Annual Report 1994

INTER-CITY PRODUCTS CORPORATION

Corporate Profile

Through its Heil, KeepRite, Tempstar, Arcoaire and Comfortmaker brand name lines, Inter-City Products Corporation is one of North America's leading producers of heating and cooling products for residential and light commercial markets.

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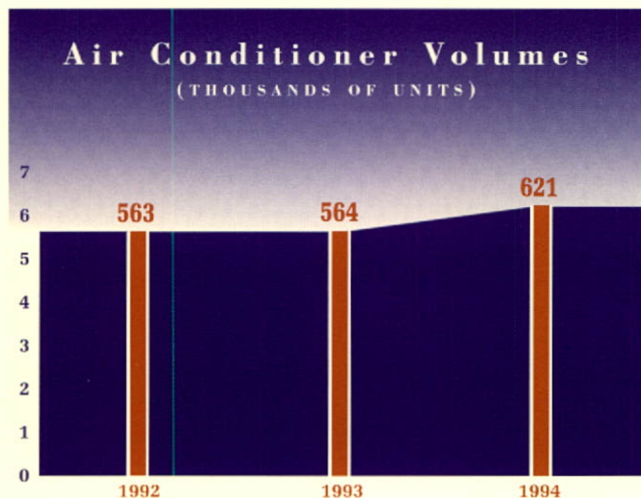
Financial Highlights

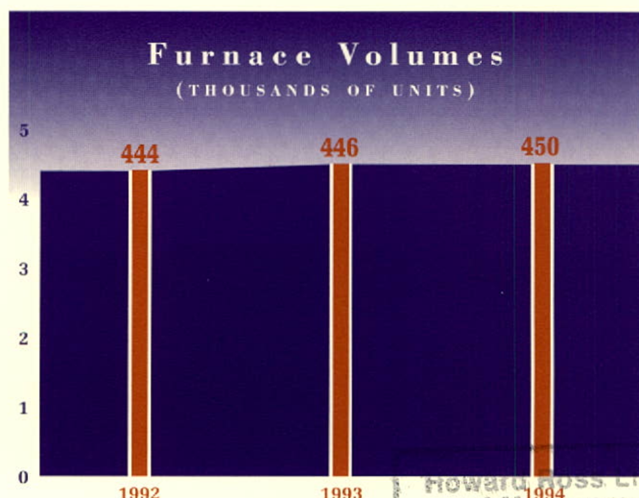
in millions of U.S. Dollars	**1994**	1993	1992
Operating revenue	**$690.5**	$663.8	$615.5
Operating profit before unusual items	**25.4**	8.4	21.3
Unusual items			
Provision for environmental costs	**4.0**	–	–
Restructuring costs	**.9**	13.7	5.4
Reengineering consulting fees	**3.4**	.6	–
Operating profit (loss)	**17.1**	(5.9)	15.9
Loss from continuing operations	**(6.5)**	(20.0)	(2.1)
Discontinued operations	**(1.0)**	(1.0)	(1.1)
Net loss	**(7.5)**	(21.0)	(3.2)
Total assets	**476.2**	478.3	391.5
Capital expenditures	**12.4**	10.8	16.2

	Adjusted Basic ●	Basic		
Net Loss Per Ordinary Share	**1994**	**1994**	1993	1992
From continuing operations				
Before unusual items ▲	**$(0.03)**	**$(0.09)**	$(0.42)	$(0.11)
After unusual items ▲	**$(0.17)**	**$(0.26)**	$(0.96)	$(0.26)
After discontinued operations	**$(0.19)**	**$(0.29)**	$(1.00)	$(0.31)

▲ Includes write-off of portion of debt issuance costs of $1.2 (1993-$1.2) on partial extinguishment of debt.

● Assumes the exchange of class C preference shares for 5.5 ordinary shares had occurred on January 1, 1994.





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REPORT

IN OUR LAST ANNUAL REPORT, WE ANNOUNCED THAT A MAJOR PROGRAM TO IMPROVE THE COMPETITIVE POSITION OF INTER-CITY PRODUCTS CORPORATION, THROUGH COST REDUCTIONS AND NEW PRODUCT INTRODUCTIONS, HAD BEGUN.

ROBERT G. GRAHAM
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Due to the magnitude and importance of our ongoing effort, it is only fitting that this annual report address the progress made so far in strengthening your company.

In measuring the results of the program to date, it is important to recognize two facts: many of the cost reduction programs implemented in 1994 and planned for 1995 will provide long-term benefits starting in 1996; and even so, there is conclusive proof that the changes made so far have had a positive impact.

Operating revenue increased to $690.5 million from $663.8 million in 1993. This was a

function of several things. First, we benefited from the combination of expanding consumer spending and low distributor inventory levels during key selling periods in the summer of 1994.

Second, air conditioner volume increases were driven, to a degree, by sales of our new Maratherm and Villager split system air conditioners and heat pumps. These products were introduced in the spring of 1994 for the builder segment of the market as part of our product improvement effort. Sales of these products exceeded our expectations by 9%. Of even greater importance, these products also allowed us to serve a market niche while maintaining our margin structure on higher end products.

Operating profit before unusual items more than tripled to $25.4 million versus $8.4 million in 1993. Unusual items included a $4 million provision for environmental costs, $0.9 million for restructuring costs and $3.4 million related to reengineering consulting fees. A description of these costs is contained in Management's Discussion and Analysis. Operating profit was $17.1 million in 1994, versus an operating loss of $5.9 million in 1993. On an adjusted basic earnings per share basis, which assumes the exchange of Class C Preference Shares had occurred on January 1, 1994, the loss from continuing operations before unusual items was $1.1 million or a loss of 3 cents per ordinary share.

After deducting unusual items, the net loss for the year was $7.5 million or a loss of 29 cents per share versus a loss of $21.0 million or a loss of $1.00 per share in 1993.

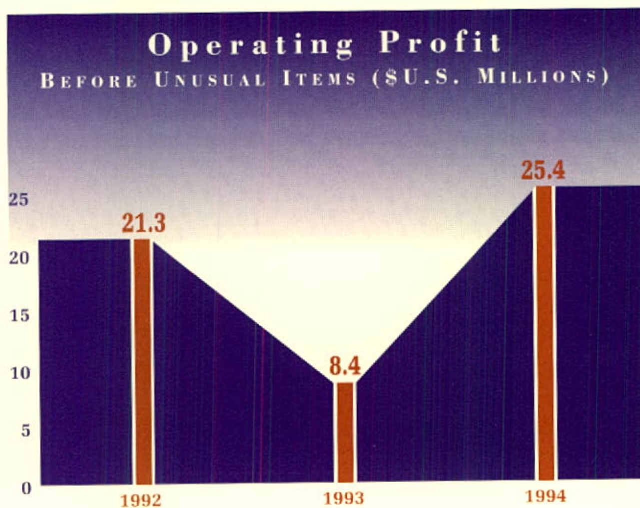
In reviewing the company's operating performance, it is clear that there has been a significant improvement in various areas as a result of this program of systematic change. One measure of the early success of the program is that selling, general and administrative expenses as a percentage of operating revenue declined to 15.0% from 16.4% in 1993. This improvement reflects a change of focus in our advertising program and a reduction in salaried headcount for a total savings of $7 million. Reorganization of our manufacturing operations and product changes also resulted in a reduction of more than $7 million in costs. These savings are related to reductions in both purchased material and product costs, as well as savings from mothballing our main Canadian plant and integrating the production in our other facilities. Most important, we generated sustainable cost savings.

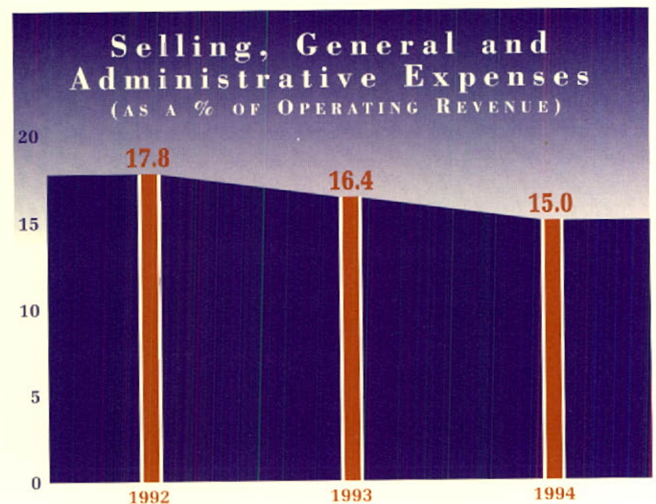
While the program is working, we continue to focus on our cost structure to improve efficiencies, as you will see from our Operations Review beginning on page six.

To reduce the company's cost of borrowing (by an estimated $2 million in 1995 based on 1994 borrowing levels), we refinanced the revolving credit facility of Inter-City Products Corporation (USA) in December, 1994. The current financing structure provides adequate liquidity to cover both normal and peak borrowing costs for our core operations. Another important step taken during the

year was the sale of the non-core commercial refrigeration division of Inter-City Products Corporation (Canada) in October, 1994.

Thompson Pipe and Steel also negotiated a new two year financing arrangement in March, 1995. This arrangement provides us with sufficient flexibility to operate this business effectively. Among the developments at Thompson in 1994: new computer-driven lasers were introduced in the division's two facilities to improve efficiencies, while labor costs were reduced through a 12% reduction in the workforce. Operating results, however, were negatively impacted because shipments of steel water pipe were delayed on several multi-million dollar projects, due to slower than anticipated installations by contractors. Apart from a carry-forward of these contracts into 1995 which will benefit the bottom line this year, the company has also won new jobs in New Jersey, Ohio and Colorado. Thompson has also started to





negotiate different contract terms to protect cash flow in the event of shipment delays.

Beyond operational improvements, your company also bolstered its management team in September, 1994 with the hiring of Michael Clevy as President of our heating and cooling operations. Before joining Inter-City Products, Michael was Vice President of Manufacturing and Technology for the North American operations of United Technologies Carrier, the largest heating and cooling products producer in North America. He brings more than 23 years of industry experience to his new position.

In the few months that he has been with us, Michael has already made a significant contribution to the ongoing transformation of the company.

We are also pleased to welcome four new members to the Board of Directors: David H. Morris, President and Chief Operating Officer of The Toro Company of Bloomington, Minnesota; Marvin G. Marshall, President and Chief Executive Officer of Bramalea Limited of Toronto; Gregory M. McCrane, President of Fulcrum International of Greenwich, Connecticut and Ernest C. Mercier, a retired former Executive Vice President of The Toronto Dominion Bank.

The Board has provided invaluable counsel to management during this important stage of the company's development. We thank each member of the Board, both the newcomers and the veterans, for their hard work.

Outlook

Management intends to continue driving costs out of the business throughout 1995 and the effect will be a gradual yet noticeable improvement in the company's cost structure and competitive position in the marketplace.

In short, we do not expect to report a total turnaround of Inter-City Products in 1995. Many of the cost reduction measures being implemented now will not yield full benefits until 1996.

However, we firmly believe that we can achieve the results that our shareholders deserve in the medium-term future, with the new measures, new products and new people in place.

R. G. Graham
Chairman of the Board and Chief Executive Officer

Operations Review

W. Michael Clevy
President and Chief Operating Officer
Heating and Cooling Operations

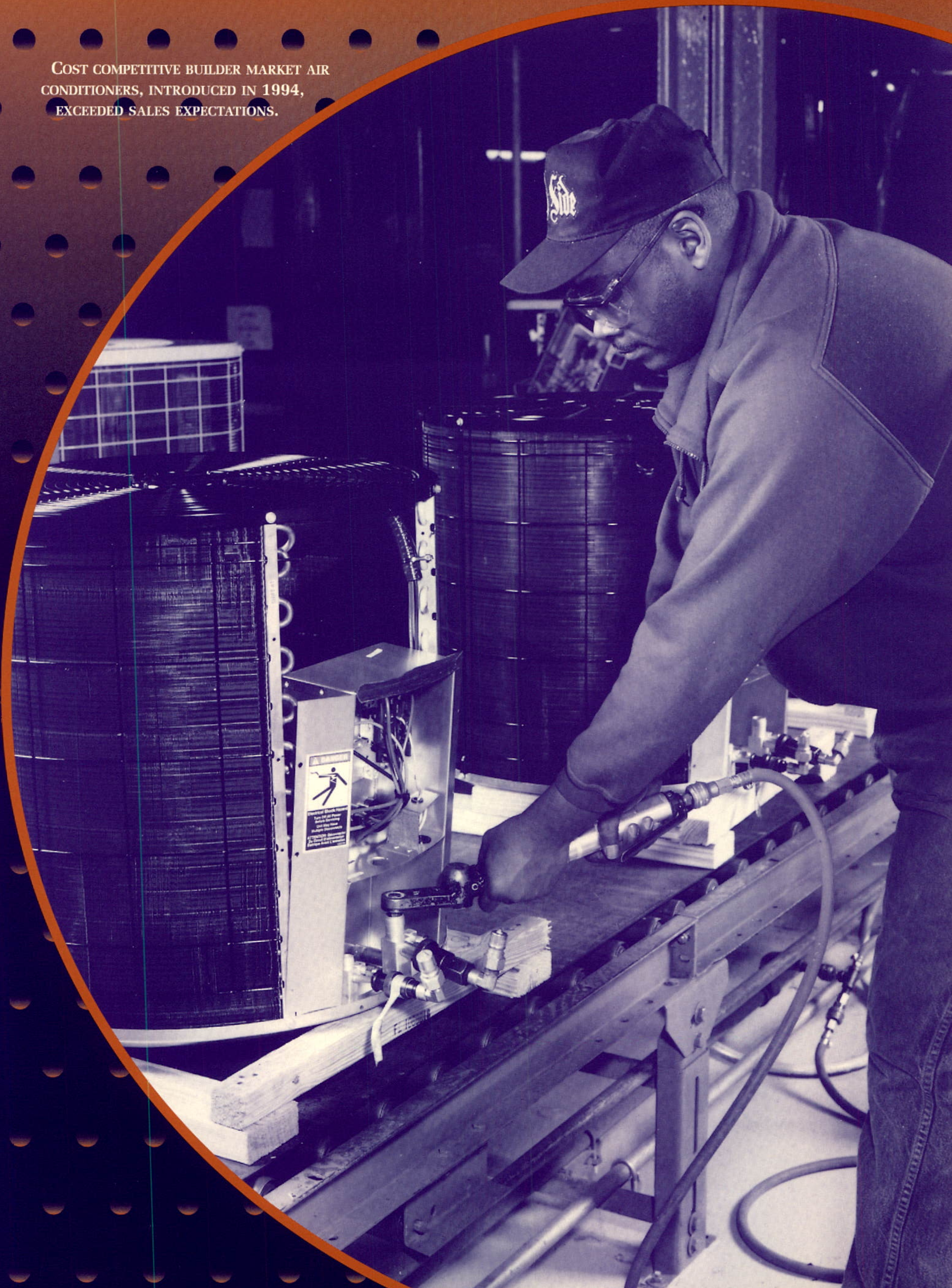
1994 COULD HARDLY BE TERMED A PERIOD OF BUSINESS AS USUAL FOR THE HEATING AND COOLING OPERATIONS OF INTER-CITY PRODUCTS CORPORATION. BASED ON A THOROUGH REVIEW OF OUR COMPETITIVE POSITION, WE CONCLUDED THAT 1994 WOULD BE A PERIOD OF RESTRUCTURING AND REVITALIZATION FOR THIS COMPANY... FROM TOP TO BOTTOM.

The year began with a consolidation and reorganization of our North American manufacturing facilities. To achieve greater efficiencies and lower costs, we absorbed the residential and light commercial lines of product previously produced at our Brantford, Ontario facility, into our main 900,000 square foot plant in Lewisburg, Tennessee. Concurrently, we shifted production of all oil furnace products to our 81,000 square foot facility outside Montreal, Quebec. These initial steps were completed in the second quarter and will result in substantial annualized cost savings starting in 1995.

An unfortunate but necessary part of the rebuilding program required the elimination of 21% of the U.S. salaried workforce and 47% of the Canadian salaried workforce. In short, a complete layer of middle management was removed to improve communications and decision-making. We are fostering a more action-oriented, flexible work environment, where employees at every level contribute to the success of the operation.

A new approach to manufacturing, based on proven concepts pioneered in Japan and used with great success by world class manufacturers, was also introduced. Based on a philosophy known as "Kaizen", this approach boils down to one precept: continuous improvement of quality, efficiency, and productivity.

This new system requires both different processes and a different mindset. Accordingly, it will take time for the full benefit to be realized. Our goal is to implement a system of lean production -- which means eliminating all waste -- throughout the Lewisburg plant by the end of 1995, with substantial



COST COMPETITIVE BUILDER MARKET AIR CONDITIONERS, INTRODUCED IN 1994, EXCEEDED SALES EXPECTATIONS.

benefits, like low finished goods inventories, to be realized in 1996.

Under this radically altered way of doing business, scrupulous attention is paid not only to employee participation and action, but also to management responsiveness. In the second half of the year, several senior operational management changes were announced to ensure that progress would continue. Among the key appointments made: Frank Harrell became Senior Vice President, Sales, while Jim Wiese assumed the position of Senior Vice President, Marketing.

Management of the Lewisburg, Tennessee manufacturing plant was also decentralized during the year. The plant is now split into two strategic business units: fabrication-materials handling; and assembly operations.

Other key steps taken to reduce costs and improve efficiencies included:

- *the reduction of stock keeping units. At the end of 1994, the number of SKUs had been reduced 30% since the beginning of the year through rationalization of product offerings. By August 1995, the number of stock keeping units will be reduced to approximately 390 from 479 at the beginning of the new year.*
- *the phase out of a large part of our fleet of 112 fork lift trucks. A total of 47 tow motors were eliminated in 1994 and by the end of 1995, only 30 fork lift trucks will be left, which will be used primarily in shipping. In their place, we have purchased 20 tugger trains, which are capable of carrying two to three times as much as fork lift trucks at a much lower cost.*
- *the opening of an on-site parts warehouse at our Lewisburg factory, which replaced a remote warehouse and eliminated transportation and handling costs.*
- *the expanded use of prepainted steel in the manufacture of products. By the end of 1995, in-plant paint lines will be totally eliminated, which will reduce costs and remove associated environmental hazards.*
- *the purchase of universal fasteners for all products has now been shifted so that the parts, while sitting in inventory at our plant, are not paid for until actually used in the manufacturing process. This reduces inventory costs substantially while not impacting fastener availability.*
- *the purchase of motors has also been shifted in a similar manner so that we pay only for motors used in assembly, not for those sitting in inventory. We are currently working toward an agreement with a supplier of compressors to reach a similar inventory agreement.*

COMPUTER-AIDED DIE CUTTING IS HANDLED WITHIN A NEW FABRICATION - MATERIALS HANDLING UNIT.

LIGHT COMMERCIAL PRODUCT PRODUCTION WAS INTEGRATED IN LEWISBURG, TENNESSEE TO IMPROVE EFFICIENCY.

In short, 1994 was a year of transition for the heating and cooling operations. We started 1994 burdened with high costs and finished the year as a much more competitive company, with lower selling, general and administrative costs and lower manufacturing costs. Clearly, our program is working and will yield even more sustainable cost savings in the future.

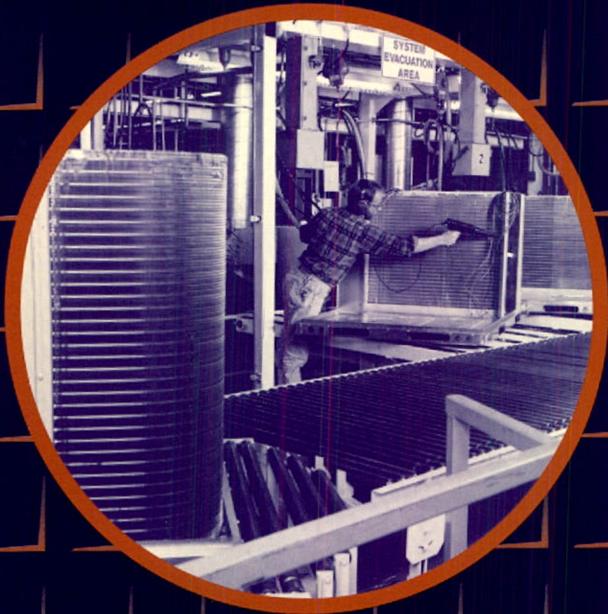
Our goal is to achieve, initially, cost parity (a goal that will be reached in 1995) with the most competitive companies in the industry and ultimately, cost leadership.

While these steps were necessary, the reorganization of plant, people and equipment and the attendant upheaval, took a toll on 1994 operating results. Due to problems with component availability and assembly line productivity, the company was unable to fully capitalize on a consumer spending boom directed at cooling products in the summer of 1994. While sales of air conditioners increased by 10% to 621,000 units in 1994, an estimated 40,000 ordered units could not be delivered.

Turning to the heating side of our business, the entire industry was hurt by unusually warm weather, especially in the fourth quarter of 1994. The number of U.S. heating degree days was 10% lower than the 100 year average. For Inter-City Products, unit volume of furnaces increased marginally to 450,000 units from 446,000 in 1993.

We believe we are much more capable of delivering improved results for shareholders as a result of steps taken in 1994 and those planned for 1995. We have identified five critical targets for the company this new year, which we are committed to achieving. These are:

PRODUCT ASSEMBLY WAS SIMPLIFIED AND COSTS REDUCED THROUGH ELIMINATION OF STOCK KEEPING UNITS.



CAPABLE OF TRANSPORTING THREE TIMES AS MUCH AS A FORK LIFT TRUCK, TUGGER TRAINS IMPROVE EFFICIENCY AND DRAMATICALLY REDUCE COSTS.

1. *Reducing manufacturing expenses substantially versus 1994.*

2. *Realizing an annualized price increase to offset equivalent raw material (copper, steel) cost increases. Price increases have already been announced by Inter-City Products and the industry and took affect February 1, 1995.*

3. *Implementing material cost reduction projects to achieve multi-million dollar cost savings from 1995 standard costs.*

4. *Managing inventory and receivables to achieve a large reduction from January 1995 averages to December 1995 averages. We have announced a reduction in our payment terms for customers to 60 days net from 90 days, effective April 1, 1995. This will improve working capital substantially.*

5. *Achieving a market share increase over and above our 1995 budgeted share, which is in turn higher than our 1994 market share.*

We are aggressively pursuing market share gains. Our product competitiveness and our commitment to maintaining good relations with our existing distributors – and adding new distributors where required – will help us to meet this objective.

Of course, objectives are not worth anything unless every employee embraces them. To ensure that everyone at Inter-City Products has had a chance to understand our 1995 objectives, we held meetings with employees and distributed pocket-sized cards imprinted with these goals.

At the operational level, we have also established specific objectives for 1995 including: achieving on-time delivery for 95% of finished goods and parts by July 1995, which will dramatically improve product availability and distributor relations; negotiating fair labour agreements for ICP USA in or before October, 1995; dramatically improving product quality and as reported, implementing lean production throughout our plant.

In addition, we have already broken ground on a new distribution centre on-site at our Lewisburg manufacturing facility. Scheduled to open in January 1996, the facility will eliminate costly freight charges associated with operating two remote distribution centres in Tennessee and Illinois. The annualized cost savings from this opening will amount to approximately $5 million.

Carrying through with these programs and objectives alone will provide substantial and lasting benefits for Inter-City Products beyond 1995. But the goal is to discover even more ways to drive costs from the business.

In assessing our progress to date, it is imperative to recognize two realities. First, by the end of 1994 we had achieved the most difficult part of our revitalization effort. Hence, we can concentrate on the fundamentals of running the business from here on. Second, we will not realize a substantial share of our cost reduction and efficiency improvement measures until 1996.

Moving any organization of this magnitude into a position of competitive strength requires time. But as business leaders, we realize that time is a luxury we cannot afford. Shareholders and customers want and deserve swift action.

Everyone at Inter-City Products is determined to make this company a profitable leader in the heating and cooling industry as soon as possible. We will not rest until this ultimate goal is attained and then maintained.

W. Michael Clevy
President and Chief Operating Officer
Heating and Cooling Operations

Product and Sales Review

Inter-City Products introduced important new families of heating and cooling products in 1994 as a part of its strategy to improve marketplace competitiveness.

Results were encouraging. New lines of builder market air conditioners, marketed under the names Maratherm and Villager, met with exceptional demand, exceeding budgeted unit sales by 9%. 90 Plus Furnaces, sold under the names Heil, Tempstar, Arcoaire and Comfortmaker, were an unqualified success. Excellent quality and top-of-the-line efficiency led to overall volume improvement in spite of unusually warm weather in the 1994 heating season.

For 1995, several product improvements and extensions are also planned. Notably, we have introduced the second generation of our builder market cooling products. Without adding costs, we have enhanced the appearance of the products – now sold under the company's major brand names...Heil, Tempstar, Arcoaire and Comfortmaker – and improved their structural stability.

In time for the 1995 heating season, we will also introduce a new line of builder market furnaces to capitalize on the obvious demand for products at this price point. These furnaces will offer AFUE (annual fuel utilization efficiency) of 78%.

Upflow horizontal furnace models with AFUE of 80% and deluxe models offering what promises to be the quietest operation in the marketplace, will both be ready for the 1995 heating season.

Inter-City Products is also upgrading its 10 SEER (seasonal energy efficiency rating) heat pumps by driving up the rating to 10.5 and 11 with an expansion valve. This product line-up will offer tremendous value and lower energy costs. To build share in the important mobile home market, especially in Florida, the company will also introduce new packaged products with 10 SEER ratings and a distinctive horseshoe shape.

All of these products are being built with an eye to keeping stock keeping units down and product features and product differentiation up.

Approximately 190 fewer stock keeping units will be required to produce these new products in 1995.

Strengthening our product line is only part of the strategy to enhance our position in the marketplace. We also reactivated our

distributor advisory councils, made up of representatives from more than 20 of our Heil-Tempstar and Arcoaire-Comfortmaker heating and cooling distributors. Before launching important new products or programs, we seek input from these distributors who represent us in the marketplace. Understanding their needs is paramount.

Our network of distributors remained loyal in 1994, despite the massive reorganization of Inter-City Products. In 1995, we intend to continue to earn their vote of confidence in us by improving product quality and on-time delivery measurably.

With a more competitive cost structure and better products, we believe there is an opportunity to add more distributors, especially in pivotal southern and western regions of the United States, where our market share can be improved.

In support of our distributors and dealers, we are again focusing our advertising dollars on co-operative programs and trade publications. Co-op ads allow us to reach out together to the consumer marketplace at the local level.

We also make available universal replacement parts for heating and cooling products. Our parts business has been performing well, contributing $55 million in revenue in 1994.

By making every effort to hear the voice of the customer and respond with industry-leading products and services, we will grow our business in the months ahead.

NEW 90PLUS FURNACES, INTRODUCED IN 1994, WERE AN UNQUALIFIED SUCCESS.

BUILDER MARKET AIR CONDITIONERS, INTRODUCED IN 1994, WILL BE ACCOMPANIED BY BUILDER MARKET FURNACES IN 1995.

Financial Section

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of operations for the current year and the two prior years, is provided by management to assist shareholders in their review of the consolidated financial statements and accompanying notes, which should be read in conjunction with this discussion.

Effective January 1, 1994, the Company adopted the currency of the United States as its reporting currency as a substantial portion of its consolidated assets and liabilities are located in the United States and consolidated revenues and expenses are primarily transacted in U.S. dollars. In accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), all comparative figures for previous years have been restated at the U.S./Canadian dollar exchange rate as at December 31, 1993 of U.S. $1.00 = Cdn. $1.3240.

On July 18, 1994, the Company's shareholders approved an amendment to the Company's articles to exchange each Class C preference share for 5.5 ordinary shares. As required under Canadian GAAP, the undeclared cumulative dividend entitlement of the Class C preference shares for the first and second quarter of 1994 have been deducted in calculating the basic earnings per share to ordinary shareholders.

RESULTS OF OPERATIONS

The following table sets forth certain operating items as a percentage of operating revenue for the years indicated.

	1994	1993	1992
Operating revenue	**100.0%**	100.0%	100.0%
Gross margin	**18.7%**	17.7%	21.3%
Selling, general and administrative expenses	**15.0**	16.4	17.8
Operating profit before unusual items	**3.7**	1.3	3.5
Provision for environmental costs	**.6**	–	–
Restructuring costs	**.1**	2.1	.9
Reengineering consulting fees	**.5**	.1	–
Operating profit (loss)	**2.5%**	(.9)%	2.6%

YEAR ENDED DECEMBER 31, 1994 COMPARED TO DECEMBER 31, 1993

Set forth below are selected financial data for the years ended December 31, 1994 and 1993 and the percentage change between the periods.

(In Millions of U.S. Dollars)	1994	1993	% Change
Operating revenue	$ 690.5	$ 663.8	4.0%
Gross margin	128.9	117.4	9.8
Selling, general and administrative expenses	103.5	109.0	(5.0)
Operating profit before unusual items	25.4	8.4	202.4
Provision for environmental costs	4.0	–	–
Restructuring costs	.9	13.7	–
Reengineering consulting fees	3.4	.6	–
Operating profit (loss)	17.1	(5.9)	389.8
Financial expenses (excluding write–off of portion of debt issuance costs on partial extinguishment of debt)	24.1	18.4	31.0
Write–off of portion of debt issuance costs on partial extinguishment of debt	1.2	1.2	–
Recovery of income taxes	(1.7)	(5.5)	–
Loss from continuing operations	(6.5)	(20.0)	67.5
Discontinued operations			
Utilization of prior years' tax losses	2.0	.5	–
Loss from Refrigeration Operation	(3.0)	(1.5)	–
Net loss	$ (7.5)	$ (21.0)	64.3

OPERATING REVENUE The increase in operating revenue of $26.7 million in 1994 compared to 1993 was primarily attributable to the following offsetting factors: (a) higher sales of air conditioners of $33.9 million; (b) favourable translation value of $12.2 million due to the restatement of the 1993 comparative figures at the December 31, 1993 U.S./Canadian foreign exchange rate; (c) higher service parts and other revenue of $5.3 million; partially offset by (d) lower revenue from furnaces of $11.6 million; and (e) lower sales of steel pipe of $13.1 million. The increase in operating revenue from the sale of air conditioners was primarily due to an increase of 57,000 units to 621,000 units sold in 1994, which represents a 10.1% increase in the sale of air conditioners over the 1993 volume of 564,000 units. The decrease in operating revenue from furnaces was mainly due to an unfavourable model mix of high margin, high–efficiency furnaces of $13.1 million partially offset by higher shipments of lower priced furnaces totalling $1.5 million. The decline in steel pipe revenue in 1994 compared to 1993 was due primarily to unexpected delays in several key projects due to inclement weather and easement problems.

The major factors affecting the increase in unit sales of air conditioners in 1994 compared to 1993 were (i) continuing favourable economic growth in the U.S.; (ii) warmer weather at the beginning of the key summer selling period; and (iii) lower than normal distributor inventory levels during the first half of 1994. The unit sales of air conditioners in 1994 were also adversely impacted by the lack of product availability caused by plant consolidation.

GROSS MARGIN Gross margin in 1994 was $128.9 million or 18.7% of operating revenue compared to $117.4 million or 17.7% in 1993. The increase in gross margin of $11.5 million in 1994 compared to 1993 was mainly due to higher shipments of air conditioners, partially offset by unfavourable model mix of furnaces. The improvement in gross margin percentage is primarily due to the impact of cost reductions in the heating and cooling business.

Selling, General and Administrative Expenses The decrease in selling, general and administrative ("SG&A") expenses of $5.5 million in 1994 compared to 1993 was principally due to the reductions made in salaried personnel in the heating and cooling business and lower selling and advertising expenses, partially offset by an increase in warranty and bad debt expenses in the heating and cooling operations.

Unusual Items **(i) Provision for Environmental Costs** In 1994, Inter–City Products Corporation (USA) ("ICP USA"), a wholly–owned subsidiary of the Company, recorded a provision for environmental costs relating to a sudden and accidental spill in 1980 at its Lewisburg manufacturing facility by the previous owner of the property. The charge of $4.0 million reflects primarily reductions in anticipated recoveries from umbrella and excess insurance carriers during 1994.

(ii) Restructuring Costs In 1994, restructuring costs of $.9 million consist mainly of severance costs of $2.4 million relating to reductions in salaried personnel in the U.S. heating and cooling operation, partially offset by a reduction of $1.5 to the 1993 restructuring accrual for the closure of the Brantford, Ontario manufacturing facility which is now being used as a distribution and warehouse facility.

In 1993, the Company recorded restructuring costs of $13.7 million comprised of $11.9 million relating primarily to the mothballing of the Brantford manufacturing facility and $1.8 million relating mainly to reductions of salaried personnel in the U.S. heating and cooling operations.

(iii) Reengineering Consulting Fees In 1994 and 1993, the Company expensed $3.4 million and $.6 million, respectively, for fees and costs associated with a completed reengineering study conducted by an independent consulting firm to thoroughly review, assess and recommend changes to the U.S. heating and cooling operation and organization.

Operating Profit (Loss) Operating profit before unusual items in 1994 was $25.4 million, an increase of $17.0 million or 202% compared to operating profit before unusual items of $8.4 million in 1993. Excluding unusual items, the increase in operating profit of $17.0 million resulted primarily from the increase in gross margin and lower SG&A expenses as described above. After deducting these unusual items, operating profit for 1994 was $17.1 million compared to an operating loss of $5.9 million in 1993.

Financial Expenses Financial expenses in 1994 of $25.3 million includes a write–off of a portion of debt issuance costs of $1.2 million on the partial extinguishment of ICP USA's debt. In 1993, financial expenses of $19.6 million also included a write–off of $1.2 million relating to the early extinguishment of previously existing debt from the March 1993 refinancing of ICP USA. The increase in financial expenses of $5.7 million in 1994 compared to 1993 was primarily attributable to higher interest rates in the U.S. The average cost of borrowings to the Company in 1994 was approximately 8.8% (1993 – 7.0%) in the U.S. and approximately 7.0% (1993 – 6.5%) in Canada.

Income Taxes In 1994, the effective recovery rate of income taxes of 20.7% was lower than the combined statutory tax rate of 38.8% primarily as a result of the impact of non–deductible depreciation. In 1993, the effective recovery rate of income taxes was 21.6%, which was lower than the combined statutory tax rate of 38.8% primarily as a result of the impact of non–deductible depreciation and accrued restructuring costs of $9.8 million for which the future tax benefit was not recognized.

Discontinued Operations On October 7, 1994, the Company's Canadian subsidiary, Inter–City Products Corporation (Canada) sold its commercial refrigeration division. Gross proceeds on sale of the division were approximately $6.7 million. The Company has recorded a loss from the Refrigeration Operation of $3.0 million in discontinued operations, of which $1.4 million relates to the costs of disposal.

Net Loss After deducting the undeclared cumulative preference share dividend entitlements for the first two quarters of 1994 and the dividends on preference shares in 1993, the basic loss per ordinary share for 1994 and 1993 are set out as follows:

	1994		1993	
(In Millions of U.S. Dollars Except Per Share Amounts)	$	Per Ordinary Share	$	Per Ordinary Share
Loss from continuing operations before unusual items and write–off of portion of debt issuance costs on partial extinguishment of debt	(2.9)	($0.09)	(10.3)	($0.42)
From continuing operations	(8.3)	($0.26)	(23.7)	($0.96)
After discontinued operations	(9.3)	($0.29)	(24.7)	($1.00)

Since the exchange of Class C preference shares for 5.5 ordinary shares has a significant impact on earnings per share, the Company has disclosed in accordance with Canadian GAAP an adjusted basic earnings per share, which assumes that the exchange has taken place as at January 1, 1994. The adjusted basic loss per share figures for 1994 are outlined in the table below:

	1994	
(In Millions of U.S. Dollars Except Per Share Amounts)	$	Per Ordinary Share
Adjusted Basic –		
Loss from continuing operations before unusual items and write–off of portion of debt issuance costs on partial extinguishment of debt	(1.1)	($0.03)
From continuing operations	(6.5)	($0.17)
After discontinued operations	(7.5)	($0.19)

Year Ended December 31, 1993 Compared to December 31, 1992

Set forth below are selected financial data for the years ended December 31, 1993 and 1992 and the percentage change between the periods.

(In Millions of U.S. Dollars)	1993	1992	% Change
Operating revenue	$ 663.8	$ 615.5	7.8%
Gross margin	117.4	130.9	(10.3)
Selling, general and administrative expenses	109.0	109.6	(.5)
Operating profit before unusual items	8.4	21.3	(60.6)
Restructuring costs	13.7	5.4	–
Reengineering consulting fees	.6	–	–
Operating profit (loss)	(5.9)	15.9	(137.1)
Financial expenses (excluding write–off of portion of debt issuance costs on partial extinguishment of debt)	18.4	17.9	2.8
Write–off of portion of debt issuance costs on partial extinguishment of debt	1.2	–	–
Provision for (recovery of) income taxes	(5.5)	.1	–
Loss from continuing operations	(20.0)	(2.1)	–
Discontinued operations			
Utilization of prior years' tax losses	.5	1.4	–
Loss from Refrigeration Operation	(1.5)	(2.5)	–
Net loss	(21.0)	(3.2)	

Operating Revenue The increase in operating revenue of $48.3 million in 1993 compared to 1992 was due to the following major factors: (a) higher translation value of $36.9 million for U.S. denominated sales in 1993 as compared to 1992 due to the appreciation of the U.S. dollar vis–a–vis the Canadian dollar; (b) increased sales of steel pipe of $10.6 million; (c) higher service parts and other revenue of $10.7 million; (d) higher operating revenue from sale of furnaces of $.3 million offset by (e) lower operating revenue from sales of air conditioners of $10.2 million. The reduction in operating revenue from sales of air conditioners was primarily due to unfavourable pricing and model mix of $11.3 million partially offset by higher shipments of $1.1 million. The unfavourable pricing impact was primarily as a result of significant downward pressure on cooling product pricing in the latter half of 1992 brought about by excessive inventory build–up at the distributor level due to an unseasonably cool summer. Air conditioner pricing remained depressed throughout 1993 and was, on average, about 5% lower than 1992. The increase in steel pipe revenue in 1993 compared to 1992 was a result of a 44.7% increase in tonnes shipped.

Gross Margin Gross margin for 1993 was $117.4 million or 17.7% of operating revenue compared to $130.9 million or 21.3% in 1992. The decline in gross margin in 1993 compared to 1992 was mainly due to the competitive pricing pressures on cooling products as mentioned above, a shift in sales to lower margin air conditioning units and higher freight costs. The Company's steel pipe operations also incurred lower margins in 1993 compared to 1992 principally due to an unfavourable mix of lower margin projects recorded during 1993.

Selling, General and Administrative Expenses In 1993, SG&A expenses totalled $109.0 million as compared to $109.6 million in 1992. Excluding the impact of the higher translation value of U.S. dollars during 1993, SG&A expenses were lower in 1993 compared to 1992 by $4.5 million. This decrease was due primarily to reductions in salaried personnel

in the U.S. heating and cooling operations, lower selling and advertising expenses and reductions in employee long–term incentive plan expense, partially offset by an increase in warranty expense in the U.S. heating and cooling operations.

Unusual Items **(i) Restructuring Costs** As previously described, the Company recorded restructuring costs in 1993 of $13.7 million comprised of $11.9 million relating primarily to the mothballing of the Brantford facility and $1.8 million to reductions in salaried personnel.

In 1992, the Company recorded restructuring costs of $5.4 million relating primarily to the physical relocation and integration of heating and cooling production lines from the Red Bud, Illinois plant to the manufacturing facilities in Lewisburg and Brantford.

(ii) Reengineering Consulting Fees As noted earlier, the Company expensed reengineering consulting fees of $.6 million in 1993 relating to the reengineering study for the U.S. heating and cooling operation.

Operating Profit (Loss) Excluding restructuring costs and reengineering consulting fees, operating profit in 1993 was $8.4 million as compared to $21.3 million in 1992. This reduction in operating profit of $12.9 million resulted primarily from the decline in gross margin as discussed above. After these unusual items, there was an operating loss of $5.9 million in 1993 versus an operating profit of $15.9 million in 1992.

Financial Expenses The financial expenses for 1993 of $19.6 million included a write–off of a portion of debt issuance costs of $1.2 million on early extinguishment of debt in ICP USA. The financial expenses for 1992 of $17.9 million included $2.9 million of foreign exchange gains. Excluding these two items, there was a decrease in financial expenses of $2.4 million, mainly due to the lower cost of borrowings resulting from the refinancing of ICP USA.

Income Taxes In 1993, the effective recovery rate of income taxes of 21.6% was lower than the combined statutory tax rate of 38.8% primarily as a result of the impact of non–deductible depreciation and accrued restructuring costs. In 1992, the Company recorded a tax provision of $.1 million on a loss before income taxes of $2.0 million. Income taxes were affected primarily by the impact of non–deductible depreciation.

Net Loss After deducting dividends on preference shares, the loss per ordinary share for 1993 and 1992 are set out as follows:

	1993		1992	
(In Millions of U.S. Dollars Except Per Share Amounts)	$	Per Ordinary Share	$	Per Ordinary Share
Loss from continuing operations before unusual items and write–off of portion of debt issuance costs on partial extinguishment of debt	(10.3)	($0.42)	(2.4)	($0.11)
From continuing operations	(23.7)	($0.96)	(5.8)	($0.26)
After discontinued operations	(24.7)	($1.00)	(6.9)	($0.31)

LIQUIDITY AND CAPITAL RESOURCES

In 1994, cash used in operations was $14.4 million. In 1993, the Company generated cash flow from operations of $33.3 million, excluding the repurchase of $89.3 million of accounts receivable pursuant to the 1993 refinancing of ICP USA's receivable purchase facility. The decline of $47.7 million in cash used in operations reflects mainly the higher inventory levels in the U.S. heating and cooling operation.

In 1994, investment activities included net capital expenditures of $10.0 million and net proceeds of $5.0 million on the sale of the Refrigeration Operation and other. Cash used in financing activities in 1994 of $26.3 million consisted primarily of the following offsetting factors: (i) repayment of long–term debt of $23.8 million; (ii) $.9 million of costs associated with the exchange of Class C preference shares into ordinary shares; (iii) costs of $2.5 million primarily for ICP USA's December 1994 refinancing as described below; and (iv) issuance of 319,724 ordinary shares for net proceeds of $.9 million under the Employee Share Ownership Plan. Cash used in the above mentioned activities resulted in an overall increase in the Company's cash deficiency of $45.7 million during 1994.

In order to reduce its cost of borrowing in the U.S., the Company completed a refinancing of ICP USA's existing revolving credit facility in December 1994. This refinancing included a $100 million revolving trade receivables securitization and an amendment to its existing revolving credit facility to a $40 million inventory revolving facility. The availability under the existing revolving credit facility was reduced from $120 million to $40 million as a result of the removal of receivables from the revolver collateral base.

The receivables securitization does not constitute a sale for accounting purposes in Canada on the basis that the significant risks and rewards of ownership of the receivables have not been transferred to the purchaser as at December 31, 1994. Accordingly, an amount of $61.0 million representing accounts receivable transferred to the purchaser is included in accounts receivable and an equal offsetting amount is included in bank advances at December 31, 1994.

Capital expenditures in 1995 for all operating subsidiaries are estimated to be approximately $28.0 million, of which $12.0 million relates to the construction of a new distribution facility adjacent to the Lewisburg manufacturing facility, scheduled to be completed in early 1996. Such cash requirements are expected to be met by way of internally generated funds and existing credit facilities. The Company has reached an agreement in principle to sell in 1995 its existing heating and cooling distribution centre, located in Nashville, Tennessee, for gross proceeds approximating net book value of $11.0 million subject to normal pre–closing documentation.

With the completion of the December 1994 refinancing of ICP USA and the March 1995 refinancing of TP&S, the Company believes that the current financing structure and anticipated cash flow generated from operations will provide sufficient operating flexibility to conduct its business.

1995 OUTLOOK

1994 was a strong year for the heating and cooling industry; however peak demand occurred during the Company's turnaround transition process, leading to lower productivity, causing inventory stockouts, and temporarily curtailing sales growth.

In 1995, the Company has announced a sales price increase in its heating and cooling operations which is expected to somewhat mitigate the impact of expected increases in material costs, particularly in copper, steel, aluminum and packaged materials. Improved production methods and procedures are expected to result in significant savings in manufacturing costs. The Company is also expecting to lower the cost of its products by improved engineering and design.

The Company is continuously exploring opportunities to reduce its SG&A expenses. In this regard, the Company has already broken ground on a new distribution centre adjacent to the Lewisburg plant. This new facility, scheduled for completion in January 1996, will eliminate approximately $5.0 million of annual freight charges associated with operating the existing distribution centres in Nashville, Tennessee and Red Bud, Illinois.

As previously noted, the Company completed a refinancing of ICP USA's existing revolving credit facility in December 1994 in order to reduce its cost of borrowing. Based on 1994 average borrowing levels, the Company anticipates a financing cost savings of approximately $2.0 million.

The Company is anticipating an improvement in performance in 1995 compared to 1994 as a result of an improvement in the Company's product and financial cost structure; however, many of the product cost reduction measures now being implemented will not yield full benefits until 1996.

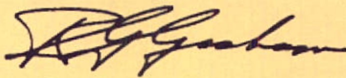
Management's Responsibility For Financial Reporting

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies, which management believes are appropriate for the Company, are described in note 2 to the consolidated financial statements. The financial information contained elsewhere in this document is consistent with that in the consolidated financial statements.

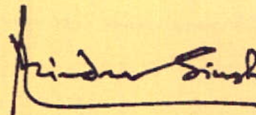
Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgements, have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is comprised of a majority of outside directors, and which meets periodically with management and the independent auditors to discuss the Company's financial reporting practices and procedures, its systems of internal accounting controls, the planned scope of examinations by independent auditors and their findings and recommendations. It also reviews the Company's consolidated financial statements.

The Company's independent auditors, Coopers & Lybrand, Chartered Accountants, conduct an independent examination on behalf of the shareholders, in accordance with generally accepted auditing standards and express their opinion on the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have free access to the Audit Committee of the Board.



R. G. GRAHAM
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER



A. SINGH
SENIOR VICE PRESIDENT,
CHIEF FINANCIAL OFFICER AND SECRETARY

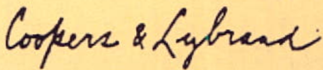
February 24, 1995

To The Shareholders
Inter–City Products Corporation

We have audited the consolidated balance sheets of Inter–City Products Corporation as at December 31, 1994 and 1993 and the consolidated statements of loss, deficit and changes in financial position for the years ended December 31, 1994, 1993 and 1992. 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 have 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 Inter–City Products Corporation as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years ended December 31, 1994, 1993 and 1992 in accordance with generally accepted accounting principles.



Coopers & Lybrand
Chartered Accountants
Toronto, Ontario

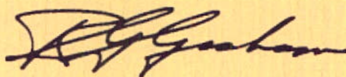
February 24, 1995,
March 9, 1995 as to note 21.

Consolidated Balance Sheets

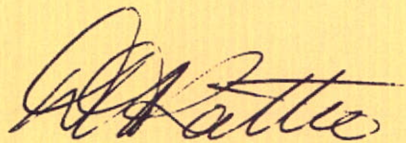
As at December 31, 1994 and 1993 (in millions of U.S. Dollars)

	1994	1993
Assets		
Current Assets		
Cash and short–term deposits	**$ 13.7**	$ 12.1
Restricted cash	**2.0**	2.2
Accounts receivable – trade (less allowance for doubtful accounts; 1994 – $9.7; 1993 – $8.4)	**137.2**	153.8
Deferred income taxes recoverable	**12.0**	11.6
Inventories *(note 4)*	**151.0**	124.7
Prepaid expenses and other	**6.1**	3.5
	322.0	307.9
Discontinued Operation	**–**	6.6
Fixed Assets *(note 5)*		
Property, plant and equipment – at cost	**238.7**	238.1
Accumulated depreciation	**108.7**	100.8
	130.0	137.3
Intangible and Other Assets *(note 6)*	**24.2**	26.5
	$ 476.2	$ 478.3

See accompanying notes



Director



Director

	1994	1993
LIABILITIES		
Current Liabilities		
Bank advances *(note 7)*	**$ 84.6**	$ 37.3
Accounts payable and accrued liabilities	**91.9**	103.1
Current portion of long–term debt	**.8**	10.0
	177.3	150.4
Long–Term Debt *(note 8a)*	**170.0**	184.7
Product Warranty and Other Long–Term Liabilities	**18.0**	21.6
Deferred Income Taxes	**.6**	2.1
	365.9	358.8
Commitments and Contingencies *(note 16)*		
SHAREHOLDERS' EQUITY		
Convertible Preference Shares *(note 9b)*	**–**	46.1
Ordinary Shares *(note 10a)*	**165.9**	119.9
Deficit	**(53.7)**	(46.2)
Foreign Currency Translation Adjustment *(note 11)*	**(1.9)**	(.3)
	110.3	119.5
	$ 476.2	$ 478.3

See accompanying notes

Consolidated Statements of Loss

For the Years Ended December 31, 1994, 1993 and 1992 (in millions of U.S. Dollars)

	1994	1993	1992
Operating Revenue	**$ 690.5**	$ 663.8	$ 615.5
Cost of Sales	**561.6**	546.4	484.6
Gross Margin	**128.9**	117.4	130.9
Selling, General and Administrative Expenses	**103.5**	109.0	109.6
Operating Profit Before Unusual Items	**25.4**	8.4	21.3
Provision for Environmental Costs *(note 16b)*	**4.0**	–	–
Restructuring Costs *(note 17)*	**.9**	13.7	5.4
Reengineering Consulting Fees *(note 18)*	**3.4**	.6	–
Operating Profit (Loss)	**17.1**	(5.9)	15.9
Financial Expenses			
Interest expense	**21.9**	16.0	10.1
Amortization of debt issuance costs	**2.0**	1.7	.7
Write–off of portion of debt issuance costs on partial extinguishment of debt *(note 8b)*	**1.2**	1.2	–
Loss (gain) on foreign exchange	**.2**	(.1)	(2.9)
Discount on sale of receivables	**–**	.8	10.0
	25.3	19.6	17.9
Loss Before Income Taxes	**(8.2)**	(25.5)	(2.0)
Recovery of (Provision for) Income Taxes *(note 12)*	**1.7**	5.5	(.1)
Loss From Continuing Operations	**(6.5)**	(20.0)	(2.1)
Discontinued Operations			
Utilization of prior years' tax losses	**2.0**	.5	1.4
Loss from Refrigeration Operation, net of income taxes *(note 3)*	**(3.0)**	(1.5)	(2.5)
	(1.0)	(1.0)	(1.1)
Net Loss	**$ (7.5)**	$ (21.0)	$ (3.2)

See accompanying notes

Consolidated Statements of Deficit

For the Years Ended December 31, 1994, 1993 and 1992 (in millions of U.S. Dollars)

	1994	1993	1992
Balance – Beginning of the year			
As previously reported	**$ (46.2)**	$ (20.3)	$ (13.5)
Prior period adjustment			
– Mischer litigation claim *(note 16a)*	–	(1.2)	(1.1)
As restated	**(46.2)**	(21.5)	(14.6)
Net loss	**(7.5)**	(21.0)	(3.2)
Dividends on preference shares	–	3.7	3.7
Balance – End of the year	**$ (53.7)**	$ (46.2)	$ (21.5)

See accompanying notes

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1994, 1993 and 1992 (in millions of U.S. Dollars)

	1994	1993	1992
Cash provided by (used for)			
Operations			
Loss from continuing operations	**$ (6.5)**	$ (20.0)	$ (2.1)
Items not involving current cash flows *(note 19a)*	**19.3**	16.0	15.6
Changes in working capital *(note 19b)*	**(27.2)**	(52.0)	39.4
	(14.4)	(56.0)	52.9
Investment			
Property, plant and equipment	**(10.0)**	(10.5)	(13.2)
Net proceeds on sale of Refrigeration Operation	**5.3**	–	–
Cash used in Refrigeration Operation	**(1.6)**	(2.3)	(4.0)
Other	**1.3**	.2	(6.7)
	(5.0)	(12.6)	(23.9)
Financing			
Ordinary shares issued	**46.0**	1.1	39.4
Exchange of preference shares to ordinary shares	**(46.0)**	–	–
Long–term debt issued	–	143.4	.2
Repayment of long–term debt and other	**(23.8)**	(68.6)	(3.5)
Refinancing costs	**(2.5)**	(6.6)	–
Dividends on preference shares	–	(3.7)	(3.7)
	(26.3)	65.6	32.4
Increase (Decrease) in Cash Deficiency	**45.7**	3.0	(61.4)
Cash Deficiency – Beginning of the year	**25.2**	22.2	83.6
Cash Deficiency – End of the year	**$ 70.9**	$ 25.2	$ 22.2
Represented by			
Bank advances	**84.6**	37.3	31.3
Less: Cash and short–term deposits	**13.7**	12.1	9.1
	$ 70.9	$ 25.2	$ 22.2

See accompanying notes

1. CHANGE IN REPORTING CURRENCY

The consolidated financial statements of the Company have historically been expressed in Canadian dollars. Effective January 1, 1994, the Company adopted the currency of the United States as its reporting currency as a substantial portion of the Company's consolidated assets and liabilities are located in the United States and consolidated revenues and expenses are primarily transacted in U.S. currency. All comparative financial information from 1993 to 1990 has been restated at the U.S./Canadian dollar exchange rate as at December 31, 1993 of U.S. $1.00 = Cdn. $1.3240.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation These financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ in certain respects with accounting principles in the United States. The differences between GAAP in Canada and the United States as they affect the Company are described in Note 22 to the consolidated financial statements of the Company included in Report on Form 20–F, to be filed with the Securities and Exchange Commission.

Consolidation The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies from the dates of acquisition, on the basis of purchase accounting, except for the Refrigeration Operation which is described in Note 3.

Foreign Currency Translation The assets and liabilities of the Company's Canadian operations are translated into United States dollars at the rates of exchange in effect at the balance sheet date. The resulting gains and losses are accumulated in a separate component of shareholders' equity. Revenues and expenses are translated at the average exchange rates prevailing during the year.

Inventories Raw materials and supplies, work in process and finished goods, are valued at the lower of cost (first–in, first–out) and net realizable value.

Fixed Assets Fixed assets are recorded at cost, which include interest capitalized on construction in progress, less accumulated depreciation. Depreciation is provided on a straight–line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2.5% – 10%
Machinery, equipment and furniture	5% – 20%
Tooling and drawings	17% – 33%
Land improvements	5% – 10%

Intangible and Other Assets Intangible and other assets include amounts paid for patents, trade names, distributor relationships, a non–competition agreement, debt issuance costs and goodwill. The excess of the cost of acquiring businesses over the fair value of the identifiable net tangible assets is allocated first to intangible assets and then to goodwill. Amortization of intangible and other assets is provided on a straight–line basis over various periods, not exceeding twenty years. The carrying value of intangible assets is periodically reviewed by the Company and impairments are recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value. Amortization of debt issuance costs is provided on a straight–line basis over the term of the related debt.

2. Significant Accounting Policies (Cont'd)

Income Taxes The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Post-retirement Benefits Other Than Pensions The Company provides certain retirement benefits for its retired employees. Retirement benefits include health care benefits and life insurance. The Company accounts for these benefit payments on a cash basis.

Product Warranties A liability for estimated warranty expense is established by a charge against operations at the time products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. Certain subsidiaries offer and sell extended warranty contracts for their products through certain distributors. The revenue for such contracts is deferred and recognized over the life of the contract on a straight–line basis.

Financial Instruments The Company periodically enters into interest rate swap agreements and forward rate agreements to hedge its interest rate exposure. Any payments and receipts relating to these agreements are recognized in interest expense over the period of the respective agreement.

3. Sale of Refrigeration Operation

On October 7, 1994, Inter–City Products Corporation (Canada) ("ICP Canada"), a wholly–owned subsidiary of the Company, sold its commercial refrigeration division for total consideration of approximately $6.7 consisting of cash proceeds of approximately $5.5 and a long–term note receivable of $1.2. In 1994, the Company has recorded a loss from Refrigeration Operation of $3.0 in discontinued operations, of which $1.4 relates to the costs of disposal. Operating results of the Refrigeration Operation for each of the three years ended December 31, 1994, 1993 and 1992 are as follows:

	1994	1993	1992
Operating revenue	**$ 13.8**	$ 7.7	$ 7.0
Loss before income taxes	**(3.0)**	(2.0)	(2.5)
Recovery of income taxes	–	.5	–
Loss from Refrigeration Operation	**$ (3.0)**	$ (1.5)	$ (2.5)

4. Inventories

Inventories are classified as follows:

	1994	1993
Raw materials and supplies	**$ 37.3**	$ 31.2
Work in process	**10.3**	8.2
Finished goods	**103.4**	85.3
	$ 151.0	$ 124.7

5. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1994			1993		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Machinery, equipment and furniture	**$ 120.7**	**$ 57.7**	**$ 63.0**	$ 122.3	$ 55.3	$ 67.0
Buildings	**60.7**	**19.0**	**41.7**	54.7	14.8	39.9
Tooling and drawings	**39.3**	**24.4**	**14.9**	39.6	22.6	17.0
Land and land improvements	**12.0**	**3.4**	**8.6**	11.1	2.4	8.7
Idle assets	**6.0**	**4.2**	**1.8**	10.4	5.7	4.7
	$ 238.7	**$ 108.7**	**$ 130.0**	$ 238.1	$ 100.8	$ 137.3

During 1993, fixed assets with a net book value of $4.7 were idled as a result of the temporary closure of the Brantford manufacturing facility as described in Note 17. In the fourth quarter of 1994, the Company began utilizing the facility for distribution and warehousing. Accordingly, the land and building of the Brantford manufacturing facility with a net book value of $2.9 have been reclassified and included in land and buildings. Net book value of the remaining idle assets comprised of machinery and equipment approximates market value on the basis of their continued use as determined by an independent appraisal firm.

Depreciation expense during the year amounted to $16.3 (1993 – $17.7; 1992 – $16.4).

6. INTANGIBLE AND OTHER ASSETS

Intangible and other assets are classified as follows:

	1994	1993
Patents	**$ 5.7**	$ 6.0
Non–competition agreement	**4.0**	4.0
Distributor relationships	**2.7**	2.7
Trade names	**2.4**	2.4
Technology	**1.6**	1.6
Goodwill	**5.8**	5.8
Other intangible assets	**1.6**	1.6
Debt issuance costs	**8.2**	8.2
Other assets	**4.9**	3.5
	36.9	35.8
Less: Accumulated amortization	**12.7**	9.3
	$ 24.2	$ 26.5

Amortization of intangibles and other assets during the year is $4.6 (1993 – $4.3; 1992 – $3.3).

7. BANK ADVANCES

(A) INTER-CITY PRODUCTS CORPORATION (USA) ("ICP USA")

In December 1994, ICP USA entered into an agreement to sell on a revolving basis and with limited recourse, up to a $100.0 undivided participation ownership interest in a designated pool of its accounts receivable to a financial institution. This transfer of receivables does not constitute a sale for accounting purposes in Canada on the basis that the significant risks and rewards of ownership of the receivables are not transferred to the purchaser. Accordingly, an amount of $61.0 representing accounts receivable transferred to the financial institution is included in accounts receivable and an equal offsetting amount is included in bank advances at December 31, 1994.

The receivables purchase agreement is for sixty months and requires ICP USA to pay fees which approximate the purchaser's interest cost of issuing a comparable amount of commercial paper plus certain administrative costs. At December 31, 1994, the combined cost of the receivable facility was 6.58%. ICP USA also incurred initial transaction fees of $1.3, which have been deferred and reflected as debt issuance costs in Other Assets.

(B) ICP CANADA

ICP Canada has a Cdn. $41.5 million operating line of credit, of which Cdn $23.6 million was utilized at December 31, 1994 (1993 – Cdn $37.2 million). ICP Canada's operating loan accrues interest at prime plus 0.75% per annum or at Bankers' Acceptance rates plus a stamping fee of 1.5% as selected by the company. In March 1994, ICP Canada's loan agreement was amended, among other things, to include revisions to certain financial covenants, and reduce the line of credit based on the proceeds from sale of the Refrigeration Operation referred to in Note 3. ICP Canada's accounts receivable and inventories are pledged as collateral under its loan agreement which contains covenants, the most restrictive of which require it to maintain a certain minimum interest coverage ratio and precludes the payment of dividends.

(C) THOMPSON PIPE & STEEL COMPANY ("TP&S")

TP&S, a wholly–owned United States subsidiary of the Company has an operating line of credit of which $6.8 was utilized at December 31, 1994 (1993 – $9.2). In March 1994, the loan agreement was amended to reduce the amount available under the operating line of credit from $10.0 to $7.0, increase the borrowing rate to prime plus 3.5%, modify the debt covenants including the addition of a minimum tangible net worth requirement and establish a maturity date of March 31, 1995. See Note 21 for Subsequent Event.

(D) The maximum amount of bank advances outstanding, excluding the advances received under the receivables purchase agreement at any month–end during the year ended December 31, 1994 was $40.9 (1993 – $41.5). The average bank advances outstanding, excluding the advances received under the receivables purchase agreement, calculated by averaging month–end balances, during the year ended December 31, 1994 was $29.7 (1993 – $27.0).

The weighted average interest rate on the outstanding bank advances at December 31, 1994 was 9.1% (1993 – 5.8%). Weighted average interest rates are calculated based on actual interest rates in effect and the bank advances outstanding as at December 31.

8. LONG–TERM DEBT

(A) The details of long–term debt are as follows:

	1994	1993
9.75% Senior Notes due March 2000	**$ 140.0**	$ 140.0
Revolving credit loan repayable January 1997	**–**	13.8
Term bank loans, repayable in 1996	**25.0**	34.1
Industrial revenue bonds, repayable during the period of 1995 – 2005	**5.7**	6.6
Other indebtedness	**.1**	.2
	170.8	194.7
Current portion included in current liabilities	**.8**	10.0
	$ 170.0	$ 184.7

(B) ICP USA

On March 11, 1993, ICP USA issued $140.0 of 9.75% senior secured notes ("Senior Notes") and entered into a $135.0 revolving credit loan (the "Revolving Credit Facility") to refinance all of ICP USA's previously existing debt. A write–off of $1.2 related to the extinguishment of the previously existing debt was charged in the 1993 consolidated statement of loss.

The Senior Notes are repayable in March 2000 and require mandatory prepayments if ICP USA has certain cash proceeds from asset sales as defined in the Senior Note agreement. Interest on the Senior Notes is payable semi–annually in March and September. The Senior Notes were trading at 91/92 (bid/offer) at December 31, 1994. The Senior Notes are collateralized by substantially all the real and personal property of ICP USA, other than accounts receivable and inventories. The Senior Notes indenture contains financial covenants which limit certain transactions including the payment of dividends.

In March 1993, ICP USA also entered into interest rate swap agreements which expire March 1, 2000, that prior to the modifications discussed below, effectively converted $80.0 of its 9.75% fixed rate Senior Notes into variable rate obligations. Under the terms of these interest rate swap agreements, ICP USA makes payments at variable rates which are based on the London interbank offering rate ("LIBOR") (5.4% at December 31, 1994) and receives payments at fixed interest rates which average 5.9% over the terms of the swap agreements.

In July 1994, the Company entered into a forward rate agreement ("FRA") that converted the variable rate to a fixed rate on the $80.0 notional swap amount for the six month period ended March 1, 1995. This FRA provides for an effective interest rate on the debt subject to the swap of 10.23% through March 1, 1995.

In October 1994, the Company entered into an interest rate swap agreement that effectively reconverts $20.0 of its variable rate obligations back to a fixed rate obligation of approximately 12% for the period of March 1, 1995 to March 1, 2000. An additional six month FRA was entered into to fix the effective interest rate on $20.0 of the remaining $60.0 notional swap amount at 11.21% from March 1, 1995 to September 1, 1995.

The fair value of the interest rate swap agreements and FRAs is the estimated amount that the Company would receive or pay to terminate the agreements. At December 31, 1994, the estimated cost to the Company to terminate the swaps and FRAs based on current interest rates was approximately $8.4.

8. LONG-TERM DEBT (CONT'D)

The Revolving Credit Facility, prior to the modifications discussed below, was to expire March 1998, and accrued interest at a rate selected by ICP USA which at December 31, 1993 was either prime plus 1.25% or 2.75% per annum over LIBOR. The Revolving Credit Facility was modified during 1993 and in March 1994 to, among other things, revise certain financial covenants, change the maturity date from March 1998 to January 1997 and increase the interest rate to prime plus 1.75% or LIBOR plus 3.5%. ICP USA is required to pay a commitment fee under the Revolving Credit Facility on the unused credit equal to 0.5% per year. A fee is charged on any letters of credit issued at 3.5% per year for the period the obligation is outstanding.

ICP USA used the initial sale proceeds from the receivables purchase agreement of $55.0 to reduce the borrowings outstanding under the Revolving Credit Facility; reduced the availability under the Revolving Credit Facility to $40.0 due to the removal of receivables from the revolver collateral base; extended the maturity date of the Revolving Credit Facility to January 1, 1998; and changed the interest rate options to prime plus 1.5% and LIBOR plus 2.5%. In connection with the significant change in and partial extinguishment of the Revolving Credit Facility, the Company recorded a write–off of a portion of debt issuance costs of $1.2 on the partial extinguishment of debt in the 1994 consolidated statement of loss.

The Revolving Credit Facility is collateralized by inventories of ICP USA and contains covenants, the most restrictive of which require ICP USA to maintain certain minimum amounts of net worth and earnings before interest, taxes, depreciation and amortization, maintain certain financial ratios and restricts the payment of dividends on its common and preferred shares.

(c) ICP Canada

In March 1994, ICP Canada's loan agreement was amended to require the repayment of its term bank loan in 1994. The term bank loan was repaid in May 1994.

(d) CHL Holdings Inc.

In June 1991, CHL Holdings Inc. a wholly–owned United States subsidiary of the Company, arranged an unsecured term bank loan in the amount of $25.0 due in June 1996. The term bank loan accrues interest at LIBOR plus 0.625%. The shares of TP&S have been pledged in support of an arm's length third party guarantee of this term bank loan. The pledge agreement contains certain covenants, the most restrictive of which requires TP&S to maintain a minimum net worth. Subsequent to year–end the company obtained a waiver of certain breaches of covenants of the pledge agreement, which existed at December 31, 1994.

(e) TP&S

TP&S has industrial revenue bonds in the amount of $5.7 outstanding at December 31, 1994 which were issued to finance the acquisition of the steel pipe manufacturing facility in Princeton, Kentucky in 1990. The rate of interest on the industrial revenue bonds is calculated by reference to the rates applicable to the short–term tax exempt securities of highly rated issues. At December 31, 1994, the variable interest rate on these bonds was 3.8% (1993 – 3.5%). The bonds are collateralized by two letters of credit issued by the financial institution which provides TP&S its operating line of credit. TP&S is subject to letter of credit covenants similar to those under its operating line of credit described in Note 7. See Note 21 for Subsequent Event.

8. Long-Term Debt (cont'd)

(f) Under the provisions of the various loan agreements and indentures, the Company is required to make the following installments during the next five years:

Year	
1995	$ .8
1996	25.8
1997	.8
1998	.8
1999	.8

9. Preference Shares

(a) Authorized

Unlimited number of Class A preference shares are issuable in series and rank senior to the Class B preference shares and ordinary shares as to dividends and participation in certain distributions of assets on liquidation. Any series of the shares may be made convertible into ordinary shares and have no voting rights as a class.

Unlimited number of Class B preference shares are issuable in series and rank senior to ordinary shares and junior to the Class A preference shares as to dividends and participation in certain distributions of assets on liquidation. Any series of the shares may be made convertible into ordinary shares and have no voting rights as a class.

(b) Issued and Outstanding

	1994		1993	
	Number	**Amount**	Number	Amount
Class C preference shares	–	$ –	2,439,887	$ 46.1

On July 18, 1994, the Company's shareholders approved an amendment to the Company's articles to exchange each Class C preference share for 5.5 ordinary shares. The amendment which was effective July 19, 1994 also removed the Class C preference shares as part of the authorized share capital of the Company. In accordance with the terms of the amendment, Class C preference shareholders were not entitled to any undeclared preferred dividends. Class C preference shareholders holding 3,567 shares dissented to the amendment of the Company's articles and were paid fair value for their shares in accordance with the Canada Business Corporations Act.

10. ORDINARY SHARES

(A) AUTHORIZED AND OUTSTANDING

The Company is authorized to issue an unlimited number of ordinary shares. Changes in the issued and outstanding ordinary shares for the years 1994, 1993 and 1992 are as follows:

	1994		1993		1992	
	Number	**Amount**	Number	Amount	Number	Amount
Issued and outstanding beginning of the year	**24,930,803**	**$ 119.9**	24,618,905	$ 118.8	17,226,836	$ 79.4
Issued under private placement	–	–	–	–	7,250,000	38.6
Issued under the Share Ownership Savings Plan	**319,724**	**.9**	311,898	1.1	141,975	.8
Dissenting shareholders to the amendment of the Company's articles	**(300)**	–	–	–	–	–
Issued in exchange for Class C preference shares	**13,399,722**	**45.1**	–	–	94	–
Issued and outstanding end of the year	**38,649,949**	**$ 165.9**	24,930,803	$ 119.9	24,618,905	$ 118.8

The amount of $45.1 recorded on the issue of ordinary shares exchanged for the Class C preference shares is net of $.9 of costs incurred to effect the exchange.

(B) EMPLOYEE STOCK OPTION PLAN

A maximum of 2,500,000 ordinary shares have been reserved for issuance to officers and employees of the Company under the Employee Stock Option Plan.

The term of all options cannot exceed ten years from the date the option is granted and no more than 20% of the total options granted to any individual can be taken up and paid for in any one year on a cumulative basis, except in certain circumstances where the exercise of such options would be accelerated, and for stock options received in exchange for Long–Term Incentive Plan Units as described in Note 10(d) below. The option exercise price is fixed by the Board of Directors at the time each option is authorized and cannot be less than the weighted average sales price per share on The Toronto Stock Exchange ("TSE") on the business day preceding the date of authorization.

10. Ordinary Shares (Cont'd)

Changes in the outstanding share options from January 1, 1992 to December 31, 1994 are as follows:

	1994	1993	1992
Balance – Beginning of the year	**490,000**	500,000	500,000
Granted	**385,000**	20,000	–
Long–Term Incentive Plan units converted	**526,400**	–	–
Cancelled	**(120,000)**	(30,000)	–
Balance – End of the year	**1,281,400**	490,000	500,000

The option exercise prices, expiry dates and the number of options outstanding at December 31, 1994 at each price are as follows:

Exercise Price (Cdn.$)	Expiry Date	Number
$ 4.15	October 31, 1995	490,000
$ 5.30	November 30, 1996	36,400
$ 4.15	November 5, 1997	350,000
$ 4.05	August 10, 2000	20,000
$ 3.50	August 24, 2001	65,000
$ 3.10	December 19, 2001	320,000
		1,281,400

(c) Share Ownership Savings Plan

Effective July 1, 1992, certain employees of the Company were eligible to participate in the Company's Share Ownership Savings Plan (the "Savings Plan"). Generally, the Savings Plan is available to all non–union employees following the completion of one year of continuous service with the Company. The Savings Plan allows eligible employees to contribute from one to six percent of their salary to the Savings Plan. The Company is required to match 25% of the employees' contributions and may make additional annual contributions of up to 75% of the employees' contribution at its discretion. In 1994 the Company's expense with respect to the Savings Plan was $.2 (1993 – $.2).

Effective January 1, 1994, ICP USA's Savings Plan was amended to provide additional investment options, allowing participants to purchase bond, money market, or index funds in addition to ordinary shares of the Company. The Company will only match contributions directed toward the purchase of the Company's ordinary shares.

(d) Long–Term Incentive Plan

Effective November 5, 1990, the Company adopted a long–term incentive plan (the "Plan"). Under the Plan, certain key officers and employees of the Company may be granted long–term incentive compensation units ("LTIP Units") the value of which shall be determined by reference to the appreciation in the market value of the ordinary shares over stated periods of time. Based on the discretion of the Board of Directors of the Company, the appreciation in the market value of the ordinary shares will be distributed to the holder thereof by payment of cash, issuance of ordinary shares or a combination thereof.

The initial value of the units at the date of granting is established as the weighted average price of board lot sales of ordinary shares on the TSE during the five consecutive trading days immediately preceding the date of granting of such

10. ORDINARY SHARES (CONT'D)

units. The value of the ordinary shares on the valuation date is established as the simple average of the closing sale price for the ordinary shares on the TSE on each trading day for the six month period ending on the valuation date. The valuation date of the units is determined by the Board of Directors and shall be no sooner than the year in which the fifth anniversary of the date of grant occurs and in no event shall a valuation date be later than the date which is ten years after the date of grant.

On August 10, 1993, the Plan was amended to permit Canadian holders of LTIP Units to exchange all or any part of their LTIP Units for options to purchase ordinary shares granted under the Employee Stock Option Plan, on the basis of one ordinary share for each LTIP Unit exchanged. The stock options received in exchange for LTIP Units will be exercisable at any time during the six month period used to establish the value of the ordinary shares on the valuation date of the respective LTIP Unit. During 1994, 526,400 LTIP Units were exchanged for stock options under the Employee Stock Option Plan. As at December 31, 1994, 13,000 LTIP Units were held by Canadian employees eligible to exchange such units for stock options.

As at December 31, 1994, the following units were outstanding under the Plan:

Date of Grant	Initial Value Per Unit (Cdn. $)	Number of Units	Valuation Date
November 5, 1990	$ 4.15	740,000	October 31, 1995
December 13, 1991	$ 5.30	299,200	November 30, 1996
February 1, 1993	$ 7.125	34,000	February 1, 1998
		1,073,200	

The Company accrues as compensation over the vesting period, the appreciation in the market value of the ordinary shares over the initial value at the date of grant. In 1993 due to lower market prices for the Company's ordinary shares, the Company included in income $1.0 in respect of amounts expensed under the plan in prior years. The amount expensed in 1992 was $.8.

(E) LEGAL STATED CAPITAL

The aggregate stated capital of the ordinary shares for the purposes of the Canada Business Corporations Act is Cdn. $191.3 million.

11. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

As previously described in Note 1, the Company adopted the United States dollar as its reporting currency, effective January 1, 1994. Accordingly, the foreign currency translation adjustment which is included as a component of shareholders' equity, represents the unrealized gain or loss on translation of financial statements of self–sustaining operations in Canada during 1994. Prior to 1994, this adjustment has represented the unrealized gain or loss on translation of financial statements of self–sustaining operations in the United States. Changes during the respective years are as follows:

	1994	1993	1992
Cumulative unrealized loss at January 1	**$ (.3)**	$ (4.4)	$ (11.4)
Unrealized gain (loss) on translation of net assets	**(1.6)**	4.1	7.0
Cumulative unrealized loss at December 31	**$ (1.9)**	$ (.3)	$ (4.4)

The rate of exchange as at December 31, 1994 was U.S. $1.00 = Cdn. $1.4028 (1993 – U.S. $1.00 = Cdn. $1.3240), and the average rate for the year was U.S. $1.00 = Cdn. $1.3659 (1993 – U.S. $1.00 = Cdn. $1.2898; 1992 – U.S. $1.00 = Cdn. $1.2085).

12. INCOME TAXES

The components of income (loss) before income taxes and the income tax provision (recovery) are as follows:

	1994	1993	1992
Income (loss) before income taxes			
Canada	**$ 7.9**	$ (3.3)	$ (.6)
United States	**(16.1)**	(22.2)	(1.4)
	$ (8.2)	$ (25.5)	$ (2.0)
Current income tax provision (recovery)			
Canada	**$ 2.8**	$ 2.5	$ 2.2
United States	**(1.7)**	(2.2)	(.8)
	1.1	.3	1.4
Deferred income tax provision (recovery)			
Canada	**.5**	(.3)	(2.7)
United States	**(3.3)**	(5.5)	1.4
	(2.8)	(5.8)	(1.3)
Total income tax provision (recovery)	**$ (1.7)**	$ (5.5)	$ .1

A reconciliation between the combined statutory and the effective rate of income tax is provided below:

	1994	1993	1992
Loss before income taxes	**$ (8.2)**	$ (25.5)	$ (2.0)
Combined statutory tax rate	**38.8%**	38.8%	38.8%
Computed income tax recovery	**(3.2)**	(9.9)	(.8)
(Increase) decrease resulting from			
Non–deductible depreciation	**1.1**	.8	1.0
Unrecognized losses and expenses	**—**	3.8	.5
Utilization of loss carryforward	**(.7)**	–	–
Other	**1.1**	(.2)	(.6)
Actual income tax provision (recovery)	**$ (1.7)**	$ (5.5)	$ .1
Effective rate of income taxes	**20.7%**	21.6%	(5.0)%

12. INCOME TAXES (CONT'D)

The deferred income tax recovery results from timing differences in the recognition of revenues and expenses for income tax purposes and financial statement purposes. The source and the tax effect of each difference is as follows:

	1994	1993	1992
Excess (deficiency) of tax over book depreciation	**$ (1.9)**	$ .2	$ .6
Warranty and product liability reserves	**(.6)**	–	.1
Bad debt reserves	**(.8)**	(.1)	(1.1)
Pension and employee benefits	**.3**	.6	(.5)
Inventory reserves	**1.3**	.5	(.3)
Environmental reserve	**(1.0)**	–	–
Benefit of loss carryforwards	**(.3)**	(6.1)	–
Other, net	**.2**	(.9)	(.1)
Deferred income tax recovery	**$ (2.8)**	$ (5.8)	$ (1.3)

The Company has accumulated non–capital losses for Canadian income tax purposes totalling approximately $18.1 which are available to reduce future taxable income. The potential future income tax benefits arising from these losses have not been recognized in the consolidated financial statements. The expiry dates of these losses are as follows:

Year	
1997	$ 4.5
1998	3.2
1999	2.3
2000	.2
2001	7.9
	$ 18.1

The future potential tax benefit of $3.5 of accrued restructuring costs have not been recognized in the consolidated financial statements.

13. NET LOSS PER ORDINARY SHARE

The basic and adjusted basic net loss per ordinary share are calculated on the weighted average number of shares outstanding during the respective years as follows:

	Adjusted Basic	Basic		
	1994	**1994**	1993	1992
Loss from continuing operations	**$ (6.5)**	**$ (6.5)**	$ (20.0)	$(2.1)
Add – dividends on preference shares	**–**	**–**	(3.7)	(3.7)
– preference share dividend entitlements	**–**	**(1.8)**	–	–
Loss to ordinary shareholders before discontinued operations	**(6.5)**	**(8.3)**	(23.7)	(5.8)
Loss from discontinued operations	**(1.0)**	**(1.0)**	(1.0)	(1.1)
Net loss to ordinary shareholders	**$ (7.5)**	**$ (9.3)**	$ (24.7)	$(6.9)

In accordance with GAAP, the undeclared cumulative dividend entitlement of the Class C preference shares for the first and second quarters of 1994 have been deducted in calculating the basic earnings per share to ordinary shareholders.

	Adjusted Basic	Basic		
	1994	**1994**	1993	1992
Weighted average number of ordinary shares outstanding during the year (in millions)	**38.477**	**31.832**	24.745	22.517
Loss per ordinary share				
From continuing operations	**$ (0.17)**	**$ (0.26)**	$ (0.96)	$ (0.26)
After discontinued operations	**$ (0.19)**	**$ (0.29)**	$ (1.00)	$ (0.31)

The calculation of net loss per ordinary share on a fully diluted basis assumes the exercise of outstanding stock options if such action would result in dilution of earnings per share. In 1994, 1993 and 1992, fully diluted net loss per ordinary share from both continuing operations and after discontinued operations were anti–dilutive.

14. PENSION PLANS

The Company and its subsidiaries have various defined benefit pension plans available to substantially all permanent full–time employees. The total pension expense for 1994 amounted to $3.3 (1993 – $4.4; 1992 – $3.9). The pension expense for 1994 consisted of the following:

	1994	1993	1992
Current service costs	**$ 2.8**	$ 3.2	$ 3.0
Interest costs on projected benefit obligation	**4.5**	4.6	4.1
Return on assets held in the plans	**.2**	(3.9)	(2.3)
Net amortization and deferral	**(4.2)**	.5	(.9)
	$ 3.3	$ 4.4	$ 3.9

A summary of pension fund assets and accrued pension benefits at December 31, 1994 is as follows:

	Canadian Plans	U.S. Plans
Market value of pension fund assets	$ 15.4	$ 33.3
Actuarial present value of accrued pension benefits	$ 17.1	$ 33.2

The actuarial present value of accrued pension benefits represents the discounted value of benefits expected to be paid to plan members, based on projected salaries prorated on service. No escalation of salaries is used to determine the actuarial present value of accrued pension benefits where the pension benefit is fixed and subject to renegotiation.

Certain key assumptions used in determining both the pension expense for 1994, and the actuarial present value of accrued pension benefits as at December 31, 1994, are as follows:

	Canadian Plans	U.S. Plans
Discount rate	8.0%	8.0%
Rate of increase of compensation levels	5.0%	4.0%
Expected long–term rates of return on plan assets	8.0%	8.0%

14. Pension Plans (Cont'd)

The status of pension plans at December 31, 1994, is as follows:

	Canadian Plans	U.S. Plans
Actuarial present value of –		
Vested benefit obligations	$ 15.1	$ 23.8
Nonvested benefit obligations	–	2.4
Accumulated benefit obligations	15.1	26.2
Additional amounts related to projected salary and wage increases	2.0	7.0
Total projected benefit obligations	17.1	33.2
Plan assets at market value	15.4	33.3
Plan assets less than (above) projected benefit obligations	1.7	(.1)
Unrecognized net loss	(1.0)	(.2)
Unrecognized prior service cost	(.5)	(1.0)
Unrecognized net asset (obligation)	1.0	(1.8)
Accrued (prepaid) pension cost	$ 1.2	$ (3.1)

15. Business Segments

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1994, 1993 and 1992 as it relates to operating revenue, operating profit (loss), identifiable assets, capital expenditures and depreciation and amortization expense. Operating profit is total revenue less operating expenses which includes an allocation of corporate expenses. Identifiable assets include only those assets directly identifiable with those operations.

	Operating Revenue			Operating Profit (Loss)		
	1994	1993	1992	**1994**	1993	1992
Heating and cooling						
Canada	**$ 80.9**	$ 75.2	$ 73.2	**$ 4.6**	$ (7.1)	$ (4.2)
United States	**568.4**	534.8	502.5	**13.3**	2.3	19.9
	649.3	610.0	575.7	**17.9**	(4.8)	15.7
Steel pipe	**41.0**	52.8	39.6	**(.5)**	(1.9)	1.3
Corporate and other	**.2**	1.0	.2	**(.3)**	.8	(1.1)
	$ 690.5	$ 663.8	$ 615.5	**$ 17.1**	$ (5.9)	$ 15.9

15. BUSINESS SEGMENTS (CONT'D)

	Identifiable Assets			Capital Expenditures			Depreciation & Amortization of Intangibles		
	1994	1993	1992	**1994**	1993	1992	**1994**	1993	1992
Heating and cooling									
Canada	**$ 58.3**	$ 67.8	$ 66.9	**$ .8**	$ 1.6	$ 3.6	**$ .4**	$ 2.2	$ 2.1
United States	**370.2**	351.3	270.6	**10.3**	8.1	11.8	**16.3**	16.2	15.2
	428.5	419.1	337.5	**11.1**	9.7	15.4	**16.7**	18.4	17.3
Steel pipe	**34.2**	34.8	34.1	**1.3**	1.1	.8	**1.3**	1.1	1.0
Corporate and other	**13.5**	24.4	19.9	**–**	–	–	**.9**	.8	.7
	$ 476.2	$ 478.3	$ 391.5	**$ 12.4**	$ 10.8	$ 16.2	**$ 18.9**	$ 20.3	$ 19.0

16. COMMITMENTS AND CONTINGENCIES

A) In December 1988, an action was commenced against the Company by the Mischer Corporation, claiming damages for misrepresentation and breach of contract. This action was settled in 1994. In 1993, the Company accrued for the judgment against ICP Canada of $1.2 representing damages of $1.1 and related interest of $.1 as a prior period adjustment.

B) ICP USA has been involved in paying the costs of assessing the extent of, and remediating, environmental contamination at its Lewisburg manufacturing facility caused by a sudden and accidental spill in 1980. ICP USA has paid for certain investigative activities and initial remediation. The cost of the remainder of the environmental cleanup discounted at 8.5% is currently estimated to be approximately $5.5 over the next twelve years.

The undiscounted cash flows are presently expected to be as follows:

Year	
1995	$ 2.4
1996	1.5
1997	.3
1998	.3
1999	.3
Thereafter	2.0
	$ 6.8

16. Commitments and Contingencies (Cont'd)

ICP USA has negotiated settlements in principle with the previous owner and the previous owner's liability insurance carriers relating to paying the costs of investigation and remediation, which will entitle ICP USA to receive approximately $2.7. These settlements are subject to the finalization of legal documentation. Settlement negotiations are continuing with certain other insurance companies.

The provision for environmental costs of $4.0 in the 1994 consolidated statement of loss reflects the excess of the discounted value of future cleanup costs and legal fees over the expected recoveries from the previous owner and insurance carriers.

(c) In December 1991, the Company and Flying J, Inc. ("Flying J") entered into a cost sharing agreement whereby the Company will participate with Flying J in the financing of future cleanup activities for environmental contamination at various refinery sites sold by the Company to Flying J in 1980. This settlement does not affect claims by Flying J or the Company against third parties who may be responsible for contribution to refinery cleanup costs. In December 1991, the Company also reached a settlement with several of its insurance carriers whereby the insurers will reimburse the Company for a portion of the expenses the Company will incur in the cleanup activities at the refineries.

Ongoing cleanup activities at three refinery sites are at different regulatory stages. The scope of the projects is becoming better understood and defined with the various regulatory agencies. Since the ultimate scope of the projects remains uncertain, it is not possible to definitively estimate the ultimate costs of remediation of such environmental contamination. At December 31, 1994, the Company has a provision of $7.3 for its estimated share of future cleanup costs.

Based on current information prepared by independent environmental consultants, the Company's share of the cost of environmental cleanup, net of expected insurance recoveries, discounted at 8.5% is currently estimated to be approximately $3.7 over the next 30 years. The undiscounted cash flows net of expected insurance recoveries are presently expected to be as follows:

Year	
1995	$ .5
1996	.6
1997	.4
1998	.3
1999	.3
Thereafter	5.3
	$ 7.4

16. Commitments and Contingencies (Cont'd)

(d) In February 1995, an action was commenced against ICP Canada in the Ontario Court (General Division) by GEC Alsthom Limited and GEC Alsthom Australia Limited (collectively "GEC"), claiming damages for breach of contract or negligence in the amount of Cdn $7.0 million, plus interest and costs, arising out of alleged defective cooling banks which were designed, manufactured and delivered by Unifin International, a former division of ICP Canada, to GEC between 1981 and 1984.

The Company denies GEC's allegations and intends to vigorously defend its position against this claim. The Company has notified its primary and umbrella liability insurance carriers for their possible involvement with this claim. The primary carrier has appointed adjusters to investigate the claim and until such time as it has received further information regarding the alleged damages, the carrier has reserved its rights with respect to coverage. The Company's external legal counsel has advised the Company that its insurance policies should respond to this claim, and accordingly, the Company believes that any possible loss to the Company would be minimal.

(e) The Company leases certain facilities and equipment under noncancelable operating leases. Lease rental expense during the current year amounted to $7.9 (1993 – $7.9; 1992 – $7.3). The approximate aggregate minimum annual rentals under long–term leases in future years, excluding capital leases, at December 31, 1994, are as follows:

Year	
1995	$ 5.9
1996	4.0
1997	2.2
1998	1.3
1999	.9
Thereafter	2.7
	$ 17.0

17. Restructuring Costs

In 1994, restructuring costs of $.9 consist mainly of severance costs of $2.4 relating to reductions in salaried personnel in the U.S. heating and cooling operation, partially offset by a reduction of $1.5 to the 1993 restructuring accrual for the closure of the Brantford manufacturing facility which is now being used as a distribution and warehouse facility.

In December 1993, the Company initiated a cost saving program designed to reduce production and operating costs and to improve profitability. As a result of this decision the Company temporarily closed the Brantford, Ontario manufacturing facility on January 21, 1994, reduced both U.S. and Canadian workforces and implemented a wage freeze for all salaried employees. The 1993 restructuring costs associated with the closure of the Brantford manufacturing facility amounted to approximately $11.9, consisting primarily of severances and other employee related costs, the cost of transferring production equipment from the Brantford facility to the Lewisburg plant and from the Lewisburg facility to the Laval, Quebec plant, the loss from operations to January 21, 1994, and the write–down of fixed assets and inventories. In addition, the Company also incurred 1993 restructuring costs of $1.8 most of which represents termination costs relating to the downsizing of the administrative office in LaVergne, Tennessee.

In 1992 the Company expensed $5.4 of restructuring costs relating to the physical relocation and integration of heating and cooling production lines from the Red Bud, Illinois plant to the manufacturing facilities in Lewisburg and Brantford.

18. REENGINEERING CONSULTING FEES

In 1993, the Company hired an independent consulting firm to conduct a thorough review of the United States heating and cooling markets to assess the Company's competitive position in the marketplace and to provide recommendations on operational changes for ICP USA. This assignment was completed in 1994. In 1994 and 1993, the Company expensed $3.4 and $.6, respectively for costs mainly associated with this reengineering study.

19. DETAILS OF CASH PROVIDED BY (USED FOR) OPERATIONS

	1994	1993	1992
(a) Items not involving current cash flows			
Depreciation and amortization	**$ 20.9**	$ 22.0	$ 19.7
Write–off of portion of debt issuance costs on partial extinguishment of debt	**1.2**	–	–
Deferred income taxes	**(2.8)**	(5.8)	(1.3)
Gain on foreign exchange and other	–	(.2)	(2.8)
	$ 19.3	$ 16.0	$ 15.6
(b) Changes in working capital			
Accounts receivable	**$ 14.0**	$ (85.2)	$ 51.5
Inventories	**(28.1)**	12.1	(29.5)
Prepaid expenses and other	**(1.3)**	2.3	7.5
Accounts payable and accrued liabilities	**(11.8)**	18.8	9.9
	$ (27.2)	$ (52.0)	$ 39.4

20. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1990 to 1994 are as follows. Amounts are in millions of dollars except per share amounts.

	1994	1993	1992	1991	1990
Operating revenue	**690.5**	663.8	615.5	496.3	500.3
Net income (loss)					
From continuing operations	**(6.5)**	(20.0)	(2.1)	(5.7)	2.3
After discontinued operations	**(7.5)**	(21.0)	(3.2)	(6.9)	153.3
Basic net income (loss) per ordinary share					
From continuing operations	**$ (0.26)**	$ (0.96)	$ (0.26)	$ (0.76)	$ (0.21)
After discontinued operations	**$ (0.29)**	$ (1.00)	$ (0.31)	$ (0.86)	$ 21.83
Total assets	**476.2**	478.3	391.5	410.5	324.2
Long–term obligations	**170.0**	230.8	147.4	146.5	112.7

Long–term obligations include long–term debt and redeemable preference shares.

21. SUBSEQUENT EVENT

On March 9, 1995, TP&S entered into a loan and security agreement to refinance its existing operating line of credit and to provide new letters of credit to support the industrial revenue bonds. The proceeds from the new revolving line of credit were used to repay TP&S' existing operating line of credit. The term of the new facility is two years.

The revolving line of credit which is limited to $12.7 accrues interest at prime plus 2.0% and is collateralized by all assets of TP&S. The letters of credit facility to support the industrial revenue bonds in the amount of $5.8 million, charges a fee on letters of credit issued at 2.0% per year. The loan and security agreement contains certain covenants, the most restrictive of which requires TP&S to maintain a minimum working capital and net worth and restricts the payment of dividends.

The Company has provided a guarantee with respect to TP&S' obligations under the loan and security agreement supported by letters of credit in the aggregate amount of $5.0.

The following information on Quarterly Financial Data is provided by management as supplementary information as required by the Securities and Exchange Commission, but does not form part of the basic financial statements.

QUARTERLY FINANCIAL DATA

Summarized quarterly financial data is as follows. Amounts are in millions of U.S. dollars except per share amounts.

	3 Months Ended				Year Ended
	Mar 31	**Jun 30**	**Sept 30**	**Dec 31**	**Dec 31**
1994					
Operating revenue	**117.1**	**208.7**	**204.1**	**160.6**	**690.5**
Gross margin	**19.2**	**42.9**	**40.7**	**26.1**	**128.9**
Net income (loss) after dividend entitlements on preference shares					
From continuing operations	**(7.3)**	**4.8**	**2.1**	**(7.9)**	**(8.3)**
After discontinued operations	**(7.2)**	**2.9**	**2.0**	**(7.0)**	**(9.3)**
Net income (loss) per ordinary share					
From continuing operations	**$(0.29)**	**$0.19**	**$0.05**	**$(0.20)**	**$(0.26)■**
After discontinued operations	**$(0.29)**	**$0.12**	**$0.05**	**$(0.18)**	**$(0.29)■**
1993					
Operating revenue	123.0	184.0	185.9	170.9	663.8
Gross margin	22.7	35.7	35.8	23.2	117.4
Net income (loss) after dividends on preference shares					
From continuing operations	(7.8)	1.3	1.8	(19.0)	(23.7)
After discontinued operations	(8.3)	1.3	1.6	(19.3)	(24.7)
Net income (loss) per ordinary share					
From continuing operations	($0.32)	$0.05	$0.07	($0.76)	($0.96)
After discontinued operations	($0.34)	$0.05	$0.06	($0.78)	($1.00)■

■Net income (loss) per ordinary share does not add to the total for the year due to changes in the number of ordinary shares outstanding during the year.

Ordinary share trading prices during the period of January 1, 1993 to December 31, 1994 are as follows:

	(ASE – U.S. $)		TSE (CDN. $)	
	High	**Low**	**High**	**Low**
1994				
First Quarter	**3.94**	**2.50**	**5.28**	**3.25**
Second Quarter	**3.00**	**2.56**	**4.10**	**3.55**
Third Quarter	**3.06**	**2.19**	**4.40**	**3.00**
Fourth Quarter	**2.88**	**2.13**	**3.85**	**2.95**

	(ASE – U.S. $)		TSE (CDN. $)	
	High	Low	High	Low
1993				
First Quarter	6.75	5.13	8.30	6.30
Second Quarter	5.25	3.15	6.50	4.50
Third Quarter	3.69	2.44	4.75	3.00
Fourth Quarter	3.81	2.38	4.95	3.05

Six Year Summary of Operations

For the years ended December 31

	1994	1993	1992	1991	1990	1989
Operations *(in millions of U.S. dollars)*						
Operating revenue	**690.5**	663.8	615.5	496.3	500.3	551.3
Gross margin	**128.9**	117.4	130.9	107.0	114.4	127.6
Operating profit before unusual items	**25.4**	8.4	21.3	17.4	28.7	36.8
Financial expenses	**25.3**	19.6	17.9	27.6	22.5	22.7
Income (loss) from continuing operations	**(6.5)**	(20.0)	(2.1)	(5.7)	2.3	6.9
Per Ordinary Share *(in U.S. dollars)*						
Net loss from continuing operations	**($0.26)**	($0.96)	($0.26)	($0.76)	($0.21)	($0.26)
Net income (loss) after discontinued operations	**($0.29)**	($1.00)	($0.31)	($0.86)	$21.83	$5.14
Financial Position *(in millions of U.S. dollars)*						
Total assets	**476.2**	478.3	391.5	410.5	324.2	760.0
Working capital	**144.7**	157.5	95.2	66.2	45.2	58.7
Fixed assets (cost)	**238.7**	238.1	222.6	197.0	172.5	170.8
Operational Data						
Heating and Cooling						
Air Conditioners – thousands of units	**621**	564	563	511	602	654
Furnaces – thousands of units	**450**	446	444	363	283	299
Steel Pipe – thousands of tonnes	**43**	55	38	26	22	35

Corporate Information

Board of Directors

Stanley M. Beck, Q.C. ■
Toronto, Ontario

H. Reuben Cohen, O.C., Q.C. ▲
Moncton, New Brunswick

The Honourable William G. Davis ▲
P.C., C.C., Q.C.
Brampton, Ontario

Leonard Ellen ●◆
Westmount, Quebec

John F. Fraser, O.C. ▲■◆
Winnipeg, Manitoba

Robert G. Graham ◆
Toronto, Ontario

Marvin G. Marshall ■
Toronto, Ontario

Gregory M. McCrane ▲◆
Greenwich, Connecticut

Ernest C. Mercier ●
Toronto, Ontario

David H. Morris ●◆
Eden Prairie, Minnesota

David A. Rattee ●◆
Toronto, Ontario

● Member of the Audit Committee
▲ Member of the Compensation and Pension Committee
■ Member of the Nominating and Corporate Governance Committee
◆ Member of the Strategic Planning Committee

Executive Management

Robert G. Graham
Chairman of the Board and
Chief Executive Officer

Arindra Singh
Senior Vice President
Chief Financial Officer
and Secretary

Cameron J. Turner
Senior Vice President

Corporate Office

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Toronto, Ontario
M5H 3R3
Tel: (416) 598-0101
Fax: (416) 598-5288

Heating & Cooling Operations Executive Management

W. Michael Clevy
President and Chief Operating Officer

Principal Operating Office

1136 Heil-Quaker Blvd.
LaVergne, Tennessee
37086-1985

Shareholder Information

20-F Report

The U.S. Securities and Exchange Commission Report on Form 20-F for the year ended December 31, 1994 will be provided by mail upon receipt of a written request. Requests should be directed to:

The Secretary
Inter-City Products Corporation
20 Queen Street West, Suite 3500
Toronto, Ontario M5H 3R3

Transfer Agents

Montreal Trust Company of Canada
151 Front Street West, 8th Floor
Toronto, Ontario M5J 2N1

First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007

Trustee

Senior Secured Notes of Inter-City Products Corporation (USA)

United States Trust Company
of New York
114 West 47th Street
New York, New York 10036-1532

Stock Symbol and CUSIP Number

The shares of Inter-City Products Corporation are listed on the Toronto and American stock exchanges.

IPR Toronto Stock Exchange
IPR American Stock Exchange
CUSIP number 45821E-10-1

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