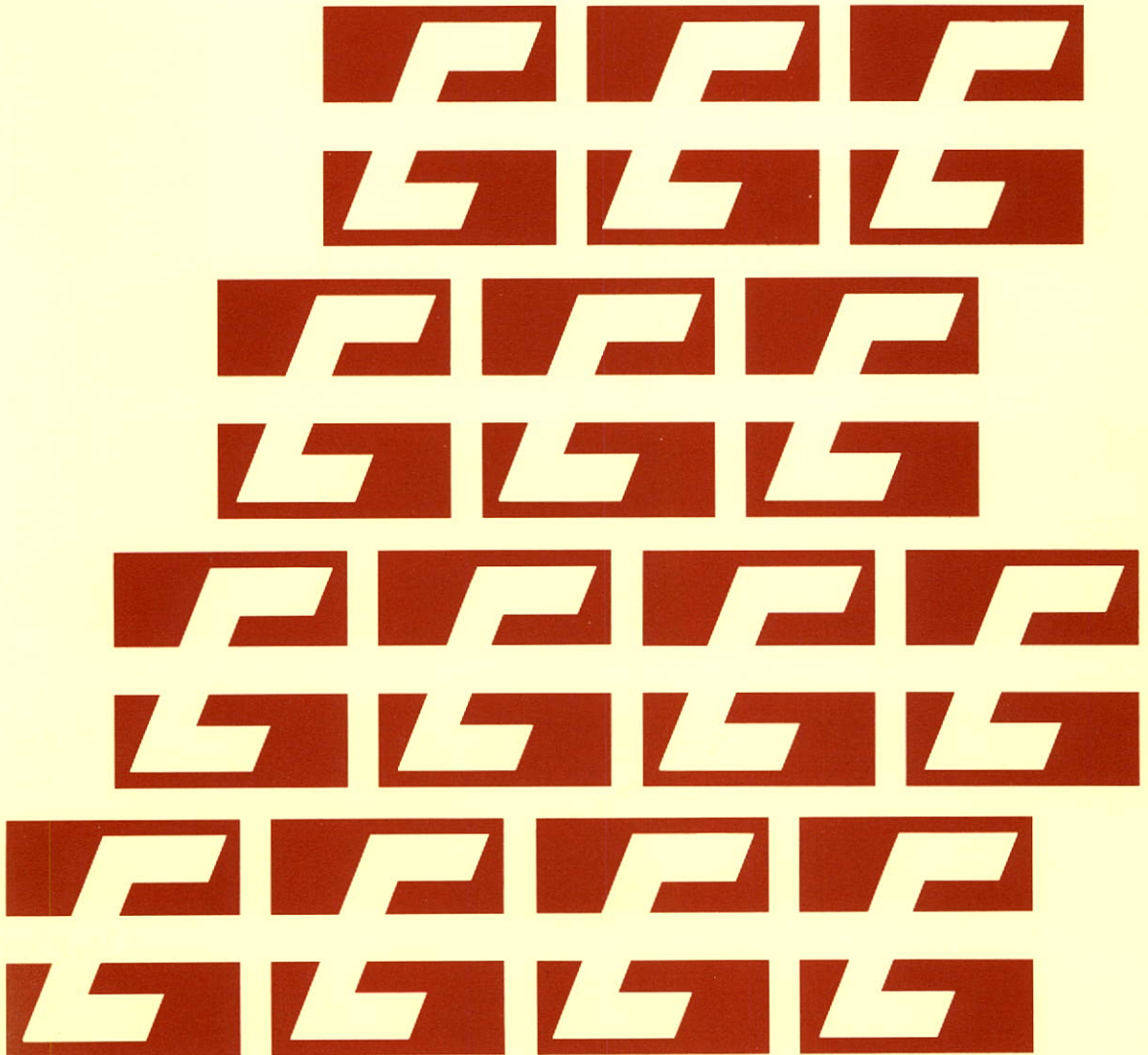

Enheat Inc.

Annual Report 1980



HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 18 1983
MILL UNIVERSITY

Shareholders

British Columbia	14
Alberta	10
Saskatchewan	—
Manitoba	5
Ontario	124
Quebec	109
New Brunswick	135
Nova Scotia	51
Prince Edward Island	5
Newfoundland	7
Northwest Territories	1
<hr/>	
Canada	461
<hr/>	
United States	21
Other Countries	—
<hr/>	
Total	482

Contents

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Airco Products Ltd.

Sales:

\$6.70 million

Products:

—Warm Air Furnaces

—Registers

—Metal Fittings

Plant Space:

75,000 sq. ft.

Number of Employees:

75

Location:

Vancouver, British Columbia

Steel Division

Sales:

\$2.18 million

Products:

—Reinforcing Steel

Plant Space:

145,000 sq. ft.

Number of Employees:

60

Location:

Amherst, Nova Scotia

Fawcett Division

Sales:

\$3.88 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:

\$8.64 million

Products:

—Aircraft Components

—Repair and Overhaul

Plant Space:

165,000 sq. ft.

Number of Employees:

278

Location:

Amherst, Nova Scotia

Directors and Officers

Board of Directors

John L. Bragg

President
Oxford Frozen Foods Ltd.
P.O. Box 220
Collingwood, N.S.
B0M 1P0

***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

***Walter Godbehere**

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**

President and Director
Sumner Holdings Limited
140 Baig Blvd.
Moncton, N.B.
E1E 1C8

Michel Vennat

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

Senior Officers

Bruce Ayers

Vice-President
Aircro Products Ltd.

Walter Godbehere

President
Enheat Inc.

R.L. Mitchell

General Manager
Aircraft Division

Peter A. Neuman

Exec. Vice-President
Enheat Inc.

George B. Robertson, Q.C.

Secretary

D.I. Sweetapple

Vice-President
Finance & Admin.

Michel Vennat

Asst. Secretary

George T. Urquhart

Chairman
Board of Directors

Audit Committee

W. James Clarke—Chairman

John L. Bragg
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



Walter Godbehere
President

Enheat was fortunate in having the individuals and an organization to weather the adverse economic conditions that existed in 1980, however, revenues and earnings were down substantially from expectations and there are signs that the year 1981 will show little improvement.

Earnings in 1980, after provision for income taxes, were \$131,000 or \$0.43 per share. This includes \$0.07 pertaining to extraordinary earnings of \$22,000 representing a reduction of taxes due to prior years losses. Earnings in 1979 were \$401,000 or \$1.33 per share which included \$0.16 arising from a similar extraordinary item.

Our subsidiary, Airco Products Limited and the Aircraft Division enjoyed substantial growth in 1980. The Steel and Fawcett Divisions were down significantly and market conditions forced us into a total lay-off situation in both of these divisions by year end. There has been no improvement in these market areas and as a result the lay-offs are continuing.

British Columbia is still enjoying the majority of housing starts in the country and the emphasis placed on the off-oil program has given rise to conversions to gas heating. We anticipate further growth in demand for goods and services supplied by Airco Products Limited.

The contract entered into in the latter part of 1979 with DeHavilland for manufacture of 10 components for their STOL-DASH 7 added considerable workload to the

Aircraft Division in 1980 and will reflect further growth in 1981 based on being in place for the full twelve (12) months.

The Division also purchased some new equipment and updated other facilities that enabled us to manufacture items that were previously purchased. This added 22 new jobs in the last quarter of 1980. A DREE grant was approved in support of this program.

Two major quotations were submitted on behalf of the Company that if successful will add significantly to our workload as well as provide scope to upgrade our present level of technology. One of the bids is to make components for the F18 Fighter Aircraft in support of the McDonnell Douglas Contract to equip the Canadian Armed Forces with a new fleet. The other major bid is to DeHavilland for the manufacture of the tail fin fuselage on their new STOL aircraft to be marketed as the DASH 8. Decision on both of these bids is expected by mid-year.

Both the Steel and Fawcett Divisions were unprofitable in 1980 and the economic forecasts for the segments of the market they service do not provide any measure of optimism for improvement in 1981.

During the year Mr. Kenneth Dinham, a member of the Board of Directors and Consultant to Airco Products Limited, passed away. Mr. Dinham had been associated with the Company for more than 40 years.

The year 1980 was wrought with uncertainties with resultant trying circumstances surrounding the business community. The Board of Directors acknowledges the loyalty and efforts of the employees of the Company and expresses their appreciation of the continued support of our customers, suppliers and shareholders.

A handwritten signature in cursive script that reads "Walter Godbehere".

Walter Godbehere
President

Historical Synopsis

(dollars in thousands except amounts per share)

For the year	1980	1979	1978	1977	1976	1975
Sales	21,398	19,040	15,361	13,659	10,328	12,808
Net Earnings (loss)	131	401	174	353	(443)	(215)
Dividends paid on "A" Shares	—	—	—	—	—	22
Return on equity (loss)	2.3%	7.3%	3.4%	7.1%	(9.7%)	(4.3%)
Capital expenditure	336	176	270	211	53	122
Per Share						
Net earnings (loss)						
"A" Shares	.43	1.33	.58	1.17	(1.47)	(.72)
"B" Shares	.43	1.33	.58	1.17	(1.47)	(.72)
Dividends paid on "A" Shares	—	—	—	—	—	.125
Equity	18.68	18.24	16.92	16.35	15.17	16.73
Year end position						
Total assets	16,457	15,005	13,176	11,598	10,543	11,251
Working capital	2,408	2,677	2,204	1,762	1,317	2,017
Shareholders' equity	5,644	5,513	5,112	4,938	4,585	5,057
Employees	521	536	493	543	469	485
Shareholders	482	513	564	591	619	637
"A" Shares outstanding	177,000	177,000	177,000	177,000	177,000	177,000
"B" Shares outstanding	125,200	125,200	125,200	125,200	125,200	125,200
Ratios						
Working capital	1.25	1.33	1.32	1.31	1.27	1.43
Inventory turnover	2.32	2.22	2.29	2.25	2.28	2.75
Accounts receivable turnover	4.69	4.93	4.43	5.44	5.21	4.75

Auditors' Report

The Shareholders, Enheat Inc.

We have examined the consolidated balance sheet of Enheat Inc. as at December 31, 1980 and the consolidated 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 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 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.,
March 26, 1981

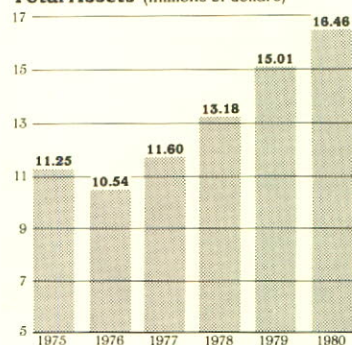
Touche Ross & Co.
Chartered Accountants

Balance Sheet

Assets

	December 31	
	1980	1979
	(thousands)	
Current Assets		
Receivables	\$ 4,566	\$ 3,859
Inventories—Note 2	7,472	6,917
Prepaid expenses	43	82
	12,081	10,858
Fixed assets		
Property, plant and equipment—Note 3	4,376	4,147
	\$16,457	\$15,005

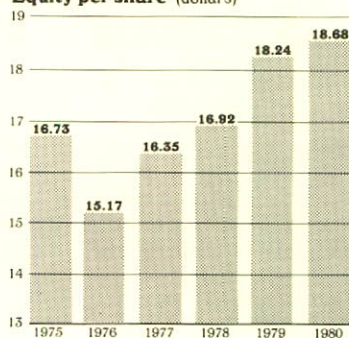
Total Assets (millions of dollars)



Liabilities and Shareholders' Equity

	December 31	
	1980	1979
	(thousands)	
Current Liabilities		
Bank loans—Note 4	\$ 6,370	\$ 5,210
Accounts payable—Note 10	3,090	2,806
Income taxes payable	86	—
Current maturities	127	165
	9,673	8,181
Deferred profit on Aircraft contract	115	—
Warranty provision	—	24
Long-term debt—Note 5	808	926
Deferred income taxes—Note 7	217	361
	10,813	9,492
Shareholders' equity		
Common shares—Note 8	1,050	1,050
Contributed surplus	122	122
Retained earnings	2,337	2,206
Appraisal increase	2,135	2,135
	5,644	5,513
	\$16,457	\$15,005

Equity per share (dollars)



On behalf of the Board

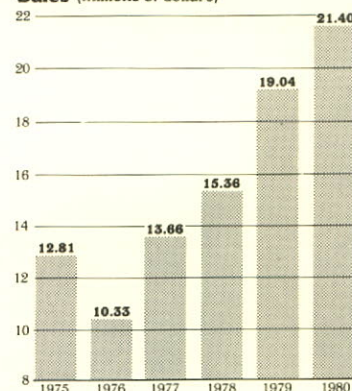
Walter Godbehere, President

James Clarke, Director

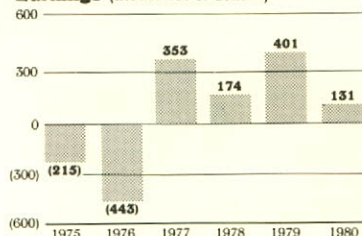
Earnings

	Year ended December 31	
	1980	1979
	(thousands)	
Sales and revenue		
Net sales and operating revenue	\$21,398	\$19,040
Cost and expenses		
Cost of sales and operating	17,371	15,352
Selling and administrative	2,580	2,070
Depreciation	264	260
Amortization of major repairs and improvements	95	65
Interest on long-term debt	77	83
Other interest	935	718
	21,322	18,548
Income before income taxes and extraordinary item	76	492
Income taxes —current	111	—
—deferred	(144)	140
	(33)	140
Income before extraordinary item	109	352
Extraordinary item		
Reduction of income taxes due to prior years' loss carry-forward	22	49
Income for the year—Note 13	\$ 131	\$ 401
Retained earnings		
Opening balance	\$2,206	\$1,805
Income	131	401
Closing balance	\$2,337	\$2,206

Sales (millions of dollars)



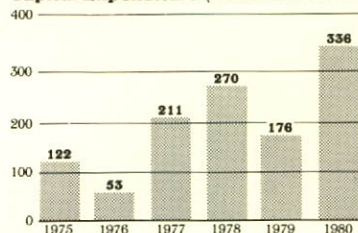
Earnings (thousands of dollars)



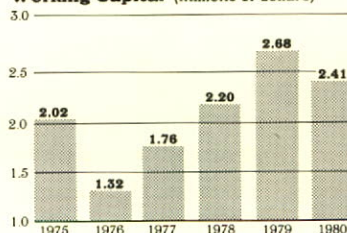
Changes in Financial Position

	Year ended December 31	
	1980	1979
	(thousands)	
Source of funds		
Net income	\$ 131	\$ 401
Depreciation	264	260
Amortization of major repairs and improvements	95	65
Deferred income taxes	(144)	91
Warranty reserve decrease	(24)	(6)
Funds provided from operations	322	811
Deferred profit, aircraft contracts	115	—
Disposal of fixed assets	2	1
Increase in equipment notes payable	—	49
Decrease in deferred charges	—	1
	439	862
Application of funds		
Purchase of property, plant and equipment	336	176
Major repairs and improvements	\$320	\$112
Less receipt of Enersave Grant	66	—
	254	112
Reduction of long-term debt	100	101
Decrease in equipment notes payable	18	—
	708	389
(Decrease) increase in working capital	(269)	473
Working capital January 1	2,677	2,204
Working capital December 31	\$2,408	\$2,677

Capital Expenditure (thousands of dollars)



Working Capital (millions of dollars)



Notes to the Consolidated 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.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary, Airco Products Ltd.

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 \$196,632 in respect of past service. The unfunded obligation in respect of past service costs at December 31, 1980 is estimated at approximately \$1,611,000. Payments in respect of this unfunded liability will be required as follows:

\$196,632 per annum from 1981 to 1984
\$158,604 per annum from 1985 to 1990
\$146,488 per annum from 1991 to 1995
\$ 40,692 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.

2. Inventories	1980	December 31 (thousands)	1979
Raw materials	\$2,461		\$2,801
Work-in-process	2,315		2,025
Finished goods	2,696		2,091
	\$7,472		\$6,917

3. Property, Plant and Equipment

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

	1980	December 31 (thousands)	1979
	Cost plus appraisal increment	Accumulated depreciation	Net
Land	\$ 133	\$ —	\$ 133
Buildings	2,815	822	2,013
Machinery and other equipment	5,619	3,645	1,700
Assets acquired under capital lease	414	207	281
Automotive equipment	185	116	20
	\$9,166	\$4,790	\$4,376
			\$4,147

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:

		1980	December 31 (thousands)	1979
	Cost	Appraisal increment	Total	Total
Land	\$ 95	\$ 38	\$ 133	\$ 133
Buildings	1,247	1,568	2,815	2,815
Machinery and other equipment	5,090	529	5,619	5,068
Assets acquired under capital lease	414	—	414	446
Automotive equipment	185	—	185	133
	\$7,031	\$2,135	\$9,166	\$8,595

4. Bank Loans

The bank loans are secured by a general assignment of book debts under Section 86 of the Bank Act, an assignment of inventories under Section 88, a \$4,000,000 debenture and a \$2,000,000 debenture in

favour of the Royal Bank of Canada, an assignment of fire insurance valued at \$7,500,000, and by the Company's investment in Airco Products Ltd.

5. Long-Term Debt

	1980	December 31	1979
	(thousands)		
Series B, 6% Sinking Fund Debentures, to mature September 1, 1984, authorized and issued \$1,250,000 less amount purchased for redemption	\$ 618		\$ 743
Obligations under capital leases—secured by specific charges on equipment	317		348
	935		1,091
Less current portion:			
Series B, Sinking Fund payments of \$100,000 are due in each of the years 1981 to 1983, less redemptions during the previous year in excess of sinking fund requirements.	75		100
Obligations under capital leases	52		65
	127		165
	\$ 808		\$ 926

6. Lease Obligations

Future aggregate commitments under capital leases as at December 31, 1980 are as follows:

	(thousands)		
	Rental payments	Interest	Reduction of obligation
1981	\$ 83	\$ 31	\$ 52
1982	80	25	55
1983	62	20	42
1984	52	15	37
1985	30	13	17
Subsequent years	160	46	114
Total	\$467	\$150	\$317

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 lease assets:

Number of assets	Equipment type	(thousands) Cost	Lease expiry date(s)	Interest rate(s)	(thousands)	
					Future obligation Current	Non-current
1	Boilers	\$170	01/92	10.77%	\$ 7	\$151
6	Machinery	161	01/84 to 05/85	8.57% to 14.67%	27	97
3	Machinery	45	01/81 to 07/82	13.06% to 16.19%	6	4
1	Office equipment	38	09/82	14.67%	12	13
		\$414			\$52	\$265

Airco Products Ltd. has outstanding lease obligations expiring in 1985 requiring annual payments of \$95,000 before taxes.

7. Deferred Income Taxes Account

	December 31	
	1980	1979
	(thousands)	
Balance at beginning of year	\$361	\$270
Deferred income taxes	(144)	91
Balance at end of year	\$217	\$361

8. Common Shares

	December 31	
	1980	1979
	(thousands)	
Authorized		
—Class "A"—unlimited shares without par value		
—Class "B"—unlimited shares without par value		
Issued		
—Class "A"		
—177,000 shares—Note 13	\$ 810	\$ 810
—Class "B"		
—125,200 shares	240	240
	\$1,050	\$1,050

9. Segmented Information

Industry segments	Divisions			Subsidiary	Consolidated
	Fawcett	Steel	Aircraft (thousands)	Airco Products Ltd.	
1980					
Trade sales	\$4,013	\$2,181	\$8,640	\$6,736	\$21,570
Inter-segment sales	(136)	—	—	(36)	(172)
	\$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	\$ 16	\$ 6	\$ 205	\$ 109	\$ 336
Depreciation expense	\$ 21	\$ 165	\$ 56	\$ 22	\$ 264
1979					
Trade sales	\$5,082	\$4,315	\$4,732	\$5,028	\$19,157
Inter-segment sales	(117)	—	—	—	(117)
	\$4,965	\$4,315	\$4,732	\$5,028	\$19,040
Profit (loss) by segment	\$ 101	(\$ 163)	\$ 416	\$ 138	\$ 492
Income taxes					(140)
Extraordinary item					49
Net income					\$ 401
Identifiable assets	\$4,366	\$4,971	\$3,298	\$2,370	\$15,005
Capital expenditures	\$ 16	\$ 16	\$ 126	\$ 18	\$ 176
Depreciation expense	\$ 23	\$ 171	\$ 50	\$ 16	\$ 260

Fawcett Division produces and sells wood, oil and combination stoves, heaters and furnaces, and also sells purchased appliances. Steel Division manufactures and sells reinforcing steel bars. Aircraft Division produces and repairs aircraft components for commercial and military customers. Airco Products Ltd. manufactures and sells gas and oil warm-air furnaces and also purchases and sells allied equipment.

10. Related Party Transactions

During the year, the Company was involved in a transaction with an affiliated company as follows:

Management fees charged \$100,000

The unpaid balance of these fees in the amount of \$16,673 is included in accounts payable.

11. DREE Grant

During the year, the Company constructed fixed assets which are eligible for a development incentive grant from the Department of Regional Economic Expansion. An offer for a maximum grant of \$120,000 was received and accepted, but no portion of the grant has been recorded as receivable and applied to reduce the cost of the related fixed assets as at December 31, 1980, as certain Government Departments have not satisfied all the required conditions to secure the release of funds.

12. Contingent Liabilities

The Company has guaranteed a subsidiary company bank loan of \$550,000.

13. Earnings Per Share

	1980		1979
	Basic	Fully-diluted	Basic
Income before extraordinary item			
—Class "A"	\$0.36	\$0.35	\$1.17
—Class "B"	0.36	0.35	1.17
Net income for the year			
—Class "A"	0.43	0.42	1.33
—Class "B"	0.43	0.42	1.33

For purposes of calculating fully-diluted earnings per share, the number of common shares was adjusted to reflect the additional shares that would have resulted on exercise of a stock option granted to the Company's president.

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:

1981	\$ 522
1982	13,577
1983	25,525
1984	46,543
1985	105,740

\$191,907

In addition, the Company has accumulated tax losses available to be offset against taxable income in future years totalling \$64,872.

15. Statutory Information

Depreciation recorded in the accounts for the year was \$264,000 (1979—\$260,000).

Parent Company

The Board of Directors consisted of eight members. Their aggregate remuneration as Directors was \$11,200 (1979—\$6,000).

The Board appointed eight officers to serve during the year. Their aggregate remuneration was \$191,000 (1979—\$166,000).

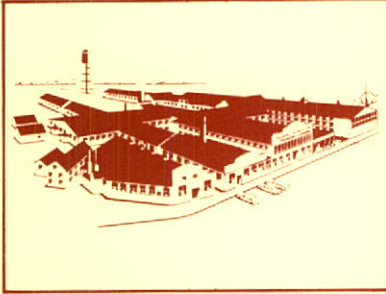
Four persons who served as officers also served as Directors.

Subsidiary Company

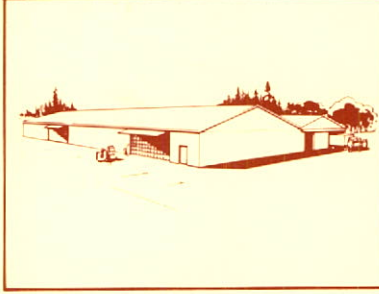
The Board of Directors consisted of five members. No remuneration was paid to any member as a Director. The Board appointed five officers to serve during the year. Their aggregate remuneration was \$148,866 (1979—\$132,197).

Our Plants and Products

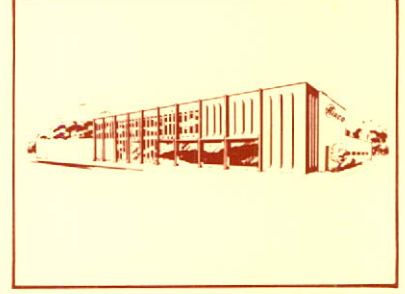
Airco and Fawcett Divisions



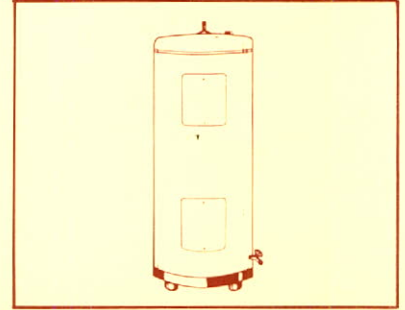
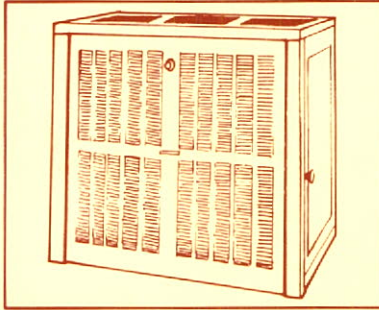
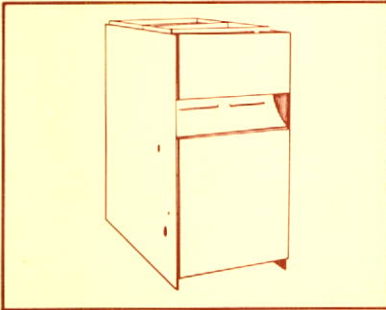
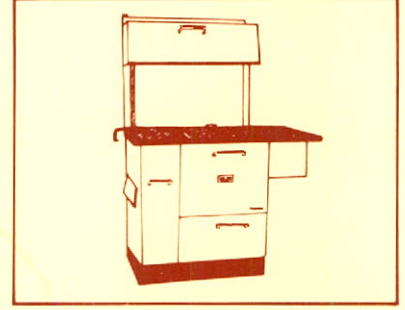
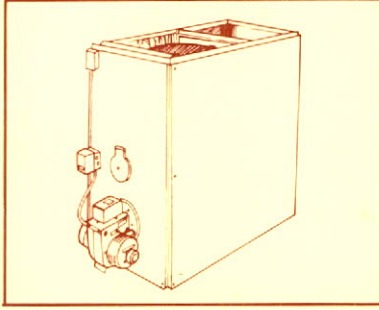
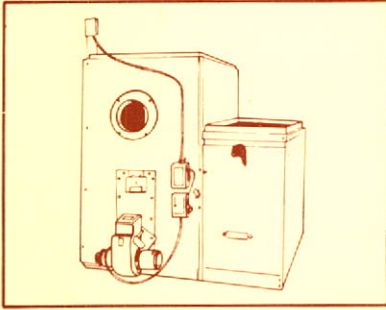
Fawcett Division
Corporate Offices and Plant
Sackville, New Brunswick



Airco Division
Plant
Vancouver, British Columbia



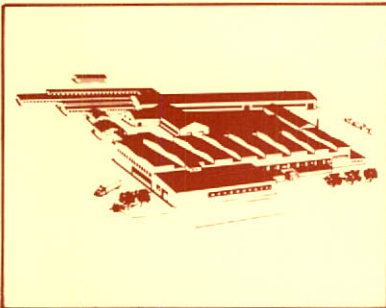
Airco Division
Offices
Vancouver, British Columbia



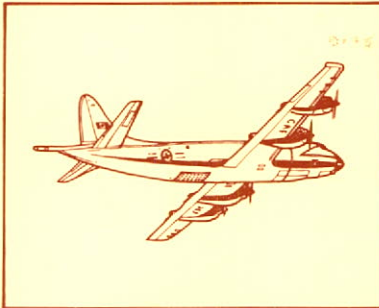
Furnaces — Oil; Gas; Wood; Oil and Wood Combination
Ranges — Oil; Wood; Coal; Multi-Fuel; Electric

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

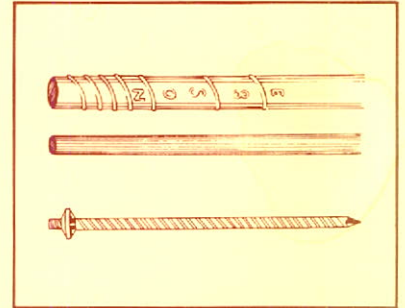
Aircraft and Steel Divisions



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.