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Seaway Multi-Corp Limited

ANNUAL REPORT

For the Year Ended

December 31, 1976

Seaway Multi-Corp Limited

June 13, 1977.

To: The Shareholders
Seaway Multi-Corp Limited

I am pleased to report that for the fiscal year ended December 31, 1976, the company had a consolidated profit of $1,262,000 compared with a restated loss of $1,202,000 for the previous year. Consolidated sales were $102,339,000 up from $79,583,000 in 1975.

The economy, however, continues to perform unevenly, and the results of the first quarter of 1977 show a decline over the first quarter of 1976 for that reason. Despite this, we are making every effort to improve the results for the remainder of the year.

Yours truly,

President.

Seaway Multi-Corp Limited

CONSOLIDATED BALANCE SHEET

ASSETS	December 31 1976	1975
CURRENT:		
Cash (Note 2)	$ 1,206,986	$ 2,368,392
Accounts receivable	11,331,961	13,481,104
Inventories	41,182,531	33,429,294
Deposit with supplier	1,053,774	1,081,955
Prepaid expenses and sundry assets	861,868	741,774
	55,637,120	51,102,519
PROPERTY, PLANT AND EQUIPMENT (Note 3)	12,961,371	13,064,499
OTHER (Note 4)	23,035,896	22,058,264
	$91,634,387	$86,225,282
LIABILITIES		
CURRENT:		
Bank advances (Note 5)	$17,283,344	$13,480,477
Notes payable (Note 5)	5,750,427	8,011,925
Accounts payable and accrued liabilities	13,070,394	10,880,519
Customer deposits	1,035,587	3,187,831
Income and other taxes payable (Note 6)	2,494,819	1,840,588
Current portion of long term debt (Note 7)	2,942,514	1,548,767
Deferred income taxes — current portion	75,400	—
	42,652,485	38,950,107
DEFERRED INCOME TAXES	2,294,508	1,779,709
LONG TERM DEBT (Note 7)	17,196,309	16,343,881
MINORITY INTEREST (Note 8)	4,277,098	4,777,423
	66,420,400	61,851,120
SHAREHOLDERS' EQUITY		
CAPITAL (Note 9)	19,257,987	19,257,987
CONTRIBUTED SURPLUS (Note 10)	5,116,175	7,201,920
RETAINED EARNINGS	839,825	(2,085,745)
	25,213,987	24,374,162
	$91,634,387	$86,225,282

See accompanying notes.

Approved on behalf of the Board:

Director

M. A. Levy Director

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31	
	1976	1975
SALES AND REVENUES	$102,338,889	$79,550,121
COSTS AND EXPENSES:		
Cost of products sold	72,292,256	58,640,891
Other operating costs and expenses	6,590,653	5,669,465
Selling, general and administrative expenses	14,305,279	10,825,061
Interest on long term debt	1,483,064	1,252,311
Bank and other interest	3,060,658	3,000,422
Depreciation	1,575,215	1,208,797
Amortization of deferred charges	181,655	108,535
	99,488,780	80,705,482
INCOME (LOSS) BEFORE UNDERNOTED ITEMS	2,850,109	(1,155,361)
INCOME TAXES:		
Current	1,223,669	229,036
Deferred	434,708	(473,967)
	1,658,377	(244,931)
MINORITY INTEREST	145,831	199,752
	1,804,208	(45,179)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	1,045,901	(1,110,182)
EXTRAORDINARY GAIN (LOSS) (Note 11)	216,017	(91,652)
NET INCOME (LOSS) (Note 12)	$ 1,261,918	$(1,201,834)

See accompanying notes.

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended December 31	
	1976	1975
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 13)	$(2,085,745)	$ (672,865)
LESS CHARGE TO CONTRIBUTED SURPLUS (Note 10)	2,085,745	—
	—	(672,865)
NET INCOME (LOSS)	1,261,918	(1,201,834)
	1,261,918	(1,874,699)
Dividends paid on Series "A" preference shares (Note 9 (d))	422,093	211,046
BALANCE, END OF YEAR	$ 839,825	$(2,085,745)

See accompanying notes.

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1976	1975
SOURCE OF FUNDS:		
Operations:		
Net income (loss) before extraordinary items	$ 1,045,901	$(1,110,182)
Add charges, net of credits which did not affect working capital — principally depreciation, amortization and deferred income taxes	2,399,491	1,280,116
Working capital provided by operations	3,445,392	169,934
ISSUE OF LONG TERM DEBT	3,056,037	2,306,634
EXTRAORDINARY GAIN (LOSS)	216,017	(91,652)
	6,717,446	2,384,916
USE OF FUNDS:		
Net acquisition of minority interest	215,700	218,074
Net investment in property, plant and equipment	1,472,087	2,836,793
Deferred charges and other uses	989,914	295,990
Retirement of long term debt	2,203,609	1,269,470
Dividends paid on Series "A" preference shares	422,093	211,046
Payment of dividends to minority shareholders of subsidiary companies	581,820	175,486
	5,885,223	5,006,859
INCREASE (DECREASE) IN WORKING CAPITAL	832,223	(2,621,943)
WORKING CAPITAL, BEGINNING OF YEAR	12,152,412	14,774,355
WORKING CAPITAL, END OF YEAR	$12,984,635	$12,152,412

See accompanying notes.

Seaway Multi-Corp Limited

AUDITORS' REPORT

To the Shareholders of
Seaway Multi-Corp Limited

We have examined the consolidated balance sheet of Seaway Multi-Corp Limited as at December 31, 1976 and the consolidated statements of income, 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 changes in 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.

Toronto, Ontario,
May 16, 1977.

LAVENTHOL & HORWATH
Chartered Accountants.

Seaway Multi-Corp Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976

1. ACCOUNTING POLICIES:

Consolidation policy:

The consolidated financial statements include the accounts of the company and its subsidiaries.

Effective March 31, 1976, a subsidiary company acquired all the issued shares of an Auto Parts Manufacturing Company for $308,745. The transaction is accounted for under the purchase method as follows:

Net assets at book value	$ 231,745
Excess of cost over net assets ascribed to equipment based on fair market value	77,000
	$ 308,745

These statements include its results of operations from the date of acquisition.

Effective May 18, 1976, a subsidiary company acquired 40% equity and approximately 57% of the voting control of a Sports Manufacturing Company for $335,000. As the subsidiary has effective control of that company the transaction is accounted for under the purchase method as follows:

Net assets at book value	$ 69,738
Excess of cost over net assets	265,262
	$ 335,000

These statements include the 40% interest in the results of the operations of the acquired company for the year.

Foreign exchange:

Amounts in foreign currencies have been converted into Canadian dollars at the rates of exchange in effect at the balance sheet date for current items and at the rates in effect at acquisition dates for non-current items.

Inventories:

Inventories are valued substantially at the lower of cost and net realizable value. Certain types of inventories approximating $8 million for which costs cannot be determined have been valued on the basis of a percentage of historical selling prices. This valuation is consistent with that used in preceding years.

Property, plant and equipment:

Fixed assets are recorded at cost. Depreciation is provided at the following annual rates:

Buildings	2½% — 10%
Machinery and equipment	10% — 33⅓%

Excess of cost over net assets of acquired businesses:

The excess of cost over net assets of acquired businesses represents the difference between the purchase price and the net book value of the businesses acquired after allocating a portion to land and equipment based on fair market value at dates of acquisition. The excess of cost over net assets of businesses acquired before April 1, 1974 is not being amortized, since in the opinion of management it has continuing value.

The excess of cost relating to the business acquired in the current year is being amortized on the straight line basis over ten years. 1976 amortization amounts to $26,526.

Income taxes:

The company follows the allocation method of recording taxes on income. Recognition is given to the tax effect of the differences between accounting income and taxable income.

2. CASH:

Cash includes $1,035,587 (on term deposit) received from a customer and pledged as security for a bank guarantee to the customer for repayment of its advance deposit.

3. PROPERTY, PLANT AND EQUIPMENT:

	1976	1975
Buildings	$10,360,885	$10,108,278
Machinery and equipment	16,742,360	15,506,148
	27,103,245	25,614,426
Less accumulated depreciation	16,292,975	14,684,655
	10,810,270	10,929,771
Land	2,151,101	2,134,728
	$12,961,371	$13,064,499

4. OTHER ASSETS:

	1976	1975
Deferred charges at cost less amortization:		
Deferred financing and development costs being amortized over terms up to 6 years	$ 1,140,606	$ 624,072
Patents and trademarks	108,795	55,563
	1,249,401	679,635
Deferred income taxes	3,157,223	2,985,729
Share issue expenses	523,666	523,666
Excess of cost over net assets of acquired businesses	18,105,606	17,869,234
	$23,035,896	$22,058,264

Deferred income taxes represent available tax reductions resulting from certain expenses which were deducted for accounting purposes but not for tax purposes. These expenses may be claimed to reduce future taxable income.

5. BANK ADVANCES AND NOTES PAYABLE:

Accounts receivable and inventories are pledged as collateral for the bank advances. The notes payable are secured by the accounts receivable and inventories subject to the prior security given to the banks.

6. INCOME TAXES AND RELATED CONTINGENT LIABILITIES:

Various subsidiaries of the company have accumulated losses for current and prior years amounting to approximately $2,045,000 which may be used to reduce taxable income in future years as follows:

$ 281,000	to 1977
1,105,000	to 1978
104,000	to 1979
340,000	to 1980
215,000	to 1981

No tax recovery has been recorded in the accounts in respect of these losses.

A subsidiary has received notices of re-assessment for the years 1966 through 1970 for approximately $1,872,000 including interest. The company has filed notices of objection and, in the opinion of special counsel, these re-assessments will be reduced to a material degree. As at December 31, 1976, no provision has been made in the accounts for any liability which may be exigible. Shares in a subsidiary company have been assigned to the tax authorities as security for these re-assessments pending settlement.

7. Long term debt:

	1976	1975
Seaway Multi-Corp Limited:		
Promissory notes, non-interest bearing, maturing December 18, 1976	$ —	$ 424,000
6% debentures, due January 31, 1978	6,637,900	6,637,900
11½% unsecured promissory note, due August 11, 1978	614,000	1,000,000
7½% convertible, unsecured sinking fund debentures, Series "A", maturing August 23, 1988	300,000	300,000
Notes payable, prime rate plus 1¾%	199,417	—
CCM Investments Limited:		
Promissory notes, non-interest bearing, maturing May 18, 1981	250,000	—
Due to Canadian-American Skate Co. Inc.	91,000	—
Levy Industries Limited:		
Loan due December 1, 1981	1,200,000	1,200,000
7.58% mortgage, maturing June 1, 1986	752,994	803,693
Conditional sales contracts payable	67,378	78,280
Bank loan	—	400,000
Lloyd-Truax Limited:		
5% unsecured debentures, due 1980	77,360	103,320
W. & M. Holdings Limited:		
9½% first mortgage loan, maturing December 1, 1983	391,929	430,498
12½% financing agreements payable	1,240	—
Premium Forest Products Limited:		
10% first mortgage, due November 15, 1983	847,109	865,826
7½% secured debenture, due December 31, 1976	—	80,400
Conditional sales contracts payable	339,410	315,514
14% chattel mortgage, due March 15, 1981	456,231	—
Bank loan	1,928,000	—
Levy-Russell Limited:		
8% sinking fund debentures, Series "A", maturing November 15, 1982	2,400,000	2,800,000
12¾% chattel mortgage due October 1, 1982	1,500,000	—
Conditional sales contracts payable	1,659,017	1,990,336
Russell Industries Limited:		
Conditional sales contracts payable	$ 118,968	$ 133,885
Canada Cycle and Motor Company Limited:		
Conditional sales contracts payable	—	4,108

7. Long term debt (continued)

	1976	1975
Levy Service Industries Limited:		
11¼% first mortgage loan, maturing October 15, 1980	306,870	324,888
	20,138,823	17,892,648
Less amounts due within one year	2,942,514	1,548,767
	$17,196,309	$16,343,881

The holders of the 6% debentures have extended the maturity date to January 31, 1978. The company has agreed with the holders to commence repayment of the debentures in February 1977 at the rate of $600,000 per annum. These debentures bear interest at the rate of 6% per annum with a provision for additional interest based on consolidated income to a maximum overall rate of 11½% per annum. The holders have waived the additional interest for the year. The company has pledged common shares of Levy Industries Limited as security.

The holders of the 11½% unsecured promissory note have extended the maturity date and all other terms of the note to August 11, 1978.

The loan of $1,200,000 in Levy Industries Limited is secured by a collateral mortgage on the land and buildings of Lloyd-Truax Limited and bears interest at a rate of approximately 13%.

Commencing October 15, 1976 the interest rate on the Levy-Russell Limited sinking fund debentures was increased from 6½% per annum to 8% per annum. These debentures are secured by the land of Levy-Russell Limited which was appraised at $13,380,000 by General Appraisal of Canada Limited.

The Levy-Russell Limited 12¾% chattel mortgage is repayable in 67 monthly payments of $38,424 and one payment in the 68th month of $338,424. These repayment terms include a further amount of $500,000 received in March 1977.

The conditional sales contracts mature at various dates between 1977 and 1981 and are reported net of deferred finance charges of $574,000.

The aggregate amount of principal payments required in each of the next five years is approximately as follows:

1977	$2,943,000
1978	7,862,000
1979	1,815,000
1980	1,906,000
1981	2,268,000

8. Minority interest:

	1976	1975
Common shares	$ 443,292	$ 532,531
Preference shares		
Levy Industries Limited 6%	3,725,640	4,100,522
Lloyd-Truax Limited 5%	108,166	144,370
	$ 4,277,098	$ 4,777,423

9. Capital stock:

(a) Authorized:

2,145,834 Preference shares, $15 par value, of which 1,645,834 have been designated at 4½% cumulative, Series "A" preference shares, convertible on the basis of three preference shares for one common share and redeemable at par.

4,357,500 Common shares, without par value

(b) Issued at December 31, 1975 and 1976

625,323 Series "A" preference shares	$ 9,379,845
1,347,358 Common shares	9,878,142
	$19,257,987

(c) Reservations of common shares at December 31, 1976:

(i) There are 18,750 common shares reserved for the following conversion privileges of the company's outstanding debentures:

	Exercisable any time up to	Common shares per $1,000 of debentures
$300,000 7½% convertible unsecured debentures	August 23, 1978	62.5
	August 23, 1988	50

(ii) As at December 31, 1976, there are 246,407 Series "A" warrants outstanding entitling the holders to acquire for each warrant held one common share of the company at a price of $38. The warrant privileges may be exercised at any time until February 28, 1989.

(d) As at December 31, 1976, dividends on the Series "A" preference shares are $738,663 (seven quarters) in arrears.

10. Contributed surplus:

The contributed surplus of $7,201,920 resulting from the surrender and cancellation of 642,500 common shares in 1971 has been reduced by $2,085,745 being the deficit as at January 1, 1976.

11. Extraordinary gain (loss):

	1976	1975
Provision for loss on sale of assets of Canac Shock Absorbers division and other settlement costs	$ —	$ (91,652)
Loss on disposal of fixed assets	(37,315)	—
Reduction of income taxes on application of losses of prior years	253,332	—
	$ 216,017	$ (91,652)

12. Income (loss) per common share:

	1976		1975	
Common shares outstanding	1,347,358		1,347,358	
	Income	Per Share	(Loss)	Per Share
Net income (loss) before extraordinary items	$1,045,901		$(1,110,182)	
Preferred dividend requirement	422,093		422,093	
Net income (loss) for common shareholders before extraordinary items	623,808	$ .46	(1,532,275)	$ (1.14)
Extraordinary gain (loss) (Note 11)	216,017	.16	(91,652)	(.07)
Net income (loss) for common shareholders	$ 839,825	$ .62	$(1,623,927)	$ (1.21)

13. Restatement of prior years' figures:

As a result of recognizing deferred income tax benefits applicable to years prior to 1975 deferred income taxes (Note 4) and the balance of deficit at January 1, 1975 and January 1, 1976 previously reported as $934,347 and $2,213,775 have been restated to show a retroactive decrease of $261,482 and $128,030 respectively. The difference of $133,452 was recorded in 1975 and accordingly the 1975 loss has been restated by this amount.

14. Contingencies and commitments:

(a) Certain subsidiaries of the company maintain pension plans covering most of their employees. Pension costs of approximately $637,000 charged against 1976 income include $289,000 for past service. The total unfunded past service liability which has not been provided for as at December 31, 1976 approximates $2,747,000 (of which approximately $1,819,000 represents the actuarial computed value of vested benefits) and will be funded in varying amounts over a maximum of 13 years.

(b) Certain subsidiaries of the company have entered into long term leasing arrangements for the rental of land, buildings and equipment for periods up to 10 years. As at December 31, 1976, the total outstanding commitments approximate $1,771,000. The commitments for the next five years are approximately as follows:

1977	—	$ 705,000
1978	—	448,000
1979	—	125,000
1980	—	102,000
1981	—	102,000

(c) Legal proceedings, other than routine litigation incidental to the business of the company and its subsidiaries, have been instituted against a subsidiary (by a customer, whose account is unpaid) relating to certain marketing arrangements.

It is the opinion of management and counsel that defenses and remedies will be successful and the action will conclude without any material disadvantage to the company.

15. Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers of the company in 1976 was $417,000 (1975 — $479,000).

16. Anti-inlfation legislation:

The company and its subsidiaries are subject to the mandatory provisions of the Anti-Inflation Act which control prices, profit margins, employee compensations and shareholders' dividends.

In the opinion of management, the company and its subsidiaries have complied with all the provisions of the Act and have no significant liabilities as a result of the legislation.

17. Subsequent events:

(a) In January 1977 a subsidiary company received an advance of $1,827,000 on a first mortgage loan secured by certain land and buildings. Under this mortgage loan, the subsidiary is to receive a further advance, the amount of which will be the lesser of $761,250 and 75% of the construction costs of a new warehouse which must be completed by June 30, 1978.

The mortgage loan has a term of 5 years and bears interest at 11½% per annum. It is repayable in blended monthly payments based on a 20 year amortization schedule.

(b) In February 1977, a fire occurred at the St. Jean, Quebec plant of a subsidiary company resulting mainly in the loss of inventories damaged by the fire. Plant production resumed within two working days following the fire. In the opinion of management, the subsidiary is adequately insured against the loss and does not anticipate any adverse effect on its business. The subsidiary is presently preparing an insurance claim amounting to approximately $5,500,000.

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