

C

Enheat Inc.

Annual Report 1981



ROBERTSON SCHOOL
OF MANAGEMENT
JUL 18 1983
MCGILL UNIVERSITY

Shareholders

British Columbia	11
Alberta	11
Saskatchewan	—
Manitoba	4
Ontario	98
Quebec	99
New Brunswick	122
Nova Scotia	43
Prince Edward Island	4
Newfoundland	3
Northwest Territories	1
<hr/>	
Canada	396
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United States	16
Other Countries	—
<hr/>	
Total	412

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Airco Products Division

Sales

\$7.67 million

Products:

- Warm Air Furnaces
- Registers
- Metal Fittings

Plant Space:

75,000 sq. ft.

Number of Employees:

75

Location:

Vancouver, British Columbia

Steel Division (closed down Nov. 30, 1981)

Sales:

\$0.37 million

Products:

- Reinforcing Steel

Plant Space:

145,000 sq. ft.

Number of Employees:

4

Location:

Amherst, Nova Scotia

Fawcett Division

Sales:

\$3.12 million

Products:

- Oil & Wood Ranges
- Warm Air Furnaces
wood/coal/oil
- Ductwork
- Airtight Heaters & Franklins

Plant Space:

176,000 sq. ft.

Number of Employees:

96

Location:

Sackville, New Brunswick

Aircraft Division

Sales:

\$11.05 million

Products:

- Aircraft Components
- Repair and Overhaul

Plant Space:

165,000 sq. ft.

Number of Employees:

300

Location:

Amherst, Nova Scotia

Directors and Officers

Board of Directors

*W. James Clarke

President
United Financial Management Ltd.
145 King St. W., Suite 200
Toronto, Ontario
M4H 2E2

*H. Reuben Cohen, Q.C.

1111 Main Street
Moncton, N.B.
E1C 1H1

*Leonard Ellen

Suite 663
2 Place Ville Marie
Montreal, P.Q.
H3B 3Y3

Peter A. Neuman

President
Enheat Inc.
Sackville, N.B.
E0A 3C0

*George B. Robertson, Q.C.

McInnes, Cooper & Robertson
1673 Bedford Row
Halifax, N.S.
B3J 1T1

†George T. Urquhart

Chairman, Board of Directors
& Chief Executive Officer
Enheat Inc.
211 Bromley Ave., Apt. No. 2
Moncton, N.B.
E1C 5V5

Michel Vennat

Partner
Stikeman, Elliott, Tamaki,
Mercier & Robb
1155 Dorchester Blvd. West
Montreal 102, P.Q.
H3B 3V2

Senior Officers

Bruce Ayers

Vice-President
Airco Products Division

Y. Paul Minocha

Treasurer
Enheat Inc.

Peter A. Neuman

President
Enheat Inc.

George B. Robertson, Q.C.

Secretary

D.I. Sweetapple

Vice-President &
General Manager
Aircraft Division

Michel Vennat

Asst. Secretary

George T. Urquhart

Chairman
Board of Directors
& Chief Executive Officer

Audit Committee

W. James Clarke—Chairman

Peter A. Neuman
Michel Vennat

Head Office

Sackville, New Brunswick
Tel. 506/536-1520
Telex No. 014-2289

Bankers

The Royal Bank of Canada
Sackville, New Brunswick
Vancouver, British Columbia

Transfer Agents

Montreal Trust Company
Montreal, Quebec
Central Trust Co.
Moncton, New Brunswick

Registrars

Canadian Trust Company
Montreal, Quebec
Central Trust Co.
Moncton, New Brunswick

Auditors

Touche Ross & Co.
Saint John, New Brunswick
Vancouver, British Columbia

Stock Listing

Montreal Stock Exchange

* Members of the Executive Committee

† Chairman of the Executive Committee

Letter to the Shareholders



George T. Urquhart

Chairman

Earnings for 1981, after provision for income taxes were \$240,000.00 or \$0.77 per share. Earnings in 1980 were \$131,000.00 or \$0.42 per share.

The Aircraft Division and Airco Products Division obtained good growth of sales and earnings in 1981. The Steel Division continued its drain on company resources and as a result was permanently closed in 1981 following an extended period of total layoff. Market conditions, caused to a great extent by a severe slump in new home construction, forced the Fawcett Division to operate for only six (6) months during the year.

Airco Products Limited surrendered its charter on July 31, 1981 and now operates as Airco Products Division of Enheat Inc.

The Board accepted the resignation of Mr. John Bragg as a Director of the Company at its meeting held on January 27, 1982, and acknowledged his service and contribution. At this meeting, the following appointments were approved:

Peter A. Neuman—President & Chief Operating Officer

Donald I. Sweetapple—Vice President & General Manager, Aircraft Division

Y. Paul Minocha—Treasurer, Chief Financial Officer & Assistant Secretary

The Aircraft Division's current workload will reduce slightly during 1982 because of schedule adjustments being made by several of our major customers. Management is hopeful that the void which will result from this will be filled by the acquisition of new work presently being bid. The level of earnings for this division for 1982 is not expected to be as great as 1981.

The Airco Products Division expects to maintain its share of the market in its area of Western Canada, although it is expected that new housing starts and gas conversions will be down from the 1981 levels. The Division will operate profitably during 1982 but earnings level of 1981 in all likelihood will not be reached.

The Fawcett Division operated unprofitably in 1981 and even though economic conditions will inhibit any significant improvement in sales, certain measures that have been implemented should improve performance over 1981.

The North American recession is expected to continue through 1982 and this will certainly impact on the Company's ability to improve its position; however, the current workload will ensure continuity of the Company's stability.

The Board of Directors acknowledges the loyalty and efforts of the employees of the Company and expresses its appreciation of the continued support of its customers and shareholders.

A handwritten signature in black ink, which appears to read "George T. Urquhart". The signature is written in a cursive, flowing style with a large initial "G" and a distinct "U" at the end.

George T. Urquhart

Chairman of the Board and Chief Executive Officer

Historical Synopsis

(dollars in thousands except amounts per share)

For the year	1981	1980	1979	1978	1977	1976
Sales	22,213	21,398	19,040	15,361	13,659	10,328
Net Earnings (loss)	240	131	401	174	353	(443)
Dividends paid on "A" Shares	—	—	—	—	—	—
Return on equity (loss)	4.9%	2.3%	7.3%	3.4%	7.1%	(9.7%)
Capital expenditure	174	336	176	270	211	53
Major repairs and improvements	34	320	112	—	—	—

Per Share

Net earnings (loss)						
"A" Shares	.77	.42	1.33	.58	1.17	(1.47)
"B" Shares	.77	.42	1.33	.58	1.17	(1.47)
Dividends paid on "A" Shares	—	—	—	—	—	—
Equity	15.70	18.68	18.24	16.92	16.35	15.17

Year end Position

Total assets	14,166	16,457	15,005	13,176	11,598	10,543
Working capital	2,969	2,408	2,677	2,204	1,762	1,317
Shareholders' equity	4,870	5,644	5,513	5,112	4,938	4,585
Employees	475	521	536	493	543	469
Shareholders	412	482	513	564	591	619
"A" Shares outstanding	186,100	177,000	177,000	177,000	177,000	177,000
"B" Shares outstanding	124,100	125,200	125,200	125,200	125,200	125,200

Ratios

Working capital	1.36	1.25	1.33	1.32	1.31	1.27
Inventory turnover	2.36	2.32	2.22	2.29	2.25	2.28
Accounts receivable turnover	5.88	4.69	4.93	4.43	5.44	5.21

Auditors' Report

The Shareholders, Enheat Inc.

We have examined the balance sheet of Enheat Inc. as at December 31, 1981 and the statements of 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 financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

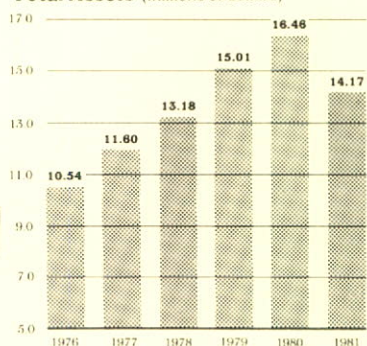
Saint John, N.B.,
February 19, 1982

Touche Ross & Co.
Chartered Accountants

Balance Sheet

Assets	December 31	
	1981	1980
	(thousands)	
Current assets		
Receivables	\$ 3,778	\$ 4,566
Income taxes recoverable	24	—
Inventories—Note 2	7,328	7,472
Prepaid expenses	67	43
	11,197	12,081
Government grant receivable—Note 3	25	—
Fixed assets		
Property, plant and equipment—Note 4	2,061	4,376
Non-operating fixed assets—Note 5	883	—
	\$14,166	\$16,457

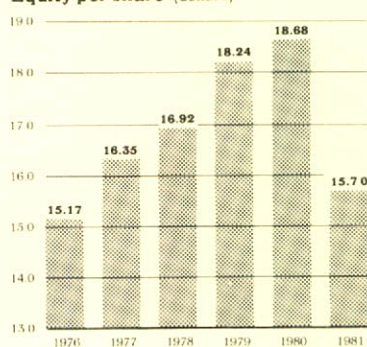
Total Assets (millions of dollars)



Liabilities and Shareholders' Equity

Liabilities and Shareholders' Equity	December 31	
	1981	1980
	(thousands)	
Current liabilities		
Bank loans—Notes 6	\$ 5,553	\$ 6,370
Accounts payable—Note 7	2,608	3,090
Income taxes payable	—	86
Current maturities	67	127
	8,228	9,675
Advance billings on Aircraft contracts	200	115
Long-term debt—Note 8	692	808
Deferred income taxes—Note 13	176	217
	9,296	10,815
Contingency—Note 5		
Shareholders' equity		
Common shares—Note 10	1,076	1,050
Contributed surplus	122	122
Retained earnings	2,577	2,337
Appraisal increase—Note 4	1,095	2,135
	4,870	5,644
	\$14,166	\$16,457

Equity per share (dollars)



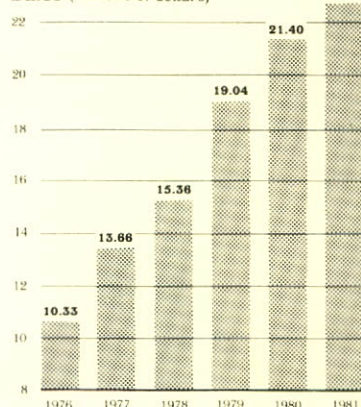
On behalf of the Board

George T. Urquhart, Chairman of the Board and Chief Executive Officer
Peter A. Neuman, President

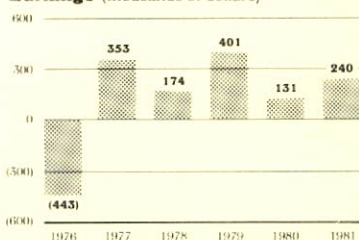
Earnings

	Year ended December 31	
	1981	1980
	(thousands)	
Sales and revenue		
Net sales and operating revenue	\$22,213	\$21,398
Cost and expenses		
Cost of sales and operating	17,261	17,371
Selling and administrative	2,823	2,583
Depreciation and amortization	403	359
Write-down of inventories to net realizable value—Note 5	458	—
Interest on long-term debt	64	77
Other interest	1,050	935
Gain on disposal of fixed assets	(61)	(5)
	21,998	21,322
Income before income taxes and extraordinary item	215	76
Income taxes —current	16	111
—deferred	(41)	(144)
	(25)	(33)
Income before extraordinary item	240	109
Extraordinary item	—	—
Reduction of income taxes due to prior years' loss carry-forward	—	22
Income for the year—Note 12	\$ 240	\$ 131
Retained earnings		
Opening balance	\$ 2,337	\$ 2,206
Income	240	131
Closing balance	\$ 2,577	\$ 2,337

Sales (millions of dollars)



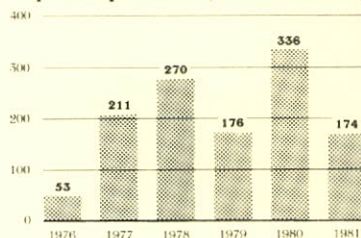
Earnings (thousands of dollars)



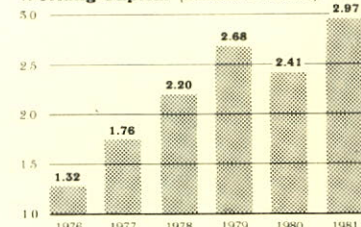
Changes in Financial Position

	Year ended December 31	
	1981	1980
	(thousands)	
Source of funds		
Net income	\$240	\$131
Depreciation and amortization	403	359
Deferred income taxes	(41)	(144)
Warranty reserve decrease	—	(24)
Funds provided from operations	602	322
Advances on aircraft contracts	85	115
Government grants received	107	66
Disposal of fixed assets	65	2
Increase in equipment notes payable	10	—
Proceeds of issuance of capital stock	26	—
	895	505
Application of funds		
Purchase of property, plant and equipment	208	656
Reduction of long-term debt	126	100
Decrease in equipment notes payable	—	18
	334	774
Increase (decrease) in working capital	561	(269)
Working capital January 1	2,408	2,677
Working capital December 31	\$2,969	\$2,408

Capital Expenditure (thousands of dollars)



Working Capital (millions of dollars)



Notes to the Financial Statements

1. Accounting Policies

The following is a summary of the major accounting policies used in the preparation of financial statements and other data presented in this report.

Airco Products Division

On July 31, 1981 the shareholders of Airco Products Ltd., the wholly-owned subsidiary company, resolved that it commence its dissolution and winding-up as of that date by transferring its assets to Enheat Inc., which also assumed all liabilities. Airco Products Ltd. became an operating division of Enheat Inc. as at August 1, 1981. These financial statements include the financial position of the Airco Products Division as at December 31, 1981, the results of operations of Airco Products Ltd. from January 1 to July 31, 1981, and the results of operations of Airco Products Division from August 1 to December 31, 1981.

Depreciation

Depreciation is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. Depreciation on the majority of property, plant and equipment is computed on the diminishing balance method using the following rates:

Buildings	5% to 10%
Machinery and other equipment	20%
Automotive equipment	30%

Depreciation has not been provided on the value of the appraisal increment.

All material profits and losses resulting from disposal of property, plant and equipment are included in earnings when realized and the carrying value of such assets is removed from the accounts.

Aircraft Division

The Company's Aircraft Division recognizes revenue on both the completed-contract basis, and the percentage-of-completion basis, according to the terms of the applicable contract.

Income on certain long-term fixed-price commercial contracts is deferred to be offset against escalating costs in later years.

Initial tooling costs associated with new contracts are deferred until revenue is realized from the specific contracts to which they relate.

Maintenance and repairs

Maintenance and repairs are charged to earnings as incurred. Renewals and replacements of a routine nature are also charged to earnings while those expenditures which improve or extend the useful life of assets are capitalized and amortized over their estimated useful life.

Inventories

Inventories are valued at the lower of cost and net realizable value. Raw material cost is defined as purchased cost. Work-in-process and finished goods cost represents direct labour, material and overhead incurred to date.

Pension plan costs

Total pension costs for the year include the cost of current service as well as funding payments amounting to \$192,408 in respect of past service. Payments in respect of the unfunded past service liability will be required as follows:

\$155,640 per annum from 1982 to 1984
\$125,820 per annum from 1985 to 1990
\$116,532 per annum from 1991 to 1995
\$ 32,412 during 1996

Government assistance

Government grants received since the beginning of 1975 were credited to the respective asset accounts and are being amortized to income at the depreciation rates appropriate to the assets for which they were provided.

In years prior to 1975, amounts of Government grants received were credited directly to Contributed Surplus and have not been amortized.

Warranty claims

No provision is made for possible future warranty claims on manufactured furnaces sold during the year.

Warranty claim expenses are charged to income in the year during which they are incurred.

2. Inventories	1981	December 31	1980
		(thousands)	
Raw materials	\$2,177		\$2,461
Work-in-process	2,921		2,315
Finished goods	2,230		2,696
	\$7,328		\$7,472

3. DREE grant

During the year the Company received \$99,900 representing 80% of the approved development incentive grant from the Department of Regional Economic Expansion for eligible fixed assets constructed during 1980. The remaining portion of the grant, due no later than May 31, 1984, has been recorded as receivable. The full amount of the grant has been applied to reduce the cost of the related fixed assets.

4. Property, Plant and Equipment

Property, plant and equipment and the related accumulated depreciation are classified as follows:

	1981	December 31	1980
	Cost plus appraisal increment	Accumulated depreciation	Net
			Net
Land	\$ 133	\$ —	\$ 133
Buildings	1,405	533	872
Machinery and other equipment	2,681	1,875	806
Assets acquired under capital lease	400	208	192
Automotive equipment	169	111	58
	\$4,788	\$2,727	\$2,061
			\$4,376

Property, plant and equipment are shown as appraised by Canadian Appraisal Company Limited on the basis of depreciated replacement value as at December 31, 1954, plus subsequent additions at cost, less disposals. An analysis of the appraisal increment is as follows:

	1981	December 31	1980
	Cost	Appraisal increment	Total
			Total
Land	\$ 95	\$ 38	\$ 133
Buildings	640	765	1,405
Machinery and other equipment	2,389	292	2,681
Assets acquired under capital lease	400	—	400
Automotive equipment	169	—	169
	\$3,693	\$1,095	\$4,788
			\$9,166

Non-operating assets have been segregated from assets in use (as described in Note 5), and are not included in the 1981 balances. The appraisal increment related to the non-operating assets has been written-off against shareholders' equity.

5. Discontinued Operations

The Company's steel facility did not operate throughout 1981 and on November 30, 1981, the Steel Division was permanently closed. The Company is seeking a purchaser for the entire steel production facility. The selling price to be realized cannot be determined at the present time. The fixed assets are being reflected in the accounts at historical cost less accumulated depreciation. Any deviation between the net book value of the assets and their ultimate realizable value will be recognized in the period or periods during which they are eventually sold. The remaining inventories of the Steel Division have been written down to their net realizable values.

6. Bank Loans

The bank loans are secured by a general assignment of book debts, an assignment of inventories, a \$4,000,000 debenture and a \$2,000,000 debenture in favour of the Royal Bank of Canada, and an assignment of insurance valued at \$10,000,000 at any one location.

7. Related Party Transaction

During the year, the Company was charged management fees in the amount of \$100,000 by an affiliated company. The unpaid balance of these fees in the amount of \$16,667 is included in accounts payable.

8. Long-Term Debt

	1981	December 31	1980
		(thousands)	
Series B, 6% Sinking Fund Debentures, to mature September 1, 1984, authorized and issued \$1,250,000 less amount purchased for redemption.	\$417		\$618
Obligations under capital leases—secured by specific charges on equipment (Note 9)	342		317
	759		935
Less current portion:			
Series B, Sinking Fund payments of \$100,000 are due in each of the years 1982 and 1983, less redemptions during previous years in excess of sinking fund requirements	—		75
Obligations under capital leases	67		52
	67		127
	\$692		\$808

9. Lease Obligations

Future aggregate commitments under capital leases as at December 31, 1981 are as follows:

	Rental payments	(thousands) Interest	Reduction of obligation
1982	\$105	\$ 38	\$ 67
1983	94	32	62
1984	74	25	49
1985	57	18	39
1986	37	12	25
Subsequent years	134	34	100
Total	\$501	\$159	\$342

Particulars of obligations relating to leased assets

The Company has acquired various types of machinery and equipment under capital leases. The following is a summary of the obligations relating to those leased assets:

Number of assets	Equipment type	(thousands) Cost	Lease expiry date(s)	Interest rate(s)	(thousands) Future obligation	
					Current	Non-current
1	Boilers	\$170	12/91	10.72%	\$ 8	\$143
4	Machinery	97	01/84 to 03/85	8.57% to 11.82%	18	44
1	Machinery	11	07/82	14.61%	2	—
2	Office equipment	122	09/82 to 06/86	12.97% to 21.75%	27	67
2	Non-operating assets	400	01/84	10.23%	12	21
		64			12	21
		\$464			\$67	\$275

Airco Products Division has outstanding non-capital lease obligations expiring in 1986 requiring annual payments of \$99,300 before taxes.

10. Common Shares

Authorized

—Class "A"—unlimited shares without par value

—Class "B"—unlimited shares without par value

Issued	December 31	
	1981	1980
—Class "A"		
—186,100 shares (1980—177,000 shares)	\$ 836	\$ 810
—Class "B"		
—124,100 shares (1980—125,200 shares)	240	240
	\$1,076	\$1,050

11. Segmented Information

Industry segments	Fawcett Division	Aircraft Division	Airco Products Division	Steel Division	Combined
1981 (thousands)					
Total sales	\$3,217	\$11,053	\$7,688	\$ 368	\$22,326
Inter-segment sales	(95)	—	(18)	—	(113)
Trade sales	\$3,122	\$11,053	\$7,670	\$ 368	\$22,213
Profit (loss) by segment	(\$ 678)	\$ 1,269	\$ 514	(\$ 493)	\$ 612
Gain on sale of assets					61
Inventory write-down—Note 5					(458)
Income taxes					25
Net Income					\$ 240
Identifiable assets	\$3,890	\$ 5,830	\$3,192	\$1,254	\$14,166
Capital expenditures	\$ 5	\$ 99	\$ 104	\$ —	\$ 208
Depreciation expense	\$ 24	\$ 157	\$ 38	\$ 184	\$ 403

11. Segmented Information

Industry segments	Divisions			Subsidiary	Consolidated
	Fawcett	Steel	Aircraft	Airco Products Ltd.	
1980 (thousands)					
Total sales	\$4,013	\$ 2,181	\$8,640	\$6,736	\$21,570
Inter-segment sales	(136)	—	—	(36)	(172)
Trade sales	\$3,877	\$ 2,181	\$8,640	\$6,700	\$21,398
Profit (loss) by segment	(\$ 154)	(\$ 789)	\$ 670	\$ 349	\$ 76
Income taxes					33
Extraordinary item					22
Net income					\$ 131
Identifiable assets	\$4,205	\$ 4,021	\$5,157	\$3,074	\$16,457
Capital expenditures	\$ 20	\$ 15	\$ 512	\$ 109	\$ 656
Depreciation expense	\$ 29	\$ 191	\$ 117	\$ 22	\$ 359

Fawcett Division produces and sells wood, oil and combination stoves, heaters and furnaces, and also sells purchased appliances. Aircraft Division produces and repairs aircraft components for commercial and military customers. Airco Products Division manufactures and sells gas and oil warm air furnaces and also purchases and sells allied equipment. Steel Division did not operate during the year, and was permanently closed on November 30, 1981, and its remaining inventories are available for sale.

The Board of Directors has determined the classes of business disclosed above.

12. Earnings Per Share

	1981	1980
Income before extraordinary item		
—Class "A" & "B"	\$0.77	\$0.35
Net income for the year		
—Class "A" & "B"	0.77	0.42

13. Deferred Income Taxes Account

	December 31	
	1981	1980
	(thousands)	
Balance at beginning of year	\$217	\$361
Deferred income taxes	(41)	(144)
Balance at end of year	\$176	\$217

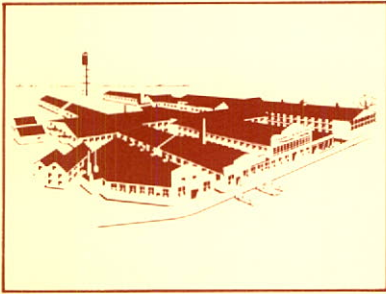
14. Income Taxes—Future Years

The Company has accumulated investment tax credits available for use in future years. Unless utilized, these credits will expire as follows:

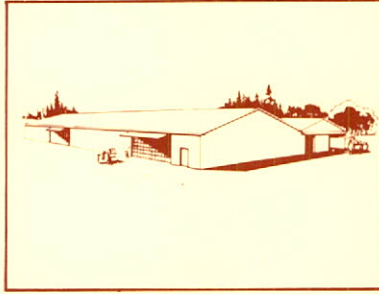
1982	\$ 13,577
1983	25,525
1984	46,543
1985	105,740
1986	20,284
	\$211,669

Our Plants and Products

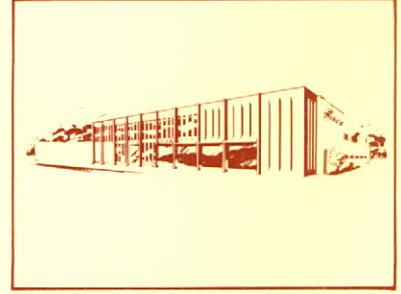
Airco and Fawcett Divisions



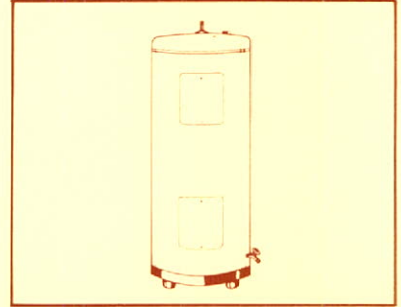
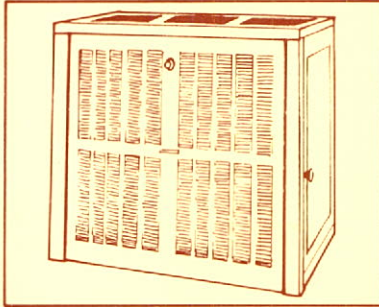
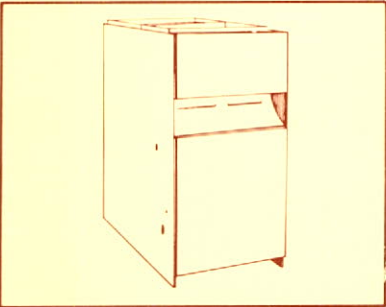
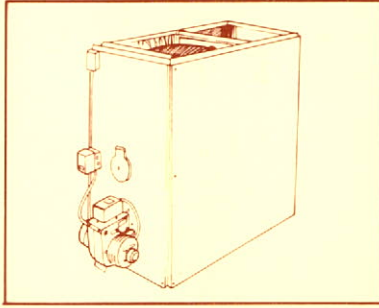
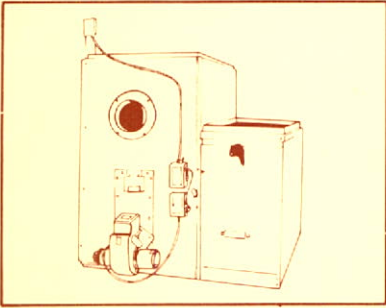
Fawcett Division
Corporate Offices and Plant
Sackville, New Brunswick



Airco Division
Plant
Vancouver, British Columbia



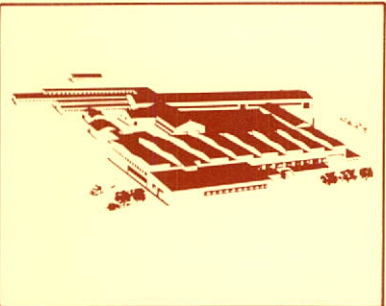
Airco Division
Offices
Vancouver, British Columbia



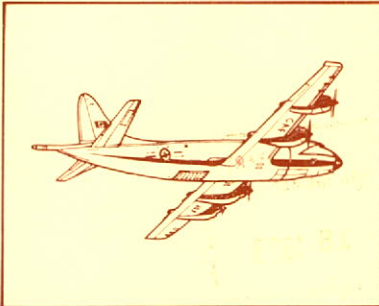
Furnaces — Oil; Gas; Wood; Oil and Wood Combination
Ranges — Oil; Wood; Coal; Multi-Fuel; Electric

Heaters — Oil; Wood; Coal; Franklin Fireplaces
Water Heaters — Glass-lined Electric and Gas

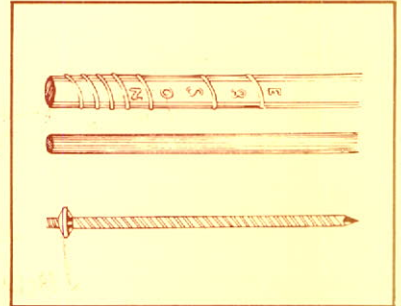
Aircraft and Steel Divisions



Aircraft and Steel Divisions
Offices and Plants
Amherst, Nova Scotia



Advanced facilities for the manufacture of components and overhaul and maintenance of aircraft.



Manufacture and fabrication of concrete reinforcing steel to custom specifications for immediate delivery.