

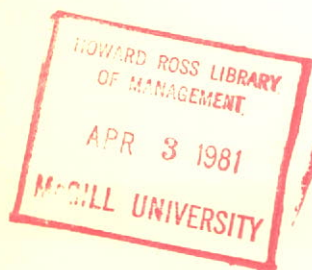
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ANNUAL REPORT



Yarns Limited

1980



RIVERSIDE YARNS LIMITED

Directors

J. BOECKH
D.M. DEACON
S.E. EDWARDS, Q.C.
A. GOLD
WM. W. LAIRD, Q.C.
E. LAWRENCE
B.J. PATERAS, Q.C.
J.G. WEIR

Officers

WM. W. LAIRD, Q.C.
Chairman
E. LAWRENCE
President
S.E. EDWARDS, Q.C.
Secretary
M.A.N. QUIGLEY
General Manager
O. LANGLAIS, JR.
Treasurer-Controller

Head Office and Plant

Cornwall, Ontario

Banker

THE TORONTO DOMINION BANK

Solicitors

FRASER & BEATTY

Transfer Agents and Registrars

NATIONAL TRUST COMPANY
Toronto

Auditors

TOUCHE ROSS & CO.
Chartered Accountants
Cornwall, Ontario

Annual Meeting

April 23rd, 1981 - 11:00 a.m.
at the office of Messrs. Fraser & Beatty,
on the Forty-first Floor,
First Canadian Place,
Toronto, Ontario.

RIVERSIDE YARNS LIMITED

REPORT TO THE SHAREHOLDERS

Operating levels improved slowly through the year such that, by year end, most machines were operational. Domestic shipments were approximately at the same levels as in 1979 with export primarily responsible for the modest overall improvement in total volume. A continuing surplus of world and North American textured polyester filament capacity remains the main influence in determining selling prices which continue to be depressed.

While Riverside Yarns Limited continued to benefit during 1980 from measures taken by the Canadian Government to bring more stability to the textile industry, the future is of concern. Existing bilateral restraint agreements are due to expire December 31, 1981. Your Company has made representation to the Federal Government that these agreements and quotas be extended as per the recommendations of the Textile and Clothing Board report on this issue.

As of year end, total employment in the Cornwall plant had risen to slightly over 350 personnel. On the job safety performance continued at a high level and at the annual Industrial Accident Prevention Association meeting in April, the plant was awarded recognition for most improved performance over the previous year in its class.

During the coming year, the main thrust of effort will continue to involve broadening of product end-use and improving quality. These avenues are critical to an improved overall volume base for the operation.

On behalf of the Board of Directors.

E. Lawrence,
President.

RIVERSIDE YARNS LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET

	<u>ASSETS</u>	January 2, 1981	December 31, 1979
Current			
Cash.....		\$ 1,190,206	\$ 1,520,469
Accounts receivable.....		198,468	143,661
Machinery parts and packaging supplies.....		504,693	424,546
Prepaid expenses.....		1,585	1,525
		<u>1,894,952</u>	<u>2,090,201</u>
Fixed assets - Note 2.....		7,048,355	9,004,889
Deferred financing charges.....		8,327	28,179
Other.....		46,162	88,529
		<u>\$ 8,997,796</u>	<u>\$11,211,798</u>
	<u>LIABILITIES</u>		
Current			
Accounts payable and accrued liabilities.....		\$ 675,846	\$ 965,113
Dividends payable.....		—	30,000
Current portion of long term debt - Note 3.....		2,535,500	3,037,800
		<u>3,211,346</u>	<u>4,032,913</u>
Long term debt - Note 3.....		4,633,306	6,667,728
Deferred income taxes.....		105,000	—
		<u>7,949,652</u>	<u>10,700,641</u>
	<u>SHAREHOLDERS' EQUITY</u>		
Capital stock - Note 4.....		725,500	358,000
Retained earnings.....		322,644	153,157
		<u>1,048,144</u>	<u>511,157</u>
		<u>\$ 8,997,796</u>	<u>\$11,211,798</u>

On behalf of the Board:

E. LAWRENCE, Director

WM. W. LAIRD, Q.C. Director

RIVERSIDE YARNS LIMITED

STATEMENT OF INCOME

	Fifty-three week period ended January 2, 1981	Year ended December 31, 1979
Revenues.....	\$13,378,917	\$ 9,433,231
Processing and administrative expenses.....	8,973,710	6,548,522
Income before undernoted items.....	<u>4,405,207</u>	<u>2,884,709</u>
Depreciation.....	2,597,101	1,669,668
Interest on long term debt.....	1,213,767	817,413
Amortization of deferred financing charges.....	19,852	24,599
	<u>3,830,720</u>	<u>2,511,680</u>
Income before income taxes and extraordinary item.....	574,487	373,029
Income taxes - deferred.....	235,000	144,000
Income before extraordinary item.....	<u>339,487</u>	<u>229,029</u>
Extraordinary item - Note 5.....	130,000	144,000
Net income.....	<u>\$ 469,487</u>	<u>\$ 373,029</u>
Earnings per common share - Note 9		
Income before extraordinary item.....	\$ 1.39	\$.99
Net income.....	<u>\$ 2.04</u>	<u>\$ 1.84</u>

STATEMENT OF RETAINED EARNINGS

Retained earnings (deficit), beginning of period.....	\$ 153,157	\$ (189,872)
Net income.....	<u>469,487</u>	<u>373,029</u>
	622,644	183,157
Dividends.....	<u>300,000</u>	<u>30,000</u>
Retained earnings, end of period.....	<u>\$ 322,644</u>	<u>\$ 153,157</u>

RIVERSIDE YARNS LIMITED
STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fifty-three week period ended January 2, 1981	Year ended December 31, 1979
	<u> </u>	<u> </u>
Working capital derived from		
Operations		
Income before extraordinary item.	\$ 339,487	\$ 229,029
Add items not requiring the use of working capital		
Depreciation	2,597,101	1,669,668
Amortization	19,852	24,599
Deferred income taxes	235,000	144,000
	<u>3,191,440</u>	<u>2,067,296</u>
Issue of capital stock	367,500	—
Proceeds from long term debt	685,000	4,861,028
Decrease in other assets - net	42,367	4,167
	<u>4,286,307</u>	<u>6,932,491</u>
Working capital applied to		
Dividends	300,000	30,000
Additions to fixed assets	640,567	4,805,275
Reduction of long term debt including current portion	2,719,422	3,163,500
	<u>3,659,989</u>	<u>7,998,775</u>
(Decrease) increase in working capital deficiency	(626,318)	1,066,284
Working capital deficiency, beginning of period	1,942,712	876,428
Working capital deficiency, end of period	<u>\$1,316,394</u>	<u>\$1,942,712</u>

RIVERSIDE YARNS LIMITED

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 1981

1. Summary of accounting policies

a) Depreciation

The net book value of fixed assets on hand at December 31, 1976 and the cost of subsequent additions are depreciated on the straight line basis at 20% per year.

b) Deferred financing charges

Financing charges are amortized over the term of the related debt.

c) Investment tax credit

The investment tax credit is recognized in the year it is claimed for tax purposes as a reduction of the current tax provision.

d) Leases

All leases entered into prior to January 1, 1979 are accounted for as operating leases.

e) Earnings per share

Earnings per share are calculated on the weighted average number of shares outstanding during the year.

2. Fixed assets

	January 2, 1981		December 31, 1979	
	Cost	Accumulated depreciation	Net book value	Net book value
Machinery and equipment.....	\$13,583,576	\$ 6,658,131	\$ 6,925,445	\$ 8,888,314
Leasehold improvements.....	192,724	69,814	122,910	116,575
	<u>\$13,776,300</u>	<u>\$ 6,727,945</u>	<u>\$ 7,048,355</u>	<u>\$ 9,004,889</u>

3. Long term debt

	January 2, 1981	December 31, 1979
Term bank loans, at bank prime rate plus 1/2%, through to December 31, 1981 and then, prime plus 3/4%, each payable in sixty monthly instalments....	\$ 6,891,828	\$ 8,555,528
8% debenture, due on December 15, 1982 with blended monthly principal and interest payments of \$12,500.....	276,978	400,000
10-1/2% redeemable subordinated debentures, due October 31, 1980.....	—	750,000
	<u>7,168,806</u>	<u>9,705,528</u>
Less current portion.....	2,535,500	3,037,800
	<u>\$ 4,633,306</u>	<u>\$ 6,667,728</u>

a) The term bank loans and the 8% debenture are secured by the Company's fixed assets and by a floating charge on the Company's undertaking and its other property and assets, both present and future, subject to the right of the Company to deal with its property and assets in the ordinary course of business.

b) The long term debt is repayable as follows:

1981.....	\$ 2,535,500
1982.....	2,266,500
1983.....	1,333,000
1984.....	986,000
1985.....	47,806
	<u>\$ 7,168,806</u>

4. Capital stock

a) The authorized capital is:

120,000 class A \$.50 cumulative convertible voting shares without par value
1,500,000 common shares without par value

The issued capital is:

120,000 class A shares
353,750 common shares (1979 - 170,000)

b) Share purchase warrants issued with the 10-1/2% redeemable subordinated debentures entitling the holders to purchase common shares at a price of \$2.00 per common share were exercised during the period for 183,750 shares. The balance lapsed on October 31, 1980.

c) The class A shares are convertible into common shares on the basis of one common share for each two class A shares converted (see Note 9).

d) According to the terms of the 8% debenture, the Company may not, without prior written approval:

- i) Declare or pay any dividends on or make any distribution in respect of its common shares.
- ii) Make any change in its authorized or issued capital stock except in the manner outlined in c above.

e) Dividends on class A shares were in arrears at January 2, 1981 in the amount of \$1.50 per share totalling \$180,000. Subsequent to the year end, these dividends were paid as outlined in Note 9.

5. Extraordinary item

The extraordinary item of \$130,000 (1979 - \$144,000) results from the income tax reduction realized by utilizing an excess of undepreciated capital cost over net book value of fixed assets of approximately \$335,000. The tax effect had not been recorded in the accounts in prior years.

6. DuPont agreement

The Company has entered into an agreement with DuPont Canada Inc. which commits the Company's processing facilities exclusively to DuPont until mid-1982, with options by DuPont to extend the agreement. DuPont may terminate the agreement under certain specified circumstances. The Company has no right of termination.

The Company has agreed to use a specific portion of the cash received under this agreement for repayment of fixed asset financing.

7. Commitments

The Company rents its land and buildings under a thirty year lease effective September 1, 1975 at an annual rent of approximately \$1,150,000. The rent is adjusted to reflect the changes in the lessor's financing arrangements. A director of the Company is the beneficial owner of 32.1% of the lessor company's outstanding equity shares.

This lease qualifies as a capital lease. If the Company accounted for this lease as a capital lease rather than an operating lease the following changes in the financial statements would occur.

- i) Assets under capital lease would be shown on the balance sheet in the amount of \$7,722,000 (1979 - \$7,722,000) less accumulated amortization of \$816,490 (1979 - \$534,111).
- ii) Obligations under capital lease in the amount of \$7,635,228 (1979 - \$7,666,033) would be included in liabilities.
- iii) Although capitalization of the lease would result in an increased charge to operations of approximately \$250,000 (1979 - \$135,000), as a result of the agreement referred to in Note 6, net income for the year would not be affected.

8. Remuneration of directors and officers

Remuneration of directors and senior officers amounted to \$226,313 (1979 - \$214,099).

9. Subsequent events

On January 30, 1981 the class A and common shareholders approved the subdivision and reclassification of the 120,000 class A shares into 240,000 common shares. Articles of amendment giving effect to this change were filed with the Ontario Minister of Consumer and Commercial Relations on February 2, 1981.

Prior to filing the articles of amendment, a dividend was paid on class A shares, thereby eliminating the dividend arrears on these shares at January 2, 1981.

Pro-forma earnings per share, calculated as though the subdivision and reclassification had taken place at January 1, 1980 are:

Income before extraordinary item.....	\$0.77
Net income.....	\$1.07

AUDITORS' REPORT

The Shareholders
Riverside Yarns Limited

We have examined the balance sheet of Riverside Yarns Limited as at January 2, 1981 and the statements of income, retained earnings and changes in financial position for the fifty-three week period 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 financial statements present fairly the financial position of the company as at January 2, 1981 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cornwall, Ontario
March 5, 1981

TOUCHE ROSS & CO.
Chartered Accountants

