Annual Report 1983

INTERNATIONAL HARVESTER
CANADA

INTERNATIONAL HARVESTER
CANADA

General Offices: 208 Hillyard Street, Hamilton, Ontario, L8N 3S5

Annual Report 1983

The fiscal year ended October 31, 1983

Ce rapport est publié en français et en anglais. Si vous préférez un exemplaire français, veuillez écrire au Directeur des Relations publiques de la Compagnie.

Directors and Officers

as of October 31, 1983

BOARD OF DIRECTORS:

Paul M. Cassar, *Comptroller of the Company*
Harold D. Dent, *President of the Company*
John A. Gibson, *Vice President Finance of the Company*
Gerald B. Johanneson, *Vice President Marketing of the Company*
Frank Lever, *President, International Harvester Credit Corporation of Canada Limited*
John E. Reble, *Assistant Treasurer and Director Human Resources of the Company*

OFFICERS:

Harold D. Dent, *President*
John A. Gibson, *Vice President Finance*
Gerald B. Johanneson, *Vice President Marketing*
Paul M. Cassar, *Comptroller*
Lloyd A. Pezze, *Secretary*
John E. Reble, *Assistant Treasurer and Director Human Resources*
Norman R. Todd, *Assistant Treasurer*

Other Executives:

William C. McConnachie, *Director Technical Services*
Bernard Q. Murphy, *Manager, Truck Sales*
Brian H. Kirkpatrick, *Manager, Agricultural Equipment Sales*
A. Keith Hibbard, *Manager, Service Parts*
Donald A. Thorsell, *Manager, Finance Sales*

President's Message

1983 was a significant and in many respects, a very encouraging year for International Harvester Canada. The fact that substantial gains were achieved in the face of difficult business conditions is a tribute to our employees, dealers, and suppliers.

Few, if any, sectors suffered as severely from the recession as the truck and agricultural equipment industries. These markets have not yet experienced the turnaround noted in other segments encouraging economists to say the recovery is well underway. For example, unit sales of the medium and heavy truck industries in which we compete plummeted 68% from a peak of 50,850 in 1979 to 16,150 in 1983. The recession also impacted severely on the Canadian agricultural equipment industry. Industry sales of the various product lines in which the Company participates declined anywhere from 32% to 48% during the corresponding time period. While suffering *the effects* of these disastrous industry trends, it's very encouraging to note that we maintained or improved our traditional market penetration.

Despite this persistent decline in market demand, resulting in a $170 million drop in our total sales from 1982 to 1983, the loss before extraordinary items of $42.5 million in 1982 was reduced to $10.2 million in 1983. Furthermore, the 1983 loss included a one time expense of $7.9 million for product rationalization at the Chatham Truck Plant.

The above results were achieved through a series of coordinated actions in 1982 and 1983 positioning the Company to profit from a market recovery. The most positive and far reaching decision concentrated all our resources in the two core business areas we know best and where we are a traditional leader: medium and heavy trucks and agricultural equipment.

This decision led to the sale of the Construction Equipment Division including the plant in Candiac, Quebec, the sale of Pacific Truck & Trailer Ltd. in Vancouver and the pending sale of Seddon Diesel Vehicles Limited in Oldham, Lancashire, England. In addition to improving the overall financial position of the Company, these measures enable us to fully express our commitment in the Company's two core business areas.

In 1983, International Harvester Company decided to concentrate North American truck production at the Chatham, Ontario, and Springfield, Ohio, plants. As a part of that program, International Harvester Canada invested significant funds to improve the efficiency and productivity of the Chatham facility; the sole source for certain medium and heavy truck models. The Hamilton, Ontario, agricultural equipment plant continues as the major North American source for tillage, seeding, material handling and hay/forage products.

The broad range of measures that enhanced the Company's competitive position were complemented by a series of stringent cost and inventory reduction programs. More efficient inventory control systems reduced inventories by 22% from 1982 levels, significantly improving inventory turnover. Cost reductions resulted from the streamlining of administrative and marketing services.

In addition to the above management actions, our lenders expressed their confidence in the Company through the extension of our credit facility for a period of 2-1/4 years. This financial framework positions International Harvester Canada to strengthen its leadership role in medium and heavy trucks and agricultural equipment.

Our products are fully competitive in terms of advanced design features and cost-efficient performance. We are equally convinced that our dealer organization is second to none. Our dealers met the challenge of recent years with energy and commitment, assuring their successful response to future opportunities.

We are totally confident the Company will fully benefit from the rebound expected in the 1984 truck market and the modest recovery anticipated in the agricultural equipment sector.

On behalf of the Board of Directors, I want to express our gratitude to employees, suppliers, and lenders who contributed so much to justify our customers' continuing faith in the Company and its products.

HD Dent

Harold D. Dent
President

Consolidated Statement of Income and Income Retained

For the years ended October 31, 1983 and 1982
(Dollars in thousands)

	1983	1982
Sales		
Dealers and users in Canada	$373,676	$497,597
International Harvester Company	222,539	268,807
Other affiliated companies and jobbers	5,080	4,435
Total Sales	601,295	770,839
Costs and Expenses		
Cost of sales	545,277	712,585
Marketing and administrative expenses	26,129	41,531
Charges for financing services from non-consolidated finance subsidiary (note 12)	23,831	37,667
Interest expense (including long-term of — 1983 $2,271; 1982 $2,877)	10,204	13,490
Other income-net	(4,252)	(12,248)
Provision for income taxes — current	(163)	(813)
Total Costs and Expenses	601,026	792,212
Income (Loss) consolidated companies	269	(21,373)
Loss non-consolidated finance subsidiary (note 12)	(2,218)	(7,095)
Product rationalization expense (note 14)	(7,931)	—
Loss from discontinued operations (note 10)	(290)	(14,050)
Loss Before Extraordinary Items	(10,170)	(42,518)
Extraordinary Items		
Gain (Loss) on sale of Company operations (note 10)	722	(35,755)
Recovery of (Provision for) loss on loan guarantees (note 9)	4,562	(12,000)
Deferred income taxes (note 5)	—	(16,124)
Net Loss	(4,886)	(106,397)
Income Retained		
— at beginning of the year	122,427	228,824
— at end of the year	$117,541	$122,427

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Consolidated Statement of Financial Condition

October 31, 1983 and 1982
(Dollars in thousands)

	1983	1982
ASSETS		
Current Assets		
Cash	$ 14	$ 123
Accounts receivable:		
Trade less allowances	5,385	15,345
Parent company	30,439	24,739
Affiliated companies	85	130
Non-consolidated finance subsidiary	4,717	—
Notes receivable non-consolidated finance subsidiary	20,000	30,587
Inventories (note 2)	70,302	138,413
Realizable value of net assets being sold (note 10)	—	4,582
Other current assets	2,944	3,780
Total Current Assets	133,886	217,699
Restricted Cash (note 8)	747	—
Equity in Non-Consolidated Finance Subsidiary	124,561	111,751
Investment in Dealerships (note 13)	12,257	1,988
Receivable from IH Australia (note 9)	8,272	—
Property at cost, less depreciation & amortization (note 3)	48,508	61,350
Goodwill at cost, less amortization	—	2,987
Other Assets	1,679	808
Total Assets	$329,910	$396,583
LIABILITIES		
Current Liabilities		
Bank indebtedness	$ 3,829	$ 16,553
Notes payable (note 8)	87,600	71,300
Current invoices, payrolls and accruals	86,183	97,098
Accrued taxes	2,097	5,068
Accounts payable to affiliated companies	928	1,084
Accounts payable non-consolidated finance subsidiary	—	12,029
Allowance for loss on sale of Company operations (note 10)	—	22,663
Accrued loan guarantees (note 9)	—	12,000
Current portion of long-term debt	1,441	4,025
Total Current Liabilities	182,078	241,820
Long-term Debt (note 4)	15,291	17,336
Total Liabilities	197,369	259,156
CONTINGENCY (note 1)		
SHAREHOLDER'S EQUITY		
Capital stock — authorized, issued and fully paid — 150,000 common shares (note 15)	15,000	15,000
Income retained	117,541	122,427
Total Shareholder's Equity	132,541	137,427
Total Liabilities & Shareholder's Equity	$329,910	$396,583

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Approved by the Board: *Harold D. Dent* *Director*
John A. Gibson *Director*

Consolidated Statement of Changes in Financial Position

For the years ended October 31, 1983 and 1982
(Dollars in thousands)

	1983	1982
Source of Working Capital		
Working capital provided from operations (note 11)	$ 1,003	$ —
Property disposals	3,037	3,644
Decrease in note receivable from non-consolidated finance subsidiary	—	20,000
Recognition of loss on sale of Company operations	22,663	—
Proceeds on sale of Company operations	6,771	4,582
Recovery of provision for loss on loan guarantee	4,562	—
Other — net	—	1,623
Total Source	38,036	29,849
Application of Working Capital		
Capital expenditures:		
Canadian facilities	10,495	5,188
Seddon Diesel Vehicles Limited	—	413
Total Capital Expenditures	10,495	5,601
Working capital provided to operations (note 11)	—	26,401
Purchase of preference shares in non-consolidated finance subsidiary	16,228	21,770
Dividend of preference shares in non-consolidated finance subsidiary	1,376	—
Investment in dealerships	10,269	—
Working capital sold	11,804	15,601
Increase in restricted cash	747	—
Decrease in long-term debt	2,045	2,606
Long-term receivable from IH Australia	8,272	—
Deferred income taxes	—	16,124
Loss on sale of Company operations	—	22,663
Provision for loss on loan guarantees	—	12,000
Other — net	871	—
Total Application	62,107	122,766
Increase (Decrease) in Working Capital	(24,071)	(92,917)
Working Capital (Deficiency) — at beginning of the year	(24,121)	68,796
— at end of the year	$ (48,192)	$ (24,121)
Changes in Working Capital		
Current assets — increase (decrease)		
Cash	$ (109)	$ 29
Accounts receivable	412	(42,463)
Notes receivable non-consolidated finance subsidiary	(10,587)	30,587
Inventories	(68,111)	(39,695)
Deferred income taxes	—	(17,430)
Other current assets	(5,418)	4,889
Current liabilities — (increase) decrease		
Bank indebtedness	12,724	(7,352)
Notes payable	(16,300)	6,232
Accounts payable and accruals	26,071	7,449
Allowance for loss on sale of Company operations	22,663	(22,663)
Accrued loan guarantees	12,000	(12,000)
Current maturities of long-term debt	2,584	(500)
Increase (Decrease) in Working Capital	$ (24,071)	$ (92,917)

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

Notes to Consolidated Financial Statements

October 31, 1983 and 1982
(Dollars in thousands)

1. Summary of Accounting Policies

BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Although the Company is a separate entity, its operations including source of product, settlement of balances, and its ability to continue as a going concern significantly depends upon International Harvester Company being able to continue as a going concern.

Both the Company and International Harvester Credit Corporation of Canada Limited have signed extension agreements with their respective banking groups extending existing bank financing until March 14, 1986. While management recognizes that signing these extension agreements does not represent an assurance that the companies will be able to continue as a going concern, it is the view of management that such agreements, together with operational and financial restructuring actions already taken and those which are contemplated by the Company and International Harvester Company, will permit the companies to meet the difficulties presented by current economic conditions.

BASIS OF CONSOLIDATION

The 1982 financial statements include the accounts of International Harvester Canada Limited and its wholly-owned subsidiaries, Pacific Truck and Trailer Ltd. and Seddon Diesel Vehicles Limited on a consolidated basis. Due to the sale of Pacific Truck and Trailer Ltd. and the pending sale of Seddon Diesel Vehicles Limited (see note 10), the 1983 financial statements include only the accounts of International Harvester Canada Limited. International Harvester Credit Corporation of Canada Limited is included in the financial statements at the Company's equity in its net assets, which management believes to be a more informative presentation. Investments in dealerships are carried on the cost or equity basis depending on the nature of the financial arrangements with the Company.

Financial statements for the non-consolidated finance subsidiary are set out separately on pages 13 to 18.

FOREIGN EXCHANGE

With the exception of inventories, current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Inventories have been translated at applicable historical rates. Other foreign currency assets and liabilities are translated at the exchange rates prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation expense is translated at the exchange rates prevailing at the time the related assets were acquired. Gains or losses resulting from exchange rate fluctuations are credited or charged to income currently.

INVENTORY VALUATION

Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value for raw materials and supplies and work-in-process. For finished goods, market is considered as net realizable value less a normal profit margin.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for other than capital leases are generally computed on a straight-line basis over the useful lives of the various classes of properties.

LEASES

The Company capitalizes leases that transfer substantially all of the benefits and risks of ownership to the lessee. These capital leases are, in general, amortized over the terms of the respective leases. Lease amortization is included in depreciation expense.

ENGINEERING AND RESEARCH EXPENDITURES

Expenditures for the development of new and improved products are charged to costs as incurred.

2. Inventories

	1983	1982
Finished goods	**$ 31,705**	$ 83,409
Raw materials and supplies	**28,254**	40,395
Work-in-process	**10,343**	14,609
	$ 70,302	$138,413

3. Property

	1983	1982
Canadian Facilities		
Buildings, machinery and equipment:		
Manufacturing	**$ 88,323**	$ 84,817
Distribution	**16,183**	19,021
Other	**2,957**	4,944
	107,463	108,782
Less accumulated depreciation and amortization	**65,116**	66,749
	42,347	42,033
Tooling and pattern equipment, less amortization	**4,057**	4,615
Land	**2,104**	2,253
	48,508	48,901
Seddon Diesel Vehicles Limited — net	**—**	12,449
	$ 48,508	$ 61,350

Notes to Consolidated Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

4. Long-term Debt

Long-term debt at October 31, excluding amounts maturing within one year, is summarized below:	**1983**	1982
Note due 1985 with interest at 13-1/4% payable annually	**$ 15,098**	$ 15,098
Notes due 1984 to parent company with interest at 7-3/4%	—	1,344
Other	**193**	894
	$ 15,291	$ 17,336

5. Income Taxes

At October 31, 1983, losses from Canadian operations for income tax purposes totalling approximately $72,553 are available to be carried forward. These loss carry-forwards expire as follows:

1986	$22,230
1987	20,189
1988	30,134
	$72,553

In addition, at October 31, 1983, charges totalling $42,994 have been recorded for financial statement purposes but not yet recognized for income tax purposes.

No recognition of the potential income tax savings which might result from deducting these amounts from future years' taxable income has been recorded in these consolidated financial statements.

In view of economic conditions which existed in 1982, management determined that it would be prudent to write off deferred income taxes of $16,124 which existed at that time. These resulted primarily from recording dealer allowances, warranty accruals and other current operating costs in advance of claiming these charges for income tax purposes.

6. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense was $5,121 for 1983 and $10,569 for 1982. Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs.

At October 31, past service pension costs of $62,318 for 1983 and $74,442 for 1982, which have not as yet been charged to operations, will be amortized over the period to 1995. Approximately $56,499 for 1983 and $71,625 for 1982 of these past service costs relate to vested benefits.

Modifications in the actuarial assumptions relative to asset valuation, more current investment yields and mortality rates, combined with actuarial valuations resulted in these retirement plans producing an actuarial gain. Pension costs reflected above for 1983 and 1982 have been reduced by $9,776 and $5,098 respectively through the application of these gains. Future pension costs will be reduced by utilizing the unapplied balance which exists at October 31, 1983 of approximately $22,000.

7. Related Party Transactions

The Company is a wholly-owned subsidiary of International Harvester Company. The manufacturing operations of the Company and its parent are such that only a limited number of products are manufactured at any one plant. Therefore, the Company and its parent operate interdependently to assure that a complete product line is made available to the Canadian consumer. These consolidated financial statements include the Company's transactions with the parent company and the parent's subsidiary companies as follows:

	1983		1982	
	Parent	**Parent Subsidiaries**	Parent	Parent Subsidiaries
Sales	**$222,581**	**$ 412**	$278,323	$ 2,587
Purchases	**231,173**	**13,206**	353,544	13,156
Engineering and other services — net	**9,151**	—	4,818	—

The Company sells certain specified retail accounts and wholesale notes and accounts to its non-consolidated finance subsidiary under an agreement between the companies. Up to October 31, 1982, the Company was obliged to pay interest on these notes and accounts at an agreed upon interest rate applied to the average monthly outstanding balances less interest amounts paid by dealers on such notes and accounts, and thereafter, at an amount to provide the non-consolidated finance subsidiary a predetermined multiple of interest charges. The Company has substantially restructured certain aspects of these financial arrangements with its non-consolidated finance subsidiary, as indicated in note 12.

The Company's transactions with its non-consolidated finance subsidiary are disclosed in that company's financial statements presented on pages 13 through 18.

8. Financing

During 1981, the Company and International Harvester Credit Corporation of Canada Limited entered into credit agreements with a consortium of Canadian chartered banks. These credit agreements required, as one condition, that the parent company finalize negotiations with its banks and other lenders and provide satisfactory evidence to the consortium of Canadian chartered banks that such parent company agreements were in place. On December 23, 1981, the parent company completed these negotiations and executed those agreements.

Notes to Consolidated Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

As a result, the Company's credit agreement referred to above was finalized, providing the Company with a term credit facility of $100 million, reduced to $94.7 million during 1983, with borrowing by way of demand notes. Advances against this line of credit, totalling $87.6 million at October 31, 1983 and $71.3 million at October 31, 1982, are shown as notes payable in the accompaning consolidated statement of financial condition.

Covenants contained in this credit agreement place restrictions on intercompany account balances with the parent company and its subsidiaries, provide for a minimum equity, require minimum liquidity ratios, restrict the use of funds obtained on the sale of capital assets and limit the amount of dividends that the Company can declare and pay. In addition, the Company executed a collateral debenture covering essentially all of its property in Canada and its investment in the shares of subsidiary companies as security for this line of credit. The debenture specifically excludes trade accounts receivable and inventories from the assets pledged to the banks.

By memorandum of agreement dated March 15, 1983, the term credit facility was revised although the credit line and maturity were not changed. However, the revised covenants place restrictions on intercompany account balances with the parent company and its subsidiaries, on minimum equity at reduced levels, on the use of funds obtained on the sale of capital assets and limit the amount of dividends that the Company can declare and pay.

At October 31, 1982, the Company did not satisfy its obligations relating to minimum equity and liquidity ratios. By the above memorandum of agreement, the covenants were amended such that the outstanding violations of the restrictive covenants were removed.

As a result of transactions with International Harvester Company, as at October 31, 1983, the Company was in default on the amount relating to intercompany account balances with its parent and its subsidiaries. In accordance with the terms of the memorandum of agreement this default was cured in November 1983 by way of payment from the parent to the Company.

The proceeds and any earned interest from the sale of assets in excess of the level permitted by the credit agreement are required to be retained in a cash collateral account. At October 31, 1983, the Company had total cash collateral in the amount of $747 which is reflected in the consolidated statement of financial condition as restricted cash.

By agreement dated December 20, 1983, the Company has obtained an extension of its term credit facility for $94.7 million to March 14, 1986.

The credit agreement entered into by International Harvester Credit Corporation of Canada Limited in 1981 was reduced from $450 million to $365 million on October 31, 1982. This agreement was extended on a month-by-month basis, pending successful completion of a debt reorganization proposal. In addition, a $15 million loan due March 15, 1982 was extended on a day-to-day basis pending the execution of an agreement to convert this loan to a revolving credit facility.

By a restructuring agreement dated March 15, 1983, such credit facility and loan together with an additional $75 million of loans with maturity dates of January 29, 1983 and June 23, 1983, were combined and replaced by a new revolving credit facility of $440 million. The new credit facility was reduced on August 1, 1983 to $418 million and on November 1, 1983 to $396 million.

By agreement dated December 20, 1983, International Harvester Credit Corporation of Canada Limited has obtained an extension of the above revolving credit facility for $396 million to March 14, 1986.

9. Loan Guarantees

In 1981, the Company provided guarantees totalling $20 million relating to Letters of Credit issued in favour of lenders to an Australian affiliated company. The Australian affiliate was placed in receivership September 30, 1982. In 1982, the Company anticipated that the losses under these guarantees would total $12 million and made a provision for this amount.

In 1983, the Company was required to advance $14.7 million under these guarantees, in addition to which the Company incurred other costs relating thereto. Under a creditor's agreement, $8,272 of the amounts paid under guarantees has been estimated as recoverable and recorded as an asset.

Based on this information provided by the receiver, the anticipated loss is $7,438. Since the Company provided $12 million in its 1982 financial statements in anticipation of this loss, a recovery of $4,562 results in 1983.

10. Operational Restructuring

In 1982, the Board of Directors of International Harvester Company approved an operational restructuring plan, under which the scope of the business of the International Harvester organization would be narrowed to its core business consisting of the production in North America and Europe and the marketing worldwide of agricultural equipment and the production in North America and marketing worldwide of trucks.

Gains and losses which have been recorded in each of 1983 and 1982 as an extraordinary item under the caption, "Gain (Loss) on sale of Company operations", amount to:

	1983	1982
Gain (Loss) on Sale of Construction Equipment Division	**$472**	$(13,092)
Provision for Loss on Sale of Seddon Diesel Vehicles Limited	—	(22,663)
Gain on Sale of Pacific Truck and Trailer Ltd.	**250**	—
Total	**$722**	$(35,755)

Notes to Consolidated Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

(a) Sale of Construction Equipment Division

The inventory and property of the Construction Equipment division in Canada, including the manufacturing plant in Candiac, Quebec, was sold effective January 1, 1983, in line with a master agreement signed by International Harvester Company effective November 1, 1982. At October 31, 1982, negotiations with the purchaser were not finalized, but the loss was estimated as follows:

Net Book Value of Assets for Sale	$ 17,674
Estimated Proceeds	4,582
Loss on Sale	$ 13,092

The final proceeds on the sale of this division were $4,889 and, when combined with other miscellaneous adjustments, resulted in a reduction to the overall loss on the sale of $472, which has been recorded as a gain in 1983.

(b) Sale of Seddon Diesel Vehicles Limited

In 1982, the Company stated its intention to sell Seddon Diesel Vehicles Limited, as that company had been identified as a non-core business. As no substantive amount was anticipated from this disposition, the Company booked a $22,663 provision for loss on sale of that subsidiary in 1982, which equated to the Company's equity at October 31, 1982.

In 1983, the Company accepted an offer to purchase Seddon Diesel Vehicles Limited, with an effective closing date of October 31, 1983. This agreement, although signed by the purchaser, requires the approval of its ultimate parent body. Notwithstanding, the Company has treated this transaction as a sale and has concluded that no adjustment to the provision recorded in 1982 is necessary, as indicated in the following table:

Equity at October 31, 1982		$ 22,663
1983 operating loss		(12,161)
		10,502
Provision at October 31, 1982	$ 22,663	
Reduction to offset 1983 operating loss	(12,161)	10,502
Effect on 1983 income		NIL

(c) Sale of Pacific Truck and Trailer Ltd.

Pacific Truck and Trailer Ltd. was also identified as a non-core business. This subsidiary was sold during 1983 for $2,500 producing a gain of $250.

(d) The operating results of the Construction Equipment division, Pacific Truck and Trailer Ltd. and Seddon Diesel Vehicles Limited have been disclosed separately in these consolidated financial statements as loss from discontinued operations and include the following:

	1983	1982
Construction Equipment		
Sales	**$ 2,917**	$ 27,446
Operating (income) loss	**(348)**	3,469
Pacific Truck and Trailer		
Sales	**6,636**	8,758
Operating loss	**638**	1,332
Seddon Diesel Vehicles		
Sales	**80,774**	99,530
Operating loss	**—**	9,249
Total Discontinued Operations		
— Sales	**$ 90,327**	$135,734
— Operating Loss	**$ 290**	$ 14,050

11. Working Capital Provided From (To) Operations

	1983	1982
Loss before extraordinary items	**$ (10,170)**	$ (42,518)
Items not affecting working capital:		
Depreciation and amortization	**6,379**	7,635
Undistributed loss of non-consolidated finance subsidiary	**4,794**	8,295
Amortization of goodwill	**—**	187
Working Capital Provided From (To) Operations	**$ 1,003**	$ (26,401)

12. Financial Restructuring

During 1982, International Harvester Canada Limited completed a restructuring of certain aspects of its financial arrangements with International Harvester Credit Corporation of Canada Limited (IHCC). This resulted in a substantial financial benefit to the overall Canadian International Harvester organization.

Prior to May 1, 1982, the operating arrangements between the Company and IHCC required that the Company pay interest on a monthly basis to IHCC on the outstanding balance of receivables purchased by IHCC from the Company and its dealers in respect of interest free periods under such receivables. This arrangement was intended to maintain IHCC's earnings available for interest charges at a level at least equal to 125% of such interest charges. This arrangement was restructured by agreements between the Company and IHCC covering the period May 1, 1982 to October 31, 1984 and by agreements between IHCC and certain of its lenders, the effects of which are as follows:

(a) The Company would only be obliged to make monthly interest payments to IHCC if IHCC demanded such payment,

Notes to Consolidated Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

(b) IHCC would be entitled during each month to waive its right to demand payment of all or any part of the interest otherwise required to be paid by the Company in respect of such month,

(c) Commencing November 1, 1982, such waiver arrangement could only be exercised in a manner which ensured that IHCC's earnings available for interest charges was at least equal to the amount of such interest charges, unless there was agreement with the Company and those same lenders.

In addition, by Amending Implementation Agreement between the Company and IHCC, covering the period from May 1, 1982 to October 31, 1982 IHCC agreed:

(i) to waive the wholesale acquisition discount for the period as well as refund the unearned wholesale discount as at May 1, 1982,

(ii) to permit the flat charge from dealers to accrue to the Company,

(iii) to pay the Company a repurchase fee in recognition of the Company being obliged to indemnify IHCC in respect of losses on certain wholesale and retail notes in excess of pre-established levels and

(iv) to pay a 15% mark-up of costs incurred by the Company in respect of credit and collection services provided to IHCC.

By subsequent agreement, the repurchase fee and the mark-up of costs, as described in (iii) and (iv), have been extended to October 31, 1984. For the period to June 30, 1983, the repurchase fee is based on the same terms and conditions as described above. Subsequent to that date, this fee will only be due and payable if payment is demanded by the Company.

As a result of this restructuring plan, IHCC waived its right to demand payment of interest charges by the Company of $8,500 in 1983 and $33,525 in 1982. Also, under this plan, the Company increased charges to IHCC by $10,276 in 1983 and $7,292 in 1982.

In return for these arrangements, the Company agreed to make up to IHCC the after-tax impact by purchasing preference shares of IHCC. In addition, to the extent that there was an overall tax savings achieved, the Company agreed to apply 28.4% of this tax savings, up to a maximum of $7,000, towards the purchase of preference shares of IHCC. To October 31, 1983, the Company has applied the full $7,000 to purchase 70,000 preference shares.

In accordance with a waiver agreement dated October 28, 1983, the Company agreed to purchase IHCC's preference shares in the aggregate amount of $1,000 plus the reduction in retained earnings in respect of IHCC's loss for the 1983 fiscal year. To October 31, 1983, the Company has complied with this agreement by the purchase of 35,990 preference shares for $3,599.

As a result of the above, the Company has purchased 379,984 preference shares for a cash consideration of $37,998, of which 162,278 shares were purchased for $16,228 during the current period. During 1983, the Company received an additional 13,760 preference shares valued at $1,376 by way of a stock dividend.

13. Investments in Dealerships

Effective November 1, 1982, the Company created separate entities and transferred to these subsidiary companies the assets and operations of the truck retail branches. At the same time, the Company entered into agreements which provide for the transfer of control of these units to third parties upon the satisfaction of certain conditions. The Company's investment in these dealerships is carried on the equity basis. Losses incurred by the dealers during fiscal 1983 have been provided for.

Other investments in dealer operations, financed and managed by the Company's Dealcor Franchise Investment group are carried at cost.

14. Product Rationalization

In an effort to maximize the utilization of plant capacities in North America, the Company proceeded with a Product Rationalization Program at its Chatham Plant. Total expenditures in 1983 amounted to $17,285, of which $7,931 relate to current year operations.

15. Capital Stock

The Company is incorporated and operates under the Business Corporations Act, Ontario. As a result of a revision of this Act effective July 30, 1983, the capital stock of the Company changed from $100 par value to no par value common shares on that date.

16. 1982 Figures

Certain of the 1982 figures have been reclassified to conform with the basis of presentation for 1983.

Auditors' Report

Deloitte Haskins+Sells

Chartered Accountants

6th Floor
1 James Street South
Hamilton, Ontario L8P 4R5
(416) 523-6770
Cable DEHANDS

To the Shareholder of
International Harvester Canada Limited

We have examined the consolidated statements of financial condition of International Harvester Canada Limited as at October 31, 1983 and 1982 and the consolidated statements of income and income retained and changes in financial position for the years then ended. We have made a similar examination of the financial statements of International Harvester Credit Corporation of Canada Limited, a non-consolidated finance subsidiary, as at October 31, 1983 and 1982 (pages 13 through 18). Our examinations were 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 financial statements present fairly (a) the consolidated financial position of International Harvester Canada Limited as at October 31, 1983 and 1982 and the results of its consolidated operations and changes in its consolidated financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis and (b) the financial position of International Harvester Credit Corporation of Canada Limited as at October 31, 1983 and 1982 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Auditors

December 21, 1983

Statement of Income and Income Retained

For the years ended October 31, 1983 and 1982
(Dollars in thousands)

	1983	1982
Revenue (notes 1 and 2)		
Interest, discounts, finance charges and other revenue on receivables:		
Retail — Parent company	$ 14,121	$14,325
— Other	38,142	47,722
	52,263	62,047
Wholesale — Parent company	18,210	55,889
— Dealers	18,441	28,468
	36,651	84,357
Gross Revenue	88,914	146,404
Revenue from parent company waived	(8,500)	(33,525)
Net Revenue	80,414	112,879
Expenses		
Interest on long-term debt:		
Parent company	3,000	3,000
Other	16,208	30,915
Long-term debt expense	230	327
Interest on short-term debt	37,970	70,891
Charges on short-term debt	2,376	1,301
Service fee paid to parent company for credit and collection, management and other services (note 2)	7,549	7,914
Repurchase fee (note 2)	9,293	6,260
Provision for losses on receivables	6,632	3,750
Insurance	1,962	2,345
Other charges	208	482
Taxes on income (note 1):		
Current	(354)	(4,048)
Deferred	(2,442)	(3,163)
Total Expenses	82,632	119,974
Net Income (Loss) for the Year	(2,218)	(7,095)
Dividends		
Cash	1,200	1,200
Preference shares	1,376	—
Income Retained		
For the year	(4,794)	(8,295)
At beginning of the year	59,981	68,276
At end of the year (note 7)	$ 55,187	$ 59,981

The accompanying Notes to Financial Statements presented on pages 16 to 18 are an integral part of this statement.

Statement of Financial Condition

October 31, 1983 and 1982
(Dollars in thousands)

	1983	1982
ASSETS		
Cash	$ 1,163	$ —
Receivables (notes 1 and 3)		
Retail	374,721	450,561
Wholesale	271,261	337,196
Total Receivables	645,982	787,757
Less:		
Unearned finance charges on retail notes (note 2)	68,645	81,515
Deferred discounts on wholesale notes (note 2)	1,447	—
Allowance for losses	5,353	2,893
Total deduction from receivables	75,445	84,408
Receivables — net	570,537	703,349
Repossessions (note 1)	2,947	3,131
Accounts receivable		
Parent company	—	12,029
Other	2,932	5,382
Income taxes recoverable	—	12,174
Prepaid interest	1,224	1,890
Unamortized long-term debt expense	317	469
Total Assets	$579,120	$738,424
LIABILITIES		
Bank indebtedness	$ —	$ 9
Debt payable within one year (note 9)		
Banks	71,900	40,300
Bank acceptances	230,000	298,900
Demand note — parent company	—	10,587
Current maturities of long-term debt	56,906	153,900
Total debt payable within one year	358,806	503,687
Accounts payable		
Parent company	4,717	—
Other	434	1,421
Total Accounts Payable	5,151	1,421
Dealers' contingency credits	5,827	7,366
Accrued taxes (note 1)	324	785
Accrued interest	4,777	9,974
Long-term debt (note 5)	73,270	95,157
Deferred income taxes (note 1)	6,404	8,274
Total Liabilities	454,559	626,673
CONTINGENCY (note 1)		
SHAREHOLDER'S EQUITY		
Capital stock		
Authorized (note 6)		
Issued and fully paid:		
393,744 preference shares (note 2)	39,374	21,770
300,000 common shares	30,000	30,000
Income retained (note 7)	55,187	59,981
Total Shareholder's Equity	124,561	111,751
Total Liabilities and Shareholder's Equity	$579,120	$738,424

The accompanying Notes to Financial Statements presented on pages 16 to 18 are an integral part of this statement.

Approved by the Board: *Frank Lever Director*
Harold D. Dent Director

Statement of Changes in Financial Position

For the years ended October 31, 1983 and 1982
(Dollars in thousands)

Source of Cash:	**1983**	1982
Net loss	**$ (2,218)**	$ —
Non-cash transactions:		
Provision for losses on receivables	**6,632**	—
Deferred income taxes	**(2,442)**	—
Total cash provided by operations	**1,972**	—
Collections on notes receivable (except finance charges included in net income)	**676,615**	758,451
Proceeds from issuance of preference shares	**16,228**	21,771
Decrease (increase) in accounts receivable — net:		
Parent company	**12,029**	(12,029)
Other	**14,942**	(26,210)
Collection on income taxes recoverable	**12,174**	—
Total Source	**$733,960**	$741,983
Application of Cash:		
Net loss	**$ —**	$ 7,095
Non-cash transactions:		
Provision for losses on receivables	**—**	(3,749)
Deferred income taxes	**—**	3,163
Total cash provided to operations	**—**	6,509
Acquisition of notes receivable (excludes finance charges)	**560,201**	613,783
Redemption of long-term debt	**118,894**	9,900
Decrease in short-term debt — net	**47,887**	90,813
Decrease (increase) in accounts payable — net:		
Parent company	**(4,717)**	2,104
Other	**8,184**	5,920
Income taxes recoverable	**—**	12,174
Payment of dividends	**1,200**	1,200
Other — net	**1,139**	(521)
Increase in cash	**1,172**	101
Total Application	**$733,960**	$741,983

The accompanying Notes to Financial Statements presented on pages 16 to 18 are an integral part of this statement.

Notes to Financial Statements

October 31, 1983 and 1982
(Dollars in thousands)

1. Summary of Accounting Policies

BASIS OF PRESENTATION — These financial statements have been prepared in accordance with accounting principles generally accepted in Canada and have been presented on the going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Although the company is a separate entity, it is substantially dependent upon the continued operations of International Harvester Canada Limited and its affiliated companies. The Company has business arrangements, including financing and other balances, with International Harvester Canada Limited and certain of its affiliates.

The Company's operations including source of product, settlement of balances, and its ability to continue as a going concern significantly depends upon International Harvester Canada Limited and its affiliated companies being able to continue as a going concern. Both the Company and International Harvester Canada Limited have signed extension agreements with their respective banking groups extending existing bank financing until March 14, 1986. While management recognizes that such extension of banking facilities does not represent an assurance that the companies will be able to continue as a going concern, it is the view of management that operational and financial restructuring actions already taken and those which are contemplated to be taken on an ongoing basis will permit the companies to meet the difficulties presented by current economic conditions.

The Company has substantially restructured certain aspects of its operating and financial arrangements with International Harvester Canada Limited as indicated in Note 2. The significant accounting policies indicated below are those otherwise followed by the Company:

RETAIL NOTES — Finance charges included in the face amounts of retail notes are taken into income over the lives of the notes on an accrual basis. The finance charge in a monthly payment note is taken into income monthly on the sum of the month's digits method. The finance charge in a seasonal payment note, common in agricultural equipment financing, is taken into income each month as earned for the period between seasonal instalments but declines for each period as the outstanding note balance is reduced. Where finance charges are less than the Company's net return finance rate, the related notes are acquired by the Company at discount rates which enables it to earn its net return finance rate; these discounts are also taken into income monthly on the sum of the month's digits method. Leasing transactions are reported in accordance with the financing method of accounting.

Lease income receivable and unearned income are recorded when lease contracts become effective. The unearned income (representing the difference between aggregate lease rentals and the cost of the related equipment less estimated residual value at the end of the lease term) is taken into income on the same basis as other retail notes.

RETAIL ACCOUNTS AND WHOLESALE NOTES AND ACCOUNTS — In accordance with the agreements between the Company and International Harvester Canada Limited relating to financing of retail accounts and wholesale notes and accounts, the Company was entitled to receive interest income from International Harvester Canada Limited up to October 31, 1982 at an agreed upon interest rate applied to the average monthly outstanding balances less interest amounts paid by dealers on such notes and accounts, and thereafter, at an amount to provide a predetermined multiple of interest charges.

DEFERRED DISCOUNT — On the purchase of wholesale notes of dealers from International Harvester Canada Limited, the Company pays face value less a discount at a percentage which may be agreed upon from time to time. This discount is taken into income upon settlement of the notes by the dealers.

INCOME TAXES — The tax effect of each item in the Statement of Income is recognized in the current period, regardless of when the tax is paid. Timing differences giving rise to deferred income taxes relate primarily to allowance for losses, lease income and unamortized long-term debt expense.

CHARGE OFF POLICY — Receivables are charged off as soon as they are determined to be uncollectable. All wholesale losses are charged to the allowance for losses while retail losses are charged against contingency credit amounts of dealers or International Harvester Canada Limited. If these contingency credit accounts are exhausted, the losses are charged to the allowance for losses.

REPOSSESSIONS — Repossessions are carried at the lower of cost or net estimated realizable value.

2. Operating Restructuring

During 1982, the Company completed a restructuring of certain aspects of its operating and financial arrangements with International Harvester Canada Limited ("IHC"). This has resulted in a substantial financial benefit to the overall Canadian International Harvester organization.

Prior to May 1, 1982, the operating arrangements between the Company and IHC required that IHC pay interest on a monthly basis to the Company on the outstanding balance of receivables purchased by the Company from IHC and its dealers in respect of interest free periods under such receivables. This arrangement was intended to maintain the Company's earnings available for interest charges at a level at least equal to 125% of such interest charges. This arrangement was restructured by agreements between the Company and IHC covering the period May 1, 1982 to October 31, 1984 and by agreements between the Company and certain of its lenders the effects of which are as follows:

(a) IHC would only be obliged to make monthly interest payments to the Company if the Company demanded such payment,

(b) the Company would be entitled during each month to waive its right to demand payment of all or any part of the interest otherwise required to be paid by IHC in respect of such month,

Notes to Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

(c) commencing November 1, 1982 such waiver arrangement could only be exercised in a manner which ensured that the Company's earnings available for interest charges was at least equal to the amount of such interest charges, unless there was agreement with IHC and those same lenders.

In addition, by Amending Implementation Agreement between the Company and IHC, covering the period from May 1, 1982 to October 31, 1982, the Company agreed:

(a) to waive the wholesale acquisition discount for the period as well as refund the unearned wholesale discount as at May 1, 1982,

(b) to permit the flat charge from dealers to accrue to IHC,

(c) to pay IHC a repurchase fee in recognition of that company being obliged to indemnify the Company in respect of losses on certain wholesale and retail notes in excess of pre-established levels and,

(d) to pay a 15% mark-up of costs incurred by IHC in respect of credit and collection services provided to the Company.

By subsequent agreement, the repurchase fee and the mark-up of costs, as described above in (c) and (d), have been extended to October 31, 1984. For the period to June 30, 1983, the repurchase fee is based on the same terms and conditions as described above. Subsequent to that date, this fee will only be due and payable if payment is demanded by IHC.

The statement of income has been prepared in a manner to reflect the total amount of the Company's revenue had the financial restructuring not been implemented and the amount of revenue waived under the terms of the financial restructuring.

In return for these arrangements, IHC agreed to make up to the Company the after-tax impact by purchasing preference shares of the Company. In addition, to the extent that there was an overall tax savings achieved, IHC agreed to apply 28.4% of this tax savings, up to a maximum of $7,000, towards the purchase of preference shares of the Company. To October 31, 1983, IHC has applied the full $7,000 to purchase 70,000 preference shares.

In accordance with a waiver agreement dated October 28, 1983, IHC agreed to purchase the Company's preference shares in the aggregate amount of $1,000 plus the reduction in retained earnings in respect of the Company's loss for the 1983 fiscal year. To October 31, 1983, IHC has complied with this agreement by the purchase of 35,990 preference shares for $3,599.

As a result of the above, IHC has purchased 379,984 preference shares for a cash consideration of $37,998, of which 162,278 shares were purchased for $16,228 during the current period. During 1983, IHC received an additional 13,760 preference shares valued at $1,376 by way of a stock dividend.

3. Receivables

	October 31 1983	October 31 1982
Retail — Notes	$337,012	$394,470
— Leasing	31,577	41,771
— Accounts	6,132	14,320
Total retail	374,721	450,561
Wholesale — Notes	260,090	321,721
— Accounts	11,171	15,475
Total wholesale	271,261	337,196
Total receivables	$645,982	$787,757

At October 31, 1983, wholesale notes receivable included $61,845 which will mature after October 31, 1984, of which $21 will mature after October 31, 1985 and retail notes receivable included $201,205 which will mature after October 31, 1984, of which $101,047 will mature after October 31, 1985, and lease receivables included $18,197 which will mature after October 31, 1984, of which $9,337 will mature after October 31, 1985.

At October 31, 1982, wholesale notes receivable included $84,559 which will mature after October 31, 1983, of which $695 will mature after October 31, 1984 and retail notes receivable included $239,067 which will mature after October 31, 1983 of which $120,804 will mature after October 31, 1984, and lease receivables included $24,091 which will mature after October 31, 1983, of which $11,864 will mature after October 31, 1984.

4. Sale of Notes Receivable

In 1982, the Company sold $47,129 of retail notes receivable net of unearned finance charge. The related sale price represented the estimated present value of the anticipated payments. A portion of the sale price has been withheld and will be paid to the Company as the receivables are collected. This holdback of $2,905 at October 31, 1983 and $5,379 at October 31, 1982 may be used by the purchaser to absorb future credit losses. The sale price is adjusted for changes in the discount or interest rates specified in the agreement and for various other conditions. The balance of sold retail notes receivable that remained uncollected as of October 31, 1983 amounted to $10,019 and at October 31, 1982 amounted to $24,732.

5. Long-term Debt

	October 31 1983	October 31 1982
Long-term debt consists of the following:		
Senior Debt		
Debentures:		
5-3/4% Series B, due 1984	$ —	$ 5,000
8-3/4% Serial, Series C, maturing $1,000 annually	3,000	4,000
8-1/2% Serial, Series D, maturing $1,000 annually commencing 1984	9,000	10,000
10-3/8% Serial, Series E, maturing $1,000 annually commencing 1985	10,000	10,000
9-3/4% sinking fund, due 1986	14,000	16,000
	36,000	45,000

Notes to Financial Statements (Continued)

October 31, 1983 and 1982
(Dollars in thousands)

5. Long-term Debt (Cont'd.)	**October 31 1983**	October 31 1982
Senior Subordinated Debt Notes:		
6% due 1984	**$ —**	$ 2,000
11% maturing $900 annually	**7,300**	8,200
10-3/8% due 1984	**—**	10,000
12-1/4% due 1985	**10,000**	10,000
11.75% due 1987 (a)	**5,000**	5,000
	22,300	35,200
Junior Subordinated Debt Notes:		
13-1/4% due 1984	**15,000**	15,000
	15,000	15,000
Unamortized Premium & Discount (Net)	**(30)**	(43)
Total Long-term Debt	**$ 73,270**	$95,157

(a) This note bears interest at 3/4% over the prime lending rate of designated Canadian banks. The rate shown is that in effect at October 31, 1983.

The aggregate amount of payments required in each of the next five years to meet sinking fund and retirement provisions of the notes and debentures are:

October 31, 1984	$56,906
October 31, 1985	30,900
October 31, 1986	15,900
October 31, 1987	8,900
October 31, 1988	2,900
Due subsequently	14,700

6. Authorized Capital Stock

By Certificate of Amendment dated August 31, 1982, the Company increased its authorized capital stock to the following:

Unlimited number of no par value 4% non-cumulative, redeemable preference shares

Unlimited number of no par value common shares

7. Income Retained

Under loan agreements and trust indentures relating to the Company's long-term debt, the payment of dividends is subject to certain restrictions.

For the period of the operating restructuring agreements, the Company may not pay annual cash dividends in excess of $1,200. Any dividends in excess of this amount must be in the form of preference shares.

8. Related Party Transactions

The Company is a wholly-owned subsidiary of International Harvester Canada Limited which in turn is a wholly-owned subsidiary of International Harvester Company.

The Company purchases certain specified retail accounts and all wholesale notes and accounts from International Harvester Canada Limited under an agreement between the companies. Retail notes are negotiated through the dealer network and truck fleet operations of International Harvester Canada Limited. The accounting treatment afforded these items is outlined under "Summary of Accounting Policies" (See Note 1).

At October 31, 1983, current maturities of long-term debt includes a $20,000 senior note payable to International Harvester Canada Limited. The maturity of such note has been extended to March 15, 1986.

In addition, insurance provided by and for the Company for physical damage to equipment covered by retail and wholesale notes is carried through an independent insurance company. That company reinsures a majority of this coverage through an insurance subsidiary of International Harvester Company. Insurance expense relating to coverage so reinsured amounts to approximately $1,504 in 1983 and $1,570 in 1982. The Company believes that the premiums paid to this insurance company are comparable to that which would be paid if there was no such reinsurance.

9. Financing

During 1981, the company entered into an agreement with a consortium of six Canadian chartered banks under which they have agreed to make available to the Company a term operating credit facility in the aggregate principal amount of $450,000. Through renewals, this line of credit was extended to October 31, 1982. Effective on that date, the aggregate principal amount was reduced to $365,000 and the agreement was extended on a month by month basis, pending successful completion of a debt reorganization proposal.

In addition, a $15,000 loan due March 15, 1982 was extended on a day to day basis, pending the execution of an agreement to convert this loan to a revolving credit facility.

By a restructuring agreement dated March 15, 1983, such credit facility and loan together with an additional $75,000 of loans with maturity dates of January 29, 1983 and June 23, 1983, were combined and replaced by a new revolving credit facility of $440,000. The new credit facility was reduced on August 1, 1983 to $418,000 and on November 1, 1983 to $396,000.

By agreement dated December 20, 1983 the Company has obtained an extension of the above revolving credit facility for $396,000 to March 14, 1986.

INTERNATIONAL HARVESTER
CANADA