

ANNUAL REPORT 1968



Fairbanks Morse (Canada) Ltd.

Kingston, Ontario, Canada

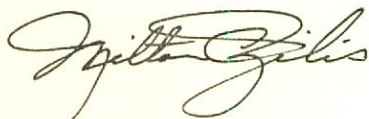
FAIRBANKS MORSE (CANADA) LTD.

TO THE SHAREHOLDERS:

Net earnings for the year ended December 31, 1968 were \$9,569 on sales of \$11,507,000, compared with a net loss of \$410,000 on sales of \$6,859,000 in 1967. The net sales figure for 1968 includes reimbursements totalling \$1,300,000 to cover costs on various contracts that were terminated prior to completion. No provision for income taxes was required in 1968 due to the loss carry forward provisions of The Income Tax Act.

Orders for the year 1968 were \$7,670,000 compared with \$9,751,000 in 1967. The order backlog at December 31, 1968 was \$2,762,000, compared with a backlog of \$6,599,000 at the end of 1967. The curtailment of planned shipbuilding activity in Canada during the past year has had a severe adverse effect on the Company's backlog of marine diesel engines.

In view of the low order backlog noted above and the unfavourable operating results of the first quarter of 1969 as set forth in the accompanying First Quarter Report, we are proceeding to phase out our Kingston manufacturing and operating facilities and anticipate that all manufacturing activities at this location will be terminated by June 30, 1969. We are also giving consideration to the disposition of these facilities, and the effect of such disposition on the financial condition of the company can not be determined at this time. The company plans to continue other operations and business in Canada as in the past.



President

May 15, 1969
Kingston, Ontario

FAIRBANKS MORSE (CANADA) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968 AND 1967

1. CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 1967, the Company purchased the marine diesel engine business of Robert Morse Corporation Ltd. and the outstanding shares of its subsidiary, Dynamic Engineering Ltd.

The accompanying consolidated financial statements include the assets and liabilities of this business and of the subsidiary as of December 31, 1968 and 1967, and the results of their operations for the year ended December 31, 1968, and the six months ended December 31, 1967.

2. CONTRACT ACCOUNTING

Major contracts may extend over a period longer than one year. Income from contracts is recorded on the percentage-of-completion basis.

3. BANK ADVANCES

The bank advances are secured by a general assignment of accounts receivable and inventories and by assignment of proceeds of certain insurance policies.

4. PROGRAM FOR REORGANIZATION AND REHABILITATION OF MANUFACTURING FACILITIES

This program was completed in 1967 and the balance of the provision, being no longer required, was returned to Earned surplus (deficit).

5. CONTRACT TERMINATIONS

Sales for 1968 include reimbursements of \$1,299,872 to cover costs incurred on various contracts which were terminated prior to completion.

6. DEPRECIATION AND REMUNERATION

Income (loss) from operations is stated after deducting the following charges:

	1968	1967
Depreciation	\$ 97,277	\$ 73,993
Remuneration of Directors and Senior Officers (including amounts paid to Directors, as directors and officers, of \$76,312 in 1968 and \$46,289 in 1967).	124,116	109,550

AUDITORS' REPORT

To the Shareholders,

Fairbanks Morse (Canada) Ltd.:

We have examined the consolidated balance sheets of FAIRBANKS MORSE (CANADA) LTD. (a Canada corporation) and subsidiary as of December 31, 1968 and 1967, and the related consolidated statements of income (loss) and source and application of funds for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income (loss) and source and application of funds present fairly the financial position of Fairbanks Morse (Canada) Ltd. and subsidiary as of December 31, 1968 and 1967, and the results of their operations and the source and application of their funds for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis during the years.

ARTHUR ANDERSEN & CO.

Montreal, Quebec,
January 24, 1969.

FAIRBANKS MORSE (CANADA) LTD.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967 (NOTE 1)

	1968	1967
SALES (Note 5)	\$ 11,507,324	\$ 6,859,484
COST OF SALES	10,330,487	6,426,285
Gross income	1,176,837	433,199
OPERATING EXPENSES:		
Selling	905,264	699,024
General and administrative	263,010	244,674
	1,168,274	943,698
Income (loss) from operations (Note 6)	8,563	(510,499)
OTHER INCOME (EXPENSES):		
Commission income	30,115	96,448
Other, net	(29,109)	3,786
	1,006	100,234
Net income (loss)	\$ 9,569	\$(410,265)

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967 (NOTE 1)

	1968	1967
WORKING CAPITAL, beginning of year	\$ 1,809,991	\$ 2,378,667
SOURCE OF FUNDS:		
Funds derived from operations —		
Net income (loss)	9,569	(410,265)
Depreciation	97,277	73,993
	106,846	(336,272)
APPLICATION OF FUNDS:		
Additions to plant and equipment	183,749	186,297
Expenditures charged to Provision for Estimated Costs of Program for Reorganization and Rehabilitation of Manufacturing Facilities	—	46,107
	183,749	232,404
Decrease in working capital	76,903	568,676
WORKING CAPITAL, end of year	\$ 1,733,088	\$ 1,809,991

The accompanying notes are an integral part of these statements.

FAIRBANKS MORSE (CANADA) LTD.

CONSOLIDATED BALANCE SHEETS — DECEMBER 31, 1968 AND 1967 (NOTE 1)

A S S E T S		
CURRENT ASSETS:	1968	1967
Cash	\$ 58,932	\$ 211,430
Accounts receivable (Note 3)	1,079,808	1,132,623
Costs of uncompleted contracts, less related progress payments of \$3,027,441 in 1968 and \$3,053,775 in 1967 (Note 2)	1,183,135	290,483
Inventories, at the lower of cost (first-in, first-out) or market (Note 3) —		
Finished goods	644,335	825,195
Work in process	1,432,504	1,762,865
Raw materials	498,526	589,000
	2,575,365	3,177,060
Advances on contracts	40,682	369,395
Prepaid expenses	113,363	116,980
Total current assets	5,051,285	5,297,971
PLANT AND EQUIPMENT, at cost	4,173,945	4,003,757
Less — Accumulated depreciation	(3,031,278)	(2,947,562)
	1,142,667	1,056,195
	<u>\$ 6,193,952</u>	<u>\$ 6,354,166</u>
L I A B I L I T I E S		
CURRENT LIABILITIES:	1968	1967
Bank advances (Note 3)	\$ 964,894	\$ 750,000
Accounts payable and accrued liabilities	683,978	707,834
Accrued taxes	15,133	31,797
Payable to affiliated companies (U.S. \$562,563 in 1968 and U.S. \$330,225 in 1967)	607,568	356,643
Customers' advances	1,021,994	905,566
Progress payments on uncompleted contracts, less related costs of \$1,166,920 in 1968 and \$66,229 in 1967 (Note 2)	24,630	736,140
Total current liabilities	3,318,197	3,487,980
CAPITAL STOCK AND EARNED SURPLUS (DEFICIT):		
Capital stock — Common shares without nominal or par value — authorized and issued — 250,000 shares	3,629,261	3,629,261
Earned surplus (deficit) —		
Balance at beginning of year	(763,075)	(770,078)
Net income (loss)	9,569	(410,265)
	(753,506)	(1,180,343)
Reversal of Provision for Estimated Costs of Program for Reorganization and Rehabilitation of Manufacturing Facilities (Note 4)	—	417,268
Balance at end of year	(753,506)	(763,075)
	2,875,755	2,866,186
	<u>\$ 6,193,952</u>	<u>\$ 6,354,166</u>

The accompanying notes are an integral part of these balance sheets

Approved on behalf of the Board: M. C. ZILIS, Director.

J. A. BERGENDAHL, Director.

FAIRBANKS MORSE (CANADA) LTD.

DIRECTORS:

J. A. BERGENDAHL

J. T. DEVANEY

J. C. CAMERON

W. D. FORD

BLAIR BOLLES

D. I. MARGOLIS

M. C. ZILIS

OFFICERS:

M. C. ZILIS, President

J. S. BRANT, Vice-President

J. A. BERGENDAHL, Vice-President

P. A. LAING, Treasurer

E. M. GILMORE, Secretary

TRANSFER AGENT AND REGISTRAR:

NATIONAL TRUST COMPANY LIMITED

Toronto, Ontario

Montreal, Québec

AUDITORS:

ARTHUR ANDERSEN & Co., CHARTERED ACCOUNTANTS