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**Seaway Multi-Corp Limited**

**ANNUAL REPORT**

For the Year Ended

December 31, 1978

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
AUG 29 1979  
MCGILL UNIVERSITY



# Seaway Multi-Corp Limited

The Shareholders

Seaway Multi-Corp Limited

I am pleased to report to you that your company earned a net profit of \$588,000 in the fiscal year 1978. The operating loss of \$384,000 relates entirely to the first quarter; during the final three quarters of the year, the company had net earnings of \$1,511,000, including \$644,000 from operations.

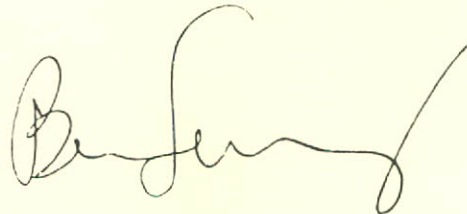
The upward trend is continuing in 1979. The enclosed first quarter report shows a net profit of \$386,000 and sales for the six month period will be approximately \$26,000,000, an increase of 25% from 1978. All divisions are operating profitably and the order level in each company is at an all time high. The company anticipates the increased earnings to continue through the balance of the year.

In 1979 the company resumed payment of preferred dividends and it is hoped that these payments will continue.

Following the sale of Canada Cycle and Motor Company Limited, management has concentrated on the securing of new orders as well improving financing arrangements with its bankers and other lenders to the company. Some of these arrangements have been concluded, while others are still being negotiated. This will result in reduced borrowing costs, as well as providing more funds to take advantage of the sales opportunities now available.

In October 1978, Premium Forest Products Limited moved some of its operations into a new 167,000 sq. ft. building at its main location in Scarborough, Ontario. The cost savings resulting from this move are already being felt.

Yours truly

A handwritten signature in black ink, appearing to be 'B. J. ...', written in a cursive style.

President

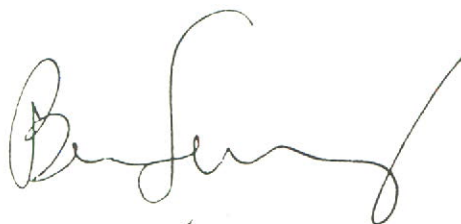
# Seaway Multi-Corp Limited

## CONSOLIDATED BALANCE SHEET December 31, 1978

ASSETS		1978	1977
Current			
Cash .....		\$ 98,517	\$ 1,082,204
Accounts receivable (Note 2) .....		7,489,237	6,026,777
Inventories .....		17,309,276	18,651,649
Prepaid expenses and sundry assets .....		418,114	354,318
		<u>25,315,144</u>	<u>26,114,948</u>
Investment in Canada Cycle and Motor Company Limited, at equity .....		—	2,625,930
Property, plant and equipment (Note 3) .....		35,856,454	33,204,326
Other (Note 4) .....		3,109,681	3,005,717
		<u>\$ 64,281,279</u>	<u>\$ 64,950,921</u>
LIABILITIES			
Current			
Bank advances (Note 5) .....		\$ 10,225,109	\$ 8,604,904
Notes payable (Note 5) .....		979,000	1,125,186
Accounts payable and accrued liabilities .....		6,435,593	7,866,025
Income and other taxes payable (Note 6) .....		1,651,210	2,017,680
Current portion of long term debt (Note 7) .....		2,102,004	2,404,452
Deferred income taxes .....		62,900	50,900
		<u>21,455,816</u>	<u>22,069,147</u>
Long term debt (Note 7) .....		16,971,712	17,217,872
Deferred income taxes .....		531,913	802,917
Minority interest (Note 8) .....		4,251,376	4,402,661
		<u>43,210,817</u>	<u>44,492,597</u>
SHAREHOLDERS' EQUITY			
Capital and other equity accounts .....		<u>21,070,462</u>	<u>20,458,324</u>
		<u>\$ 64,281,279</u>	<u>\$ 64,950,921</u>

See accompanying notes

Approved on behalf of the Board



Director



Director

# Seaway Multi-Corp Limited

## CONSOLIDATED STATEMENT OF INCOME Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Sales and revenues .....	\$ 44,728,552	\$ 45,393,143
Costs and expenses		
Cost of products sold .....	32,356,898	33,125,977
Other operating costs and expenses .....	8,797,495	9,332,018
Interest on long term debt .....	1,528,085	1,401,333
Bank and other interest .....	1,490,691	1,132,595
Depreciation and amortization .....	<u>890,811</u>	<u>766,429</u>
	<u>45,063,980</u>	<u>45,758,352</u>
Income (loss) from continuing operations before income taxes .....	<u>(335,428)</u>	<u>(365,209)</u>
Income taxes (recovery)		
Current .....	44,532	(10,568)
Deferred .....	<u>(220,149)</u>	<u>73,793</u>
	<u>(175,617)</u>	<u>63,225</u>
Net income (loss) from continuing operations .....	(159,811)	(428,434)
Net loss from discontinued operations .....	—	(4,885,556)
Minority interest in income and losses of subsidiaries .....	<u>(224,239)</u>	<u>103,125</u>
Income (loss) before extraordinary items .....	(384,050)	(5,210,865)
Extraordinary gains (losses) (Note 9) .....	<u>971,828</u>	<u>(22,227,616)</u>
Net income (loss) (Note 10) .....	<u>\$ 587,778</u>	<u>\$(27,438,481)</u>

See accompanying notes

# Seaway Multi-Corp Limited

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Balance, beginning of year, as restated (Note 13) .....	\$(21,728,563)	\$ 593,743
Net income (loss) .....	587,778	(27,438,481)
Amortization of appraisal excess .....	230,382	—
Transfer from contributed surplus (Note 11) .....	<u>—</u>	<u>5,116,175</u>
Balance (deficit), end of year .....	<u><u>\$(20,910,403)</u></u>	<u><u>\$(21,728,563)</u></u>

See accompanying notes

# Seaway Multi-Corp Limited

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY December 31, 1978

	1978	1977
Capital stock (Note 12)		
Authorized		
2,145,834 Preference shares, \$15 par value, of which 1,645,834 have been designated as 4 <sup>1</sup> / <sub>2</sub> % 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		
Issued		
625,323 Series "A" preference shares .....	\$ 9,379,845	\$ 9,379,845
1,347,358 Common shares .....	9,878,142	9,878,142
	19,257,987	19,257,987
Excess of appraised value of land and buildings over book value (Note 1) ..	22,722,878	22,928,900
Retained earnings (deficit) .....	(20,910,403)	(21,728,563)
	\$ 21,070,462	\$ 20,458,324

See accompanying notes

# Seaway Multi-Corp Limited

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Financial resources were provided by		
Operations		
Net income (loss) from continuing operations .....	\$ (159,811)	\$ (428,434)
Items not affecting working capital, principally depreciation, amortization and deferred income taxes .....	<u>559,824</u>	<u>983,976</u>
	400,013	555,542
Issue of long term debt .....	3,693,796	3,042,064
Business interruption gain .....	530,000	—
Sale of sundry assets .....	—	1,289,543
Sale of subsidiaries .....	2,625,930	—
Reduction of income taxes on application of prior years' losses .....	<u>441,828</u>	<u>353,440</u>
	<u>7,691,567</u>	<u>5,240,589</u>
Financial resources were used for		
Retirement of long term debt .....	3,939,956	2,724,501
Investment in subsidiaries .....	—	4,395,853
Other assets .....	198,569	50,030
Property, plant and equipment .....	3,488,299	—
Acquisition of minority interest .....	142,786	144,746
Dividends paid to minority shareholders of subsidiary companies .....	<u>108,430</u>	<u>—</u>
	<u>7,878,040</u>	<u>7,315,130</u>
Increase (decrease) in working capital .....	(186,473)	(2,074,541)
Working capital, beginning of year .....	<u>4,045,801</u>	<u>6,120,342</u>
Working capital, end of year .....	<u>\$ 3,859,328</u>	<u>\$ 4,045,801</u>

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, 1978 and the consolidated statements of income, retained earnings, shareholders' equity 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, 1978 and the results of its operations and 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.

Toronto, Ontario  
June 19, 1979



Chartered Accountants

# Seaway Multi-Corp Limited

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1978

### 1. ACCOUNTING POLICIES

#### Consolidation policy

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

#### Translation of foreign currencies

Amounts in foreign currencies have been translated 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. Operating income and expenses are translated at average rates during the year except for depreciation which is on the same basis as fixed assets.

#### Inventories

Inventories are valued substantially at the lower of cost and net realizable value. Certain types of inventories approximating \$8.5 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

Certain land and buildings are recorded at appraised values as of December 31, 1977, based on appraisals by General Appraisal of Canada Limited, dated March 9, 1978 and July 1, 1978, E. Karl Farstad & Associates Ltd., dated July 20, 1978, and R. Hilton and Associates, dated June 30, 1976. The excess of the appraised value over the book value is shown in the Statement of Shareholders' Equity. A portion of the appraisal excess applicable to buildings is being transferred annually to retained earnings in amounts equal to the annual depreciation provided on such appraisal excess. The current years' transfer amounts to \$230,382. Land purchased and buildings completed after December 31, 1977 and plant and equipment are recorded at cost. Depreciation is provided on the straight line basis at the following annual rates:

Buildings . . . . .	2 <sup>1</sup> / <sub>2</sub> %
Machinery and equipment . . . . .	10% - 30%

#### Deferred charges

Financing costs are being amortized over the terms of the related debts. Product development costs are being amortized on a straight-line basis over terms not exceeding 5 years.

### 2. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$1,500,000 which is the minimum value placed by the insurers for the Business Interruption claim (arising from the fire which occurred at the Canada Cycle and Motor Company Limited (C.C.M.), St. Jean factory on February 17, 1977). Rights to this claim were acquired by the company as a part of the consideration for the sale of C.C.M. The company has claimed \$2,788,505 and negotiations are continuing with the insurers and with the agents responsible for any amounts not paid by the insurers. The insurers have paid a portion of the amount receivable into court. In the opinion of legal counsel, the company's claim to an amount of at least \$1,500,000 is well founded. The excess of this amount over the cost of the acquired claim is shown as an extraordinary gain.

### 3. PROPERTY, PLANT AND EQUIPMENT

	<u>1978</u>	<u>1977</u>
Buildings, at cost .....	\$ 2,554,664	\$ 1,347,120
Buildings, at appraised value .....	12,275,550	12,275,550
Machinery and equipment, at cost .....	7,590,828	7,944,121
	<u>22,421,042</u>	<u>21,566,791</u>
Less accumulated depreciation .....	5,979,638	5,437,815
	<u>16,441,404</u>	<u>16,128,976</u>
Land, at appraised value .....	17,075,350	17,075,350
Land, at cost .....	2,339,700	—
	<u>\$ 35,856,454</u>	<u>\$ 33,204,326</u>

### 4. OTHER ASSETS

	<u>1978</u>	<u>1977</u>
Deferred charges, at cost less amortization:		
Deferred financing costs .....	\$ 225,239	\$ 215,582
Product development costs .....	185,139	50,867
	<u>410,378</u>	<u>266,449</u>
Deferred income taxes .....	115,280	155,245
Share issue expenses .....	523,666	523,666
Excess of cost over net assets of acquired business .....	2,060,357	2,060,357
	<u>\$ 3,109,681</u>	<u>\$ 3,005,717</u>

The excess of cost over net assets of acquired businesses of \$2,060,357 relating to a business acquired before April 1, 1974 is not being amortized since, in the opinion of management, it has continuing value.

### 5. BANK ADVANCES AND NOTES PAYABLE

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

### 6. INCOME TAXES

Certain subsidiaries of the company have accumulated losses for current and prior years amounting to approximately \$3,538,000 which may be used to reduce taxable income in future years as follows:

\$ 107,000 to 1979
211,000 to 1980
106,000 to 1981
1,735,000 to 1982
1,379,000 to 1983

The potential tax benefit from the utilization of these losses to reduce taxable income in future years has not been recognized in the accounts.

## 7. LONG TERM DEBT

	<u>1978</u>	<u>1977</u>
Seaway Multi-Corp Limited		
6% debentures, due January 31, 1980 .....	\$ 5,487,900	\$ 6,087,900
11 <sup>1</sup> / <sub>2</sub> % unsecured promissory notes .....	579,000	579,000
7 <sup>1</sup> / <sub>2</sub> % convertible, unsecured sinking fund debentures, Series "A", maturing August 23, 1988 .....	300,000	300,000
Notes payable, prime rate plus 1 <sup>3</sup> / <sub>4</sub> % .....	115,272	204,129
Levy Industries Limited		
Loan due December 1, 1981 .....	1,200,000	1,200,000
9 <sup>1</sup> / <sub>2</sub> % first mortgage, due June 1, 1986 .....	636,375	697,443
Conditional sales contracts .....	40,956	55,003
Lloyd-Truax Limited		
5% unsecured debentures, due 1980 .....	25,440	51,400
Conditional sales contracts .....	33,693	40,997
W. & M. Holdings Limited		
9 <sup>1</sup> / <sub>2</sub> % first mortgage loan, maturing December 1, 1983 .....	303,173	349,608
Premium Forest Products Limited		
Interim bank financing .....	—	382,743
Bank term loan, 13 <sup>1</sup> / <sub>2</sub> % .....	1,352,000	1,640,000
Bank term loan, Ireland, 3% over prime .....	152,726	158,684
10 <sup>3</sup> / <sub>8</sub> % real estate mortgage, due November 1, 1993 .....	2,497,697	827,321
14% chattel mortgage, due March 15, 1981 .....	314,504	390,291
Conditional sales contracts .....	408,947	565,271
Levy-Russell Limited		
8% sinking fund debentures, Series "A" maturing November 15, 1982 .....	1,600,000	2,000,000
12 <sup>3</sup> / <sub>4</sub> % chattel mortgage, due November 1, 1982 .....	326,015	1,833,779
Conditional sales contracts .....	34,674	256,637
Russell Industries Limited		
Conditional sales contracts .....	83,084	102,118
11 <sup>1</sup> / <sub>2</sub> % first mortgage loan, maturing February 1, 1982 .....	1,777,260	—
Levy Service Industries Limited		
First mortgage loan, 4 <sup>3</sup> / <sub>4</sub> % over prime maturing July 21, 1982 .....	1,805,000	1,900,000
	<u>19,073,716</u>	<u>19,622,324</u>
Less amounts due within one year .....	2,102,004	2,404,452
	<u>\$ 16,971,712</u>	<u>\$ 17,217,872</u>

The holders of the 6% debentures have extended the maturity date to January 31, 1980. The company has agreed with the holders to repayment of the debentures 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 11<sup>1</sup>/<sub>2</sub>% per annum. The company has pledged common shares of Levy Industries Limited as security.

The holders of the 11<sup>1</sup>/<sub>2</sub>% unsecured promissory note have extended the maturity date and all other terms of the note to August 11, 1980.

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 4<sup>1</sup>/<sub>4</sub>% over prime.

The first mortgage in Levy Industries Limited is being replaced under new financial arrangements.

The 13<sup>1</sup>/<sub>2</sub>% bank term loan in Premium Forest Products Limited is repayable at the rate of \$24,000 per month plus interest and a final payment of \$8,000 plus interest in September 1983. As security for the loan that company has given a fixed and floating charge on all of its assets.

Bank term loan, Ireland, in Premium Forest Products Limited is due September 1982. The real estate in Ireland has been given as security for this loan.

The Levy-Russell Limited 8% sinking fund debentures are secured by the land of that company which was appraised at \$14,000,000 by General Appraisal of Canada Limited.

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

1979	\$2,102,000
1980	1,963,000
1981	3,188,000
1982	4,893,000
1983	1,004,000

#### 8. MINORITY INTEREST

	1978	1977
Common shares . . . . .	\$ 634,708	\$ 661,363
Preference shares		
Levy Industries Limited, 6% . . . . .	3,580,910	3,669,336
Lloyd-Truax Limited, 5% . . . . .	35,758	71,962
	<u>\$ 4,251,376</u>	<u>\$ 4,402,661</u>

#### 9. EXTRAORDINARY GAINS (LOSSES)

	1978	1977
Excess of cost over net assets of acquired businesses written off . . . . .	\$ —	\$(15,687,591)
Loss on disposal of Canada Cycle and Motor Company Limited (restated, Note 13 (b)) . . . . .	—	(7,300,781)
Business interruption claim (net of costs and taxes, Note 2) . . . . .	530,000	—
Gain on disposal of business and certain assets of Brakemaster Corporation (restated, Note 13 (c)) . . . . .	—	407,316
Reduction of income taxes on application of prior years' losses . . . . .	441,828	353,440
	<u>\$ 971,828</u>	<u>\$(22,227,616)</u>

#### 10. INCOME (LOSS) PER COMMON SHARE

	1978		1977	
Common shares outstanding . . . . .	<u>1,347,358</u>		<u>1,347,358</u>	
		Per Share		Per Share
Net income (loss) before extraordinary items . . . . .	\$ (384,050)		\$(5,210,865)	
Preferred dividend requirement . . . . .	<u>422,093</u>		<u>422,093</u>	
Net income (loss) for common shareholders before extraordinary items . . . . .	(806,143)	\$ (0.60)	(5,632,958)	\$(4.18)
Extraordinary gains (losses) . . . . .	<u>971,828</u>	<u>0.72</u>	<u>(22,227,616)</u>	<u>(16.50)</u>
Net income (loss) for common shareholders . . . . .	<u>\$ 165,685</u>	<u>\$ 0.12</u>	<u>\$(27,860,574)</u>	<u>\$(20.68)</u>

11. CONTRIBUTED SURPLUS

The contributed surplus of \$7,201,920 resulting from the surrender and cancellation of 642,500 common shares in 1971, has been applied to reduce the deficit account as follows:

in 1976 .....	\$ 2,085,745
in 1977 .....	<u>5,116,175</u>
	<u>\$ 7,201,920</u>

12. CAPITAL STOCK

(a) Reservations of common shares at December 31, 1978

(i) 15,000 common shares are 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 7 <sup>1</sup> / <sub>2</sub> % convertible unsecured debentures .....	August 23, 1988	50.0

(ii) At December 31, 1978 there are 246,407 Series "A" warrants outstanding entitling the holders to acquire one common share of the company at a price of \$38 for each warrant held. The warrant privileges may be exercised at any time until February 28, 1989.

(b) As at December 31, 1978 dividends on the Series "A" preference shares are \$1,582,845 (fifteen quarters) in arrears.

13. PRIOR PERIOD ADJUSTMENTS

(a) As a result of settlement of litigation applicable to 1969, the amount of \$246,082 paid in settlement, has been charged to retained earnings as at January 1, 1977, previously reported as \$839,825.

(b) The provision for the loss on disposal of C.C.M. recorded in 1977 as \$7,534,846 has been reduced to \$7,300,781 as a result of the following:

Deferred tax adjustment on disposal of C.C.M. equipment .....	\$ 543,274
Additional costs incurred .....	<u>309,209</u>
Net reduction .....	<u>\$ 234,065</u>

(c) The gain on disposal of the business and assets of Brakemaster Corporation recorded in 1977 as \$641,381 has been reduced to \$407,316 as a result of additional costs incurred. Accordingly, the respective 1977 comparative figures have been restated.

14. 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 1978 was \$408,000 (1977 \$402,000).

15. CONTINGENCIES AND COMMITMENTS

(a) Certain subsidiaries of the company maintain pension plans covering most of their employees. The total unfunded past service liability which has not been provided for at December 31, 1978 approximates \$640,000 and will be funded in varying amounts over a maximum of 11 years.

- (b) The company, in the agreement for the sale of the shares of Canada Cycle and Motor Company Limited, has extended to the purchaser certain covenants, representations and warranties. As security for any obligations which may arise under that agreement, the company has agreed to provide to a corporate trustee a mortgage of \$1,500,000 on certain of its real estate, until June 24, 1983 (with extensions in specified circumstances). The company has been notified of certain alleged claims, but because of the lack of particularity in the notifications, the merits and materiality of these claims cannot be determined at this time.

16. ANTI-INFLATION LEGISLATION

Anti-inflation legislation controlling the increases in profit margins, prices, dividends and compensation became effective on October 14, 1975 and was phased out commencing April 14, 1978. The company was subject to this legislation.

Based on available information, management is of the opinion, that in all respects material to the company, it was in compliance with the Anti-inflation Act and regulations.

