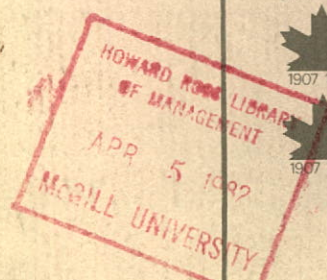
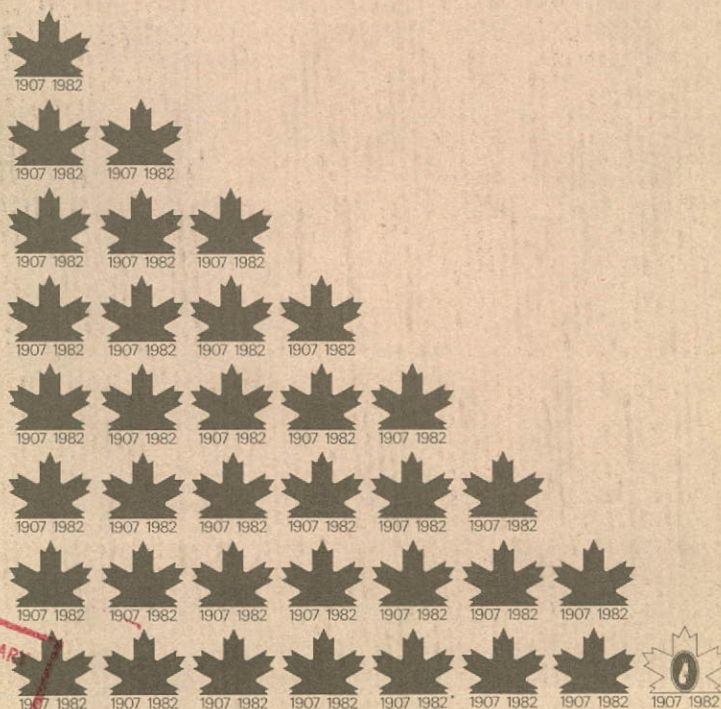


Wabasso 1981 Annual Report



Financial Highlights

(in thousands of dollars, except per share data)

	1981	1980
Sales	\$120,329	\$117,111
Net Earnings Before an Extraordinary Item of \$1,050 in 1980	1,156	3,012
Net Earnings	1,156	4,062
Funds Generated from Operations	3,472	5,839
Capital Expenditures	7,165	2,999
Depreciation	2,453	2,216
Working Capital	13,212	14,470
Property, Plant & Equipment (Net)	22,523	17,811
Long Term Debt	9,342	6,669
Shareholders' Equity	25,594	24,676
Per Share of Common Stock:		
Net Earnings Before Extraordinary Item	2.91	7.58
Net Earnings	2.91	10.23
Dividends	0.60	0.45
Book Value	64.44	62.13
Employees	2,871	3,105

Sales Dollar Breakdown

(thousands of dollars)

Dividends \$238	.2%
Income Taxes \$112	.1%
Depreciation \$2,453	2.0%
Earnings Reinvested in the Business \$806	.7%
Interest \$7,937	6.6%
Expenses, Supplies & Other \$19,502	16.2%
Salaries, Wages & Employee Benefits \$40,948	34.0%
Raw Materials \$48,333	40.2%

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Report to the Shareholders

Net earnings for the year 1981 were \$1,156,000 compared with earnings of \$3,012,000 for the year 1980, before an extraordinary item of \$1,050,000.

The net earnings per common share were \$2.91 compared with \$7.58 per share for the prior year, before the extraordinary item.

Sales of \$120,329,000, the highest level ever recorded, were attained in 1981 compared with sales of \$117,111,000 reported in 1980.

The decline in earnings from the previous year resulted from the high interest rates which prevailed throughout most of the year, as well as the continuing soft markets for the Corporation's products.

The capital programs instituted in 1980 and 1981 have resulted in capital expenditures and commitments in excess of \$12,500,000 during the period. These programs include new denim looms in Welland and Trois-Rivières, a major increase in sales yarn capacity at Shawinigan, the installation of wide width sheeting looms in Trois-Rivières as well as spinning and other ancillary equipment.

This new equipment has provided the Corporation with the means to boost productive capacities under more favourable conditions and to significantly improve its product quality.

As reported a year ago, the Textile and Clothing Board issued its report to the federal government and made it public in June 1980. Throughout that year and well into 1981, the Corporation, along with other companies in the industry, made vigorous representations to cabinet ministers, to members of parliament and to representatives of provincial and municipal governments in support of the recommendations contained in the Textile and Clothing Board report.

As a result of this report, the federal government has now created the Canadian Industrial Renewal Board (CIRB) and, more importantly, has negotiated extensions to the bilateral agreements with a number of trading nations which expired in December 1981. The CIRB will now handle the incentive programs for the textile, clothing and footwear industries formerly conducted by a number of federal and provincial agencies. The Corporation is preparing a long-range restructuring program which will be filed with the CIRB for incentive grant purposes.

In September 1981, the Corporation re-structured its merchandising and sales activities into marketing units, resulting in several senior personnel appointments.

Mr. W.R. Sewell, formerly Vice-President, Merchandising was appointed Vice-President, Marketing with responsibility for all marketing and sales activities. Mr. R.W. Allan, formerly General Sales Manager was appointed Vice-President and General Manager of Woods Inc., a subsidiary company, replacing Mr. Patrick Jousaume who became Marketing Manager, Sales Yarn with Wabasso.

In January 1982, Mr. J.H. Birkett was appointed President of Woods Inc. replacing Mr. J.E. Smith who resigned from the organization. Mr. Birkett continues as Vice-President, Administration and Secretary of Wabasso Inc.

Also in January 1982, Mr. Aubrey Crabtree, a former director of the Corporation, passed away and the directors wish to express their sense of personal loss. Mr. Crabtree was a long time member of the Board of the former parent company and he served on the Board of Wabasso Inc. from 1955 until May 1973.

Report to the Shareholders

The Board of Directors is most appreciative of the co-operation and dedication of all employees over the past year in which industry difficulties became apparent in the third quarter.

The year 1982 marks the Corporation's 75th Anniversary. Accompanying this report is a brochure containing a brief history of the Corporation's operations and a pictorial presentation of its modern product lines.

The soft market conditions, thought by many in the industry to be the worst in the past two decades and which have affected textile markets world-wide, will likely continue throughout most of the year 1982. They, along with the generally high interest rates, will adversely affect the Corporation's earnings.

The Corporation will continue its program of carefully monitoring the various market segments closely and will take the corrective steps necessary to ensure that inventories are kept in proper balance with changing levels of sales.

H. Roy Crabtree
Chairman of the Board and President

March 26, 1982

Financial Review

Sales

Sales of \$120.3 million were attained in 1981 representing a 2.7% increase over sales of \$117.1 million in 1980 and 22.1% over the 1979 level of \$98.5 million. The prior years' sales levels compared to 1981 by quarter were as follows:

	1981	1980
	(in thousands)	
First Quarter	\$ 29,595	\$ 26,236
Second Quarter	30,145	28,938
Third Quarter	25,963	26,505
Fourth Quarter	34,626	35,432
Total	<u>\$120,329</u>	<u>\$117,111</u>

Earnings

Net earnings in 1981 were \$1.2 million or \$2.91 per share compared to 1980 earnings of \$3.0 million or \$7.58 per share (before an extraordinary item of \$1.0 million). The effects of the Corporation's cost control program and of the modest price increases which were obtained, were more than offset by inflationary cost increases and record interest rates. The prior year's earnings compared by quarter were as follows:

	1981		1980	
	Earnings in Thousands	Earnings per Share	Earnings in Thousands	Earnings per Share
First Quarter	\$ 525	\$1.32	\$ 502	\$ 1.26
Second Quarter	159	0.40	623	1.57
Third Quarter	248	0.62	607	1.53
Fourth Quarter	224	0.57	1,280	3.22
	<u>\$1,156</u>	<u>\$2.91</u>	<u>\$3,012</u>	<u>\$ 7.58</u>
Extraordinary item	—	—	1,050	2.65
Total	<u>\$1,156</u>	<u>\$2.91</u>	<u>\$4,062</u>	<u>\$10.23</u>

Working Capital

Working capital totalled \$13.2 million at year end, a decrease of \$1.3 million from the prior year. The current ratio is 1.27:1 compared to 1.32:1 in 1980.

Although short term borrowing increased by \$2.9 million, operating lines of credit were not fully utilized at year end. The dollar value of current assets remained at approximately the levels of a year ago which, in units, reflects an improvement in inventory turnovers and control.

Capital Expenditures/Long Term Debt

Capital expenditures during the year totalled \$7.2 million, financed in part by term loans. The balance of the funds required for capital expenditures was provided from earnings and working capital.

Consolidated Statement of Earnings

Year ended December 31, 1981
with comparative figures for 1980

(in thousands of dollars except per share data)

	1981	1980
Sales	\$120,329	\$117,111
Manufacturing, selling and administrative costs	111,348	107,117
Operating income	8,981	9,994
Interest on long-term debt	(813)	(591)
Other interest	(7,124)	(4,710)
Income before income taxes and extraordinary item	1,044	4,693
Income taxes (recovery) (Note 7)	(112)	1,681
Income before extraordinary item	1,156	3,012
Realization of tax benefits related to Wabasso (Europe) B.V.	—	1,050
Net earnings	<u>\$ 1,156</u>	<u>\$ 4,062</u>
Earnings per share before extraordinary item	\$ 2.91	\$ 7.58
Extraordinary item	—	2.65
Net earnings per share	<u>\$ 2.91</u>	<u>\$10.23</u>

Consolidated Statement of Retained Earnings

Year ended December 31, 1981
with comparative figures for 1980

(in thousands of dollars)

	1981	1980
Retained earnings at beginning of the year	\$12,676	\$ 8,793
Net earnings for the year	1,156	4,062
Transfer from reserves	2,000	—
	15,832	12,855
Dividends (\$0.60 per share in 1981, \$0.45 in 1980)	238	179
Retained earnings at end of the year	<u>\$15,594</u>	<u>\$12,676</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981
with comparative figures for 1980

(in thousands of dollars)

	1981	1980
Source of working capital:		
Net earnings (before extraordinary item in 1980)	\$ 1,156	\$ 3,012
Depreciation	2,453	2,216
Deferred income taxes	(137)	611
Working capital derived from operations	3,472	5,839
Extraordinary item	—	1,050
Long-term debt	6,000	1,225
	<u>9,472</u>	<u>8,114</u>
Use of working capital:		
Additions to property, plant and equipment	7,165	2,999
Reduction of long-term debt	3,327	1,136
Dividends	238	179
	<u>10,730</u>	<u>4,314</u>
Increase (decrease) in working capital	(1,258)	3,800
Working capital at beginning of year	<u>14,470</u>	<u>10,670</u>
Working capital at end of year	<u>\$13,212</u>	<u>\$14,470</u>
Working capital changes - increase (decrease):		
Accounts receivable	\$ 2,700	\$ 4,538
Inventories	(1,564)	7,527
Other current assets	487	113
Bank indebtedness	(2,872)	(5,568)
Accounts payable and accrued liabilities	880	(2,670)
Other current liabilities	(889)	(140)
	<u>\$ (1,258)</u>	<u>\$ 3,800</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1981 with
comparative figures for 1980

Assets

(in thousands of dollars)

	<u>1981</u>	<u>1980</u>
Current assets:		
Cash	\$ 61	\$ 72
Accounts receivable	23,772	21,072
Inventories (note 2)	36,739	38,303
Prepaid expenses	<u>1,018</u>	<u>520</u>
Total current assets	61,590	59,967
Property, plant and equipment (note 3)	<u>22,523</u>	<u>17,811</u>
	<u>\$84,113</u>	<u>\$77,778</u>

Liabilities and Shareholders' Equity

(in thousands of dollars)

	<u>1981</u>	<u>1980</u>
Current liabilities:		
Bank indebtedness (note 4)	\$37,082	\$34,210
Accounts payable and accrued liabilities	8,418	9,298
Long-term debt due within one year	2,018	889
Provision for loss on Wabasso (Europe) B.V. (note 5)	<u>860</u>	<u>1,100</u>
Total current liabilities	48,378	45,497
Long-term debt (note 6)	9,342	6,669
Deferred income taxes	799	936
Shareholders' equity:		
Capital stock:		
Issued 397,173 common shares	10,000	10,000
Reserves	—	2,000
Retained earnings	<u>15,594</u>	<u>12,676</u>
Total shareholders' equity	<u>25,594</u>	<u>24,676</u>
	<u>\$84,113</u>	<u>\$77,778</u>

On behalf of the Board:
H. Roy Crabtree, Director
R.V. Hicks, Director

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1981 (tables in thousands of dollars)

The Corporation is incorporated under the Canada Business Corporations Act and carries on the business of textile manufacturing.

The accompanying financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects to International Accounting Standards.

(1) Summary of accounting policies:

Consolidation: These financial statements include the assets and liabilities and results of operations of all subsidiary companies.

Foreign exchange: Current assets and liabilities in foreign currencies are translated into Canadian dollars at the year-end rates of exchange and the remaining assets at appropriate historical rates. Revenues and expenses are translated at average exchange rates for the year with the exception of depreciation which is based on the historical rates used for the related assets.

Gains and losses resulting from translation are included in income.

Inventories: Inventories are valued at the lowest of cost, replacement cost and net realizable value.

Property, plant and equipment: Land, buildings, machinery and equipment are recorded at cost, less grants received from governments, and include expenditures which substantially extend their useful lives. Maintenance, repairs and minor renewals are expensed as incurred. Depreciation is provided on assets purchased prior to January 1, 1972 on the diminishing balance method and on assets purchased after January 1, 1972 on the straight-line method. Depreciation rates are based on estimated useful lives as follows: buildings - forty years; machinery and equipment - ten years. Interest incurred during the construction period of major projects is capitalized and amortized over the useful lives of the assets.

Pension plans: The Corporation has contributory pension plans, the costs of which are absorbed in the period in which the service giving rise to pension entitlement is rendered. Pension payments made to retired employees not covered by pension plans are charged to operations when paid. The actuarial valuation of one of the Corporation's pension plans as of January 1, 1981 indicated a substantial surplus. An amount of \$390,000 in respect of contributions for the current and immediate prior year has been recorded in the accounts as a prepaid expense.

(2) Inventories:

	1981	1980
Raw materials and supplies	\$ 8,470	\$12,165
Work in process	11,248	11,862
Finished goods	17,021	14,276
	<u>\$36,739</u>	<u>\$38,303</u>

(3) Property, plant and equipment:

	1981			1980
	Cost	Accumulated depreciation	Net	Net
Land	\$ 880	\$ —	\$ 880	\$ 880
Buildings	18,019	9,449	8,570	8,778
Machinery and equipment	43,354	30,281	13,073	8,153
	<u>\$62,253</u>	<u>\$39,730</u>	<u>\$22,523</u>	<u>\$17,811</u>

The Corporation obtained commitments for grants from the Federal, Quebec and Ontario governments totalling \$1,403,000 in respect of fixed asset purchases of which \$873,000 has been received and the balance of \$530,000 is receivable prior to March 1, 1984. The grants have been recorded as a reduction of the cost of fixed assets purchased. At December 31, 1981 approximately \$457,000 of government grants received are contingent upon completion of future capital projects through 1982. During 1981 \$355,000 of interest incurred on major capital projects during the construction period was capitalized.

(4) Bank indebtedness: Bank indebtedness is secured by assignment of accounts receivable and inventories.

(5) Provision for loss on Wabasso (Europe) B.V. Proceedings to wind up Wabasso (Europe) B.V. have not yet been completed, and it is anticipated that the Corporation's remaining obligations resulting from the wind-up, which are payable in a foreign currency, will be discharged in 1982.

(6) Long-term debt:	1981	1980
Series "A" 8½% debentures	\$ 6,000	\$ 6,500
Bank term loans	4,800	—
10¼% notes payable maturing up to 1983 - Belgian francs 15,350,487 (25,261,000 in 1980)	484	976
Mortgages	76	82
	<u>\$11,360</u>	<u>\$ 7,558</u>
Portion included in current liabilities	2,018	889
	<u>\$ 9,342</u>	<u>\$ 6,669</u>

The Series "A" debentures mature December 28, 1987 and, together with the bank term loans, are secured by a floating charge on all the assets of Wabasso Inc. The sinking fund requires instalments of \$250,000 semi-annually. The Corporation may redeem outstanding debentures for sinking fund purposes in addition to the semi-annual payments.

Repayment schedule to 1986 of long-term debt is as follows:

1982	\$2,018
1983	1,879
1984	1,707
1985	1,707
1986	507

The bank term loan agreements and the trust indenture relating to the Series "A" debentures contain the usual covenants, under the most restrictive of which the Corporation would have been precluded at December 31, 1981 from paying dividends in excess of approximately \$1,100,000.

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- | | |
|-------------------|--|
| (7) Income taxes: | Income taxes for 1981 have been eliminated, and those for 1980 substantially reduced, as a result of the 3% inventory allowance. |
|-------------------|--|
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- | | |
|------------------|---|
| (8) Commitments: | At December 31, 1981 the Corporation had commitments for fixed asset additions amounting to approximately \$2,400,000 net of related government grants. |
|------------------|---|
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Auditor's Report

To the Shareholders of Wabasso Inc.

We have examined the consolidated balance sheet of Wabasso Inc. as at December 31, 1981 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
February 18, 1982

Peat, Marwick, Mitchell & Cie
Chartered Accountants

10 Year Review

Results for the
year ended Dec. 31
(in millions of dollars)

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
Operating Data										
Sales	120.3	117.1	98.5	79.4	70.0	78.8	56.4	63.2	48.4	49.5
Operating income before interest	9.0	10.0	7.5	0.7	(0.5)	5.3	1.1	4.8	4.9	1.9
Interest	7.9	5.3	4.6	3.0	2.4	2.7	1.0	2.4	1.9	1.1
Income before income taxes	1.1	4.7	2.9	(2.3)	(2.9)	2.6	(0.9)	2.4	3.0	0.8
Income taxes	(0.1)	1.7	0.8	(1.2)	(1.5)	1.2	(0.4)	1.0	1.4	0.4
Other items, net	—	1.0	—	(2.4)	(1.2)	—	—	6.4*	—	(0.6)
Net earnings	1.2	4.1	2.1	(3.5)	(2.6)	1.4	(0.5)	7.8	1.6	(0.2)
Funds generated from operations	3.5	5.8	5.1	—	—	4.4	1.0	3.7	4.0	0.9
Additions to fixed assets	7.2	3.0	0.4	0.7	2.5	2.3	3.2	6.4	3.1	3.3
Depreciation	2.5	2.2	2.0	1.8	2.0	1.9	1.6	1.5	1.3	1.5
Year-End (in millions of dollars)										
Working capital	13.2	14.5	10.7	6.8	10.9	15.4	13.4	16.4	12.6	11.5
Property, plant and equipment at cost	62.3	55.2	52.3	52.2	52.6	51.3	50.0	46.8	40.8	40.9
Total assets	84.1	77.8	64.8	63.3	61.6	65.2	59.4	47.8	45.1	39.1
Long term debt	9.3	6.7	6.6	8.4	9.8	9.1	9.3	10.1	10.9	11.3
Shareholders' equity	25.6	24.7	20.8	18.7	22.2	24.8	23.5	24.1	16.6	15.0
Per Common Share (in dollars)										
Net earnings	2.91	10.23	5.24	(8.70)	(6.52)	3.61	(1.24)	19.72	3.96	(0.50)
Funds generated	8.74	14.71	12.84	—	—	11.01	2.47	9.44	10.10	2.29
Dividends	0.60	0.45	—	—	0.15	0.30	0.30	0.80	—	0.30
Book value	64.44	62.13	52.37	47.10	55.92	62.46	59.19	60.70	41.81	37.78
Market value — High	22.40	20.00	13.60	11.00	13.00	14.00	16.00	16.00	12.50	19.00
— Low	15.30	13.00	8.30	8.30	8.00	10.25	10.50	8.50	8.63	10.00
Miscellaneous Statistics										
Working capital ratio	1.3	1.3	1.3	1.2	1.4	1.5	1.5	2.3	1.7	1.9
Operating income before interest as a percentage of sales	7.5	8.5	7.6	0.9	(0.8)	6.8	1.9	7.7	10.1	4.0
Net income as a percentage of sales	1.0	3.5	2.1	(4.4)	(3.6)	1.8	(0.9)	19.7	3.3	(0.4)
Average number of common shares out- standing (in thousands)	397	397	397	397	397	397	397	397	397	397
Number of employees at year end	2,871	3,105	2,934	2,649	2,842	2,953	3,250	2,996	3,169	3,150

*Includes \$6.3 millions excess of fire insurance proceeds over net book value of property destroyed.

Directors

W.R. Clerihue
H. Roy Crabtree
Harold R. Crabtree
Louis Hébert
R.V. Hicks
D.C. Lowe
A.L. Penhale
André Piché
L.E. Ricard
Jacques Tétrault

Honorary Directors

C.S. Cox
J.E.L. Duquet
B.S. Saunders
Edward C. Wood

Committees of the Board of Directors

Audit Committee

Louis Hébert
R.V. Hicks
L.E. Ricard

Executive Committee

W.R. Clerihue
H. Roy Crabtree
Harold R. Crabtree
Louis Hébert
R.V. Hicks
L.E. Ricard

Officers

H. Roy Crabtree
Chairman of the Board and President
J.H. Birkett
Vice-President,
Administration and Secretary
R.L. Cooney
Vice-President, Manufacturing
R.B. Hoyland
Vice-President,
Treasurer and Controller
W.R. Sewell
Vice-President, Marketing

Operating Subsidiaries

Francis & Company, Inc.
—Memphis, Tennessee, U.S.A.
Woods Inc.
—Toronto, Ont.
—Ogdensburg, N.Y., U.S.A.

Bankers

Bank of Montreal
National Bank of Canada

Auditors

Peat, Marwick, Mitchell & Cie

Transfer Agent

Montreal Trust Company

Registrar

The Royal Trust Company

Executive Office

1825 Graham Blvd.
Montreal, Que. H3R 1H2
(514) 735-4611

Mills

Trois-Rivières, Que.
Shawinigan, Que.
Welland, Ont.
Dunnville, Ont.

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203-10109-106th St.
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Wabasso



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