

1981 Annual Report

Warrington Inc.



WARRINGTON INC.

Financial Highlights

	1981	1980
Sales	\$125,613,000	\$84,796,000
Earnings before extraordinary items	\$ 746,000	\$ 144,000
Net earnings for the year	\$ 799,000	\$ 666,000
Working capital (deficiency) at end of year	\$ (83,000)	\$15,925,000
Common shares outstanding	26,776,778	24,771,583
Earnings per common share		
—before extraordinary items	\$0.03	\$0.01
—after extraordinary items	\$0.03	\$0.03

Warrington Inc. is a Canadian public company which manufactures and distributes sporting and casual footwear. The Company operates in Canada, the United States and Europe and employs approximately 2,000 people.

Its shares are listed on the Toronto and Montreal Stock Exchanges.

Annual Meeting

The annual meeting of the shareholders will be held on Wednesday, June 30, 1982 at 10:00 a.m. at the Corporate Head Offices, 6500 Millcreek Drive, Mississauga, Ontario.

For a Copy in French

Si vous désirez recevoir ce rapport annuel en français veuillez vous adresser à Warrington Inc., 6500 Millcreek Drive, Mississauga, Ontario L5N 2W6

To the Shareholders

1981 was a year of significant accomplishments and some disappointments. Record sales of \$125,613,000 were achieved compared to \$84,796,000 in 1980. However, profits did not increase consistently with sales, reaching only \$799,000 compared to \$666,000 in 1980. Sales increases were attributable to substantial internal growth as well as acquisitions. Profits were disappointing due to the continued high interest rates and the recession which severely impacted the final quarter of the year.

As reported for the first three quarters, sales were being achieved at a record pace with substantial improvements in all major product categories. Earnings before income taxes of \$5,245,000 were satisfactory and reflected both the increased sales and the positive results of major operating cost improvement programs first implemented during 1980. Owing to the seasonal nature of the Company's products, the fourth quarter is normally expected to produce a slight loss. In view of deteriorating economic conditions, erosion of profits in the fourth quarter was anticipated but not to the extent of \$3,388,000 that was actually experienced. Orders received during this period were far less than expected. This was a direct result of the widespread reaction by major retailers to minimize their inventory exposure in anticipation of reduced consumer spending.

Although the operating losses of the Caber and Trappeur ski and ski boot operations were \$9,065,000, after a foreign exchange translation gain of \$1,116,000, only \$241,000 of this amount has been charged against operations; the balance of \$8,824,000 has been offset against the excess of net assets acquired on the purchase of these companies and therefore does not affect the operating results. During 1981, major changes were made in the management of these operations and the design of their product lines. In addition, improvements were made in the distribution networks and marketing programs. Excellent snow conditions eliminated excess inventories which have

plagued the industry for the last three years, and a rationalization of the number of competitors took place resulting in a healthier industry. As a result of these changes, the expectation for 1982 is one of substantial improvement from the results in 1981.

On May 14, 1982, Mr. David E. Simpson resigned as President and Chief Operating Officer of the Company. The Board of Directors wishes to thank Mr. Simpson for his dedicated efforts during his term of office.

As previously outlined in the shareholders' 1980 annual and 1981 quarterly reports, the Company concluded the following acquisitions:

- The remaining 50% of Gamebridge Inc.
- Icaro Olivieri S.p.A.
- La Compagnie Francaise d'Articles de Sports (Trappeur)
- Tyrol Sports Inc.
- Tuuk Sports Limited
- Caber U.S.A.

These acquisitions provide expansion to our line of products and broaden the Company's base of vertically integrated operations. The divestment of Danby Canada Appliances, whose operations were no longer consistent with the Company's objectives, was also completed during 1981.

The economic recession which began in 1981 will prevail during 1982 and cause concern for profitability. Programs to reduce costs, inventories and accounts receivable have been implemented. The mid to long term outlook is promising as the Company is well positioned with popular brand name products, a strong distribution and marketing organization and efficient facilities.

The Board of Directors wishes to express their appreciation to all employees for their sincere efforts and to Mr. V.E. Daughney who served as director since 1977 but did not stand for re-election at the 1981 annual meeting.

On behalf of the Board of Directors



James D. Raymond
Chairman of the Board



Through acquisitions and internal development, Warrington has emerged with recognized and respected consumer products in the casual, work boot and sporting goods footwear industries, many of which have become leaders in domestic and world markets.

As illustrated, the Warrington group now includes the following brand name products:

- Bauer® ice hockey, figure skates and athletic footwear
- Caber® alpine ski boots
- Collins® safety products
- Hush Puppies® casual shoes
- ICM® and Tuuk® ice skate blades
- Job Rated® work boots
- Kodiak® work and wilderness boots
- Lange® ice hockey and figure skates
- Micron® ice hockey and figure skates

- Spalding® alpine and cross country skis
- Trappeur® alpine ski boots
- Tyrol® cross country ski, hiking and climbing boots and specialized athletic footwear.

From a wealth of human and physical resources, these products are created and produced in an efficient manner to satisfy the rapidly changing tastes of today's discerning consumer.

There are thirteen manufacturing and distribution facilities strategically located on two continents to efficiently serve all our markets.

Carefully developed marketing and advertising programmes are conducted to support each product at both the trade and consumer level.

The Warrington Group

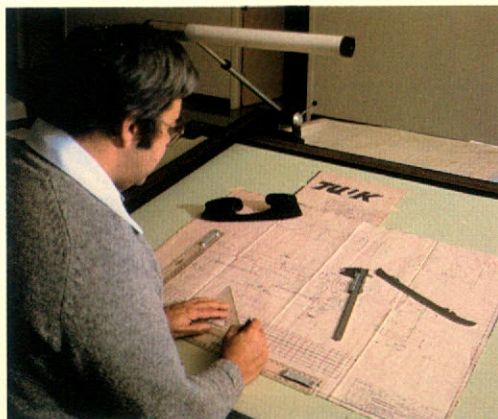
Concept and Design

The creation of a new product is a delicate and complex task. Many factors such as consumer preferences, competition, customer requirements, fashions, cultural life styles and the available productive resources influence the idea for a new product. Cooperation between the design, manufacturing and marketing experts within the product teams has been a key ingredient in the success of our products.



Marketing specialist teams monitor marketplace for new product opportunities.

With the input of the product team the designers determine the best use of Warrington resources in the development of the product. They work with the manufacturing staff to translate the concept into engineering diagrams incorporating existing production technology, or if necessary, they design new processes to meet the requirement for the product.

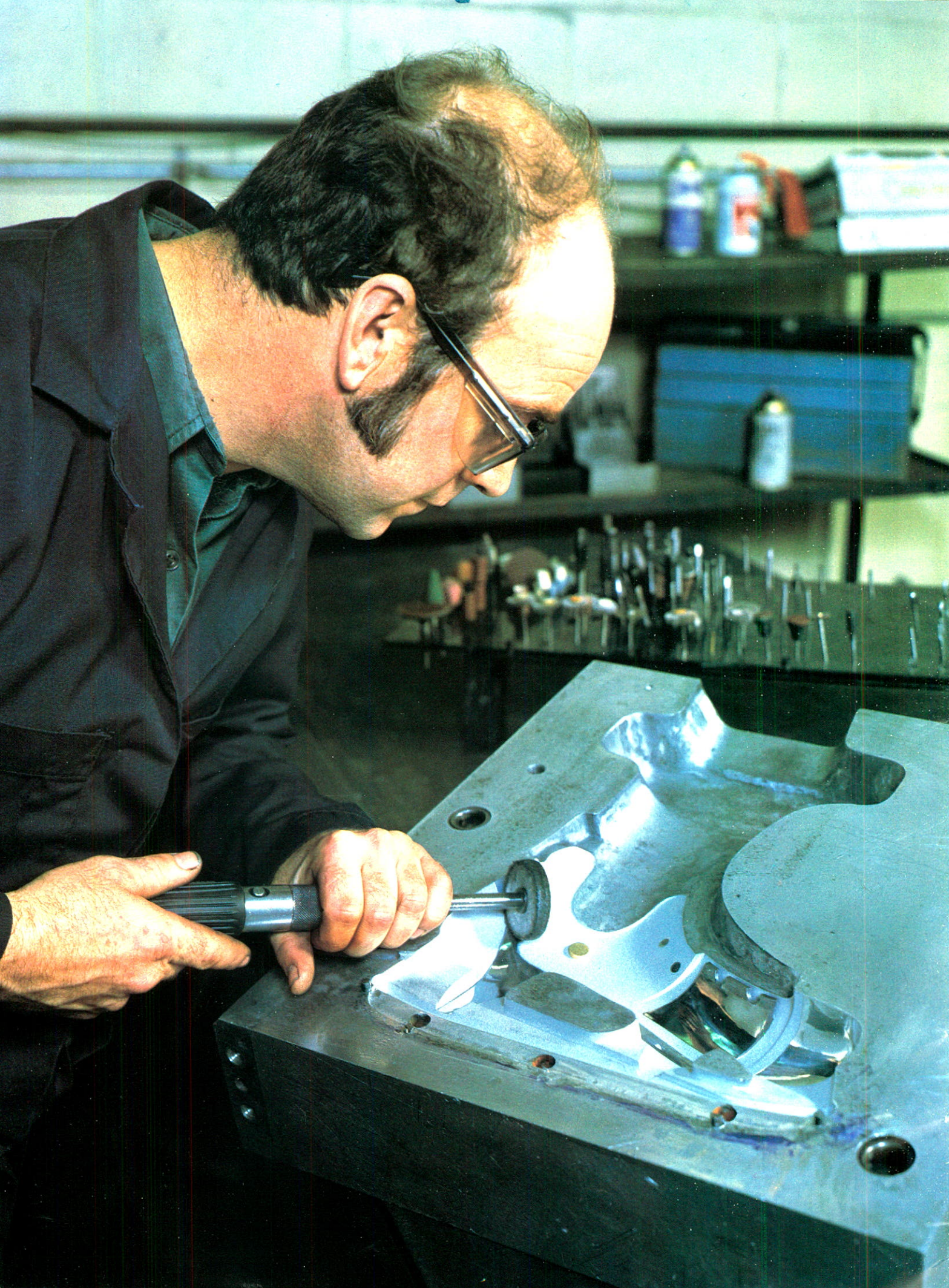


Designers commit concepts to paper.

Depending on the product, the manufacturing process is designed for either mass production or low volume specialized production both of which ensure quality and efficiency. Packaging, advertising, inventory and distribution requirements are also included in the total design blueprint.

This team approach meshes each new product into the manufacturing and marketing grid with maximum efficiency thus building in the value which is inherent in each Warrington brand. The interaction of "in-house" skills and resources helps Warrington react quickly to take advantage of new sales opportunities in today's competitive economic climate. This ability is an important strength.

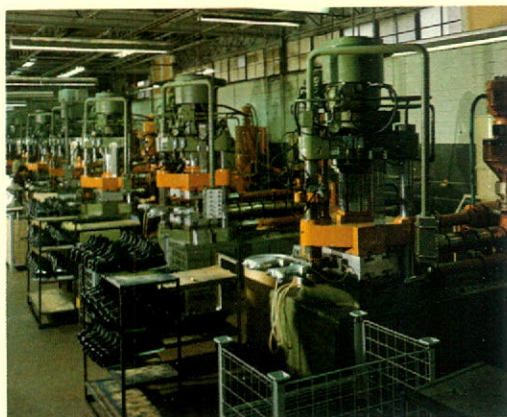




Tooling

Tooling is the first stage of transforming the theory of design into tangible reality. The care and attention exercised at this stage have a direct bearing on the quality, shape and fit and the distinctive character of the product.

To create the precise tooling necessary for mass production on a world scale, Warrington employs tool and die makers at the peak of their profession. The excellence in craftsmanship plays a vital role in meeting the stringent standards of Warrington products.



State-of-the-art injection moulding equipment for boots, footwear, shells and other components is typical of most plants.

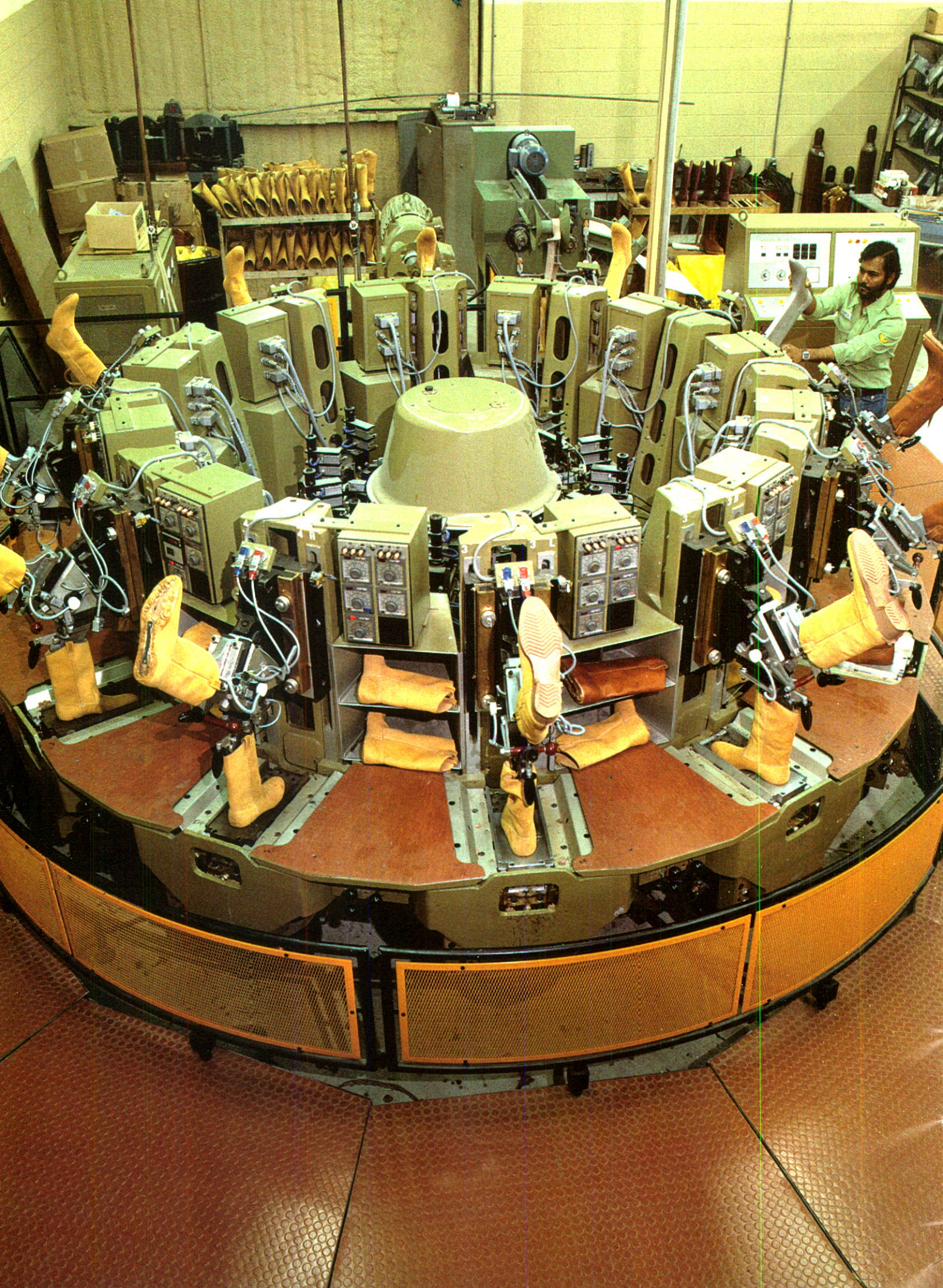


Plants are equipped to produce quality components used in mass production.

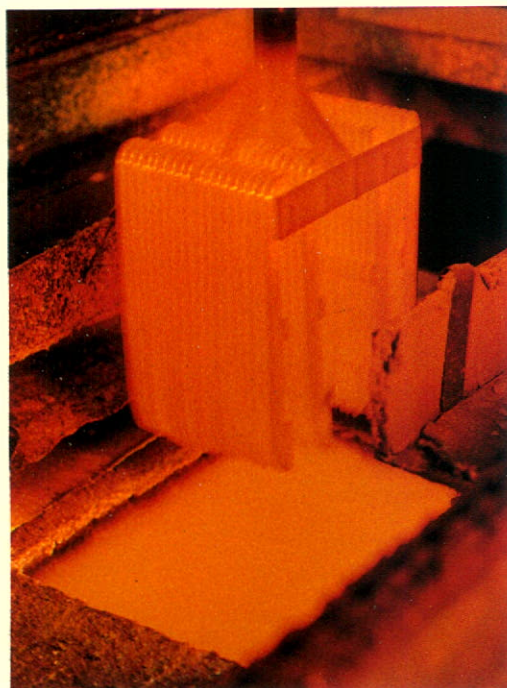
At Warrington craftsmanship and advanced technology both play a part in the development of increasingly sophisticated machinery for our production lines. It is this combination of skills and resources which enables our manufacturing facilities to quickly adapt new designs and materials for additions to our products. This flexibility strengthens Warrington's prominence in every market we serve.

Human skills play important role in hand crafted production moulds.





Manufacturing



Raw steel is stamped, machined and heat treated for skate making in a patented process.

From concept, design and tooling the vertical integration continues with manufacturing. Products are manufactured according to the organized plans from the design stage which, in addition to incorporating the use of our tooling, provides for the efficient use of a highly skilled labour force. Warrington is able to match the economies of world scale production with quick response in adapting new design and concepts. This responsiveness is necessary to provide an important advantage in the marketplace.

Our continued leadership in advanced production processes helps to reinforce this advantage and we constantly monitor new developments around the world to augment the flexibility of the manufacturing function.

A good example of Warrington's leadership in manufacturing is our state of the art technology for plastic injection moulding. We were the first company in North America to install rotary injection moulding machines which, in one operation, form soles and vulcanize them to uppers. The most advanced injection moulding technology available is now operational in Warrington plants.

Our patented processes for machining, heat treating, processing and finishing steel for skate blades production are among the most advanced. In fact, because our integration in manufacturing often begins with the processing of basic raw materials and encompasses component operations, we have been able to use our expertise and resources to become a prominent supplier of tooling and components to other manufacturers.



Mass production techniques blend with hand skills to create quality products.

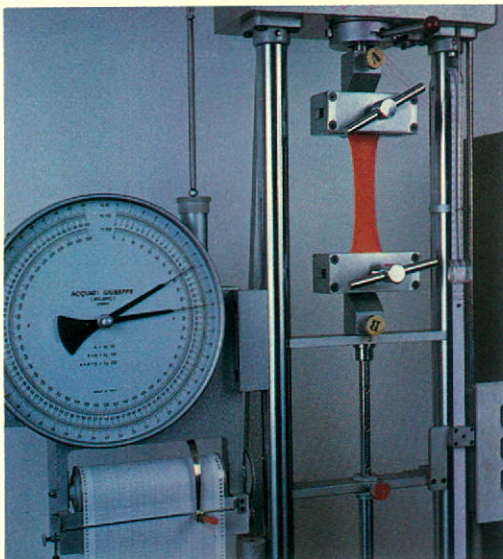
A first for North America is this rotary injection and vulcanizing machine mating rubber soles to shoe and boot uppers in one operation.





Quality Assessment

It is not enough to conceive, design and manufacture a product. It must be of the highest quality. The reputation of a famous brand can only be protected by giving the consumer the quality expected. At Warrington we ensure value for price by maintaining the highest standards of style, comfort, durability and performance.



Component parts are constantly assessed to ensure that rigorous quality standards are met.



Laboratory tests simulate realistic conditions as part of quality assessment.

These standards are met through continual and systematic quality assessment checks that stretch through the entire production process. They begin with basic raw materials, continue with component parts and culminate with laboratory and field testing of finished products under the most rigorous conditions.

Completed ski boots move along assembly conveyor to packaging area.





Warehousing and Distribution

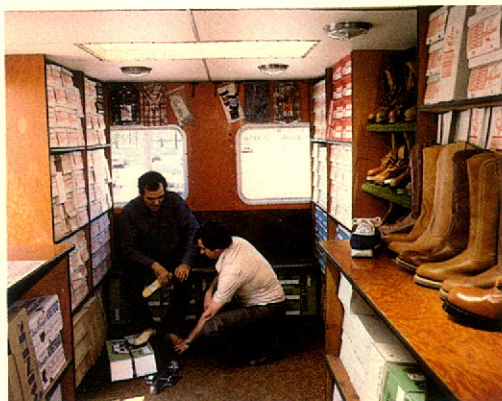


Computerized systems streamline order processing, production planning and inventory control.

Warehousing and distribution, the last link in Warrington's vertical integration, is the interface between the manufacturing process and the availability of the product to the consumer. Here we have employed the latest concepts in computer supported systems and warehousing facilities. Our objective is twofold - to expedite orders without delay and to maintain inventory levels in balance with delivery requirements.

To accomplish this, our systems integrate a variety of functions: forecasting, order entry, production planning, inventory maintenance, individual customer requirements, and the different means of physical shipment. The systems respond promptly to customers' inquiries as to the availability of product and provides computer guidance for the warehouse operation until the product is loaded onto a truck for delivery.

The Company's transportation fleet ensures that delivery takes place on schedule and in the most efficient manner possible.



Safety products are delivered to remote job sites by innovative mobile stores.

Modern computer supported high stacker systems provide prompt response to customer orders.





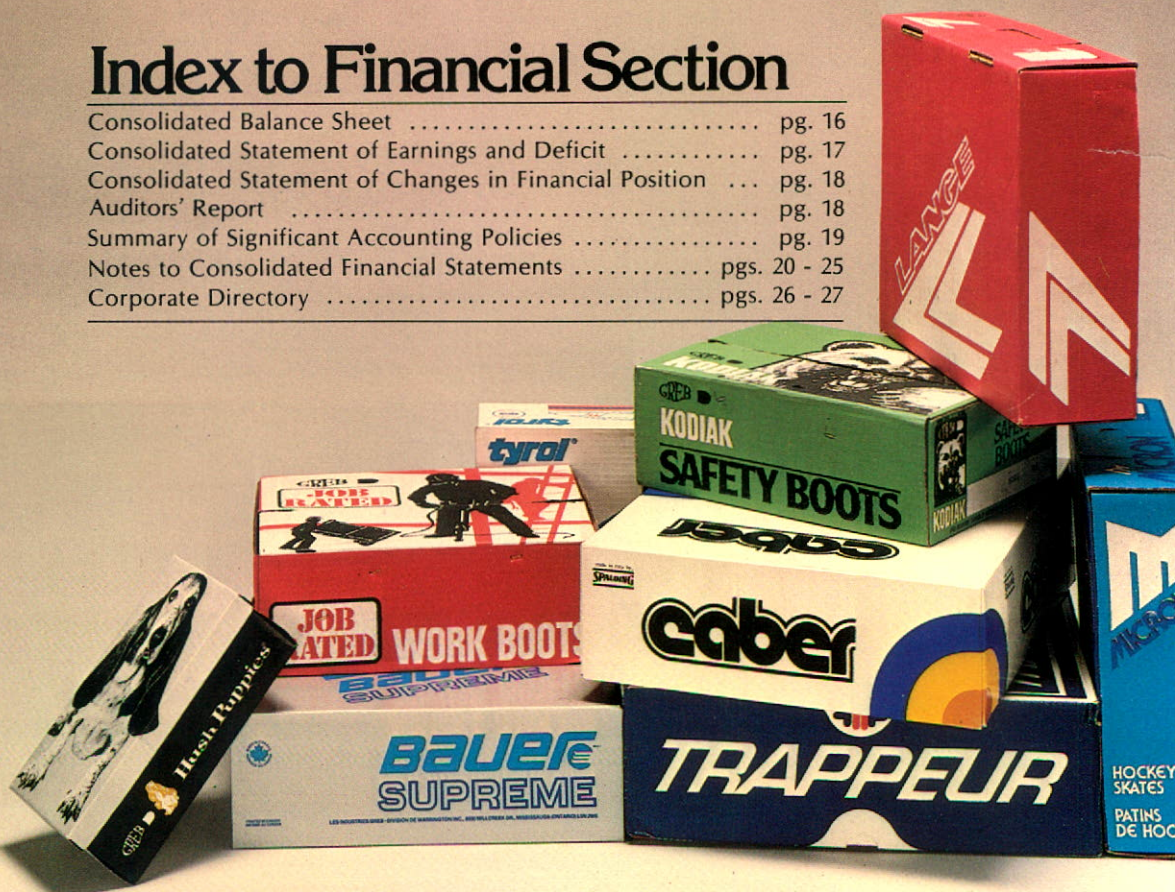
ustries BAUER KODIAK HUSH PUPPIES

Greb Industries
A DIVISION OF WARRINGTON

PA5-022 MONTREAL F190-616

Index to Financial Section

Consolidated Balance Sheet	pg. 16
Consolidated Statement of Earnings and Deficit	pg. 17
Consolidated Statement of Changes in Financial Position ...	pg. 18
Auditors' Report	pg. 18
Summary of Significant Accounting Policies	pg. 19
Notes to Consolidated Financial Statements	pgs. 20 - 25
Corporate Directory	pgs. 26 - 27



Transport fleet speeds
orders to customers.

WARRINGTON INC.

Consolidated Balance Sheet

December 31 (thousands of dollars)

	1981	1980
Assets		
Current assets:		
Accounts and notes receivable	\$ 43,480	\$ 44,118
Inventories (Note 3)	35,608	37,201
Prepaid expenses	1,026	633
	80,114	81,952
Loan receivable (Note 4)	1,167	1,167
Property, plant and equipment (Note 5)	34,471	23,560
Goodwill (Note 6)	4,666	2,483
Other assets	492	23
	\$120,910	\$109,185
Liabilities		
Current liabilities:		
Bank indebtedness (Note 7)	\$ 52,809	\$ 41,336
Accounts payable and accrued liabilities	24,043	24,283
Current portion of long-term debt	3,074	231
Current portion of obligations under capital leases	271	177
	80,197	66,027
Long-term debt (Note 8)	22,762	25,193
Retirement plans	1,850	2,176
Obligations under capital leases (Note 10)	4,166	3,819
Deferred income taxes	1,472	891
Excess of net assets acquired over purchase price (Note 11)	—	5,070
Shareholders' Equity		
Capital stock (Note 12)	23,211	19,556
Deficit	12,748	13,547
	10,463	6,009
	\$120,910	\$109,185
Contingencies (Note 13)		

Approved by the Board:

James D. Raymond, Director

Alvin S. Schacter, Director

WARRINGTON INC.

Consolidated Statement of Earnings and Deficit

Year ended December 31 (thousands of dollars)

	1981	1980
Sales	\$125,613	\$ 84,796
Cost of sales	80,368	56,916
	45,245	27,880
Expenses:		
Distribution and marketing	18,311	10,589
Administrative	11,428	9,391
Interest	13,649	6,207
	43,388	26,187
Earnings before income taxes and extraordinary items (Note 11)	1,857	1,693
Provision for income taxes	1,111	1,549
Earnings before extraordinary items	746	144
Extraordinary items (Note 14)	53	522
Net earnings for the year	799	666
Deficit at beginning of year	13,547	14,213
Deficit at end of year	\$ 12,748	\$ 13,547
Earnings per share (Note 16 (c))		
Earnings per common share before extraordinary items	\$ 0.03	\$ 0.01
Earnings per common share after extraordinary items	\$ 0.03	\$ 0.03
Common shares outstanding during the year	26,776,778	24,771,583

WARRINGTON INC.

Consolidated Statement of Changes in Financial Position

Year ended December 31 (thousands of dollars)

	1981	1980
Source of funds:		
Operations	\$ 5,898	\$ 3,064
Realization of prior years' income tax losses (Note 14)	120	707
Issue of common shares (Note 12)	3,655	—
Proceeds from sale of property, plant and equipment	4,506	486
Increase in long-term debt	—	1,758
Working capital on acquisition of subsidiary	—	4,956
	14,179	10,971
Use of funds:		
Acquisition of subsidiaries, less \$9,729 working capital acquired (Note 2 (b))	7,188	—
Utilization of excess of net assets acquired over purchase price (Note 11)	8,824	1,221
Purchase of property, plant and equipment	8,111	6,538
Reduction in long-term debt	4,238	—
Divestment loss (Note 14)	1,091	185
Other	735	105
	30,187	8,049
Increase (decrease) in working capital	(16,008)	2,922
Working capital at beginning of year	15,925	13,003
Working capital (deficiency) at end of year	\$ (83)	\$15,925

Auditors' Report

To the Shareholders of
Warrington Inc.:

We have examined the consolidated balance sheet of Warrington Inc. as at December 31, 1981 and the consolidated statements of earnings and deficit 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, 1981 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.



Chartered Accountants

Mississauga, Ontario

March 8, 1982

WARRINGTON INC.

Summary of Significant Accounting Policies

The Company's accounting policies, which conform with generally accepted accounting principles in Canada, are summarized below.

Basis of business combinations:

These financial statements include the accounts of all subsidiary companies; all significant intercompany transactions are eliminated. The purchase and the pooling of interests methods are used to account for the business combinations of the subsidiary companies. The purchase method includes the accounts of the subsidiary companies from the effective date of their acquisition. The pooling of interests method includes the accounts of the companies as if they had been combined since their inception.

Goodwill:

Goodwill, being the excess of the purchase price over the fair market value of the net assets of acquired subsidiaries, is amortized over 20 years.

Inventories:

Inventories are valued at the lower of cost, on the first-in, first-out method, and net realizable value. Cost consists of laid down material costs, direct labour and appropriate overheads as applicable.

Property, plant and equipment:

Additions to fixed assets are recorded at cost. Depreciation and amortization are provided on the various classes of assets principally on the straight-line method at rates designed to write off the cost of the assets over their estimated useful lives. On retirement or disposal, the Company removes from the accounts the cost of the assets and related depreciation; any resulting gains or losses are reflected in earnings.

Leases which transfer substantially all the benefits and risks incident to ownership of property are accounted for as an acquisition of an asset and incurrance of an obligation by

the Company. Under this method of accounting the asset is amortized in accordance with the Company's depreciation and amortization policies and the obligation, including interest thereon, is liquidated over the life of the lease.

Foreign currency translation:

Current assets, current liabilities and non-current liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect as at the balance sheet dates, non-current assets at rates in effect at the transaction date, and income and expense transactions at average rates of exchange during the year in which the transactions arose, except for depreciation and amortization which are on the same basis as the related assets. These procedures give rise to exchange translation adjustments which are included in earnings.

Income taxes:

The Company follows the tax allocation method of providing for income taxes. No provision has been made for taxes on undistributed earnings of foreign subsidiaries not currently available for paying dividends inasmuch as such earnings have been reinvested in the business.

Retirement plan costs:

The Company and its subsidiaries have obligations to unfunded and funded retirement plans. Obligations to unfunded plans are based on foreign government legislation and the cost is accrued annually. Funded plans are both cost and benefit based and are accrued on a current basis. Costs relating to improvements in retirement benefits for past service are amortized over fifteen years.

Earnings per common share:

Earnings per common share are calculated using the weighted monthly average number of common shares outstanding during the year.

WARRINGTON INC.

Notes to Consolidated Financial Statements

December 31, 1981 (Tabular amounts expressed in thousands except shares)

1. Accounting policies:

The accompanying Summary of Significant Account Policies forms an integral part of these financial statements.

2. Business combinations:**(a) Pooling of interest-**

At December 31, 1980 the Company's 50% interest in Gamebridge Inc., a supplier of moulded ice and roller skates and ice skate blades, consisted of:

Investment at cost	\$1,750
Net earnings from date of acquisition	925
	<u>\$2,675</u>

The Company was liable for additional consideration for the purchase price of this investment, based on the average annualized after-tax consolidated earnings of Gamebridge Inc. for the period from January 1, 1979 to December 31, 1981. In addition, management estimated that the Company may have been liable to pay Gamebridge an amount of \$1,000,000.

Effective January 1, 1981 the Company and Gamebridge Inc. combined their businesses. In consideration for \$3,000,000 cash and 9,000,000 common shares, the Company obtained the remaining equity in Gamebridge and the above-noted liabilities were dissolved.

Following the combination, and after the issue of 2,000,000 common shares for cash to Cemp Investments Ltd., the ownership of the Company's outstanding common shares was as follows:

Norcim Holding b.v. (the other former shareholder of Gamebridge)	33.6%
Cemp Investments Ltd.	31.7%
All other shareholders	34.7%
	<u>100.0%</u>

The combination has been accounted for as a pooling of interests and accordingly these financial statements have been prepared as if the two companies had been combined since their inception.

Summarized below are the net assets of the companies and the combined entity at January 1, 1981:

	Gamebridge Inc.	Warrington Inc.	Combined (inclusive of pooling adjustments)
Total assets	\$ 22,845	\$ 90,404	\$109,185
Total liabilities	(17,359)	(83,965)	(103,176)
Net assets	\$ 5,486	\$ 6,439	\$ 6,009

(b) Purchases-

During the year the Company or its subsidiaries acquired either all of the outstanding shares or the current assets and business of the following companies:

Effective January 1, 1981 the Company acquired Icaro Olivieri & C. - Minuterie Metalliche S.p.A., an Italian-based manufacturer and supplier of moulds and components to the ski boot and ice hockey industries and Gioca branded roller skates.

Effective January 1, 1981 the Company acquired the current assets and business of Caber U.S.A., the distributor of Caber Italia ski and ski boot products in the United States.

Effective January 1, 1981 a subsidiary acquired La Compagnie Francaise d'Articles de Sports (C.F.A.S.), based in France, which manufactures and distributes Trappeur-branded alpine ski boots.

Effective March 6, 1981 the Company acquired Tuuk Sports Limited (subsequently changed to Canpro Sports Inc.), which produces and distributes the patented Tuuk hockey and figure skate blades.

Effective October 26, 1981 the Company acquired Tyrol Sports Inc., a Canadian company which distributes cross-country ski boots, ski bindings and specialized athletic footwear.

Post acquisition results of operations of these acquired companies have been included in the consolidated financial statements.

Summary of purchases-

	Icaro Olivieri & C. - Minuterie Metalliche S.p.A.	Caber U.S.A.	C.F.A.S.	Tuuk Sports Limited	Tyrol Sports Inc.	Total
Current assets	\$ 5,913	\$ 6,809	\$ 8,547	\$ 2,011	\$ 1,478	\$24,758
Current liabilities	3,764	587	7,387	2,032	1,259	15,029
Working capital acquired	2,149	6,222	1,160	(21)	219	9,729
Fixed assets at net book value	2,242	—	3,043	913	156	6,354
Other non-current assets	229	—	193	162	—	584
Excess purchase price allocated to fixed assets	4,714	—	—	—	—	4,714
Non-current liabilities	(2,238)	—	(642)	(259)	—	(3,139)
Goodwill	1,179	—	—	1,225	25	2,429
Excess of net assets acquired over purchase price (Note 11)	—	—	(3,754)	—	—	(3,754)
Purchase price	\$ 8,275	\$ 6,222	\$ —	\$ 2,020	\$ 400	\$16,917
Consideration						
Cash	\$ 8,275	\$ 6,222	\$ —	\$ 940	\$ 225	\$15,662
1,050,000 common shares	—	—	—	1,080	175	1,255
	\$ 8,275	\$ 6,222	\$ —	\$ 2,020	\$ 400	\$16,917

3. Inventories:

	1981	1980
Raw materials	\$ 8,635	\$ 8,292
Work-in-process	4,435	4,862
Finished goods	22,538	24,047
	\$35,608	\$37,201

4. Loan receivable:

This amount is interest-bearing, repayable on or after December 31, 1988 and is secured by a bank guarantee.

5. Property, plant and equipment:

		1981		1980
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 1,788	\$ —	\$ 1,788	\$ 1,222
Buildings and leasehold improvements	13,892	1,891	12,001	10,013
Buildings and leasehold improvements under capital leases	4,509	189	4,320	3,309
Equipment	34,764	18,774	15,990	8,410
Equipment under capital leases	1,617	1,245	372	606
	<u>\$56,570</u>	<u>\$22,099</u>	<u>\$34,471</u>	<u>\$23,560</u>

The following rates of depreciation and amortization, calculated on the straight-line method, apply to substantially all of the depreciable assets:

Buildings and leasehold improvements including those under capital leases	2½ - 3½%
Equipment	10 - 30%
Equipment under capital leases	20%

6. Goodwill:

Balance at beginning of year	\$2,483
Additions during the year (Note 2 (b))	2,429
Current year's amortization	(246)
Balance at end of year	<u>\$4,666</u>

7. Bank indebtedness:

Secured bank indebtedness amounts to \$38,092,000. Security is in the form of a general assignment of accounts receivable and inventories and trust deeds ranking second to the income debenture giving a fixed charge on certain fixed assets of the Company and a floating charge on the remaining assets.

8. Long-term debt:

	1981	1980
Term bank loans (a)	\$13,268	\$13,961
Deposits in trust	—	3,000
Mortgage bonds, net of deposits in trust of \$1,595,000 (b)	4,105	—
Income debenture (c)	8,463	8,463
	<u>25,836</u>	<u>25,424</u>
Less: Current portion	3,074	231
	<u>\$22,762</u>	<u>\$25,193</u>

(a) \$7,481,000 of the term bank loans bears interest at prime plus ½% and a guarantee fee of 2% on \$2,000,000 and prime plus

2½% on the balance. The \$7,481,000 is secured by a trust deed giving a fixed charge on certain fixed assets of the Company subordinate to the income debenture, a floating charge on all remaining assets and a guarantee in the amount of \$2,000,000 by a principal shareholder. This loan is repayable in consecutive semi-annual instalments of \$750,000 commencing June 30, 1982.

\$3,000,000 of the term bank loans bears interest at prime plus 1%, and is secured by a fixed and floating charge debenture on specific assets. The Company has the right to repay at any time, however, repayments of \$500,000 are to be made semi-annually commencing May 15, 1982.

\$1,787,000 of the term bank loans is repayable in Italian lire and is secured by charges on fixed assets. Interest rates range from 3% to 15¼%.

(b) The mortgage bonds of \$5,700,000 (\$4,800,000 U.S.) bear interest at 9¼% until March 1, 1988 and thereafter shall be at a rate equal to seventy percent of the rate of interest announced from time to time by The First National Bank of Boston. The mortgage bonds are secured by specific assets, and are to be repaid in 21 equal consecutive semi-annual instalments of \$228,600 U.S. commencing on March 1, 1983.

(c) The income debenture is held by a shareholder of the Company. Interest is accrued at ½ of the bank prime plus 2¾%. Interest is payable only to the extent of cumulative profits earned as defined by the agreement.

The income debenture is secured by a debenture on the assets of the Company and of certain subsidiary companies and is subject to prior security given on

certain bank indebtedness. As well, the shares of these subsidiary companies and a security interest on these subsidiary companies have been pledged as collateral. The income debenture is due December 31, 1982, however, there is agreement in principle to arrange replacement financing.

9. Retirement plans:

Retirement plans' expense for the year amounts to \$527,000 (1980 - \$33,000).

Some of the Company's retirement plans were changed during the year effective January 1, 1982 to provide improvements for the employees. After giving effect to the changes the unfunded past service liability is estimated by independent actuaries to be approximately \$350,000. This cost will be amortized and funded over 15 years.

10. Lease obligations:

Future minimum payments under capital and operating leases are as follows:

	Capital leases	Operating leases
1982	\$ 901	\$ 795
1983	841	498
1984	688	370
1985	508	257
1986	516	163
Later years	6,956	654
Total minimum lease payments	10,410	<u>\$ 2,737</u>
Less: Amount representing interest	5,973	
	4,437	
Less: Current portion	271	
Long-term obligations under capital leases	<u>\$ 4,166</u>	

11. Excess of net assets acquired over purchase price:

The Company received inducements to acquire certain companies, with the result that there were excesses of book value of net assets acquired over the nominal purchase prices. The excess was intended to compensate the Company for estimated operating losses of these companies during a period of reorganization. Accordingly, the combined operating losses of these companies have been offset against the excess of net assets acquired to the extent available.

Balance at December 31, 1980	
relating to Caber acquisition	\$5,070
C.F.A.S. acquisition	3,754
	<u>8,824</u>
Combined operating losses for the year, after translation gains of \$1,116,000	9,065
	<u>(241)</u>
Operating losses included in earnings	241
Balance at December 31, 1981	<u>\$ NIL</u>

12. Capital stock:

On March 17, 1981 the Company was granted a Certificate of Continuance under the Canada Business Corporations Act which allows unlimited capital. Prior to that the Company was under The Business Corporations Act of Ontario and had authorized capital of 30,000,000 common shares without par value and 4,000,000 preference shares without par value, issuable in series.

Issued and outstanding-

Common shares	Number	Amount
Outstanding at December 31, 1980	15,771,583	\$ 20,911
Issued in 1981 to effect business combination as pooling of interest (Note 2 (a))	9,000,000	10,800
Consolidation adjustment - pooling of interest	—	(12,155)
Adjusted balance at December 31, 1980	24,771,583	19,556
Issued during 1981-		
To a principal shareholder for cash	2,000,000	2,400
To effect business combinations as purchases (Note 2 (b))	1,050,000	1,255
Outstanding at December 31, 1981	27,821,583	\$ 23,211

During the year the Company granted options to certain officers and employees to purchase 275,000 shares at \$1.15 per share. The options expire at the end of three years with a maximum of 40%, 70%, and 100% being exercisable in each year respectively. At December 31, 1981 all of these options are outstanding.

13. Contingencies:

The Company is presently engaged in a series of legal actions being brought against it and by it against the individuals who sold assets and operations to the Company in 1973. The disposition of these legal actions cannot be determined at this time.

In connection with the acquisition of Tuuk Sports Limited, legal action in the amount of \$1,500,000 has been initiated against the vendor under the terms of the purchase agreement.

14. Extraordinary items:

	1981	1980
Gain on sale of land and buildings, net of related income tax of \$250,000	\$1,024	\$ —
Divestment loss, net of related income tax of \$817,000 (1980 - \$182,000)	(1,091)	(185)
Realization of prior years' income tax losses	120	707
	\$ 53	\$ 522

15. Segmented information:

The Board of Directors has determined that the Company is in one line of business, sporting and casual footwear.

Geographic areas-

	Revenue	1981 Income (loss)	Assets	Revenue	1980 Income (loss)	Assets
Canada	\$ 92,676	\$ 3,063	\$ 55,306	\$ 83,983	\$ 1,564	\$ 70,350
United States	4,866	(164)	16,063	—	—	—
Europe	28,071	110	36,010	813	—	35,273
	125,613	3,009	107,379	84,796	1,564	105,623
General corporate	—	(2,263)	13,531	—	(1,420)	3,562
	\$125,613	\$ 746	\$120,910	\$ 84,796	\$ 144	\$109,185

Inter-area sales relate only to Europe in 1981 and amount to \$9,898,000. Export sales to customers in countries outside Canada amounted to \$13,345,000 in 1981 and \$11,953,000 in 1980.

16. Other information:

(a) Charges against earnings-

	1981	1980
Depreciation and amortization including amortization of property, plant and equipment under capital leases of \$169,000 (1980 - \$148,000)	\$ 5,229	\$2,173
Interest expense-		
Long-term debt	\$ 3,455	\$2,351
Income debenture	1,048	858
Bank indebtedness and other	9,146	2,998
	\$13,649	\$6,207

(b) Income taxes-

The Company and certain of its subsidiaries have accumulated business losses available to reduce future income for tax purposes, which expire as follows:

	Canada	United States	Europe
1982	\$ 800	\$ —	\$ —
1983	2,100	—	—
1984	2,700	—	—
1985	1,000	—	4,700
1986	1,500	—	5,000
Later years	—	4,900	200
	\$8,100	\$4,900	\$9,900

The future tax benefits of these losses have not been recognized in the financial statements. In addition, the Company has capital losses of \$2,700,000 which may be carried forward indefinitely against future capital gains.

(c) Comparative amounts-

The amounts as at December 31, 1980 and for the year then ended, which are presented for comparative purposes, have been restated for the pooling of interest method of accounting for business combinations (Note 2 (a)). Prior to the restatement, the earnings (loss) before extraordinary items was \$(590,000) or \$(0.04) per share and \$160,000 or \$0.01 per share after extraordinary items.

Corporate Directory

December 31, 1981

Directors

Howard Leighton Beck, Q.C.
Partner, Davies, Ward & Beck

Gianfranco Boer
Commercialista

Harold Norman Borts
Treasurer, Cemp Investments Ltd.

Phillip Chiarella
Vice President, Marketing of the Corporation

Brahm Marvin Gelfand
Partner, Lapointe Rosenstein

Ernest Leo Kolber
President, Cemp Investments Ltd.

Arnold Martin Ludwick
Executive Vice President, Cemp Investments Ltd.

John Albon Pollock,
Chairman of the Board, Electrohome Limited

James David Raymond
Senior Vice President, Cemp Investments Ltd.

Laurence Hugh Ritchie
President, Laurit Inc.

Alvin Simon Schacter
Vice President, Cemp Investments Ltd.

David Simpson
President of the Corporation

Michael Debron Vineberg
Partner, Phillips & Vineberg

Officers

J.D. Raymond
Chairman of the Board

D.E. Simpson
President and Chief Operating Officer

P. Chiarella
Executive Vice President, Marketing

M. Vineberg
Secretary

J.P. Bisnaire
Assistant Secretary

R.D. Rogers
Vice President, Finance

Principal Subsidiary Companies

Gamebridge Inc.

Caber Italia S.p.A.

La Compagnie Francaise d'Articles
de Sports (Trappeur)

Icaro Olivieri & C.-
Minuterie Metalliche S.p.A.

Collins Safety Shoes Limited

Bauer Canadian Skate Inc.

Canpro Sports Inc.

Tyrol Sports Inc.

Head Office

6500 Millcreek Drive
Mississauga, Ontario L5N 2W6

Registrar & Transfer Agent

The Canada Trust Company
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

Auditors

Price Waterhouse

Manufacturing facilities

	<u>Telephone</u>	<u>Telex</u>
Caber Italia - ski boots 125 Via S. Gaetano, 31044 Montebelluna (Treviso), Italy	39- 423-29441	434- 10277
Caber Italia - skis via Trivulzia 23020 Gordona (Sondrio), Italy	39- 343-42384	433- 10668
C.F.A.S. (Trappeur) - ski boots 38380 St. Laurent du Pont France	33- 765-51555	423- 20088
Gamebridge - ice skates, ski boots 1200 International Blvd. St. Jerome, Quebec	514- 436-2292	058- 39516
Gamebridge U.S.A. - ice skates, ski boots 50 Jonergin Drive Swanton, Vermont 05488	802- 868-7311	009- 57025
Bauer Skate Plant 236 Victoria St. N. Kitchener, Ontario	519- 578-4020	069- 55434
Hush Puppies Plant 72 St. Leger St. Kitchener, Ontario	519- 578-4020	069- 55434
Kodiak Plant 135 Hayward Ave. Kitchener, Ontario	519- 578-4020	069- 55434
Icaro Olivieri & C. - moulds, ski boot buckles, hockey skate blades, roller skates Via Feltrina Sud 87/1, 31044 Montebelluna (Treviso) Italy	39- 423-29544	434- 10561

**Offices, sales and
distribution
facilities**

	<u>Telephone</u>	<u>Telex</u>
Warrington Inc. 6500 Millcreek Drive Mississauga, Ontario L5N 2W6	416- 821-4600	065- 22789
Warrington Inc. 1117 St. Catherine St. W Ste. 912 Montreal, Quebec H3B 1H4	614- 849-3555	055- 62350
Caber Deutschland Fraunhoferstrasse 11 8033 Martinsried Post Planegg, W. Germany	49-089- 8573011	415- 213350
Collins Safety Shoes 353 Manitou Drive Kitchener, Ontario	519- 893-4100	069- 55434
Caber Canada, Micron Sports, Tyrol Sports 5790 Ferrier St. Montreal, Quebec	514- 735-2255	058- 25767
Lange, Trappeur Canada 5972 Ambler Drive Mississauga, Ontario L4W 2N3	416- 624-4240	
Caber, Micron and Trappeur U.S.A. 50 Jonergin Drive Swanton, Vermont 05488	802- 868-7311	009- 57025
Greb Industries 6500 Millcreek Drive, Mississauga, Ontario L5N 2W6	416- 821-4600	065- 22789
Bauer Distribution 162 Wales Avenue Tonawanda, New York 14150	716- 695-2830	
Montreal Warehouse 4425 Poirier Blvd. St. Laurent, Montreal, Quebec H4R 2A4	514- 337-3358	058- 26679



Warrington Inc.