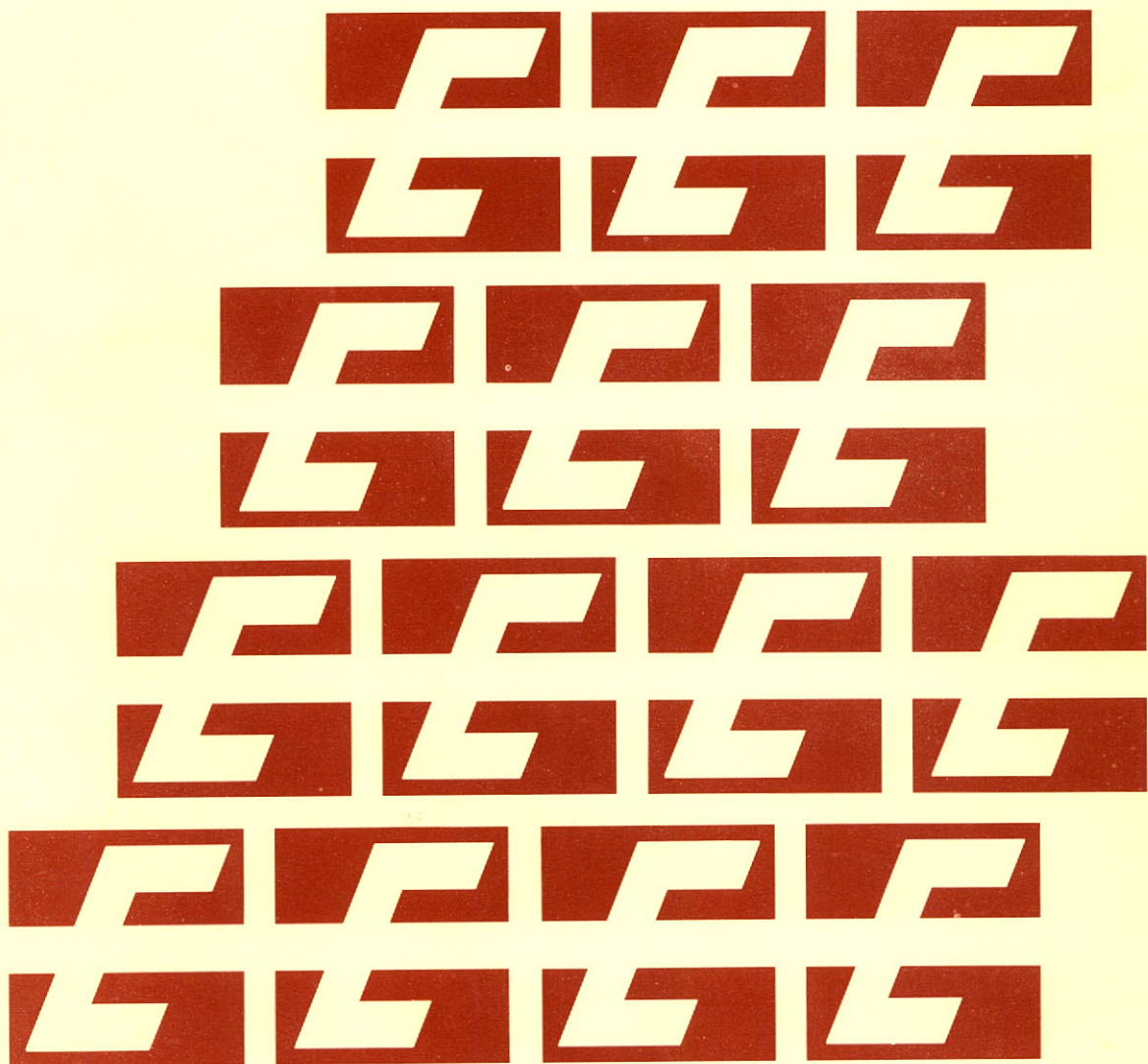


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# Enheat Limited

## Annual Report 1979

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HOWARD ROSS LIBRARY  
OF MANAGEMENT  
AUG 26 1981  
McGILL UNIVERSITY

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# Shareholders

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British Columbia	14
Alberta	9
Saskatchewan	1
Manitoba	6
Ontario	143
Quebec	117
New Brunswick	131
Nova Scotia	61
Prince Edward Island	5
Newfoundland	5
Northwest Territories	1
<hr/>	
Canada	493
<hr/>	
United States	19
Other Countries	1
<hr/>	
Total	513

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# Contents

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Directors & Officers	1
Letter to the Shareholders	2
Historical Synopsis	3
Financial Section	4-8

## Airco Products Ltd.

**Sales:**

\$5.03 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:**

\$4.33 million

**Products:**

- Reinforcing Steel

**Plant Space:**

145,000 sq. ft.

**Number of Employees:**

90

**Location:**

Amherst, Nova Scotia

## Fawcett Division

**Sales:**

\$4.87 million

**Products:**

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

**Plant Space:**

176,000 sq. ft.

**Number of Employees:**

142

**Location:**

Sackville, New Brunswick

## Aircraft Division

**Sales:**

\$4.81 million

**Products:**

- Aircraft Components
- Repair and Overhaul

**Plant Space:**

165,000 sq. ft.

**Number of Employees:**

215

**Location:**

Amherst, Nova Scotia

# Directors and Officers

## Board of Directors

### J. Laurence Black

P.O. Box 68  
Sackville, N.B.

### 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

### Kenneth Dinham

Consultant  
Airco Products Ltd.  
Vancouver, B.C.  
V5L 3L1

### Leonard Ellen

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

### Walter Godbehere

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

### George B. Robertson, Q.C.

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

### 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 Ltd.

### D.R. Downing

Vice-President  
Steel Division

### Walter Godbehere

President  
Enheat Limited

### Hal MacAloney

Vice-President  
Aircraft Division

### Peter A. Neuman

Exec. Vice-President  
Enheat Limited

### B.K. Raju

Vice-President  
Finance & Admin.

### Michel Vennat

Secretary

## 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 & Eastern Trust Co.  
Moncton, New Brunswick

## Registrars

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

## Auditors

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

## Stock Listing

Montreal Stock Exchange

# Letter to the Shareholders



**Walter Godbehere**  
President

Earnings, after provision of \$91,000 for deferred income taxes, for the year ended December 31, 1979, were \$401,000 or \$1.33 per share. This reflects an extraordinary item of \$49,000 representing a reduction of taxes due to prior years' losses. Excluding this, earnings were \$352,000 or \$1.17 per share compared to earnings of \$174,000 or \$0.58 per share for the year 1978.

Your Company enjoyed increased demand for all of its products with the exception of reinforcing steel bar, reflecting the continuing soft industrial construction conditions in the Atlantic Provinces.

Our subsidiary, Airco Products Ltd., experienced a buoyant demand for its warm air gas furnaces and related control apparatus. The majority of the growth in demand was to satisfy a replacement market reflecting consumers' continuing awareness of the need for more efficient heating systems. Fawcett also continued to strengthen its position as a leader in design and manufacture of alternate fuel heating equipment. Several new products were introduced during the year and these combined with our existing products enabled us to make a significant entry into the U.S. market. Substantial growth is expected in this market in 1980.

Our Aircraft Division continued in its efforts to replace a declining work load from the Canadian Armed Forces with work from Commercial customers. These efforts produced some success in 1979. New contracts were

entered into with McDonnell-Douglas for work on their redesigned DC9 (DC9 Super 80) and with DeHavilland to manufacture components for their STOL - DASH 7.

The Steel Division did not have a profitable year due to lack of growth in demand coupled with escalating costs that competitive pricing did not fully reflect in the market place. Your management controlled the operation within parameters that provided a positive cash flow and this will continue to be the criteria of operations until such time as market trends provide additional scope.

During the year a major block of shares held by Structural Inc. and the Warren family of Quebec City was sold to Exco Corporation of Halifax. Concurrently with this, Messrs. Pierre Warren, Jean-Pierre Warren, Jack Cole and Bill Wienand resigned as Directors of the Company and Messrs. R. Cohen, L. Ellen, J. Clarke and G. Robertson were appointed to fill the vacancies.

Shortly after resigning his directorship Mr. Bill Wienand passed away. The Directors, management and employees extend our deepest sympathy to his family. Bill served the Company with dedication over a span of many years.

The Board on behalf of the Shareholders would also like to extend a sincere vote of thanks to the former Directors who fulfilled their responsibilities so diligently.

Looking ahead to the year 1980 we are anticipating further growth in sales, but it is not expected that the competitive market place will provide scope to realize the full profit potential of the increased volumes due to continuing double digit inflation.

The Board of Directors appreciates the continued support and cooperation of our customers, suppliers, employees and shareholders.

A handwritten signature in dark ink, appearing to read 'W. Godbehere', written in a cursive style.

**Walter Godbehere**  
President

# Historical Synopsis

(dollars in thousands except amounts per share)

<b>For the year</b>	1979	1978	1977	1976	1975	1974
Sales	19,040	15,361	13,659	10,328	12,808	15,833
Net Earnings (loss)	401	174	353	(443)	(215)	708
Dividends paid on "A" Shares	—	—	—	—	22	66
Return on equity (loss)	7.3%	3.4%	7.1%	(9.7%)	(4.3%)	13.4%
Capital expenditure	288	270	211	53	122	593
<b>Per Share</b>						
Net earnings (loss)						
"A" Shares	1.33	.58	1.17	(1.47)	(.72)	2.60
"B" Shares	1.33	.58	1.17	(1.47)	(.72)	2.10
Dividends paid on "A" Shares	—	—	—	—	.125	.375
Equity	18.24	16.92	16.35	15.17	16.73	17.88
<b>Year end position</b>						
Total assets	15,005	13,176	11,598	10,543	11,251	12,042
Working capital	2,677	2,204	1,762	1,317	2,017	2,597
Shareholders' equity	5,513	5,112	4,938	4,585	5,057	5,274
Employees	536	493	543	469	485	671
Shareholders	513	564	591	619	637	678
"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	118,000
<b>Ratios</b>						
Working capital	1.33	1.32	1.31	1.27	1.43	1.54
Inventory turnover	2.22	2.29	2.25	2.28	2.75	2.41
Accounts receivable turnover	4.93	4.43	5.44	5.21	4.75	7.06

## Auditors' Report

### The Shareholders, Enheat Limited.

We have examined the consolidated balance sheet of Enheat Limited as at December 31, 1979 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, 1979 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 4, 1980

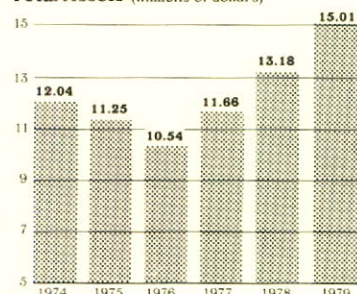
*Touche Ross & Co.*  
Chartered Accountants

# Balance Sheet

## Assets

	1979	December 31 1978
	(thousands)	
<b>Current Assets</b>		
Receivables	\$3,859	\$3,467
Inventories—Note 2	6,917	5,411
Income taxes recoverable	—	22
Prepaid expenses	82	90
	10,858	8,990
<b>Deferred charges</b>	1	2
<b>Fixed assets</b>		
Property, plant and equipment—Note 3	4,146	4,184
	\$15,005	\$13,176

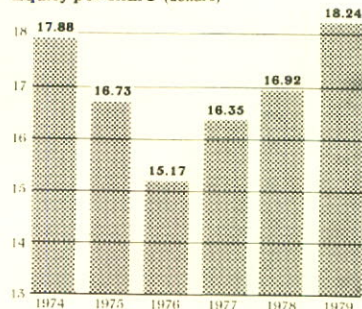
Total Assets (millions of dollars)



## Liabilities and Shareholders' Equity

	1979	December 31 1978
	(thousands)	
<b>Current Liabilities</b>		
Bank loans—Note 4	\$5,210	\$4,558
Accounts Payable—Note 9	2,806	2,080
Current maturities	165	148
	8,181	6,786
Warranty provision	24	30
Long-term debt—Note 5	926	978
Deferred income taxes—Note 7	361	270
<b>Shareholders' equity</b>		
Common shares—Note 8	1,050	1,050
Contributed surplus	122	122
Retained earnings	2,206	1,805
Appraisal increase	2,135	2,135
	5,513	5,112
	\$15,005	\$13,176

Equity per share (dollars)

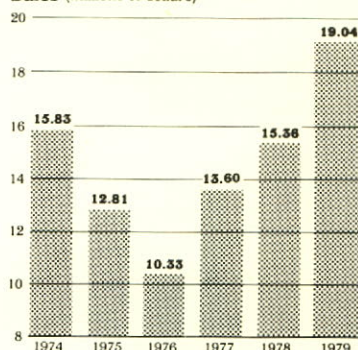


**On behalf of the Board**  
Walter Godbehere, President  
James Clarke, Director

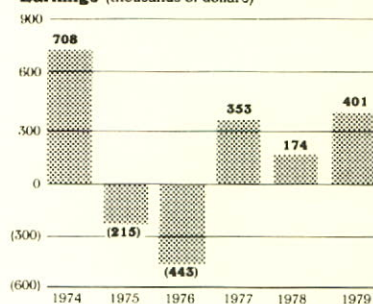
# Earnings

	Year ended December 31	
	1979	1978
	(thousands)	
<b>Sales and revenue</b>		
Net sales and operating revenue	\$19,040	\$15,361
<b>Cost and expenses</b>		
Cost of sales and operating	15,352	12,412
Selling and administrative	2,070	1,874
Depreciation	325	304
Interest on long-term debt	85	51
Other interest	718	462
	18,548	15,103
Income before income taxes and extraordinary item	492	258
Incomes taxes—deferred	140	84
Income before extraordinary item	352	174
Extraordinary item		
Reduction of income taxes due to prior years' loss carry-forward	49	—
<b>Income for the year—Note 11</b>	<b>\$ 401</b>	<b>\$ 174</b>
<b>Retained earnings</b>		
Opening balance	\$ 1,805	\$ 1,631
Income	401	174
<b>Closing balance</b>	<b>\$ 2,206</b>	<b>\$ 1,805</b>

Sales (millions of dollars)



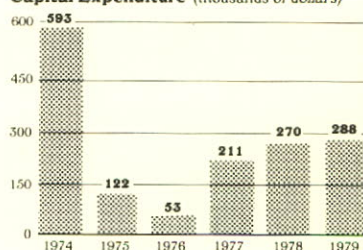
Earnings (thousands of dollars)



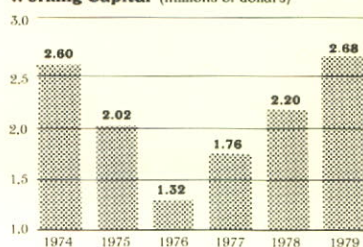
# Changes in Financial Position

	Year ended December 31	
	1979	1978
	(thousands)	
<b>Source of funds</b>		
Net income	\$ 401	\$ 174
Depreciation	325	304
Deferred income taxes	91	84
Warranty reserve (decrease) increase	(6)	7
Funds provided from operation	811	569
Increase in equipment notes payable	49	282
Decrease in deferred charges	1	—
Disposal of fixed assets	1	3
Receipt of DREE Grant	—	9
	862	863
<b>Application of funds</b>		
Purchase of property, plant and equipment	288	270
Reduction of long-term debt	101	151
	389	421
Increase in working capital	473	442
Working capital January 1	2,204	1,762
<b>Working capital December 31</b>	<b>\$2,677</b>	<b>\$2,204</b>

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 subsidiaries, Mitchell Manufacturing Limited and Airco Products Limited.

### 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%

Buildings and equipment acquired in recent years are depreciated on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	40 years
Machinery and other equipment	5 to 20 years

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.

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.

### 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.

### Income taxes

The Company follows the tax allocation method of accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) result in deferred or prepaid taxes.

### Pension plan costs

Total pension costs for the year include the cost of current service as well as funding payments amounting to \$158,553 in respect of past service. The unfunded obligation in respect of past service costs at December 31, 1979 is estimated at approximately \$1,210,000. Payments in respect of this unfunded liability will be required as follows:

\$117,861 per annum from 1980 to 1989
\$105,749 per annum from 1990 to 1995

### 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	1979	December 31 (thousands)	1978
Raw materials	<b>\$2,801</b>		\$1,708
Work-in-process	<b>2,025</b>		1,557
Finished goods	<b>2,091</b>		2,146
	<b>\$6,917</b>		\$5,411



### 3. Property, Plant and Equipment

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

	1979	December 31		1978
		(thousands)		
	Cost plus appraisal increment	Accumulated depreciation	Net	Net
Land	\$ 133	\$ —	\$ 133	\$ 133
Buildings	2,815	802	2,013	2,035
Machinery and other equipment	5,067	3,368	1,699	1,718
Assets acquired under capital lease	446	165	281	275
Automotive equipment	133	113	20	23
	<b>\$8,594</b>	<b>\$4,448</b>	<b>\$4,146</b>	<b>\$4,184</b>

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:

	1979	December 31		1978
		(thousands)		
	Cost	Appraisal increment	Total	Total
Land	\$ 95	\$ 38	\$ 133	\$ 133
Buildings	1,247	1,568	2,815	2,815
Machinery and other equipment	4,538	529	5,067	4,824
Assets acquired under capital lease	446	—	446	364
Automotive equipment	133	—	133	133
	<b>\$6,459</b>	<b>\$2,135</b>	<b>\$8,594</b>	<b>\$8,269</b>

### 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, as well as the Company's investment in Mitchell Manufacturing

Limited and by a \$4,000,000 debenture and a \$2,000,000 debenture in favour of the Royal Bank of Canada. In addition, the bank holds guarantees from Provincial Governments in the sum of \$1,250,000.

### 5. Long-Term Debt

Series B, 6% Sinking Fund Debentures, to mature September 1, 1984, authorized and issued \$1,250,000 less amount purchased for redemption.

Obligations under capital leases—secured by specific charges on equipment.

	1979	1978
	<b>\$ 743</b>	\$ 844
	<b>348</b>	282
	<b>1,091</b>	1,126
Less current portion:		
Series B, Sinking Fund payments of \$100,000 are due in each of the years 1980 to 1983	<b>100</b>	100
Obligations under capital leases	<b>65</b>	48
	<b>165</b>	148
	<b>\$ 926</b>	\$ 978

## 6. Lease Obligations

Future aggregate commitments under capital leases as at December 31, 1979 are as follows:

	Rental payments	Interest	Reduction of obligation
1980	\$100,120	\$ 34,589	\$ 65,531
1981	74,175	28,140	46,035
1982	70,932	22,443	48,489
1983	52,832	17,990	34,842
1984	43,121	14,217	28,904
Subsequent years	183,276	58,312	124,964
<b>Total</b>	<b>\$524,456</b>	<b>\$175,691</b>	<b>\$348,765</b>

### 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	Cost	Lease expiry date(s)	Interest rate(s)	Future obligation	
					Current	Non-current
1	Boilers	\$170,000	01/92	10.77%	\$ 6,285	\$158,069
5	Machinery	123,842	01/84 to 07/84	10.70%	19,229	90,348
6	Machinery	87,547	04/80 to 07/82	13.06% to 14.51%	22,883	9,951
3	Office equipment	64,933	05/80 to 09/82	13.20% to 14.67%	17,134	24,866
		\$446,322			\$65,531	\$283,234

Airco Products Limited has outstanding lease obligations expiring in 1985 requiring annual payments of \$72,000 before taxes.

## 7. Deferred Income Taxes Account

	December 31	
	1979	1978
	(thousands)	
Balance at beginning of year	\$270	\$186
Deferred income taxes	91	84
<b>Balance at end of year</b>	<b>\$361</b>	<b>\$270</b>

## 8. Common Shares

Authorized  
 —Class "A"—250,000 shares without par value  
 —Class "B"—250,000 shares without par value

	December 31	
	1979	1978
	(thousands)	
Issued		
—Class "A"		
—177,000 shares—Note 11	\$ 810	\$ 810
—Class "B"		
—125,200 shares	240	240
<b>Total</b>	<b>\$1,050</b>	<b>\$1,050</b>

## 9. Accounts Payable

Accounts payable includes \$41,667 due to an affiliated company.

## 10. Contingent Liabilities

The Company has guaranteed a subsidiary company bank loan of \$550,000. At December 31, 1979, the Company was liable for open letters of credit totalling \$101,077 (1978 - \$22,609)

## 11. Earnings Per Share

Income before extraordinary item	—Class "A"	\$1.17
	—Class "B"	1.17
Net Income for the year	—Class "A"	\$1.33
	—Class "B"	1.33

## 12. Statutory Information

Depreciation recorded in the accounts for the year was \$325,000 (1978 - \$304,000).

### Parent company

The Board of Directors consisted of nine members. Their aggregate remuneration as Directors was \$6,000 (1978 - \$3,900).

The Board appointed five officers to serve during the year. Their aggregate remuneration was \$166,000 (1978 - \$144,000).

Two 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.

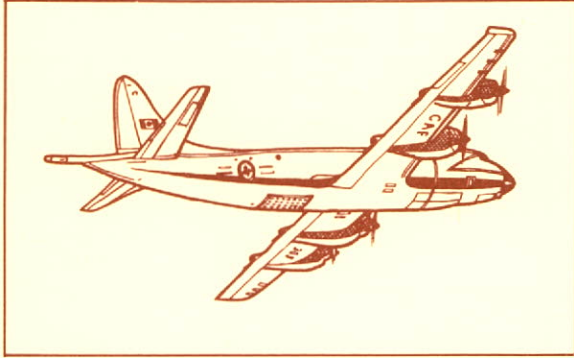
The Board appointed four officers to serve during the year. Their aggregate remuneration was \$107,721 (1978 - \$108,350).

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# Our Products

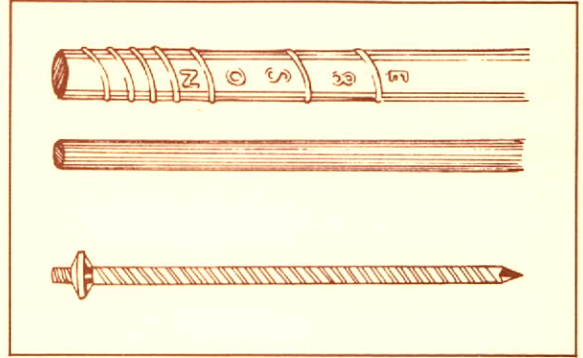
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## Aircraft Division



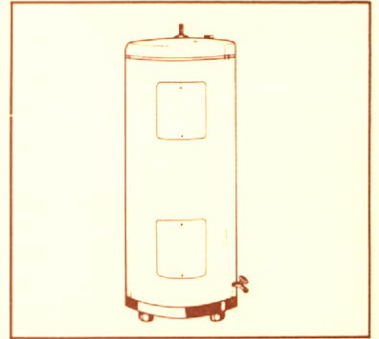
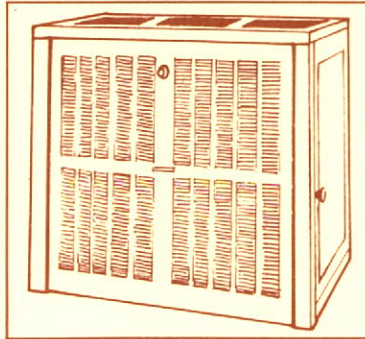
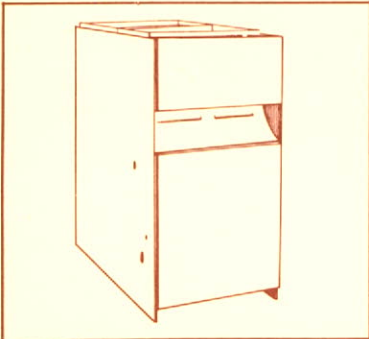
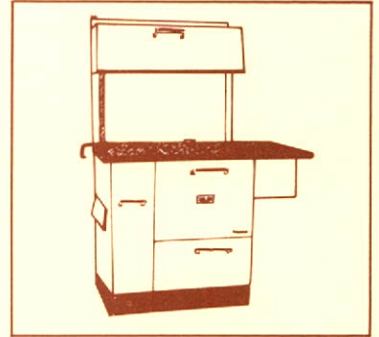
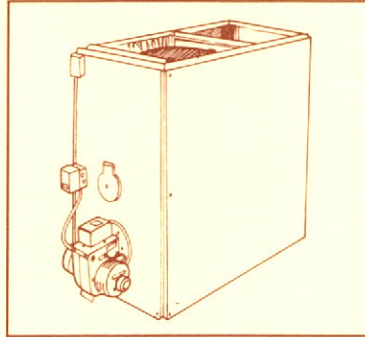
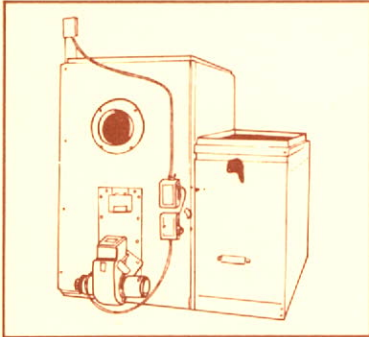
Advanced facilities for the manufacture of components and overhaul and maintenance of aircraft.

## Steel Division



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

## Airco and Fawcett Divisions

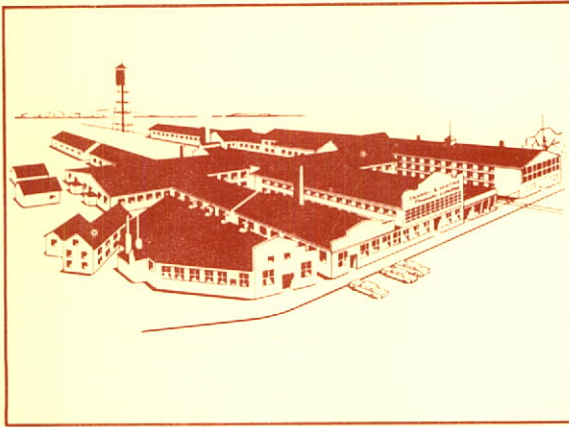


**Furnaces** — Oil; Gas; Wood; Oil and Wood Combination  
**Ranges** — Oil; Wood; Coal; Multi-Fuel; Electric  
**Heaters** — Oil; Wood; Coal; Franklin Fireplaces  
**Water Heaters** — Glass-lined Electric and Gas

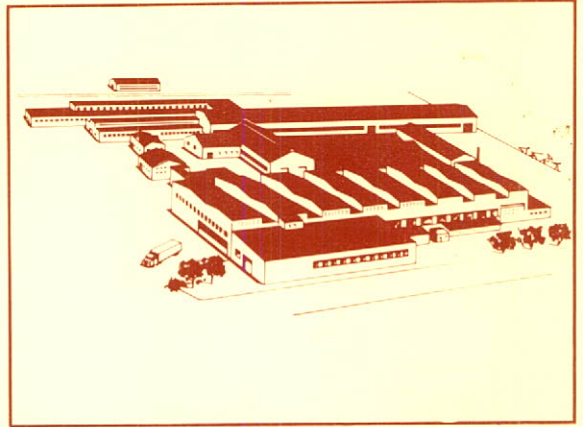
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# Our Plants

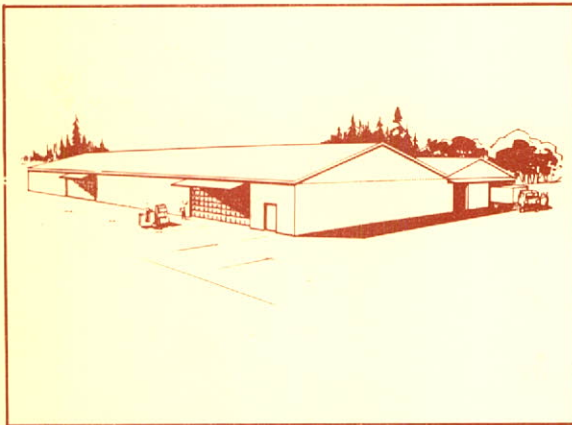
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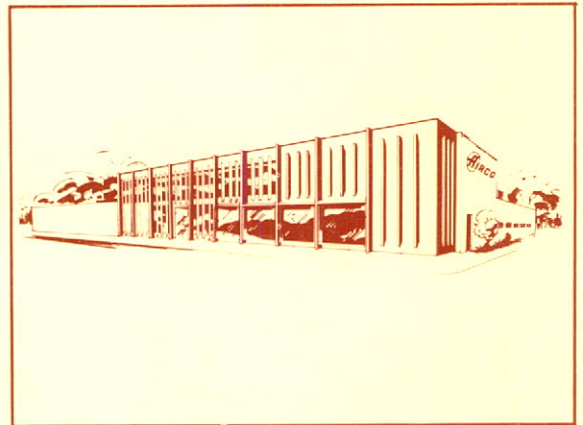
**Fawcett Division**  
Corporate Offices and Plant  
Sackville, New Brunswick



**Aircraft/Steel Divisions**  
Offices and Plants  
Amherst, Nova Scotia



**Airco Division**  
Plant  
Vancouver, British Columbia



**Airco Division**  
Offices  
Vancouver, British Columbia