C

ELECTROHOME Limited

ANNUAL REPORT 1998

Corporate Profile

Electrohome is a global company that specializes in visual communications. Our products and services are sold to customers with complex presentation and mission-critical requirements in over 50 countries around the world. Our primary focus is the development, manufacturing and marketing of high-brightness and high-resolution projection systems used in control rooms, large-audience venues and Fortune 500 meeting rooms. We are also a major participant in the rapidly-emerging advanced visualization marketplace as an active equity partner to providers of virtual immersive environment systems, hardware and software.

Our Mission

To advance visual communications through innovative products and services.

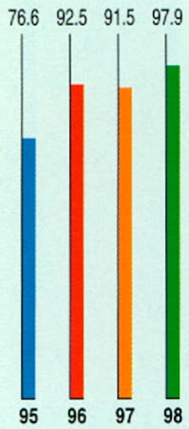
Our Vision

Global leadership in highly specialized visual communications.

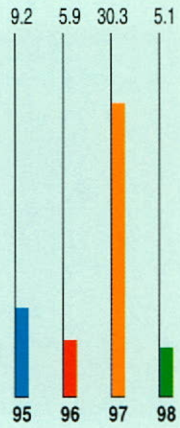
Our Beliefs

We will remain a privately-controlled, Canadian public company. We will operate through innovative and growing businesses that address well-defined markets. We will provide an adequate return to our shareholders, plus benefits to our employees and the communities in which we are located, through the mutual efforts of the corporation and its most important asset: our people.

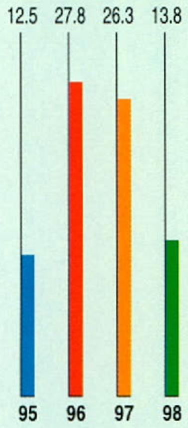
The Year at a Glance



Total Revenue
in millions of dollars



Net Earnings
in millions of dollars



Total Debt
in millions of dollars

(thousands, except per share amounts)	**1998**	1997
Operating results		
Revenue	**$ 97,873**	$ 91,522
Research and development expenses	**7,952**	7,137
Operating income (loss)	**(6,723)**	736
Gain from discontinued operations	**10,690**	27,876
Net earnings	**5,116**	30,260
Per Class X and Y share	**0.63**	3.78
Financial position		
Fixed assets (net)	**9,239**	9,472
Total debt	**13,772**	26,353
Shareholders' equity	**29,141**	93,829

Quarterly information

	Revenue		**Earnings (loss)**		**Earnings (loss) per share**	
	1998	1997	**1998**	1997	**1998**	1997
First quarter	**$ 25,117**	$ 19,060	**$ 9,516**	$ 369	**$ 1.18**	$ 0.05
Second quarter	**21,741**	19,388	**(1,841)**	(23,259)	**(0.23)**	(2.90)
Third quarter	**20,972**	25,423	**(1,699)**	2,140	**(0.21)**	0.27
Fourth quarter	**30,043**	27,651	**(860)**	51,010	**(0.11)**	6.36
	$ 97,873	$ 91,522	**$ 5,116**	$ 30,260	**$ 0.63**	$ 3.78

Fiscal 1998 was more than a year of transition; Electrohome became a new company.

John A. Pollock
Chairman and Chief Executive Officer

Highlights

Over the past fiscal year, we continued to direct our efforts towards maximizing shareholder value.

- In November 1997, the Company sold 1.3 million shares of its investment in Baton Broadcasting Incorporated ("Baton"). This significantly reduced our debt and strengthened our balance sheet.
- On April 1, 1998, through a corporate reorganization, Electrohome Limited ("Electrohome") transferred its broadcast assets (7.0 million common shares of Baton) to Electrohome Broadcasting Inc. ("EBI"), a newly-created public company. Electrohome continues to focus on visual communications products and services, through its Projection Systems and Advanced Visualization operations.
- In the past fiscal year, Projection Systems successfully launched a series of new products based on digital reflective technologies. We expect these products to account for more than 70% of divisional revenues in fiscal 1999.
- During the final quarter of fiscal 1998, the Company made equity investments in two businesses that complement our market interests.
- The recent $1.50 to $1.60 market price of Electrohome's shares has been tracking well below our expectations. The book value per share was $3.58 at August 31,1998.

Reorganization

Prior to the reorganization, Electrohome was comprised of two very distinct businesses: one with a 16.4% equity position in Baton and the other with a high-tech visualization focus. The reorganization created two pure investment opportunities.

On April 1, 1998, shareholders of Electrohome exchanged their existing holdings for the same number of shares in each of Electrohome and EBI. The two companies trade on The Toronto Stock Exchange – Electrohome under the symbols ELL.X and ELL.Y, EBI under EBI.X and EBI.Y.

Financial Results

The Company's annual and historical results have been restated to exclude the Broadcast business, now included in "Gain from discontinued operations - Broadcast". Ongoing results consist primarily of our Projection Systems operation.

Revenues rose 7% in fiscal 1998. However, earnings before discontinued operations were lower, with a loss of $5.6 million compared to a gain of $2.4 million in fiscal 1997. Gains from discontinued operations were recorded in both periods. Fiscal 1998 earnings were $5.1 million compared to $30.3 million in fiscal 1997.

Fiscal 1998 saw a decline in demand for products using cathode ray tubes (CRTs), as new products based on Digital Reflective Technology (DRT) and Liquid Crystal Display (LCD) gained acceptance. We anticipated this change and introduced five new products during the year. These introductions, however, were delayed by technical difficulties resulting in increased development and marketing costs and soft mid-year sales. These problems are now resolved. The sales of new products in the last two months of the year were up 26% over the same period in fiscal 1997.

Our new product platforms feature advanced designs that use two types of reflective technologies that deliver brighter and higher resolution pictures desired by the most discriminating users. Their superior image, uniformity and colour consistency are ideally suited to high-end applications.

Outlook

Electrohome Limited is now a highly focused company. Projection products and services plus strategic investments in related high technology visual communication businesses provide significant opportunities for the future. Our concentration on the high performance projection segment delivering unique products and services through our customer oriented organization will continue to be our strength. In addition, we will investigate, and where appropriate invest, in opportunities in complementary advanced visualization markets.

The broad range of new products introduced in 1998 plus planned additions in fiscal 1999 provide a solid foundation for future growth. These advancements, together with a strong balance sheet, our portfolio of new and planned investments, and our restructured and strengthened organization, all point to improved financial performance in 1999.

I want to thank our customers, suppliers and employees for their continued trust and support through this period of change. All of us at Electrohome are committed to maintaining our Company's leadership within the industry, and to increasing the value of our shareholders' investment.

On Behalf of the Board,

J.A. Pollock
Chairman and Chief Executive Officer, December 2, 1998

Electrohome large-screen projectors: brighter colours, sharper resolution, higher quality – the brilliant solution!

Gerry Remers
Vice-President and General Manager, Projection Systems

In control rooms around the world, Electrohome large-screen projectors display the data needed to monitor and optimize mission-critical communications systems, transportation networks, and public utilities. Our competitive edge? Round-the-clock reliability and superior graphics.

For concerts, new product launches and annual business meetings, large-screen displays create a sense of drama and showmanship. That's why rental/staging houses, large corporations, institutions, laboratories and government agencies rely on our projectors. They know they can count on Electrohome's high-brightness, brilliant graphics and superior video to provide high-impact presentations.

1998 – setting the stage for success

While financial performance for fiscal 1998 was disappointing, the division is now well positioned for growth. An exciting new product line marks the completion of a major three-year effort.

As tangible evidence, the last two months of fiscal 1998 saw a marked increase in revenues. The launch of the new VistaGRAPHX™ 7000 Roadie projector, as well as increased availability of the HAL DLV1280 projector, contributed significantly to this improved performance. Record quarterly sales of $30 million in the final quarter of fiscal 1998 provide a solid stepping stone for 1999. Our new products are expected to account for 70% of our revenues in fiscal 1999.

Sales of CRT product, however, continue to decline due to a significant increase in competitive LCD-based projectors.

Aggressive spending on new products pushed research and development expenses to an all-time high in fiscal 1998. In addition, increased marketing efforts and costs associated with organizational change added substantially to the expense base.

Fiscal 1999 will see expense reductions as the business re-focuses its efforts on its chosen markets. Benefits are also expected to accrue from the organizational changes that were put into place in late fiscal 1998.

Purpose-built for the rental/staging market, the VistaGRAPHX™ 7000 Roadie is currently the world's premier 3-chip DLP™ video projector for large audience events.

Caesar's Palace, LasVegas, USA

The official All Star Café, Cancun, Mexico

1999 – Capitalizing on new markets, products, strategies, and channels

Operational plans for fiscal 1999 reflect our decision to remain a major player in the high-end marketplace. As demand declines for CRT products in the mature markets, our new products based on digital reflective technology have received broadening market acceptance. Nonetheless, CRT products continue to be an important contributor as we address the needs of the advanced visualization market.

For 1999, our target markets are customers seeking exceptional performance. We have developed our product strategies accordingly. Product introductions planned for fiscal 1999 include:

- New products that take advantage of the highly successful Texas Instruments' Digital Light Processing (DLP™).
- Significant enhancements to our existing VistaGRAPHX™ and Roadie products to deliver even higher performance.
- A broader range of up-scale high-resolution products based on IBM's Digital Light Valve (DLV) technology.

As well, to meet specific market windows, we will continue to market some lower priced OEM products. This means extending and improving our desktop presentation product line in terms of brightness and resolution.

Projection Systems

David B. Lowater
President and Chief Operating Officer, Visual Communications

Mr. Lowater will retire on April 15th 1999 after forty years of service with the company. David's contribution to the growth and success of Projection Systems, as well as a number of other divisions during his career with Electrohome, is gratefully acknowledged.

Over the past several years, low-end portable projectors have eroded our share in the traditional business and training room segments. Our strategy to address this market shift is to move up-market with higher performance products. Initial results indicate this strategy is succeeding.

Along with these product moves, we have upgraded our channels to market. This includes expanding our coverage of the rental/staging, theatre, auditorium and post-production markets. Our distribution strategy now includes stronger focus on developing "high-brightness" markets. To reach this new customer base, we have conducted numerous open houses and product demos.

Captivating market products

Our new customers in the captivating industry recognize the strengths of the Roadie and other DLP products, using them at large stage shows, major conventions, product launches and meetings.

Our major successes include sales to the industry's leading rental/staging customers such as LMG and ITS in Florida as well as Audio Visual Projection Services in Arizona. Our North American and European customer lists expand weekly.

Many major German broadcast studios - such as ARD, ZDF and SAT1 – use our Vista line as a production backdrop, and for post-production work. Vista appeals to these discriminating users because its purity of colour and repeatability of grayscales allow them to perfectly match the pictures on their studio monitors.

Over the next year, we will continue to expand distribution in these markets. Our goal is to become a major supplier to this new and growing segment.

Control room products

In the high-resolution market, the HAL DLV 1280, incorporating IBM's light engine, is quickly becoming the control room standard. Current users include AT&T, Manitoba Hydro, GTE and Prudential Life Assurance. HAL is also the choice of many scientific labs, such as Lawrence Livermore, for simulation work. Based on our initial success, we will continue to work aggressively with IBM to expand this product line and to continue to improve performance.

Our newest technology platform, the world's first digital light valve projector with SXGA resolution, the HAL series - DLV1280.

Home theatre products

Emerging HDTV standards in the U.S. are driving demand for high-end home theatre products, and we foresee robust growth in this segment. To take advantage of this growing market, we have expanded our participation by adding Runco to our list of OEM customers, as a DLP based supplier of high-end home theatre products. As well, we continue to have great success selling our high-end CRT line to Vidikron Inc., our traditional OEM home theatre supplier.

Telemig, Brazil

Drax Power Station, United Kingdom

Virtual reality products

Virtual Reality and 3D applications are continuing areas of strength for our CRT line. Over the past year, we re-engineered the Marquee line (Ultra series) to improve horizontal frequency response to an industry leading 152kHz.

The major changes in our organizational structure over the past year improve our focus on the markets we address best. We can now respond more quickly to changes in the marketplace, reducing time to market for new products. At the same time, we continue to provide exceptional customer satisfaction.

We are confident these factors will contribute towards our success in fiscal 1999 and well into the new millennium.

Advanced Visualization – faster speeds, lower costs, improved quality...and more sizzle!

Dan Wright
Vice-President, Advanced Visualization and Chief Financial Officer

Automotive engineers use full-size imagery of car designs to shave months and millions of dollars off design processes. Geophysicists use computer-enhanced seismic imagery to navigate through millions of years of sedimentation, quickly locating rich oil deposits. Film producers use extra large screens and interactive graphics to create exciting entertainment experiences.

Welcome to the new world of Advanced Visualization. A world where computer, display and interaction technologies are being combined to lower customer costs, improve quality, speed up decision-making and add sizzle to new products.

Electrohome has years of experience and a solid reputation in the simulation and control room marketplaces. Using this valuable base, in 1998 we created the Visualization Group to capitalize on opportunities in the rapidly growing visualization industry.

The Visualization Group operates through equity positions in three strong companies with tremendous ideas, people and potential. Each of these companies serves the needs of a distinct market segment:

- Fakespace, Inc. (industrial, geophysical, research and military),
- Immersion Studios Inc. (entertainment), and
- Robotel Inc. (training & education)

Fakespace
Real Tools for Virtual Worlds™

Fakespace, Inc – award-winning virtual reality designs

Established in 1988 and based in California's Silicon Valley, Fakespace has a long-standing global reputation for visualization innovation.

Guided by their Real Tools for Virtual Worlds™ vision, Fakespace delivers displays, tools and software that provide math-accurate imagery, plus natural and intuitive interaction in virtual environments. Their award-winning and comprehensive product lines include personal immersion displays, large-screen collaborative displays, and interactive devices

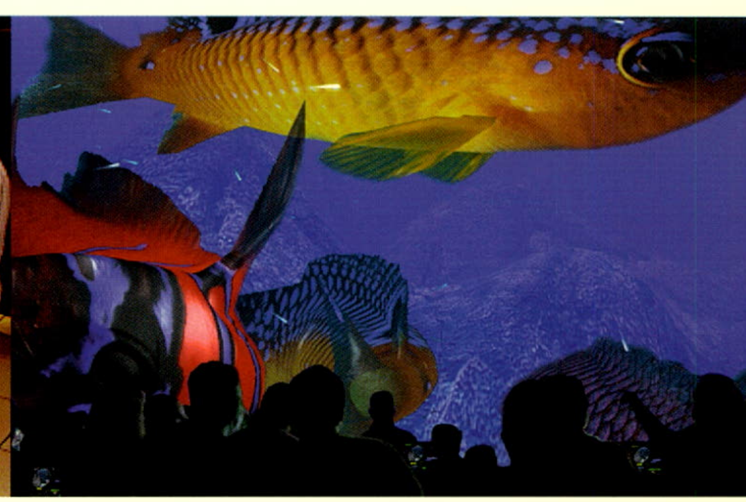
The Fakespace Versabench virtual modeling display using Vista Projectors such as the innovative electronic Pinch Gloves™. Their VLIB™ virtual environment interaction software is believed to be installed in more applications than any other in the world.

Fakespace is applying Electrohome's investment to accelerate their product development and market development efforts. Options to acquire further shares provide Electrohome with the opportunity to become the largest Fakespace shareholder during fiscal 1999.

Immersion Studios Inc. ("ISI") – Interactive entertainment systems

Toronto-based ISI is a pioneer in entertainment-based immersion reality. Their proprietary interactive and digital cinema technology permits audiences to participate interactively in a story, influencing and even controlling the action. Electrohome's new high-brightness Vista projectors generate the spectacular ultra-large-screen imagery such interactive applications require.

Situation awareness system using Versabench and Retro displays at Naval Air Warfare Center Aircraft Division.



Immersion Studios' presentation of "Monsters of the Deep", an interactive undersea adventure.

ISI's engaging approach to group entertainment has attracted attention from potential customers in the U.S., Europe and Japan. Target applications include family entertainment centers, theme parks, museums and aquariums.

Electrohome initially invested in ISI in May of 1998. The successful results attained prompted us to increase our investment in September. As with Fakespace, Electrohome holds options to acquire additional ISI shares during fiscal 1999. If exercised, these options would make Electrohome the company's third largest shareholder.

ROBOTEL

Robotel Électronique Inc. – Computer-based learning systems

Robotel is dedicated to delivering effective and efficient computer-based classrooms and presentations. Its proprietary systems connect classroom computers, monitors and keyboards. From a central computer, a teacher can:

- take control of any student's computer, or all students' computers,
- ask questions or give tests, and retrieve and automatically correct the answers, and
- interact (by voice or video) with any or all students.

Based near Montreal, Robotel has enjoyed tremendous success since 1996, the year Electrohome acquired a 10% equity interest. Over the past two years sales have more than doubled, the product lineup has been significantly enhanced, and the European and Asian markets have been opened up. We hold an option to acquire an additional 80% of Robotel (to hold 90%) and due to Robotel's strong track record and prospects, we expect to exercise this option during fiscal 1999.

Management Discussion and Analysis

Financial results have been restated to exclude the Broadcast business which was spun-out of Electrohome Limited ("Electrohome") into the newly-created Electrohome Broadcasting Inc. ("EBI"). Results of the Broadcast business (current year equity earnings from the investment in Baton Broadcasting Incorporated ("Baton"), the gain on sale of Baton common shares and prior year's results from operations) are included in "Gain from discontinued operations - Broadcast".

Fourth Quarter Results

Revenues of $30.0 million for the fourth quarter ended August 31, 1998 increased 9% over the same period last year. A loss before discontinued operations of $1.6 million compares to earnings of $2.0 million last year when significant tax recoveries were booked in the fourth quarter. A loss for the quarter of $0.9 million compares to net earnings of $51.0 million last year, which included a $49.0 million gain from discontinued operations (being the sale of broadcast assets).

Total Year Results

Revenues increased 7% year-over-year to $97.9 million. During the year, however, there was a notable change in product mix. Fiscal 1998 saw significant erosion in the traditional cathode ray tube technology-based products transitioning to the new digital reflective technology-based products. Although this change was anticipated with the introduction of five new products during the year, there were a number of technical and other issues which resulted in later than planned introductions to the marketplace.

A loss before discontinued operations of $5.6 million compares to earnings of $2.4 million last year with the majority of the decrease attributable to operations. As our markets changed, margins declined, particularly on our mature product lines. With such an ambitious introduction of new products, research and development expenses were higher than anticipated, as were the associated sales and marketing expenses. Results from operations were also adversely affected by inventory adjustments and costs associated with organizational changes. It is anticipated that expense levels in fiscal 1999 will decrease, putting the Company on track to reach our financial goals.

Earnings for the year of $5.1 million included a $10.7 million gain from discontinued operations (resulting primarily from a $7.5 million gain on the sale of 1.3 million Baton common shares and $3.3 million in equity earnings up to the effective date of the reorganization). Earnings for the prior year of $30.3 million included a gain of $42.8 million on the sale of broadcast assets and a loss from the Display Monitor business of $19.5 million.

Corporate Reorganization

Effective April 1, 1998, through a corporate reorganization, the Company transferred its broadcast assets (7.0 million common shares of Baton) to EBI and shareholders of Electrohome exchanged their existing holdings for an identical number of new shares in Electrohome and EBI. Electrohome continues to pursue the company's Visual Communications business. Each company is listed on The Toronto Stock Exchange.

As a result of this transaction, the capital stock and retained earnings amounts were adjusted with certain balances being allocated to EBI based on a valuation performed by an independent third party.

Discontinued Operations

Fiscal 1998 included seven months of the Company's share of Baton earnings, which amounted to $3.3 million and a gain of $7.5 million on the sale of 1.3 million common shares of Baton. These amounts were partially offset by $0.8 million of amortization expense related to the broadcast assets. Also during fiscal 1998, the estimated accrued liability related to the former Display Monitor business was adjusted to reflect a gain of $0.7 million. In fiscal 1997, Electrohome's broadcast operations provided $4.6 million in net operational earnings and a $42.8 million net gain on the sale of its broadcast operations. Also included in discontinued operations in fiscal 1997 were net losses of $19.5 million from the former Display Monitor business.

Management Discussion and Analysis

Liquidity and Capital Resources

Cash was provided in 1998 from discontinued operations ($28.2 million, primarily from the sale of 1.3 million Baton common shares), from the exercise of stock options ($0.8 million) and from other items ($0.1 million net). These funds were used to fund operations ($4.3 million), reduce current and long-term debt ($12.6 million), to fund increased working capital requirements ($7.7 million), to purchase fixed assets ($2.1 million) and to invest in other companies ($2.4 million). Increased working capital requirements resulted primarily from a dramatic increase in accounts receivable due to record sales levels during the last two months of the year.

During the year, the Company entered into new credit agreements providing availability of up to $18.0 million based on receivable and inventory levels. The credit agreements include various covenants with which Electrohome is in compliance. Of the total credit availability of up to $18.0 million at August 31, 1998, $9.9 million was being utilized.

In 1998, Electrohome issued 105,200 shares through its stock option plan for total proceeds of $0.8 million. During 1997, 38,600 shares were issued for proceeds of $0.3 million.

While dividends were not declared during fiscal 1997, the $0.05 and $0.055 dividend per Class X and Class Y share respectively, declared in the fourth quarter of fiscal 1996, were paid during the first quarter of fiscal 1997.

Investments

During fiscal 1998, Electrohome invested a total of $2.4 million in two high-tech companies, furthering its Advanced Visualization initiative. If these companies achieve certain milestones in the next six to twelve months, the Company may exercise options to acquire additional ownership during fiscal 1999.

Year 2000

The Year 2000 issue deals with the inability of a computer system or computer-based products to correctly function on January 1, 2000 and beyond. The Year 2000 issue could cause significant problems for a company or organization including potential lawsuits related to non-compliant products and business interruption, which in extreme cases may result in an inability to continue as a going concern.

At Electrohome, we share the widespread concern about the critical Year 2000 issue and efforts to deal with the issue have been underway since the latter part of 1996. A working committee has been established to identify, implement and test our products and our systems and processes, including dependencies on our business partners.

Based on progress to-date, Electrohome's products have already been established as compliant and our main business systems are also compliant and in use. Other systems and processes, while important, present much less risk. Nonetheless, all are included in a detailed plan with total compliance scheduled for completion in early calendar 1999. The cost to complete compliance of our systems and processes is anticipated to be $100,000.

Significant effort is also being expended towards business partner compliance, and notwithstanding Electrohome's confidence that its key suppliers will be Year 2000 compliant, there can be no assurance that such partners will in fact be completely compliant. The failure of certain business partners could have an adverse effect on Electrohome.

Contingent Liabilities

During fiscal 1998 Electrohome was served with a statement of claim in the amount of $2.0 million. The plaintiff alleges breach of contract related to the rights to broadcast Edmonton Oiler hockey games. Electrohome believes that the claim is without merit and will be vigorously defending it.

Also during fiscal 1998 Electrohome was served with a statement of claim from a former employee alleging that Electrohome wrongfully denied the claimant the right to receive long-term disability payments. Electrohome believes that there is minimal exposure to loss in this matter.

During fiscal 1997 Electrohome was served with a statement of claim in the amount of $13.0 million alleging that tests conducted by Electrohome on a component supplied by the plaintiff were faulty. Electrohome believes that there is limited exposure to loss in this matter.

Outlook

During fiscal 1998, the Company made a significant investment in the development of new products and other Advanced Visualization interests with the goal of remaining a very competitive player in specific high-end projection and visualization markets.

The Company's revenues are affected by international conditions as over 95% of its revenues are from non-Canadian customers. The Company expects international economic conditions to improve modestly during fiscal 1999.

The Company is also continually affected by technological change. Leading edge technologies and applications are constantly monitored and researched, particularly those which will have a major impact on visual communications-related products and services.

While fiscal 1998 saw an aggressive development program, which resulted in a series of new products based on digital transmissive and reflective technologies, the development program for fiscal 1999 will see a return to more normalized levels of development spending as new product introductions will be primarily based on existing architectures.

The Company has significant exposure to fluctuation in the U.S. dollar and Japanese yen. The Company generally follows a strategy whereby at any given time, a portion of its year-out currency requirements may be hedged against fluctuations through the use of certain hedging instruments including forward exchange contracts and currency option contracts. At August 31, 1998 the Company had protection in place for recorded and anticipated foreign currency transactions amounting to approximately ¥770 million (Cdn.$8.6 million using the August 31, 1998 spot rate of 0.01116). The notional principal amount of the protection was ¥309 million (Cdn.$3.4 million). The forward exchange contracts and currency option contracts acquired by the Company have maturities of less than one year. There were no deferred unrealized gains or losses on the contracts at August 31, 1998.

Over the longer term, Electrohome's strategy will continue to include examining ways to profitably exploit its strong brand name, engineering capabilities and international distribution channels with advanced visualization products and services.

Consolidated Statements of Earnings and Retained Earnings

Years ended August 31, (thousands, except per share amounts)	1998	1997 *(restated)*
Revenue	**$ 97,873**	$ 91,522
Expenses		
Operating expenses	**94,323**	81,592
Research and development expenses	**7,952**	7,137
Depreciation and amortization	**2,321**	2,057
Operating income (loss)	**(6,723)**	736
Interest expense (Note 3)	**(1,496)**	(2,379)
Other income	**510**	567
Loss before income taxes and discontinued operations	**(7,709)**	(1,076)
Income tax recovery (Note 4)	**2,135**	3,460
Earnings (loss) before discontinued operations	**(5,574)**	2,384
Gain from discontinued operations - Broadcast (Note 13)	**9,997**	47,421
Gain (loss) from discontinued operations - Display (Note 13)	**693**	(19,545)
Net earnings	**5,116**	30,260
Retained earnings at beginning of year	**68,270**	38,441
	73,386	68,701
Reorganization adjustment (Note 1)	**49,023**	-
Dividends paid	**-**	431
Retained earnings at end of year	**$ 24,363**	$ 68,270
Earnings (loss) per Class X and Y share		
Before discontinued operations	**$ (0.69)**	$ 0.30
Basic	**0.63**	3.78
Fully diluted	**0.62**	3.64

See the accompanying notes to the consolidated financial statements

Consolidated Balance Sheets

As at August 31, (thousands)	1998	1997 (restated)
Assets		
Current		
Accounts receivable	$ 27,127	$ 19,928
Inventories (Note 5)	21,951	20,698
Prepaid expenses	896	1,407
	49,974	42,033
Fixed net of accumulated depreciation (Note 6)	9,239	9,472
Other		
Other assets (Note 7)	4,368	1,601
Deferred income taxes	5,335	4,666
Discontinued operations assets (Note 13)	-	131,465
	9,703	137,732
	$ 68,916	$ 189,237
Liabilities		
Current		
Operating loan (Note 8)	$ 9,927	$ 14,825
Accounts payable and accrued liabilities	18,585	18,363
Principal due within one year on long-term debt (Note 8)	267	8,710
	28,779	41,898
Long-term debt (Note 8)	3,578	2,818
Other		
Other liabilities (Note 7)	6,280	6,282
Discontinued operations liabilities (Note 13)	1,138	44,410
	7,418	50,692
Shareholders' equity		
Capital stock (Note 9)	4,778	25,559
Retained earnings	24,363	68,270
	29,141	93,829
	$ 68,916	$ 189,237

See the accompanying notes to the consolidated financial statements

Approved by the Board

Director

Director

Consolidated Statements of Changes in Financial Position

Years ended August 31, (thousands)	**1998**	1997 *(restated)*
Cash provided by (used for)		
Operations		
Cash flow from operations (Note 10)	**$ (4,342)**	$ 966
Change in non-cash working capital	**(7,719)**	(6,961)
	(12,061)	(5,995)
Financing		
Increase in long-term debt	**3,845**	-
Reduction of long-term debt	**(11,528)**	(1,561)
Increase in other liabilities	**(2)**	997
Issue of shares	**835**	293
	(6,850)	(271)
Investing		
Additions to fixed assets	**(2,088)**	(2,262)
Proceeds from sale of fixed assets	**-**	22
Investment in other companies	**(2,347)**	-
Increase in other assets	**-**	(20)
	(4,435)	(2,260)
Dividends paid	**-**	(431)
Cash from discontinued operations	**28,244**	8,785
Increase (decrease) in cash	**4,898**	(172)
Operating loan at beginning of year	**(14,825)**	(14,653)
Operating loan at end of year	**$ (9,927)**	$ (14,825)

See the accompanying notes to the consolidated financial statements

Auditors' Report

To the Shareholders of Electrohome Limited.

We have audited the consolidated balance sheets of Electrohome Limited as at August 31, 1998 and August 31, 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1998 and August 31, 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants,
Waterloo, Canada
October 30, 1998

Notes to Consolidated Financial Statements

Years ended August 31, 1998 and 1997.

1. Company reorganization

On April 1, 1998 Electrohome Limited effected a corporate reorganization whereby it transferred broadcast assets to the newly-created public company Electrohome Broadcasting Inc. ("EBI") listed on The Toronto Stock Exchange. The assets consisted of 7 million common shares of Baton Broadcasting Incorporated ("Baton"). EBI also assumed Electrohome Limited's broadcast liabilities which consisted of the deferred tax balance associated with the original acquisition of those shares. In addition to the transfer of the broadcasting assets and liabilities, a portion of Electrohome Limited's share capital was allocated to EBI based on a third party valuation.

At the time of the reorganization, the carrying value of the balances transferred to EBI were as follows:

(thousands)	
Investment in Baton	$100,473
Deferred income taxes	29,834
	$ 70,639
Capital stock	$ 21,616
Retained earnings	49,023
	$ 70,639

The results of operations of the Company's broadcast business for the seven months ended March 31, 1998, as well as the results of its operations for all prior years, have been included in "Gain from discontinued operations - Broadcast".

2. Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the accounts of the subsidiary companies of Electrohome Limited, all of which are wholly owned.

(b) Investments

The Company accounts for its investments in shares of other companies held on August 31, 1998 using the cost method. Accordingly, any dividends received would be recorded as dividend income.

The Company followed the equity method of accounting for its 16.4% investment in Baton for the seven months ended March 31, 1998, at which time the shares were transferred to EBI. Accordingly, the equity in earnings attributable to this investment have been included in "Gain from discontinued operations - Broadcast".

(c) Inventories

Raw materials are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value.

(d) Fixed assets

Fixed assets are stated at cost. Depreciation is provided on a straight line basis using the following annual rates:

Buildings	2.5% to 5.0%
Machinery and equipment	10.0% to 33.0%
Tooling	50.0%

(e) Postemployment benefits

The Company provides supplementary health benefits to its former employees during their retirement. These costs are accounted for on an actuarially determined basis.

(f) Foreign currency translation

Accounts of the Company and those of its integrated subsidiary operations, which are stated in currencies other than Canadian dollars are translated as follows:

Monetary assets and liabilities - at year-end rate

Non-monetary assets - at historical rates

Revenue and expenses - at average exchange rates in effect during the accounting period

From time to time the Company operates a foreign exchange hedging program consisting of forward contracts, call options and put options to offset the foreign currency risk of U.S. dollar and Japanese yen cash flows. At August 31, 1998 there were hedging instruments outstanding whose notional value amounted to $3.4 million. There were no unrealized gains or losses deferred in the financial statements at year end related to these instruments (1997 - $nil).

The actual rate of exchange at which foreign currency denominated monetary items will be realized may be different than the rate at which those items were translated for financial statement purposes at year end. The Company is therefore subject to foreign exchange risk at August 31, 1998.

(g) Financial instruments

The carrying values of operating loans, accounts receivable, accounts payable and accrued liabilities and discontinued operations assets and liabilities approximate their fair value due to their short-term nature. The fair value of the Company's long-term debt approximates its carrying value based on current market interest rates.

The maximum credit risk (being the extent to which failure by all customers to discharge their obligations could reduce the amount of cash collected) approximates the recorded amount of accounts receivable. The Company's accounts receivable are not subject to significant concentrations of credit risk. Approximately 95% of receivables are denominated in foreign currencies (50% in U.S. dollars), which may affect the amount of collections ultimately recorded.

(h) Measurement uncertainty

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Interest expense

(thousands)	**1998**	1997
Interest on debt	**$ 1,286**	$ 2,144
Other interest	**210**	235
	$ 1,496	$ 2,379

4. Income taxes

A reconciliation of the Company's income tax recovery is as follows:

(thousands)	**1998**	1997
Provision for income taxes recoverable on loss before income taxes and discontinued operations based on a combined basic federal and provincial income tax rate of 44.6% (1997 - 44.6%)	**$ 3,438**	$ 480
Increase (decrease) in taxes resulting from:		
Expenses not deductible for tax purposes	**(43)**	(147)
Effect of accounting deductions taken in excess of tax deductions, not previously recognized	**457**	3,107
Unrecorded tax effect of losses in subsidiaries	**(1,335)**	-
Other	**(382)**	20
Actual provision for income taxes recoverable	**$ 2,135**	$ 3,460

5. Inventories

(thousands)	**1998**	1997
Raw materials and work in process	**$ 10,851**	$ 7,794
Finished goods	**11,100**	12,904
	$ 21,951	$ 20,698

6. Fixed assets

(thousands) As At August 31, 1998	**Cost**	**AccDep**	**NBV**
Land	**$ 1,139**	**$ -**	**$ 1,139**
Buildings	**8,192**	**4,586**	**3,606**
Machinery and equipment	**15,185**	**11,276**	**3,909**
Tooling	**1,772**	**1,187**	**585**
	$ 26,288	**$ 17,049**	**$ 9,239**

(thousands) As At August 31, 1997	Cost	AccDep	NBV
Land	$ 1,139	$ -	$ 1,139
Buildings	8,215	4,227	3,988
Machinery and equipment	13,882	9,622	4,260
Tooling	1,046	961	85
	$ 24,282	$ 14,810	$ 9,472

7. Other assets and other liabilities

Other assets

(thousands)	**1998**	1997
Deferred pension costs	**$ 1,931**	$ 1,511
Investment in shares of other companies	**2,357**	10
Other long-term assets	**80**	80
	$ 4,368	$ 1,601

The Company has options to acquire additional share ownership in the other companies in which it currently has an investment. These options may or may not be exercised. As the companies are not traded publicly, the fair value of the options is not determinable.

Other liabilities

(thousands)	**1998**	1997
Environmental	**1,534**	1,695
Postemployment benefits	**1,502**	1,455
Executive supplemental pension plan	**3,057**	2,950
Other	**187**	182
	$ 6,280	$ 6,282

8. Long-term debt

During the year the Company entered into new credit agreements. The Company has been provided a line of credit of up to $18,000,000 based on accounts receivable and inventory levels.

The line of credit is secured by general security agreements covering all assets of the Company and its subsidiaries. The Company is required to meet certain financial tests under the terms of its credit arrangements.

Long-term debt consists of the following:

(thousands)	**1998**	1997
Term bank loan	**$ -**	$ 8,640
Mortgage payable	**3,845**	2,888
	3,845	11,528
Less principal due within one year	**267**	8,710
	$ 3,578	$ 2,818

In November 1997 the Company sold 1.3 million Baton common shares for net proceeds of $25,700,000. The proceeds were used to repay the outstanding term bank loan and most of the operating line of credit.

At August 31, 1998 $9,927,000 of the operating line of credit was being utilized.

The Company has a mortgage payable bearing interest at bank prime + 1/2% which is repayable over 15 years commencing in February 1998. Principal repayments approximate $267,000 per year. In 1997, the Company had a five year, 8.25% mortgage with principal repayments amounting to $60,000 per year.

The following is a schedule of future minimum lease payments under operating leases:

(thousands)	Operating leases
1999	$ 646
2000	333
2001	144
2002	29
2003	2
Total minimum lease payments	$ 1,154

There were no capital lease obligations at August 31, 1998.

9. Capital stock

(thousands)	**1998**	1997
(a) Authorized		
5,000,000 Class X voting participating shares		
10,000,000 Class Y non-voting participating shares		
Issued		
1,800,125 Class X shares (1997 - 1,800,125)	**$ 385**	$ 2,137
6,341,260 Class Y shares (1997 - 6,236,060)	**4,393**	23,422
	$ 4,778	$ 25,559

The reduction in issued capital stock during the year resulted from the Company reorganization described in Note 1. Dividends, if and when declared, are payable on Class Y shares at a rate that is 110% of the dividends paid on Class X shares.

(b) Options to purchase Class Y non-voting shares were outstanding at August 31, 1998 and August 31, 1997 under the Stock Option Plan as follows:

Number of Class Y shares			
1998	1997	Price per share	Date of expiry
-	39,400	$ 1.60	March 17, 1998
24,200	40,200	1.40	January 26, 1999
57,000	91,600	1.82	January 11, 2000
64,800	107,400	1.85	January 17, 2001
75,000	105,200	1.44	January 14, 2002
39,000	-	3.24	January 13, 2003

The option exercise prices of all outstanding stock options were adjusted at the time of the Company reorganization on April 1, 1998 based upon an independent third-party valuation.

During 1998, 105,200 Class Y non-voting shares were issued under the Stock Option Plan for total cash consideration of $835,000 (1997 - 38,600 Class Y shares for $293,000).

10. Statement of changes in financial position

Cash flow from operations consists of:

(thousands)	**1998**	1997
Earnings (loss) before discontinued operations	**$ (5,574)**	$ 2,384
Items not affecting cash:		
Depreciation and amortization	**2,321**	2,057
Decrease (increase) in deferred pension costs	**(420)**	322
Increase in deferred tax asset	**(669)**	(3,797)
	$ (4,342)	$ 966

11. Pension plans

The Company maintains defined benefit and defined contribution pension plans which are available to most employees on a contributory or non-contributory basis. The defined benefit plans provide pensions based on years of service and average earnings. The defined contribution plan provides pension benefits based on employer and employee contributions plus investment returns.

The actuarial estimates of these plans indicate the present value of the accrued defined benefits and the net assets available to provide for these benefits, at market related values as of August 31, 1998 and August 31, 1997 were as follows:

(thousands)	**1998**	1997
Accrued defined pension benefits	**$ 22,164**	$ 20,941
Pension fund assets	**$ 23,190**	$ 21,818

In 1998, pension expense for the Company amounted to $547,000 (1997 - $2,445,000). The cumulative difference between the defined benefit funding contributions and the amounts recorded as pension expense related to the defined benefit pension plans is included in "Other assets" and "Other liabilities".

The cost of the defined benefit plans reflects management's best estimates of the pension plans' expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire, and is therefore subject to measurement uncertainty.

12. Postemployment benefits

Actuarial estimates indicate that the present value of the accrued postemployment benefits as of August 31, 1998 is $1,627,000 and at August 31, 1997 was $1,580,000. The current portion of the liability for postemployment benefits amounts to $125,000 (1997 - $125,000) and is included in "Accounts payable and accrued liabilities". The long-term portion, amounting to $1,502,000 (1997 - $1,455,000) is included in"Other liabilities".

13. Discontinued operations

(a) As described in Note 1, on April 1, 1998 the Company's investment in Baton was transferred to a newly-created public company. The results of operations related to the Company's broadcast business for the seven months ended March 31, 1998 and prior years have been included in discontinued operations.

Revenues applicable to broadcast operations in the prior year were $63,915,000. Equity earnings applicable to the investment in Baton to March 31, 1998 were $3,290,000. During 1998 the Company recorded a gain on the sale of 1.3 million common shares of Baton of $7,524,000 and also recorded amortization of the book value of the investment of $817,000. Fiscal 1997 earnings from the broadcast business were $47,421,000, net of income taxes of $42,250,000. Earnings for 1997 included a gain on sale of the broadcast operations of $42,800,000.

(b) On July 17, 1997 the Company sold its Display Monitor division which had operations in Kitchener, Ontario, Tonawanda, New York and Carthage, Missouri. The transaction was effective May 31, 1997.

Revenues applicable to the division to May 31, 1997 were $29,750,000. Operating losses for 1997 and losses on sale of the division totalled $19,545,000 net of income tax recoveries of $9,624,000. "Loss from discontinued operations - Display" includes a write-down of the division taken in the second quarter of 1997 of $20,200,000.

During fiscal 1998, the estimated accrued liability for discontinued operations was adjusted to reflect further information resulting in income of $693,000 net of income tax adjustments.

Discontinued operations assets and liabilities of the Broadcast and Display Monitor divisions at August 31, 1998 are comprised of the following:

Discontinued operations assets

(thousands)	**1998**	1997
Accounts receivable	**$ -**	$ 6,134
Investment in Baton	**-**	116,200
Other assets	**-**	230
Deferred income taxes	**-**	8,901
	$ -	$ 131,465

Discontinued operations liabilities

(thousands)	**1998**	1997
Accounts payable and accruals	**$ 1,138**	$ 3,694
Deferred income taxes	**-**	38,736
Bank advances	**-**	1,401
Lease debt	**-**	579
	$ 1,138	$ 44,410

14. Commitments and contingencies

(a) In 1991, the Company became aware of the need for environmental remediation at one of its properties. Tests conducted during 1998 continue to support an accrual of $2,134,000, representing the estimated present value of the costs associated with remediation of the site. The amount was fully provided for prior to 1998.

The current portion of the liability for remediation amounts to $600,000 (1997 - $500,000) and is included in "Accounts payable and accrued liabilities". The long-term portion, amounting to $1,534,000 (1997 - $1,695,000) is reflected in "Other liabilities".

(b) Outstanding letters of credit at August 31, 1998 amounted to $2,028,000.

(c) On August 8, 1997 the Company was served with a statement of claim in the amount of $13,000,000 alleging that tests conducted by the Company on a component supplied by the plaintiff were faulty. The Company believes that there is limited exposure to loss in this matter.

During the year the Company was served with a statement of claim in the amount of $2,000,000 alleging breach of contract related to rights to broadcast Edmonton Oilers hockey games. The Company believes the claim is without merit and will be defending it vigorously.

During the year the Company was served with a statement of claim from a former employee alleging that the company wrongfully denied the claimant the right to receive long-term disability benefits. The Company believes that there is minimal exposure to loss in this matter.

15. Segmented information

The continuing operations of the company are in one industry segment, Visual Communications.

Export revenue amounted to 96% (1997 - 96%) of total revenue.

16. Year 2000

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

17. Related party transactions

Accounts receivable includes $192,000 from EBI for reimbursement of expenses incurred by the Company on their behalf.

18. Comparative figures

Certain comparative figures in the financial statements have been restated to conform with current year presentation.

Six Year Review

Twelve Months ended August 31	**1998**	1997	1996	1995	1994	1993
Results for the year (a) (millions of dollars)						
Revenue	**97.9**	91.5	92.5	76.6	56.8	42.6
Depreciation and amortization	**2.3**	2.1	1.6	1.3	1.0	1.0
Interest expense	**1.5**	2.4	2.0	0.8	0.3	0.5
Earnings (loss) before unusual items, income taxes and discontinued operations	**(7.7)**	(1.1)	9.8	9.1	5.6	1.6
Unusual items	**0.0**	0.0	0.0	0.0	0.5	(0.5)
Income taxes recoverable (expense)	**2.1**	3.5	(5.3)	(3.9)	0.8	0.7
Earnings (loss) before discontinued operations	**(5.6)**	2.4	4.5	5.2	6.9	1.8
Gain from discontinued operations	**10.7**	27.9	1.4	4.0	4.6	6.2
Net earnings	**5.1**	30.3	5.9	9.2	11.5	8.0
Year end position (a) (millions of dollars)						
Total assets	**68.9**	57.8	85.7	37.5	33.8	25.9
Total debt	**13.8**	26.3	27.8	12.5	4.0	3.9
Shareholders' equity	**29.1**	93.8	63.7	59.3	51.5	24.1
Per Class X and Y share (dollars)						
Earnings (loss) before unusual items, income taxes and discontinued operation (a)(b)	**(0.95)**	(0.13)	1.23	1.15	0.81	0.29
Earnings (loss) before discontinued operations (a)(b)	**(0.69)**	0.30	0.56	0.66	1.00	0.32
Net earnings (b)	**0.63**	3.78	0.74	1.16	1.67	1.44
Dividends paid (c)	**-**	0.05	0.20	0.20	0.10	-
Shareholders' equity (d)	**3.58**	11.67	7.96	7.44	6.50	4.23
Other information (thousands)						
Average shares outstanding (used for EPS calculation)						
Class X	**1,800**	1,800	1,800	1,800	1,800	1,800
Class Y	**6,301**	6,208	6,183	6,120	5,073	3,744
Total	**8,101**	8,008	7,983	7,920	6,873	5,544

(a) All numbers, where appropriate, are for continuing operations only and have been restated for the effects of changes in accounting policy, discontinued operations, and prior period adjustments in certain prior periods. Estimates have been used where necessary.

(b) After allowance for preference dividends.

(c) The amounts shown are for Class X shares. Class Y shares received a 10% premium.

(d) The amounts shown are based on Class X shares and Class Y shares outstanding as of each period end.

Investor Information

STOCK EXCHANGE LISTING

The Toronto Stock Exchange

STOCK SYMBOLS

Class X voting shares - ELL.X
Class Y non-voting shares - ELL.Y

AVERAGE SHARES OUTSTANDING

August 31	**1998**	1997
Class X voting	**1,800**	1,800
Class Y non-voting	**6,301**	6,208
	8,101	8,008

AVERAGE DAILY TRADING VOLUMES

(000's)	**1998**	1997
Class X voting	**4**	1
Class Y non-voting	**22**	12

SHARE PRICES[1]

Prior to April 1, 1998

Class X

High	22.00	12.50
Low	10.75	7.75

Class Y

High	22.00	12.75
Low	10.90	7.20

Subsequent to April 1, 1998

Class X

High	4.00	n/a
Low	1.00	n/a

Class Y

High	3.50	n/a
Low	0.90	n/a

1 The share prices noted above reflect the impact of the April 1, 1998 corporate reorganization. Through a third party valuation, the share price of Electrohome Limited was split such that 18% of the value was attributed to Electrohome Limited going forward and 82% attributed to Electrohome Broadcasting Inc.

Printed on recycled paper using low-solvent environmentally friendly ink.

Designed and produced by: Fraiman Design Inc. Printed in Canada

Corporate Information

BOARD OF DIRECTORS

John A. Pollock, *Chairman* 1,3
Robert J. Collins-Wright 1,4
George S. Dembroski 1,2,3
William E. Hetherington 4
William D. McGregor 2
Barbara L. Steele 2,3
Dr. Douglas T. Wright 3,4

BOARD COMMITTEES

1 Executive Committee - **R.J. Collins-Wright,** *Chair*

2 Audit Committee - **G.S. Dembroski,** *Chair*

3 Pension Investment Committee - **B.L. Steele,** *Chair*

4 Human Resources Committee - **R.J. Collins-Wright,** *Chair*

OFFICERS

John A. Pollock
Chairman and Chief Executive Officer

David B. Lowater
President and Chief Operating Officer Visual Communications

Daniel P. Wright
Vice-President, Advanced Visualization and Chief Financial Officer

Gerry Remers
Vice-President and General Manager

Gary G. Dumoulin
Director of Finance and Secretary

Alison M. Sawatzky
Corporate Controller and Assistant Secretary

CORPORATE GOVERNANCE

Electrohome's Board of Directors believes that sound corporate governance practices are essential to the well-being of the Corporation and its shareholders. Included in the Management Information Circular dated December 2, 1998, is Electrohome's Statement on Corporate Governance Practices. You are welcome to request a copy from our Investor Relations Department.

CORPORATE OFFICES

Head Office:
809 Wellington Street North
Kitchener, Ontario N2G 4J6
Tel: (519) 744-7111
Fax: (519) 749-3139

Sales and Service Offices:
Rancho Cucamonga, California
Tel: (909) 466-3816
Fax: (909) 466-3824

Reading, Berkshire, England
Tel: (44) 118 926 6300
Fax: (44) 118 926 6322

Singapore
Tel: (65) 749-5525
Fax: (65) 744-2900

ENQUIRIES

PROJECTION SYSTEMS

Gerry Remers
Vice-President and General Manager

Tel: (519) 744-7111
Fax: (519) 749-3131

VISUALIZATION GROUP

Daniel P. Wright
Vice-President, Advanced Visualization

Tel: (519) 744-7111
Fax: (519) 749-3151

INVESTOR RELATIONS

Dawn Schnarr
Tel: (519) 749-3319
Fax: (519) 749-3181

VISIT US ON THE WEB:

www.electrohome.com

ANNUAL GENERAL MEETING

Wednesday, January 13, 1999

TRANSFER AGENT AND REGISTRAR

Montreal Trust

SOLICITORS

Sims Clement Eastman
Kitchener, Ontario

AUDITORS

KPMG LLP
Waterloo, Ontario

ELECTROHOME

Visionary Thinking™

809 Wellington Street North
Kitchener, Ontario N2G 4J6