

C
VERSATILE
CORNAT
CORPORATION

ANNUAL
REPORT
1978

 **VERSATILE**

 **VERSATILE**

 **VERSATILE**

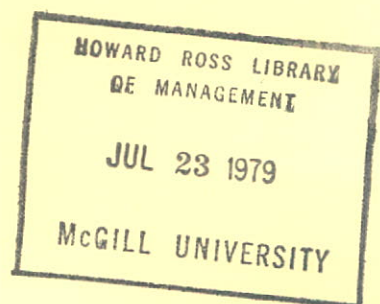




TABLE OF CONTENTS

	page
Highlights	1
Directors' Report to Shareholders and Employees	2
Officers of the Company	5
Versatile Cornat Corporation Operations Chart	6
Versatile Manufacturing Company	8
Burrard Yarrows Corporation	12
Bralorne Resources Limited	14
Bralorne Highlights	16
B.C. Ice and Cold Storage Company	17
Wescraft Manufacturing Company	18
Bennett Pollution Controls Company	18
Consolidated Balance Sheet	20
Consolidated Statement of Earnings and Retained Earnings	22
Consolidated Statement of Changes in Financial Position	23
Notes to Consolidated Financial Statements	24
Auditors' Report	29
Historical Review	30
Graphs	32
Corporate Directory	inside back cover

VERSATILE CORNAT CORPORATION

ANNUAL REPORT 1978

Versatile Manufacturing Company
Versatile Farm Equipment Pty. Ltd. (Australia)
Noble Cultivators Limited
Versatile Parts Inc. (U.S.A.)
Versatile Credit Corporation

Bralorne Resources Limited
Burrard Yarrows Corporation
B.C. Ice and Cold Storage Company
Bennett Pollution Controls Company
Wescraft Manufacturing Company

HIGHLIGHTS

	1978	1977	Increase
Net Revenues	\$303,037,000	\$244,685,000	24%
Net Earnings	\$ 10,575,000	\$ 5,651,000	87%
Earnings per Share (after preferred dividends)	\$1.76	\$1.08	63%
Cash Flow per Common Share (after preferred dividends)	\$4.58	\$3.54	29%
Earnings to Capital Employed	7.4%	5.2%	
Capital Expenditures	\$ 12,735,000	\$ 10,441,000	22%
Total Common Shareholders	2,579	2,874	
Dividends Declared			
Preferred	\$ 1,914,000	\$ 9,000	
Common	\$ 1,909,000	\$ 1,679,000	

DIRECTORS' REPORT TO SHAREHOLDERS AND EMPLOYEES

Financial Review

Continuing progress in all key operations marked the Company's results in 1978.

Consolidated revenues for 1978 amounted to \$303,037,000 compared with \$244,685,000 in 1977. Net earnings were \$10,575,000 compared with \$5,651,000 in 1977, an increase of 87.1%. After providing for preferred share dividends, earnings per average common share outstanding amounted to \$1.76 (fully diluted \$1.57 per share) compared with \$1.08 in 1977 (fully diluted \$1.06 per share).

Versatile Cornat Corporation was formed on July 1, 1978 as a result of the amalgamation of Cornat Industries Limited and Versatile Manufacturing Ltd. The Company's results for 1978 and 1977 include all the income of the Versatile Manufacturing operations from July 1, 1978, and Cornat Industries' 38.8% share of the income of that operation up to that date.

The amalgamation was a step in the consolidation of the Company's operations. As part of the increasing emphasis on manufacturing, the Company divested its 50% interest in Johnston Terminals and Storage Ltd. in October, for an amount approximating the carrying value of the investment. Proceeds from the sale were used to reduce bank indebtedness and for other corporate purposes.

In June 1978, the Company increased its equity in Bralorne Resources Limited from 50.3% to 59.6% by exercising its option to convert its debenture into shares.

In August 1978, the Company undertook a major program of refinancing which included the retirement of its Income Debentures and a public placement of \$20 million (Canadian) Sinking Fund Debentures, Series A, and a further private placement of \$15 million (U.S.) Debentures, Series B, issued to a U.S. bank.

Energy Development

A strong contributor to the Company's revenues was Bralorne Resources Limited, of Calgary, Alberta. Bralorne's revenues of \$86,408,000 for 1978 were 48% over those of 1977 which were \$58,488,000. Net income of \$6,808,000 in 1978 showed a 94% increase compared with \$3,511,000 in 1977. Bralorne's earnings after providing for minority interest contributed 72¢ per share to Versatile Cornat Corporation's results. Financial highlights for Bralorne Resources Limited appear on page 16 of this Report.

The outstanding performance of Bralorne's Houston, Texas subsidiary, OMSCO Industries Inc., continued to pace the company, although both domestic Canadian and offshore units of the service group, plus increased Alberta gas shipments at a higher wellhead price, were important contributors to Bralorne's growth.

The program of international expansion was furthered by the acquisition of a controlling interest in Mobile Homes Limited in Malta.

Agricultural Division

The agricultural division of the Company, Versatile Manufacturing Company, of Winnipeg, Manitoba, increased its net sales by 23.8% in 1978. This represents the highest sales in that company's history, reflecting a general upswing in the farm equipment industry, and more particularly the resurgence of the four-wheel drive tractor market. An increase in profits of 31.3% was also reported due to higher sales volumes, improved gross margins, high cash collections and reductions of inventories.

The implementation of objectives set by management early in 1978 is progressing at a satisfactory rate. This includes improvement in areas of financial and sales planning, materials management, cost control, and data processing. Plans are also well under way to provide additional manufacturing and engineering facilities in order to meet the demands brought about by the company's rapid growth.

Following a downturn in 1977 in the farm equipment industry, the marketing force has increased its share of the North American market and is laying the base for future product and geographical expansion. The stage for North American expansion has been set by a significant upgrading in the number and type of dealers selling Versatile products. Research and development of new products, mainly in the combine and tractor areas, is also being carried out at an expanded level.

The consolidation of all manufacturing in Winnipeg led to the phase-out in November 1978 of the plant facilities in Fargo, North Dakota. The manufacture of the small Model 150 four-wheel drive tractor in Fargo will be relocated in Winnipeg following minor design modifications.

The Company acquired Noble Cultivators Limited, of Nobleford, Alberta as of January 1, 1979. Noble is a world leader in the manufacture of tillage equipment essential in stubble retention farming. The products complement Versatile's and the acquisition is in keeping with the company's policy of expanding the line of specialized and high quality products offered to dealers.

Versatile Farm Equipment Pty. Ltd., Versatile Cornat Corporation's Australian subsidiary, completed its first full year of operation in 1978. The results were most encouraging from the point of view of both the level of sales and profits attained. An agreement was completed in 1978 between Versatile Farm Equipment Pty. Ltd. and Morris Rod-Weeder Co. Ltd. of Yorkton, Saskatchewan, whereby Versatile Farm Equipment Pty. Ltd. will act as the sole distributor of Morris Rod-Weeder products in Australia. This arrangement will have a most beneficial effect on the

Peter Paul Saunders
Chairman and President



Coast Guard took delivery of the first of two "R" Class Icebreakers; and construction of the "Haida Brave", a 10,000 ton capacity self-propelled log carrier, was completed.

It has become apparent that the domestic market for the Canadian shipbuilding industry will continue to be encouraging. Activity levels in northern exploration and development are expected to increase, the program to accelerate the replacement and refitting of government vessels has been introduced, and the Government of Canada has announced its intention to continue, until the end of 1979, a program of assistance to the shipbuilding industry to encourage the construction of ships in Canada. This follows the government's acceptance in July 1978 of a report by an industry sector task force on the shipbuilding and ship repair industry.

In addition, the Government of British Columbia announced its intention to provide a measure of stability for the west coast shipbuilding industry by calling tenders for construction and refitting of a variety of British Columbia Ferry Corporation vessels. In early 1979, Burrard Yarrows was awarded a \$58 million contract by the British Columbia government for the construction of two new "Coquitlam" Class ferries, as well as a contract for a series of six deck cargo barges by a major forest products company.

At Burrard Yarrows, a new collective agreement covering some 1,500 skilled tradesmen and technical workers was negotiated for a 23½ month period beginning September 15, 1978.

Warehousing and Cold Storage, and Light Manufacturing

As of January 1, 1979, B.C. Ice and Cold Storage Ltd., Wescraft Manufacturing Ltd. and Bennett Pollution Controls Ltd. were amalgamated to form Versatile Cornat Industries Limited. Operations will be continued on a divisional basis under the trade names B.C. Ice and Cold Storage Company, Wescraft Manufacturing Company and Bennett Pollution Controls Company.

B.C. Ice and Cold Storage Company

Sales increased substantially above expected levels in 1978 due to unusually high levels of sockeye freezings, an unexpected carry-over of a large volume of cranberries in the spring of 1978, and an increase in distribution inventory turn-over at the company's Corpak division.

Efficiency of plant operations continued at high levels in 1978. With the acquisition in December 1978 of the assets of Vancouver Cold Storage Ltd., storage capacity was increased by approximately 25%. The company now operates seven plants, three of which are oriented to fish processing, storage and distribution. This will help satisfy the

future operations of the Australian subsidiary and will provide its dealers with a fuller and more competitive range of farming and tillage equipment.

A new two-year labour agreement was concluded on October 13, 1978 which should guarantee stability in this area for the next two years.

Shipyard Operations

Burrard Yarrows Corporation was formed on January 1, 1979 by the amalgamation of Burrard Dry Dock Company Limited and its subsidiary, Yarrows Limited. The amalgamation reflects the way the two companies have been operating for some time, and is expected to realize administrative efficiencies.

Activity levels in both shipbuilding and ship repair were satisfactory in 1978 and results obtained on major contracts completed during the year were generally acceptable.

A significant event for Burrard Yarrows in 1978 was the reaching of an agreement-in-principle with the Government of Canada on cost sharing arrangements for a new floating dry dock and other ship repair facilities. At year end, work had begun on detailed engineering and design of the project and the present schedule calls for construction to begin by the end of 1979.

Burrard Yarrows was involved in a wide range of activities in 1978. The company was awarded a contract by the British Columbia Ferry Corporation for re-engining and lengthening three ferries, with most of the work to take place in 1979; the Victoria Division was successful in capturing a contract for major collision damage repairs to the vessel "Taiwan Phoenix" despite stiff competition; the Canadian

requirements of a buoyant fishing industry caused by high demand for fish products around the world and the increase of the fishing limit to 200 miles.

Wescraft Manufacturing Company

Sales in 1978 were maintained at close to 1977 levels despite an approximate 25% decrease in new building construction. The deteriorating construction market hampered the 1978 results, but the company's internal organization was restructured to maximize strengths. With new marketing strategies for its unique line of thermal barrier frame systems and a streamlined organization, the improving trend is expected to continue.

Bennett Pollution Controls Company

Results and product demand in 1978 were disappointing. The market outlook for 1979 is more encouraging. The company has undergone a reorganization which was strengthened by the appointment in March 1979 of a new, highly experienced, General Manager.

Financial Services

Developments in the mortgage industry, resulting in part from a change in the mix of competitors, led the Company, in 1978, to alter the thrust of its financial services operations and emphasize instead service to the agricultural division. Versatile Credit Corporation, operating out of Kansas City, Missouri, was founded specifically to offer financial services to Versatile farm equipment dealers and customers. Operations were scheduled to begin in early 1979. In January 1979, the major portion of the Canadian portfolio of Coronation Credit Corporation Limited was sold. This sale was consummated at approximately the price at which the portfolio was recorded on the books of the Company. Negotiations are continuing to divest the United States mortgage and leasing companies.

Outlook

In the early months of 1979 we are optimistic that the effects of past downward trends in the economy are easing. Although inflation is still with us, the reduced value of the Canadian dollar on world markets has helped our export position. Forecasts for sales of agricultural equipment are favourable, and the trend towards larger, more efficient farm operations is expected to continue and favours the acceptance of our farm equipment products. The activities forecast for all of our operations will also contribute to the generally favourable outlook for the Company in 1979.

Board of Directors, Management, Employees

The Board of Directors of Versatile Cornat Corporation is composed of members of the Boards of the two predecessor companies, Cornat Industries Limited and Versatile Manufacturing Ltd.

Representation from Toronto, Winnipeg and Vancouver gives the Board a broad point of view when considering the Company's role in the Canadian economy. The Board is pleased to welcome Senator The Honourable Douglas D. Everett, President and Chief Executive Officer of The Royal Canadian Securities Company, who was appointed to the Board of Directors on July 14, 1978.

At the forthcoming Annual General Meeting in May 1979, Mr. Leonard G. Lumbers will retire as a director. The Board of Directors appreciates and is grateful to Mr. Lumbers for his splendid contribution to the Company and to Cornat Industries Limited during his years of service.

Mr. F. William Fitzpatrick, President of Bralorne Resources Limited, Calgary, Alberta, has been proposed by management as a nominee for election as a director of the Company. His election would add Alberta representation to the Board of Directors.

The Board of Directors expressed its great appreciation to Mr. Kenneth P. Hayes whose retirement as Vice-President and Treasurer of Versatile Cornat Corporation was announced, to take effect May 1, 1979. Mr. Hayes' service as chief financial officer of the Company during the past ten years has contributed greatly to its development.

The Board is pleased to announce the appointment of Mr. George A. Morris as Vice-President Finance and Treasurer and that of Mr. John S. Farrell as Senior Vice-President of Versatile Cornat Corporation as well as the following senior appointments in the Company's subsidiaries and divisions. At Versatile Manufacturing Company, Mr. Harry J. Hanley was named Vice-President, Marketing; at Burrard Yarrows Corporation, Mr. E. J. Jones was named Senior Vice-President, and Mr. David J. Alsop, Vice-President, Finance and Administration; and at Wescraft Manufacturing Company, Mr. E. W. Wellwood was named President. In March 1979, Mr. Edward T. Tedeschi was appointed Executive Vice-President and General Manager of Bennett Pollution Controls Company.

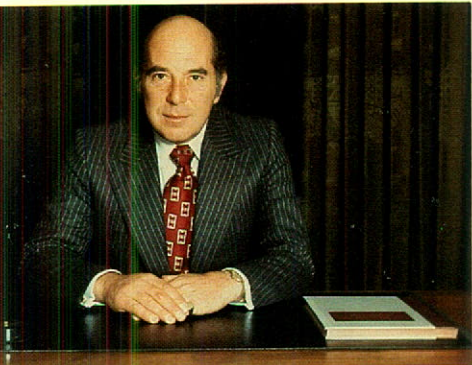
At the end of 1978, employees of Versatile Cornat Corporation and its divisions and subsidiaries numbered 4,013 and total wages, salaries and benefits paid during 1978 were \$78,082,519. The exceptional efforts of the employees of all Versatile companies and the support of our shareholders made possible the improved results in 1978, and it is with great confidence that we look forward to the future growth and success of the Company.

On behalf of the Board



Peter Paul Saunders
Chairman

March 19, 1979



Peter Paul Saunders
Chairman and President



Paul M. Soubry
Vice-President, Agricultural Division



J. William Hudson
Vice-President, Marine Operations



Kenneth R. Keeping
Assistant Vice-President, Corporate Services



John S. Farrell
Senior Vice-President



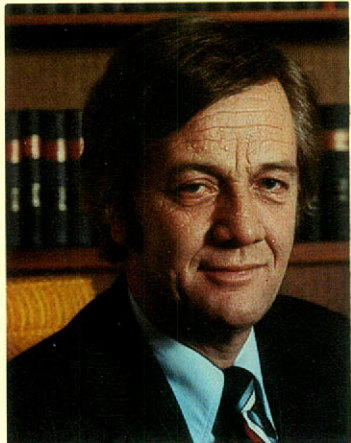
Jill P. Thesiger
Assistant Secretary



Kenneth P. Hayes, C.A.
Vice-President and Treasurer

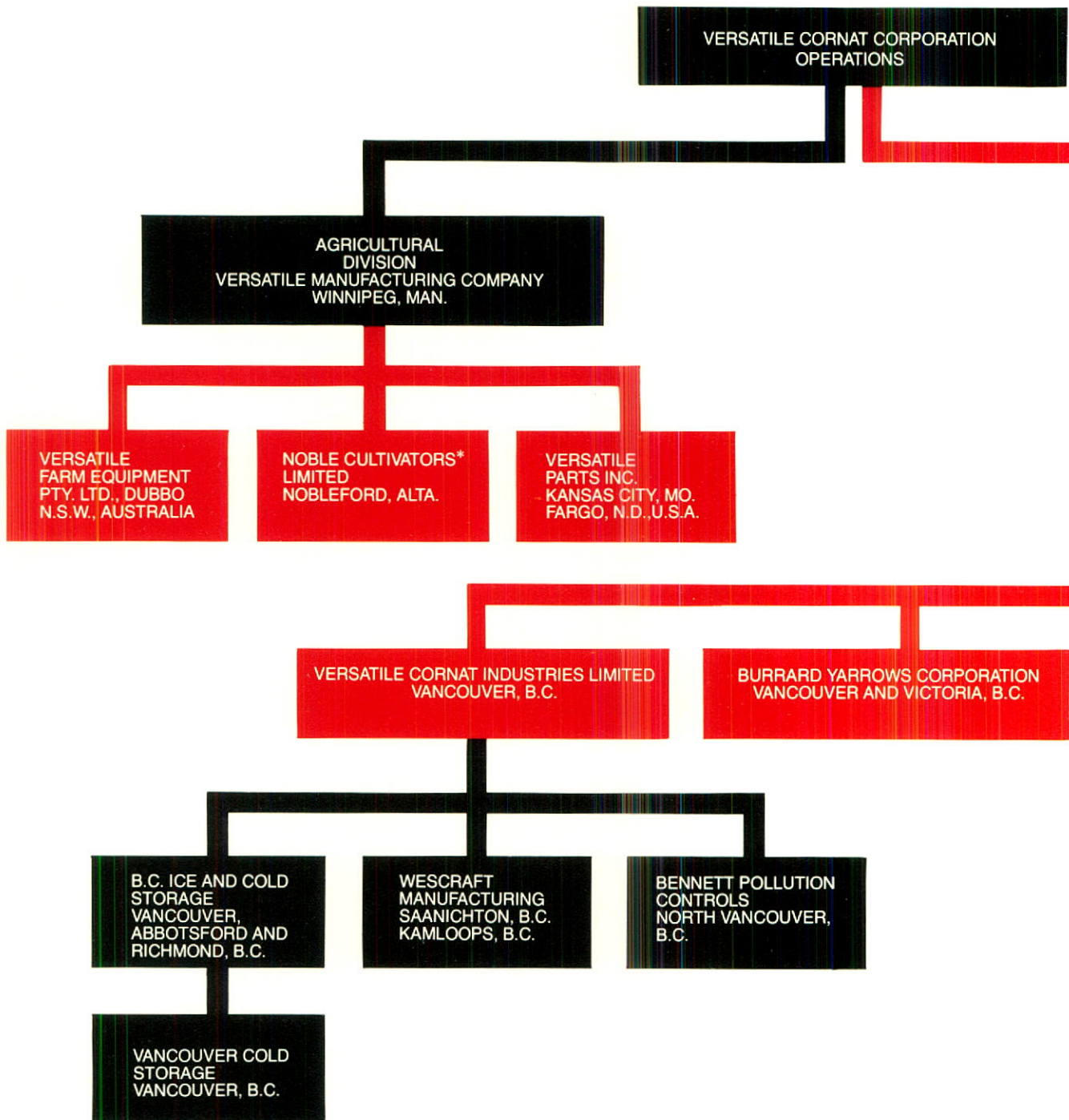


William E. Donnelly
Vice-President



G. Martin Greer
Vice-President & General Counsel and Secretary

**Versatile
Cornat
Corporation
Officers
1978**



VERSATILE CORNAT CORPORATION: THE COMPANY

Versatile Cornat Corporation is a Canadian industrial company which, directly and through subsidiaries, is engaged in the manufacture of farm equipment, components for the oil and gas industry, and shipyard operations; it also operates in service areas including cold storage warehousing and support facilities for the energy development industry.

The concentration of activities in specific fields with enough diversification to withstand cyclical fluctuations which might occur in one industry or another is the Company's objective.

The Company and its subsidiaries manufacture a wide range of products including four-wheel drive tractors, swathers, tillage equipment, tools for the oil and gas industry, ships of all types, small service boats, marine oil skimmers and booms, thermal windows and doors, and prefabricated camp buildings. It also engages in support services to these manufacturing enterprises such as catering services and food processing.

All subsidiaries of the Company are wholly-owned except Bralorne Resources Limited, which is 60% owned.

BRALORNE RESOURCES LIMITED
CALGARY, ALTA.

CORONATION CREDIT
CORPORATION LIMITED
VANCOUVER, B.C.

DIVISIONS AND SUBSIDIARIES

CAMP PROVISIONERS
CROWN CATERERS
BARBER INDUSTRIES DIVISION
OMSCO INDUSTRIES INC.
ENGINEERED OIL
CONTROLS LTD.
JARCO SERVICES LTD.
NAPCO
MOBILE HOMES (MALTA)
LTD.
POLESYSTEMS LTD.
OILFIELD SPIRALERS
CUSTOM STRUCTURES

VERSATILE
CREDIT CORPORATION
KANSAS CITY, MO.
U.S.A.

CORONATION CREDIT
(ONTARIO) LTD.
TORONTO, ONT.

* ACQUIRED AS OF JANUARY 1, 1979

DIVISIONS

OWNED SUBSIDIARIES

VERSATILE MANUFACTURING COMPANY

Winnipeg, Manitoba

PRESIDENT'S REPORT

Objectives

The manufacture of specialized high production farm equipment was the founding concept in the 1940s which led to the formation of Versatile Manufacturing Company. As the company moves towards production of its 1980 product line this concept is still its guiding principle.

The company operates from manufacturing facilities in Manitoba and is the largest manufacturer of agricultural equipment in western Canada, notably of four-wheel drive tractors and swathers. Versatile tractors are, in fact, the only four-wheel drive agricultural tractors being manufactured in Canada.

In 1978 Versatile Manufacturing Company became a division of Versatile Cornat Corporation. The financial strength derived from the backing of a larger corporation is allowing the company flexibility of operations and an improved ability to withstand the cyclical fluctuations of the farm equipment industry.

As a result, Versatile has been able to plan selective growth in line with its objective: to continue to provide innovatively designed products which combine high yield performance with ease of maintenance.

This objective will be achieved by research and development into new products and by the acquisition of companies, such as Noble Cultivators Limited, whose products are compatible with Versatile's.

The current plant facilities, 456,000 sq. ft. on 37 acres in Winnipeg, are stretched to capacity. The consolidation of all production in Winnipeg, the substantial increase in tractor production, and the expansion of the experimental engineering design and testing areas necessitate plant expansion: the company is actively seeking the acquisition of additional land and facilities.

The commitment to research and development is ongoing. Currently, new models are being planned for four-wheel drive tractors and swathers, tests are continuing on an experimental combine design, and existing products are constantly being refined.



Versatile's Model 400 self-propelled swather.



Paul M. Soubry
President, Versatile Manufacturing Company
Vice-President, Agricultural Division,
Versatile Cornat Corporation

Charlie Karlowsky with the Model 875 four-wheel drive tractor. He and his son Ernie have tested Versatile equipment on their farm outside Winnipeg for more than 10 years.



Noble Cultivators Limited

The acquisition in early 1979 of Noble Cultivators Limited, of Nobleford, Alberta, is indicative of the direction the company is taking to expand its product line.

Noble is one of the world's leading manufacturers of blade plows and hoe seed drills, two implements which are essential in stubble retention farming. The company pioneered the use of blade cultivators more than 40 years ago as a technique for farmers to preserve soil moisture. Noble is continuing to pioneer research and development into blade plow technology and "no-till" seeding. With changing climates, receding water tables and increasing costs of fuel and fertilizer, moisture and soil conservation are more important than ever. As a result, stubble retention and no-till farming are becoming widespread methods of agriculture which a number of countries are supporting through legislation.

Versatile Farm Equipment Pty. Ltd.

"Working with the Australian Farmer"

In the year and a half since its inception in October, 1977, Versatile Farm Equipment Pty. Ltd. has become a major distributor of specialized farm equipment in Australia. The acceptance of Versatile products has been due to their adaptability to



Model 875 tractors line up for delivery.





Australian grain growing conditions, and to the exceptional efforts of the management team. In less than one year, Versatile Farm Equipment became the second largest distributor of four-wheel drive tractors in that country and the number of dealers carrying the company's products increased significantly. In addition, the company successfully negotiated an exclusive contract to distribute and service in Australia the tillage products of Morris Rod-Weeder Co. Ltd. of Yorkton, Saskatchewan.

Marketing

Versatile now has a network of more than 600 dealers in prime geographical areas of North America. They and their customers have a strong loyalty to Versatile products which should extend to the expanded line of specialized products. Through Versatile Credit Corporation, Versatile Manufacturing Company will finance dealer floor-plans and customer purchases in an effort to counteract the adverse effect of high interest rates.

The company proposes geographic diversification of its sales base to assure stability of income. The success of the company in Australia has encouraged research into the potential of additional offshore markets.

Paul M. Soubry

Paul M. Soubry
President

*Model 2800 swather header with
Model 150 four-wheel drive tractor.*



BURRARD YARROWS CORPORATION *Vancouver and Victoria, British Columbia*

J. William Hudson
*President, Burrard Yarrows Corporation
Vice-President, Marine Operations,
Versatile Cornat Corporation*



PRESIDENT'S REPORT

As of January 1, 1979 Burrard Dry Dock Company Limited and Yarrows Limited were amalgamated as Burrard Yarrows Corporation, reflecting the fact that the two shipyards have been operating as one for a number of years. Both companies have had a long history of continuous activity since Yarrows commenced business in 1893 and Burrard in 1894.

Company Activities

During 1978, production continued at good levels with a satisfactory balance between shipbuilding and ship repair. Productive manhours during the year were about the same as 1977 and preliminary indications are that these levels will be maintained for the next twelve months.

The company delivered six new vessels to owners during the year. The 322 foot "R" Class Icebreaker "C.C.G.S. Pierre Radisson" was accepted by the Canadian Coast Guard, Ministry of Transport and following a series of training cruises on the west coast, her new crew took the vessel through the Canadian Arctic, from west to east, to her operating base in Quebec City. During the voyage, the "Pierre Radisson" was exposed to severe ice conditions and performed particularly well, a credit both to her designers and her builders. The second "R" Class Icebreaker "C.C.G.S. Franklin" was launched in 1978 and officially named during a commissioning ceremony on March 3, 1979 presided over by Her Excellency Mrs. Edward Schreyer, C.C.

At year end there were strong indications that the Canadian Coast Guard would seek tenders for a third "R" Class Icebreaker in 1979 and Burrard Yarrows Corporation expects to bid on its construction. The construction of strengthened special purpose vessels, such as icebreakers, is an area of promising potential in which the company intends to participate in the future. The "Haida Brave", a 10,000 ton capacity log carrier, is the second vessel of its type built by Yarrows. During the year Burrard also delivered four smaller vessels including two barges equipped with cranes.

At the end of 1978 three vessels were under construction in addition to the "C.C.G.S. Franklin": a 66.5 foot air cushion vessel ferry and two deck cargo barges. Early in 1979 the company was awarded a contract by the British Columbia Ferry Corporation to build two 357 foot "C" Class passenger/car ferries similar to those built in 1975-76; in January 1979 a contract was awarded for a series of six chip scows.

Bow repair to the "Taiwan Phoenix".



In 1978, over 470 vessels were repaired of which 107 were dry docked. Ship repairs were affected somewhat by a cyclical decline in the number and value of major ship repair jobs available during the year. Routine repairs continued to provide stability and modest growth despite a lack of dry dock capacity in Vancouver for deepsea vessels. Two major repair jobs were completed during the year, both in Victoria: an annual dry docking and refit to the P. & O. passenger vessel "Sun Princess" and extensive hull damage repairs to the "M.V. Taiwan

Phoenix". The impact of the revaluation of the Canadian dollar and increased marketing efforts resulted in the placement of a number of dry dock bookings for late 1978 and early 1979 and accordingly, this period was one of the busiest in recent years.

To overcome a demonstrated lack of dry dock capacity in Vancouver, the company reached agreement during the year on cost sharing with the Government of Canada for a new 36,000 ton lifting

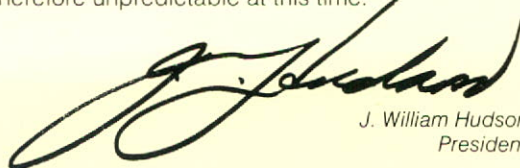


Self-propelled log rigger with Victoria Division shipyard in background.

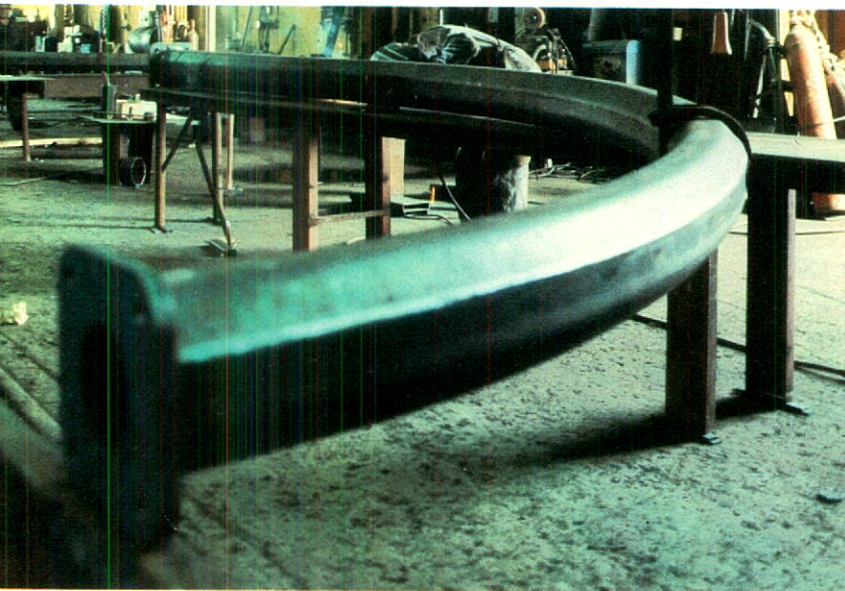
capacity floating dry dock and other facilities, estimated to cost \$50 million. Terms and conditions were still being finalized at year end, however, the basic agreement is for the Government of Canada to contribute up to \$28.8 million and the company to fund the balance. These new facilities could be in service by the end of 1981 and would enable the company to re-assert itself in the international ship repair market.

In November, the company participated as a sub-contractor in a bid to qualify for the design and subsequent construction of six new patrol frigates for the Canadian Armed Forces. The present

program calls for two prime contractors (to be selected from six bidders) to participate in a funded design phase which would result in one of the prime contractors being awarded a contract to build one lead-ship plus five follow-ships during the period 1983 to 1989. The extent of the company's participation in the construction of these naval vessels is therefore unpredictable at this time.


J. William Hudson
President

F. W. Fitzpatrick
President
Bralorne Resources Limited



Light standard manufactured by
Polesystems Ltd., one of Bralorne's subsidiaries.

BRALORNE RESOURCES LIMITED

Calgary, Alberta

PRESIDENT'S REPORT

Operations Review

Bralorne experienced another excellent financial year as reflected in its 1978 operating statistics. Gross revenue of \$86,408,000 was 48% higher than the \$58,488,000 recorded in 1977; cash flow from operations of \$12,619,000 or \$2.13 per share was up 65% from \$7,657,000 or \$1.49 per share last year. Net income in 1978 of \$6,808,000 or \$1.15 per share (\$1.05 fully diluted) was 94% ahead of the comparable result of the previous year.

Despite the fact that the company's equity base grew substantially during the year, the company was able to increase the return on average shareholders' equity from 20% to 26%.

The company's revenue growth in 1978 came basically from internal sources and with minor exception was broadly based across the company's profit centres. As a result, manufacturing facilities were severely taxed in several areas resulting in a requirement for significant expansion of capital expenditures in order to meet our customers' needs. These internal expansion programs, which involved an expenditure of \$7,620,000 in 1978 continue on into 1979.

The largest single contributor to the company's profit growth in 1978 was the United States subsidiary, OMSCO Industries, Inc. This resulted from an increasing demand for drill collars magnified somewhat by a decline in the value of the Canadian dollar against the United States dollar. Increased gas shipments in Canada at higher prices were also an important contributor to the 1978 performance.

As part of its growth plan, the company has made an acquisition in every year since 1971 and 1978 was no exception. At mid-year Bralorne acquired a 51% interest in Mobile Homes Limited, a Malta based modular homes manufacturer. This investment, in a company operating in the same general product area as the Custom Structures Division, gives the Service Group access to a broader market coverage and the company as a whole valuable, albeit minimal, exposure outside North America. Negotiations for the acquisition of an interest in Portahomes (Jordan) Co. Ltd. are continuing.

Strategy

No changes are contemplated in Bralorne's growth objectives. For each of the company's three operating groups they are as follows:

1. The Manufacturing Group seeks to expand worldwide the market for its products through broadening distribution channels, joint ventures, and acquisition of businesses with complementary objectives. Subsidiaries and divisions in this group include: OMSCO Industries, Inc., Barber Industries, Engineered Oil Controls Ltd. (ENOCO), Jarco Services Ltd., and Polesystems Ltd.

2. The Service Group is concentrating its primary efforts toward preparation for an expanded demand for its services and products associated with several very large scale energy projects in western Canada currently in the advanced planning stage. The Service Group consists of: Crown Caterers, Camp Provisioners, Custom Structures and Mobile Homes Limited in Malta.

The Oil and Gas Division of Bralorne engages in production and exploration in western Canada and the gulf coast area of the U.S.



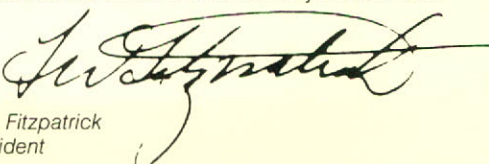
3. The Oil and Gas Division has a two-fold strategy. Firstly to develop further significant low cost proven petroleum reserves in both Canada and the United States; and secondly, to expand cash flow by bringing on stream, as expeditiously as possible, non-producing Canadian gas reserves which have been developed and/or acquired over the past three years.

Outlook

This is a time of considerable economic uncertainty. Whether Iranian oil will be available to the North American market in the future, and if it is, the pricing thereof, is a major current concern which under-

scores the basic continuing need in both Canada and the United States for intensified exploration efforts aimed at increasing both domestic petroleum reserves and productive capacity.

What is needed by the petroleum industry at the present time is a clear political signal that its efforts will be supported. If that is forthcoming in 1979 then the outlook is excellent for some years ahead.

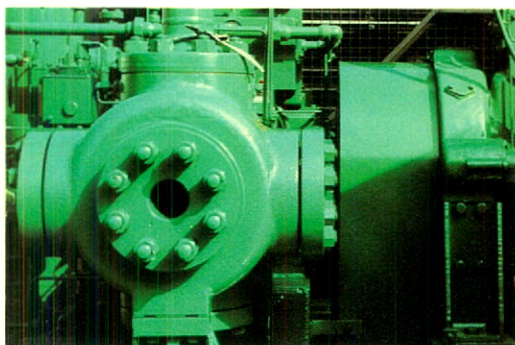

F. W. Fitzpatrick
President

1978 Highlights

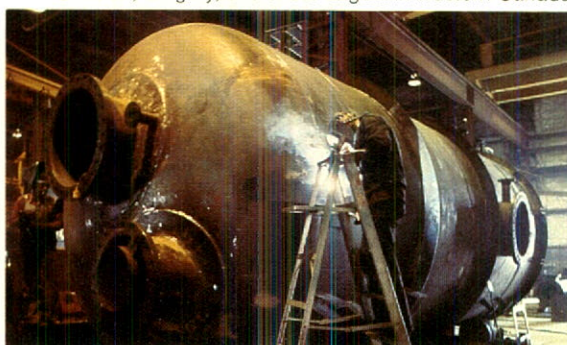
BRALORNE RESOURCES LIMITED

	1978	1977	% change
Gross Revenue	\$86,408,000	\$58,488,000	+48%
Cash Flow from Operations	12,619,000	7,657,000	+65%
Per Share	\$2.13	1.49	
Income before Extraordinary Item	6,808,000	3,511,000	+94%
Per Share	\$1.15	69¢	
Net Income	6,808,000	3,880,000	+75%
Per Share	\$1.15	76¢	
Shareholders' Equity	32,402,000	20,126,000	+61%
Per Share	\$4.85	3.90	
Return on average Shareholders' Equity	26%	20%	
Dividend per share	10¢	—	
Capital Asset Expenditures:			
Oil and gas exploration and production			
— in Canada	\$ 2,089,000	\$ 3,554,000	
— elsewhere	705,000	82,000	
Total	\$ 2,794,000	\$ 3,636,000	
Property, plant and equipment	\$ 7,620,000	\$ 3,926,000	
Acquisition	\$ 497,000	\$ 2,268,000	
Employees at December 31	1,250	1,030	
Total Wages, Salaries and Benefits Paid to Employees	\$19,836,000	\$15,870,000	
Net Reserves at December 31, 1978			
Natural Gas and Oil—			
Canada (Proven and Probable)	72 billion cubic feet		
Coal (Proven)	26.7 million metric tons		

Gas compressor packaged by Barber Industries Division.



API storage tank at Barber Industries Fabrication Division, Calgary, one of the largest in western Canada.



B.C. ICE AND COLD STORAGE COMPANY *Vancouver, British Columbia*

PRESIDENT'S REPORT

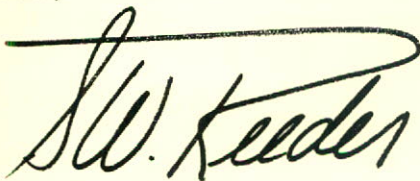
B.C. Ice and Cold Storage Company operates seven public cold storage warehouses in the Greater Vancouver area and offers a complete refrigerated storage service to the food industry. The company's operations, which include the freezing and storage of perishables and the leasing of space to food processing and distribution companies, are the largest in western Canada.

The Vancouver Harbour complex concentrates on fish processing, import/export, cooler and non-fish specialty items. Extraordinary growth in this sector and a very active 1978 were some of the factors leading to the acquisition of the assets of Vancouver Cold Storage Ltd. This acquisition, which was concluded in December 1978, increased the company's storage capacity by 25%.

The Valley plant operations will continue to be directed toward the fruit and vegetable industry. Located in Abbotsford, B.C., the plant handles bulk freezing and frozen storage of the Fraser Valley farm industry. It also services the growing meat and poultry industry in the Fraser Valley area. A high level of overall activity was maintained at Valley in 1978, and 1979 expectations are excellent.

The modern facilities of Corpak in Richmond, B.C., are a storage and distribution centre for retail and institutional packaged frozen products. Since the population growth rate is directly related to the growth of consumer demand for frozen products, Corpak's outlook is expected to remain favourable.

The company's computerized inventory control system, which provides instantaneous information to customers, coupled with an outstanding management team has made B.C. Ice a leader in the industry.



Stewart W. Reeder
President



Stewart W. Reeder
President
B.C. Ice and Cold Storage Company

Aerial view of the Harbour complex, Vancouver, B.C.



WESCRAFT MANUFACTURING COMPANY

Saanichton, British Columbia

PRESIDENT'S REPORT

The manufacture and distribution of aluminum windows and doors and the distribution of aluminum siding are the major areas of activity of Wescraft Manufacturing Company.

The company's thermal barrier line of windows and doors, which embodies a unique highly effective insulation barrier between inner and outer sash components, is receiving an excellent reception in cold weather areas.

The housing market is not expected, in the short term, to regain the buoyancy of the 1960s or early 1970s. The company intends to compensate for this lack of growth potential in new residential construction by aggressive marketing strategies, penetration into new markets, and by expanding allied product lines in the construction and home renovation field.

The company's name is well known for quality residential and commercial products. With its skilled installation crews, product design capabilities, and manufacturing expertise in thermal barrier frame systems, the company hopes to improve its profit picture.



*E. W. Wellwood
President*

Wescraft commercial windows used in one of Victoria's newest luxury condominiums on the inner harbour at Laurel Point. The same windows were also used in the adjoining Delta Inn.



BENNETT POLLUTION CONTROLS COMPANY

North Vancouver, British Columbia

PRESIDENT'S REPORT

Bennett Pollution Controls Company manufactures and distributes environmental protection products designed to prevent, contain or recover spilled oil and other waterborne pollutants.

Market demand for these products declined substantially in 1978 as the public and governments turned their attention away from environmental concerns to pressing economic issues. To counteract this downturn in the market and a trend to increasing market cyclicality, the company is applying some of its engineering expertise to related products such as the SeaLander work boat which was added to the company's line of products in 1978.

With the appointment of Mr. Edward T. Tedeschi as Executive Vice-President and General Manager, the company is in a much stronger position and the outlook is encouraging.



*John S. Farrell
President*

The SeaLander work boat manufactured by Bennett Pollution Controls Company for a variety of customers including the Canadian Coast Guard, Ministry of Transport.



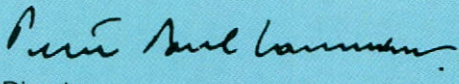
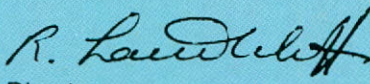


Annual refit to the "Sun Princess", Burrard Yarrows Corporation, Victoria Division.

VERSATILE CORNAT CORPORATION

CONSOLIDATED BALANCE SHEET

as at December 31, 1978 (in thousands of dollars)

ASSETS	1978	1977
CURRENT ASSETS		
Short-term deposits and marketable securities, at cost	\$ 4,081	\$ 1,217
Accounts receivable	75,019	75,582
Inventories (note 3)	52,018	53,134
Prepaid expenses	1,011	800
Deferred income taxes	1,231	948
	<u>133,360</u>	<u>131,681</u>
INVESTMENTS AND LOANS		
Investment in finance subsidiaries	15,395	12,265
Advances to finance subsidiaries	1,689	3,350
Investment in 50% owned companies	177	2,437
Senior personnel share purchase plan loans (note 4)	905	490
Other	503	172
	<u>18,669</u>	<u>18,714</u>
PROPERTY, PLANT AND EQUIPMENT (note 5)	<u>65,747</u>	<u>61,304</u>
INTANGIBLE ASSETS AND DEFERRED CHARGES		
Goodwill	3,488	10,119
Patents	1,651	1,755
Financing expenses	688	102
	<u>5,827</u>	<u>11,976</u>
Approved by the Directors		
 Director	<u>\$223,603</u>	<u>\$223,675</u>
 Director		

LIABILITIES**CURRENT LIABILITIES**

Bank loans (note 6)	\$ 15,328	\$ 38,487
Accounts payable and accrued liabilities	42,295	29,039
Income taxes payable	4,089	992
Dividends payable	1,167	785
Current portion of long-term debt	3,793	3,449
	<u>66,672</u>	<u>72,752</u>

LONG-TERM DEBT (note 6)

60,945	62,817
--------	--------

DEFERRED INCOME TAXES

8,870	6,601
-------	-------

MINORITY INTERESTS IN SUBSIDIARIES

13,573	42,224
<u>83,388</u>	<u>111,642</u>

SHAREHOLDERS' EQUITY**SHARE CAPITAL** (note 7)

Authorized

8,000,000 cumulative redeemable preferred shares
without par value, issuable in series, of
which 1,825,000 have been designated as
\$1.40 Series A preferred shares

10,000,000 common shares without par value

Outstanding

1,817,215 Series A preferred shares without par value,
at \$15.00 per share

27,258	—
--------	---

— \$1.20 preferred shares (old series)

—	102
---	-----

5,314,185 common shares

13,729	13,375
--------	--------

RETAINED EARNINGS

32,556	25,804
--------	--------

<u>73,543</u>	<u>39,281</u>
---------------	---------------

<u>\$223,603</u>	<u>\$223,675</u>
------------------	------------------

Contingent liabilities
and subsequent events (notes 13 and 15)

VERSATILE CORNAT CORPORATION **CONSOLIDATED STATEMENT OF EARNINGS** **AND RETAINED EARNINGS**

Year Ended December 31, 1978 (in thousands of dollars)

	1978	1977
Revenue		
Manufacturing	\$261,884	\$217,286
Service	41,153	27,399
	<u>303,037</u>	<u>244,685</u>
Costs and expenses		
Cost of sales	231,085	187,872
Selling, general and administrative	29,524	21,259
Long-term debt interest	5,305	5,745
Other interest	4,113	2,400
Depreciation, depletion and amortization	6,702	5,717
	<u>276,729</u>	<u>222,993</u>
	26,308	21,692
Other income		
Equity in net earnings of other companies		
Finance subsidiaries	524	755
50% owned companies	589	378
Gain on foreign exchange (note 8)	2,516	1,428
Other	1,205	707
	<u>31,142</u>	<u>24,960</u>
Income taxes		
Current	11,787	10,418
Deferred	1,757	1,230
	<u>13,544</u>	<u>11,648</u>
Earnings before items shown below	17,598	13,312
Minority interests	7,023	6,313
Earnings from continuing operations	10,575	6,999
Loss from discontinued operations	—	1,348
NET EARNINGS	10,575	5,651
Retained earnings at beginning of year	25,804	21,841
	<u>36,379</u>	<u>27,492</u>
Dividends declared		
Preferred shares (note 9)	1,914	9
Common shares	1,909	1,679
	<u>3,823</u>	<u>1,688</u>
RETAINED EARNINGS AT END OF YEAR	\$ 32,556	\$ 25,804
Earnings (loss) per common share (note 11)		
From continuing operations	\$1.76	\$1.33
From discontinued operations	—	(.25)
Net earnings per common share	<u>\$1.76</u>	<u>\$1.08</u>
Fully diluted earnings per common share (note 11)	<u>\$1.57</u>	<u>\$1.06</u>

VERSATILE CORNAT CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1978 (in thousands of dollars)

	1978	1977
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings	\$ 10,575	\$ 5,651
Items not affecting working capital		
Depreciation, depletion and amortization	6,702	5,717
Deferred income taxes	2,269	2,270
Equity in after tax earnings of finance subsidiaries and 50% owned companies	(1,113)	(1,133)
Minority interests	7,023	6,313
Other	(14)	(265)
	<u>25,442</u>	<u>18,553</u>
Increase in long-term debt	38,675	15,954
Proceeds from sale of 50% owned company, excluding portion received by finance subsidiaries	1,252	—
Decrease in investment in and advances to finance subsidiaries	538	2,838
Proceeds from sale of fixed assets	1,183	5,566
Proceeds from issue of common shares	266	39
Funds on deposit with trustee for purchase of subsidiary	—	27,626
	<u>67,356</u>	<u>70,576</u>
WORKING CAPITAL APPLIED TO		
Investment in subsidiary companies	34,877	29,895
Less		
Series A preferred shares issued	(27,368)	—
Debenture converted	(6,000)	—
Working capital acquired	(593)	(42,029)
	<u>916</u>	<u>(12,134)</u>
Additions to property, plant and equipment	12,735	10,441
Reduction of long-term debt	40,547	24,016
Dividends declared	3,823	1,688
Intangible assets and deferred charges	538	375
Senior personnel share purchase plan	415	105
Reduction of minority interests	253	1,288
Redemption of preferred shares	124	—
Other	246	(161)
	<u>59,597</u>	<u>25,618</u>
INCREASE IN WORKING CAPITAL	7,759	44,958
WORKING CAPITAL AT BEGINNING OF YEAR	<u>58,929</u>	<u>13,971</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 66,688</u>	<u>\$58,929</u>

VERSATILE CORNAT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1978

1. Summary of Accounting Policies

(a) Basis of consolidation

On July 1, 1978 Cornat Industries Limited (Cornat) increased its equity ownership in its subsidiary company, Versatile Manufacturing Ltd. (Versatile) from 38.8% to 100% by way of a statutory amalgamation, the new amalgamated Company being named Versatile Cornat Corporation (the Company). In this process the minority holders of common shares in Versatile became preferred shareholders of the Company. These financial statements include Cornat's 38.8% equity in the earnings of Versatile for the first half of 1978, and 100% for the second half.

The consolidated financial statements of the Company include all subsidiary companies other than those in the financing business. The Company considers it more informative and appropriate to present separate combined financial statements for the finance subsidiaries (see note 16) and to adopt the equity method of accounting for them. Applying this method, the Company has taken into earnings its share of the earnings of those subsidiaries, increasing its investment accordingly. Dividends from these subsidiaries are not taken into earnings, but are applied to reduce the investment.

(b) Foreign currencies

Consolidated subsidiaries

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at current rates. Other assets and liabilities have been translated at historical rates. Revenues and expenses (except depreciation, depletion and amortization, which are translated at historical rates) have been translated at average rates in effect during the year.

Finance subsidiaries

Current and long-term monetary assets and liabilities in foreign currencies are translated into Canadian dollars at current rates. Non-monetary assets and liabilities are translated at historical rates.

Gains and losses arising from exchange translations are included in current earnings.

(c) Inventories

Inventories of finished goods and work-in-process are valued at the lower of cost and net realizable value.

Raw materials and supplies are valued at the lower of cost and replacement cost.

(d) Property, plant and equipment

These assets are valued at cost. When shares are purchased in subsidiaries appropriate amounts out of the total investment are allocated

on consolidation to the underlying fixed assets. Depreciation charges are based on these amounts.

(e) Depreciation

Depreciation is provided on property, plant and equipment at various rates intended to depreciate the cost of the assets over their estimated useful lives.

(f) Oil and gas interests

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized. These costs are depleted by the unit-of-production method based on the estimated oil and gas reserves.

(g) Mining interests

Exploration expenditures on mining properties continuing under examination are deferred and will be amortized against production revenue from the relevant properties or written off upon cessation of interest therein.

(h) Deferred income taxes

The Company follows the practice of charging reported earnings with income taxes related to those earnings with the result that differences between these taxes and taxes currently payable for the year are reflected in deferred income taxes.

(i) Intangible assets and deferred charges

Goodwill, which represents the excess of the cost of investments in subsidiaries over amounts allocated to identifiable assets, is written off by charges against earnings, generally over a 20 year period. The Company continually evaluates the worth of its goodwill and accordingly in the current year an additional charge of \$338,000 has been made against earnings.

Patents are being amortized over a period of seventeen years. Financing expenses are charged to earnings over the term of the debt issue to which they relate.

(j) Recognition of income

(i) Marine construction profits are recognized on the percentage of completion basis. Under this method, the final profit on each contract is estimated as the work proceeds and is taken into income as the work is done, the amount of direct labour being the factor determining the degree of completion for this purpose. If it appears that a contract will result in a loss, the full amount of the estimated loss is provided for immediately.

(ii) Ship repair and industrial engineering revenues and profits are recognized on completion of contracts, with anticipated losses provided for immediately.

(iii) Income from farm equipment, aluminum fabrication and other manufacturing, oil and gas interests and services is recognized at the time of sale. When sales of farm equipment are made under extended terms of sale, suitable provisions are made to recognize the cost of extending the credit terms.

2. Acquisitions and Dispositions in 1978

As mentioned in note 1(a) the Company increased its equity ownership in Versatile Manufacturing Ltd. from 38.8% to 100%.

Also, the Company increased its equity in Bralorne Resources Limited from 50.3% to 59.6% by exercising its option to convert its debentures into shares.

In June, Bralorne Resources Limited acquired a 51% interest in Mobile Homes Limited, in Malta, for a total price of \$735,000. In December, B.C. Ice and Cold Storage Limited acquired certain assets and leases of Vancouver Cold Storage for a price of \$774,000.

Effective October 31, 1978 the Company disposed of its 50% interest in Johnston Terminals and Storage Ltd. for an amount approximating the carrying value of its investment.

3. Inventories

	1978	1977
	(in thousands of dollars)	
Finished goods	\$10,965	\$15,718
Work-in-process, less billings	8,228	7,268
Raw materials and supplies	32,825	30,148
	<u>\$52,018</u>	<u>\$53,134</u>

4. Senior Personnel Share Purchase Plan

The Company and certain of its subsidiaries have established share purchase plans under which they loan funds, interest free, to trustees to enable certain senior employees to acquire shares at the market price. These loans are payable over a five year period.

5. Property, Plant and Equipment

	1978		1977	
	Cost	Accumulated depreciation and depletion	Net	Net
	(in thousands of dollars)			
Bralorne Resources Limited				
Land	\$ 2,750	—	\$ 2,750	\$ 2,486
Buildings	6,451	\$ 845	5,606	5,211
Machinery and equipment	19,573	5,124	14,449	8,869
Oil and gas interests	24,305	2,880	21,425	20,598
Mining interests	882	—	882	984
	<u>53,961</u>	<u>8,849</u>	<u>45,112</u>	<u>38,148</u>
Farm equipment manufacturing				
Land	447	—	447	1,153
Buildings	7,588	2,206	5,382	6,812
Machinery and equipment	8,637	4,291	4,346	4,441
	<u>16,672</u>	<u>6,497</u>	<u>10,175</u>	<u>12,406</u>
Marine construction and repairs				
Land	1,201	—	1,201	1,201
Floating drydocks, piers and buildings	9,018	8,185	833	969
Machinery and equipment	9,600	8,761	839	989
	<u>19,819</u>	<u>16,946</u>	<u>2,873</u>	<u>3,159</u>
Other				
Land and foreshore leases	600	20	580	526
Buildings	8,330	3,085	5,245	5,193
Machinery and equipment	5,387	3,625	1,762	1,872
	<u>14,317</u>	<u>6,730</u>	<u>7,587</u>	<u>7,591</u>
Total	<u>\$104,769</u>	<u>\$39,022</u>	<u>\$65,747</u>	<u>\$61,304</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1978

6. Long-Term Debt

	1978	1977
	(in thousands of dollars)	
Bonds and debentures		
11% Series A sinking fund debentures, maturing 1993	\$20,000	—
10% Series B debentures, maturing 1986 (U.S. \$15,000,000)	17,712	—
9¾% sinking fund, secured bonds, maturing 1987	3,238	\$ 3,401
6% to 6.3% Industrial Development Revenue Bonds (U.S. \$1,005,000)	1,013	1,076
Income debentures	—	30,000
Debentures with interest at the prime rate	—	220
	<u>41,963</u>	<u>34,697</u>
Mortgages	—	2,750
Secured notes		
At 1% above the prime rate, maturing 1979-1980	2,667	4,000
At 9%, maturing 1980 (U.S. \$1,250,000)	1,228	1,187
	<u>3,895</u>	<u>5,187</u>
Bank loans		
At 1½% above the prime rate, maturing 1979-1987	5,000	5,000
At 2% above the prime rate	—	3,950
At 2% above the Euro-London inter-bank rate maturing 1979-1982 (U.S. \$2,375,000)	2,518	3,048
At 12% utilized by way of bankers acceptances, maturing 1979-1987	10,000	10,000
	<u>17,518</u>	<u>21,998</u>
Other	1,362	1,634
	<u>64,738</u>	<u>66,266</u>
Less current portion included in current liabilities	3,793	3,449
	<u>\$60,945</u>	<u>\$62,817</u>

Payments due on long-term debt for the next five years are:

1979	\$3,793,000
1980	6,176,000
1981	3,460,000
1982	3,990,000
1983	3,268,000

The above amounts include \$600,000 payable per year of Series A debentures which the Company has agreed to purchase if available at or below par.

The long-term debt and current bank loans of the companies are secured by notes, debentures or charges on certain of the property, plant and other assets of the companies.

7. Share Capital

Changes in common shares during the year were as follows:

	Shares	Amount (in thousands of dollars)
Balance outstanding at beginning of year	5,245,351	\$13,375
Shares issued in exchange for \$1.20 convertible preferred shares	29,005	88
Shares issued for warrants	17,352	77
Shares issued to employees under the share purchase plan	22,870	192
Shares returned to treasury	(393)	(3)
Balance outstanding at end of year	<u>5,314,185</u>	<u>\$13,729</u>

The \$1.40 Series A preferred shares were issued July 1, 1978 to the minority shareholders of Versatile Manufacturing Ltd. The balance of 1,817,215 outstanding at December 31, 1978 represents the original issue of 1,824,515 less 7,300 shares purchased for cancellation. These shares are redeemable at the option of the Company after June 30, 1983 at a redemption price of \$16.40 per share decreasing to \$15.00 per share after June 30, 1988. The Company has agreed to purchase in the open market 4% per annum of the outstanding \$1.40 Series A preferred shares at prices not exceeding \$14.50 per share.

On August 4, 1978 one warrant per share was issued to the holders of the Series A preferred shares. Two warrants entitle the holder, upon payment of \$7.25 to purchase one common share of the Company.

There are warrants outstanding at December 31, 1978 entitling the holders thereof to purchase:

- (a) 52,748 common shares at \$3.00 per share to July 31, 1979.
- (b) 906,415 common shares at \$7.25 per share to July 29, 1983.

Of the 6,701 \$1.20 cumulative redeemable exchangeable (convertible) preferred shares outstanding at December 31, 1977, 5,801 were converted into common shares and the remaining 900 were purchased for cancellation.

8. Gain on Foreign Exchange

This amount represents the exchange gain resulting from the translation of the financial statements of foreign subsidiaries into Canadian dollars (\$571,000) and the exchange gain on foreign currency sales between the date of sale and the date of payment, or the year end, if earlier (\$1,945,000).

In addition to the foregoing the Company receives the exchange benefit of sales and suffers the exchange costs on purchases in foreign currencies when the Canadian dollar is in a depressed state. Such amounts are included in revenue and costs and expenses, respectively.

9. Dividends on Preferred Shares

Dividends paid on the \$1.40 Series A preferred shares in 1978 amount to 70 cents per share. An additional dividend of 35 cents per share was declared and charged to retained earnings in 1978, but is not payable until March, 1979.

10. Remuneration of Directors and Senior Officers

	1978		1977	
	Number	Amount	Number	Amount
Aggregate remuneration paid to directors and senior officers	<u>19</u>	<u>\$685,263</u>	<u>15</u>	<u>\$491,968</u>

Amount

included
above for
remuneration
of directors
as directors

12 \$ 63,700 12 \$ 48,450

11. Earnings per Common Share

The earnings per common share are calculated using the weighted average number of common shares outstanding. Fully diluted earnings per common share are calculated on the assumption that all warrants are exercised at the beginning of the year. Imputed earnings on the proceeds received on the exercise of these warrants are calculated using an 8% after tax rate of return.

12. Anti-Inflation Program

The Company and its Canadian subsidiaries were subject to, and believe they have complied with, controls on prices, profits, compensation and dividends under the Canadian Government's Anti-Inflation Program, which expired December 31, 1978.

13. Contingent Liabilities

- (a) The cost of certain assets and shares acquired by a subsidiary company is subject to upward adjustment.
- (b) Recent actuarial evaluations of the Companies' pension plans indicate that there are no material unfunded liabilities.

14. Comparative Figures

Certain comparative figures in these financial statements have been restated to conform to the presentation in 1978.

15. Subsequent Events

- (a) In March 1979 the Company purchased all the shares of Noble Cultivators Limited, a farm equipment manufacturer and Bralorne Resources Limited agreed to purchase all the shares of Triangle Grinding, Inc., a manufacturer and supplier of oil field service tools. The cost of these acquisitions is approximately \$12,000,000.
- (b) Subsequent to the Company's year end the finance subsidiaries have sold or are negotiating the sale of a substantial portion of their investment in mortgages, properties and leases for amounts approximating book value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1978 -

16. Supplementary Information

The following condensed statements present the combined financial position and combined operating results of the finance subsidiaries for 1978 and 1977:

Condensed Statement of Earnings and Retained Earnings

	1978	1977
	(in thousands of dollars)	
Gross income	\$8,576	\$6,620
Expenses		
Cost of borrowings	5,039	3,689
Allowance for doubtful accounts	558	399
Operating expenses	1,912	1,265
	7,509	5,353
	1,067	1,267
Income taxes	381	502
	686	765
Equity in earnings of wholly and partly-owned companies	452	800
Net Earnings	1,138	1,565
Retained earnings at beginning of year	7,404	6,542
	8,542	8,107
Dividends on common and preferred shares	1,317	703
Retained earnings at end of year	\$7,225	\$7,404

Net earnings shown above are reconciled with those shown on the Versatile Cornat statement of earnings as follows:

	1978	1977
	(in thousands of dollars)	
Net earnings above	\$1,138	\$1,565
Deduct		
Equity in earnings of partly and wholly-owned companies included in the Versatile Cornat statements	452	800
Minority interest in earnings	9	10

Other intercompany items	153	—
	614	810

Earnings of finance companies

\$ 524	\$ 755
--------	--------

Condensed Balance Sheet

	1978	1977
	(in thousands of dollars)	
Assets		
Cash and short-term bank deposits	\$ 1,472	\$ 1,106
Investment in mortgages, properties and leases	66,486	53,277
Investments in shares of companies, at equity	—	6,099
Other assets	1,076	1,360
	\$69,034	\$61,842
Liabilities		
Bank and other loans	\$10,521	\$13,834
Accounts payable, accrued interest and income taxes	1,416	988
Long-term debt	39,426	27,229
Amount owing to Versatile Cornat Corporation	1,689	3,350
Deferred income taxes	294	266
Shareholders' equity		
Share capital	8,463	8,771
Retained earnings	7,225	7,404
	\$69,034	\$61,842

Details of long-term debt are as follows:

6¼% sinking fund debenture, maturing 1980-1982	\$ 1,742	\$ 1,927
Secured notes at rates not exceeding 2¼% above bank prime rates	37,684	25,302
	\$39,426	\$27,229

Principal repayments in each of the ensuing five years are as follows:

1979	\$11,361,000
1980	9,703,000
1981	8,696,000
1982	5,214,000
1983	4,881,000

AUDITORS' REPORT

17. Subsidiary Companies

(as at December 31, 1978)

Operating companies

B.C. Ice and Cold Storage Ltd.
Bennett Pollution Controls Ltd.
Bennett Pollution Controls Inc.
Bralorne Resources Limited
Bralorne Exploration (U.K.) Limited
Bralorne International Inc.
Burrard Dry Dock Company Limited
Collingwood Real Estate Corporation Limited
Cornat Corporation
Coronation Credit Corporation
Coronation Credit Corporation Limited
Coronation Credit (Ontario) Limited
Coronation Mortgage Corporation
Crown Caterers Inc.
Engineered Oil Controls Ltd.
Harding Pollution Control Corporation
Jarco Services Ltd.
Mobile Homes Limited
Oilfield Spiralers, Inc.
OMSCO Industries, Inc.
Polesystems Ltd.
Versatile Credit Corporation
Versatile Manufacturing Ltd.
Versatile Gear and Axle Inc.
Versatile Parts Inc.
Versatile Farm Equipment Pty. Ltd.
Wescraft Manufacturing Ltd.
World Wide Catering Ltd.
World Wide Lease Company
World Wide Lease, Inc.
Yarrows Limited

Non-operating companies

Bralorne Exploration (Ireland) Limited
Coronation Credit (Holdings) Limited
Jarco Services Inc.
Laurentide and Terrebonne Enterprises Inc.
Societe d'Entreprise de Credit Inc.
Societe d'Entreprise du Canada
Wayfare Investments Ltd.

To the Shareholders of
Versatile Cornat Corporation

We have examined the consolidated balance sheet of Versatile Cornat Corporation as at December 31, 1978 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Versatile Cornat Corporation and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiary companies.

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 the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 16, 1979

Thorne Riddell & Co.
Chartered Accountants

HISTORICAL REVIEW

(in thousands of dollars except where indicated with *)

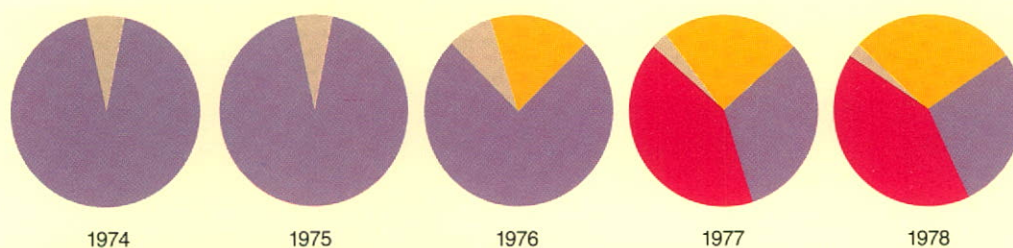
	1978	1977	1976	1975	1974
REVENUES					
Farm equipment (note 1)	\$125,911	\$101,692	—	—	—
Resource development manufacturing and services (note 2)	86,408	58,488	\$ 17,207	—	—
Ship building, ship repairing and other manufacturing	83,246	77,058	74,768	\$ 80,373	\$ 63,385
Other	7,472	7,447	7,801	5,121	4,241
	<u>303,037</u>	<u>244,685</u>	<u>99,776</u>	<u>85,494</u>	<u>67,626</u>
COSTS AND EXPENSES					
Cost of sales	231,085	187,872	76,194	65,188	53,228
Selling, general and administrative	29,524	21,259	9,783	7,206	5,785
Long-term debt interest	5,305	5,745	1,508	853	990
Other interest	4,113	2,400	689	302	169
Depreciation, depletion and amortization	6,702	5,717	2,019	1,308	1,021
	<u>276,729</u>	<u>222,993</u>	<u>90,193</u>	<u>74,857</u>	<u>61,193</u>
Other income including equity in earnings of finance subsidiaries and 50% owned companies	26,308	21,692	9,583	10,637	6,433
	<u>4,834</u>	<u>3,268</u>	<u>1,116</u>	<u>1,608</u>	<u>2,730</u>
Income taxes	31,142	24,960	10,699	12,245	9,163
	<u>13,544</u>	<u>11,648</u>	<u>4,564</u>	<u>5,045</u>	<u>3,806</u>
Earnings before items shown below	17,598	13,312	6,135	7,200	5,357
Minority interest	7,023	6,313	503	—	28
Earnings from continuing operations	10,575	6,999	5,632	7,200	5,329
Income (loss) from discontinued operations	—	(1,348)	(344)	(1,169)	1,945
Net earnings	<u>\$ 10,575</u>	<u>\$ 5,651</u>	<u>\$ 5,288</u>	<u>\$ 6,031</u>	<u>\$ 7,274</u>
Net earnings per common share outstanding*	\$ 1.76	\$ 1.08	\$ 1.01	\$ 1.17	\$ 1.49
Fully diluted net earnings per common share outstanding*	\$ 1.57	\$ 1.06	\$ 1.00	\$ 1.14	\$ 1.38
Cash flow per common share*	\$ 4.58	\$ 3.54	\$ 1.40	\$ 1.34	\$ 1.53
Income available for long-term debt interest/ long-term debt interest	5.5:1	4.0:1	7.5:1	14.0:1	12.2:1
Net earnings as a percentage of average common shareholders' equity	18.7%	15.2%	15.7%	20.3%	30.3%
Net earnings as a percentage of capital employed	7.4%	5.2%	5.0%	13.4%	13.7%

NOTES: (1) Versatile Manufacturing Ltd. effective January 1, 1977.

(2) Bralorne Resources Limited effective September 1, 1976.

	1978	1977	1976	1975	1974
FINANCIAL RATIOS AND OTHER STATISTICS					
Working capital	\$66,688	\$58,929	\$13,971	\$14,337	\$15,232
Share capital	\$40,987	\$13,477	\$13,438	\$13,313	\$13,185
Retained earnings	\$32,556	\$25,804	\$21,841	\$18,598	\$14,132
Capital expenditures	\$12,735	\$10,441	\$17,511	\$ 1,971	\$ 3,661
Dividends declared					
Preferred	\$ 1,914	\$ 9	\$ 11	\$ 15	\$ 114
Common	\$ 1,909	\$ 1,679	\$ 2,034	\$ 1,550	\$ 1,107
Current assets/current liabilities	2.0:1	1.8:1	1.4:1	1.7:1	1.6:1
Current assets/total assets	.60:1	.59:1	.34:1	.53:1	.59:1
Shareholders' equity/long-term debt	1.2:1	0.6:1	0.5:1	2.6:1	1.7:1
Total assets/long-term debt	3.7:1	3.6:1	2.2:1	5.2:1	4.3:1
Book value per common share*	\$ 8.71	\$ 7.47	\$ 6.72	\$ 6.13	\$ 5.28
Market price*					
—high	\$ 9.50	\$ 6.88	\$ 5.50	\$ 5.25	\$ 6.50
—low	\$ 4.80	\$ 4.80	\$ 4.00	\$ 4.00	\$ 3.40
Number of shareholders					
Preferred	2,637	58	60	82	97
Common	2,579	2,874	2,806	3,100	3,259

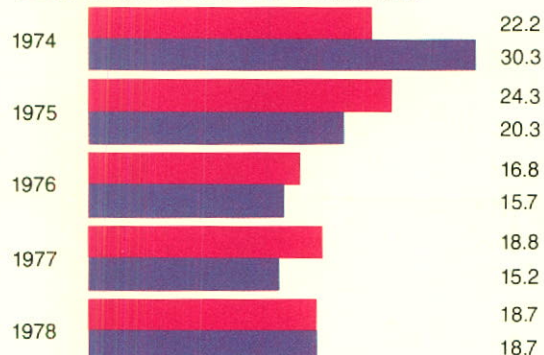
**PERCENTAGE
CHANGES IN
REVENUE MIX**



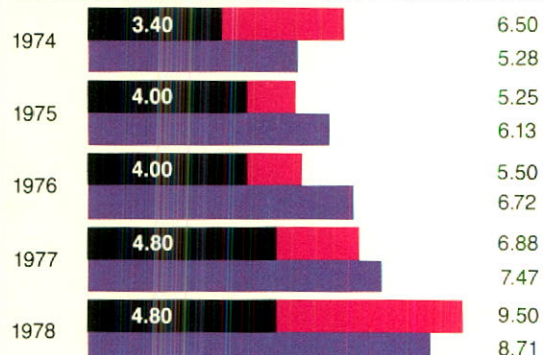
Shipbuilding and other manufacturing	93.7	94.0	74.9	31.5	27.5
Other	6.3	6.0	7.9	3.0	2.5
Resource development			17.2	23.9	28.5
Farm equipment				41.6	41.5

VERSATILE CORNAT CORPORATION

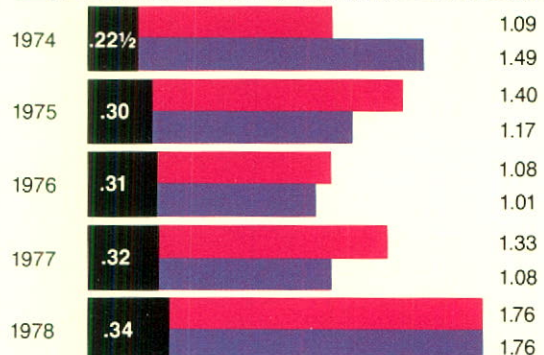
RETURN ON AVERAGE COMMON SHAREHOLDERS EQUITY (PERCENT)
 ■ BEFORE DISCONTINUED OPERATIONS
 ■ AFTER DISCONTINUED OPERATIONS



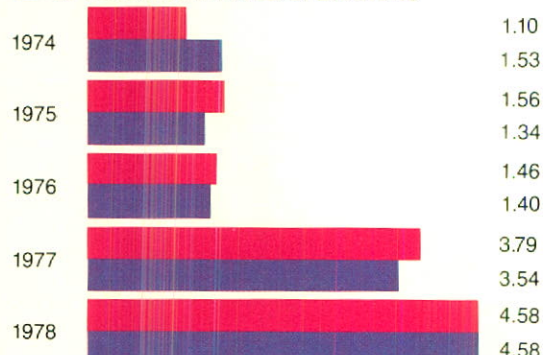
STOCK MARKET VALUE AND BOOK VALUE PER COMMON SHARE (DOLLARS)
 ■ STOCK MARKET PRICE — HIGH
 ■ STOCK MARKET PRICE — LOW
 ■ BOOK VALUE



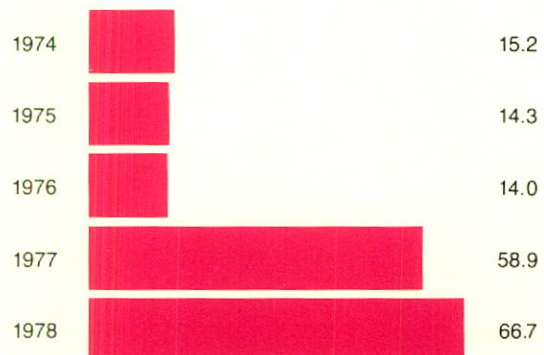
EARNINGS AND DIVIDENDS PAID PER COMMON SHARE (DOLLARS)
 ■ BEFORE DISCONTINUED OPERATIONS
 ■ AFTER DISCONTINUED OPERATIONS
 ■ DIVIDENDS



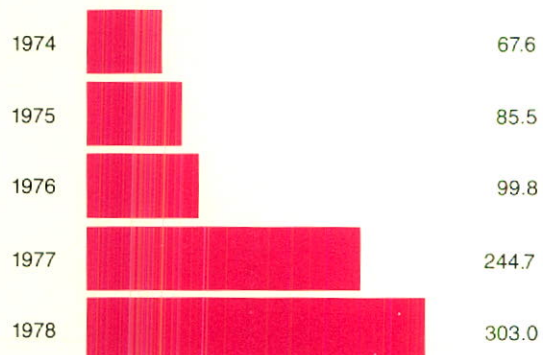
CASHFLOW PER COMMON SHARE (DOLLARS)
 ■ BEFORE DISCONTINUED OPERATIONS
 ■ AFTER DISCONTINUED OPERATIONS



WORKING CAPITAL (MILLIONS OF DOLLARS)



REVENUE (MILLIONS OF DOLLARS)



CORPORATE DIRECTORY

DIRECTORS

- *David S. Beatty**
President
Davebar Investments Limited
Toronto, Ontario
- †Peter J. G. Bentley**
President and Chief Executive Officer
Canadian Forest Products Ltd.
Vancouver, British Columbia
- A. Lorne Campbell, Q.C.**
Barrister and Solicitor
Aikins, MacAulay & Thorvaldson
Winnipeg, Manitoba
- †*Ronald L. Cliff, C.A.**
Chairman
Inland Natural Gas Co. Ltd.
Vancouver, British Columbia
- Hon. Douglas D. Everett**
President
The Royal Canadian Securities Company Limited
Winnipeg, Manitoba
- Roderick M. Hungerford**
President
Flex-Lox Industries Ltd.
Vancouver, British Columbia
- Joseph B. Jarvis**
Manager, Pacific Sales
Canfor Pulp Sales Ltd.
Vancouver, British Columbia
- Jack S. Lee**
President
Foamade Gasket Industries
Toronto, Ontario
- †*J. Ronald Longstaffe**
Executive Vice-President
Canadian Forest Products Ltd.
Vancouver, British Columbia
- Leonard G. Lumbers**
Chairman
Noranda Manufacturing Ltd.
Toronto, Ontario
- †George B. McKeen**
President
McKeen & Wilson Ltd.
Vancouver, British Columbia
- †Peter Paul Saunders**
Chairman and President
Versatile Cornat Corporation
Vancouver, British Columbia

**Member of the Audit Committee*

†Member of the Executive Committee

OFFICERS

- Peter Paul Saunders**
Chairman and President
- John S. Farrell**
Senior Vice-President
- William E. Donnelly**
Vice-President
- G. Martin Greer**
Vice-President & General Counsel and Secretary
- Kenneth P. Hayes, C.A.**
Vice-President and Treasurer
- J. William Hudson**
Vice-President, Marine Operations
- Paul M. Soubry**
Vice-President, Agricultural Division
- Kenneth R. Keeping**
Assistant Vice-President, Corporate Services
- Jill P. Thesiger**
Assistant Secretary

HEAD OFFICE

2603 - 595 Burrard Street
Box 49153 Bentall Centre
Vancouver, British Columbia
Canada V7X 1K3
(604) 683-7681

AUDITORS

Thorne Riddell & Co.
Chartered Accountants
Vancouver, Canada

BANKERS

Bank of Montreal
Vancouver, B.C.

Bank of British Columbia
Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

National Trust Company, Limited
Vancouver, Calgary, Winnipeg, Toronto
and its agent
Canada Permanent Trust Company
Regina

SHARES LISTED

Vancouver and Toronto Stock Exchanges

