Enheat Limited
Annual Report '74

Highlights

Highlights

Net sales increased by 17.4% to $15.8 million.

Net income for the year increased by 102% to $708,000.

Working Capital rose by 37% to $2.6 million.

Per share earning increased from $1.39 to $2.60 on "A" shares and from $0.89 to $2.10 on "B" shares

Shareholders

British Columbia	16
Alberta	8
Saskatchewan	5
Manitoba	6
Ontario	175
Quebec	188
New Brunswick	173
Nova Scotia	73
Prince Edward Island	5
Newfoundland	6
Canada	655
United States	19
Other Countries	4
Total	678

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Directors & Officers

BOARD OF DIRECTORS

ROBERT ABRAHAM,
Vice-President,
Structal Inc.,
Quebec 8, P.Q.

JOHN N. COLE,
Vice-Chairman,
Wood Gundy Securities Ltd.,
Montreal, P.Q.

KENNETH DINHAM,
Vice-President,
Airco Products Ltd.,
Vancouver, B.C.

JACQUES LAVIGUEUR,
President,
Lavigueur Assurances Inc.,
Quebec City, P.Q.

DONALD R. SOBEY,
President,
Empire Co. Ltd.,
Stellarton, N.S.

DIMITRI VANDERBELLEN,
St. Adele, P.Q.

MICHEL VENNAT,
Lawyer,
Stikeman, Elliott, Tamaki
Mercier & Robb,
Montreal 102, P.Q.

JEAN-PIERRE WARREN,
President,
Enheat Limited,
Sackville, N.B.

PIERRE WARREN,
Chairman of the Board,
Enheat Limited,
Sackville, N.B.

SENIOR OFFICERS

RODNEY BUY
Vice-President
Aircraft Division

KENNETH DINHAM
Vice-President
Airco

JOHN K. FARRAR
Vice-President
Fawcett Division

WALTER OAKE
General Manager
Steel Division

MICHEL VENNAT
Secretary

JEAN-PIERRE WARREN
President

PIERRE WARREN
Chairman of the Board

MICHAEL D. WRIGHT
Vice-President,
Finance and Treasurer

AUDIT COMMITTEE

J. N. Cole — *Chairman*
Donald R. Sobey
Jean-Pierre Warren

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 & Nova Scotia Trust Company
Moncton, New Brunswick

REGISTRARS

Canadian Trust Company
Montreal, Quebec

Central & Nova Scotia Trust Company
Moncton, New Brunswick

AUDITORS

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

STOCK LISTINGS

Montreal Stock Exchange

Letter from the President

Jean-Pierre Warren
President

I am pleased to inform you that 1974 has been a record year with the achievement of new highs in sales, profits and share earnings. Although the year began strongly, the slumping economy and the decrease in construction activity caused a marked weakening during the second half.

Your company's Management Team has added to its capabilities by the appointment of five new senior officers. These gentlemen bring to Enheat many valuable years of experience in their respective fields, and their combined talents will contribute considerably to the Company's performance during coming years.

In the face of rising costs, and after close examination of production facilities, management decided to rationalize our product lines. We will carry on the manufacture of products which have the most favourable balance of production/inventory/sales/profits. Other items required to complete our marketing line in the Fawcett Division will be supplied to us, bearing our brand name, by other manufacturers. Quality control will continue to be of paramount importance to Enheat in maintaining its reputation in all areas.

It is extremely gratifying to report the resumption of a regular dividend payment on the Class "A" Shares. Also, that early in 1974, your company negotiated a two-year contract with the union representing our employees.

The outlook for 1975 is not unduly gloomy although we do expect a more difficult year. Sales probably will not accelerate during the first six months, therefore profits will be relatively lower.

Due to the present curtailment of housing starts, the Airco and Steel Divisions will be most adversely affected. The Aircraft and Fawcett Divisions should show increases in sales as the year progresses. All divisions are calculated to show profitable operations during 1975.

Management will concentrate on improvement of over-all efficiency and all possible economies in production and cost control. Markets have been assessed for profitability with a view to concentrated exploitation of specific areas.

Phase I of modernizing the Steel Division's production facilities when completed during 1975, will have cost $2 million over the past three years. This upgrading of our capabilities will make it possible to diversify the product lines and will open up tremendous new sales potential in steel.

I wish to express my appreciation to the Management Team, the Directors and to every Employee for the efforts put forth to make 1974 such a successful year. By working cheerfully together, and by searching for every opportunity to excel in our individual tasks, we will make 1975 another good year for Enheat.

Jean-Pierre Warren

Jean-Pierre Warren
President

Airco Division

Kenneth Dinham
Vice-President, Airco

Airco Products Limited, a wholly owned subsidiary of Enheat Ltd., serves the domestic warm air heating industry in Western Canada. Airco's manufacturing facilities are located in Richmond, British Columbia, with General Offices and major distribution outlets in Vancouver. A number of warehouses are maintained in the regional centres of Alberta and British Columbia.

Airco has both Research and Development facilities at the main plant in Richmond, which enable the Company to maintain its fine reputation and product leadership in the warm air heating industry.

Products and Distribution

Among the many products manufactured in the Richmond plant are gas, electric and oil warm air furnaces, metal fittings of every description for the installation of the units, plus registers and grilles.

The distribution system, in addition to marketing products manufactured by Airco, offers a complete range of allied equipment, such as water heaters, venting systems for all types of fuel, electronic air cleaners, heating controls and air conditioning units. Airco Branches are stocked to suit the regional requirements, and are maintained and controlled by the Central Offices in Vancouver.

Outlook

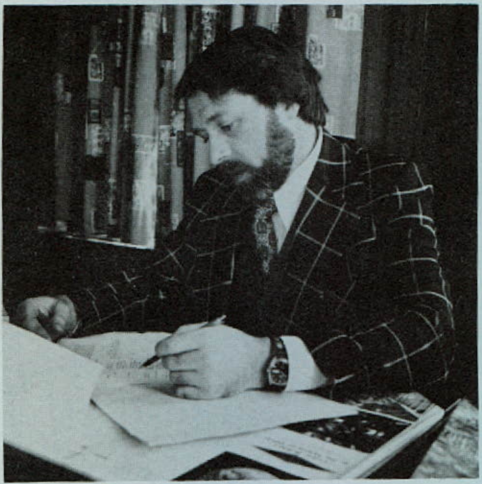
In the past 25 years, Airco has shown substantial growth in unit sales, dollar sales and market penetrations. This growth continued throughout the first half of 1974 but slackened off somewhat during the latter months, due to the substantial cutback in domestic housing starts. It is expected that this downward trend will continue through the first seven months of 1975. However, Airco anticipates that the very real need for housing accommodation will see a turnabout in this market by the end of the year.

Historical Synopsis

(dollars in thousands except amounts per share)

For the year	**1974**	1973	1972	1971	1970
Sales	**$15,833**	13,480	11,739	11,078	9,660
Net earnings (loss)	**708**	350	98	359	(209)
Cash flow	**1,406**	816	311	785	(137)
Dividends paid on "A" Share	**66**	—	44	—	18
Return on equity	**13.4%**	7.6%	2.3%	8.6%	(5.5%)
Capital expenditure	**593**	556	144	47	131
Per share					
Net earnings (loss)					
"A" shares	**2.60**	1.39	.53	1.42	(.71)
"B" shares	**2.10**	.89	.03	.92	(.71)
Cash flow	**4.77**	2.77	1.05	2.66	(.46)
Dividends paid on "A" Shares	**.375**	—	.25	—	.10
Equity	**17.88**	15.56	14.35	14.19	12.94
Year end position					
Total assets	**12,042**	11,161	9,688	8,814	8,581
Working capital	**2,597**	1,894	1,742	1,688	1,088
Shareholders equity	**5,274**	4,590	4,232	4,185	3,816
Employees	**671**	644	655	625	640
Shareholders	**678**	666	715	741	784
"A" shares outstanding	**177,000**	177,000	177,000	177,000	177,000
"B" shares outstanding	**118,000**	118,000	118,000	118,000	118,000
Ratios					
Working capital	**1.54**	1.38	1.45	1.56	1.33
Inventory turnover	**2.41**	3.12	3.39	3.58	3.38
Accounts receivable turnover	**7.06**	5.2	5.5	5.8	3.7

Financial Section



Michael D. Wright
Vice-President, Finance

Your Company achieved a record year, with a sales volume of $15.8 million which is an increase of 17.4% over the 1973 $13.5 million figure.

Earnings after tax of $708,000 were double those for 1973. The return of equity was a favourable 13.4% compared to the 7.6% in the previous year.

This encouraging improvement in the Company's profitability was reflected in earnings per share of $2.60 on Class "A" Shares and $2.10 on Class "B" Shares compared with $1.39 and $0.89 per share, respectively in 1973.

Working Capital increased by $703,000 during the past year to $2.6 million.

Current Assets stand at 1.54 times Current Liabilities.

Shareholder's equity rose to $5.3 million or $17.88 per share. Comparative figures for December 31, 1973, were $4.6 million and $15.56 per share.

1975 may well present various marketing problems, but aggressive management control, improved plant efficiency and continuing sales efforts are looked upon as strong factors towards making 1975 another profitable year.

Auditor's Report

The Shareholders,
Enheat Limited.

We have examined the consolidated balance sheet of Enheat Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co

Chartered Accountants.

Saint John, N.B.,
February 28, 1975.

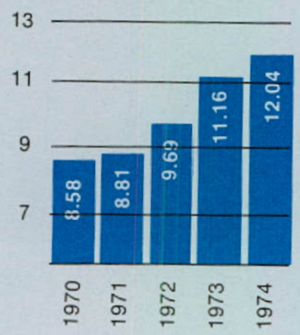
Enheat Limited and Subsidiaries
(formerly Enamel and Heating Products Limited)

Balance Sheet

ASSETS

	December 31 1974	1973 (thousands)
Current assets		
Receivables	$ 2,242	$ 2,690
Inventories — Note 3	5,103	4,063
Prepaid expenses	29	24
	7,374	6,777
Other assets		
Deferred charges	4	19
Property, plant and equipment — Note 4	4,664	4,365
	$12,042	$11,161

TOTAL ASSETS
(millions of dollars)

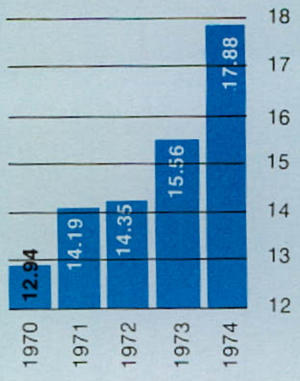


LIABILITIES AND SHAREHOLDERS EQUITY

	December 31 1974	1973
	(thousands)	
Current liabilities		
Bank loans — Note 5	$ 2,956	$ 3,021
Accounts payable	1,606	1,767
Income taxes payable	93	31
Current maturities	122	64
	4,777	4,883
Warranty reserve	50	—
Long-term debt — Note 6	1,374	1,466
Deferred income taxes	567	222
Shareholders equity		
Common shares — Note 7	1,030	1,030
Contributed surplus	122	80
Retained earnings	1,958	1,316
Appraisal increase	2,164	2,164
	5,274	4,590
	$12,042	$11,161

On behalf of the Board:
Jean-Pierre Warren, President
Jack Cole, Director

EQUITY PER SHARE
(dollars)

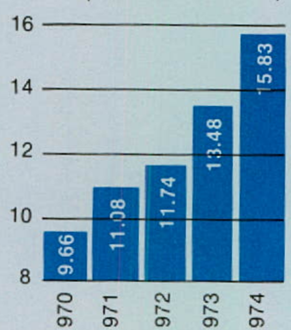


Enheat Limited and Subsidiaries
(formerly Enamel and Heating Products Limited)

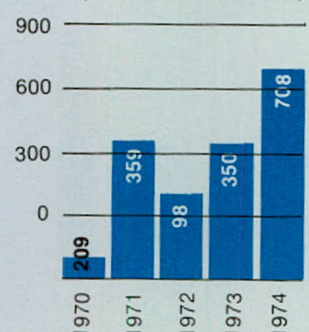
Earnings

	Year Ended December 31 1974	1973
	(thousands)	
Sales and revenue		
Net sales and operating revenue	$15,833	$13,480
Cost and expenses		
Cost of sales and operating expenses	12,286	11,199
Selling and administrative expenses	1,616	1,095
Depreciation	288	215
Interest on long-term debt	86	92
Other interest	369	227
	14,645	12,828
Earnings before income taxes	1,188	652
Income taxes		
Current	135	80
Deferred	345	222
	480	302
Net earnings	708	350
Earnings per share "A"	2.60	1.39
"B"	2.10	.89
Retained earnings		
Open balance	1,316	966
Net earnings	708	350
	2,024	1,316
Cash dividends paid	66	—
Closing balance	$1,958	$1,316

SALES
(millions of dollars)



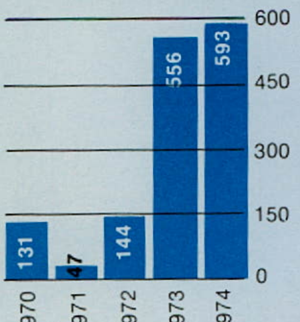
EARNINGS
(thousands of dollars)



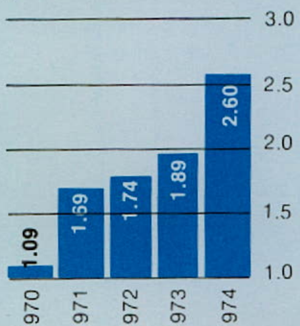
Source & Application of Funds

	Year Ended December 31 1974	1973
	(thousands)	
Source		
Net earnings	$ 708	$ 350
Depreciation	288	215
Amortization of deferred operating costs	15	29
Deferred income taxes	345	222
Warranty reserve	50	—
Funds provided from operations	1,406	816
Government grant	42	—
Disposal of fixed assets	6	7
	1,454	823
Application		
Property, plant and equipment	593	556
Increase in costs deferred	—	15
Long-term debt reduction	92	100
Dividends on class "A" shares	66	—
	751	671
Working capital		
Increase during year	703	152
Opening balance	1,894	1,742
	$2,597	$1,894

CAPITAL EXPENDITURES
(thousands of dollars)



WORKING CAPITAL
(millions of dollars)



Notes to the Consolidated Financial Statements

1. 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.

2. 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.

Rounding

All dollar amounts, except statutory information, are presented to the nearest $1,000.

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. 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.

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.

3. INVENTORIES

Inventories are valued at lower of cost and net realizable value.

	1974	1973
	(thousands)	
Raw materials	$2,172	$2,235
Work in process	502	581
Finished goods	2,429	1,247
	$5,103	$4,063

4. PROPERTY, PLANT AND EQUIPMENT

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

	1974 (thousands)			1973
	Cost and Appraised Value	Accumulated Depreciation	Net	Net
Land	$ 163	$ —	$ 163	$ 163
Buildings	2,884	707	2,177	2,207
Machinery and other equipment	4,654	2,377	2,277	1,941
Automotive equipment	173	126	47	54
	$7,874	$3,210	$4,664	$4,365

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:

	1974 (thousands) Cost	Appraisal Increment	Total	1973 Total
Land	$ 125	$ 38	$ 163	$ 163
Buildings	1,288	1,596	2,884	2,884
Machinery and other equipment	4,124	530	4,654	4,083
Automotive equipment	173	—	173	178
	$5,710	$2,164	$7,874	$7,308

5. BANK LOANS

The bank loans are secured by a general assignment of book debts under section 86 of the Bank Act, as well as by assignment of inventories under section 88.

6. LONG-TERM DEBT

	1974 (thousands)	1973
4¾% Sinking Fund Debentures, Series A, maturing April 1, 1976		
Authorized and issued $1,250,000 less purchased for redemption Sinking fund payment of $49,500 is due April 1, 1975	$ 394	$ 401
6% Sinking Fund Debentures, Series B, maturing September 1, 1984		
Authorized and issued $1,250,000 less purchased for redemption	1,072	1,122
Sinking fund payments of $50,000 are due September 1 in each of the years 1975 to 1977 and of $100,000 in each of the years 1978 to 1983		
Note payable — Crown Assets Disposal Corporation payable in equal installments of $15,111 in 1975 and 1976 plus interest at 12% per annum	30	—
Government of Canada — capital assistance agreement, payable in annual installments of $7,082	—	7
	1,496	1,530
Less: current maturities	122	64
	$1,374	$1,466

Sinking fund requirements and debt maturities during the next five years are as follows:

1975	$ 99,500	1976	$359,500
1977	50,000	1978	100,000
1979	100,000		

At December 31, 1974 there was a deficiency in series A sinking fund requirements of $35,500, which was corrected prior to the dating of our report.

7. COMMON SHARES

Authorized — Class "A" — 250,000 shares without par value		
— Class "B" — 250,000 shares without par value		
		(thousands)
Issued — Class "A" — 177,000 shares		$ 810
— Class "B" — 118,000 shares		220
		$1,030

Stock Option
During the year the company entered into stock option agreements with two of its officers for 16,000 Class B shares. The options are exercisable at $2.75 per share until December 31, 1976. Fully diluted earnings per share for 1974 are $2.55 for Class A and $2.03 for Class B.

8. STATUTORY INFORMATION

Depreciation recorded in the accounts for the year was $287,697 (1973 — $215,384)

Parent company
The Board of Directors consisted of nine members. Their aggregate remuneration as Directors was $3,000.

The Board appointed six officers to serve during the year. Their aggregate remuneration was $90,836.

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 four officers to serve during the year. Their aggregate remuneration was $95,000.

9. Airco Products Limited has outstanding lease obligations expiring in 1985 requiring annual payments of $69,000 before taxes.

Aircraft Division

Rodney Buy
Vice-President, Aircraft Division

Initial involvement with the Aircraft Industry took place during World War II when major contracts were undertaken, including the complete assembly of 200 English Anson Aircraft — 400 Canadian Anson MkV's — 60 Fleet Finch Aircraft; in addition, repair and overhaul was carried out on 300 Ansons — 50 Mosquito Bombers — 40 Fleet Finchs — 40 Hurricane Fighters.

Today, occupying a plant space of 165,000 sq. ft. in Amherst, N.S., the Division maintains a Repair and Overhaul Base, providing R & O services for the CAF as well as manufacturing aircraft components for manufacturers such as Boeing, Douglas, DeHavilland, Lockheed and Grumman.

Products and Applications

The wide variety of products manufactured by the Aircraft Division includes wing spoilers, dive flaps, fins and stabilizers, elevators, complete empennage assemblies and aft fuselage sections.

These components, the 'building blocks' of the aircraft industry, are used throughout the world in both commercial and military aircraft. All aircraft utilize one or more of the types of components manufactured by Enheat Aircraft Division.

Manufacturing and Quality Control

Utilizing a fully equipped Machining and Fabrication Department, a Metal Bonding facility, a Metallurgical and Chemical Laboratory, a Process Finish Department fully equipped for Plating and Finishing, a Tool Room, an Aircraft Planning Group and highly skilled Aircraft Assemblers, the production of top quality products continued as the guiding principle of the Division during 1974.

Specific standards and tests for in-process surveillance of all manufacturing, and the overall Quality Control Program in compliance with customer requirements including DND 1015 (Q.C. specification for Defence contracts) assure the achievement of the high level of reliability which is a prerequisite in our business.

Our Q.C. Program is accepted on a reciprocal agreement with the counterpart in the United States Defence Programs as well as others, including Great Britain.

1974 Results

This division achieved a 20% increase in invoiced-shipped sales in 1974 over those of 1973. This was, however, not accompanied by a similar increase in profits. The program instituted to correct the falloff in profits includes the regrouping of our Management Team and planned introduction of an in-house computer capability.

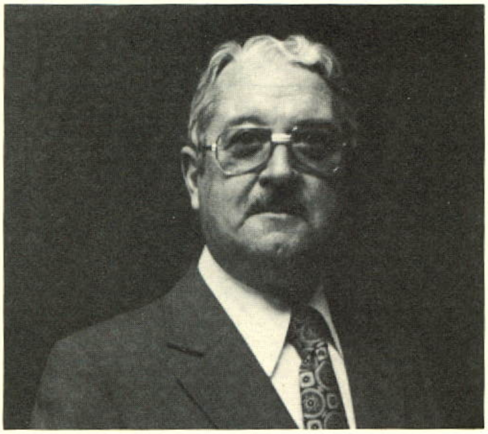
Outlook

The outlook for 1975 is encouraging though not subject to a precise projection because of the uncertainty that still exists regarding the course of the domestic and world economy.

The major area of uncertainty is the Defence section of our domestic market in which we are involved with the Repair and Overhaul of components for CAF Patrol Aircraft. The pending decisions by the Canadian Government regarding the new LRPA and the future of the Argus and Tracker aircraft, which form a large portion of our present market, have a strong bearing on an important segment of our business.

If the general economy affecting Aircraft sales experiences a meaningful increase during the year, this expanded market for our aircraft components, when coupled with the maintenance of present levels of business in the Defence sector, should result in a significant increase in sales and earnings in 1975.

Fawcett Division



John K. Farrar
Vice-President, Fawcett Division

The Fawcett Division, with an area of 176,000 square feet of manufacturing and warehousing space is situated in Sackville, N.B.

Plant facilities include machinery and equipment for light to medium gauge steel fabrication, welding, enameling and a cast iron foundry currently for proprietary lines. A complete line of galvanized items is produced for use in the installation of ducted warm air and ventilating systems for residential and commercial buildings. A warehouse is located in Halifax, N.S. for distribution of our complete product range in this trading area. Fawcett sales personnel effectively cover the four Atlantic Provinces. In recent years our prime market area has been the Atlantic Provinces and Quebec. Mass merchandisers sell several of our models, some of these on a national basis, both through retail stores and catalogue sales.

Products

This division's manufactured product lines are primarily related to the domestic consumer and house building industry — Oil Fired Warm Air Furnaces, Solid Fuel and Oil Ranges, Oil Space Heaters, Electric Water Heaters and cast iron Franklin Stoves. Additional white goods or appliances are purchased from reputable manufacturers, with the Fawcett name applied, to provide a complete product line for the Fawcett dealers. These items are Electric Ranges, Refrigerators, Freezers, Washers and Dryers. This policy permits our sales organization to market a totally related, consumer-oriented line of quality Fawcett-branded items.

In maintaining Fawcett's established high quality standards, the Research and Development Department carries on continuous evaluation of present products, the investigation of improvements, and the development of future concepts. Several new products are under consideration for production during 1975.

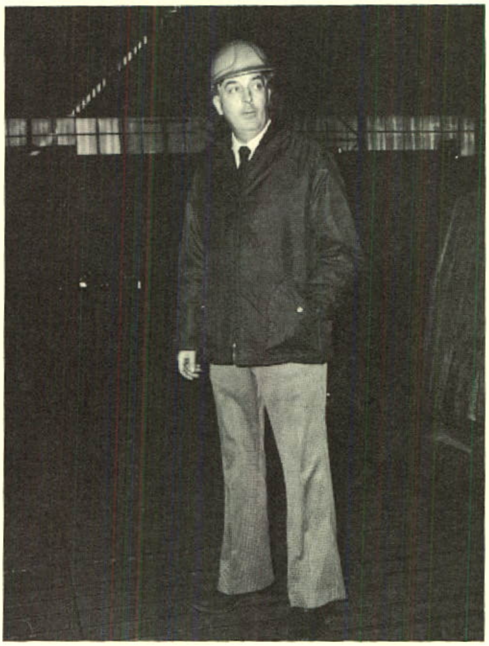
Plant Investment

Plans are well underway for installation of new machinery in the Sheet Metal Shop which will improve both our productivity and competitive position. Work will also continue to better the effective output of the foundry operation. Material handling procedures and warehousing methods are being examined to determine the most efficient distribution of product.

Outlook

Domestic housing starts and completions are down considerably from 1974 and this condition will likely continue for the first three quarters of 1975. However, by exercising production and cost controls, and pursuing an aggressive marketing program, the Fawcett Division expects to increase its market share with a related upswing in sales volume and profitability.

Steel Division



Walter Oake
General Manager, Steel Division

The Steel Mill Division in Amherst, N.S. occupies thirteen acres and provides 145,000 square feet of building space to house the production, maintenance and fabricating departments. All production facilities are housed in modern steel buildings with overhead cranes. These buildings have been erected during the last eleven years.

The Mill's facilities include a Scrap Storage and Processing Yard, an Electric Furnace Melt Shop, a Metallurgical Laboratory, a Rolling Mill and storage and handling facilities for semi-finished steel. The Mill specializes in the production of reinforcing bars for concrete construction. A major part of the bar production is transferred to an adjacent fabricating department where this steel is processed to architect's and contractor's specifications. All production facilities are supported by a Maintenance Department and an Engineering Group.

Plant Improvement

Modernization plans for the Steel Division are presently being finalized. These plans will increase the productivity of the Melt Shop and the Rolling Mill and simultaneously will increase the total tonnage capacity of the Rolling Mill.

Review

The first ten months of 1974 saw an extremely strong demand for rolled steel products which then began to slacken off toward the end of the year. Sales of the division for the twelve month period were up 52% over the same period in 1973, profits increased proportionately.

Outlook

We expect the lower demand for our product to continue until the third quarter of 1975, at which time it is expected that industries inventories will have been reduced and new industrial and commercial construction activities will have started. This anticipated situation will assist in bringing sales and earnings back to a normal level.

AIRCO PRODUCTS LTD.

SALES
$3.30 million
PRODUCTS:
— Warm Air Furnaces
— Registers
— Metal Fittings
PLANT SPACE
75,000 sq. ft.
NUMBER OF EMPLOYEES
105
LOCATION
Vancouver, British Columbia

STEEL DIVISION

SALES
$5.79 million
PRODUCTS
— Reinforcing Steel
— Plain Rounds
PLANT SPACE
145,000 sq. ft.
NUMBER OF EMPLOYEES
200
LOCATION
Amherst, Nova Scotia

FAWCETT DIVISION

SALES
$4.13 million
PRODUCTS
— Oil & Electric Ranges
— Warm Air Furnaces
— Ductwork
— Franklin Heaters
PLANT SPACE
176,000 sq. ft.
NUMBER OF EMPLOYEES
185
LOCATION
Sackville, New Brunswick

AIRCRAFT DIVISION

SALES
$2.61 million
(80% Government 20% Commercial)
PRODUCTS
— Aircraft Components
— Repair and Overhaul
PLANT SPACE
165,000 sq. ft.
NUMBER OF EMPLOYEES
181
LOCATION
Amherst, Nova Scotia