Hawker Siddeley Canada INC.

ANNUAL REPORT

1985

Contents

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OF MANAGEMENT
APR 22 1986
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Hawker Siddeley Canada Inc.

Operations Summary

	1985	1984	1983	1982	1981
Operating Data (millions of dollars)					
Sales (By Industry Segments):					
Transportation and miscellaneous	$ 172.1	188.1	199.5	172.4	347.2
Mining	122.3	72.2	125.4	144.7	131.5
Steel castings and forgings	55.1	64.7	54.6	72.7	95.8
Forestry	72.5	86.5	65.8	35.8	64.5
Total Sales	422.0	411.5	445.3	425.6	639.0
Income before taxes, minority and extraordinary items	32.2	35.8	38.7	32.7	28.9
Income taxes	14.5	12.6	21.2	17.9	5.3
Extraordinary items	(1.9)	—	.4	(1.5)	.9
Net income	13.4	19.5	15.4	11.4	23.0
Financial Data (millions of dollars)					
Working capital	$ 127.8	117.0	123.3	96.4	90.5
Net fixed assets	186.3	190.7	186.8	200.4	207.2
Long term debt	40.3	52.3	58.3	64.2	70.6
Shareholders' equity	205.5	189.2	183.0	179.5	181.0
Funds from operations	23.1	24.8	45.1	50.2	101.1
Capital expenditures	10.8	21.5	10.8	10.1	32.6
Depreciation	14.2	14.1	14.2	13.8	13.4
Dividends					
– preferred shares	.8	.8	.8	.8	.8
– common shares	7.8	7.8	7.8	7.8	7.8
Aggregate remuneration of employees	121.6	119.4	122.2	126.2	169.5
Per Common Share (after Preferred dividends)					
Income before extraordinary items	$ 1.78	2.29	1.75	1.48	2.60
Net income	1.54	2.29	1.79	1.30	2.72
Funds from operations	2.74	2.94	5.44	6.06	12.31
Dividends	.96	.96	.96	.96	.96
Shareholders' equity	23.49	21.50	20.73	20.31	20.49
Ratios					
Return on capital employed (Note 1)	10.7%	11.9%	13.5%	13.5%	15.0%
Return on shareholders' equity (Note 2)	6.9%	10.8%	8.7%	6.4%	13.6%
Debt: equity ratio	16:84	22:78	24:76	26:74	28:72
Working capital ratio	2.3	2.5	2.1	2.0	1.7
Other Data					
Shares issued and outstanding					
– preferred	140,000	140,000	140,000	140,000	140,000
– common	8,150,301	8,150,301	8,150,301	8,150,301	8,150,301
Number of shareholders					
– preferred	767	830	908	998	1,050
– common	4,271	4,766	5,194	5,844	6,019
Average number of employees	3,630	3,927	4,090	4,307	6,712

Notes:

1. Operating income as a percentage of the annual average of total assets less current liabilities.
2. Net income less preferred dividends as a percentage of the annual average shareholders' equity less preferred shares.

To the Shareholders

Your Directors submit herewith the audited accounts of Hawker Siddeley Canada Inc., and its subsidiary companies for the year ended December 31, 1985.

1. Financial

1.1 Sales

Consolidated sales were $422 million (1984 — $412 million). Details of sales by industry and geographic segments are shown in Note 13 to the financial statements.

1.2 Income

Income before extraordinary item in 1985 was $15.3 million (1984 — $19.5 million) equivalent to $1.78 per common share (1984 — $2.29 per share). Net income was $13.4 million (1984 — $19.5 million) equivalent to $1.54 per common share (1984 — $2.29 per share).

1.3 Extraordinary item

Trading difficulties in the sawmill and forestry sectors have brought about a proposed reorganization which will concentrate production of some types of equipment nearer to their major market. Related costs estimated at $1.9 million have been provided for in 1985.

2. Dividends

In 1985 the Company declared and paid the four quarterly preferred share dividends as they became due. A dividend of 24 cents was declared payable on January 10, 1986 to holders of common shares of record on December 19, 1985, following declarations and payments of 24 cents per common share in each of the previous three quarters.

3. Directors

Mr. G. M. Armitage retired from the Board as of February 28, 1986 after serving the Company as a Director since November 26, 1981 and Mr. D. G. Bury was appointed a Director to succeed Mr. Armitage effective as of March 1, 1986.

4. Comments

Net income before extraordinary item was $15.3 million, a decrease of $4.2 million compared with the previous year. Though an increase in taxation provisions accounts for some of the change, this reduction also reflects poor demand, with consequent price cutting, in the markets for forestry and sawmill equipment, and for railway freight-carrying equipment.

The Company's activities in the supply of tunnelling equipment to the coal mining industry recovered in the second half of the year from the effect of the year-long strike in the U.K. industry, which ended in April 1985. This activity, carried out by the Company's U.K. subsidiary, Dosco Overseas Engineering, is expected to improve further as the industry settles down after the major disruption caused by the strike.

Activity in the manufacture of aero-engine components, and in the repair and overhaul of engines, was high and the year was notable for the winning of important new long term contracts. Profitability was restrained by the cost of the development of methods and tooling for these new programs, a process now largely completed.

The freight car leasing business of CGTX remained sound, however railway markets for new freight and tank cars were seriously depressed. This arose as a result of reduction in railway freight movements, at a time when the market was overhung by a large number of idle cars, arising from what has proved to be major over-procurement in the early 1980's. While we were successful in obtaining some export business, that market was also difficult due to lack of availability of credit in importing countries.

Business in the steel foundry and the wheel forge was affected by the low requirements of the railways. Demand for industrial and mining castings, however, rose as the year progressed and a rather better overall result was achieved at the foundry than in 1984.

Business for the forestry and sawmill industries was dull. The industry has experienced a period of low demand and is undergoing rationalization of its activities which are likely to have some permanence. Responding to this, we will make further rationalization of our manufacturing arrangements in the coming year, and have provided for the cost of this plan in an extraordinary item shown in the accounts. Meanwhile, as we expect the woodlands industries to recover demand in the future, we continue to pursue an active program of development of our products.

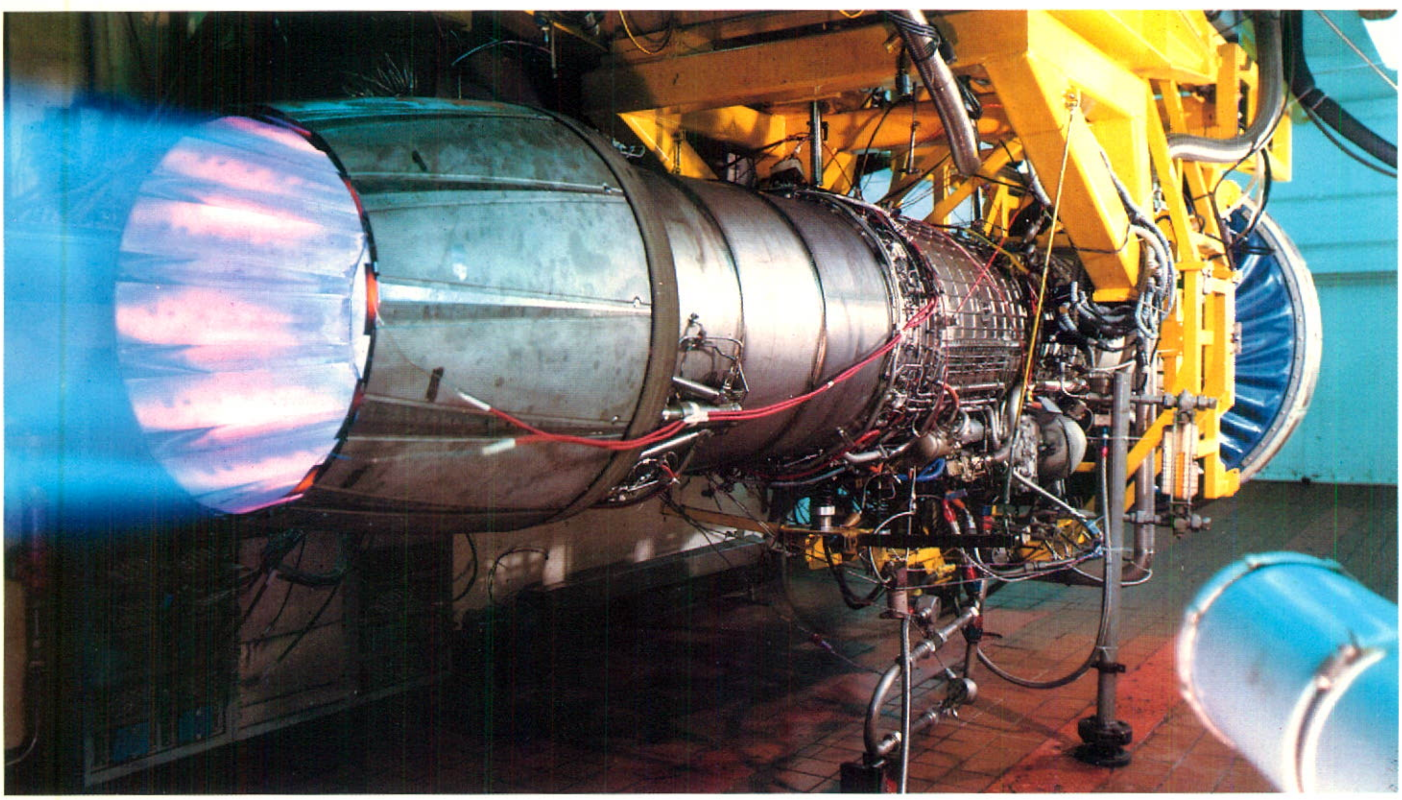
We expect the early part of 1986 to remain under the shadow of the market conditions mentioned above, but look for improvement in the overall situation thereafter.

Submitted on behalf of the Board

A.A. Hall
R.F. Tanner

Toronto, Ontario, March 6, 1986

A narrow gauge gondola car awaits shipment from the Trenton Works Division plant, Trenton, Nova Scotia. Car was one of a number of gondola, flat and box cars built for export to Mali.


General Electric F404 jet engine with afterburner in operation in a test cell. This type of engine, which powers Canada's CF-18 interceptor aircraft, is now being repaired and overhauled for the Canadian Armed Forces by Orenda Division, Mississauga, Ont.

Comments on Operations

HAWKER SIDDELEY CANADA INC.
Transportation and miscellaneous products

The Company's railway car building activity is centred on Trenton Works Division which operates in Trenton, Nova Scotia, producing various types of freight and tank cars marketed throughout the world. For most of the railcars it builds, the plant utilizes wheels and castings made by other Company operating units and axles forged in-house.

In general, Trenton Works Division experienced a difficult year with poor utilization of its extensive facilities for the manufacture of railway equipment. Several factors contributed to this situation including a marked reduction in demand for freight services provided by the domestic railways, particularly grain transportation. In addition, the pool of unused freight cars readily available from the United States, while reduced in size, continued to have a detrimental influence on the Canadian market for new rolling stock.

Within this framework, the total domestic deliveries of new freight cars from Trenton Works fell below the previous year's figure and was composed only of units for the transportation of sulphur and automobiles. In the export field, completed orders were limited to a total of 100 container flat cars, gondola cars and box cars which were shipped to Mali.

Railway freight car leasing business for CGTX Inc., Montreal, Quebec, was at a slightly reduced but relatively stable level throughout the year. The company offers full service leasing of a fleet of tank cars of all types, and hopper cars, and operates three car-maintenance depots in Montreal, Quebec; Moose Jaw, Saskatchewan; and Red Deer, Alberta. Customer demand for certain types of tank car was low, particularly for those used in petroleum service where an oversupply situation existed with resultant depressed prices. Some new equipment was added to the fleet over the year but the total carrying capacity of the fleet declined a little with the retirement of older tank cars.

Orenda Division had a busy year at its Mississauga, Ontario plant in both main sectors of its business. The manufacture of components built by Orenda for leading aircraft jet engine builders in North America continued at a good pace, although there were downward adjustments in production rates on some current programs due to changing needs in customer business levels. In addition, considerable effort was focused on tooling up for the manufacture of new components for which substantial orders have been gained. In the area of work connected with the repair and overhaul and product support of aircraft jet engines used by the Canadian Armed Forces, changes and additions were completed to facilities needed for the processing of General Electric F404 engines. These units power CF-18 aircraft now coming into military service in increasing numbers. The benefit of these changeovers will start to be derived in 1986.

Can-Car Trailer Division, Rexdale, Ontario repairs highway trailers and distributes heavy truck, bus and trailer replacement parts. Although some sectors of the Division's market showed improvement in Ontario and western Canada, this modest upturn was offset by depressed demand in Quebec. As a result, total sales volume was somewhat below that of the previous year.

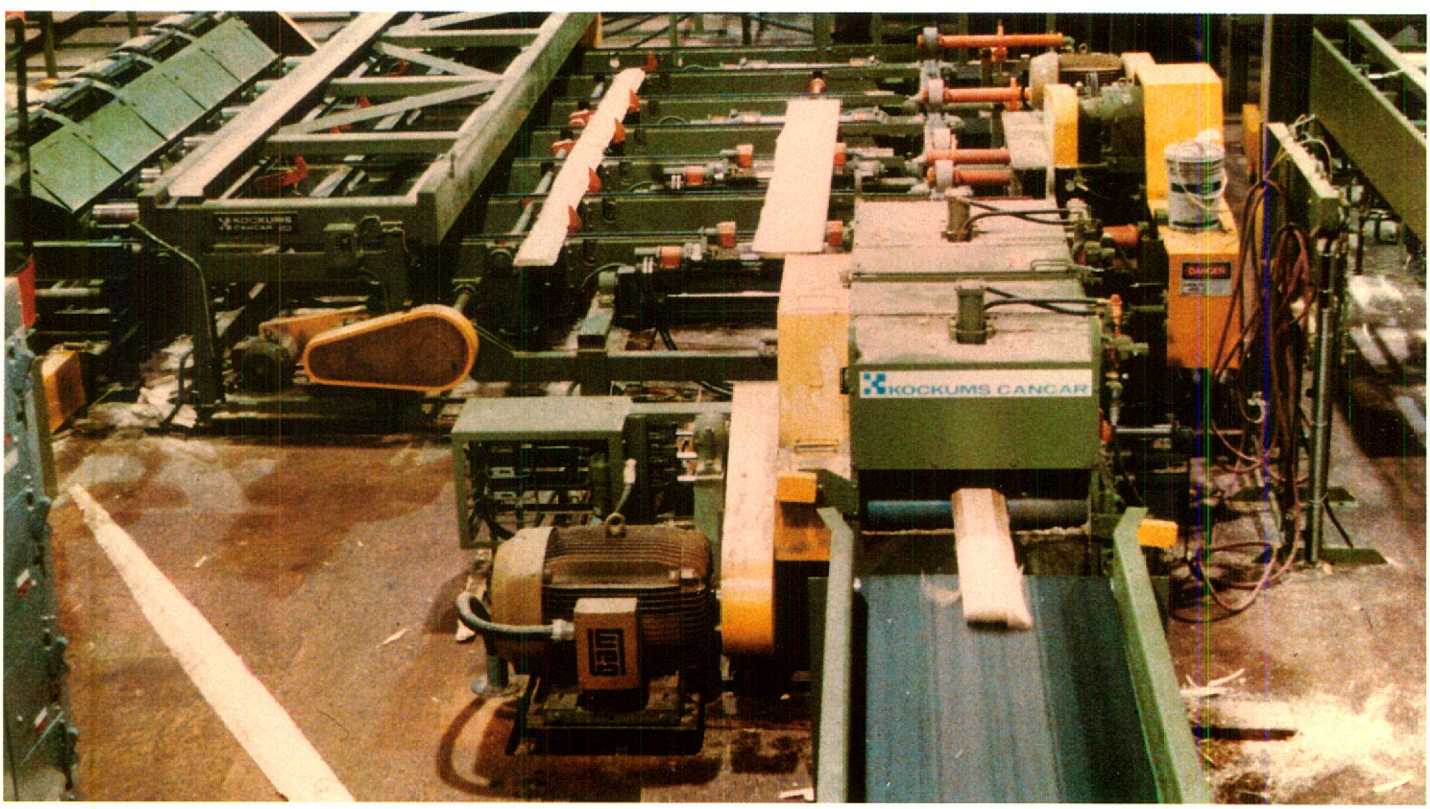
Steel castings and forgings

Steel castings and forgings, principally for railways, mines and various segments of heavy industry, are produced by Canadian Steel Wheel Division and Canadian Steel Foundries Division, both of Montreal, Quebec, and by Trenton Works Division, Trenton, Nova Scotia.

In the railway sector, all three operating units felt the effect on the railroads of reduced freight revenues which led to a reduction in maintenance spares requirements and capital equipment purchases by the operators. At the highly automated Canadian Steel Wheel Division the output of railway wheels declined, both for replacement purposes and for new equipment building programs. This trend necessitated the closure for a time of steel melting and forging operations. Overall, total activity dropped significantly from the 1984 level.

In addition to the lower demand for new and replacement railway castings, Canadian Steel Foundries Division was affected in other areas of its business by continued deferment of major industrial capital projects. However, orders for industrial castings showed a gradual upward trend at the Division

A TB3000 mining machine built by Dosco Overseas Engineering Limited, Tuxford, England, at work in Australia where it is shown excavating cap rock from an open cast bauxite mine.



Lumber processing equipment manufactured by Kockums CanCar Inc., Surrey, British Columbia, operating in a modern sawmill where high volume output and a high degree of automatic control are key features.

towards year end and demand for mine wear castings, particularly for iron ore mines in northern Quebec, improved modestly.

The railway axle manufacturing facility at Trenton Works Division was severely underutilized due not only to depressed demand for new railway equipment and maintenance spares but also to low-priced axle imports. Production of forgings for a range of other industries experienced a further decline from the level of the previous year.

Mining products

Dosco Overseas Engineering Limited is based in the United Kingdom at Tuxford, Nottinghamshire. The company designs and manufactures different types of roadheading and tunnelling machinery together with a range of associated equipment.

Activity at Dosco rapidly gained momentum in April following the end of the U.K. miners' strike and the resumption of operations by the National Coal Board. While orders were received for new mining machines, more immediate demand was for spare parts and the overhaul and upgrading of long-idle equipment needed quickly for renewed coal production. This business, together with work for export markets which were quite active throughout the year, produced a high level of plant utilization.

Hollybank Engineering Company Limited, which shares a manufacturing site with Dosco Overseas, produces mine roadway roof support systems. Demand for these supports improved steadily as United Kingdom coal mining operations resumed.

The Dosco Corporation, an affiliated company based in the United States, completed a move during the year to a new location in Abingdon, Virginia. Demand for mining machinery marketed by the company remained hesitant while roof support manufacturing business strengthened under the growing acceptance of this equipment by the U.S. mining industry.

Forestry and lumber processing equipment

Despite an increased level of activity in the house-building industry in North America, there were few indications that major sawmill operators were prepared to invest in new capital equipment. As a result, Kockums CanCar Inc., Surrey, British Columbia and Kockums CanCar Corp., Talladega, Alabama had a difficult year and unsatisfactory results. Sales opportunities were few and the orders secured were met at depressed prices in a fiercely competitive market. In the face of these difficult market conditions action was initiated to refine the operating structure of the two companies.

Log skidders built by Forestry Equipment Division are sold in the United States by Tree Farmer Equipment Company, Inc., Atlanta, Georgia. Further cuts in lumber production for domestic use in that country and a worldwide softening of wood pulp demand depressed U.S. requirements for new logging equipment. Accordingly, machine sales by the company fell short of expectations.

In Canada, the Division experienced a very modest upturn in skidder business although it tended to fall off as the year progressed. This slight domestic sales improvement, even when coupled with a modest level of export activity with other countries, did not offset the marked deterioration in the United States sector. Skidder production at the Mississauga, Ontario plant had to be severely curtailed as a result and overall performance by the Division was disappointing.

Hawker Siddeley Canada Inc.

Consolidated Statement of Income and Retained Earnings

	Year ended December 31 1985	1984
	(in thousands)	
Sales (Note 13)	$ 421,958	$ 411,514
Cost of sales, selling, general and administrative expenses	374,022	359,751
Depreciation	14,231	14,097
	388,253	373,848
Operating income (Note 13)	33,705	37,666
Interest (Note 2)	1,517	1,869
Income before income taxes, minority interest and extraordinary item	32,188	35,797
Income taxes (Note 10)	14,463	12,616
	17,725	23,181
Minority interest	2,414	3,713
Income before extraordinary item	15,311	19,468
Extraordinary item (Note 3)	1,930	—
Net income for the year	13,381	19,468
Retained earnings, beginning of year	132,687	121,848
	146,068	141,316
Dividends — preferred shares	805	805
— common shares	7,824	7,824
	8,629	8,629
Retained earnings, end of year	$ 137,439	$ 132,687
Income per common share after preferred dividends:		
Before extraordinary item	$ 1.78	$ 2.29
After extraordinary item	$ 1.54	$ 2.29

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1985	1984
	(in thousands)	
Funds (net cash and short term deposits) at beginning of year	$ 42,564	$ 63,863
Operating activities:		
Income before income taxes, minority interest and extraordinary item	32,188	35,797
Items not affecting funds —		
Depreciation	14,231	14,097
Other	375	1,208
	46,794	51,102
Change in working capital items (excluding funds and income taxes) related to operations	(9,484)	(663)
Income tax payments	(14,193)	(25,646)
Funds provided by operations	23,117	24,793
Investing activities:		
Proceeds on disposal of fixed assets	2,024	2,498
Decrease in investments	2,083	822
Additions to fixed assets –		
Railway rolling stock leasing fleet	(2,004)	(14,605)
Plant and equipment	(8,760)	(6,857)
Miscellaneous	(487)	(235)
Funds used in investing activities	(7,144)	(18,377)
Financing activities:		
Share capital redeemed from minority shareholders of subsidiaries	(336)	(4,498)
Reduction in long term debt	(12,578)	(6,818)
Dividends paid to —		
Shareholders of Hawker Siddeley Canada Inc.	(8,629)	(8,629)
Minority shareholder of a subsidiary	(1,440)	(1,152)
Funds used in financing activities	(22,983)	(21,097)
Unrealized foreign currency translation gain (loss) on net current assets of foreign subsidiaries	11,330	(6,618)
Net funds provided (used) for the year	4,320	(21,299)
Funds (net cash and short terms deposits) at end of year	$ 46,884	$ 42,564

Consolidated Balance Sheet

ASSETS	December 31 1985	1984
	(in thousands)	
Current Assets:		
Cash and short term deposits	$ 51,710	$ 43,842
Accounts receivable	76,794	63,571
Income taxes recoverable	1,065	354
Inventories	90,720	82,140
Prepaid expenses	3,495	2,973
	223,784	192,880
Investments (Note 6)	4,207	5,707
Fixed Assets (Note 7)	370,787	362,720
Less: Accumulated depreciation	184,454	172,064
	186,333	190,656
	$ 414,324	$ 389,243

Approved by the Board:
A.A. Hall, Director
R.F. Tanner, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 1985	1984
	(in thousands)	
Current Liabilities:		
Bank advances	$ 4,826	$ 1,278
Accounts payable and accrued liabilities	66,083	51,355
Dividends payable	2,157	2,157
Income and other taxes	12,805	12,156
Advances on sales contracts	2,480	1,295
Owing to affiliated companies (Note 5)	2,948	2,791
Long term debt due within one year (Note 8)	4,728	4,879
	96,027	75,911
Long Term Debt (Note 8)	40,345	52,320
Provision for Unfunded Pensions (Note 9)	1,844	2,245
Deferred Income Taxes (Note 10)	38,876	38,517
Minority Interest	31,746	31,059
Shareholders' Equity:		
Preferred and common shares (Note 11)	68,383	68,383
Retained earnings	137,439	132,687
Unrealized foreign currency translation adjustments (Note 12)	(336)	(11,879)
	205,486	189,191
	$ 414,324	$ 389,243

Notes to Consolidated Financial Statements

for the year ended December 31, 1985

1. Summary of principal accounting policies:

Principles of consolidation –
The consolidated financial statements include the accounts of Hawker Siddeley Canada Inc. and all subsidiary companies.

Foreign currency translation –
Assets and liabilities of foreign subsidiaries and other assets and liabilities in foreign currencies are translated at year-end rates of exchange. Revenue and expense items are translated at average rates of exchange during the year.

Net unrealized exchange adjustments arising from translation of the financial statements of foreign subsidiaries are included in a separate translation adjustments account in shareholders' equity. Other exchange gains and losses, including amortization of such amounts related to long term debt over its remaining life, are included in income.

Recognition of revenue, profits and losses –
Revenue and profits are recorded at the time the product is shipped or the services performed. Provision is made for any losses, including possible losses arising from claims and suits, in the year in which they are first foreseen.

Costs of long term debt –
Commission costs incurred on issue of long term debt are amortized on the straight-line method over the term of the related debt issue and unamortized amounts are included in prepaid expenses.

Inventories –
Inventories are carried at the lower of cost and net realizable value, less progress payments.

Investments –
Investments are carried on the cost basis.

Fixed assets —
Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives on the straight-line method at annual rates, generally, of $2\frac{1}{2}\%$ on buildings, 10% on equipment and $3\frac{1}{3}\%$ to 5% on railway rolling stock.

Pensions –
The Company and its subsidiaries have pension obligations to unfunded and funded pension plans.

Obligations to unfunded plans relate to retired and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. Under these pension plans payments to pensioners are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans, which are administered by trustees, are actuarially determined and are settled by payments which are charged to operations.

Income taxes –
The provision for income taxes is computed on the tax allocation basis which relates income taxes to the accounting income for the year.

In accordance with recommendations of the Canadian Institute of Chartered Accountants, effective January 1, 1985, investment tax credits resulting from qualifying expenditures are recorded using the cost reduction method. Previously such credits were applied to reduce the annual provision for income taxes. The effect of this change, which was adopted prospectively, on the 1985 financial statements is not significant.

2. Interest:

Interest reported in the consolidated statement of income is as follows:

	1985	1984
	(in thousands)	
Interest expense:		
Bank advances	$ 495	$ 750
Loans from an affiliated company (Note 5)	1,171	1,775
Long term debt including amortization of issue costs	4,463	4,876
	6,129	7,401
Interest income:		
Short term deposits and investments	4,612	5,532
Net interest	$ 1,517	$ 1,869

3. Extraordinary item:

The extraordinary item represents a provision for estimated costs and losses of $2,800,000 ($1,930,000 after income taxes and minority interest) relating to the reorganization in 1986 of certain forestry and lumber processing equipment operations in Canada and the United States.

4. Research and development costs:

Research and development costs charged to income amounted to $6,468,000 (1984 – $4,494,000) after deduction of government assistance of $21,000 (1984 – $96,000).

5. Related party transactions:

Hawker Siddeley Group Public Limited Company, a United Kingdom-based company, which operates through subsidiaries in many countries, is the beneficial owner of 59.1% of the outstanding common shares and 41.8% of the outstanding preferred shares of the Company.

During 1985 the Company and its subsidiaries had no significant sales to or purchases from related parties.

Loans to or from affiliated companies are based on commercial bank lending rates.

6. Investments:

	1985	1984
	(in thousands)	
Sidbec-Dosco Ltd. — Sinking fund debentures due in 1985	$ —	$ 1,527
RailTrans Industries of Canada Limited — 6% special cumulative voting shares	660	660
Can-Car Rail Inc. — 10% promissory note (secured) due on January 3 from 1986 to 1988	5,047	5,547
	5,707	7,734
Less: Amounts due within one year included in accounts receivable	1,500	2,027
	$ 4,207	$ 5,707

7. Fixed assets:

	1985 (in thousands) Cost	1985 (in thousands) Accumulated depreciation	1984 (in thousands) Cost	1984 (in thousands) Accumulated depreciation
Land and land improvements	$ 7,506	$ 2,084	$ 7,761	$ 1,982
Buildings	48,673	28,810	46,881	28,101
Equipment	103,215	70,038	95,533	62,990
Railway rolling stock leasing fleet	211,393	83,522	212,545	78,991
	$ 370,787	$ 184,454	$ 362,720	$ 172,064

8. Long term debt:

	1985 (in thousands)	1984 (in thousands)
CGTX Inc. (55% owned) –		
First Mortgage Sinking Fund Equipment Notes		
5% – 10¼%, due 1986 – 2000 (U.S. $5,650,000; 1984 – U.S. $6,825,000)	$ 7,910	$ 9,009
6¾% – 11⅛%, due 1986 – 1999	32,763	36,090
	40,673	45,099
Promissory Note owing to an affiliated company ¾% below Canadian bank prime rate, due 1986 – 1989	6,100	13,800
	46,773	58,899
Due within one year included in current liabilities ($1,700,000 included in owing to affiliated companies in 1985 and 1984)	6,428	6,579
	$ 40,345	$ 52,320

Principal payments on long term debt will be as follows for the years indicated:

Year ending December 31	Amount (in thousands)
1987	$ 5,828
1988	5,587
1989	4,678
1990	3,352
1991 – 2000	20,900
	$ 40,345

Railway rolling stock with a net book value of $76,927,000 is pledged by CGTX Inc. as security for its long term debt.

9. Pensions:

The provision for unfunded pensions of $1,844,000 at December 31, 1985 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans.

With respect to funded pension plans, the present value of past service obligations to be met for certain plans, based on actuarial computations, is approximately $6,400,000 at December 31, 1985. These obligations will be settled over periods of fifteen years or less. During 1985, $1,122,000 was charged to operations with respect to these obligations (1984 – $750,000).

10. Income taxes:

The consolidated provision for income taxes, which includes deferred income taxes of $901,000 (1984 – a credit of $2,249,000), has been determined as follows:

	1985	1984
	(in thousands)	
Consolidated provision at statutory rates of taxation	$ 13,056	$ 16,616
Increase (decrease) in provision resulting from –		
Losses of U.S. and Canadian subsidiaries for which no tax benefits have been recorded	2,356	486
Inventory allowances	(619)	(1,068)
Canadian investment tax credits	—	(1,212)
Manufacturing and processing tax credit	(330)	(1,192)
Other	—	(1,014)
Consolidated provision for income taxes	$ 14,463	$ 12,616

At December 31, 1985 the U.S. subsidiaries had accumulated losses for income tax purposes of approximately U.S. $17,300,000 which are available to reduce their taxable income of future years and expire as follows: 1996 – $1,100,000; 1997 – $4,600,000; 1998 – $2,900,000; 1999 – $7,200,000; and 2000 – $1,500,000. Also expenses of approximately U.S. $1,900,000 at December 31, 1985 have been charged to operations but not yet allowed for tax purposes. At December 31, 1985 a Canadian subsidiary had a loss for income tax purposes of approximately $2,400,000 which is available to reduce its taxable income for years prior to 1993.

The potential future tax benefits of approximately U.S. $9,600,000 for the U.S. subsidiaries and $880,000 (after minority interest) for the Canadian subsidiary, based on 1985 income tax rates, have not been recorded in the accounts.

11. Preferred and common shares:

	Shares	Dollars (in thousands)
Preferred Shares –		
5¾% cumulative preferred shares, redeemable at the option of the Company at $105 per share		
Authorized and issued	140,000	$ 14,000
Common Shares –		
Issued	8,150,301	54,383
		$ 68,383

The Company is authorized to issue an unlimited number of preferred shares junior to the 5¾% cumulative preferred shares and an unlimited number of common shares.

12. Foreign exchange translation adjustments:

Movements in the unrealized foreign currency translation adjustments account are as follows:

	1985	1984
	(in thousands)	
Balance, beginning of year	$ (11,879)	$ (7,279)
Adjustments for the year	11,543	(4,600)
Balance, end of year	$ (336)	$ (11,879)

13. Segmented information:

INDUSTRY SEGMENTS (in thousands)

	Transportation and Miscellaneous		Mining equipment		Steel castings and forgings	
	1985	1984	1985	1984	1985	1984
Sales to customers*	$ 172,057	$ 188,149	$ 122,338	$ 72,154	$ 55,108	$ 64,713
Inter-segment sales**	122	126	—	—	7,238	13,452
Sales	$ 172,179	$ 188,275	$ 122,338	$ 72,154	$ 62,346	$ 78,165
Segment operating income	$ 25,844	$ 33,379	$ 13,391	$ 1,207	$ 2,017	$ 2,712
General corporate expenses						
Operating income						
Identifiable assets	$ 199,504	$ 198,336	$ 80,098	$ 47,150	$ 47,359	$ 53,788
Corporate assets						
Total assets						
Capital expenditures	$ 6,813	$ 19,533	$ 1,921	$ 495	$ 928	$ 288
Depreciation	$ 8,957	$ 8,741	$ 956	$ 944	$ 2,232	$ 2,263

GEOGRAPHIC SEGMENTS (in thousands)

	Canada		Europe		United States	
	1985	1984	1985	1984	1985	1984
Sales to customers	$ 255,231	$ 282,392	$ 113,099	$ 66,476	$ 53,628	$ 62,646
Inter-segment sales**	14,959	23,456	2,376	564	1,091	853
Sales	$ 270,190	$ 305,848	$ 115,475	$ 67,040	$ 54,719	$ 63,499
Segment operating income	$ 23,553	$ 37,442	$ 13,109	$ 2,008	$ (2,144)	$ (1,019)
General corporate expenses						
Operating income						
Identifiable assets	$ 272,043	$ 279,565	$ 76,441	$ 43,791	$ 29,416	$ 33,043
Corporate assets						
Total assets						

The Company provides products and services in four major segments:

Transportation and miscellaneous –
Includes various types of freight and tank cars, repair and overhaul of jet engines and miscellaneous other products.

Mining –
Includes mining and tunnelling machines and roof support systems for mine roadways and tunnels.

Steel castings and forgings –
Includes steel castings and forgings for the railway, mining, energy and manufacturing industries.

Forestry –
Includes lumber processing and logging equipment for the forestry and forest products industries.

Forestry equipment		Eliminations		Consolidated	
1985	1984	1985	1984	1985	1984
$ 72,455	$ 86,498	$ —	$ —	$ 421,958	$ 411,514
—	—	(7,360)	(13,578)	—	—
$ 72,455	$ 86,498	$ (7,360)	$ (13,578)	$ 421,958	$ 411,514
$ (6,734)	$ 1,133	$ —	$ —	$ 34,518	$ 38,431
				813	765
				$ 33,705	$ 37,666
$ 47,954	$ 54,010	$ (298)	$ (310)	$ 374,617	$ 352,974
				39,707	36,269
				$ 414,324	$ 389,243
$ 1,027	$ 964				
$ 2,000	$ 2,063				

Eliminations		Consolidated	
1985	1984	1985	1984
$ —	$ —	$ 421,958	$ 411,514
(18,426)	(24,873)	—	—
$ (18,426)	$ (24,873)	$ 421,958	$ 411,514
$ —	$ —	$ 34,518	$ 38,431
		813	765
		$ 33,705	$ 37,666
$ (3,283)	$ (3,425)	$ 374,617	$ 352,974
		39,707	36,269
		$ 414,324	$ 389,243

Canadian sales to customers include export sales of $40,726,000 in 1985 and $61,688,000 in 1984, primarily to customers in the United States.

*Transportation and miscellaneous sales to customers includes $39,179,000 (1984 – $38,241,000) relating to leasing operations.

**Inter-segment sales are accounted for at prices comparable to market prices.

Auditors' Report

To the Shareholders of
Hawker Siddeley Canada Inc.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Inc. as at December 31, 1985 and the consolidated statements of income and 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 Company as at December 31, 1985 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.

Price Waterhouse
Chartered Accountants

Toronto, Ontario
March 6, 1986

Divisions and Subsidiaries

Divisions

Can-Car Trailer Division, Rexdale, Ont., Montreal, Que.
Canadian Steel Foundries Division, Montreal, Que.
Canadian Steel Wheel Division, Montreal, Que.
Forestry Equipment Division, Rexdale and Windsor, Ont.
Orenda Division, Mississauga, Ont.
Trenton Works Division, Trenton, N.S.

Subsidiaries (Note)

Can-Car, Inc., Atlanta, Ga., U.S.A.
  Kockums CanCar Corp., Atlanta, Ga., Vancouver, Wash., U.S.A.
  The Dosco Corporation, Abingdon, Va., U.S.A.
  Tree Farmer Equipment Company, Inc., Talladega, Ala., Waycross, Ga., McComb, Miss., U.S.A.
Dosco Overseas Engineering Limited, Tuxford, England
  Hollybank Engineering Company Limited, Tuxford, England
Kockums CanCar Inc., Surrey, B.C., Burlington, Ont., Montreal, Que.
CGTX Inc., Montreal, Que., Toronto, Ont., Moose Jaw, Sask., Red Deer and Calgary, Alta.

Note: With the exceptions of Kockums CanCar Inc. and Kockums CanCar Corp. (80% owned) and CGTX Inc. (55% owned), all subsidiaries are 100% owned, directly or indirectly, by Hawker Siddeley Canada Inc.

Products and Services

Divisions

Can-Car Trailer Division
Highway trailer repairs; trailer and heavy truck parts supply
Canadian Steel Foundries Division
Steel castings for the railway, mining, energy and manufacturing industries
Canadian Steel Wheel Division
Forged wheels for railway passenger and freight cars and locomotives
Forestry Equipment Division
Forest harvesting vehicle chassis components; sales and service
Orenda Division
Aircraft jet engine repair and overhaul; jet engine components; engineering design and laboratory testing services; graphics services
Trenton Works Division
Railway freight and tank cars; railway axles; open-die forgings; circular forgings; steel fabrications; custom machining

Subsidiaries

Kockums CanCar Corp.
Sawmill and lumber processing equipment sales and service
The Dosco Corporation
Sales and service of mining and tunnelling machines; roof support systems for mine roadways and civil engineering tunnels
Tree Farmer Equipment Company, Inc.
Log skidders and other forest harvesting equipment; sales and service
Dosco Overseas Engineering Limited
Mining and tunnelling machines
Hollybank Engineering Company Limited
Roof support systems for mine roadways and civil engineering tunnels
Kockums CanCar Inc.
Sawmill and lumber processing equipment; sales and service
CGTX Inc.
Full-service leasing and repair of railway tank cars and hopper cars

Hawker Siddeley Canada Inc.

Head Office:

7 King Street East, Toronto, Ontario M5C 1A3

Directors

B. R. Bensly, Gerrards Cross, Buckinghamshire, England
D. G. Bury, Camberley, Surrey, England
A. H. Crockett, Toronto, Ontario
L. Francoeur, Mississauga, Ontario
C. A. Haines, Woodbridge, Ontario
Sir Arnold Hall, London, England
J. F. Howard, Q.C., Woodbridge, Ontario
A. W. McKenzie, Mount Royal, Quebec
L. Rochette, Quebec City, Quebec
T. K. Shoyama, Victoria, British Columbia
R. F. Tanner, Mississauga, Ontario
E. J. White, Blackpool, Lancashire, England

Executive Management

Sir Arnold Hall, Chairman
J. F. Howard, Q.C., Vice-Chairman
R. F. Tanner, President and Chief Executive Officer
L. Francoeur, Vice-President, Finance
C. A. Haines, Secretary
B. Budd, Assistant Secretary and Legal Counsel
R. D. Cole (President and Chief Executive Officer, CGTX Inc.)
M. J. Colman, Vice-President (Canadian Steel Foundries and Canadian Steel Wheel Divisions)
L. T. Corey, Vice-President (Trenton Works Division)
K. R. Church, Comptroller
R. J. Gray, Vice-President (Forestry Equipment Division), (President and General Manager, Tree Farmer Equipment Company, Inc.)
K. G. Miles (President and Chief Executive Officer, Kockums CanCar Inc. and Kockums CanCar Corp.)
K. C. Miller, Vice-President (Managing Director, Dosco Overseas Engineering Limited)
P. K. Peterson, Vice-President (Orenda Division)
F. J. Sandford, Treasurer

Auditors

Price Waterhouse, Toronto, Ontario

Registrar and Transfer Agent

National Trust Company, Toronto, Montreal, Winnipeg and Vancouver

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