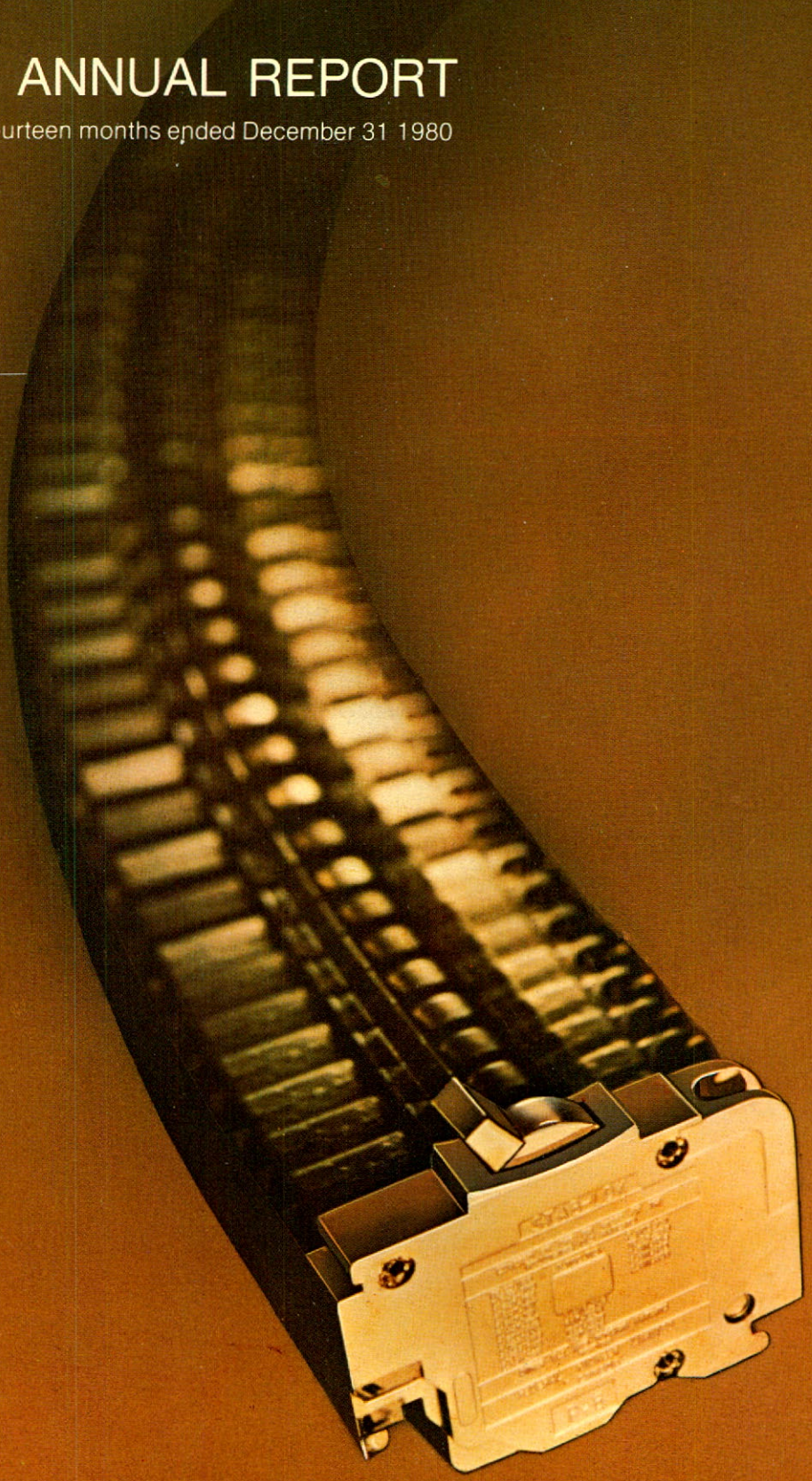
1980 ANNUAL REPORT

For the fourteen months ended December 31 1980



FEDERAL PIONEER

FEDERAL PIONEER LIMITED

Contents

The Annual Meeting

of the shareholders of Federal Pioneer Limited is to be held in the Oak Room of the Inn on the Park, Eglinton Avenue East at Leslie Street, Toronto, Ontario, Canada on Tuesday, the 28th day of April, 1981 at the hour of 11:00 o'clock in the forenoon (E.D.S.T.).

Cover

The cover recognizes the impressive milestone that was reached in 1980 with the production at the Waterman Avenue, Toronto plant of the 50,000,000th pole of stab-lok circuit breakers. Please refer to Page 4 for additional details of this noteworthy achievement.

The Corporation

The Corporation is engaged in the manufacture of electrical equipment—primarily that used in the distribution of electrical power. Major product lines include:

- Power and Distribution Transformers
- Circuit Breakers
- Switchgear and Low Voltage Distribution Equipment
- Electric Heaters

11 manufacturing plants and 17 sales offices are located across Canada and a subsidiary company operates a sales office and manufacturing facility in Great Britain. In total the Corporation employs approximately 2,500 people.

Shareholders

Common Shareholders
as at December 31 1980

	Number of Shareholders	Number of Shares
Residents of Canada	399	498,741
Residents of U.S.A.	5	*730,357
Others	1	1
	405	1,229,099

*Includes 729,057 owned by Parent Company, Federal Pacific Electric Company of Newark, N.J., U.S.A.

Class A Share Trading Summary
for the year ended December 31 1980

Shares traded	45,644
Price range	$32¾-$51
Closing price December 23 1980	$44
Valuation Day Price (December 22 1971)	$17.50

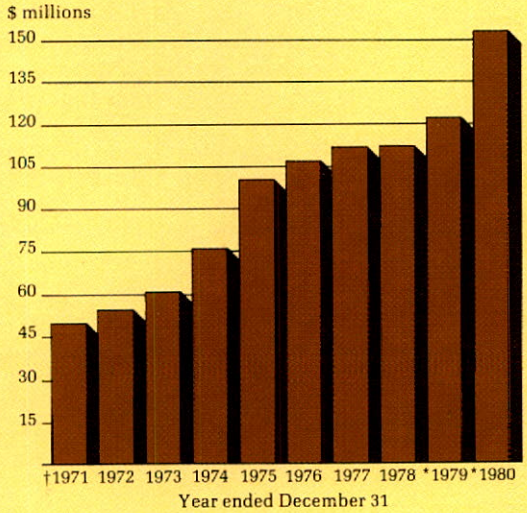
Si vous désirez recevoir ce rapport annuel en français veuillez vous adresser à:

Le Secrétaire
La Cie Federal Pioneer Ltée
19 Waterman Avenue
Toronto, Ontario
M4B 1Y2

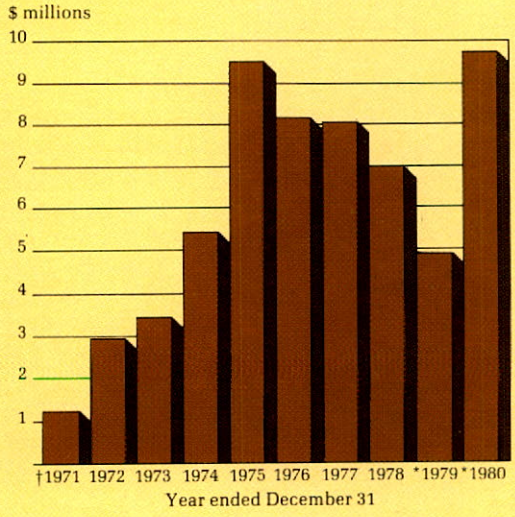
Financial Highlights

Year ended December 31 *1979	**Year ended December 31 *1980**	Change		**Fourteen months ended December 31 1980**	Ten months ended October 31 1979
$	**$**	%		**$**	$
121,882,286	**153,102,225**	+ 25.6	Net sales	**175,441,519**	99,542,992
6,734,084	**17,296,526**	+156.9	Income before income taxes and extraordinary item	**19,156,941**	4,873,669
4,893,374	**10,357,152**	+111.7	Income before extraordinary item	**11,564,167**	3,686,359
4,893,374	**9,665,152**	+ 97.5	Net income for the period	**10,872,167**	3,686,359
4.0	**6.8**	+ 70.0	Income before extraordinary item per sales dollar (cents)	**6.6**	3.7
			Earnings per common share		
3.98	**8.43**	+111.8	Before extraordinary item	**9.41**	3.00
3.98	**7.87**	+ 97.7	After extraordinary item	**8.85**	3.00
			Dividends declared:		
319	**–**		First Preference shares	**–**	319
1,081,607	**1,253,680**	+ 15.9	Class A shares	**1,524,082**	811,205
1,081,926	**1,253,680**			**1,524,082**	811,524
3,892,447	**7,221,901**	+ 85.5	Purchases of property, plant and equipment	**8,083,285**	3,031,063
1,940,248	**2,535,128**	+ 30.7	Depreciation provided	**2,905,132**	1,570,244
53,404,916	**57,077,099**	+ 6.9	Working capital at end of period	**57,077,099**	52,880,404
61,112,048	**69,523,520**	+ 13.8	Shareholders' equity at end of period	**69,523,520**	60,175,435
49.72	**56.56**	+ 13.8	Equity per common share at end of period	**56.56**	48.96

Net sales



Net income



*Figures for the year 1979 consist of the ten months ended October 31 1979 as audited, plus two months ended December 31 1979 unaudited. Balance Sheet amounts are as at December 31 1979 and are unaudited. Figures for the year 1980 consist of the fourteen months ended December 31 1980 as audited, less two months ended December 31 1979 unaudited. Balance Sheet amounts are as at December 31 1980 and are audited.

†Six months figures annualized.

Report to the Shareholders

Left to right—standing:
W. Douglas H. Gardiner
John B. Clements
Benjamin W. Ball
Venceslas Sirois
William B. Korb

—seated:
Pauline Ouimet and
Emory G. Orahood, Jr.

It is pleasing for your Board of Directors to report record sales and profits for your Corporation for the calendar year 1980. You will recall that in 1979 the Corporation reported for ten months and showed the results for twelve months in the five year summary; similarly this year, we are reporting for a fourteen month period but the twelve months of 1980 are shown separately in both the five year summary and the financial highlights. In the last report it was stated that 1979 profits were disappointing because of the extremely rapid rise in material costs. These increases have continued into 1980 at a somewhat slower rate, and fortunately more provision has been made for the extra cost.

The year 1980 has been a very rewarding period for the staff of the Corporation because it has seen the construction and operation of substantial new facilities including 80,000 square feet at Bramalea, 72,000 square feet at the Waterman Plant, additional internal arrangements in the Winnipeg Factory, improvements in the internal arrangements of the Granby Distribution Products Factory and the full utilization of the recent expansion at Richmond, British Columbia. Headquarters' staff occupied a new Corporate centre in Toronto in early January 1981.

Not all the improvements in the Corporation have been the result of additional bricks and mortar. New tape controlled equipment has been installed in many of the Plants making possible a greater standardization of product, a more efficient use of labour and a higher quality of end product. This coupled with computer installations at Bramalea and Richmond all integrated with the central computer at Waterman Avenue, Toronto has assisted in raising the quality of the operation.

More than ever, your Corporation now stands well positioned to take advantage of the assured growth in the electrical sector of the energy industry. The Government sponsored programme to increase the use of alternative energy sources will benefit your Corporation. The current backlog of unfilled orders is at record level.

The Corporation's competitive position is confirmed by the ever increasing amount of export orders. During the year important installations were completed in the Mid-West States of the United States and in 1981 shipments will be made to Kenya to the value of more than $6 million. The British subsidiary has secured significant orders in the Middle East, Africa and other overseas markets.

In our report last year it was stated that the British subsidiary had been experiencing difficulties and that it would take approximately a year to rectify the problems existing in that area. Your Directors are pleased to report that to a great extent this has been accomplished and has prompted a further investment in the subsidiary to provide labour efficient and highly automated apparatus for its production processes.

Domestically, important work was undertaken from coast-to-coast. In British Columbia the entire electrical distribution system was provided by your Corporation for the new graving dock at Esquimalt. Elsewhere significant installations for the leading pulp and paper companies across the country were completed. Other projects included hospitals in the Maritimes, a health science building in Ottawa, and switchgear and transformers for the LG III project of the James Bay development. Provided also was the electrical distribution for impressive office buildings in Vancouver, Calgary and Montreal, as well as industrial installations at Trail and in the Maritimes.

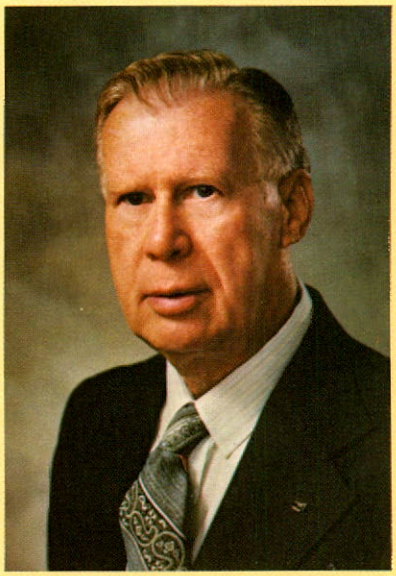
Reference is made elsewhere to the celebration of the manufacture of the 50 millionth Stab-lok Circuit Breaker. This is indeed an impressive record, given consideration to the fact that this represents more than two circuit breakers for every living Canadian.

At the Annual Meeting in April, new Directors were elected in the persons of W. D. H. Gardiner, Emory G. Orahood, Pauline Ouimet and Venceslas Sirois. Already the contribution of these people is apparent. Mr. Roger Garon, Mr. E. Jacobson, Mr. Richard Noonan and Mr. J. S. Vanderploeg, did not stand for re-election and their prior contribution is acknowledged and appreciated by the current Board.

The quality of the results attained this year are a direct result of the input of our dedicated employees. Facilities and materials are similar in most Corporations but it is the people who make the great difference. Your Board recognizes the superb contribution from its employees at all levels and expresses its sincere appreciation for their support.

Submitted on behalf of
the Board of Directors

B. W. Ball
President and Chief Executive Officer
February 20, 1981



Mr. Richard Noonan retired as Chairman of the Corporation at the last Annual Meeting and as an executive of our associate company, Federal Pacific Electric, later in the year.

Mr. Noonan was one of the founders of Pioneer Electric Ltd., of Winnipeg in the late 1940's. He has served that Company, and the succeeding Companies with distinction over a period of thirty-three years.

The Corporation expresses its gratitude to Mr. Noonan for his very considerable contribution to its success.

Stab-lok®

The year 1980 marked another important milestone in the exciting history of Stab-lok production and sales in Canada. Stab-lok is Federal Pioneer's tradename for a simple, dependable circuit breaker. This device was introduced to the Canadian market in 1952 as an inexpensive, reliable substitute for the common plug-fuse panel which in those days was most frequently used in residential and commercial electrical services.

Home owners and other users quickly learned the convenience and safety provided by this new circuit protective system and each year since its introduction Stab-lok sales have grown.

Its operation is very simple. The circuit breaker is an automatic device that takes the place of a fuse in the panel, reacting quickly to interrupt the current in the event of a short circuit or an overload. When that happens, the breaker opens and the handle moves to the off position. There is no need to fumble in the dark for a fuse; just locate the breaker that has tripped, disconnect the cause of the "short" or overload, and turn the breaker back on just like a light switch. There is no chance of touching live wires or putting in the wrong size fuse and no need to buy replacement fuses as the Stab-lok breaker provides permanent, automatic protection.

A few years ago Federal Pioneer celebrated the Silver Anniversary of this product with a very successful Canada wide Sales Contest. That event was surpassed in 1980 when the Company produced the fifty millionth Stab-lok pole manufactured in Canada. This is truly a significant achievement in an industry characterized by rapid technological change.

Convenient Stab-lok circuit breakers installed in a modern home.

The Stab-lok Circuit Breaker System has always been a leader in product development and each year has been marked with the introduction of new products to meet the needs of the Canadian market.

One key phrase has always dominated these development programs, "progress without obsolescence". Thus in 1980, when the Company celebrated the manufacture of the 50 millionth Stab-lok pole, it was able to say that the breakers manufactured today can be installed in the load centres that were manufactured 28 years ago, and similarly, the load centres that are built today will accept the circuit breakers that were manufactured in those early days.

There have been many milestones to mark this progress. Some of the more important ones are worthy of a comment.

1953—The basic NA single pole Stab-lok breaker was manufactured in Canada in July.

1954—January marked the introduction of the now-famous single pole NC breaker, which is half the width of the NA, and permitted load centres to virtually double their branch circuit capacity at no increase in cost or space.

1958—In recognition that residential electrical services should be at least 100 Ampere capacity, the NA two pole 100 Ampere breaker was incorporated into the Stab-lok line.

1965—Only seven years later, service capacity again needed to be increased and the two pole 200 Ampere breaker was introduced to the Canadian market.

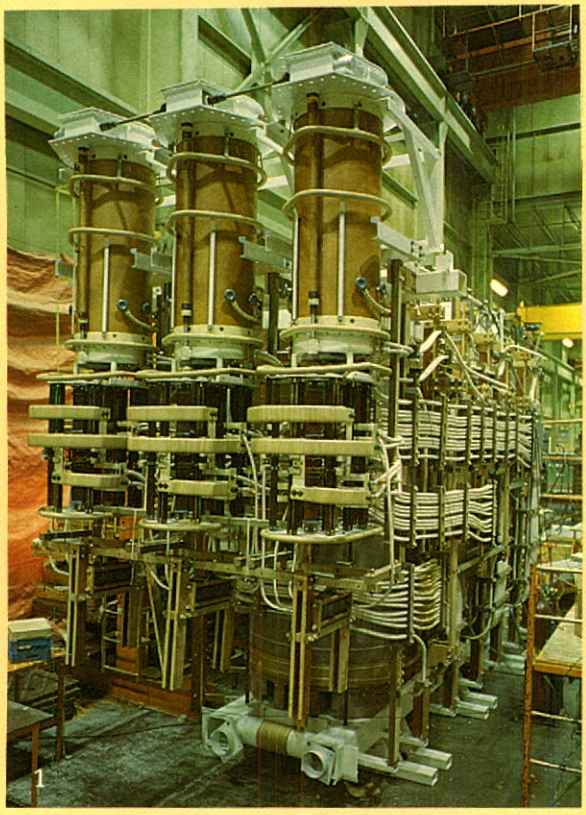
1973—As electric heating became more popular, additional ratings of two pole breakers were included in the product range—a 125 Ampere rating for electric furnaces in 1973 and

1976—a 150 Ampere rating in 1976.

1977—In recent years the hazards of ground fault leakage have been recognized and the Canadian Electrical Code revised to ensure that protection was provided where this hazard was most likely to occur. To meet this need, the Stab-lok Ground Fault Interrupter (GFI) was introduced. Once again the Company lived up to its promise of "progress without obsolescence"—the GFI breaker can be mounted in even the earliest production of Stab-lok load centres.

Stab-lok circuit breakers are also commonly used in commercial and industrial applications.

Product Highlights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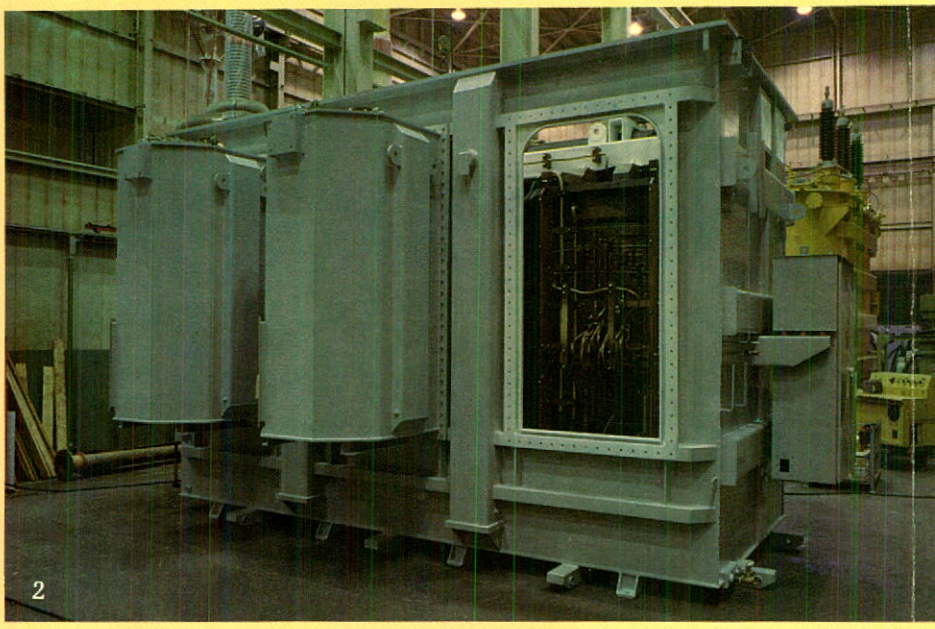
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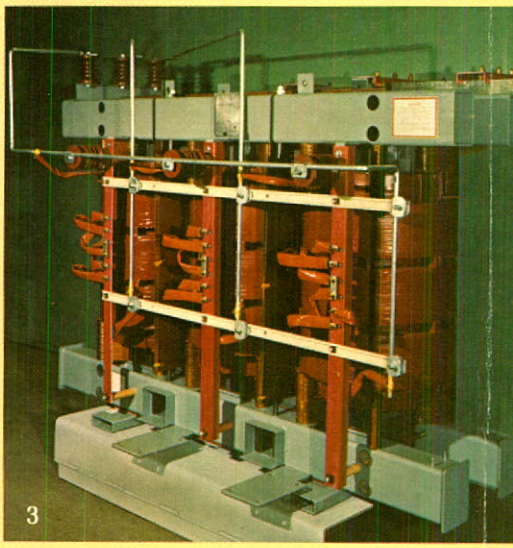
Reliability and ease of maintainability have always been important factors in the design and manufacture of major electrical equipment. These features are not only essential to good technical practice but also good business, for if they are not pursued, company growth cannot be guaranteed. Federal Pioneer's audited and accepted top level of Quality Assurance for its Apparatus Division is a committed undertaking to ensure that reliability exists in our equipment. Design for maintainability must involve considerable customer liaison as a service function and to this end, the composition of the organization, and its wide spectrum of involvements, provides a solid base for achieving customer awareness.

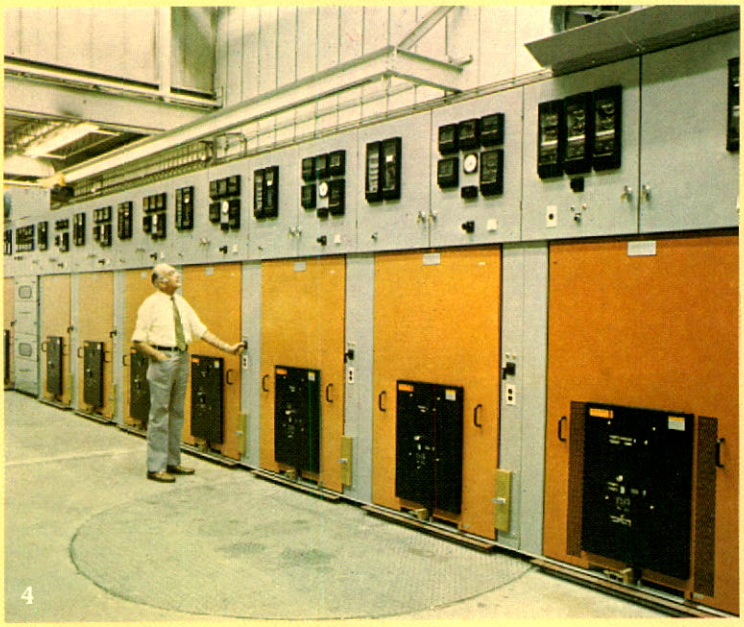
During the past year your Corporation has worked closely with customers, at all levels, by presenting technical seminars, training courses and through individual discussion. Our technical seminars, coast to coast, have attracted daily audiences of over two hundred engineers, consultants and utility representatives and the reception has been extremely positive. As one of the largest manufacturers of transformers in Canada it is incumbent upon us to evince our professional expertise in this manner by demonstrating our product design and manufacturing skills and to assist the user in this highly technical field.

Transformer technology improvement requires a careful blend of theory and practice. The equipment is static in use leading the uninitiated to think it is simple in theory. However, if a thorough knowledge of electrostatics, electromagnetism, hydraulics and other esoteric phenomena is not appreciated, then serious and dangerous happenings can result. The successful blend of theory and practice is typified in photograph—No. 1. This illustrates a 150MVA autotransformer 230kV to 115kV wye connected—with a 13.8kV delta tertiary winding built for Manitoba Hydro. It has three on-load tap changers fitted in the low voltage line for low voltage variation. This is not an unusual unit but one exemplifying our product. Notice the careful arrangement


3

of the insulation; especially the tap changer leads. Extreme care is taken in this part of the design in order to achieve the reliability so keenly sought after by ourselves and our customers.

Outside influences can often determine transformer design and typical of this is special shipping needs. Of necessity transformers are bulky and



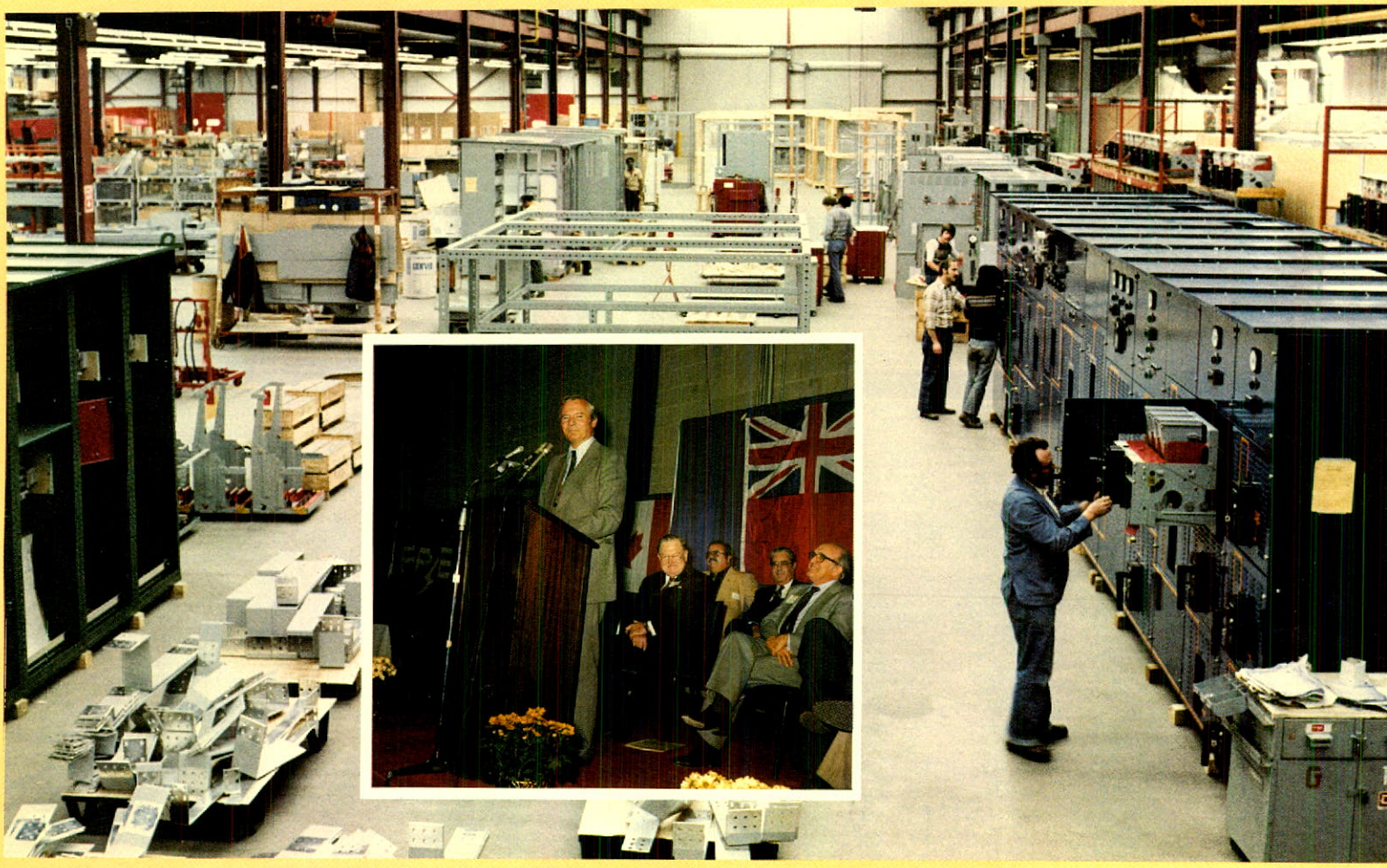
large in order to meet the required design criteria. Often, they have to be placed in remote and sometimes almost inaccessible places. Rail or road shipment is known ahead of time and restrictions of the chosen method have to be considered. To meet a particularly difficult rail shipment through the Fraser Canyon in British Columbia it was necessary to make a special design including the tank, so that major pieces of equipment could be removed for shipment and then reassembled at site. Photograph—No. 2. shows the tank with its core and windings partially stripped down prior to protective covers being placed in position ready for this difficult shipment. The transformer is a 90 MVA autotransformer for B.C. Hydro. It is a 230kV wye-138kV wye-12.6kV delta wound unit. It has load tap changers giving ±12½% rated voltage through 21 positions, placed in the series winding for high voltage variation.

At the lower end of the transformer range there has been considerable improvement; dry type transformers in particular. It is necessary to impregnate the windings of these transformers so that they do not absorb moisture and are protected from other environmental nuisances. Our range of dry type transformers has been extended by vacuum coating the windings with an epoxy covering. The vacuum treatment is applied so that voids which could cause insulation discharges, are not present.

Some manufacturers cast (or pot) the complete coil in epoxy material. This method is restricted by moulds. The method we use allows complete flexibility of design and yet assures more than adequate voidless and electrically sound covering to the winding. Photograph No. 3. shows such a transformer after treatment.

The Apparatus Division of your corporation includes the high voltage metalclad switchgear ranges. We have been particularly proud of our achievements in this area during the past year. Against keen international competition we secured, built and installed the SF6 circuit breaker metalclad board shown in Photograph No. 4. The customer was the City of Seattle in the State of Washington. This assembly has 5-2000 amp SF6 circuit breakers rated 3000 amps with cooling; 18 feeder cells with 1200 amp SF6 circuit breakers; 3 tie cells—all with 1500MVA short circuit capacity. The voltage class is a rated 34.5kV 150kV BIL, although the customer has chosen to operate the equipment at 27kV. Photograph No. 5. shows the back of the unit during assembly which illustrates the wide use of epoxy moulded components and the 100% co-ordinated insulation used to ensure complete safety for the operator. When fully assembled, all the connections and other exposed areas are covered with insulation, protecting against possible arcing faults. Note the compactness of the components where, for instance, there is a combination of current transformers and busbars. This design is the most advanced of its kind and something that we take pleasure in presenting.

Plant Expansions



Expanded assembly area in Bramalea plant. Inset—Premier William Davis officiates at plant opening ceremonies.

During 1980 the Corporation proceeded with major expansions and equipment modernization programs in a number of its plants and some of these are highlighted below.

The expansion of the Bramalea, Ontario Engineered Products plant was completed in the early summer of 1980. This addition doubled the area of the plant which now is 168,000 square feet (15,600 square meters). The factory has been equipped with a number of numerically controlled manufacturing machines for shearing, punching and forming sheet metal components, and also for the automatic production of machined parts. The expanded facilities were officially opened on November 13, 1980 by the Hon. William G. Davis, Premier of Ontario. Honoured guests included representatives of the town of Brampton, the region of Peel, and several hundred industry leaders from electrical utilities, wholesalers, contractors, consulting engineers and the financial community.

In May 1980 work was commenced on a major addition to the Waterman Avenue plant in Toronto, Ontario. The expansion, which is now fully occupied, consisted of approximately 72,000 square feet (6,700 square meters) of manufacturing and office space. This plant produces the Stablok circuit breaker system, electric baseboard heaters, safety switches and electronic protective relays. The

manufacturing capability of the Company in each of these product groups has been increased and in addition, new Head Office accommodation has been provided. As part of this expansion a 700 ton punch press has been installed to increase the efficiency of sheet metal fabrication and additional automatic plastic moulding presses have been provided. The metal finishing system in the plant was revised to provide the latest epoxy powder technology. This new equipment automatically finishes the steel enclosures used for Stab-lok panelboards, heavy duty safety switches, electrical heating devices and other products.

A fully computerized manufacturing system was installed in the Waterman Avenue plant in 1979, and based on the success of this system, similar systems were installed in the Bramalea, Ontario and Richmond, British Columbia plants in 1980. We believe these to be the most advanced computer systems available today for these applications. They include an on-line inter-active system which enables members of the staff to monitor hundreds of plant activities via television screens throughout the plant. They will greatly assist the Company to enhance its efficiency and productivity and thereby provide its customers with improved service.

The upgrading of the High Voltage Test Bay at the Large Power Transformer Plant in Winnipeg continued through 1980 and will be completed in 1981. This project includes the erection of an equipment bay and control room and the installation of an advanced digital loss measuring system. Impulse testing facilities have been upgraded with new oscillographs and a replacement multi-stage chopping device. In 1981 there will be improvements to the access into the test bay, strengthening of the assembly department floor to take loads of up to 500 tons, and the installation of an equipment crane. This expansion will enable the plant to manufacture and test large transformer 500 KV 3 phase including Extra High Voltage converter transformers.

Enlarged electronic assembly area in Waterman plant.
Inset—Careful mounting of components on printed circuit boards.

Consolidated Statement of Income and Retained Earnings

	Fourteen months ended December 31 1980	Ten months ended October 31 1979
Net sales	**$175,441,519**	$ 99,542,992
Income before the undernoted items	**$ 21,220,773**	$ 6,022,099
Add: Interest income	**1,652,756**	1,019,392
	22,873,529	7,041,491
Deduct:		
Depreciation	**2,905,132**	1,570,244
Interest on long-term debt	**601,479**	430,677
Other interest	**209,977**	166,901
	3,716,588	2,167,822
Income before income taxes and extraordinary item	**19,156,941**	4,873,669
Income taxes:		
Current	**7,120,782**	2,194,603
Deferred	**471,992**	(1,007,293)
	7,592,774	1,187,310
Income before extraordinary item	**11,564,167**	3,686,359
Extraordinary item less related income taxes (Note 13)	**692,000**	–
Net income for the period	**10,872,167**	3,686,359
Retained earnings at beginning of period	**53,079,903**	50,205,068
	63,952,070	53,891,427
Deduct:		
Dividends declared–		
On First Preference shares, Series A (1979–$1.37½ per share)	**–**	319
On Class A shares–$1.24 per share (1979–66¢)	**1,524,082**	811,205
	1,524,082	811,524
Retained earnings at end of period	**$ 62,427,988**	$ 53,079,903
Earnings before extraordinary item per common share	**$9.41**	$3.00
Earnings after extraordinary item per common share	**$8.85**	$3.00

Auditors' Report

To the Shareholders of
Federal Pioneer Limited:

We have examined the consolidated balance sheet of Federal Pioneer Limited as at December 31, 1980 and the consolidated statements of income and retained earnings and changes in financial position for the fourteen month period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

PRICE WATERHOUSE & CO. Toronto
Chartered Accountants January 30, 1981

FEDERAL PIONEER LIMITED
and subsidiary companies

Consolidated Balance Sheet

ASSETS	December 31 1980	October 31 1979
Current assets:		
Cash	**$ 44,079**	$ 237,851
Short-term deposits	**18,500,000**	8,500,000
Accounts receivable (Note 14)	**22,408,914**	22,098,604
Inventories (Note 4)	**44,209,940**	36,445,545
Prepaid expenses, tender and other deposits	**826,082**	963,031
	85,989,015	68,245,031
Fixed assets (Note 5)	**17,328,988**	12,201,365
Goodwill (Note 3)	**1,585,828**	1,585,828
	$104,903,831	$82,032,224
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 6)	**$ 3,285,004**	$ 944,285
Accounts payable and accrued liabilities (Note 14)	**18,093,545**	13,605,551
Income and other taxes payable	**7,164,637**	814,791
Dividend payable	**368,730**	–
	28,911,916	15,364,627
Long-term debt (Note 7)	**4,342,207**	4,702,966
Deferred income taxes	**2,126,188**	1,789,196
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	**7,095,532**	7,095,532
Retained earnings	**62,427,988**	53,079,903
	69,523,520	60,175,435
	$104,903,831	$82,032,224

Contingent liability (Note 13)

APPROVED BY THE BOARD:

B. W. BALL, Director J. B. CLEMENTS, Director

Consolidated Statement of Changes in Financial Position

	Fourteen months ended December 31 1980	Ten months ended October 31 1979
Source of working capital:		
Net income for the period before extraordinary item	**$11,564,167**	$ 3,686,359
Items not requiring working capital–		
Depreciation	**2,905,132**	1,570,244
Deferred income taxes	**471,992**	(1,007,293)
Working capital provided from operations	**14,941,291**	4,249,310
Disposals of fixed assets	**50,530**	57,549
	14,991,821	4,306,859
Use of working capital:		
Fixed asset additions	**8,083,285**	3,031,063
Dividends	**1,524,082**	811,524
Reduction in long-term debt	**360,759**	319,431
Extraordinary item excluding related deferred income taxes (Note 13)	**827,000**	–
Other	**–**	30,732
	10,795,126	4,192,750
Increase in working capital	**4,196,695**	114,109
Working capital at beginning of period	**52,880,404**	52,766,295
Working capital at end of period	**$57,077,099**	$52,880,404
Working capital is represented by:		
Current assets	**$85,989,015**	$68,245,031
Less: Current liabilities	**28,911,916**	15,364,627
	$57,077,099	$52,880,404

Notes to Consolidated Financial Statements – December 31 1980

1. Nature of business:

The Corporation, which has been continued under the Canada Business Corporations Act, together with its subsidiaries, is engaged in the manufacture and sale of equipment used in the control and distribution of electrical energy.

2. Fiscal year end:

As a result of a change in the control of the parent company of the Corporation the fiscal year end of the Corporation has been changed from October 31 to December 31.

3. Significant accounting policies:

Basis of consolidation–

The consolidated financial statements include the financial statements of Federal Pioneer Limited and its three subsidiary companies. The fiscal year of the foreign subsidiary which previously ended on September 30 has been changed to end on December 31 to coincide with that of the parent company. Net sales, net earnings and net assets of the foreign subsidiary are less than 10 per cent of the totals for the group.

Translation of foreign currency–

Foreign currencies have been translated into Canadian dollars as noted below:

Current monetary assets and liabilities and long-term debt–at the exchange rates prevailing on the balance sheet date.

Fixed assets, inventories, prepaid expenses, retained earnings and depreciation expense–at the appropriate historical exchange rates.

Revenue and expenses–at the approximate rate of exchange at the time of the transaction.

Revenue and expenses (other than depreciation) of the foreign subsidiary–at the average exchange rate for its fiscal year.

Unrealized gains or losses arising from the translation of long-term debt are deferred and amortized over the remaining life of the debt. Other exchange gains and losses are included in income.

Inventories–

Raw material inventories are valued at the lower of cost and replacement cost while work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined generally by the first-in, first-out (FIFO) method but with certain inventories being valued on an 'average' basis.

Fixed assets–

Fixed assets are stated at cost. Expenditures on major replacements, extensions and improvements are capitalized. Cost of maintenance, repairs and renewals or replacements other than those of a major nature are charged to expense as incurred. The Corporation and its subsidiaries provide for depreciation generally using the diminishing balance method applying rates which will reduce the original cost to the estimated residual value over the useful lives of the assets. The annual rates used are 5%-10% for buildings and 20% for machinery and equipment. Moulds, jigs and dies are fully depreciated in the year of acquisition.

Goodwill–

Goodwill, which represents the excess of cost of shares of subsidiaries over net book value at dates of acquisition, is not being amortized as no impairment in value is considered to have taken place.

Income taxes–

Income taxes are accounted for on the tax allocation basis. The major portion of accumulated deferred income taxes arises from differences between the amounts of depreciation claimed for income tax purposes and those recorded in the financial statements.

4. Inventories:

	December 31 1980	October 31 1979
Raw material and work in process	$40,251,587	$34,506,653
Finished goods	6,015,489	4,369,113
	46,267,076	38,875,766
Less: Progress payments	(2,057,136)	(2,430,221)
	$44,209,940	$36,445,545

5. Fixed assets:

	December 31 1980	October 31 1979
Cost–		
Land	$ 466,643	$ 466,643
Buildings	14,450,842	9,543,726
Machinery and equipment	20,066,283	17,568,465
	34,983,768	27,578,834
Accumulated depreciation–		
Buildings	4,434,512	3,824,856
Machinery and equipment	13,220,268	11,552,613
	17,654,780	15,377,469
Net book value–		
Land	466,643	466,643
Buildings	10,016,330	5,718,870
Machinery and equipment	6,846,015	6,015,852
	$17,328,988	$12,201,365

6. Bank indebtedness:

Bank indebtedness of the foreign subsidiary amounting to $3,678,960 (1979–$2,040,000) is secured by a floating charge on all of its assets. Of this sum $980,197 (1979–$1,096,000) is payable after one year and is included as a long-term debt.

7. Long-term debt:

	December 31 1980	October 31 1979
6¾% secured sinking fund debentures, Series A, maturing April 15, 1987, with annual sinking fund payments of $191,000 in 1981 and thereafter gradually increasing to $267,000 in 1986. The balance of $1,505,000 is payable at maturity	$2,869,000	$3,047,000
10% mortgage loan repayable in monthly instalments maturing in 1990	505,917	523,387
6¾% mortgage loan repayable in monthly instalments maturing in 1989	204,120	222,959
8¾% chattel mortgage loan of a subsidiary repayable in monthly instalments maturing in 1982	20,733	34,309
Bank loan of the foreign subsidiary of £428,572 (1979– £514,286) repayable in equal half-yearly instalments by 1985 with interest at 1¾% above the base rate secured by a floating charge on all of its assets	1,225,240	1,314,926
	4,825,010	5,142,581
Amount payable within one year included in current liabilities	482,803	439,615
Amount payable after one year	$4,342,207	$4,702,966

The aggregate amount of long-term debt required to be repaid in each of the next five years is:

1981	$ 482,803
1982	493,904
1983	503,091
1984	522,524
1985	542,264
	$2,544,586

The 6¼% secured sinking fund debentures, Series A, are secured by a Deed of Trust and Mortgage which, inter alia, provides for dividend restrictions under certain conditions. The financial position of the Corporation is such that these restrictions are not applicable at this time.

8. Share capital:

The Articles of the Corporation were amended effective December 31, 1980 (i) to change the designation of both the issued and unissued Class A shares without nominal or par value and Class B shares without nominal or par value to shares without nominal or par value to be known as "common shares" and (ii) to remove 200,000 First Preference shares, including the 80,000 shares designated as 5½% Cumulative Convertible First Preference shares, Series A, as shares that the Corporation is authorized to issue—so that, thereafter, the Corporation is authorized to issue an unlimited number of common shares without nominal or par value. At December 31, 1980, therefore, there were issued and outstanding 1,229,099 common shares without nominal or par value with a stated value of $7,095,532, which amounts remained unchanged during the fourteen month period then ended.

9. Research and development costs:

Research and development costs incurred during the period and charged to expense amounted to $931,000 (1979—$830,000). No costs qualified for deferral.

10. Long-term leases:

The Corporation and its subsidiaries are lessees under leases for plants, warehouses and sales offices in Canada and Great Britain. All of these leases are treated as operating leases with the rents charged to operations in the period to which they relate. No leases have been entered into since January 1, 1979 which meet the definitions of a capital lease.

The longest term of any lease expires in 2002. The aggregate rentals payable for the unexpired terms of these leases are as under:

1981	$ 490,000
1982	467,000
1983	454,000
1984	436,000
1985	418,000
Thereafter	3,551,000
	$5,816,000

11. Unfunded pension costs:

Current service costs of the Corporation's various pension plans are funded and charged to operations as they accrue. Based upon estimates by independent actuaries, unfunded past service pension costs at December 31, 1980 amounted to $2,768,000 (1979—$492,000) of which approximately $273,000 (1979—$326,000) related to vested past service benefits. The increase in the amount of unfunded liability arose from improvements in the benefit levels of various plans during the period. Annual payments of $279,000 (1979—$44,000) charged to operations are designed to fund this total unfunded liability, including interest, by 2001.

12. Capital commitments:

The Corporation and its subsidiaries have entered into capital commitments as at December 31, 1980 for expenditures on buildings and machinery amounting to $713,000 (1979—$2,900,000).

13. Contingent liability:

In 1976 an accidental spill of transformer oil containing polychlorinated biphenyls occurred at the Corporation's Regina plant. The Corporation, in co-operation with environmental authorities, has taken steps to contain the spill and has carefully monitored the effects thereof. Following a study by the National Research Council concluded in early 1980 it was decided that further protective action should be undertaken. This work was commenced in the fall of 1980 and will be completed during 1981. A provision to cover the estimated cost of this remedial action has been charged against operations and is shown as an extraordinary item in the statement of income and retained earnings. This provision is after deducting income taxes of $558,000 of which $135,000 is deferred. At this time the need for, or nature of, any further action or costs which might be required in the longer term cannot be determined.

14. Related party transactions:

The parent company, Federal Pacific Electric Company of Newark, New Jersey, U.S.A. is the registered holder of 59.3% of the issued and outstanding common shares of the Corporation. Under the terms of a licence the Corporation pays a royalty to the parent for the use of patents, trademarks and the supply of technical knowhow. The royalty is based upon a percentage of the sales value of specified products and during the fourteen months ended December 31, 1980 amounted to $680,000. In addition, the Corporation supplies products to the parent and purchases components from it. The value of such purchases and sales is less than 10% of the aggregate. Accounts receivable at December 31, 1980 includes $51,186. (1979—$105,607) due from affiliated companies. Accounts payable and accrued liabilities at December 31, 1980 includes $876,753 (1979—$589,794) due to affiliated companies.

Five year summary

	Year ended December 31				
	***1980**	*1979	1978	1977	1976
Net sales	**$153,102,225**	$121,882,286	$112,617,341	$112,195,355	$106,928,849
Income before income taxes, minority interests and extraordinary item	**17,296,526**	6,724,533	11,566,812	13,160,007	14,367,567
Income taxes	**6,939,374**	1,840,710	4,567,089	5,137,699	6,151,362
Income before extraordinary item	**10,357,152**	4,893,374	7,027,738	8,008,353	8,204,332
Net income for the year	**9,665,152**	4,893,374	7,027,738	8,008,353	8,204,332
Net income before extraordinary item per sales dollar (cents)	**6.8**	4.0	6.2	7.1	7.7
Earnings per common share before extraordinary item:					
Undiluted	**8.43**	3.98	5.76	7.01	7.24
Fully diluted	**8.43**	3.98	5.71	6.51	6.67
Dividends declared:					
First Preference shares	**–**	319	4,803	58,533	73,379
Class A shares	**1,253,680**	1,081,607	1,056,469	781,208	719,347
Class B shares	**–**	–	19,807	57,019	195,797
Total	**1,253,680**	1,081,926	1,081,079	896,760	988,523
Dividends per share:					
First Preference shares	**–**	1.37½	2.75	2.75	2.75
Class A shares	**1.02**	0.88	0.88	0.73	0.73
Class B shares	**–**	–	0.88	0.73	1.234
Property, plant and equipment–at cost	**34,983,768**	28,414,444	24,771,098	22,976,998	21,470,700
–net	**17,328,988**	12,689,560	10,798,095	10,425,166	10,560,684
Purchases of property, plant and equipment during the year	**7,221,901**	3,892,447	1,997,131	1,530,309	1,570,420
Depreciation provided for the year	**2,535,128**	1,940,248	1,602,388	1,659,568	1,971,750
Working capital at end of year	**57,077,099**	53,404,916	52,775,795	45,699,598	38,287,867
Long-term debt at end of year	**4,342,207**	4,703,039	5,022,397	4,027,461	4,219,972
Shareholders' equity at end of year	**69,523,520**	61,112,048	57,312,200	51,365,541	44,253,948
Number of shares outstanding at end of year:					
First Preference shares	**–**	–	904	9,434	26,207
Common shares (Class A prior to December 31 1980)	**1,229,099**	1,229,099	1,203,903	1,114,183	991,491
Class B shares	**–**	–	22,508	78,108	133,708
Equity per common share at end of year after allowing for conversion of any outstanding First Preference shares	**56.56**	49.72	46.59	41.76	35.98

*Figures for the year 1979 consist of the ten months ended October 31 1979 as audited, plus two months ended December 31 1979 unaudited. Balance Sheet amounts are as at December 31 1979 and are unaudited. Figures for the year 1980 consist of the fourteen months ended December 31 1980 as audited, less two months ended December 31 1979 unaudited. Balance Sheet amounts are as at December 31 1980 and are audited.

Directors

*BENJAMIN W. BALL, *Toronto*
President and Chief Executive Officer of the Corporation

*JOHN B. CLEMENTS, Q.C., *Toronto*
Partner, Lash, Johnston (barristers and solicitors)

*W. DOUGLAS H. GARDINER, *Vancouver*
Financial Consultant

WILLIAM B. KORB, *South Bend, Indiana, U.S.A.*
Group Vice-President of Reliance Electric Company

EMORY G. ORAHOOD, JR., *Atlanta, Georgia, U.S.A.*
Executive Vice-President and Chief Operating Officer of Reliance Electric Company

*PAULINE OUIMET, *Montreal*
President of Les Chefs Volants Inc.

*VENCESLAS SIROIS
Consultant

*Members of the Audit Committee

Officers

BENJAMIN W. BALL, *Toronto*
President and Chief Executive Officer

A. GORDON DALEY, *Toronto*
Vice-President and General Manager—Distribution Division

BERNARD J. FERREIRA, *Toronto*
Vice-President Manufacturing—Distribution Division

EDWARD C. MARKWICK, *Toronto*
Vice-President Finance and Secretary

STANLEY M. ROBERTS, *Toronto*
Vice-President and General Manager—Distribution and Small Power Transformers

KENNETH J. THOMPSON, *Toronto*
Vice-President Marketing

CHARLES A. WRIGHT, *Toronto*
Comptroller and an Assistant Secretary

JAMES H. TAYLOR, *Winnipeg*
An Assistant Secretary

Registered Office:
19 Waterman Avenue
Toronto, Ontario, M4B 1Y2

Parent Company:
Federal Pacific Electric Company
Newark, New Jersey, U.S.A.

Subsidiary Companies:

	Percentage of voting securities owned
Federal Electric Limited Wolverhampton, England	100
Federal Pioneer Eastech Limited Truro, Nova Scotia	100
La Compagnie Electrique Pioneer du Québec, Inc. Granby, Quebec	100

Share Listing:
Common shares—The Toronto Stock Exchange—symbol FPE

Registrars and Transfer Agents:
Common shares—National Trust Company, Limited
Toronto, Montreal, Winnipeg and Vancouver

6¾% secured sinking fund debentures, Series A—
The Canada Trust Company
Toronto, Montreal, Winnipeg and Vancouver

Trustees for the Debenture Holders:
The Canada Trust Company, Toronto

Auditors:
Price Waterhouse & Co., Toronto

Bankers:
The Canadian Imperial Bank of Commerce, Toronto

●Sales Offices

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FEDERAL PIONEER

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