

Wabano



Annual Report 1982



Sales Dollar Breakdown

(thousands of dollars)

Income Taxes (\$1,330)	(1.1%)
Earnings Reinvested in the Business (\$615)	(.5%)
Dividends \$238	.2%
Depreciation \$2,403	2.1%
Interest \$6,515	5.6%
Expenses, Supplies & Other \$20,935	18.0%
Salaries, Wages & Employee Benefits \$42,371	36.5%
Raw Materials \$45,598	39.2%

Financial Highlights

(in thousands of dollars, except per share data)

	1982	1981
Sales	\$116,115	\$120,329
Net Earnings	(377)	1,156
Funds Generated from Operations	706	3,472
Capital Expenditures	3,417	7,165
Depreciation	2,403	2,453
Working Capital	13,444	13,212
Property, Plant & Equipment (Net)	23,537	22,523
Long Term Debt	12,523	9,342
Shareholders' Equity	24,979	25,594
Per Share of Common Stock:		
Net Earnings	(0.95)	2.91
Dividends	0.60	0.60
Book Value	62.89	64.44
Employees	2,589	2,871

Si vous désirez obtenir une version française de ce rapport annuel, veuillez communiquer avec notre service des relations publiques.

Report to Shareholders



H. Roy Crabtree
Chairman of the Board of Directors



W. R. Clerihue
President and Chief Executive Officer

The net loss for the year 1982 was \$377,000 compared with earnings of \$1,156,000 for 1981. The net loss per common share was \$0.95 compared with earnings of \$2.91 per share for the prior year.

Sales for the year were \$116,115,000 down from the record sales of \$120,329,000 recorded in 1981. While the Corporation experienced a decline in sales and earnings during the first half of the year, the full effect of the recession affecting the entire Canadian economy impacted the company seriously only during the months of July and August when operating losses were recorded due to lower volumes and a substantial erosion of prices. In the worst economic downturn since the 1930's, the Corporation was insulated, in part, by the increased capacity resulting from the capital program, cost reduction programs and the federal government's work sharing program.

The Corporation has taken steps to reduce its inventories and achieved an overall reduction of 7.5% by year-end. To achieve these reductions, the Corporation, with the co-operation of the unions

in the mills affected, participated in the federal government's work sharing programs, thus avoiding long-term layoffs. Those employees who were laid off, were recalled during the fourth quarter to meet a greatly improved demand.

In June, the Corporation's consultants Peat, Marwick et Associés filed a Comprehensive Analysis of the Corporation with the Canadian Industrial Renewal Board (CIRB) which had been established by the federal government in 1981 to provide assistance to the textile, clothing and footwear industries.

The Corporation has now filed with the CIRB, a five-year restructuring program, which outlines in complete detail, the modernization plans for each of the Corporation's product lines. A notable addition to our lines has been the introduction of flannelette sheets to meet Canadian market demands.

During the year, the Corporation completed its expansion and modernization programs instituted in 1981. Capital expenditures amounted to \$4.5 million during the year with additional funds committed for further expansion of sales yarn facilities at Shawinigan. In addition, prior approval

has been received from the CIRB for certain projects in the restructuring program. This will enable the Corporation to meet critical deadlines.

While current sales are strong due to increased market demands for most product lines and recent capacity increases, the erosion of prices which affected earnings early in 1982 has continued. An increase in earnings of the Corporation will depend upon an improvement in the Canadian economy and the ability of the textile industry to recover pre-recession price levels.

In June, Mr. W.R. Clerihue, who had been a director and a consultant to the Corporation, was appointed President and Chief Executive Officer. Mr. H. Roy Crabtree retained the position of Chairman of the Board of Directors.

In April, General J.A. Dextraze was elected a director of the Corporation. He was Chairman of the Board of Canadian National Railways and had a distinguished career in the Canadian Forces.

In January 1983, the Corporation restructured its marketing and production activities into two operating divisions; the Consumer Products Division, responsible for bedding and towels and the Apparel Division, responsible for denim and sales yarn.

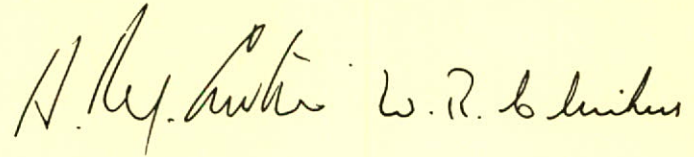
Mr. P. McConnell who joined the Corporation in January 1983, was appointed a Vice-President and President of the Consumer Products Division. Mr. W.R. Sewell was appointed Vice-President, Towels — Consumer Products Division with profit centre responsibilities in that area.

Mr. D.W. Scott, formerly Vice-President, Manufacturing under the functional organization, was appointed a Vice-president and President, Apparel Division. Mr. R.L. Cooney was appointed Vice-president, Sales Yarn — Apparel Division and he has assumed profit centre responsibilities for this product line.

Mr. J.H. Birkett, formerly Vice-President, Administration was appointed Vice-President, Finance & Administration and Mr. D.W.R. Woodhouse was appointed Corporate Controller. Mr. Woodhouse had been Manager of Financial Planning & Analysis.

In January 1983, the Corporation announced that it had signed an agreement covering the sale of its affiliate Woods Inc. to a Canadian controlled corporation. The sale was completed in March 1983.

The Board of Directors wishes to extend its sincere appreciation to all employees for their dedication and co-operation in a most difficult recessionary year.

The image shows two handwritten signatures in dark ink. The signature on the left is 'H. Roy Crabtree' and the signature on the right is 'W.R. Clerihue'. Both signatures are written in a cursive, flowing style.

H. Roy Crabtree
Chairman of the Board
of Directors

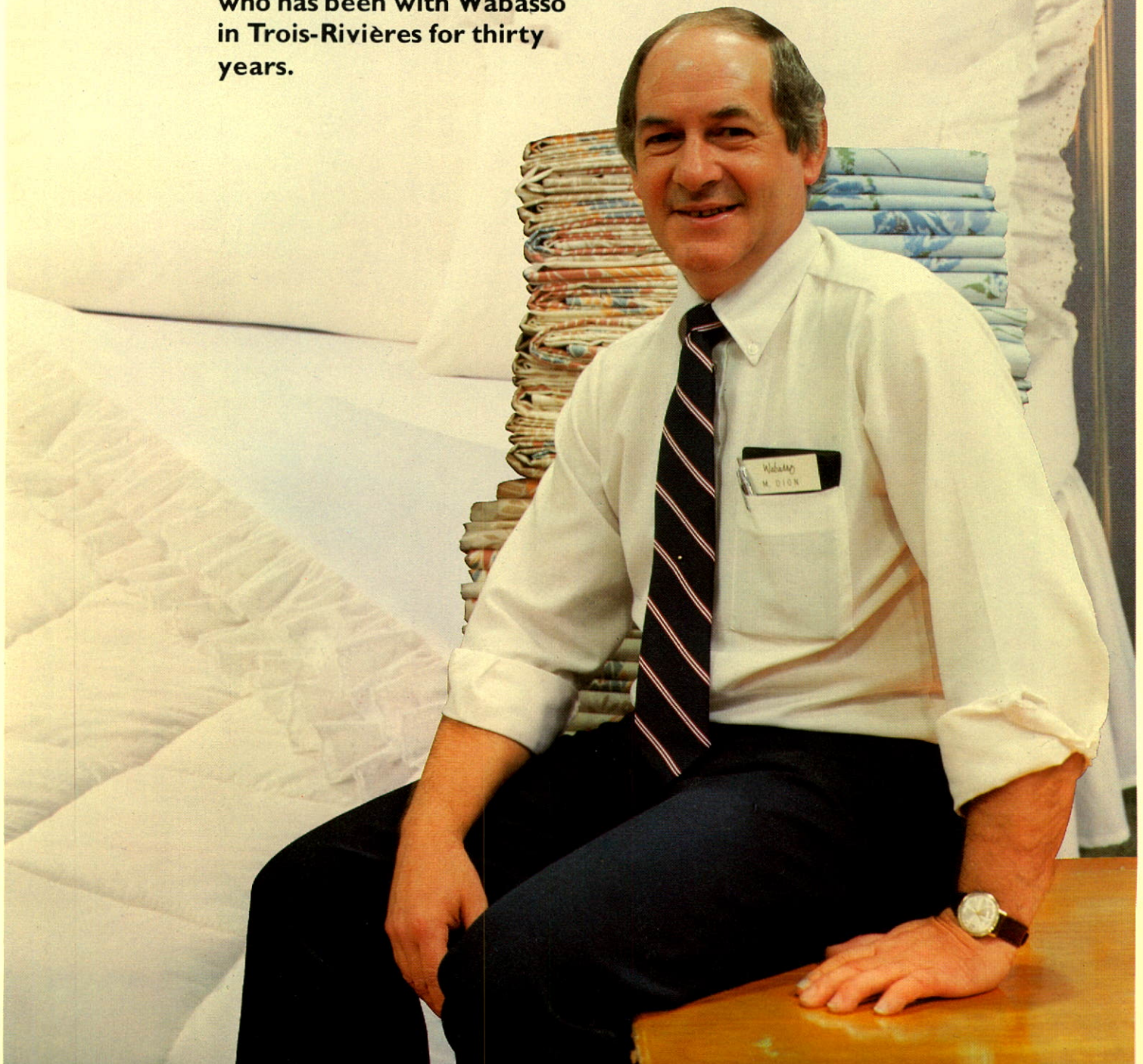
W.R. Clerihue
President and
Chief Executive Officer

March 30, 1983

Consumer Products Division — Bedding

Wabasso's consumer bedding products are centered in Trois-Rivières, Québec. This mill's main production is a complete line of bedsheets and pillow slips as well as other related products such as pillow shams and valances.

One of the many people behind these products is Superintendent, Marcel Dion, who has been with Wabasso in Trois-Rivières for thirty years.



Consumer Products Division — Towels

The Wabasso collection of bath sheets, bath towels, hand towels, facecloths and bath mats are manufactured in our mill in Dunnville, Ontario.

Some of our employees involved in the making up area of the Wabasso quality towel fashions are: Marshal Nagel, Nancy Barber, and Rosie Misener who has forty-two years' service.

Nancy Barber

Rosie Misener

Marshal Nagel



Apparel Division — Sales Yarn

The Canadian knitting industry relies on Wabasso sales yarn manufactured primarily in our mill in Shawinigan, Québec. This modern mill turns out top quality yarns of 100% cotton and cotton/polyester blends.

The success of this mill is largely due to people such as Jacqueline Maillette, who has worked in various departments in the Shawinigan mill over the past forty-five years.

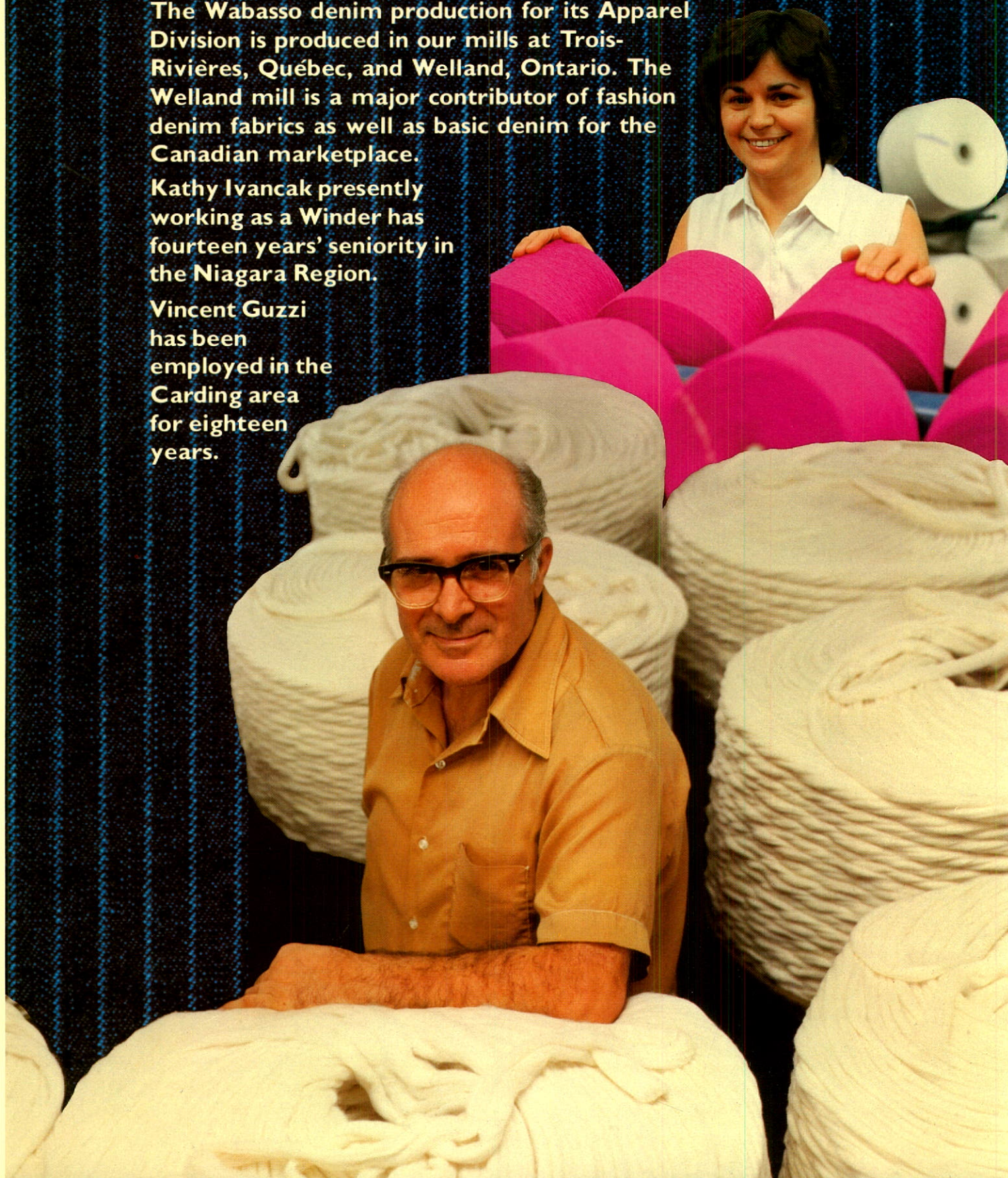


Apparel Division — Fabrics

The Wabasso denim production for its Apparel Division is produced in our mills at Trois-Rivières, Québec, and Welland, Ontario. The Welland mill is a major contributor of fashion denim fabrics as well as basic denim for the Canadian marketplace.

Kathy Ivancak presently working as a Winder has fourteen years' seniority in the Niagara Region.

Vincent Guzzi has been employed in the Carding area for eighteen years.



Financial Review

Sales

Sales of \$116.1 million were attained in 1982 representing a decrease of 3.5% from sales of \$120.3 million in 1981 and 0.9% down from the 1980 sales level of \$117.1 million. Despite the downturn for the year as a whole, 1982 finished strongly with a one quarter sales record set in the fourth quarter of the year. Sales levels by quarter in 1982 compared to the prior year were as follows:

	1982	(in thousands)	1981
First Quarter	\$ 25,204		\$ 29,595
Second Quarter	27,601		30,145
Third Quarter	24,443		25,963
Fourth Quarter	38,867		34,626
Total	<u>\$116,115</u>		<u>\$120,329</u>

Earnings

A loss of \$0.4 million or \$0.95 per share was recorded in 1982 compared to 1981 earnings of \$1.2 million or \$2.91 per share. The decline in earnings reflected the impact of the recession affecting the entire Canadian economy, particularly during the third quarter of the year. The year ended on a positive note, however, as fourth quarter earnings rebounded and were the only quarter in which earnings exceeded those of the prior year. Earnings by quarter compared to the prior year were as follows:

	1982		1981	
	Earnings in Thousands	Earnings per Share	Earnings in Thousands	Earnings per Share
First Quarter	\$ 24	\$ 0.06	\$ 525	\$ 1.32
Second Quarter	(121)	(0.30)	159	0.40
Third Quarter	(1,004)	(2.53)	248	0.62
Fourth Quarter	724	1.82	224	0.57
Total	<u>\$ (377)</u>	<u>\$ (0.95)</u>	<u>\$ 1,156</u>	<u>\$ 2.91</u>

Working Capital

Working capital totalled \$13.4 million at year end, an increase of \$0.2 million from the prior year. The current ratio is 1.29:1 compared to 1.27:1 in 1981. Short term borrowings declined by \$2.0 million reflecting the impact of the asset management measures implemented by the Corporation, which resulted in improved inventory and accounts receivable levels.

Capital Expenditures/Long-Term Debt

Capital expenditures during the year totalled \$4.5 million, financed in part by term loans and Government grants. The balance of the funds required for capital expenditures was provided from working capital.

Consolidated Statement of Earnings

Year ended December 31, 1982
with comparative figures for 1981

(in thousands of dollars except per share data)

	1982	1981
Sales	\$116,115	\$120,329
Manufacturing, selling and administrative costs	111,307	111,348
Operating income	4,808	8,981
Interest on long-term debt	(1,420)	(813)
Other interest	(5,095)	(7,124)
Income (loss) before income taxes	(1,707)	1,044
Income tax recovery	1,330	112
Net (loss) earnings	\$ (377)	\$ 1,156
Net (loss) earnings per share	\$ (0.95)	\$ 2.91

Consolidated Statement of Retained Earnings

Year ended December 31, 1982
with comparative figures for 1981

(in thousands of dollars)

	1982	1981
Retained earnings at beginning of year	\$ 15,594	\$ 12,676
Net (loss) earnings for the year	(377)	1,156
Transfer from reserves	—	2,000
	15,217	15,832
Dividends (\$0.60 per share)	238	238
Retained earnings at end of year	\$ 14,979	\$ 15,594

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1982
with comparative figures for 1981

(in thousands of dollars)

	1982	1981
Source of working capital:		
Net earnings (loss)	\$ (377)	\$ 1,156
Depreciation	2,403	2,453
Deferred income taxes	(1,320)	(137)
Working capital derived from operations	706	3,472
Long-term debt	5,000	6,000
	<u>5,706</u>	<u>9,472</u>
Use of working capital:		
Additions to property, plant and equipment	3,417	7,165
Reduction of long-term debt	1,819	3,327
Dividends	238	238
	<u>5,474</u>	<u>10,730</u>
Increase (decrease) in working capital	232	(1,258)
Working capital at beginning of year	13,212	14,470
Working capital at end of year	<u>\$13,444</u>	<u>\$13,212</u>
Working capital changes — increase (decrease):		
Accounts receivable	\$ 497	\$ 2,700
Inventories	(2,768)	(1,564)
Other current assets	843	487
Bank indebtedness	1,988	(2,872)
Accounts payable and accrued liabilities	(548)	880
Other current liabilities	220	(889)
	<u>\$ 232</u>	<u>\$ (1,258)</u>

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

December 31, 1982
with comparative figures for 1981

Assets

(in thousands of dollars)

	<u>1982</u>	<u>1981</u>
Current assets:		
Cash	\$ 78	\$ 61
Accounts receivable	23,739	23,242
Government grants receivable	1,491	530
Inventories (note 2)	33,971	36,739
Prepaid expenses	883	1,018
Total current assets	<u>60,162</u>	<u>61,590</u>
Deferred income taxes (note 3)	521	—
Property, plant and equipment (note 4)	<u>23,537</u>	<u>22,523</u>
	<u><u>\$84,220</u></u>	<u><u>\$84,113</u></u>

Liabilities and Shareholders' Equity

(in thousands of dollars)

	<u>1982</u>	<u>1981</u>
Current liabilities		
Bank indebtedness (note 5)	\$35,094	\$37,082
Accounts payable and accrued liabilities	8,966	8,418
Long-term debt due within one year	1,849	2,018
Provision for loss on Wabasso (Europe) B.V. (note 6)	809	860
Total current liabilities	46,718	48,378
Long-term debt (note 7)	12,523	9,342
Deferred income taxes	—	799
Shareholders' equity:		
Capital stock:		
Issued 397,173 common shares	10,000	10,000
Retained earnings	14,979	15,594
Total shareholders' equity	24,979	25,594
Commitments (note 8)		
	<u>\$84,220</u>	<u>\$84,113</u>

On behalf of the Board:

W.R. Clerihue, Director

H. Roy Crabtree, Director

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1982 (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, calculated commencing with the quarter following installation. Interest incurred during the construction period of major projects is capitalized and amortized over the useful lives of the assets.

Effective in 1982 the Corporation calculates depreciation on machinery and equipment commencing with the quarter following installation. Depreciation expense would have been increased by approximately \$350,000 had the former method been followed.

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.

Amendments to the pension plans effective January 1, 1982 have had the effect of utilizing a significant portion of the surplus reported a year earlier.

(2) Inventories:

	1982	1981
Raw materials and supplies	\$ 7,919	\$ 8,470
Work in process	13,091	11,248
Finished goods	12,961	17,021
	<u>\$33,971</u>	<u>\$36,739</u>

(3) Income taxes:

Deferred income taxes at December 31, 1982 consist of the following:

Relating to loss carry-forwards expiring for the most part in 1987	\$ 221
Relating to depreciation booked in excess of the related capital cost allowances for income tax purposes and other timing differences	300
	<u>\$ 521</u>

For income tax purposes the loss for 1982 has been increased and the income for 1981 decreased as a result of the 3% inventory allowance.

(4) Property, plant and equipment:

	1982		1981
	Cost	Accumulated depreciation	Net
Land	\$ 837	\$ —	\$ 837
Buildings	17,813	9,678	8,135
Machinery and equipment	46,604	32,039	14,565
	<u>\$65,254</u>	<u>\$41,717</u>	<u>\$23,537</u>
			<u>\$22,523</u>

The Corporation has obtained commitments for grants from the Federal, Quebec and Ontario governments totalling \$3,032,000 in respect of fixed asset purchases, of which \$1,280,000 has been received prior to December 31, 1982 and \$1,095,000 during January 1983 and the balance of \$657,000 is receivable prior to December 5, 1984. The grants have been recorded as a reduction of the cost of fixed assets purchased. At December 31, 1982 approximately \$440,000 of government grants received are contingent upon completion of future capital projects. In 1982, \$787,500 (1981, \$355,000) of interest incurred on major capital projects during the construction period was capitalized.

(5) Bank indebtedness:

Bank indebtedness is secured by assignment of accounts receivable and inventories.

(6) Provision for loss on Wabasso (Europe) B.V.:

Proceedings to wind up Wabasso (Europe) B.V. have not yet been completed.

(7) Long-term debt:

	1982	1981
Bank term loans	\$ 8,600	\$ 4,800
Series "A" 8½% debentures	5,500	6,000
10¼% notes payable maturing in 1983 — Belgian Francs 5,540,243 (15,350,487 in 1981)	144	484
Mortgages	128	76
	<u>14,372</u>	<u>11,360</u>
Portion included in current liabilities	1,849	2,018
	<u>\$12,523</u>	<u>\$ 9,342</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.

The repayment schedule to 1987 of long-term debt is as follows:

1983	\$1,849
1984	1,707
1985	2,540
1986	1,340
1987	4,340

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, 1982 from paying dividends in excess of approximately \$1,765,000.

(8) Commitments:

At December 31, 1982 the Corporation had commitments for fixed asset additions amounting to approximately \$4,016,000 net of related government grants.

(9) Subsequent event:

The Corporation has entered into negotiations for the sale of a subsidiary company, Woods Inc., at its net book value at December 31, 1982.

Auditors' Report

To the Shareholders of
Wabasso Inc.

We have examined the consolidated balance sheet of Wabasso Inc. as at December 31, 1982 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, 1982 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, except for the change in the method of accounting for depreciation referred to in note (1), on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Montreal, Canada
February 18, 1983

10 Year review

Results for the year ended December 31

(in millions of dollars) **1982 1981 1980 1979 1978 1977 1976 1975 1974 1973**

Operating Data

Sales	116.1	120.3	117.1	98.5	79.4	70.0	78.8	56.4	63.2	48.4
Operating income										
before interest	4.8	9.0	10.0	7.5	0.7	(0.5)	5.3	1.1	4.8	4.9
Interest	6.5	7.9	5.3	4.6	3.0	2.4	2.7	1.0	2.4	1.9
Income before										
income taxes	(1.7)	1.1	4.7	2.9	(2.3)	(2.9)	2.6	(0.9)	2.4	3.0
Income taxes	(1.3)	(0.1)	1.7	0.8	(1.2)	(1.5)	1.2	(0.4)	1.0	1.4
Other items, net	—	—	1.0	—	(2.4)	(1.2)	—	—	6.4*	—
Net earnings	(0.4)	1.2	4.1	2.1	(3.5)	(2.6)	1.4	(0.5)	7.8	1.6
Funds generated										
from operations	.7	3.5	5.8	5.1	—	—	4.4	1.0	3.7	4.0
Additions to										
fixed assets	3.4	7.2	3.0	0.4	0.7	2.5	2.3	3.2	6.4	3.1
Depreciation	2.4	2.5	2.2	2.0	1.8	2.0	1.9	1.6	1.5	1.3

Year-End

(in millions of dollars)

Working capital	13.4	13.2	14.5	10.7	6.8	10.9	15.4	13.4	16.4	12.6
Property, plant and										
equipment at cost	65.2	62.3	55.2	52.3	52.2	52.6	51.3	50.0	46.8	40.8
Total assets	84.2	84.1	77.8	64.8	63.3	61.6	65.2	59.4	47.8	45.1
Long-term debt	12.5	9.3	6.7	6.6	8.4	9.8	9.1	9.3	10.1	10.9
Shareholders' equity	25.0	25.6	24.7	20.8	18.7	22.2	24.8	23.5	24.1	16.6

Per Common Share

(in dollars)

Net earnings	(0.95)	2.91	10.23	5.24	(8.70)	(6.52)	3.61	(1.24)	19.72	3.96
Funds generated	1.78	8.74	14.71	12.84	—	—	11.01	2.47	9.44	10.10
Dividends	0.60	0.60	0.45	—	—	0.15	0.30	0.30	0.80	—
Book value	62.89	64.44	62.13	52.37	47.10	55.92	62.46	59.19	60.70	41.81
Market value—High	14.00	22.40	20.00	13.60	11.00	13.00	14.00	16.00	16.00	12.50
— Low	8.00	15.30	13.00	8.30	8.30	8.00	10.25	10.50	8.50	8.63

Miscellaneous Statistics

Working capital ratio	1.3	1.3	1.3	1.3	1.2	1.4	1.5	1.5	2.3	1.7
Operating income										
before interest as a										
percentage of sales	4.1	7.5	8.5	7.6	0.9	(0.8)	6.8	1.9	7.7	10.1
Net income as a										
percentage of sales	(0.3)	1.0	3.5	2.1	(4.4)	(3.6)	1.8	(0.9)	19.7	3.3
Average number of										
common shares										
outstanding										
(in thousands)	397	397	397	397	397	397	397	397	397	397
Number of										
employees at										
year end	2,589	2,871	3,105	2,934	2,649	2,842	2,953	3,250	2,996	3,169

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

General Information

Directors

W.R. Clerihue
H. Roy Crabtree
Harold R. Crabtree
General J.A. Dextraze
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
Jacques Tétrault

Executive Committee

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

Officers

H. Roy Crabtree
Chairman of the Board of Directors
W.R. Clerihue
President and Chief Executive Officer

J.H. Birkett
Vice-President, Finance & Administration, and Secretary
B.K. Farrell
Vice-President, Personnel & Industrial Relations
R.B. Hoyland
Vice-President and Treasurer
P. McConnell
Vice-President and President, Consumer Products Division
D.W. Scott
Vice-President and President, Apparel Division
D.W.R. Woodhouse
Corporate Controller

R.L. Cooney
Vice-President, Sales Yarn — Apparel Division
W.R. Sewell
Vice-President, Towels — Consumer Products Division

Operating Subsidiaries

Francis & Company, Inc.
Memphis, Tennessee, U.S.A.

Bankers

Bank of Montreal
National Bank of Canada
The Royal Bank of Canada

Auditors

Peat, Marwick, Mitchell & Cie

Transfer Agent

Montreal Trust Company

Registrar

The Royal Trust Company

Executive Office

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

Mills

Trois-Rivières, Quebec
Shawinigan, Quebec
Welland, Ontario
Dunnville, Ontario

Sales Offices

Montreal

8375 Bougainville Street
Montreal, Que. H4P 2G5
(514) 735-4611

Toronto

100 University Avenue
Suite 811
Toronto, Ont. M5J 1V6
(416) 593-7751

Winnipeg

330 St. Mary Avenue
Winnipeg, Man. R2H 1J9
(204) 956-2617

Edmonton

203 - 10109 - 106th Street
Edmonton, Alta. T5J 1H3
(403) 420-6937

Vancouver

789 West Pender
Room 990
Vancouver, B.C. V6C 1H2
(604) 687-6773
