New freight car production totalled 2,080 units of which 1,412 were grain haulage cars for the Canadian Wheat Board. Tank car production was at a low level but the new tank car repair service initiated the previous year generated useful business.

The railway axle and heavy industrial forging facilities were busy for most of the year but the affects of increased competition and the sharp fall-off in new rolling stock were quite pronounced in the last half.

Activity in this Division during the first half of 1977 should continue at a much reduced level but it is hoped that the initiative by the Federal Government in purchasing additional grain cars for the Canadian Wheat Board, in which this Division will participate, will be followed by new car requirements by the principal domestic railways. In addition, efforts to secure export work continue.

Dosco Overseas Engineering Limited

This U.K.-based subsidiary, which manufactures mining and tunnelling machinery, had another satisfactory year of operations in which further improvements in both total sales volume and profitability were recorded and further progress was made in developing markets outside the United Kingdom.

The majority of machines made by Dosco were sold in the United Kingdom but repeat business was obtained from customers in Europe, Africa, Asia and North America. In addition, the market in Mexico was penetrated for the first time.

A low-height Roadheader machine was introduced for operations in the United States and the United Kingdom. Four other prototype machines were also built during the year to satisfy special market requirements.

Hollybank Engineering Company Limited, a subsidiary of Dosco Overseas Engineering Limited which produces supports and other related components for mine roadways and tunnels, showed a further improvement in performance.

The first stage of a new office building which will serve both companies, was completed at their joint manufacturing location.

Dosco Overseas enters 1977 with a strong order book position and another year of satisfactory operations is expected.

CANADIAN GENERAL TRANSIT COMPANY, LIMITED (55% owned)

The company owns a fleet of railway tank cars and a small number of hopper cars which is leased to users

who are mainly in the petroleum, chemical, and food industries. The cars are serviced at company-owned maintenance depots in Montreal, Que., Moose Jaw, Sask., and Red Deer, Alta.

Utilization of the fleet was maintained at a high level throughout the year despite the continuing slackness of the economy as cars are substantially leased on a medium-term basis.

However, the lack of business growth experienced by the customers in some market sectors adversely affected demand for additional tank car carrying capacity and as a result, lessee requirements for new cars were lower than normal. On the other hand, the bulk storage terminals owned by Canadian General Transit in Montreal and Toronto were operated at full capacity during the year.

High utilization of the company's existing railway cars is expected to continue during the year ahead but improvement in the market for new car leases is likely to be gradual.

Consolidated Statement of Income and Retained Earnings

for the year ended December 31, 1976

	1976	1975*
	(in thousands)	
Revenue:		
Net sales (Note 2)	\$335,081	\$365,234
Income from investments	695	331
	<u>335,776</u>	<u>365,565</u>
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following	301,896	324,140
Interest on short term borrowings	2,253	3,751
Interest and amortization of costs of long term debt	4,276	3,962
Provision for depreciation	10,177	9,615
Amortization of patents (Note 5)	300	300
	<u>318,902</u>	<u>341,768</u>
Income from operations before income taxes	<u>16,874</u>	<u>23,797</u>
Provision for income taxes — current	4,805	7,344
— deferred	3,265	3,967
	<u>8,070</u>	<u>11,311</u>
	<u>8,804</u>	<u>12,486</u>
Interest of minority shareholders in income of subsidiaries	1,266	1,014
Income before exchange loss	<u>7,538</u>	<u>11,472</u>
Exchange loss on the translation of the accounts of foreign subsidiaries	1,187	1,125
Income before extraordinary items	<u>6,351</u>	<u>10,347</u>
Income tax provision not required (Note 12)	653	1,370
Final distribution on liquidation of Dominion Coal Company, Limited	—	146
Net income for the year	<u>7,004</u>	<u>11,863</u>
Retained earnings, beginning of year	<u>36,063</u>	<u>27,932</u>
	<u>43,067</u>	<u>39,795</u>
Dividends — preferred shares	805	805
— common shares	2,927	2,927
	<u>3,732</u>	<u>3,732</u>
Retained earnings, end of year	<u>\$ 39,335</u>	<u>\$ 36,063</u>
Income per common share after preferred dividends (Note 9):		
Before extraordinary items	68¢	\$1.17
After extraordinary items	76¢	\$1.36

* The 1975 figures have been restated to segregate deferred income taxes and the exchange loss on translation of accounts of foreign subsidiaries.

Consolidated Balance Sheet

December 31, 1976

ASSETS**1976****1975**

(in thousands)

Current Assets:

Cash and short term bank deposits	\$ 18,293	\$ 4,585
Accounts receivable	51,605	51,786
Income taxes recoverable	2,043	—
Inventories, less progress payments	59,841	85,736
Prepaid expenses	1,520	1,024
	<u>133,302</u>	<u>143,131</u>

Investments, at cost (Note 3)	<u>3,266</u>	<u>3,309</u>
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Fixed Assets, at cost (Note 4)	255,809	250,104
Less: Accumulated depreciation	<u>123,063</u>	<u>115,306</u>
	<u>132,746</u>	<u>134,798</u>

Other Assets, at cost less amortization:

Patents (Note 5)	300	600
Issue cost of long term debt	<u>340</u>	<u>369</u>
	<u>640</u>	<u>969</u>

Approved by the Board:

A.A. Hall, Director

R.S. Faulkner, Director

<u>\$269,954</u>	<u>\$282,207</u>
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LIABILITIES AND SHAREHOLDERS' EQUITY

1976

1975

(in thousands)

Current Liabilities:

Bank advances	\$ 14,462	\$ 15,793
Accounts payable and accrued liabilities	46,403	54,419
Dividends payable	933	933
Income and other taxes payable	8,764	6,447
Advances on sales contracts	6,958	12,364
Long term debt due within one year (Note 7)	3,445	4,443
Owing to affiliated companies (Note 6)	3,730	3,379
	<u>84,695</u>	<u>97,778</u>
 Long Term Debt (Note 7)	 <u>40,167</u>	 <u>45,933</u>
 Provision for Unfunded Pensions (Note 8)	 <u>4,465</u>	 <u>4,853</u>
 Deferred Income Taxes	 <u>20,550</u>	 <u>17,285</u>
 Minority Interest	 <u>12,422</u>	 <u>11,975</u>
 Shareholders' Equity:		
Preferred and common shares (Note 9)	68,320	68,320
Retained earnings	39,335	36,063
	<u>107,655</u>	<u>104,383</u>
	 <u>\$269,954</u>	 <u>\$282,207</u>

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1976

	1976	1975
	(in thousands)	
Source of working capital:		
Income before extraordinary items	\$ 6,351	\$10,347
Charges to income not affecting working capital — (mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries)	14,127	14,849
Working capital provided from operations	20,478	25,196
Issue of long term debt	—	9,900
Shares issued by subsidiary to minority shareholders	—	1,215
Proceeds on disposal of fixed assets	1,111	4,624
Income taxes recovered in extraordinary items	653	1,370
Final distribution on liquidation of Dominion Coal Company, Limited	—	146
Mortgage and other investments reclassified to current assets	—	367
Miscellaneous	31	40
	<u>22,273</u>	<u>42,858</u>
Application of working capital:		
Additions to fixed assets —		
Railway rolling stock leasing fleet	791	14,898
Other	8,132	11,259
Reduction of —		
Long term debt	5,166	4,443
Provision for unfunded pensions (Note 8)	388	406
Dividends declared payable to —		
Shareholders of Hawker Siddeley Canada Ltd.	3,732	3,732
Minority shareholders of subsidiaries	810	683
	<u>19,019</u>	<u>35,421</u>
Working capital:		
Increase for the year	3,254	7,437
At beginning of year	45,353	37,916
At end of year	<u>\$48,607</u>	<u>\$45,353</u>
Changes in Elements of Working Capital		
Current assets — Increase (decrease):		
Cash	\$13,708	\$ 3,699
Accounts receivable	(181)	(3,153)
Income taxes recoverable	2,043	—
Inventories	(25,895)	(3,193)
Prepaid expenses	496	(18)
	<u>(9,829)</u>	<u>(2,665)</u>
Current liabilities — Increase (decrease):		
Bank advances	(1,331)	(16,149)
Accounts payable and accrued liabilities	(8,016)	4,882
Dividends payable	—	81
Income and other taxes payable	2,317	(2,541)
Advances on sale contracts	(5,406)	1,945
Long term debt due within one year	(998)	468
Owing to affiliated companies	351	1,212
	<u>(13,083)</u>	<u>(10,102)</u>
Increase in working capital for the year	<u>\$ 3,254</u>	<u>\$ 7,437</u>

Notes to Consolidated Financial Statements

for the year ended December 31, 1976

1. Summary of principal accounting policies:

Principles of consolidation —

The consolidated financial statements include the accounts of Hawker Siddeley Canada Ltd. and all subsidiary companies.

Foreign currency translation —

Assets and liabilities in foreign currencies have been translated at year-end rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

Revenue recognition —

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example railway or rapid transit cars) is recorded on the basis of units shipped. Revenue on long term contracts involving a single product (for example an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs —

These costs are expensed as incurred.

Product warranty costs —

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt —

Commission costs incurred on issue of long term debt are amortized over the term of the debt issue to which they relate.

Cost of patents and rights for new products —

Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories —

Inventories are carried at the lower of cost and net realizable value, less progress payments.

Fixed assets —

Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives primarily on the straight-line basis at rates of 2½% on buildings, 10% generally on equipment and 4% on railway rolling stock.

Pensions —

The Company and its subsidiaries have pension obligations to unfunded and funded pension plans.

Obligations to unfunded pension plans relate to retired employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans is in Hawker Industries Limited, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes —

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realization is assured. Investment tax credits are applied in reduction of the annual provision for income taxes.

2. Net sales:

	<u>1976</u>	<u>1975</u>
	(in thousands)	
Equipment for the transportation industry	\$170,050	\$177,199
Equipment for the forestry and forest products industries	29,043	33,908
Equipment for the mining industry	46,820	54,790
Shipbuilding and repair	35,458	44,305
Other general engineering and services	53,710	55,032
	<u>\$335,081</u>	<u>\$365,234</u>

3. Investments:

These are sinking fund debentures issued by Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited) carried at cost. At December 31, 1976 the market value of these debentures is estimated to be \$2,500,000. Particulars of these debentures are:

<u>Series</u>	<u>Amount</u> (in thousands)	<u>Interest rate</u>	<u>Maturity</u>
"A"	\$1,395	5¾%	June 1, 1984
"B"	1,313	6 %	July 15, 1985
"C"	558*	5¾%	July 15, 1985
	<u>\$3,266</u>		

*U.S. \$520,000

The Company is holding these debentures as a long term investment.

4. Fixed assets:

	December 31,			
	<u>1976</u>		<u>1975</u>	
	(in thousands)		(in thousands)	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land and land improvements	\$ 7,758	\$ 1,519	\$ 7,684	\$ 1,426
Buildings	48,656	28,882	46,731	27,638
Equipment	72,717	46,360	69,166	44,327
Railway rolling stock leasing fleet	126,678	46,302	126,523	41,915
	<u>\$255,809</u>	<u>\$123,063</u>	<u>\$250,104</u>	<u>\$115,306</u>

5. Patents:

Patent costs relate to the Chip-N-Saw product line. The Company plans to amortize the remaining patent costs in 1977.

6. Owing to affiliated companies:

The liability to affiliated companies at December 31, 1976 includes advances from the parent company of \$3,663,000 (1975 — \$3,336,000).

7. Long-term debt:

	<u>1976</u>	<u>1975</u>
	(in thousands)	
Hawker Siddeley Canada Ltd. —		
Promissory note paid in 1976	\$ —	\$ 1,000
Dosco Overseas Engineering Limited (99%-owned) —		
Bank term loan included in bank advances in 1976 and paid in January 1977	—	2,320
Canadian General Transit Company, Limited (55%-owned) —		
Equipment Trust Certificates		
4¼% — 6¾% due 1977 — 1980	596	908
First Mortgage Sinking Fund Equipment Notes		
5% — 9% due 1977 — 1989 (U.S. \$11,225,000)	11,886	12,950
6¾% — 11½% due 1977 — 1995	28,410	30,013
First Mortgage Serial Equipment Notes		
6% due 1977 — 1984	920	1,235
10¼% due \$150,000 in 1977 and \$1,650,000 in 1978	1,800	1,950
	<u>43,612</u>	<u>50,376</u>
Less — Due within one year included in current liabilities	3,445	4,443
	<u>\$40,167</u>	<u>\$45,933</u>

Principal payments on long term debt will be as follows:

<u>Year ending December 31</u>	<u>Amount</u>
	(in thousands)
1977	\$ 3,445
1978	4,810
1979	3,103
1980	3,046
1981	3,046
1982—1995	26,162
	<u>\$43,612</u>

Railway rolling stock with a net book value of \$61,224,000 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in foreign currencies translated at historical rates of exchange amounts to \$8,677,000 after deducting the portion covered by forward foreign exchange contracts. At the year-end rate of exchange this debt would be \$8,156,000.

8. Pensions (See Note 1):

The provision for unfunded pensions of \$4,465,000 at December 31, 1976 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments, after income taxes, of \$388,000 were charged to the provision for unfunded pensions in 1976.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately \$13,500,000 at December 31, 1976. These obligations are to be settled by annual payments charged to operations through 1991. During 1976 an amount of \$1,247,000 was charged to operations with respect to these obligations.

9. Preferred and common shares:

(in thousands)

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	<u>\$14,000</u>
Common shares without nominal or par value —	
Authorized — Class A convertible — 10,000,000 shares	
— Class B convertible — 10,000,000 shares	
Issued and outstanding —	
— Class A convertible — 7,885,812 shares	52,693
— Class B convertible — 243,529 shares	<u>1,627</u>
<u>8,129,341</u> shares	<u>54,320</u>
	<u>\$68,320</u>

The outstanding preferred shares are redeemable at the option of the Company at \$105 per share.

By Supplementary Letters Patent dated September 30, 1976, the 10,000,000 authorized common shares without nominal or par value were reclassified as 10,000,000 Class A convertible common shares without nominal or par value and the capital of the Company was altered by the creation of 10,000,000 Class B convertible common shares without nominal or par value.

The Class A shares and Class B shares are convertible into one another on a share-for-share basis and rank equally with respect to dividends and in all other respects except that dividends when declared by the Directors on the Class A shares will be taxable dividends, whereas in the case of the Class B shares, the Directors in their discretion, may declare dividends to be paid out of 1971 capital surplus on hand as defined in the Income Tax Act, Canada. If any dividend is declared on Class B shares, the Directors must declare at the same time a dividend on the Class A shares in an amount equal to the dividend being paid on the Class B shares.

Total outstanding common shares at December 31, 1976 is unchanged from 1975.

An option to an officer to subscribe for 13,000 unissued Class A shares is outstanding at \$3.35 per share expiring in 1979. Exercising this option would have an insignificant effect upon earnings per share.

10. Contingent liabilities:

The Company and a subsidiary are contingently liable for trade notes discounted in the approximate amount of \$3,800,000 (1975 — \$5,100,000). Possible losses on claims and suits related to product sales have been provided for in an amount considered to be adequate.

11. Commitments:

At December 31, 1976 expenditures of approximately \$5,500,000 are required to complete capital programs. Also, an amount of \$13,600,000 including \$4,575,000 for the railway rolling stock leasing fleet had been authorized by the Board of Directors but not committed.

12. Income tax provision not required:

In prior years the Company had accumulated costs and expenses which were charged in the accounts but could not be applied in reduction of income for tax purposes. During 1976 the Company applied these costs and expenses in reduction of income for tax purposes and the related tax benefit of \$653,000 was recorded as an extraordinary item of income.

13. Anti-Inflation:

The Company is subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government October 14, 1975. This legislation provides for restraint of prices, profit margins, dividends and employee compensation.

14. Government assistance:

During the year the Company received \$8,764,000 under various government assistance programs. Of this sum, \$8,103,000 was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, \$165,000 was applied in reduction of the cost of fixed assets and the balance of \$496,000 was applied in reduction of costs, primarily for product development. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

15. Remuneration of directors and officers:

For the year 1976 six directors received remuneration of \$33,246 (1975 — \$32,204) and seven directors received no remuneration as directors. Twelve officers, of whom seven are also directors, and three past officers received remuneration of \$621,157 (1975 — \$554,431).

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, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, Ontario,
March 17, 1977

Miscellaneous Data on Sales, Employees, and Shares

	1976	1975
Sales (\$000):		
By Canadian factories —		
to Canadian markets	\$220,579	\$214,060
to Export markets	<u>61,301</u>	<u>89,669</u>
	281,880	303,729
By foreign subsidiaries (excluding sales of products of Canadian factories)	<u>53,201</u>	<u>61,505</u>
	<u>\$335,081</u>	<u>\$365,234</u>

The average weekly number of employees and their remuneration was as follows:

in Canada	6,786	7,236
in the United Kingdom	679	577
in the United States of America and other countries	<u>89</u>	<u>118</u>
	<u>7,554</u>	<u>7,931</u>

Aggregate remuneration of employees was (\$000) \$118,880 \$113,589

Common share dividends for 1976 have been declared as follows:

Record Date	Payable	
December 31, 1976	January 21, 1977	\$.09
September 4, 1976	October 15, 1976 .....	.09
June 25, 1976	July 16, 1976 .....	.09
March 26, 1976	April 16, 1976 .....	.09
		<u>\$.36</u>

Preferred share quarterly dividends of \$1.4375 were declared payable on the 2nd day of January, April, July and October, 1976.

The Department of National Revenue has published the following "Valuation Day" share prices (December 22, 1971) for income tax purposes:

Preferred shares	\$58.50
Common shares	\$ 2.40

Divisions and Subsidiaries

Divisions:

Canadian Car Division, Thunder Bay, Ont.
Can-Car Trailer Division, Mississauga, Ont.
Canadian Car (Pacific) Division, Surrey, B.C.
Canadian Steel Foundries Division, Montreal, Que.
Canadian Steel Wheel Division, Montreal, Que.
Data Processing and Graphics Division,
Mississauga, Ont.
Forestry Equipment Division, Mississauga, Ont.
Orenda Division, Mississauga, Ont.

Subsidiaries:

Can-Car Inc., Atlanta, Bainbridge and Waycross,
Ga., McComb., Miss., U.S.A. (100%)*
Chip-N-Saw, Inc., Atlanta, Ga., U.S.A.
The Dosco Corporation, Pittsburgh, Penn.,
Denver, Col., U.S.A.
Canadian Car Pte. Limited, Singapore (100%)*
Chip-N-Saw A/S, Naestved, Denmark (100%)*
Orenda Engines Inc., Buffalo, N.Y., U.S.A. (100%)*
Orenda (International) Limited, Mississauga,
Ont. (100%)*
Hawker Industries Limited, Toronto, Ont. (99%)*
Canadian Bridge Division, Windsor, Ont.
Halifax Shipyards Division, Halifax, N.S.
Trenton Works Division, Trenton, N.S.
Dosco Overseas Engineering Limited,
Aylesbury, England.
Hollybank Engineering Company Limited,
Aylesbury, England.
Canadian General Transit Company, Limited,
Montreal, Que., Toronto, Ont., Moose Jaw, Sask.,
Red Deer, Alta. (55%)*

**percentage control by Hawker Siddeley Canada Ltd.*

Products and Services

Equipment for the transportation industry:

Canadian Car Division
Can-Car Trailer Division
Canadian Steel Foundries Division
Canadian Steel Wheel Division
Trenton Works Division
Canadian General Transit Company, Limited
Railway passenger cars (subway, commuter, and inter-city); highway trailers; container chassis; railway castings; trackwork; railway and industrial wheels; railway freight cars and tank cars; railway axles; forgings; storage and pressure tanks; steel fabrications; railway tank car and special freight car leasing; bulk liquid storage terminals.

Equipment for the forestry and forest product industries:

Canadian Car (Pacific) Division
Forestry Equipment Division
Canadian Car Pte. Limited
Can-Car Inc.
Chip-N-Saw A/S
Chip-N-Saw, Inc.
Log skidders and other forest harvesting equipment; sawmill and lumber processing equipment; electric-electronic control equipment.

Equipment for the mining industry:

Dosco Overseas Engineering Limited
Hollybank Engineering Company Limited
The Dosco Corporation
Mining and tunnelling machines; support systems for mining roadways and civil engineering tunnels.

Shipbuilding and repair:

Halifax Shipyards Division
Naval and merchant shipbuilding; ship repair; offshore drilling vessel construction.

Other general engineering and services:

Canadian Bridge Division
Canadian Steel Foundries Division
Data Processing and Graphics Division
Orenda Division
Orenda Engines Inc.
Orenda (International) Limited
Electric power transmission towers and poles; communications structures; sub-station structures; industrial castings; electronic data processing and graphics services; industrial gas turbines; gas turbine components; aircraft gas turbine repair and overhaul; components for nuclear power applications; engineering, design and laboratory testing services.

Hawker Siddeley Canada Ltd.

Head Office

7 King Street East,
Toronto, Ontario
M5C 1A3

Directors

A.A. Bailie, Toronto, Ontario
J.H. Coleman, Toronto, Ontario
R.S. Faulkner, Toronto, Ontario
Sir Arnold Hall, London, England
J.F. Howard, Q.C., Woodbridge, Ontario
A.J. Laurence, Pewsey, Wiltshire, England
A.W. McKenzie, Montreal, Quebec
L.A. Mitten, Vancouver, British Columbia
J.N. Paterson, Thunder Bay, Ontario
K.L. Phillips, Sutton, Surrey, England
R.G. Smith, Halifax, Nova Scotia
E.J. White, St. Lambert, Quebec
F.H. Wood, Barrow-upon-Soar, Leicestershire, England

Executive Management

Sir Arnold Hall, Chairman
R.G. Smith, Vice-Chairman
F.H. Wood, Vice-Chairman
R.S. Faulkner, President and
Chief Executive Officer
A.A. Bailie, Vice-President, Finance
I.E. Bull, Vice-President and Treasurer
J.W.R. Caldwell, Comptroller
L.T. Corey, Vice-President
(Halifax Shipyards and Trenton Works Divisions)
C.A. Haines, Secretary
A.W. McKenzie (Chairman and President,
Canadian General Transit Company, Limited)
L.A. Mitten, Vice-President
(Canadian Car (Pacific) Division)
F.J. Sandford, Assistant Treasurer
R.F. Tanner, Vice-President
(Orenda and Can-Car Trailer Divisions)
E.J. White, Vice-President
(Canadian Steel Foundries and
Canadian Steel Wheel Divisions)

Auditors

Price Waterhouse & Co.,
Toronto, Ontario

Registrar and Transfer Agent

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

