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Héroux Inc.
755 Thurber Street,
Longueuil, Québec
Canada J4H 3N2

ANNUAL REPORT 1992-1993

HÉROUX

Mission

To be a world class supplier to the aerospace industry by promoting customer service and the development of its personnel through decentralized profit centres while providing its investors with a solid return on their investment.

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• Consolidated sales reached $103 million, up from $84.2 million in 1992, but earnings declined $0.18 per share to $63,000 due mainly to a lower net result at Héroux Longueuil and a write-off of start-up investments made by A.B.A. Industries. • First time consolidation of FRE Composites Inc. in the Héroux financial statements. • Three out of four Héroux Inc. operations registered a profit despite depressed market conditions. •

Financial highlights

FIVE-YEAR Summary

Years ended March 31 (In thousands of dollars, except per share data)	1993	1992	1991	1990	1989
Sales	$103,002	$84,165	$83,349	$82,145	$63,799
Gross profit	$15,194	$14,926	$14,890	$13,610	$13,069
Net income	$63	$2,079	$3,016	$2,454	$5,195
Cash flow from operations	$7,020	$9,617	$9,113	$8,130	$9,268
Net earnings per share	$0.01	$0.19	$0.27	$0.22	$0.50

Sales
(In millions of dollars)

1993	$103.0
1992	$84.1
1991	$83.3
1990	$82.1
1989	$63.8

Working capital
(In millions of dollars)

1993	$40.4
1992	$39.3
1991	$35.4
1990	$35.3
1989	$28.2

Cash flow from operations
(In millions of dollars)

1993	$7.0
1992	$9.6
1991	$9.1
1990	$8.1
1989	$9.3

Our strategy is to increase shareholder value by protecting profits in our current businesses and investing those profits in new market opportunities. That's the Héroux way of doing business.

President's M

I am pleased to present the results of the 1993 fiscal year for Héroux Inc.

The year was a difficult one for Héroux. The major restructuring of the air transport, aerospace and defence manufacturing industries continued to exert tremendous market forces. Thus, despite a record number of shipments during the year, we had to work very hard to defend profitability as well as market share in our core businesses.

Revenues from our Longueuil operation reached their highest level in the Company's history due mostly to improved delivery rates on our key production contracts. New agreements were reached on commercial aircraft programs with long-term potential. We expect these agreements to be turned into contracts in the near future. Also, a worldwide licensing agreement was signed with McDonnell Douglas for F-18 fighter aircraft landing gear repair and overhaul (R&O) and replacement parts. The world fleet of F-18 aircraft, which is still in production, now stands at more than 1200.

Héroux's precision manufacturing operation in Cincinnati continued to meet its delivery obligations and signed an agreement with its largest customer to develop and manufacture 32 components for a series of new robot-controlled data retrieval systems. This agreement is active for the lifetime of the products.

Our engine component operation in Florida completed its reorganization, registered a pre-tax profit in the fourth quarter and marked the end of its negative cash flow situation.

This year we include the activities of our composites operation (FRE Composites) in St-André-Est, Québec. An FRE company record was set in sales and important milestones were achieved on two of its most complex programs, the Eurotunnel and Space Station programs.

But structural changes in the industry also led to some disappointments for the year. The United States Air Force (USAF) announced that,

essage

as part of its restructuring, USAF maintenance depots will compete with private sector contractors to obtain work on military programs. These depots present a formidable challenge to obtaining new military contracts. Evidence of this new competitive reality is the fact that our current USAF repair and overhaul contract of aircraft landing gear will not be renewed this fiscal year.

We also made a $1.7 million write-off at our engine component operation for development costs relating to a major contract set back by customer-initiated delivery delays. With this write-off, the balance sheet will better reflect the short term prospect of the contract. Included in the write-off was a reassessment of certain inventories.

Our strategy to develop shareholder value under these difficult conditions is to make a genuine profit with the business we do have, and reinvest that profit into developing new markets for the future. That strategy started three years ago is now beginning to pay off. This is what has allowed us now to survive the current transition from defence to civilian markets.

Today, we have a solid basis of generally lower costs, good cash flow and a significant orderbook in most of our businesses. Of course, this would not have been possible without the strength and perseverance of our people. Their skill and commitment form the core of our business. Every day they are doing more to create value for you, the shareholder. That is simply the Héroux way of doing business.

Gilles Labbé
President and Chief Executive Officer
Longueuil, June 14, 1993.

Héroux Inc. maintained a strong financial position in the context of difficult market conditions with three out of four operations registering a profit for the year.

Management

FINANCIAL POSITION

Héroux Inc.'s financial condition remained strong in the face of adverse business conditions. This year's financial statement reflects the consolidation of FRE Composites from the date of acquisition, May 7, 1992.

Consolidated sales were $103 million in 1993, up from $84.2 million in 1992. Net of FRE Composite's revenue contribution, sales increased $6.2 million over the previous year. Deliveries of C-5 and KC-135R landing gear from the Longueuil operation helped to generate a record $56.1 million in sales, up $5.6 million from the previous year. The Cincinnati precision manufacturing operation reported $15.8 million in revenue, up from $13.7 million the year previous. Sales in engine components were $18.5 million, down $1.3 million from the year before reflecting lower volume activity at the engine manufacturers level. The composites operation in St-André-Est reported $12.6 million in revenue.

The consolidated gross profit margin declined nearly 3 percent to 14.8 percent from 17.8 percent the preceding year. Provisions for unrecoverable start-up costs on an engine components contract, as well as lower margins in the civilian repair and overhaul business accounted for most of this decline. A good gross profit in the composites business moderated the decline.

Selling and administrative expenses rose marginally to $9.4 million in 1993 from $8.0 million in 1992. The significant effects were the consolidation of FRE Composites, which increased the expense by $2.6 million and restructuring at A.B.A., which decreased the expense by $0.6 million.

Interest expenses, which rose to $3.3 million in 1993 from $2.6 million the year previous, reflect the consolidation of FRE Composites and the interest on the Héroux five-year fixed-rate term loan issued in the last quarter of the previous year.

Discussion and Analysis

The high ratio of income tax to pre-tax profit was due primarily to the non-deductible losses incurred at the engine component facility in Florida and the impact of permanent differences such as goodwill amortization.

Héroux generated a net income of $63,000 or $0.01 per share in 1993, down from $2.08 million, or $0.19 per share in 1992. The decrease in profitability was the principal cause of the decline in generated funds. Cash flow from operations declined to $7 million in 1993 from $9.6 million in 1992. Cash provided by operating activities increased by $1 million due mainly to a reduction in A.B.A. inventories.

Financing activities included the renewal of long-term debt for the engine component operation, the restructuring of FRE's debt, and the receipt of an interest-free loan of $1.4 million for the Longueuil operation. Investing activities included the acquisition of the outstanding shares of A.B.A. Industries Inc. and the acquisition of FRE Composites Inc. Investment in fixed assets decreased as compared to the year previous due to the completion of the expansion of the Longueuil operation.

The consolidated balance sheet shows Héroux ended the year with $9.9 million in cash on hand. Working capital ratio remained stable at 2.7:1. The FRE consolidation increased accounts receivable, goodwill, fixed assets, and long-term debt as well as additional liability in the form of $3 million in FRE non-convertible preferred shares redeemable starting in FY 1996. Inventories were unchanged as the consolidation of FRE inventory balanced partly the reduction at A.B.A. A strong balance sheet will continue to be an Héroux priority.

We expect to conclude an agreement with our unionized labour and we are optimistic that this agreement will afford us greater flexibility to improve our competitive posture. Finally, capital investments will continue to decline over the next few years.

The Cincinnati precision manufacturing operation generated both increased revenue and net profit despite higher expenses for product development. The product development relates to a StorageTek contract which required expansion of manufacturing capabilities and the introduction of emerging manufacturing technologies which will ultimately broaden the customer base.

Review and Outlook

The Longueuil landing gear operation maintained its balance of manufacturing and repair and overhaul activities. However, the aggressive search for new R&O business generated smaller margins due to the product mix and the competitive pricing conditions which now prevail in the marketplace. We do not expect these conditions to change significantly in the current year.

We will see a decline in military-related manufacturing and R&O activity in the current year. The last shipment of the KC-135R landing gear five-year contract will occur during the year. The USAF's decision not to renew our contract for the repair and overhaul of aircraft landing gear, which had an estimated value of $8 million a year, will have a negative impact of about $5 million in the current year forecast. The military market remains a key element of our business strategy. We anticipate continued strong business relationships with the Canadian Department of National Defence, as well as with U.S. defence contractors.

The operation also acquired manufacturing equipment for specialized U.S. Navy components. For a very modest investment, we now have an excellent opportunity to enter an already established market with proven processes which should generate good margins.

On-going efforts will continue to expand the customer base to reduce dependence on the operation's major customer. Additional contracts will be sought from the U.S. Air Force as well as the power generation industry where the operation has reached an agreement with a major customer to manufacture additional components for gas turbines.

The core activity of the composites operation is filament wound fibreglass reinforced epoxy underground conduit systems for the electric power industry. As Canada's foremost supplier of composite products, the operation also delivers complex customized components. Highlights of the year include first-time deliveries of conduits to Venezuela, delivery of a truss structure for the RADARSAT program, and completion of the critical design review for the Space Station Arm Boom. The operation recently completed delivery of interior panels to Bombardier for the Eurotunnel rail car program.

The outlook for the current year includes a possible delay of the Space Station program and a continued soft market in the business of composite conduit systems. However, the introduction of new core products into the North American conduit systems market, where FRE is the dominant player, will increase the likelihood of improved sales in the coming years.

There was a marked improvement in operating performance by the Florida engine component business. Selling and administrative expenses decreased and delivery cycles improved. As a result, cash flow is firmly in a positive direction and gross margins will continue to grow, reflecting the gains made in the last year to reduce operating costs throughout the company.

The operation is strengthening its relationship with its customer base by securing favored supplier agreements on new programs which, barring additional customer delays, will provide a stable core business well into the future. It was also chosen by a major customer as a model company for the implementation of the customer's own new quality program.

Programs to further reduce operating costs and enlarge business opportunities with existing customers will continue, particularly on the commercial side which now accounts for the larger portion of the operation's revenues.

The Company deals extensively in U.S. currency and therefore revenues may be impacted by fluctuations in the value of the Canadian dollar. In the opinion of management, we do not anticipate any major events not already mentioned which would have a material effect on Héroux's business for the current fiscal year.

Management's Report

The accompanying financial statements of Héroux Inc. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The Financial statements have been prepared by Management in accordance with generally accepted accounting principles. The financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Héroux Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of outside Directors. The committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the financial statements and the external auditors' report The committee reports its findings to the Board for consideration by the Board when it approves the financial statements for issuance to the shareholders.

The financial statements have been audited by Arthur Andersen & Cie, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Gilles Labbé
President
and Chief Executive Officer

Bertrand Blanchette
Vice President,
Finance and Administration

May 28, 1993

Auditors' Report

To The Shareholders of Héroux Inc.:

We have audited the consolidated balance sheets of Héroux Inc. as at March 31, 1993 and 1992 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Arthur Andersen & Cie

Arthur Andersen & Cie
Chartered Accountants

Montréal, Québec
May 28, 1993

Consolidated BALANCE SHEETS

As at March 31, 1993 and 1992
(In thousands of dollars)

	1993	1992
Assets		
Current assets		
Cash and temporary investments	$13,301	$14,695
Accounts receivable (Note 6)	17,885	15,494
Inventories (Notes 3 and 6)	31,039	31,462
Prepaid expenses	664	939
Deferred income taxes	790	266
	63,679	62,856
Property, plant and equipment, net (Notes 4 and 7)	44,404	39,039
Other assets (Note 5)	1,397	483
Goodwill, net	8,016	3,866
	$117,496	$106,244
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loan (Note 6)	$3,421	$4,336
Accounts payable and accrued liabilities	17,497	17,298
Current portion of long-term debt	2,344	1,895
	23,262	23,529
Long-term debt (Note 7)	46,425	38,293
Deferred income taxes	2,899	3,079
Preferred shares of a subsidiary (Note 8)	3,000	–
	75,586	64,901
Shareholders' equity		
Capital stock (Note 9)	19,681	19,608
Translation adjustment	284	(147)
Retained earnings	21,945	21,882
	41,910	41,343
	$117,496	$106,244

Signed on behalf of the Board

Sarto Richer, Director

Gilles Labbé, Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated STATEMENTS of income

For the years ended March 31, 1993 and 1992
(In thousands of dollars, except per share data)

	1993	1992
Sales	$103,002	$84,165
Cost of sales	87,808	69,239
Gross profit	15,194	14,926
Selling and administrative expenses	9,363	8,009
Research & Development expenses	871	463
Operating income	4,960	6,454
Financial expenses	3,323	2,561
Income before income taxes	1,637	3,893
Income taxes	1,574	1,814
Net income	$63	$2,079
Net earnings per share	$0.01	$0.19
Average number of shares outstanding during the year	11,243,066	11,218,716

Consolidated STATEMENTS of retained earnings

For the years ended March 31, 1993 and 1992
(In thousands of dollars)

	1993	1992
Balance at beginning of year	$21,882	$19,803
Net income	63	2,079
Balance at end of year	$21,945	$21,882

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated STATEMENTS of changes in financial position

For the years ended March 31, 1993 and 1992
(In thousands of dollars)

	1993	1992
Cash and cash equivalents provided by (used for):		
Operating activities		
Net income	$63	$2,079
Items not requiring an outlay of cash		
Depreciation and amortization	7,756	7,340
Deferred income taxes	(792)	187
Other	(7)	11
Cash flow from operations	7,020	9,617
Net change in non-cash working capital items related to operations	(419)	(3,787)
Translation adjustment	431	245
Cash and cash equivalents provided by operating activities	7,032	6,075
Financing activities		
Issuance of capital stock	73	31
Increase in long-term debt	9,783	8,844
Repayment of long-term debt	(7,353)	(2,254)
Cash and cash equivalents provided by financing activities	2,503	6,621
Investing activities		
Purchase of property, plant and equipment, net of dispositions and tax credits	(6,589)	(11,969)
Acquisition of a subsidiary	(2,382)	–
Other	(1,043)	(275)
Cash and cash equivalents used for investing activities	(10,014)	(12,244)
Change in cash and cash equivalents	(479)	452
Cash and cash equivalents at beginning of year	10,359	9,907
Cash and cash equivalents at end of year	$9,880	$10,359
Cash and cash equivalents are comprised of:		
Cash and temporary investments	$13,301	$14,695
Bank loan	(3,421)	(4,336)
	$9,880	$10,359

The accompanying notes are an integral part of these consolidated financial statements.

For the years ended March 31, 1993 and 1992
(All amounts in thousands of dollars)

Note 1. Nature of activities

The Company and its subsidiaries are mainly involved in the machining, manufacturing, repair and overhaul of systems and high-precision parts for the aerospace industry. As such, a significant portion of its sales are made to a limited number of clients mainly located in the United States.

Note 2. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries:

Héroux Corp.	100%
McSwain Manufacturing Corporation	100%
A.B.A. Industries, Inc.	100%
2816709 Canada Inc.	100%
FRE Composites Inc.	60%

Temporary investments

Temporary investments are recorded at cost which does not differ significatively from their market value.

Inventories' Valuation

Raw materials, work in process and finished goods inventories are valued at the lower of cost (on a weighted average cost basis) or net realizable value. The cost of work in process and finished goods includes the cost of raw materials, direct labour and manufacturing overhead.

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciation (amortization in the case of assets under capital leases) is provided on a straight-line basis over the estimated useful lives of the related assets, as follows:

Building and leasehold improvements	5 to 40 years
Machinery, equipment and tooling	3 to 10 years
Automotive equipment	3 to 10 years
Computer and office equipment	3 to 5 years

Translation of foreign currency

► Self-sustaining foreign operations

The assets and liabilities of subsidiaries denominated in foreign currency are translated at the exchange rate in effect at the balance sheets date. Revenues and expenses are translated at the average exchange rates for the year. Translation gains or losses are deferred and shown separately in shareholders' equity.

► Foreign currency transactions

Except for transactions for which the Company has entered into foreign exchange contracts, monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at year-end. Revenue and expense accounts realizable in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains or losses are included in the statements of income.

Revenues

Sales and income on contracts are recognized as units are delivered. The effect of changes to total estimated income for each contract is recognized in the period determined and losses, if any, are recognized fully when anticipated.

Earnings per share

Earnings per share are determined using the weighted average number of outstanding shares during the year.

Goodwill

Goodwill is amortized on a straight-line basis over a period of 40 years.

Note 3. Inventories

Inventories consist of:

	1993	1992
Raw materials	**$13,209**	$12,680
Work in process and finished goods	**25,487**	33,955
Less: advances received	**7,657**	15,173
	$31,039	$31,462

Note 4. **Property, plant and equipment**

Property, plant and equipment consist of:

	1993 Cost	1993 Accumulated depreciation	1993 Net book value	1992 Cost	1992 Accumulated depreciation	1992 Net book value
Land	$991	$–	$991	$934	$–	$934
Building and leasehold improvements	15,510	4,450	11,060	11,861	3,243	8,618
Machinery, equipment and tooling	64,259	33,756	30,503	53,421	25,542	27,879
Automotive equipment	869	544	325	496	252	244
Computer and office equipment	4,593	3,068	1,525	3,705	2,341	1,364
	$86,222	$41,818	$44,404	$70,417	$31,378	$39,039

Property, plant and equipment include assets held under capital leases as follows:

	1993 Cost	1993 Accumulated depreciation	1993 Net book value	1992 Cost	1992 Accumulated depreciation	1992 Net book value
Machinery and equipment	$1,470	$843	$627	$1,346	$661	$685

Note 5. **Other assets**

During the year, all shareholders with non-controlling interest of A.B.A. Industries, Inc. have exercised their option to sell their shares to Héroux Corp., a subsidiary of the Company.
Some of the shareholders, holding 9% of A.B.A. Industries, Inc. shares, sold their shares without compensation while an agreement remains to be negotiated with the other shareholders as to the compensation to be paid. Héroux Corp. transferred $518 to a trustee until a final agreement is reached between the parties. This amount is included in other assets.

Note 6. **Bank loan**

Accounts receivable and inventories of A.B.A. Industries, Inc. are pledged as security for the bank loan of that subsidiary and guaranteed by the Company up to U.S. $500.

Note 7. **Long-term debt**

	1993	1992
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2005.	$12,262	$10,902
Term loan of U.S. $2,248 (U.S. $2,344 in 1992), bearing interest at 11.32% (10.57% in 1992), payable in progressive monthly instalments with a final payment of U.S. $2,030 on March 15, 1995, secured by the capital assets of a subsidiary and guaranteed by the Company.	$2,829	$2,788

Note 7. **Long-term debt** (cont't)

	1993	1992
Revolving loan of U.S. $2,025 (U.S. $2,305 in 1992), bearing interest at U.S. prime plus 1/4%, limited to a maximum borrowing of U.S. $3,500 and payable on April 30, 1994, secured by the assets of a subsidiary.	**2,548**	2,741
Term loan, bearing interest at 11.73%, payable in progressive monthly instalments with unpaid balance of $12,697 due on February 15, 1995, secured by Canadian capital assets of the Company.	**13,227**	13,772
Term loan, bearing interest at 9.5% payable in progressive monthly instalments with unpaid balance of $3,765 due on February 15, 1997, secured by Canadian capital assets of the Company.	**4,800**	4,985
Term loan of U.S. $3,000, bearing interest at 9.65%, payable monthly, capital repayable in August 1997, secured by the capital assets of a subsidiary and a U.S. $4,500 guaranty by the Company (the U.S. $4,500 guaranty).	**3,776**	–
Term loan of U.S. $1,350, bearing interest at U.S. prime plus 1/2%, payable in monthly instalments until August 1997, secured by the capital assets of a subsidiary and the U.S. $4,500 guaranty.	**1,699**	–
Term loan of U.S. $3,794 bearing interest at 12.125%, fully paid on August 13, 1992.	–	4,513
Non-revolving loan bearing interest at prime plus 1%, payable in 66 monthly instalments starting October 1, 1993, secured by the assets of a subsidiary and a $500 guaranty by the Company (the $500 guaranty).	**2,215**	–
Non-revolving loan of U.S. $1,704, bearing interest at U.S. base rate plus 1.25%, payable in 66 monthly instalments starting October 1, 1993, secured by the assets of a subsidiary and the $500 guaranty.	**2,173**	–
Promissory note bearing interest at prime rate plus 1.25%, payable in 4 quarterly instalments starting April 1, 1994, secured by the assets of a subsidiary.	**1,000**	–
Loan bearing interest at a floating rate starting March 15, 1997, payable in 16 quarterly instalments starting April 15, 1998, secured by the assets of a subsidiary.	**1,571**	–
Loan bearing interest at a floating rate (7.5% on March 31, 1993), payable in 60 monthly instalments starting April 15, 1995, secured by the assets of a subsidiary.	**459**	–
Obligations under capital leases and other long-term debts.	**210**	487
	48,769	40,188
Less: current portion.	**2,344**	1,895
	$46,425	$38,293

Interest on long-term debt amounted to $3,425 ($3,041 in 1992).

Capital repayment of long-term debt during the next five years is as follows:

		Amount
Years ending March 31	**1994**	$2,344
	1995	21,062
	1996	2,342
	1997	5,946
	1998	5,038

Note 8. **Preferred shares of a subsidiary**

The preferred shares of a subsidiary are non-voting, with a 8.5% dividend beginning January 1, 1995, payable quarterly in arrears and will be redeemed by quarterly instalments of $250 starting April 1, 1995.

Note 9. **Capital-stock**

Authorized capital stock

The authorized capital stock of the Company consists of the following:

- An unlimited number of common shares
- An unlimited number of first preferred shares, issuable in series
- An unlimited number of second preferred shares, issuable in series.

The rights, privileges, restrictions and conditions related to the preferred shares may be established by the Board of Directors.

Issued and outstanding capital stock

The share purchase option plan (the plan) foresees that the number of common shares subject to options which can be granted under the plan can represent up to 10% of the total number of outstanding common shares of the Company at each date options are granted.

The plan foresees that the subscription price of these options will be equal to the fair market value of the related shares, on the date which the options will be granted.

During the current year, options relating to the purchase of a total of 54,000 common shares were cancelled and options relating to a total of 90,000 common shares were granted.

As of March 31, 1993, 285,500 shares are subject to purchase options which have not been exercised under the plan. The average subscription price of these options is $4.29 per share. These options will expire at different dates during the next five years. During the year, 20,000 shares were issued pursuant to options exercised.

The issued and outstanding capital stock of the Company consists of the following:

	1993	1992
11,244,600 common shares (11,224,600 in 1992)	**$19,681**	$19,608

Note 10. **Income taxes**

The computation of income taxes is as follows:

	1993	1992
Income taxes at combined federal and provincial tax rates	**$596**	$1,330
Large corporations' tax	**75**	82
Tax incentives for manufacturing and processing	**(86)**	(196)
Impact of permanent differences charged to income and other charges	**326**	295
Losses of a subsidiary not deductible	**389**	205
Impact of U.S. state taxes	**152**	113
Other items	**122**	(15)
Income taxes	**$1,574**	$1,814

Note 11. **Pension plans**

The Company and one of its subsidiaries have defined benefit pension plans covering some of its employees. The cost of pension benefits earned by employees is determined using the projected benefit method prorated on services.

Based upon the most recent actuarial valuations, the market value of those pension plans' assets was approximately $2,035, and projected benefit obligation in excess of those plan assets was approximately $525. The net pension obligation is amortized over a period not exceeding 15 years. The total pension cost for those plans for 1993 and 1992 was approximately $605 and $699 respectively.

Note 12. **Acquisition**

On May 7, 1992, the Company through 2816709 Canada Inc., a wholly owned subsidiary, purchased 450,000 shares issued by FRE Composites Inc., a Canadian designer and manufacturer of advanced polymer composite products for the aerospace and industrial markets.

These shares, which give the Company a 60% ownership of the voting shares of FRE Composites Inc., have been purchased for a total amount of $2,382 in cash. This acquisition has been recorded according to the purchase method of accounting and consolidated as a subsidiary from the date of acquisition. Details of this acquisition are as follows:

Items acquired:

Working capital	$992
Other assets	273
Property, plant and equipment	6,092
Goodwill	4,264
Other liabilities	(92)
Long-term debt	(6,147)
Preferred shares	(3,000)
	$2,382

2816709 Canada Inc. has the option to purchase the remaining shares starting July 1, 1998. Furthermore, shareholders with non-controlling interest have the option to sell progressively to 2816709 Canada Inc. their shares of FRE Composites Inc. after June 30, 1994.

Note 13. **Contingency**

The Company is involved in litigations and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

Note 14. **Reclassification**

Comparative figures for the financial statements as of March 31, 1992 have been reclassified to conform with the 1993 presentation.

Board of Directors and Officers

Board of Directors

JACQUES M. BRAULT *
Senior Vice-President
Lévesque, Beaubien, Geoffrion Inc.

JEAN-LOUIS FONTAINE *
Vice-Chairman of the Board
Bombardier Inc.

GILLES LABBÉ
President and
Chief Executive Officer
Héroux Inc.

JACQUES PAQUIN *
Partner
Desjardins Ducharme Stein Monast

SARTO RICHER
Chairman of the Board
Héroux Inc.

LORRAINE MAHEU
Manager
Caisse de dépôt et placement
du Québec

*Members of Audit Committee

Corporate Management

SARTO RICHER
Chairman of the Board

GILLES LABBÉ
President and
Chief Executive Officer

BERTRAND BLANCHETTE
Vice-President,
Finance and Administration

JACQUES L. BONAVENTURE
Vice-President,
Corporate Development

JOSÉE HURTEAU
Corporate Secretary

Operations

Héroux Inc. (Longueuil Division)

LIONEL LÉVEILLÉ
Vice-President and General Manager

JEAN CAZA
Vice-President, Quality Assurance

ÉMILE L. DESNOYERS
Vice-President, Marketing

CLAUDE DUFOUR
Vice-President, Operations

NAGI HOMSY
Vice-President, Engineering

Head Office and Longueuil Division

Héroux Inc.
755 Thurber Street,
Longueuil, Québec
Canada J4H 3N2
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Fax: (514) 679-4554

Subsidiaries

ALVIN COOK
President
McSwain Corporation
189 Container Place,
Cincinnati, Ohio 45246
Tel.: (513) 671-6130
Fax: (513) 671-2045

WILLIAM A. PELUSO
President
A.B.A. Industries, Inc.
10260 U.S. 19 North,
Pinellas Park, Florida 34666
Tel.: (813) 546-3571
Fax: (813) 544-0096

T.W. SUTHERLAND
President
FRE Composites Inc.
75 Wales Street,
St-André-Est, Québec J0V 1X0
Tel.: (514) 537-3311
Fax: (514) 537-8257

Registrar and Transfer Agent

General Trust of Canada
1100 University Street,
Montréal, Québec
Canada H3B 2G7

Auditors

Arthur Andersen & Cie
600 de Maisonneuve Blvd. West,
28th Floor,
Montréal, Québec
Canada H3A 3J2

Share Listing

Montréal Stock Exchange

Annual Meeting

The annual meeting of Shareholders will be held on Thursday, September 2, 1993, at 4:00 p.m., in the Salon Été of the Four Seasons Hotel, 1050 Sherbrooke Street W., Montréal, Québec.

Version Française

On peut obtenir un exemplaire français du présent rapport en s'adressant au :
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Héroux Inc.
755, rue Thurber
Longueuil (Québec)
Canada J4H 3N2

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