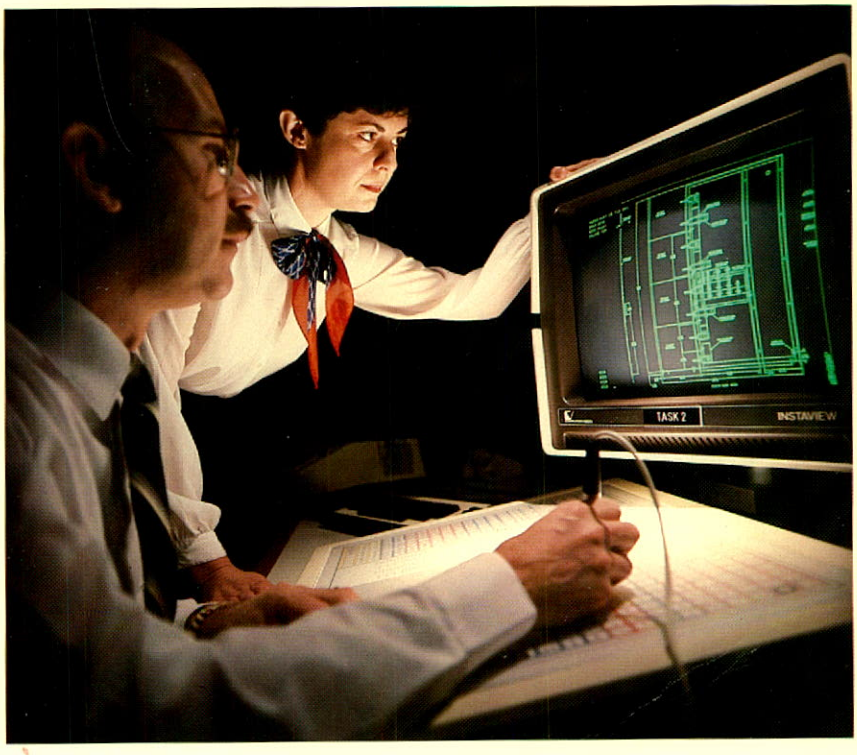
FEDERAL PIONEER

Federal Pioneer Limited

Annual Report 1984



Federal Pioneer Limited was first incorporated in Manitoba on January 15, 1946 and has since been continued under the Canada Business Corporations Act by Certificate of Continuance issued on January 27, 1978.

It is engaged in the manufacture and sale 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 heating equipment

12 manufacturing plants and 19 sales offices are located across Canada and a subsidiary company operates a manufacturing facility and sales office in England. In total the Corporation employs approximately 2,500 people.

Contents

The Annual Meeting of Shareholders

The annual meeting of shareholders of Federal Pioneer Limited will be held in the Niagara Room of L'Hôtel, 225 Front Street West, Toronto, Ontario, Canada on Thursday, the 25th day of April, 1985, at the hour of 11:00 o'clock in the forenoon (local time).

Cover

The cover photograph shows a CAD/CAM computer being used at the Bramalea plant to design switchgear. CAD/CAM is short for "Computer assisted design/Computer assisted manufacturing" and these modern and sophisticated computers are used at several of the Corporation's plants to help ensure optimum product design for quality, reliability and cost effectiveness.

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

†Shareholder Information

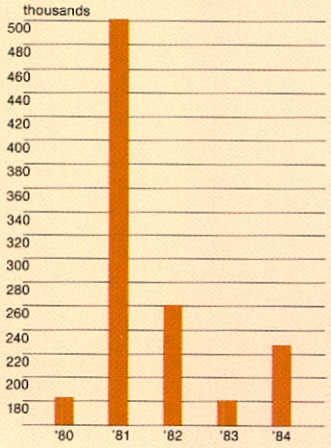
Shareholders as at December 31

	1984		1983	
	shareholders	shares held	shareholders	shares held
Residents of Canada	305	1,994,208	352	1,994,264
Residents of U.S.A.	8	*2,922,138	7	*2,922,128
Others	1	50	1	4
	314	4,916,396	360	4,916,396

*Includes 2,916,228 owned by the Parent Company, Federal Pacific Electric Company of Raleigh, N.C., U.S.A.

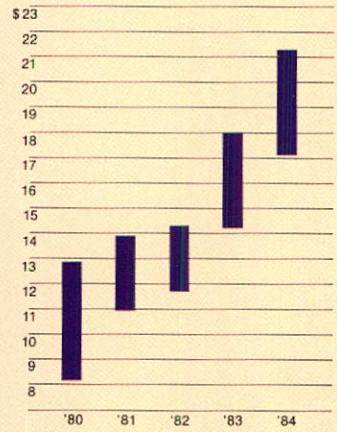
†Share Trading Summary

Number of shares traded



Year ended December 31

Share price range



Year ended December 31

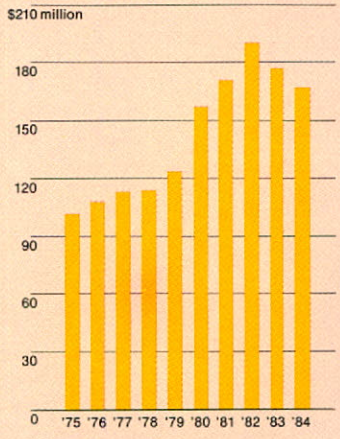
†All information relating to shares has been restated where applicable to reflect the four for one stock split made in May 1984.

FINANCIAL HIGHLIGHTS

Year ended December 31	**1984**	1983	Change %
Net sales	**$166,108,971**	$177,132,204	— 6.2
Income before income taxes	**9,086,185**	12,307,533	—26.2
Net income for the year	**6,358,864**	8,009,896	—20.6
Net income as a percentage of net sales	**3.8%**	4.5%	—15.6
Earnings per share	**1.29**	1.63*	—20.6
Dividends declared	**2,531,944**	2,458,198	+ 3.0
Purchases of property, plant and equipment	**3,436,076**	3,526,308	— 2.6
Depreciation and amortization provided for the year	**3,187,837**	3,326,804	— 4.2
Working capital at end of year	**76,589,728**	76,546,091	+ 0.1
Shareholders' equity at end of year	**96,606,967**	92,663,850	+ 4.3
Equity per share at end of year	**19.65**	18.85*	+ 4.3

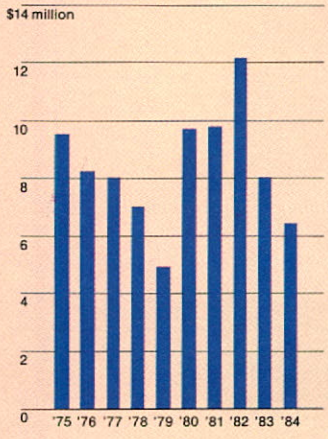
*Restated to reflect May 1984 stock split of four for one.

Net sales



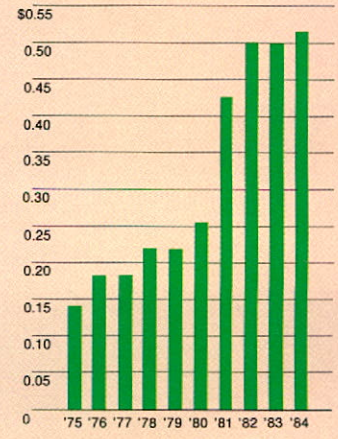
Year ended December 31

Net income



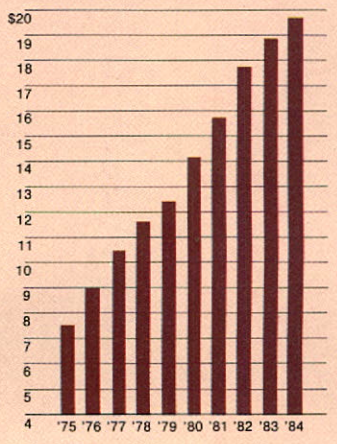
Year ended December 31

*Dividends per common share
Class A prior to December 31, 1980



Year ended December 31

*Equity per common share
Class A and B prior to December 31, 1980



As at December 31

*Restated to reflect May 1984 stock split of four for one.

REPORT TO THE SHAREHOLDERS

The year 1984 was one of contrasts for Federal Pioneer. The plants serving the residential and construction markets experienced growth fueled by increased activity in that segment. The reverse was true in plants serving the industrial and electrical utility markets, where two years of reduced capital spending adversely affected those segments. These factors combined to generate lower sales and earnings compared to the previous year. A modest reversal in the industrial market activity towards the end of 1984 coupled with continued strength in commercial and residential construction suggest that 1985 will be a more favourable year for the Corporation.

During 1984 Canadian electrical utilities sharply curtailed their purchases of large power transformers and world markets were similarly depressed. The demand for distribution transformers, however, has been steady but prices remained under considerable downward pressure as industry capacity continued to exceed the market requirements. New orders for the Corporation's engineered products that serve the industrial market have shown some increase towards the end of the year but this came too late to have very much effect on the 1984 production levels and the plants producing these products have been underutilized. Fortunately the commercial and residential construction market improved during the year and the output of the plants supplying this market rose to new records. Prices, while under some pressure, remained generally satisfactory and in aggregate this Group was able to increase its profit contribution from the previous year. Throughout the year there has remained in effect a rigorous expense control programme. After moderate salary increases and despite other cost increases—marketing, selling and general administrative expenses have shown only a slight increase from previous levels.

Additions to fixed assets in 1984 amounted to $3.4 million slightly exceeding the $3.1 million set aside for depreciation. Major additions included the purchase of one of the factory buildings occupied by the English subsidiary, the upgrading and expansion of computer and CAD/CAM installations in Canada together with the purchase of additional machinery and equipment.

There has been a continued emphasis on product research and development. A number of new and improved products have been introduced, the most notable of which is a range of medium voltage metal clad switchgear which embraces the latest technology in circuit breaker protection. Some others are mentioned elsewhere in this Report. It is believed that this ongoing programme will maintain the Corporation's pre-eminent position in its product offering and increase its product base. In addition there has been continued emphasis on quality assurance. Quality assurance procedures which are in place in all plants are regularly monitored by Quality Control Managers under the direction of a Vice-President. These quality assurance activities are aided by an active employee participation plan which is in place in several of the plants. This plan encourages employees at all levels of responsibility to make a direct contribution to product design and quality and it has resulted in further enhancement of product features and suitability as well as contributing to cost reductions.

During the year labour negotiations were successfully concluded for nine union contracts. In only one instance did these result in a strike which affected one of the Granby plants for a period of eleven weeks early in 1984. Management has sought to keep employees informed in respect to the Corporation's progress and the need for restraint during this difficult economic cycle.

Federal Pioneer's products have been used on many prestigious projects throughout Canada during the past year. A number of new hospitals in various Canadian cities including Halifax, Toronto, Mississauga, Winnipeg, Regina, Calgary and Edmonton purchased Federal Pioneer electrical systems. Other major contracts included commercial buildings, computer centres for leading Canadian banks, office towers and shopping centres in many locations together with expansion and modernization for such industries as pulp and paper, mining and oil refining. Export opportunities have been actively pursued with equipment being supplied to most parts of the world including Asia, Africa, the Middle East, South America, the Caribbean and the U.S.A. Customers being served in the international market are electric utilities, primary and secondary industries, as well as contracts for commercial and institutional buildings. The Corporation's ability to provide complete packages of equipment has enabled it to compete internationally without the benefit of Canadian Government financing, although on several projects, the co-operation of the Federal Government's Export Development Corporation and the Canadian International Development Agency has been beneficial.

The English subsidiary had a profitable year in 1984. Besides a substantial increase in sales to its domestic market it maintained a significant share of export opportunities in Middle Eastern and Pacific Rim countries. Also it has brought to the market some important new products. One example is a range of new panel mounted fusible switch devices which has been well accepted in both its domestic and export markets.

Market acceptance of Federal Pioneer's products continues to be excellent. During the year

there has been strong support from customers in all market segments including electrical distributors, contractors, specifying authorities, electrical utilities and industrial accounts. Regular market analysis conducted by the Corporation in conjunction with trade associations indicates that Federal Pioneer's market share has generally improved in 1984. Strategic planning sessions have been held by the Senior Officers at regular intervals in order to help ensure that plans are in place to permit prompt response to changing market conditions.

At the Annual and Special Meeting of Shareholders held in April 1984, the shareholders approved a four for one split of the common shares and this became effective on May 31st, 1984. Share certificates for the additional shares have been issued to all shareholders.

In July 1984, Mr. Emory G. Orahood Jr. submitted his resignation from the Board as a result of his retirement from business. Until his retirement, Mr. Orahood was Executive Vice-President and Chief Operating Officer of Reliance Electric Company of Cleveland, Ohio. He had served as a Director of Federal Pioneer Limited since 1980 and the Board expresses its appreciation for his advice and guidance. The vacancy created by Mr. Orahood's resignation was filled by the Board by the appointment of Mr. John C. Morley. Mr. Morley is President and Chief Executive Officer of Reliance Electric Company and is based in Cleveland, Ohio. The Directors welcome having available to them Mr. Morley's many years of business experience.

The Directors were saddened to learn of the death on December 12th of Anatole J. Goodwin. Mr. Goodwin had been semi-retired for a number of years but up until the time of his death took an active interest in the Corporation's affairs. Mr. Goodwin joined the organization in 1936 as part of the Cemco Electrical Manufacturing Company Limited in Vancouver, British Columbia. He was largely responsible for the design of the Corporation's low voltage power circuit breakers and ended his active business career as Chief Engineer. He was well known and highly respected throughout the electrical industry and will be missed by his many friends and colleagues.

It is believed that the year 1985 will mark a turning point in the current business cycle. The Corporation enters the year with an increased backlog of orders and there is a general impression that business investment will improve at a greater rate than that experienced in 1984. Federal Pioneer is well positioned to respond to any improved demand for its products. Modest growth is expected while strong growth remains a possibility particularly if interest and inflation rates remain at their current levels or are reduced still further.

Contributing to this view is the fact that the Corporation is served both domestically and overseas by a staff of dedicated and skilled employees. The Directors wish to acknowledge the contribution that these employees have made and express their sincere appreciation.

Left to right: John B. Clements, W. Douglas H. Gardiner, Venceslas Sirois, William B. Korb, A. Gordon Daley, Pauline Ouimet, John C. Morley.

Submitted on behalf of the Board of Directors

William B. Korb
Chairman of the Board

A. Gordon Daley
President and Chief Executive Officer

February 19, 1985

ELECTRICAL UTILITY MARKET

Electrical utilities in Canada should be considered in two broad categories. In terms of providing a potential market for Federal Pioneer products, the most significant are those utilities which are responsible for the generation of electricity. Such utilities also sell the energy to the retail customer. In addition, some of these generating utilities sell power at wholesale rates to local non-generating utilities which in turn distribute the energy to retail customers. These non-generating utilities are frequently called PUC's because they are known to their customers as the local Public Utility Commission. There is, therefore, a distinction to be made in respect to the available markets for Federal Pioneer products as they apply either to the generating activity of an electrical utility or to the distribution of that energy to the ultimate user.

Considering first the generating aspect of a typical utility, it is currently perceived that Canada has now and will continue to have for some years a surplus of generating capacity. Until this perception changes it is unlikely that there will be major developments announced by Canadian generating utilities. There are some exceptions to this statement and one such exception is the recent announcement by the Manitoba Hydro Commission to call tenders for the Limestone Station on the Nelson River. There are of course other developments in various stages of completion. One example is the Nipawin Generating Station for the Saskatchewan Power Corporation. This site is shown in the above photograph and Federal Pioneer is pleased to have been chosen as a major supplier for this hydro installation.

The second part of the utilities' function is to provide the distribution network that supplies the energy to the ultimate customer. The expansion and upgrading of this network has resulted in a great deal of activity on the part of most utilities during 1984. This has been reflected in an increased demand for distribution transformers and your Corporation has benefitted from this improvement.

PRODUCTS USED BY UTILITIES

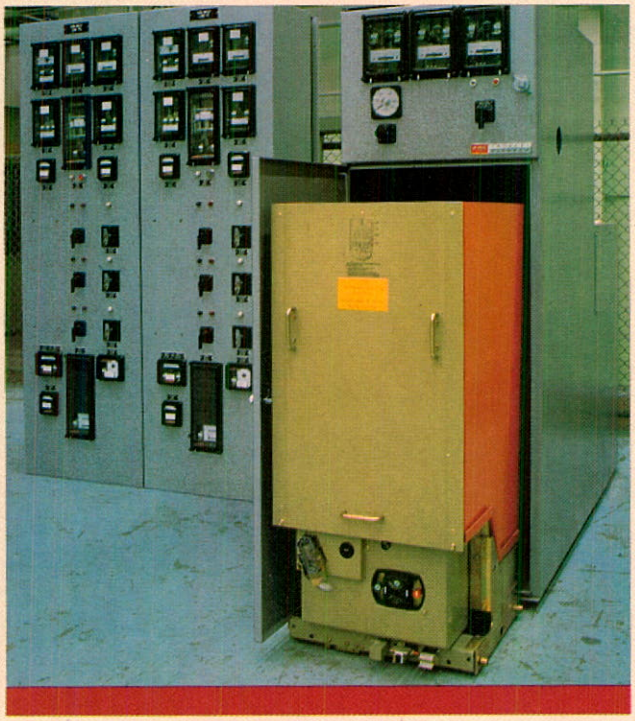
Electrical utilities provide a market for all of the products manufactured by the Corporation. For example, electrical heating equipment, safety switches, small circuit breakers, bus duct, panelboards and switchboards all have an application in their installations.

Nevertheless the major potential is their requirement for transformers and switchgear. The large and very large power transformers and medium voltage switchgear are used principally in generating stations and the associated transmission systems. As the development of these installations has slowed down so too has the demand for this type of product. While this segment has been experiencing a cyclical downturn, it is fortunate that the reverse is true for products such as pole mounted and pad mounted distribution transformers which are used in the distribution systems.

PLACES OF MANUFACTURE

Federal Pioneer has five plants across Canada devoted primarily to serving the electrical utility market. This enables these plants not only to serve their local market but also to provide a degree of product specialization. The Red Deer, Alberta plant produces liquid filled distribution transformers both pole mounted and pad mounted. The Regina, Saskatchewan plant produces similar distribution transformers and also small and medium power units both dry and liquid filled. The Winnipeg, Manitoba plant produces large and very large power transformers including

Medium voltage switchgear assembly with a circuit breaker partially withdrawn.



extra high voltage DC converter transformers. In addition, this plant produces medium voltage switchgear for utility applications. The Toronto, Ontario transformer plant manufactures small and medium power transformers both dry and liquid filled and in addition a range of dry type distribution transformers. The Granby, Quebec plant produces liquid filled distribution transformers and small and medium power transformers.

NEW AND IMPROVED PRODUCTS IN 1984

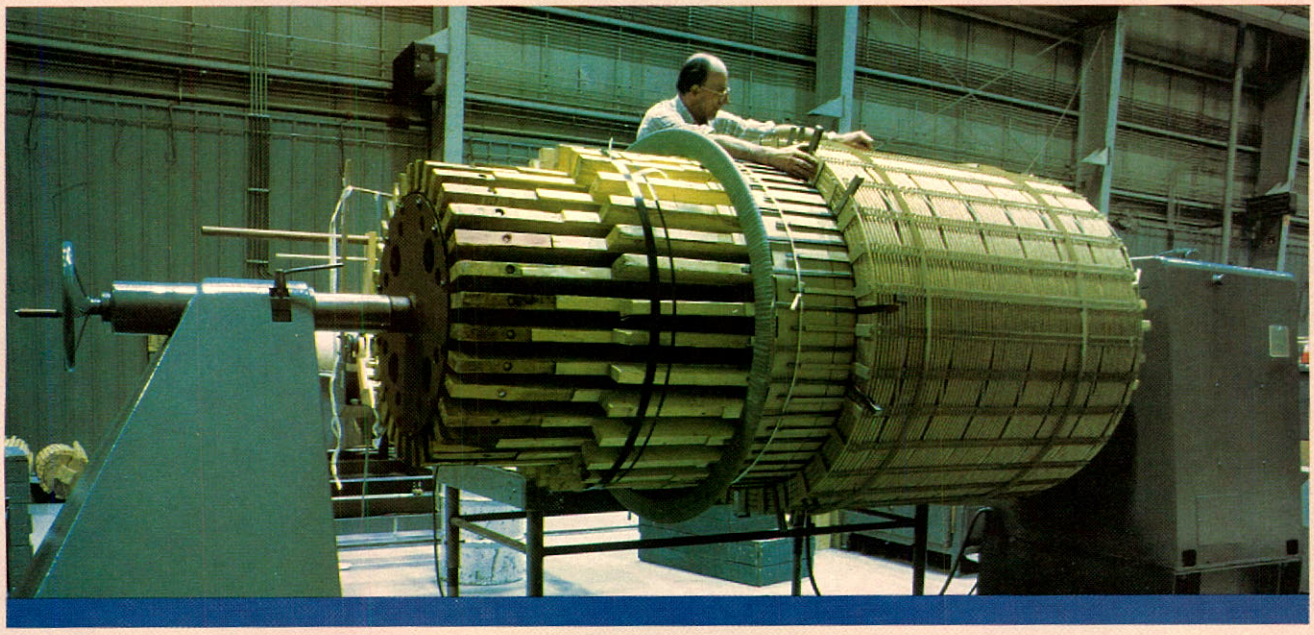
The major work of the Research and Development group for these products has been in two areas. The first was the design of a new range of medium voltage switchgear. The advantages achieved by this design include improved performance, reduced size and the ability to offer four different interrupting mediums to meet customer preferences. The second major project was the completion of the design of a range of step-voltage regulator transformers. This product automatically compensates for fluctuations in voltages due to changing load conditions. Both of these developments have now reached the production stage.

PRODUCTIVITY AND QUALITY ASSURANCE

There have been further advancements in both productivity and quality assurance. Computer programmes enable engineers to optimize economical use of materials consistent with design integrity and acceptable load losses. Further capital investment has been made to reduce production times and automate some steps in the manufacturing process. These improved processes have had the added advantage of strengthening the quality assurance endeavour and have reduced the likelihood of human error.

MAJOR 1984 PROJECTS

The Nipawin generating station being built on the Saskatchewan River provides an excellent example of the wide range of products that the Corporation produces to serve this market. Equipment supplied includes power transformers, station service switchgear both medium and low voltage, station service transformers, panelboards and bus duct. All of these products are designed specifically for the installation. In addition, such a project will use many standard products such as switches, circuit breaker load centres and electrical heating equipment. Other major projects included the final shipment of the 500KV DC converter transformers for Manitoba Hydro's Nelson River development and the 100 MVA generator transformers installed at British Columbia Hydro's Revelstoke generating site.



Winding of large power transformer coils requires heavy machinery and a highly skilled operator.

ABOUT THE FUTURE

The stronger growth in demand for electrical energy that has taken place in 1984 will probably change the forecasts for future growth. Most electrical utilities have met with success in the various programmes introduced to sell more power whether domestically or through exports. In Canada, load growth increased by 8.4% which exceeds earlier forecasts of 2 to 4% per year. Provinces which led this trend include New Brunswick, Quebec, Saskatchewan and Newfoundland which reported increases of 14%, 12%, 11% and 10% repectively over 1983. These trends will bring a modest improvement in the available market for the Corporation's products in the short term and are expected to result in more normal growth rates in the medium term.

INDUSTRIAL MARKET

Any summary of the market requirements for electrical equipment to serve industry must perforce be generalized. In 1984 many of Canada's resource based industries have been under-utilized. Examples of this are found in mining, metal refining and most forest products. At the other end of the spectrum there has been rapid growth in industries such as communications, transportation and automobile manufacturing. Examining such wide ranging growth patterns can lead to various conclusions but in summarizing the market potential the trend in Business Capital Expenditures provides a useful guide. The year over year percentage change is noteworthy. In 1981 the increase was 17.6%. In the next two years 1982 and 1983 the decrease was 3.6% and 3.0% respectively. It now is estimated that the increase for 1984 was approximately 2.0%. This means that in the past year these expenditures did not even return to their 1982 levels.

Observing this rapid shift in growth patterns within the industrial market, Federal Pioneer has changed emphasis both in its product offering and sales strategy. There has been a continuing trend towards greater sophistication and the use of electronics in electrical apparatus employed by all industrial organizations. This trend has been accelerated by the market shifts that have taken place as the rapid growth has occurred in those industries requiring electrical apparatus of the most modern design and technology.

PRODUCTS USED BY INDUSTRY

From its inception the Corporation has been dedicated to serving the industrial electrical equipment market. Therefore it is hardly surprising that almost all of its products have an application in that market. Some of these products are for general use in other markets and others are unique to industry requirements. The latter category includes low voltage switchgear with power air circuit breakers together with associated distribution equipment such as bus duct, power distribution panelboards and control equipment.

PLACES OF MANUFACTURE

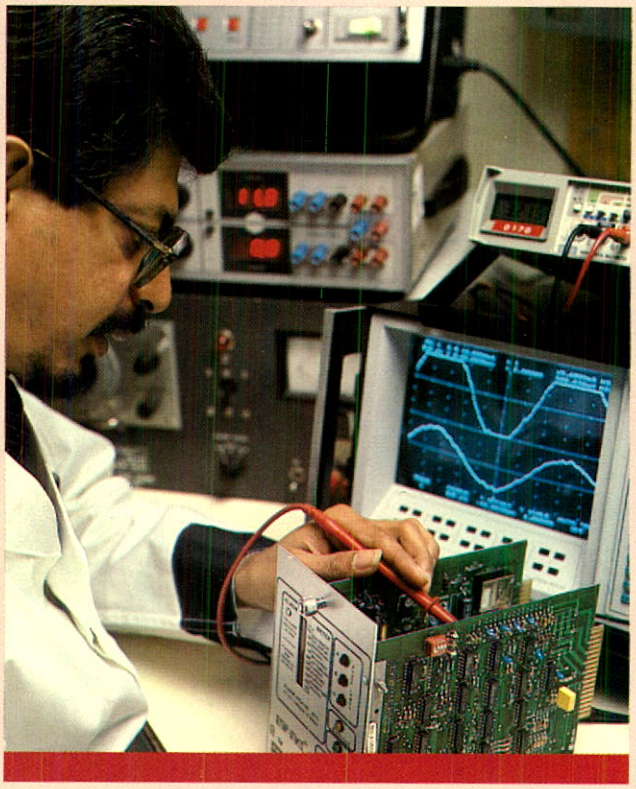
One of Federal Pioneer's strengths has been to position its manufacturing facilities close to the market place. In Canada there are four plants that have a specific mission to serve industrial accounts and the English Company provides a similar service in the United Kingdom.

These plants, in addition to serving their local market, have a degree of product specialization. The Richmond, British Columbia plant manufactures medium and low voltage switchgear, medium voltage motor starters and distribution panelboards. The Bramalea, Ontario plant produces similar products but in addition manufactures air circuit breakers and bus duct systems. The product scope of the Granby, Quebec plant is very similar to that of the Richmond facility and it is located to serve the Province of Quebec. The plant in Truro, Nova Scotia provides a similar service to industry in the four Maritime provinces. The plant in Wolverhampton, England manufactures low voltage switchgear, power distribution panelboards and speciality control panels to British Standard specifications and serves not only its domestic market but other world markets where British Standards are used.

NEW AND IMPROVED PRODUCTS IN 1984

Introduction of new or improved products has continued throughout the past year. To serve new markets the Corporation now manufactures direct current switchgear designed specifically for use with urban rapid transit systems. Equipment has also been designed and produced for marine applications. The range of power air circuit breakers

Electronic relays for switchgear applications must pass rigid test procedures to ensure accuracy and performance.

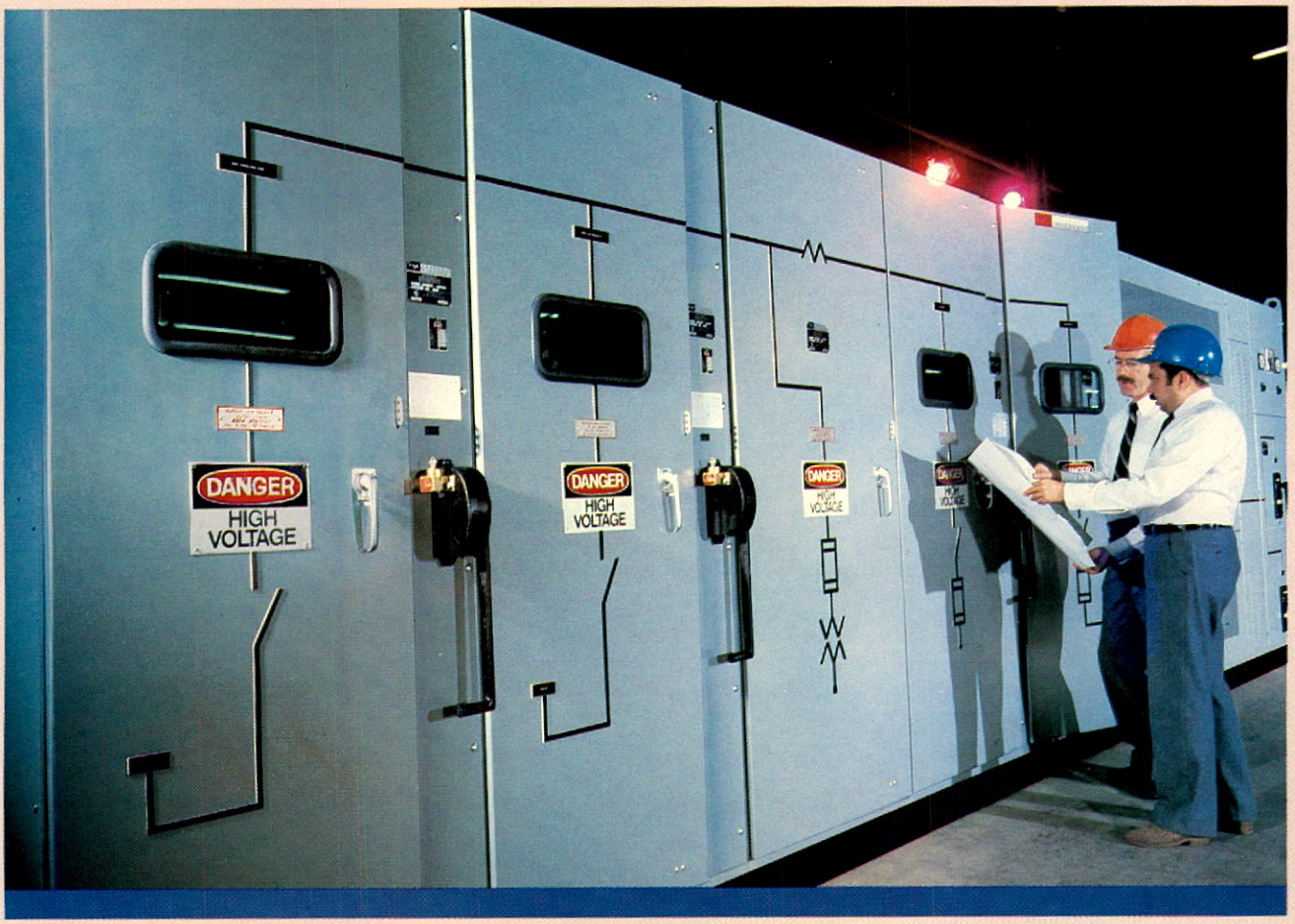


has been increased and breakers with increased capacity and interrupting ratings have been announced.

PRODUCTIVITY AND QUALITY ASSURANCE

The three major plants manufacturing products for the industrial market are now equipped with the most up-to-date computer assisted design and manufacturing systems available. These systems not only minimize engineering time for custom design work but they also ensure a high degree of standardization and uniformity between plants.

Switchgear for industrial applications frequently includes medium voltage load break switches, dry type transformers and low voltage circuit breakers.



There has now been completed an extensive testing programme to confirm the integrity of switchgear assemblies when subjected to high levels of fault current. This work was done in conjunction with newly developed bus structures.

AN INTERESTING INDUSTRIAL PROJECT

The photograph at the head of this article is an aerial view of the site of a major addition to the Consolidated Bathurst Inc. mill in Trois Rivières, Quebec. Federal Pioneer supplied a wide range of electrical apparatus for this expansion. Commencing with the main electrical supply, this site is served by the Corporation's large power transformers, main primary and secondary switchgear and associated power distribution systems.

Other noteworthy projects in 1984 include the direct current switchgear for Edmonton's Rapid Transit System and marine type switchboards being installed on Canada's new fleet of ice breakers. Export shipments have been made for grain handling facilities in Syria, two paper mills in Chile and a copper mine in Peru.

ABOUT THE FUTURE

The trends in the industrial market that have been identified earlier will probably continue. Business investment is likely to increase in the near future as manufacturers modernize facilities to improve productivity. Canada continues to benefit from a substantial trade surplus but there will be increased pressure to remain competitive in the world's markets.

These are favourable factors for Federal Pioneer since modernization and cost improvement usually involve the increased use of electrical apparatus and control equipment.

COMMERCIAL AND RESIDENTIAL MARKET

The overall market for electrical equipment for commercial and residential construction improved during 1984. However, this improvement was not consistent across Canada. Despite the fact that housing starts fell compared to the preceding year, there remained a strong market for residential electrical service equipment. Some of this improvement was due to a developing market in house renovations especially where it involved the use of electric heating equipment. Government grants and other programmes encouraging the conversion to electric heat have increased the market for these products as well as the service equipment to control them. The commercial market has shown some improvement particularly in institutional and governmental projects and developments for the expanding service industries.

PRODUCTS USED IN THIS MARKET

The electrical equipment used in this market is of a more standard nature than that used either by utilities or industry. This enables electrical distributors to carry the products in their inventory and provide immediate delivery to their customers. The principal products supplied by Federal Pioneer are Stab-lok circuit breaker systems, general purpose switches, fuses and electric heating devices. For commercial installations the list would also include service entrance switchboards, lighting and power panelboards and dry type distribution transformers. It will be noted that the electrical distributor plays a very important role in stocking and selling these products. The distributors serve the many thousands of electrical contractors throughout Canada. Federal Pioneer products are readily available from a large network of fine electrical distributors and their support makes a significant contribution to the Corporation's success in this market.

PLACES OF MANUFACTURE

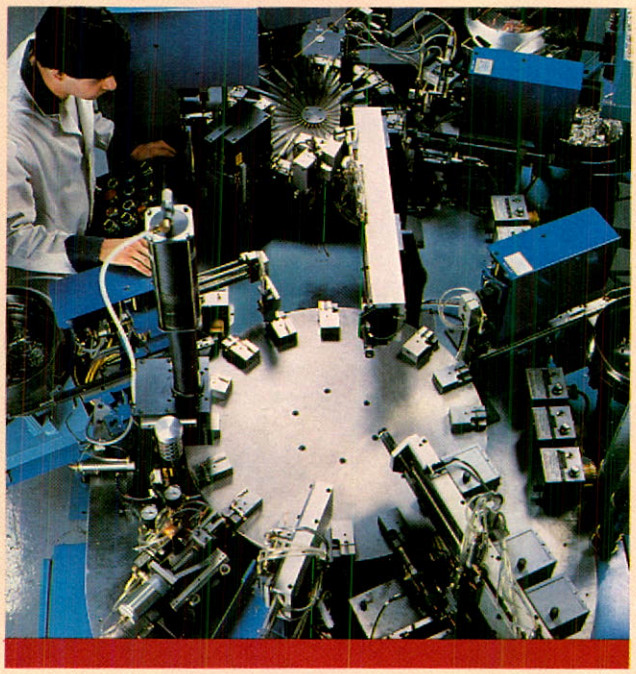
Because of their more standard nature the products for this market are suited to manufacturing techniques for high-volume and repetitive production. Federal Pioneer operates five plants almost entirely devoted to the manufacture of such standard products. The Brandon, Manitoba factory produces a wide range of electric heating devices as well as metering and control devices for apartments, shopping centres and farms. The Toronto, Ontario plant specializes in the manufacture of Stab-lok circuit breakers and enclosures, safety switches, fuses and ground fault interrupting devices. The plant in Markham, Ontario produces moulded case circuit breakers and electrical baseboard heating units. The Truro, Nova Scotia plant supplies equipment designed especially for hospital electrical systems. The plant in Wolverhampton, England produces many of the same products modified to suit British and other world standards.

NEW AND IMPROVED PRODUCTS IN 1984

Of particular interest is the work being carried out on ground fault protection equipment. Most people have now become aware of these devices since their use has become mandatory in such applications as outdoor receptacles, swimming pools and bathroom outlets. Through the use of this product the risk of fatality from electrical shock is dramatically reduced. Federal Pioneer was one of the first companies to introduce this equipment nearly twenty years ago. As the applications become more varied a greater number of models are required. During the past twelve months several new ranges of devices have been included in the product scope. These will meet a rapidly expanding market and greatly improve electrical safety.

Another series of products has been introduced to the array of electrical heating devices. This includes architecturally designed perimeter heating units and electronically controlled thermostats.

Automated assembly of Stab-lok circuit breakers demands a high degree of accuracy.



The English plant is now manufacturing a new range of Stab-lok panels designed specifically for the residential market. These enclosures feature a moulded plastic cover and door that enhances the appearance of the product which is usually mounted in the living area of the home.

PRODUCTIVITY AND QUALITY ASSURANCE

The standardization of products serving this market encourages automation. During the past year further capital investment has been made to improve productivity. A typical example is the machine illustrated in the accompanying photograph which automatically performs six assembly operations on a circuit breaker component. Automated equipment demands adherence to close manufacturing tolerances and in this way is of great assistance in maintaining high quality standards. Furthermore, each plant producing such products is equipped with extensive test facilities to enable the quality control supervisors to conduct continuous testing programmes to ensure compliance with the approval requirements of the Canadian Standards Association.

TYPICAL INSTALLATIONS

In the residential market most new homes today are equipped with a service entrance panel rated either 100 or 200 amperes and containing a number of branch circuits controlled by Stab-lok breakers for all the various appliances, lighting, heating and other loads throughout the house. Heating can be either provided by electric baseboard units or a central electric furnace.

These products are also used in apartments and condominium complexes but in addition there will often be a main service entrance switchboard plus a metering centre to permit individual suite metering.

In office buildings these same products are used but in greater volume and with higher current ratings. Hospitals provide a unique market for protective devices to ensure patient safety in such sensitive areas as operating rooms and intensive care units.

ABOUT THE FUTURE

There are two positive signs which provide reasons for optimism in respect to the commercial and residential market. The market itself is likely to grow in the coming period as there is a pent up demand for housing in many parts of Canada. If lower interest rates stabilize it will make it easier to satisfy that demand. Another positive factor is the trend towards the type of electrical installations using Federal Pioneer products. A few years ago fuse panels were used in a proportion of home installations but now circuit breakers are almost universally employed and electric heating is becoming increasingly popular providing a growing market for both of these products. In addition to these positive indicators within Canada it is also important to note that these standard products of both the Canadian and English Companies are finding ready acceptance in export markets.

Standard products serving the residential and commercial markets include Stab-lok circuit breaker systems, safety switches and electric heating devices.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31	1984	1983
Net sales	**$166,108,971**	$177,132,204
Income before the undernoted items	**$ 10,410,179**	$ 14,399,735
Add: Interest income	**2,385,901**	1,870,781
	12,796,080	16,270,516
Deduct:		
Depreciation and amortization	**3,187,837**	3,326,804
Interest on long-term debt	**440,593**	485,183
Other interest	**81,465**	150,996
	3,709,895	3,962,983
Income before income taxes	**9,086,185**	12,307,533
Income taxes (Note 8)	**2,727,321**	4,297,637
Net income for the year	**6,358,864**	8,009,896
Retained earnings at beginning of year	**85,501,631**	79,949,933
	91,860,495	87,959,829
Deduct:		
Dividends declared—$0.515 per share (1983—$0.50)	**2,531,944**	2,458,198
Retained earnings at end of year	**$ 89,328,551**	$ 85,501,631
Earnings per share	**$1.29**	$1.63

The dividends declared and earnings per share for 1983 have been restated to reflect the four for one stock split referred to in Note 7.

AUDITORS' REPORT

To the Shareholders of
Federal Pioneer Limited:

We have examined the consolidated balance sheet of Federal Pioneer Limited as at December 31, 1984 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants

Toronto, Ontario
January 30, 1985

CONSOLIDATED BALANCE SHEET

December 31	1984	1983
Assets		
Current assets:		
Cash	**$ 2,038,180**	$ 49,032
Short-term deposits	**22,000,000**	24,000,000
Accounts receivable	**27,467,706**	30,599,530
Inventories (Note 3)	**50,294,547**	45,466,927
Prepaid expenses and deposits	**680,839**	592,974
	102,481,272	100,708,463
Fixed assets (Note 4)	**21,885,703**	21,895,148
Goodwill	**1,347,953**	1,427,245
	$125,714,928	$124,030,856
Liabilities		
Current liabilities:		
Bank indebtedness (Note 5)	**$ 250,230**	$ 1,040,222
Accounts payable and accrued liabilities	**18,972,724**	20,206,261
Current portion of long-term debt (Note 6)	**3,297,216**	43,476
Income and other taxes payable	**2,732,243**	2,257,863
Dividend payable	**639,131**	614,550
	25,891,544	24,162,372
Long-term debt (Note 6)	**1,947,417**	5,762,634
Deferred income taxes	**1,269,000**	1,442,000
Shareholders' Equity		
Share capital (Note 7)	**7,095,532**	7,095,532
Retained earnings	**89,328,551**	85,501,631
Cumulative translation adjustment account	**182,884**	66,687
	96,606,967	92,663,850
	$125,714,928	$124,030,856

Contingent liability (Note 13)

The financial statements have been approved by the Board of Directors

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1984	1983
Source of working capital:		
Net income for the year	**$ 6,358,864**	$ 8,009,896
Items not requiring working capital—		
Depreciation and amortization	**3,187,837**	3,326,804
Deferred income taxes	**(173,000)**	(221,000)
Working capital provided from operations	**9,373,701**	11,115,700
Disposals of fixed assets	**23,012**	16,301
	9,396,713	11,132,001
Use of working capital:		
Fixed asset additions	**3,436,076**	3,526,308
Dividends	**2,531,944**	2,458,198
Reduction in long-term debt	**3,815,217**	683,725
	9,783,237	6,668,231
	(386,524)	4,463,770
Effect of translation adjustment on working capital	**430,161**	461,670
Increase in working capital	**43,637**	4,925,440
Working capital at beginning of year	**76,546,091**	71,620,651
Working capital at end of year	**$ 76,589,728**	$ 76,546,091
Working capital is represented by:		
Current assets	**$102,481,272**	$100,708,463
Less: Current liabilities	**25,891,544**	24,162,372
	$ 76,589,728	$ 76,546,091

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1984

1. Nature of business:

The Corporation is engaged in the manufacture and sale of equipment used in the control and distribution of electrical energy. The directors have determined that such business represents a single class of business. The sales and assets of the English subsidiary represent less than 10% of those of the Group. Export sales in 1984 from Canadian operations accounted for less than 10% of the total sales.

2. Significant accounting policies:

The accounting policies of the Corporation are in accordance with generally accepted accounting principles in Canada. The more significant policies are stated below:

Basis of consolidation—

The consolidated financial statements include the financial statements of Federal Pioneer Limited and both of its subsidiary companies.

Translation of foreign currencies—

Transactions in foreign currencies are translated at the approximate rate of exchange at the time of the transaction. Assets and liabilities are translated at the exchange rates prevailing at the balance sheet date.

Translation gains and losses on consolidation of the foreign subsidiary are included in the cumulative translation adjustment account under Shareholders' Equity. 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 generally provides for depreciation 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, 20% for machinery and equipment and 30% for computer equipment. Moulds, jigs and dies are fully depreciated in the year in which they are first used.

Goodwill—

Goodwill, which represents the excess of cost of shares of subsidiaries over net book value at dates of acquisition, is being amortized on a straight-line basis over a period of twenty years commencing in 1982.

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.

3. Inventories:

	December 31	
	1984	1983
Raw material and work in process	**$40,687,628**	$37,125,706
Finished goods	**10,579,128**	8,847,804
	51,266,756	45,973,510
Less: Progress payments	**(972,209)**	(506,583)
	$50,294,547	$45,466,927

4. Fixed assets:

	December 31	
	1984	1983
Cost—		
Land	**$ 1,463,495**	$ 1,463,495
Buildings	**18,935,945**	18,427,174
Machinery and equipment	**29,328,045**	27,367,000
	49,727,485	47,257,669
Accumulated depreciation—		
Buildings	**7,345,614**	6,592,774
Machinery and equipment	**20,496,168**	18,769,747
	27,841,782	25,362,521
Net book value—		
Land	**1,463,495**	1,463,495
Buildings	**11,590,331**	11,834,400
Machinery and equipment	**8,831,877**	8,597,253
	$21,885,703	$21,895,148

5. Bank indebtedness:

Bank indebtedness of the English subsidiary amounting to $250,230 (1983—$826,716) is secured by a floating charge on all of its assets.

6. Long-term debt:

	December 31	
	1984	1983
6¾% secured sinking fund debentures, Series A, repayable at maturity on April 15, 1987	**$ 1,439,000**	$ 1,957,000
10% mortgage loan repayable in monthly instalments maturing in 1990	**428,397**	450,699
8.46% mortgage loan repayable in four equal instalments in 1985	**3,250,000**	3,250,000
6¾% mortgage loan repayable in monthly instalments maturing in 1989	**127,236**	148,411
	5,244,633	5,806,110
Amount payable within one year included in current liabilities	**3,297,216**	43,476
Amount payable after one year	**$ 1,947,417**	$ 5,762,634

6. Long-term debt: (continued)

Long-term debt is required to be repaid as follows:

1985	$3,297,216
1986	51,290
1987	1,494,728
1988	60,565
1989	63,282
1990	277,552
	$5,244,633

The 6¾% 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. All of the sinking fund requirements up to maturity have been fully satisfied by the purchase of debentures in the open market and their delivery to the Trustee for cancellation.

7. Share capital:

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value. On May 31, 1984 the articles of the Corporation were amended by changing each of the issued and outstanding common shares without nominal or par value in the capital of the Corporation into four common shares without nominal or par value. At December 31, 1984 there were outstanding 4,916,396 common shares without nominal or par value with a stated value of $7,095,532 (1983—$7,095,532).

8. Income taxes:

	Year ended December 31	
	1984	1983
Current	**$2,900,321**	$4,518,637
Deferred	**(173,000)**	(221,000)
	$2,727,321	$4,297,637

The Corporation's effective income tax rate is made up as follows:

	Year ended December 31	
	1984	1983
	%	%
Combined basic federal and provincial income tax rate	**49.1**	49.0
Federal income tax surcharge	**—**	0.7
Inventory allowance	**(7.0)**	(5.7)
Manufacturing and processing profits deduction	**(5.7)**	(6.0)
Research and development allowance	**(3.2)**	(1.5)
Miscellaneous	**(3.2)**	(1.6)
	30.0	34.9

Tax losses brought forward from prior years amounting to $3,350,000 (£2,200,000) are available to reduce taxes payable on any future operating profits of the English subsidiary.

9. Research and development costs:

Research and development costs incurred during the year and charged to expense amounted to $2,618,000 (1983—$2,260,000). No costs qualified for deferral.

10. Long-term leases:

The Corporation leases plants, warehouses and sales offices in Canada and England. All of these leases are treated as operating leases with the rents charged to operations in the year to which they relate.

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

1985	$ 273,000
1986	225,000
1987	198,000
1988	194,000
1989	168,000
thereafter	1,474,000
	$2,532,000

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, 1984 amounted to $1,284,000 (1983—$2,333,000) of which approximately $679,000 (1983—$517,000) related to vested past service benefits. To satisfy the total unfunded liability, estimated annual payments of $137,000 will be charged to future operations.

12. Capital commitments:

The Corporation has entered into capital commitments as at December 31, 1984 for expenditures on machinery and moulds amounting to $960,000 (1983—$379,000).

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 is monitoring the results thereof. At this time the need for, or nature of, any further action or cost which might be required in the longer term cannot be determined.

14. Related party transactions:

The parent company, Federal Pacific Electric Company of Raleigh, North Carolina, U.S.A. is the registered holder of 59.3% of the issued and outstanding common shares of the Corporation. The Corporation pays a royalty to the parent for the use of patents, trademarks and the supply of technical knowhow. The royalty for the year 1984 amounted to $490,000 (1983—$582,000). Effective April 1, 1984 the Corporation has entered into a Management Services Agreement with Reliance Electric Company of Cleveland, Ohio, U.S.A., the controlling shareholder of Federal Pacific Electric Company, for the supply of certain managerial services and in 1984 incurred costs under the terms of this Agreement amounting to $145,000. 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, 1984 includes $609,622 (1983—$167,654) due from affiliated companies. Accounts payable and accrued liabilities at December 31, 1984 includes $235,561 (1983—$54,504) due to affiliated companies.

FIVE YEAR SUMMARY

Year ended December 31	1984	1983	1982	1981	1980
Net sales	**$166,108,971**	$177,132,204	$188,133,880	$169,514,963	$153,102,225
Income before income taxes and extraordinary item	**9,086,185**	12,307,533	20,632,709	18,524,767	17,296,526
Income taxes	**2,727,321**	4,297,637	8,393,974	8,315,456	6,939,374
Income before extraordinary item	**6,358,864**	8,009,896	12,238,735	10,209,311	10,357,152
Net income for the year	**6,358,864**	8,009,896	12,238,735	9,830,876	9,665,152
Net income before extraordinary item as a percentage of net sales	**3.8%**	4.5%	6.5%	6.0%	6.8%
*Earnings per share before extraordinary item	**1.29**	1.63	2.49	2.08	2.11
Dividends declared	**2,531,944**	2,458,198	2,458,198	2,089,468	1,253,680
*Dividends per share	**0.515**	0.50	0.50	0.425	0.255
Property, plant and equipment —at cost	**49,727,485**	47,257,669	44,851,221	39,177,724	34,983,768
—net	**21,885,703**	21,895,148	22,027,637	19,010,495	17,328,988
Purchases of property, plant and equipment during the year	**3,436,076**	3,526,308	5,977,477	4,376,944	7,221,901
Depreciation and amortization provided for the year	**3,187,837**	3,326,804	2,994,950	2,675,978	2,535,128
Working capital at end of year	**76,589,728**	76,546,091	71,620,651	62,433,446	57,077,099
Long-term debt at end of year	**1,947,417**	5,762,634	6,446,359	3,695,841	4,342,207
Shareholders' equity at end of year	**96,606,967**	92,663,850	87,045,465	77,264,928	69,523,520
*Number of shares outstanding at end of year	**4,916,396**	4,916,396	4,916,396	4,916,396	4,916,396
*Equity per share at end of year	**19.65**	18.85	17.71	15.72	14.14

*Restated to reflect May 1984 stock split of four for one.

DIRECTORS

As at February 19, 1985

*†**John B. Clements, Q.C.,** Toronto
Partner, Lash, Johnston (barristers and solicitors)

†***A. Gordon Daley,** Toronto
President and Chief Executive Officer of the Corporation

†***W. Douglas H. Gardiner,** Vancouver
Financial Consultant

†**William B. Korb,** Cleveland, Ohio, U.S.A.
An Operating Vice-President of Reliance Electric Company

John C. Morley, Cleveland, Ohio, U.S.A.
President and Chief Executive Officer of Reliance Electric Company

***Pauline Ouimet,** Montreal
President of Les Chefs Volants Inc.

†***Venceslas Sirois,** Toronto
Consultant

*Member of the Audit Committee
†Member of the Compensation Committee

OFFICERS

As at February 19, 1985

William B. Korb, Cleveland, Ohio, U.S.A.
Chairman of the Board

A. Gordon Daley, Toronto
President and Chief Executive Officer

Bernard J. Ferreira, Toronto
Senior Vice-President—Operations

Edward C. Markwick, Toronto
Senior Vice-President Finance and Secretary

Stanley M. Roberts, Toronto
Senior Vice-President—Corporate Technical Services

Kenneth J. Thompson, Toronto
Senior Vice-President Marketing

Douglas V. Baldwin, Toronto
Vice-President—General Sales Manager

Ellis Hughes, Winnipeg
Vice-President—Group Manager Transformer Plants

Colin A. A. MacPhee, Toronto
Vice-President—Corporate Research and Development

John E. Outram, Toronto
Vice-President—Corporate Quality Assurance

Thomas J. Rowlands, Toronto
Vice-President—Group Manager Engineered Products Plants

Paul N. Taylor, Toronto
Vice-President—Group Manager Standard Products Plants

Edward A. Atkinson, Toronto
Comptroller and an Assistant Secretary

James H. Taylor, Winnipeg
An Assistant Secretary

CORPORATE INFORMATION

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Telefax 416-752-8944

Parent Company:

Federal Pacific Electric Company
Raleigh, N. C., U.S.A.

Subsidiary Companies:
(both wholly-owned)

Federal Electric Limited
Wolverhampton, England

La Compagnie Électrique
Pioneer du Québec, Inc.
Granby, Quebec

Share Listing:

Common shares—The Toronto Stock Exchange—symbol FPE

Registrars and Transfer Agents:

Common shares—The National Victoria and Grey Trust Company, Toronto and Montreal

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, Toronto

Bankers:

The Canadian Imperial Bank of Commerce, Toronto and London, England

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