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GLENDALE CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED NOVEMBER 30, 1977
AND
AUDITORS' REPORT TO THE SHAREHOLDERS

DELOITTE, HASKINS & SELLS

DELOITTE, HASKINS & SELLS

Offices across Canada and associated firms throughout the world *Chartered Accountants*

3200 ROYAL TRUST TOWER, P.O. BOX 283,
TORONTO-DOMINION CENTRE, TORONTO, ONTARIO M5K 1K4 416-863-1315

AUDITORS' REPORT

To the Shareholders of
Glendale Corporation:

We have examined the consolidated balance sheet of Glendale Corporation as at November 30, 1977 and the consolidated statements of loss, deficit, appraised value of fixed assets over depreciated cost 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. We have relied upon the reports of other auditors who have examined the financial statements of the Australian subsidiaries which, in aggregate, comprise 1% of the loss, 19% of the sales and 17% of the assets shown in these consolidated financial statements.

As explained in Note 1, a subsidiary of the corporation is experiencing difficulty in meeting its current obligations to its creditors. Continuation of the subsidiary's operations is dependent upon obtaining additional financing as required and, ultimately, upon a return to profitable operations. Although the accounts of this subsidiary are significant in relation to these financial statements, the financial obligations of the corporation in respect of this subsidiary, are limited to funds owing to it by the subsidiary.

In our opinion, subject to the subsidiary obtaining additional financing and a return to profitable operations, these financial statements present fairly the financial position of the corporation as at November 30, 1977 and the results of its operations, the appraised value of fixed assets over depreciated cost 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.

Deloitte, Haskins & Sells

Toronto, Ontario
April 14, 1978

Chartered Accountants

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T AS AT NOVEMBER 30, 1977

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LIABILITIES AND SHAREHOLDERS' INVESTMENTS

	1977	1976
	(thousands of dollars)	
CURRENT LIABILITIES:		
Bank indebtedness (Note 4)	$ 9,606	$ 7,487
Accounts payable and accrued charges	6,290	7,397
Income taxes payable	152	298
Other taxes payable	224	88
Due to affiliate	4	-
Due to an officer	5	-
Deferred income	238	-
Long-term debt due within one year	295	648
Provision for warranty costs	393	432
Total current liabilities	17,207	16,350
LONG-TERM DEBT (Note 5)	5,561	5,980
DEFERRED INCOME TAXES	-	55
SHAREHOLDERS' INVESTMENTS:		
Note payable to shareholder (Note 10(b))	703	-
Share capital (Note 6)	4,436	4,436
Excess of appraised value of fixed assets over depreciated cost (Note 3)	6,181	6,114
Deficit	(9,783)	(4,157)
Net shareholders' investments	1,537	6,393
TOTAL	$24,305	$28,778

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CONSOLIDATED BALANCE SHEE

(with prior year's fi

ASSETS

	1977	1976
	(thousands of dollars)	
CURRENT ASSETS:		
Cash	$ -	$ 175
Accounts receivable	3,723	3,590
Inventories (Note 2)	6,480	11,164
Prepaid expenses	194	114
Deposits	309	-
Total current assets	10,706	15,043
MORTGAGES AND NOTES RECEIVABLE (Note 6)	391	533
FIXED ASSETS (Note 3)	13,208	13,202
TOTAL	$24,305	$28,778

Approved by the Board:

..............................Director

..............................Director

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GLENDALE CORPORATION

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED NOVEMBER 30, 1977

(with prior year's figures for comparison)

	1977	1976
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	$ 4,157	$1,484
LOSS FOR THE YEAR	5,955	2,673
	10,112	4,157
DEDUCT:		
Amortization of excess of appraised value of fixed assets over depreciated cost	230	-
Adjustment of appraisal excess for property written down to net realizable value (Note 11(a))	99	-
	329	-
BALANCE AT END OF THE YEAR	$ 9,783	$4,157

The accompanying notes are an integral part of the financial statements.

GLENDALE CORPORATION

CONSOLIDATED STATEMENT OF LOSS

FOR THE YEAR ENDED NOVEMBER 30, 1977

(with prior year's figures for comparison)

	1977	1976
	(thousands of dollars)	
SALES (Note 8)	$29,470	$25,208
MANUFACTURING, SELLING AND ADMINISTRATIVE EXPENSES	29,233	25,314
OPERATING PROFIT (LOSS) BEFORE THE FOLLOWING	237	(106)
DEPRECIATION	959	666
WRITE-DOWN OF INDUSTRIAL RENTAL UNITS	-	414
INTEREST EXPENSE:		
Long-term debt	545	634
Other	1,005	1,050
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY LOSS	2,272	2,870
INCOME TAXES:		
Current	(15)	301
Deferred	(55)	(956)
	(70)	(655)
LOSS FROM CONTINUING OPERATIONS	2,202	2,215
LOSS FROM DISCONTINUED OPERATIONS (Note 8)	1,794	458
LOSS BEFORE EXTRAORDINARY LOSS	3,996	2,673
EXTRAORDINARY LOSS (Note 8)	1,959	-
LOSS FOR THE YEAR	$ 5,955	$ 2,673
LOSS PER SHARE FOR THE YEAR:		
From continuing operations	$1.35	$1.37
From discontinued operations	1.11	.28
Loss per share before extraordinary loss	2.46	1.65
Extraordinary loss	1.20	-
After extraordinary loss	$3.66	$1.65

The accompanying notes are an integral part of the financial statements.

GLENDALE CORPORATION

CONSOLIDATED STATEMENT OF APPRAISED VALUE OF FIXED ASSETS OVER DEPRECIATED COST

FOR THE YEAR ENDED NOVEMBER 30, 1977

(with prior year's figures for comparison)

	1977	1976
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	$6,114	$ -
INCREASE DUE TO APPRAISAL (Note 3)	396	6,114
	6,510	6,114
DECREASES:		
Amortization of excess of appraised value of fixed assets over depreciated cost	230	-
Reversal for property written down to net realizable value (Note 11(a))	99	-
	329	-
BALANCE AT END OF THE YEAR	$6,181	$6,114

The accompanying notes are an integral part of the financial statements.

GLENDALE CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED NOVEMBER 30, 1977

(with prior year's figures for comparison)

	1977	1976
	(thousands of dollars)	
WORKING CAPITAL PROVIDED:		
Increase in long-term debt	$ 370	$ 459
Issue of shares	-	140
Proceeds from disposal of fixed assets	994	1,556
Decrease in mortgages and notes receivable	142	-
Note payable to shareholder	703	-
Total	2,209	2,155
WORKING CAPITAL APPLIED:		
Loss from continuing operations	1,344	2,106
Loss from discontinued operations	1,380	510
Extraordinary loss	1,959	-
Purchase of fixed assets	1,931	1,440
Reduction of long-term debt	789	532
Increase in mortgages and notes receivable	-	334
Total	7,403	4,922
DECREASE IN WORKING CAPITAL FOR THE YEAR	5,194	2,767
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR	1,307	(1,460)
WORKING CAPITAL DEFICIENCY AT END OF THE YEAR	$ 6,501	$ 1,307
REPRESENTED BY:		
Current assets	$10,706	$15,043
Less current liabilities	17,207	16,350
	$ 6,501	$ 1,307

The accompanying notes are an integral part of the financial statements.

GLENDALE CORPORATION

CONSOLIDATED SIGNIFICANT ACCOUNTING POLICIES

NOVEMBER 30, 1977

The Significant Accounting Policies followed by Glendale Corporation are to assist the reader in the interpretation of the financial statements and other data. The policies should be read in conjunction with the accompanying Notes to the Consolidated Financial Statements.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Glendale Corporation and the following wholly-owned subsidiaries:

Glendale-Firan Finance Corporation
Glendale (Quebec) Limited
Glendale (Atlantic) Limited
Prebuilt Industries Ltd.
Glendale Corporation (Aust.) Pty. Ltd.
Glendale Accessories Pty. Ltd.

All significant inter-company accounts and transactions have been eliminated.

VALUATION OF INVENTORIES:

Inventories are valued at the lower of cost and net realizable value. Cost is determined substantially on the first-in, first-out basis.

FIXED ASSETS AND DEPRECIATION:

Fixed assets are recorded at cost, except for certain land and buildings which have been recorded at appraised values, as more fully described in Note 3. Subsequent additions on appraised property are recorded at cost.

The corporation and its subsidiaries generally provide for depreciation of fixed assets using the straight-line method at rates set out in Note 3 which are designed to amortize book value over the expected useful lives of the respective assets. Industrial rental units are valued on the net realizable value less profit margin method applied on a unit basis. The application of this method is equivalent to the straight-line depreciation method over ten years (1976 - over seven years).

The excess of appraised value of buildings over depreciated cost is amortized and transferred to deficit at the rates used for the depreciation of the respective buildings.

INCOME TAXES:

As described in Note 7, the corporation and certain subsidiaries have losses for tax purposes available for application against taxable income of future years. The tax savings related to the losses will be recorded in the accounts when realized.

GLENDALE CORPORATION

CONSOLIDATED SIGNIFICANT ACCOUNTING POLICIES

NOVEMBER 30, 1977

TRANSLATION OF FOREIGN CURRENCIES:

Amounts in foreign currencies have been translated to Canadian dollars as follows:

Current assets and current liabilities - at the exchange rates prevailing at the balance sheet date.

Non-current assets and liabilities - at the exchange rates prevailing at the dates of the transactions.

Income and expense accounts - at the average rates of exchange for the year.

WARRANTY COSTS:

The corporation provides for warranty costs based on units produced in the year.

INDUSTRIAL LEASE TRANSACTIONS:

A subsidiary company follows the policy of deferring the profit on the sale of industrial units that are subsequently leased back for rental purposes (see Note 10(a)). The deferred revenue is taken into income on the basis of the term of the lease. In situations where the company leases the leased units to third parties, with the third parties having the option to purchase the units, the company offsets the potential gain or loss on the sale transaction and against the deferred revenue on the initial sale-leaseback transaction and only the resulting deferred revenue is taken into income on the basis of the term of the lease. Lease agreements generally provide that revenue is recognized on an equal monthly basis over the terms of the leases.

LOSS PER SHARE:

Loss per share has been calculated using the weighted monthly average of shares outstanding during the year.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

1. BASIS OF STATEMENT PRESENTATION:

Prebuilt Industries Ltd., a subsidiary, is experiencing difficultly in meeting its current obligations to its creditors and is currently seeking additional working capital financing. The corporation has reorganized the operations of this subsidiary which is more fully described in Note 8.

The financial statements of Prebuilt Industries Ltd. are prepared on a going concern basis which is dependent upon obtaining additional financing as required, and, ultimately, upon a return to profitable operations.

At November 30, 1977, the financial statements of Prebuilt Industries Ltd. comprised the following:

	1977	1976
	(thousands of dollars)	
Accounts receivable	$ 693	$ 1,491
Inventory	2,543	5,127
Other	401	49
Total current assets	3,637	6,667
Fixed assets	3,907	3,750
Total assets	$7,544	$10,417
Bank indebtedness	2,829	2,184
Accounts payable and accrued	2,803	3,364
Deferred income	238	-
Due to affiliated companies	18	754
Long-term debt due within one year	233	505
Total current liabilities	6,121	6,807
Long-term debt including inter-company debt of $1,101,000 - 1977; Nil - 1976	1,478	778
Shareholders' investment (deficiency)	(55)	2,832
Total liabilities and shareholders' investment	$7,544	$10,417

The financial obligations of the corporation in respect of this subsidiary, are limited to amounts owing to it which aggregate $1,101,000 at November 30, 1977 (November 30, 1976 - $754,000).

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

2. INVENTORIES:

Inventories consist of the following:

	1977	1976
	(thousands of dollars)	
Finished products	$2,257	$ 6,792
Work in process	1,060	638
Raw materials	3,163	3,734
Total	$6,480	$11,164

3. FIXED ASSETS:

(a) The major categories of fixed assets and related depreciation rates are as follows:

	1977	1976	Depreciation Rate
	(thousands of dollars)		
Land - at appraised values - (see Note 3(b)	$ 2,540	$ 1,588	-
Land - at cost	54	595	-
Buildings - at appraised values, with subsequent additions at cost	8,552	8,604	2-1/2% - 5%
Buildings - at cost	-	182	2-1/2% - 5%
Machinery and equipment - at cost	1,962	2,020	10% - 30%
Industrial rental units (see Note 1)	2,487	2,892	
Rental vehicles	154	-	30%
Total fixed assets	15,749	15,881	
Less accumulated depreciation	2,541	2,679	
Net fixed assets	$13,208	$13,202	

The corporation has closed its Western Homes Division (see Note 8) and is in the process of selling its land and buildings (see Note 11(c)).

Subsequent to the year end, the corporation negotiated the sale of property in Salmon Arm, British Columbia (see Note 11(a)) and a subsidiary company sold property excess to its needs after the discontinuance of its recreational vehicle operations (see Note 11(b)).

(b) It is the corporate policy to have all operating land and buildings appraised if there is a significant difference between the current carrying cost and current market value.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

3. FIXED ASSETS: (continued)

(b) (continued)

Effective November 30, 1976, the corporation revalued certain land and buildings owned by the corporation and its Canadian subsidiaries, based on appraisals made by General Appraisals Limited, dated January 31, 1977. Fair market value for purposes of these appraisals was defined as the amount at which the properties might exchange between a willing buyer and a willing seller, both having full knowledge of all pertinent facts, and in contemplation of the facilities being retained for continuous use in the same or similar product line. The appraisal values do not necessarily represent the amount that might be anticipated on sale of the properties for alternative use.

A property in British Columbia, the majority of which has been sold (see Note 11(a)), was revalued at an amount which was $132,000 in excess of depreciated cost, based on an appraisal made by Harker Appraisals Ltd., dated October 27, 1976. This appraisal was defined to be the hightest estimated selling price of the property to a purchaser who buys with full knowledge of all the uses to which it is adapted and for which it is capable of being used.

In addition, the corporation has reflected a revaluation of certain land and buildings of its Australian subsidiaries based on an appraisal performed by Mr. P. V. Roberts, an associate of the Commonwealth Institute of Valuers (Australia), dated January 31, 1974. During the current year, the corporation revalued land acquired subsequent to January 31, 1974 based on an appraisal dated March 28, 1977, performed by Mr. P. V. Roberts.

The excess of the appraisal value of land and buildings over the depreciated cost of land and buildings at the effective date of the valuations has been recorded in shareholders' investments. The portion of the excess related to buildings is amortized and transferred to deficit at the rates used for the depreciation of the respective buildings.

4. BANK INDEBTEDNESS AND LOANS:

Current bank indebtedness and the term loan owing by Glendale Corporation at November 30, 1977 are secured by a demand debenture in the amount of $12,000,000 with a first charge on all land together with all buildings thereon, a first floating charge on all its undertakings and other properties and assets, a guarantee for a portion of the debt by the Chairman and Chief Executive Officer of the corporation, and a specific pledge of the shares of Prebuilt Industries Ltd., and Glendale Corporation (Aust.) Pty. Ltd. and Glendale Accessories Pty. Ltd.

Bank indebtedness and loans of the subsidiaries at November 30, 1977 are secured by the assignment of accounts receivable, inventories, rents accruing on certain lease contracts, chattel mortgages on certain industrial rental units and an automobile, fixed and floating charges on all other assets and a limited personal guarantee.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

5. LONG-TERM DEBT:

Long-term debt comprises:

	1977	1976
	(thousands of dollars)	
Glendale Corporation:		
Bank loan at a rate of interest 1-1/2% over the bank prime rate	$4,866	$4,875
11-1/4% first mortgage	-	45
12-1/4% first mortgage	-	40
	4,866	4,960
Subsidiaries:		
12-1/2% bank loan repayable monthly	-	278
12-3/4% bank loan repayable to August 31, 1978.	12	188
12-1/2% first mortgage bonds secured by a first mortgage on all fixed assets, and a floating charge on all other assets, due in equal quarterly instalments of $50,000	300	500
10% debenture due August 15, 1979	250	250
13% bank loan repayable in yearly amounts of $58,000, fully secured by a first mortgage over land and buildings and a floating charge on all other assets	370	-
10-3/4% first mortgage	-	39
Agreements for sale, mortgages and other long-term debt	58	413
	990	1,668
Total long-term debt	5,856	6,628
Less portion due within one year included in current liabilities	295	648
	$5,561	$5,980

Principal repayments are due for the years ending November 30, as follows:

1978	$295,000
1979	$183,000
1980	$ 64,000
1981	$ 58,000
1982	$ 58,000

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

6. SHARE CAPITAL AND INCENTIVE SHARE PURCHASE PLAN:

Authorized share capital:

400,000 cumulative redeemable convertible preference shares with a par value of $25 each, redeemable at par together with such premium (if any) as the directors may determine, and

4,000,000 common shares without par value.

Issued and fully paid share capital comprises 1,623,251 common shares as at November 30, 1977 (1,623,251 shares as at November 30, 1976).

Under the terms of an Incentive Share Purchase Plan dated September 9, 1975, 100,000 shares were issued by the Corporation at a price of $1.40 per share to former executives eligible under the plan. Under the terms of the plan, the corporation agreed to loan the trustees of the plan $140,000, of which $102,000 remains unpaid at November 30, 1977 and is included in mortgages and notes receivable on the balance sheet.

7. INCOME TAXES:

The corporation and certain subsidiaries have non-capital losses for income tax purposes of approximately $10,250,000 available for application against taxable income of future years. These tax losses expire as follows:

1979	$ 419,000
1980	1,346,000
1981	3,737,000
1982	4,614,000
1984	134,000
	$10,250,000

In addition, the corporation has a capital loss of $32,000 which may be carried forward indefinitely.

8. LOSS FROM DISCONTINUED OPERATIONS AND EXTRAORDINARY LOSS:

During the year, the corporation closed its Western Homes Division and a subsidiary discontinued its recreational vehicle operations. The operating results of these discontinued segments of the business include sales of $13,714,000 in 1977 and $17,423,000 in 1976, which have been excluded from sales of the continuing operations.

Included in the Loss from Discontinued Operations is depreciation of $98,000 in 1977 and $54,000 in 1976, long-term interest of $147,000 and $120,000 respectively, and a tax recovery of $106,000 in 1976.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

8. LOSS FROM DISCONTINUED OPERATIONS AND EXTRAORDINARY LOSS: (continued)

In addition, as more fully described in Note 11(a), the loss from discontinued operations includes a loss of $316,000 on write-down of property to net realizable value.

The Extraordinary Loss consists of losses on disposal of inventory, the write-down of inventory to net realizable value, severance payments to employees, loss on disposal of machinery and equipment, and the cost of returning chassis held on consignment. The amount of the loss has been reduced by the gain on sale of land and building (see Note 11(b)).

9. CONTINGENT LIABILITIES AND COMMITMENTS:

(a) The corporation and its subsidiaries are contingently liable to repurchase certain units sold with recourse to customers who have financed purchases through finance companies and banks. As at November 30, 1977, the value of such units subject to recourse cannot be precisely determined; however, any loss on units repurchased is not anticipated to be significant.

Such contingencies are common to the industry in which Glendale Corporation and its subsidiaries operate.

(b) A subsidiary has a commitment totalling $219,000 under existing lease agreements for business premises.

10. RELATED PARTY TRANSACTIONS:

(a) During the year, two subsidiary companies, Prebuilt Industries Ltd. and Glendale-Firan Finance Corporation, and the Chairman and Chief Executive Officer entered into a number of purchase and lease transactions in order to provide additional financing for Prebuilt. The profits realized on these non-arm's length transactions have been eliminated or deferred in the preparation of these consolidated financial statements.

In addition, it was necessary for Prebuilt Industries Ltd. to execute two Repurchase Agreements with respect to the recreational vehicles sold to the Chairman and Chief Executive Officer and Glendale-Firan Finance Corporation.

As a result of the above transactions, Glendale Corporation has guaranteed:

(i) The covenants and obligations of the Repurchase Agreements.

(ii) The covenants and obligations contained in a lease between the Chairman and Chief Executive Officer and Glendale-Firan Finance Corporation.

(iii) The covenants and obligations contained in a lease between Prebuilt Industries Ltd. and Glendale-Firan Finance Corporation.

There are no anticipated losses on any of the above transactions to Glendale Corporation or its subsidiaries.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

10. RELATED PARTY TRANSACTIONS: (continued)

(b) During the year, the Chairman and Chief Executive Officer lent a subsidiary, Prebuilt Industries Ltd., $703,000 to enable the company to meet its normal business commitments. This unsecured loan has no fixed terms of repayment and bears interest at 1% over the bank prime rate.

(c) In consideration of a limited guarantee of bank borrowings, the corporation and two subsidiary companies pay a 1% guarantee fee to the Chairman and Chief Executive Officer and an affiliated company.

11. SUBSEQUENT EVENTS:

(a) Subsequent to the year end, the corporation negotiated the sale of a substantial portion of the property in Salmon Arm, British Columbia. As a result of this transaction, the corporation will incur a loss of $316,000, which includes $99,000 representing the appraisal excess of the property sold, and which loss has been reflected in these financial statements.

(b) Subsequent to the year end (see Note 8), a subsidiary discontinued its recreational vehicle operations.

As part of the discontinuance, the company has sold certain land and buildings related to the recreational vehicle operations for approximately $670,000, resulting in an after-tax gain of approximately $50,000. The land and building sold were security for the 12-1/2% first mortgage and the 10% debenture (see Note 5) in the amount of $550,000 and accordingly the proceeds on sale are being held in a trust account until settlement is made with the lender.

(c) Subsequent to the year end, the corporation has received a contingent offer to purchase the land and buildings of its Western Homes Division. The offer, which expires June 12, 1978, is contingent upon the purchaser obtaining the necessary financing.

(d) Subsequent to the year end, an affiliated company has lent to the corporation $1,750,000 in the form of an unsecured note. The corporation is being charged interest at the rate of 2-1/2% over the bank prime rate. There are no fixed terms of repayment.

(e) Subsequent to the year end, Prebuilt Industries Ltd. and four affiliated companies have given limited guarantees of the corporation's bank loans.

GLENDALE CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1977

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Remuneration of directors and senior officers, as defined in The Business Corporations Act, Ontario, for the year ended November 30, 1977 amounted to $330,000 (November 30, 1976 - $336,000).

13. ANTI-INFLATION ACT:

The company is required by law to comply with the guidelines established under the Anti-Inflation Act. The Act includes restrictions on prices, profit margins, compensation and dividends.

14. COMPARATIVE FIGURES:

Certain 1976 figures have been reclassified to conform to the 1977 presentation.