Hawker Siddeley Canada LTD.

Special Meeting of Class A and Class B Convertible Common Shareholders

Special Meeting of 5¾%
Cumulative Convertible Redeemable
Preferred Shareholders

To be held on September 22, 1978

Hawker Industries Limited

Special General Meeting of Shareholders

To be held on September 22, 1978

Notices of Meeting and Information Circular

August 31, 1978

TABLE OF CONTENTS

Hawker Siddeley Canada LTD.

NOTICE OF SPECIAL MEETING OF CLASS A AND CLASS B
CONVERTIBLE COMMON SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a Special Meeting of the Class A and Class B convertible common shareholders of Hawker Siddeley Canada Ltd. will be held in the Upper Canada Room of the Royal York Hotel, Toronto, Canada, on Friday, September 22, 1978 at 2:30 p.m. (Toronto time) for the following purposes:

1. To consider, and if thought fit to pass, with or without variation, a resolution to approve the amalgamation of the Company and Hawker Industries Limited under the Canada Corporations Act and to adopt the Amalgamation Agreement dated August 31, 1978 between the Company and Hawker Industries Limited. The Amalgamation Agreement and the form of resolution which will be submitted to the meeting are annexed as Exhibits "A" and "B" to the Information Circular accompanying this notice; and

2. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

By Order of the Board

Toronto, August 31, 1978.

C. A. HAINES, Secretary

If you are unable to attend the meeting, you are requested to sign and return a proxy form to the Secretary. A proxy form is enclosed for this purpose.

Hawker Siddeley Canada LTD.

NOTICE OF SPECIAL MEETING OF PREFERRED SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a Special Meeting of the 5¾% Cumulative Convertible Redeemable Preferred Shareholders of Hawker Siddeley Canada Ltd. will be held in the Ontario Room of the Royal York Hotel, Toronto, Canada on Friday, September 22, 1978 at 11:00 a.m. (Toronto time) for the following purposes:

1. To consider, and if thought fit to pass, with or without variation, a resolution to approve the amalgamation of the Company and Hawker Industries Limited under the Canada Corporations Act and to adopt the Amalgamation Agreement dated August 31, 1978 between the Company and Hawker Industries Limited. The Amalgamation Agreement and the form of resolution which will be submitted to the meeting are annexed as Exhibits "A" and "B" to the Information Circular accompanying this notice; and

2. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

By Order of the Board

Toronto, August 31, 1978.

C. A. HAINES, Secretary

If you are unable to attend the meeting, you are requested to sign and return a proxy form to the Secretary. A proxy form is enclosed for this purpose.

Hawker Industries Limited

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting of the shareholders of Hawker Industries Limited will be held in the Upper Canada Room of the Royal York Hotel, Toronto, Canada, on Friday, September 22, 1978 at 9:30 a.m. (Toronto time) for the following purposes:

1. To consider, and if thought fit to pass, with or without variation, a resolution to approve the amalgamation of the Company and Hawker Siddeley Canada Ltd. under the Canada Corporations Act and to adopt the Amalgamation Agreement dated August 31, 1978 between the Company and Hawker Siddeley Canada Ltd. The Amalgamation Agreement and the form of resolution which will be submitted to the meeting are annexed as Exhibits "A" and "B" to the Information Circular accompanying this notice; and

2. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

By Order of the Board

Toronto, August 31, 1978

C. A. Haines, Secretary

If you are unable to attend the meeting you are requested to sign and return a proxy form to the Secretary. A proxy form is enclosed for this purpose.

Information Circular

Hawker Siddeley Canada LTD.
Hawker Industries Limited

General Information

This information circular is furnished in connection with: (a) the Special Meeting of the Class A and Class B convertible common shareholders of Hawker Siddeley Canada Ltd. ("Hawker Siddeley"); (b) the Special Meeting of the holders of the 5¾% Cumulative Convertible Redeemable Preferred Shares of Hawker Siddeley; and (c) the Special General Meeting of the common shareholders of Hawker Industries Limited ("Hawker Industries"). All three meetings have been called to consider the proposed amalgamation of Hawker Siddeley and Hawker Industries.

The information circular deals specifically with the proposed amalgamation and also contains information which is required to be provided to the shareholders of both Hawker Siddeley and Hawker Industries (sometimes referred to collectively as the "Amalgamating Companies" and individually as an "Amalgamating Company") and therefore is furnished to all shareholders of both Hawker Siddeley and Hawker Industries.

Introductory Summary Relating to the Proposed Amalgamation

The information circular deals with the proposed statutory amalgamation of Hawker Siddeley and Hawker Industries under the Canada Corporations Act. The terms and conditions of the amalgamation are set out in full in the Amalgamation Agreement, a copy of which is attached to this information circular as Exhibit "A". The directors of each Amalgamating Company request each shareholder to review the Amalgamation Agreement itself to obtain the details of the amalgamation in full.

Legal Effect

The amalgamation, if carried out and confirmed by the issue of letters patent under the Canada Corporations Act, will result in the continuation of Hawker Siddeley and Hawker Industries as one company under the name "Hawker Siddeley Canada Ltd." (the "Amalgamated Company"). The Amalgamated Company will possess all the property, rights, assets, privileges and franchises of, and will be subject to all the contracts, liabilities, debts and obligations of, each of Hawker Siddeley and Hawker Industries. See "Reasons for and Effect of the Amalgamation" at page 7.

Reasons

The amalgamation is intended to result in operational and organizational efficiencies due to the integration and consolidation of the Amalgamating Companies and the resulting elimination of unnecessary corporate structures, overheads and accounts. In addition, changes in 1977 to the Income Tax Act (Canada) resulted in tax advantages to the Amalgamated Company which are not available independently to Hawker Siddeley and Hawker Industries. See "Reasons for and Effect of the Amalgamation" at page 7 and "Tax Consequences of Amalgamation" at page 8.

Capitalization and Share Conversion

The amalgamation will result in a company that closely resembles Hawker Siddeley when considered on a consolidated basis; this is due to Hawker Siddeley's 99.87% ownership of Hawker Industries. In effect, from an accounting point of view, the only significant change is the elimination of the small minority interest in Hawker Industries from the consolidated balance sheet of Hawker Siddeley and a corresponding increase in aggregate shareholders' equity. See "Capitalization Table" at page 13 and "Pro Forma Consolidated Balance Sheet" at page F-28.

The capitalization of the Amalgamated Company will be substantially the same as the present capitalization of Hawker Siddeley. See "Capitalization Table" at page 13. The classes of shares in the Amalgamated Company will correspond to, and the terms and conditions of the shares of the Amalgamated Company will be identical in all material respects to the terms and conditions of, the present shares of Hawker Siddeley. See "Description of Share Capital Before and After Amalgamation" at page 14.

The Class A and Class B convertible common shares of Hawker Siddeley will be converted into the corresponding Class A and Class B shares of the Amalgamated Company on a one-for-one basis; the Preferred

Shares of Hawker Siddeley will be converted into the corresponding Preferred Shares of the Amalgamated Company on a one-for-one basis; the common shares of Hawker Industries not owned by Hawker Siddeley will be converted into Class A shares of the Amalgamated Company on the basis of one (1) common share of Hawker Industries for each two (2) Class A shares of the Amalgamated Company. The common shares in Hawker Industries owned by Hawker Siddeley will be cancelled on the amalgamation without any return or reduction of capital. See "Description of Share Capital Before and After Amalgamation" at page 14 and "Basis of Share Conversion" at page 14.

Tax Consequences

In most cases, Canadian shareholders of Hawker Siddeley and Hawker Industries will be treated as not having disposed of their shares for income tax purposes on the amalgamation, and the adjusted cost base of their shares in the Amalgamated Company will be equivalent to the adjusted cost base of their previous shareholdings in Hawker Siddeley or Hawker Industries. The Amalgamated Company will possess certain tax advantages not available to Hawker Siddeley and Hawker Industries independently. See "Reasons for and Effect of the Amalgamation" at page 7 and "Tax Consequences of Amalgamation" at page 8.

The foregoing is intended to be only a summary of the salient features of the proposed amalgamation. The information circular, including the various Financial Statements and Exhibits, contains more detailed information, both on the topics summarized above, and on numerous other matters. This summary should be read in the context of the information circular as a whole.

Reasons for and Effect of the Amalgamation

The amalgamation of Hawker Siddeley and Hawker Industries is proposed for the following purposes:

(i) to achieve the maximum efficiencies possible through integration and consolidation of the operations and administration of these companies in a single corporate entity under one overall corporate management;

(ii) to achieve consolidation of these companies for purposes of income taxation in Canada, and to make available to the Amalgamated Company the tax advantages arising from changes in 1977 to the Income Tax Act (Canada) which, inter alia, permit losses of the Amalgamating Companies to flow forward in reduction of taxable income of the Amalgamated Company for a specified period of years.

The demand for the products and services of the two Amalgamating Companies and, as a consequence, their taxable incomes are subject to wide fluctuations. Accordingly, it is in the interest of both to conserve available funds and minimize annual taxation in circumstances when contemporaneously one may have taxable income and the other may have incurred a loss (for tax purposes).

As a matter of law, following the amalgamation the Amalgamated Company will possess all the property, rights, assets, privileges and franchises, and will be subject to all the contracts, liabilities, debts and obligations, of each of the Amalgamating Companies. In addition, all rights of creditors and all liens against property of the Amalgamating Companies will be unimpaired by the amalgamation, and all debts, contracts, liabilities and duties of each Amalgamating Company will attach to and may be enforced against the Amalgamated Company.

At August 24, 1978, Hawker Siddeley Group Limited, the ultimate parent corporation, owned or controlled by itself and through subsidiaries 59.17% of the Class A and 59.08% of the Class B shares (59.16% of the Class A and Class B shares as a whole) and 41.79% of the Preferred Shares of Hawker Siddeley, and because of Hawker Siddeley's own 99.87% ownership of Hawker Industries, it also controls indirectly 59.08% of Hawker Industries. Following the amalgamation, Hawker Siddeley Group Limited would control by itself and through subsidiaries 59.10% of the Class A and Class B shares as a whole and 41.79% of the Preferred Shares of the Amalgamated Company.

Effective Date of the Amalgamation

The issuance of letters patent of amalgamation pursuant to the Canada Corporations Act lies in the discretion of the responsible Minister, although it is usual for such letters patent to be issued on proof being given to the Minister that the requirements of that Act concerning amalgamations have been complied with. Assuming such compliance, including the favourable votes of the shareholders of both Amalgamating Companies, it is currently intended to request the issuance of letters patent of amalgamation to become effective on October 2, 1978.

Tax Consequences of Amalgamation

The following discussion of tax consequences is of a general nature and does not constitute tax advice to any particular shareholder.

Resident Shareholders

An opinion has been received from counsel for Hawker Siddeley and Hawker Industries with respect to the implications under the Income Tax Act (Canada) of the proposed amalgamation. The opinion of counsel is to the effect that:

(1) transactions contemplated by the Amalgamation Agreement will not result in any materially adverse income tax consequences to either Hawker Siddeley or Hawker Industries;

(2) a common shareholder of Hawker Siddeley or of Hawker Industries and a preferred shareholder of Hawker Siddeley will not be considered to have realized a capital gain or capital loss as a result of the amalgamation provided for in the Amalgamation Agreement to the extent such shareholder receives shares in the Amalgamated Company;

(3) where a shareholder of Hawker Siddeley or Hawker Industries acquired his shares:

- (i) after December 31, 1971 (otherwise than in a non-arm's length transaction) the aggregate cost base of the shares acquired by the shareholder in the Amalgamated Company will be the aggregate adjusted cost base of his shares in the relevant Amalgamating Company; and if the shareholder receives both common and preferred shares of the Amalgamated Company his aggregate adjusted cost bases in the shares of Hawker Siddeley will be attributed to each class of the shares of the Amalgamated Company in the proportion that the fair market value of the shares of each such class bears to the aggregate fair market value of the shares of all the classes of shares so received;
- (ii) on or before December 31, 1971 (or after December 31, 1971 from a person with whom he does not deal at arm's length and who owned the shares on June 18, 1971) and continued to hold them thereafter without interruption until immediately before the amalgamation, such shareholder will,
  - (a) have the same aggregate adjusted cost base in the shares of the Amalgamated Company as he had in the shares of the Amalgamating Companies; and
  - (b) provided no election to the contrary has been made, determine his gain or loss on a subsequent disposition of the shares of the Amalgamated Company received by him for his shares of an Amalgamating Company using the "tax-free zone" rules (any prior adjustments to the cost of the shares in an Amalgamating Company being carried through to his shares of the same class in the Amalgamated Company); and

(4) the "tax-free zone" rules do not apply to shares which are not capital property in the hands of a shareholder – e.g. where the shareholder is a trader or dealer in securities.

If the shares are held as a trading asset by any shareholder, he should obtain advice from his tax advisors as to the tax consequences to him of the proposed amalgamation.

Non-resident Shareholders

No opinion is expressed as to the income tax consequences of the amalgamation with respect to non-resident shareholders. Such non-resident shareholders are urged to obtain such tax advice as they wish from their own advisors.

Description and Business of the Amalgamating Companies

Hawker Siddeley (Consolidated)

Hawker Siddeley is a diversified Canadian public company engaged mainly in the manufacture and engineering of heavy industrial products. It is composed of wholly-owned operating divisions and wholly and partly-owned subsidiaries.

Manufacturing, service, and sales operations are carried out at a number of locations across Canada and in the United Kingdom. Sales are also effected by subsidiaries in the United States and Denmark.

The main products and services include passenger and freight railway cars, railway wheels and axles, castings, forgings, forestry and sawmill equipment, power transmission and communications structures, industrial gas turbines, mining and tunnelling machinery, repair and overhaul of jet engines, data processing and graphics services, railway tank car and special freight car leasing, and bulk liquid storage services. For information relating to ship repair activities see the heading "Halifax Shipyards Division" within.

Hawker Siddeley (Exclusive of Hawker Industries)

The operations of the principal manufacturing and service units of Hawker Siddeley are as follows:

Canadian Car Division, Thunder Bay, Ontario, designs and builds railway passenger cars for inter-city, subway, light rail and commuter operations. Several hundred cars have been supplied for the Toronto Transit Commission's subway services and the division is the supplier of passenger cars, including self-propelled and double-deck types, to the Toronto Area Transit Operating Authority for the GO Transit rail commuter system. The plant has built mass transit cars for the Port Authority Trans-Hudson Corporation, New York, inter-city coaches for Canadian National Railways, and 200 passenger coaches for Mexico's national railways. Currently under construction are 190 mass transit cars for the Massachusetts Bay Transportation Authority and 190 light rail vehicles for operation by the Toronto Transit Commission.

The division occupies 686,000 sq. ft. of factory and office space on approximately 66.4 acres of freehold land at Thunder Bay, Ontario, and is suitably equipped for the construction of its line of products.

Canadian Car (Pacific) Division, Surrey, British Columbia, manufactures the "Chip-N-Saw" line of precision sawmill and lumber processing machinery used extensively in Canada, the United States and other countries having active forest product industries. The division carries out "turnkey" projects involving the design, engineering, and construction of complete sawmills from the basic building to the installation, start-up and commissioning of all the equipment. The division also produces a related range of electrical and electronic components, drilling and coring equipment employing the sound dynamics principle, and general engineering products which include lifting equipment, tunnel boring machines and heavy duty valves.

The division occupies 250,000 sq. ft. of factory and office space on approximately 32 acres of freehold land in Surrey, British Columbia and is suitably equipped for the manufacture of its line of products.

Can-Car Trailer Division, Rexdale, Ontario builds truck bodies. Platform and stake-and-rack highway trailers are built at branch operations in Quebec City and Montreal. Trailer repair and parts services are provided at all three locations.

Trailer sales and service operations in Rexdale are conducted from a depot having 52,406 sq. ft. on 7 acres of freehold land; the Quebec City sales and service operations occupy 12,750 sq. ft. on 2.1 acres of freehold land while similar operations for the Montreal region occupy 27,360 sq. ft. in a leased facility on 6 acres of leased land.

Canadian Steel Foundries Division, Montreal, Quebec, operates Canada's largest steel foundry. Castings, in weights up to 120 tons, are produced in mild, alloy, and stainless steels for a wide variety of uses in the mine, power, steel, marine, ore and cement processing industries, and for railway applications. The division is fully certified to pour castings to the exacting standards required for nuclear power installations. It has radiographic, ultra-sonic and magnetic particle inspection facilities as well as a range of heat treating and machining equipment.

The division occupies 695,719 sq. ft. of factory and office space on approximately 57.7 acres of freehold land in Montreal, Quebec, and is suitably equipped to make its line of products.

Canadian Steel Wheel Division, Montreal, Quebec, operates a highly automated plant for the production of forged and rolled wheels for all types of railway rolling stock and motive power equipment. The division also produces a wide range of heavy duty steel wheels, sheaves, gear blanks, and other disc-type forgings for industrial use. Total output under optimum loading is 160,000 wheels a year. In addition, the plant produces steel ingots for steel mill customers.

The division occupies 209,819 sq. ft. of factory and office space on approximately 23.6 acres of freehold land in Montreal, Quebec, and is suitably equipped to make its line of products.

Forestry Equipment Division, Mississauga, Ontario, produces mechanical equipment for forest industries, principally the "Tree Farmer" series of log skidders. Large numbers of these rugged four-wheel drive vehicles, in various models, are in service in several countries in addition to Canada and the United States.

The division occupies 132,000 sq. ft. of factory and office space in a multiple-occupancy company-owned property in Mississauga, Ontario also used by the Orenda Division, and is suitably equipped to make its line of products.

Orenda Division, Mississauga, Ontario, has a plant geared primarily to the manufacture, repair, and overhaul of aircraft and industrial gas turbines. The well-equipped facilities are also utilized to manufacture, on a subcontract basis, gas turbine, nuclear power and industrial components. The division produces nuclear power instrumentation, inspection, and test equipment and performs a range of design, engineering, research, and laboratory services for various industries. The division also provides services in the fields of graphics and data processing to other operating divisions and to the general business community. Data processing services cover a range of accounting application packages and graphics services include technical writing, artwork, phototypesetting, platemaking and printing. The division operates from a company-owned multiple occupancy factory and office facilities having 755,721 sq. ft. available on approximately 97 acres of freehold land located in Mississauga, Ontario. The Forestry Equipment Division occupies 132,000 sq. ft. of the available space and Orenda Division occupies the balance of 623,721 sq. ft.

Canadian General Transit Company, Limited, Montreal, Quebec, (55% owned) has a fleet of approximately 6,300 railway cars leased to customers mainly in the petroleum, chemical and food product industries. Except for a small number of hopper cars, the fleet is comprised of various types of tank cars which carry commodities such as liquefied petroleum gas, sulphuric acid, vegetable oils, caustic soda and petroleum. The tank cars are serviced at company-owned maintenance depots in Montreal, Quebec; Moose Jaw, Sask.; and Red Deer, Alta. Heated and non-heated bulk liquid storage terminals are operated in Montreal and Toronto. The three maintenance depots range from 26,000 to 33,000 sq. ft. each and are located on freehold land of 20.4 acres in Montreal, Quebec, 16.5 acres in Moose Jaw, Sask., and 26.0 acres in Red Deer, Alta. The two liquid storage terminals are on 6.6 acres of freehold land in Montreal, Quebec, and 9.5 acres of freehold land in Toronto, Ontario, and together have a capacity of approximately 4,319,000 imperial gallons.

Hawker Industries and Subsidiary Companies

Hawker Industries is a diversified public company, 99.87% of the issued common share capital of which is owned by Hawker Siddeley. The head office of Hawker Industries is located in Toronto, and manufacturing, service, and sales operations are conducted from locations in Canada and by two wholly-owned United Kingdom subsidiaries with factories in England. All senior management personnel, together with accounting, secretarial, treasury, internal audit, taxation and other normal corporate functions, are provided by Hawker Siddeley to Hawker Industries under an agreement between them.

A description of the principal manufacturing, service and sales operations of Hawker Industries follows:

Canadian Bridge Division, Windsor, Ontario, designs, fabricates, tests, and erects all types of electric power transmission and communications structures for domestic and export markets. The product range includes hydro transmission and utility towers and poles; guyed and self-supporting masts for radio, television, and microwave transmission, lighting and microwave antenna poles; sign structures for highways, etc., antenna structures; and hydro substation structures.

The division occupies 139,554 sq. ft. of factory and office space on approximately 16.9 acres of freehold land in Windsor, Ontario, and is suitably equipped to manufacture its line of products.

Halifax Shipyards Division, Halifax, Nova Scotia, operated two shipyards on Halifax harbour. In light of the continuing depressed state of shipbuilding the larger yard on the Halifax side of the harbour had, on completion of an offshore drilling vessel construction program, directed its activities solely towards ship repair work. Ship repair was also carried out by a smaller yard on the Dartmouth side of the harbour which was equipped with five marine railways.

On April 28, 1978, Hawker Industries granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to purchase certain of the fixed assets and inventories of the Halifax Shipyards Division. Subsequently, three extensions of the option period were granted, the last expiring on August 30, 1978 with a closing date of August 30, 1978. The option to purchase was exercised by the Province of Nova Scotia and the transaction completed on August 30, 1978.

Trenton Works Division, Trenton, Nova Scotia, is a major builder of railway freight rolling stock for railways in Canada and abroad. Production capacity with a favourable mix of product is nearly 3,000 units a year. Virtually every type of freight car has been built at the plant. The plant contains the largest open-die, hydraulic forging press in Canada capable of forging ingots up to 100 tons in weight and produces and machine finishes other open-die forgings up to about 40 tons in weight. Other forging, automatic heat treatment, and machining facilities can produce 40,000 railway axles a year. Large structural components have been built for offshore drilling vessels and other fabrications in steel and aluminium are produced for industrial applications. Trenton Works manufactures a range of railway car components and specialties, repairs tank cars, and carries out custom machine shop work.

The division occupies 1,069,709 sq. ft. of factory, shop, and office space on approximately 154.1 acres of freehold land in Trenton, Nova Scotia, and is suitably equipped to manufacture its line of products.

Dosco Overseas Engineering Limited, a wholly-owned subsidiary of Hawker Industries, and its wholly-owned subsidiary, **Hollybank Engineering Company Limited,** both of Tuxford, England, design and manufacture mining and tunnelling machinery for world-wide markets. The mining machines, some of which have been developed with Britain's National Coal Board, are used to cut tunnels and roadways in hard rock, excavate floor heave in established roadways, and for rapid roadway drivage in coal seams. Some machines have applications in other types of mines. They are currently working in talc, salt, lead/zinc, potash, phosphate, gypsum and iron ore mines, and in civil engineering projects for road, rail, water and sewage schemes. Other products include dust suppression, air cooling, and conveying equipment for use in mining operations, yielding and non-yielding steel supports, steel lining boards, junctions, overcasts and other components used to support the strata in mine roadways and civil engineering tunnels.

These subsidiaries occupy 239,765 sq. ft. of factory and office space on approximately 17.9 acres of freehold land and 2.0 acres of leased land at Tuxford, Nottinghamshire, England, and are suitably equipped to manufacture their lines of products.

Relationship Between Amalgamating Companies

The management of Hawker Industries is controlled by its board of directors. Senior management personnel, together with accounting, secretarial, treasury, internal audit, taxation and all other normal corporate functions are provided by Hawker Siddeley under an agreement between the two companies dated January 1st, 1974. In the year ended December 31, 1977, $895,000 and in the eight months ended August 31, 1978, $650,000 were incurred by Hawker Industries under this agreement. On the amalgamation this agreement would merge.

Management Commentary

Hawker Siddeley (Consolidated)

In the first half of 1978, consolidated sales were modestly higher than in the same period last year. Deliveries of 'Equipment for the forestry and forest products industries' and 'Equipment for the mining industry' improved but volumes were lower in 'Equipment for the transportation industry' and 'Shipbuilding and repair' products. Income before the inclusion of exchange gains on the translation into Canadian currency of the accounts of foreign subsidiaries was higher in the first six months of 1978 than in the same period last year. However, currency translation gains in the half-year of 1978 were significantly lower than in the comparable period of 1977 and, accordingly, net income for the first half of 1978 was some 4% lower than in the first half of 1977.

The Company manufactures a wide range of heavy industrial products for a variety of industries. The demand for most of these products varies considerably, sometimes due to business cycles within the particular industries they serve but more often as a reflection of prevailing economic conditions and their effect on markets for heavy capital goods.

Labour agreement negotiations are either underway or scheduled for later this year at the Canadian Steel Foundries, Canadian Steel Wheel, Halifax Shipyards, Canadian Car (Pacific) and Orenda Divisions.

Hawker Siddeley (Exclusive of Hawker Industries)

Sales of 'Equipment for the transportation industry' in the first half of 1978 were considerably lower than in the same period last year. The decrease resulted mainly from an expected lower delivery level of passenger cars from the Canadian Car Division which was in a production build-up stage between major orders.

Domestic transportation equipment markets continued sluggish for the Canadian Steel Foundries Division which produces railway coupler and truck castings. Currently, the demand for transportation equipment components is strengthening. Canadian General Transit Company, Limited, a 55%-owned subsidiary recorded a modest increase in sales connected with its railway tank car leasing and bulk liquid storage businesses but in common with other elements of the industry, experienced higher costs on tank car repairs made outside its own maintenance depots. Demand by the company's customers has strengthened recently and orders have been accepted which will add substantially to the total carrying capacity of its tank car fleet.

Divisions of Hawker Siddeley with products serving the 'Forest and forest products industries' showed improved sales and results in the current period compared with the first half of 1977. In general, activity levels in this sector are directly influenced by house starts in both Canada and the United States and these markets, while not yet considered buoyant, showed improvement. Initial deliveries on a $20 million order for edge-banding and wood finishing machines for the U.S.S.R. were made in June.

While not a proportionately large segment of its total volume, the Canadian Steel Foundries Division does useful business in supplying castings to the domestic mining industry. In the first half of 1978, strikes at iron ore mining operations caused a reduction in deliveries.

Hawker Siddeley activities in the 'General engineering and other services' sector comprise those carried out by the Orenda Division and by the general industrial castings segment of the Canadian Steel Foundries Division operations. While the work volume and earnings at Orenda were modestly higher in the first half of 1978 compared with the same period in 1977, the other unit experienced increased competition and a lower level of demand for industrial castings. Aircraft jet engine repair and overhaul work at Orenda continued at a satisfactory level. However, the Canadian Armed Forces' fighter aircraft which most of these engines power are aging and their eventual replacement will reduce the volume of repair and overhaul business available. While all possible efforts are being made to ensure a commensurate level of work from the new fighter acquisition program there is no clear assurance that it can be obtained. The market for general industrial castings is likely to remain relatively weak until there is an upturn in the economy and customers move forward with capital programs which have been deferred.

Hawker Industries and Subsidiary Companies

Consolidated sales were higher in the first six months this year compared to the same period in 1977 particularly with respect to 'Equipment for the mining industry'. Net income in the 1978 period was nominal but an improvement on the level obtained in the first half of 1977. Subsidiaries in the United Kingdom engaged in producing 'Equipment for the mining industry', which have shown consistent profitability, achieved a further increase in earnings. Market prospects for this product range remain firm. Results from operations based in Canada, although better than those recorded in the equivalent half-year in 1977, remained unprofitable. Demand fluctuates for most products of the Canada-based units, sometimes as a result of business cycles but often as a direct reflection of economic conditions.

Activity in 'Equipment for the transportation industry' was depressed during the first six months of the year and the resulting situation at Trenton Works Division was further aggravated by a labour dispute which persisted throughout May. Recently, however, there has been a significant increase in requirements for railway equipment.

The volume of 'Shipbuilding and repair' work in the first half of 1978 was considerably below that of the equivalent period in 1977 reflecting lower levels of shipbuilding this year following completion of the last of a series of drilling vessels. See "Halifax Shipyards Division" at page 10.

The 'Other general engineering and services' category of Hawker Industries business includes the activities of the Canadian Bridge Division where the work volume in the first half of the year remained unsatisfactory. However, improvement in the plant's loading is expected as the year progresses.

Capitalization Table (as at June 30, 1978)

($ in thousands)

	Existing Capitalization				Pro-Forma	
	Hawker Siddeley		Hawker Industries		Amalgamated Company	
	Shares	$	Shares	$	Shares	$
Preferred shares, $100 par value:						
Authorized	250,000	—	—	—	140,000	—
Issued						
5¾% cumulative redeemable shares	240,000	—	—	—	140,000	—
Outstanding	140,000	$14,000	—	—	140,000	$14,000
Common shares, without nominal or par value:						
Authorized						
– Class A Convertible	10,000,000	—	—	—	10,000,000	—
– Class B Convertible	10,000,000	—	—	—	10,000,000	—
Issued and outstanding –						
– Class A Convertible	7,722,010	$51,557	—	—	7,729,970	$51,576
– Class B Convertible	420,331	2,807	—	—	420,331	2,807
	8,142,341	$54,364	—	—	8,150,301	$54,383
Common shares, without nominal or par value:						
Authorized	—	—	3,000,000	—	—	—
Issued	—	—	2,996,086	$14,980	—	—

The pro-forma outstanding share capital of the Amalgamated Company, as described more fully elsewhere in this circular, will be virtually identical to that of Hawker Siddeley. The above table reflects provisions of the proposed Amalgamation Agreement, which for the Amalgamated Company:

(1) fixes the authorized, issued, and outstanding number of preferred shares at 140,000;

(2) continues the authorized number of Class A and Class B convertible common shares at 10,000,000 for each class;

(3) effects the cancellation of 2,992,106 common shares of Hawker Industries held by Hawker Siddeley; and

(4) provides for the issue of 7,960 Class A convertible common shares of the Amalgamated Company on conversion (on a 2-for-1 basis) of 3,980 common shares of Hawker Industries held by shareholders other than Hawker Siddeley.

The above table also reflects the addition of $19,900 to paid-up capital account of the Amalgamated Company being the amount fixed in respect of its issue of 7,960 Class A convertible common shares as aforesaid and is equivalent to the paid-in capital amount in Hawker Industries of the 3,980 shares referred to in (4) above.

Description of Share Capital Before and After Amalgamation

Hawker Siddeley

Hawker Siddeley has three classes of shares outstanding: 140,000 5¾% Cumulative Convertible Redeemable Preferred Shares of the par value of $100 each, and (at August 24, 1978) 7,097,910 Class A convertible common and 1,044,431 Class B convertible common shares without nominal or par value.

The outstanding 140,000 Preferred Shares are the balance remaining of an initial issue of 240,000 shares, after conversion in 1957 of 100,000 issued Preferred Shares into common shares. There is a small remaining balance of 10,000 authorized but unissued Preferred Shares which will disappear on amalgamation. The outstanding Preferred Shares are all of one series, bear a 5¾% cumulative preferential dividend, generally do not carry a vote (except in limited circumstances), are redeemable at the option of the Company at $105, may be purchased for cancellation, and are entitled to a preference on liquidation but not to share after the preference. The conversion privilege expired in 1965.

The Class A and Class B convertible common shares without nominal or par value are the result of the 1976 reclassification of the common share capital to permit the payment of "tax-deferred" dividends on the Class B shares out of "1971 capital surplus on hand". The Class A and Class B shares rank after the Preferred Shares, are freely inter-convertible, are entitled to one vote per share at meetings of shareholders, are entitled to all residual rights in any ultimate liquidation and, except for the description of the declaration and payment of dividends, are equal in all respects and may for all practical purposes be considered together as the common share capital.

Hawker Industries

Hawker Industries has only one class of common shares without nominal or par value, which have no special provisions or conditions and which carry one vote per share at all meetings of shareholders.

Amalgamated Company

The capital structure of the Amalgamated Company will be substantially the same as the present capital structure of Hawker Siddeley.

There will be a class of 140,000 Preferred Shares of the par value of $100 each, designated "5¾% Cumulative Redeemable Preferred Shares", which in all material respects will be the same as the present Preferred Shares of Hawker Siddeley as explained above; there will be no conversion privilege because the conversion privilege attaching to the Preferred Shares of Hawker Siddeley expired in 1965.

There will also be Class A convertible common shares and Class B convertible common shares, which in all material respects will be identical to the corresponding shares of Hawker Siddeley.

The complete terms and conditions of the three classes of share capital of the Amalgamated Company are set out in full in the Amalgamation Agreement.

Basis of Share Conversion

Under the Amalgamation Agreement, the basis of conversion of the outstanding shares of Hawker Siddeley and Hawker Industries into shares of the Amalgamated Company is as follows:

(a) each one (1) 5¾% Cumulative Convertible Redeemable Preferred Share of the par value of $100 of Hawker Siddeley will be converted into one (1) 5¾% Cumulative Redeemable Preferred Share of the par value of $100 of the Amalgamated Company;

(b) each one (1) Class A and each one (1) Class B convertible common share of Hawker Siddeley will be converted respectively into one (1) Class A or one (1) Class B convertible common share of the Amalgamated Company;

(c) the 2,992,106 common shares of Hawker Industries now owned by Hawker Siddeley will be cancelled (without any reduction or repayment of capital); and

(d) each of the 3,980 common shares of Hawker Industries not owned by Hawker Siddeley will be converted into two (2) Class A convertible common shares of the Amalgamated Company.

In the result, the shareholders of the Amalgamated Company will be the shareholders of record of Hawker Siddeley and the shareholders of record of Hawker Industries (other than Hawker Siddeley) on the effective date of the amalgamation. The only change in the financial position of the Amalgamated Company from the present consolidated financial position of Hawker Siddeley (which includes Hawker Industries) will be the elimination of the small minority interest in Hawker Industries and a corresponding increase in aggregate shareholders' equity.

In deciding upon the basis of conversion, it was necessary to establish relative values for the shares of each Amalgamating Company to ensure that all groups of shareholders would participate equitably in the Amalgamated Company. The relative values outlined above, namely that each holder of shares of any class in Hawker Siddeley would participate on a one-for-one basis while the common shareholders of Hawker Industries (other than Hawker Siddeley) would participate on a two-for-one basis in common share capital, were determined by the boards of directors of each of the Amalgamating Companies to be fair and reasonable to all shareholders.

The basis of share conversion for shares in Hawker Siddeley reflects the present almost complete integration of the two Amalgamating Companies when considered from the point of view of the consolidated financial position of Hawker Siddeley.

Messrs. Price Waterhouse & Co., auditors of both Hawker Siddeley and Hawker Industries and accountants experienced in business and security valuations, were asked to consider the fairness of the proposed basis of share conversion for shares of Hawker Industries. Their report, which states in effect that they consider the basis of share conversion to be fair and reasonable, is reproduced below with their permission:

"August 30, 1978

The Boards of Directors,
Hawker Siddeley Canada Ltd., and
Hawker Industries Limited.

Dear Sirs:

Under the terms of the proposed Amalgamation Agreement between Hawker Siddeley Canada Ltd. ("Hawker Siddeley") and Hawker Industries Limited ("Hawker Industries"),

(a) the Class A convertible common, Class B convertible common and preferred shareholders of Hawker Siddeley would receive shares of the Amalgamated Company, which are identical in all material respects to their Hawker Siddeley shares, on the basis of one similarly designated share of the Amalgamated Company for each share of Hawker Siddeley; and
(b) the common shareholders of Hawker Industries (other than Hawker Siddeley) would receive two Class A convertible common shares of the Amalgamated Company for each common share of Hawker Industries, while the shares of Hawker Industries held by Hawker Siddeley would be cancelled.

You have asked whether, in our opinion, this basis of participation by the shareholders of Hawker Siddeley and Hawker Industries in the Amalgamated Company is fair and reasonable.

Pursuant to your request, we have reviewed the consolidated financial statements of Hawker Siddeley and Hawker Industries for the years 1972 through 1977, on which we have reported as shareholders' auditors, the unaudited six months consolidated financial statements to June 30, 1978 and other information on the financial position, business outlook and prospective earnings of Hawker Siddeley and Hawker Industries and such other financial and operating information as we considered necessary in the circumstances. In addition, we have also considered the recent prices at which shares of Hawker Siddeley and Hawker Industries have traded and the historical trend of those prices.

Based on our review, it is our opinion that the basis of participation in the Amalgamated Company by the shareholders of Hawker Siddeley and Hawker Industries, as outlined above, is fair and reasonable.

Yours very truly,

PRICE WATERHOUSE & CO.
Chartered Accountants
Toronto, Canada"

The Class A and Class B shares of Hawker Siddeley are listed for trading on the three major Canadian stock exchanges. The shares of Hawker Industries, being concentrated to such a large extent in Hawker Siddeley and not trading on any stock exchange, are relatively illiquid. It is not possible for the directors to state what effect, if any at all, the amalgamation would have on the trading value of Hawker Siddeley's Class A and Class B shares when converted into equivalent shares in the Amalgamated Company. However, the shareholders of Hawker Industries after conversion will become owners of shares for which it is expected there will be an established public market so that trading can be conducted at prevailing market levels, in contrast to their relatively illiquid present position.

The dilution in "book value per common share" caused by the additional 7,960 Class A shares in the Amalgamated Company resulting from the conversion of the Hawker Industries common shares is insignificant, being less than 1¢ per share.

The Amalgamation Agreement provides in effect that the holders of shares in the Amalgamating Companies shall, if requested, surrender the certificates representing such shares and shall be entitled to receive certificates for shares in the Amalgamated Company in exchange.

Trading History

In the period from January 1, 1977 to September 1, 1977, Hawker Siddeley, in accepting occasional offers to sell, purchased 775 common shares in Hawker Industries at prices per share ranging from $8.50 to $9.00, increasing its percentage ownership from 99.84% to 99.87%; since September, 1977 Hawker Siddeley has not purchased or sold any common shares of Hawker Industries. The common shares of Hawker Industries are not listed for trading on any stock exchange.

The following table provides historical sale prices for each quarter from 1976 to date for each class of shares of Hawker Siddeley traded on a stock exchange:

Year and Quarter	Preferred high	Preferred low	Class A and Class B convertible common* high	Class A and Class B convertible common* low
1976 – 1st	60	53⅝	8½	6¾
– 2nd	58¼	56½	7⅝	5⅝
– 3rd	58⅝	56¼	6½	5¼
– 4th	57	55¾	5½	4.30
1977 – 1st	60	57¼	4.95	4.50
– 2nd	64¾	57½	5⅜	4.50
– 3rd	64½	63	5¾	4.90
– 4th	66	64	6⅝	4.90
1978 – 1st	64	60	6⅜	5⅝
– 2nd	66½	59	8¾	5⅞
– 3rd (to August 24, 1978)	68	66¼	9	7⅝

*This column shows trading in the former common shares prior to November, 1976.

Dividends

The current annual dividend rate on the 5¾% Cumulative Convertible Redeemable Preferred Shares of Hawker Siddeley is $5.75 per share, payable quarterly in instalments. This stipulated dividend rate on the equivalent preferred shares of the Amalgamated Company would remain the same. The current dividend rate on the Class A and Class B shares of Hawker Siddeley is 10¢ per quarter (or an indicated rate of 40¢ per annum). While the rate of dividends is always subject to the discretion of the directors, the directors of Hawker Siddeley do not know at this time any reason which would prevent this current dividend rate from continuing after amalgamation.

The current dividend rate on common shares of Hawker Industries is 30¢ per annum. After amalgamation and presuming a continuation of Hawker Siddeley's present dividend rate, the effective dividend to a former shareholder of Hawker Industries (excluding Hawker Siddeley whose shares will be cancelled on the amalgamation) based on the two-for-one conversion ratio would be 80¢ on an annual basis, an effective increase of 50¢ per share.

The present common share capital of Hawker Siddeley is, and the proposed common share capital of the Amalgamated Company would be, divided into Class A and Class B shares. This is a practice common to many Canadian corporations. Dividends declared and paid on the Class A shares are and would be normal dividends, subject to taxation on receipt in the hands of an individual Canadian resident shareholder, and subject to the normal rules regarding "gross-up" and dividend tax credit. Dividends declared and paid on the Class B shares are, and would be, if declared and paid out of "1971 capital surplus on hand", paid in an equal amount to the dividend on the Class A shares; however, for the purposes of the Income Tax Act (Canada), these dividends are not subject to the normal "gross-up", nor do they give rise to the dividend tax credit. The amount of each such "tax-deferred" dividend reduces the holder's adjusted cost base of his Class B shares, so that on ultimate disposition, a higher capital gain or lower capital loss can be anticipated.

Amendments in 1977 to the Income Tax Act (Canada) have the effect of extinguishing the ability of Hawker Siddeley, and of the Amalgamated Company, to pay this type of "tax-deferred" dividend after December 31, 1978.

Directors of the Amalgamated Company

Under the Amalgamation Agreement, the first board of directors of the Amalgamated Company would consist of 13 persons, information concerning whom is as follows:

Name	Calling	Residence Addresses	Beneficial Holdings of Hawker Siddeley Common Shares
Sir Arnold Hall	Executive	Wakehams, Dorney Common, Nr. Windsor, Berkshire, England.	—
J. N. Paterson	Executive	1735 McGregor Avenue, Thunder Bay, Ontario.	3,000
F. H. Wood	Executive	"Ballyards", 87 Cotes Road, Barrow-Upon-Soar, Leicestershire, England.	—
E. J. White	Executive	282 Watson Avenue, Oakville, Ontario.	200
I. E. Bull	Executive	42 Palomino Crescent, Willowdale, Ontario.	—
J. H. Coleman	Executive	561 Avenue Road, Suite 603-4, Toronto, Ontario.	100
A. H. Crockett	Executive	47 Binscarth Road, Toronto, Ontario.	—
C. A. Haines	Executive	21 Waymar Heights, Woodbridge, Ontario.	—
J. F. Howard	Barrister & Solicitor	10320 Pine Valley Drive, Woodbridge, Ontario.	1,500
A. J. Laurence	Executive	Melbury Cottage, Mill Lane, Manningford Bruce, Pewsey, Wiltshire, England.	—
A. W. McKenzie	Executive	963 Montcrieff Avenue, Mount Royal, Quebec.	100
L. A. Mitten	Executive	5850 Athlone Street, Vancouver, British Columbia.	100
K. L. Phillips	Executive	"Fenella", 9 Heath Drive, Sutton, Surrey, England.	—

All persons named in the table are now directors of Hawker Siddeley. They would take office in the Amalgamated Company on the amalgamation becoming effective and would hold office until the first annual meeting of the Amalgamated Company or until their successors are elected or appointed. It is the present intention that the senior officers of the Amalgamated Company would be the present senior officers of Hawker Siddeley.

None of the directors or officers of Hawker Industries or their respective associates beneficially owns or exercises control or direction over any shares of Hawker Industries except for nominal directors' qualifying shares. None of Hawker Siddeley Group Limited, the ultimate parent corporation, or the persons named in the foregoing table or the persons referred to in the preceding sentence will receive any benefit or result from the amalgamation different from that received by all shareholders of the Amalgamating Companies generally.

Stock Exchanges

All classes of shares of Hawker Siddeley are listed on the Toronto, Montreal and Vancouver Stock Exchanges. The common shares of Hawker Industries are not listed on any stock exchange. Following the amalgamation, the shares of Hawker Siddeley will be delisted from the various exchanges. However, it is intended to make immediate application to list all classes of shares of the Amalgamated Company on the Toronto, Montreal and Vancouver stock exchanges.

Auditors

Following the amalgamation, it is intended to appoint Price Waterhouse & Co., Chartered Accountants, as the auditors of the Amalgamated Company. Price Waterhouse & Co. have been auditors of both Amalgamating Companies for many years.

Transfer Agents

Following the amalgamation, it is intended to continue National Trust Company, Limited, the present transfer agent and registrar of all classes of shares of Hawker Siddeley, as the transfer agent and registrar of all classes of shares in the Amalgamated Company.

Rights of Shareholders

The Canada Corporations Act does not provide, in favour of a shareholder dissenting to an amalgamation, any appraisal rights or similar rights to money in lieu of shares of the amalgamated company created as a result of amalgamation. The Canada Corporations Act does provide a procedure under which the holders of at least 10% of the shares of a class of shares whose dissent is recorded at a meeting of that class called to consider the amalgamation may apply to the supreme court of the province in which the head office of the company is located (in this case, Ontario) for an order annulling the amalgamation agreement, the details of such procedure being more fully set out in this Act.

Voting of Proxies for Amalgamation

The persons named in the proxy forms enclosed to the shareholders of each Amalgamating Company intend to vote for the resolution approving the amalgamation; a copy of the resolution is reproduced as Exhibit "B".

Costs of Amalgamation

All expenses which may be incurred in connection with the amalgamation will be borne by the particular Amalgamating Company on whose account the expense is incurred, and those expenses which are not specifically attributable will be shared by the Amalgamating Companies.

Chief Financial Officer's Report

The Financial Statements contained within which are not audited or reported upon by the auditors of the Amalgamating Companies have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

I. E. BULL
Vice-President, Finance of
both Amalgamating Companies

Directors' Approval and Certificate

The contents and the sending of this part of the information circular, including the Financial Statements and Exhibits, have been approved by the directors of both Amalgamating Companies. There are no other material facts or material changes in the affairs of the Amalgamating Companies than as disclosed in this circular. The information relating to each of the Amalgamating Companies specifically has been provided by the company concerned.

Dated August 31, 1978.

HAWKER SIDDELEY CANADA LTD.	HAWKER INDUSTRIES LIMITED
C. A. HAINES Secretary	C. A. HAINES Secretary

Statutory Information Relating to Hawker Siddeley Canada Ltd.

Solicitation of Proxies

This part of the information circular is furnished in connection with the solicitation by the management of Hawker Siddeley Canada Ltd. (in this part referred to as the "Company") of proxies to be used at the Special Meeting of Class A and Class B convertible common shareholders and the Special Meeting of the 5¾% Cumulative Convertible Redeemable Preferred Shareholders of the Company, to be held at the times and places and for the purposes set forth in the accompanying notices of meeting. The solicitation relative to the Company will be primarily by mail although regular employees of the Company may also solicit proxies by telephone. The total cost of the solicitation relative to the Company will be borne by the Company.

Appointment and Revocation of Proxies

The persons named in the enclosed forms of proxy for either Class A or Class B convertible common shares (respectively, "Class A shares" or "Class B shares") or the 5¾% Cumulative Convertible Redeemable Preferred Shares ("Preferred Shares") are directors of the Company. **A shareholder desiring to appoint some other person to represent him at the meeting may do so** either by inserting such person's name in the blank space provided in the respective forms or by completing another proper form of proxy. To be effective at the meeting or any adjourned meeting, a completed proxy form must be deposited with the Secretary of the Company at least 48 hours before the time of the particular meeting or any adjourned meeting at which the proxy form is to be used.

A shareholder who has given a proxy may revoke the proxy by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the particular meeting or any adjournment thereof at which the proxy is to be used or with the chairman of such meeting on the day of the particular meeting or adjournment thereof.

Exercise of Discretion by Proxies

The persons named in the enclosed forms of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholder appointing them. **In the absence of such direction, the Class A and Class B shares will be voted for the resolution approving the amalgamation of the Company and Hawker Industries Limited, and the Preferred Shares will also be voted for the resolution approving the amalgamation.** The enclosed forms of proxy confer discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the respective notices of meeting and with respect to other matters which may properly come before the respective meetings or any adjournment thereof. At the time of printing this circular the management of the Company knows of no such amendments, variations or other matters to come before the respective meetings other than the matters referred to in the respective notices of meeting.

Voting Shares

On August 24, 1978 the Company had outstanding 7,097,910 Class A shares and 1,044,431 Class B shares and 140,000 Preferred Shares. Each of these shares is entitled to be voted, in the case of the Class A and Class B shares at the Special Meeting of the holders of such shares and in the case of the Preferred Shares at the Special Meeting of the holders of such shares, and carries the right to one vote per share. To the knowledge of the directors and officers of the Company the only person or company beneficially owning or exercising control or direction over shares carrying more than 10% of the voting rights attached to the Class A and Class B shares or to the Preferred Shares is Hawker Siddeley Group Limited, which at such date controls 4,199,646 Class A shares and 617,000 Class B shares representing 59.17% of all outstanding Class A shares and 59.08% of all outstanding Class B shares and 58,500 Preferred Shares representing 41.79% of all outstanding Preferred Shares.

The Canada Corporations Act provides in effect that the favourable vote of three-fourths of the votes cast at each meeting of each class of shares of each company proposing to amalgamate is required for the approval of the amalgamation. It is anticipated that the shares controlled by Hawker Siddeley Group Limited will be voted at the respective Special Meetings in favour of the amalgamation. Depending on the responsiveness of other shareholders, such favourable votes may of themselves constitute the requisite shareholder approvals.

Pursuant to the by-laws of the Company, the directors have by resolution established September 20, 1978 as the record date in respect of both Special Meetings, and accordingly the persons entitled to vote at these meetings or to be represented by proxy will be shareholders of record at the close of business on that day.

Board of Directors

The board of the Company currently consists of thirteen directors. However, if the proposed amalgamation is approved and carried out, the resulting Amalgamated Company will have a new board of directors who will hold office from the time of the issue of letters patent confirming the amalgamation. Information regarding the proposed board of the Amalgamated Company is contained under the heading "Directors of the Amalgamated Company" at page 17.

Directors' and Officers' Liability Insurance

Directors and officers are indemnified by the Company under its by-laws to the extent permitted by the Canada Corporations Act, and the Company insures itself against possible liabilities under this indemnification.

Insurance is also purchased by the Company for the benefit of directors and officers of the Company and its subsidiaries against liabilities incurred by them in such capacities, to the extent that these liabilities are not indemnified by the Company or by any subsidiary as the case may be. One comprehensive premium is paid for this policy. The estimated premium payable in 1978 (on a per capita basis) for the thirteen directors of the Company as a group is $655, and for the four officers of the Company who are not also directors, as a group, is $201. Of these amounts $655 is paid by the directors and the balance is paid by the Company. The policy carries a policy limit of $5,000,000 per occurrence and per annum, has a $7,500 deductible per individual and per claim (maximum $25,000 aggregate per incident) and further is subject to a 5% coinsurance clause on the first $1,000,000 of any claim in excess of the deductible.

Auditors

Price Waterhouse & Co., Chartered Accountants, are and have been for many years the auditors of the Company. If the proposed amalgamation is approved and carried out, it is intended to appoint Price Waterhouse & Co. as the auditors of the resulting Amalgamated Company.

Directors' Approval

The contents and the sending of this part of the information circular have been approved by the Directors of Hawker Siddeley Canada Ltd.

Dated August 31, 1978.

C. A. Haines
Secretary

Statutory Information Relating to Hawker Industries Limited

Solicitation of Proxies

This part of the information circular is furnished in connection with the solicitation by the management of Hawker Industries Limited (in this part referred to as the "Company") of proxies to be used at the Special General Meeting of shareholders to be held at the time and place and for the purposes set forth in the accompanying notice of meeting. The solicitation relative to the Company will be primarily by mail although regular employees of the Company may also solicit proxies by telephone. The total cost of the solicitation relative to the Company will be borne by it.

Appointment and Revocation of Proxies

The persons named in the form of proxy enclosed herewith are directors of the Company. **A shareholder desiring to appoint some other person to represent him at the meeting may do so** either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy. To be effective at the meeting or any adjourned meeting, a completed proxy must be deposited with the Secretary at least 48 hours before the time of the meeting or any adjourned meeting at which the proxy form is to be used.

A shareholder who has given a proxy may revoke the proxy by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy form is to be used or with the chairman of such meeting on the day of the meeting or adjournment thereof.

Exercise of Discretion by Proxies

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholder appointing them. **In the absence of such direction, such shares will be voted for the resolution approving the amalgamation of Hawker Siddeley Canada Ltd. and the Company.** The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting or any adjournment thereof. At the time of printing this circular management knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting.

Voting Shares

On August 31, 1978 the Company had outstanding 2,996,086 common shares without nominal or par value entitled to be voted at the meeting carrying the right to one vote per common share. To the knowledge of the directors and officers, the only person or company beneficially owning or exercising control or direction over shares carrying more than 10% of the voting rights attached to the common shares is Hawker Siddeley Canada Ltd. which owns 2,992,106 common shares of the Company representing 99.87% of all outstanding common shares.

The Canada Corporations Act provides in effect that the favourable vote of three-fourths of the votes cast at each meeting of each class of shares of each company proposing to amalgamate is required for the approval of the amalgamation. It is anticipated that the shares owned by Hawker Siddeley Canada Ltd. will be voted at the Special General Meeting in favour of the amalgamation, and such favourable vote should of itself constitute the requisite shareholder approval.

Pursuant to the by-laws of the Company, the directors have by resolution established September 20, 1978 as the record date in respect of the meeting, and accordingly the persons entitled to vote at the meeting or to be represented by proxy will be shareholders of record at the close of business on that day.

Board of Directors

The board of the Company currently consists of five directors. However, if the proposed amalgamation is approved and carried out, the resulting Amalgamated Company will have a new board of directors who will hold office from the time of the issue of letters patent confirming the amalgamation. Information regarding the proposed board of the Amalgamated Company is contained under the heading "Directors of the Amalgamated Company" at page 17.

Directors' and Officers' Liability Insurance

Directors and officers are indemnified by the Company under its by-laws to the extent permitted by the Canada Corporations Act and the parent company insures itself and its subsidiaries, including the Company, against possible liabilities under this indemnification.

Insurance is also purchased by the parent company for the benefit of directors and officers of the parent company and its subsidiaries, including the Company, against liabilities incurred by them in such capacities, to the extent that these liabilities are not indemnified by the Company or the parent company. One comprehensive premium is paid for this policy. The estimated premium payable in 1978 (on a per capita basis) for the five directors of the Company as a group is $252 and for the one officer of the Company who is not also a director is $50. Of these amounts $252 is paid by the directors and the balance by the parent company. The policy carries a policy limit of $5,000,000 per occurrence and per annum, has a $7,500 deductible per individual and per claim (maximum $25,000 aggregate per incident) and further is subject to a 5% coinsurance clause on the first $1,000,000 of any claim in excess of the deductible.

Auditors

Price Waterhouse & Co., Chartered Accountants, are and have been for many years the auditors of the Company. If the proposed amalgamation is approved and carried out, it is intended to appoint Price Waterhouse & Co. as the auditors of the resulting Amalgamated Company.

Directors' Approval

The contents and the sending of this part of the information circular have been approved by the directors of Hawker Industries Limited.

Dated August 31, 1978.

C. A. Haines
Secretary

AUDITORS' REPORT

To the Shareholders of
HAWKER SIDDELEY CANADA LTD.:

We have examined the consolidated balance sheet of Hawker Siddeley Canada Ltd. as at December 31, 1977 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, 1977 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.

Toronto, Canada
March 16, 1978 except for
Note 17 which is as of
August 30, 1978.

PRICE WATERHOUSE & CO.
Chartered Accountants

HAWKER SIDDELEY CANADA LTD.
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet
(in thousands)

ASSETS

	June 30, 1978 (unaudited)	December 31, 1977
Current assets:		
Cash and short term bank deposits	$ 5,917	$ 20,487
Accounts receivable	76,414	60,659
Inventories, less progress payments	78,677	69,284
Prepaid expenses	3,973	1,986
	164,981	152,416
Investments, at cost (Note 3)	3,223	3,223
Fixed assets, at cost (Note 4)	272,978	267,063
Less: Accumulated depreciation (Notes 4 and 11)	138,993	134,010
	133,985	133,053
Issue costs of long term debt	299	312
	$302,488	$289,004

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 1978 (unaudited)	December 31, 1977
Current liabilities:		
Bank advances	$ 9,695	$ 2,365
Accounts payable and accrued liabilities	62,444	56,245
Dividends payable	1,015	1,014
Income and other taxes payable	9,707	15,171
Advances on sales contracts	19,559	13,005
Long term debt due within one year (Note 7)	4,751	4,810
Owing to affiliated companies (Note 6)	37	3,970
	107,208	96,580
Long term debt (Note 7)	34,449	35,357
Provision for unfunded pensions (Note 8)	3,794	4,010
Deferred income taxes	23,705	22,698
Minority interest	12,813	12,777
Shareholders' equity:		
Preferred and common shares (Note 9)	68,364	68,320
Retained earnings	52,155	49,262
	120,519	117,582
	$302,488	$289,004

Approved by the Board:

"E. J. WHITE", Director

"I. E. BULL", Director

HAWKER SIDDELEY CANADA LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Retained Earnings
(in thousands)

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Revenue:		
Net sales (Note 2)	$186,022	$362,689
Income from investments	488	1,235
	186,510	363,924
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following	167,559	320,678
Interest on short term borrowings	241	361
Interest and amortization of costs of long term debt	1,787	3,778
Provision for depreciation	5,559	10,659
Amortization of patents (Note 5)	—	300
	175,146	335,776
Income from operations	11,364	28,148
Provision for income taxes – current	4,945	9,440
– deferred (Note 10)	1,006	3,760
	5,951	13,200
	5,413	14,948
Interest of minority shareholders in income of subsidiaries	499	1,246
	4,914	13,702
Exchange gain on the translation of the accounts of foreign subsidiaries	9	2,624
Income before extraordinary item	4,923	16,326
Special provision (Note 11)	—	(2,586)
Net income for the period	4,923	13,740
Retained earnings, beginning of period	49,262	39,335
	54,185	53,075
Dividends – preferred shares	403	805
– common shares	1,627	3,008
	2,030	3,813
Retained earnings, end of period	$ 52,155	$ 49,262
Income per common share after preferred dividends (Note 9):		
Before extraordinary item	56¢	$1.91
After extraordinary item	56¢	$1.59

HAWKER SIDDELEY CANADA LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position
(in thousands)

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Source of working capital:		
Income before extraordinary item	$ 4,923	$ 16,326
Charges to income not affecting working capital – (mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries)	6,839	14,629
Working capital provided from operations	11,762	30,955
Proceeds on disposal of fixed assets	419	1,262
Common shares issued	44	—
Miscellaneous	—	35
	12,225	32,252
Application of working capital:		
Additions to fixed assets –		
Railway rolling stock leasing fleet	1,648	3,401
Other	5,024	9,289
Special provision (Note 11)	—	2,370
Reduction of –		
Long term debt	908	4,810
Provision for unfunded pensions (Note 8)	216	455
Dividends declared payable to –		
Shareholders of Hawker Siddeley Canada Ltd.	2,030	3,813
Minority shareholders of subsidiaries	462	885
	10,288	25,023
Working capital:		
Increase for the period	1,937	7,229
At beginning of period	55,836	48,607
At end of period	$ 57,773	$ 55,836

Changes in Elements of Working Capital

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Current assets – Increase (decrease):		
Cash and short term bank deposits	$ (14,570)	$ 2,194
Accounts receivable	15,755	9,054
Income taxes recoverable	—	(2,043)
Inventories	9,393	9,443
Prepaid expenses	1,987	466
	12,565	19,114
Current liabilities – Increase (decrease):		
Bank advances	7,330	(12,097)
Accounts payable and accrued liabilities	6,199	9,842
Dividends payable	1	81
Income and other taxes payable	(5,464)	6,407
Advances on sales contracts	6,554	6,047
Long term debt due within one year	(59)	1,365
Owing to affiliated companies	(3,933)	240
	10,628	11,885
Increase in working capital for the period	$ 1,937	$ 7,229

HAWKER SIDDELEY CANADA LTD.
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements for the year ended December 31, 1977 and the six months ended June 30, 1978

(Information for the six months ended June 30, 1978 is unaudited)

1. Summary of principal accounting policies

Principles of consolidation–

The consolidated financial statements include the accounts of Hawker Siddeley Canada Ltd. and all subsidiary companies.

Foreign currency translation –

Assets and liabilities in foreign currencies have been translated at the end of period rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

Revenue recognition –

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example, railway or rapid transit cars) is recorded as cars are accepted by the customer. Revenue on long term contracts involving a single product (for example, an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs –

These costs are expensed as incurred.

Product warranty costs –

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt –

Commission costs incurred on issue of long term debt are amortized over the term of the debt issue to which they relate.

Cost of patents and rights for new products –

Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories –

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

Fixed assets –

Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives primarily on the straight-line basis at rates of 2½% on buildings, 10% generally on equipment and 4% 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 employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans is in Hawker Industries Limited, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to the provision established for that purpose.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes –

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the annual provision for income taxes when realized.

2. Net sales

	Six months ended June 30, 1978	Year ended December 31, 1977
Equipment for the transportation industry	$ 86,017	$196,090
Equipment for the forestry and forest products industries	26,007	39,708
Equipment for the mining industry	41,405	54,608
Shipbuilding and repair	7,613	28,071
Other general engineering and services	24,980	44,212
	$186,022	$362,689

3. Investments

These are sinking fund debentures issued by Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited) carried at cost. At December 31, 1977 the market value of these debentures is estimated to be $2,500,000 (June 30, 1978 – $2,500,000). Particulars of these debentures are:

Series	Amount (in thousands)	Interest Rate	Maturity
"A"	$1,395	5¾%	June 1, 1984
"B"	1,313	6 %	July 15, 1985
"C"	515*	5¾%	July 15, 1985
	$3,223		

*U.S. $480,000

The Company is holding these debentures as long term investments.

4. Fixed assets

	June 30, 1978		December 31, 1977	
	(in thousands)			
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	$ 8,175	$ 1,707	$ 8,150	$ 1,641
Buildings	52,909	30,987	52,287	30,214
Equipment	80,961	53,308	77,061	51,425
Railway rolling stock leasing fleet	130,933	52,991	129,565	50,730
	$272,978	$138,993	$267,063	$134,010

5. Patents

Patent costs relate to the Chip-N-Saw product line and the remaining patent costs were amortized in 1977.

6. Owing to affiliated companies

The liability to affiliated companies at December 31, 1977 includes advances from the parent company of $3,887,000 (June 30, 1978 – Nil).

7. Long term debt

	June 30, 1978	December 31, 1977
	(in thousands)	
Canadian General Transit Company, Limited (55% owned) –		
Equipment Trust Certificates		
5¼% due 1978	$ —	$ 60
6¾% due 1979-1980	224	224
First Mortgage Sinking Fund Equipment Notes		
5½% due 1978 (U.S. $250,000)	—	255
5%-9% due 1979-1989 (U.S. $9,925,000)	10,566	10,566
6¾%-11⅛% due 1978-1995	26,070	26,607
First Mortgage Serial Equipment Notes		
6% due 1978	—	115
6% due 1979-1984	690	690
10¼% due 1978	1,650	1,650
	39,200	40,167
Less – Due within one year included in current liabilities	4,751	4,810
	$34,449	$35,357

Principal payments on long term debt will be as follows:

Period ending December 31	Amount (in thousands)
1978 (includes $967,000 paid to June 30, 1978)	$ 4,810
1979	3,103
1980	3,046
1981	3,046
1982	3,046
1983	3,046
1984-1995	20,070
	$40,167

Railway rolling stock with a net book value at December 31, 1977 of $56,767,000 (June 30, 1978 – $54,815,000) is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in foreign currencies translated at historical rates of exchange amounts to $8,677,000 at December 31, 1977 (June 30, 1978 – $8,677,000) after deducting the portion covered by forward foreign exchange contracts. At the 1977 year-end rate of exchange this debt would be $8,802,000 (June 30, 1978 rate of exchange – $9,044,000).

8. Pensions (see Note 1)

The provision for unfunded pensions of $4,010,000 at December 31, 1977 (June 30, 1978 – $3,794,000) together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments, after income taxes of $455,000 in 1977 (in the six months ended June 30, 1978 – $216,000) were charged to the provision for unfunded pensions.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $14,800,000 at December 31, 1977 (June 30, 1978 – $14,200,000). These obligations are to be settled by annual payments charged to operations through 1991. During 1977 an amount of $1,646,000 (in the six months ended June 30, 1978 – $893,000) was charged to operations with respect to these obligations.

9. Preferred and common shares

			June 30, 1978	December 31, 1977
			(in thousands)	
Preferred shares of the par value of $100 each issuable in series –				
Authorized – 250,000 shares				
Issued – 240,000 5¾ % cumulative redeemable shares				
Outstanding – 140,000 shares			$14,000	$14,000
Common shares without nominal or par value –				
Authorized –				
Class A convertible – 10,000,000 shares				
Class B convertible – 10,000,000 shares				
Issued and outstanding –	June 30, 1978	December 31, 1977		
Class A	7,722,010 shares	7,755,555 shares	51,557	51,822
Class B	420,331 shares	373,786 shares	2,807	2,498
	8,142,341 shares	8,129,341 shares	54,364	54,320
			$68,364	$68,320

The outstanding preferred shares are redeemable at the option of the Company at $105 per share.

The Class A shares and Class B shares are convertible into one another on a share-for-share basis and rank equally with respect to dividends and in all other respects except that dividends when declared by the Directors on the Class A shares will be taxable dividends, whereas in the case of the Class B shares, the Directors in their discretion, may declare dividends to be paid out of "1971 capital surplus on hand" as defined in the Income Tax Act, Canada. If any dividend is declared on Class B shares, the Directors must declare at the same time a dividend on the Class A shares in an amount equal to the dividend paid on the Class B shares. Amendments to the Income Tax Act, Canada in December, 1977 terminate the right of holders of Class B shares to defer taxation on dividends paid on these shares after 1978.

An option to an officer to subscribe for 13,000 unissued Class A shares was outstanding at December 31, 1977 at $3.35 per share. During the six months ended June 30, 1978 this option was exercised and at that date there were no options outstanding.

10. Provisions for income taxes

During 1977, a subsidiary had a loss and the related unrecorded tax benefit of approximately $960,000 is available for possible reduction of taxation prior to 1983. That subsidiary incurred a loss in the six months ended June 30, 1978 and the related unrecorded tax benefit of approximately $940,000 for that period is available for possible reduction of taxation prior to 1984.

11. Special provision

The extraordinary item of $4,200,000 ($2,586,000 after income taxes and minority interest) relates to the discontinuance of highway trailer manufacturing and ship construction. The charge comprises a provision of $2,370,000 and additional depreciation of $1,830,000 which reduces the book amount of the relevant fixed assets to estimated realizable value.

12. Contingent liabilities

The Company and subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of $3,000,000 at December 31, 1977 (June 30, 1978 – $3,000,000). Possible losses on claims and suits related to product sales have been provided for in an amount considered to be adequate.

13. Commitments

The authorized capital budget at June 30, 1978 is approximately $63,900,000 (including $49,700,000 for the tank car leasing fleet). Of this amount commitments outstanding at June 30, 1978 are approximately $25,000,000 (including $20,900,000 for the tank car leasing fleet). Expenditures on such commitments are expected to be $18,700,000 (including $14,600,000 for the tank car leasing fleet) for 1978 and $6,300,000 in 1979.

14. Anti-inflation

The Company is subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government which provides for restraint of prices, profit margins, dividends and employee compensation.

15. Government assistance

During the year 1977 the Company received $4,562,000 (in the six months ended June 30, 1978 – $2,583,000) under various government assistance programs. Of this sum, in 1977 $3,867,000 (in the six months ended June 30, 1978 – $1,723,000) was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, in 1977 $35,000 (in the six months ended June 30, 1978 – $13,000) was applied in reduction of the cost of fixed assets and the balance of $660,000 in 1977 (in the six months ended June 30, 1978 – $847,000) was applied in reduction of costs, primarily for product development. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

16. Remuneration of directors and officers

For the year 1977 six directors and one past director received remuneration of $33,542 and seven directors and one past director received no remuneration as directors. Twelve officers, of whom seven are also directors, and three past officers received remuneration of $674,496. For the six months ended June 30, 1978 six directors received remuneration of $16,929 and seven directors and two past directors received no remuneration as directors. Twelve officers, of whom six are also directors, and two past officers received remuneration of $344,821.

17. Subsequent events

(a) Hawker Industries Limited, a subsidiary company, on April 28, 1978 granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to acquire certain of the fixed assets and inventories of the Halifax Shipyards Division. By agreements on June 29, 1978, July 28, 1978 and August 28, 1978 the option was extended and on August 30, 1978 the Province of Nova Scotia exercised its rights under the agreement. Closing of this transaction took place on August 30, 1978. Estimated costs and losses before income taxes on discontinuance of ship construction and disposal of all assets of the Halifax Shipyards Division of approximately $700,000 will be charged to a special provision of $2,600,000 before income taxes, recorded as an extraordinary item in 1977, for contraction to ship repair activities only.

(b) Canadian General Transit Company, Limited (55% owned) on August 1, 1978 undertook to issue long term debt of $10,000,000 on November 1, 1978 and $5,500,000 on March 1, 1979.

AUDITORS' REPORT

To the Directors of
HAWKER SIDDELEY CANADA LTD.:

We have examined the consolidated statements of income and retained earnings and changes in financial position of Hawker Siddeley Canada Ltd. for the five years ended December 31, 1977. 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 results of the operations of the Company and the changes in its financial position for the five years ended December 31, 1977 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 16, 1978 except for
Note 15 which is as of
August 30, 1978.

PRICE WATERHOUSE & CO.
Chartered Accountants

HAWKER SIDDELEY CANADA LTD.
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings
(in thousands)

	Six months ended June 30, 1978	Six months ended June 30, 1977	Year ended December 31, 1977	1976	1975	1974	1973
	(unaudited)	(unaudited)			(Note 2)	(Note 2)	(Note 2)
Revenue:							
Net sales (Note 3)	$186,022	$182,896	$362,689	$335,081	$365,234	$325,015	$253,628
Income from investments	488	684	1,235	695	331	682	489
	186,510	183,580	363,924	335,776	365,565	325,697	254,117
Costs and expenses:							
Cost of sales, selling, general and administrative expenses exclusive of the following	167,559	165,453	320,678	301,896	324,140	290,023	225,730
Interest on short term borrowings	241	308	361	2,253	3,751	3,069	1,605
Interest and amortization of costs of long term debt	1,787	1,912	3,778	4,276	3,962	3,557	2,828
Provision for depreciation	5,559	5,403	10,659	10,177	9,615	8,633	8,509
Amortization of patents (Note 4)	—	150	300	300	300	300	398
	175,146	173,226	335,776	318,902	341,768	305,582	239,070
Income from operations	11,364	10,354	28,148	16,874	23,797	20,115	15,047
Provision for income taxes							
– current	4,945	4,575	9,440	4,805	7,344	7,652	5,511
– deferred (Note 5)	1,006	837	3,760	3,265	3,967	2,237	1,750
	5,951	5,412	13,200	8,070	11,311	9,889	7,261
	5,413	4,942	14,948	8,804	12,486	10,226	7,786
Interest of minority shareholders in income of subsidiaries	499	608	1,246	1,266	1,014	963	1,585
	4,914	4,334	13,702	7,538	11,472	9,263	6,201
Exchange gain (loss) on the translation of the accounts of foreign subsidiaries	9	797	2,624	(1,187)	(1,125)	(2)	3
Income before extraordinary items	4,923	5,131	16,326	6,351	10,347	9,261	6,204
Special provision (Note 6)	—	—	(2,586)	—	—	—	—
Income tax provision not required (Note 7)	—	—	—	653	1,370	—	1,496
Gain on properties (Note 8)	—	—	—	—	—	256	—
Gain on investment in Dominion Coal Company, Limited (Note 9)	—	—	—	—	146	289	225
Net income for the period	4,923	5,131	13,740	7,004	11,863	9,806	7,925
Retained earnings, beginning of period	49,262	39,335	39,335	36,063	27,932	21,532	11,205
Reserve for contingencies appropriated from retained earnings in 1968	—	—	—	—	—	—	4,832
	54,185	44,466	53,075	43,067	39,795	31,338	23,962
Dividends – preferred shares	403	403	805	805	805	805	805
– common shares	1,627	1,463	3,008	2,927	2,927	2,601	1,625
	2,030	1,866	3,813	3,732	3,732	3,406	2,430
Retained earnings, end of period	$ 52,155	$ 42,600	$ 49,262	$ 39,335	$ 36,063	$ 27,932	$ 21,532
Per share (full dollars):							
Income per common share after preferred dividends (Note 10):							
Before extraordinary items	$ .56	$ .58	$ 1.91	$ .68	$ 1.17	$ 1.04	$ .66
After extraordinary items	.56	.58	1.59	.76	1.36	1.11	.88
Dividends declared per preferred share	2.88	2.88	5.75	5.75	5.75	5.75	5.75
Dividends declared per common share	.20	.18	.37	.36	.36	.32	.20
Book value per preferred share	100.00	100.00	100.00				
Book value per common share	13.08	11.92	12.74				

HAWKER SIDDELEY CANADA LTD.
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Financial Position
(in thousands)

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
	(unaudited)				(Note 2)	(Note 2)	(Note 2)
Source of working capital:							
Income before extraordinary items	$ 4,923	$ 5,131	$ 16,326	$ 6,351	$ 10,347	$ 9,261	$ 6,204
Charges to income not affecting working capital – (mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries)	6,839	6,537	14,629	14,127	14,849	11,969	11,212
Working capital provided from operations	11,762	11,668	30,955	20,478	25,196	21,230	17,416
Issue of long term debt	—	—	—	—	9,900	8,012	6,960
Proceeds on disposal of fixed assets	419	564	1,262	1,111	4,624	2,781	2,155
Income taxes recovered in extraordinary items	—	—	—	653	1,370	708	1,496
Proceeds on realization of investment in Dominion Coal Company, Limited (Note 9)	—	—	—	—	146	289	557
Shares issued by subsidiary to minority shareholders	—	—	—	—	1,215	—	—
Common shares issued (Note 10)	44	—	—	—	—	—	40
Notes due from Sidbec reclassified to accounts receivable	—	—	—	—	—	—	5,000
Miscellaneous	—	—	35	31	407	40	38
	12,225	12,232	32,252	22,273	42,858	33,060	33,662
Application of working capital:							
Additions to fixed assets –							
Railway rolling stock leasing fleet	1,648	901	3,401	791	14,898	11,582	7,533
Other	5,024	3,870	9,289	8,132	11,259	12,276	5,875
Patents (Note 4)	—	—	—	—	—	—	1,598
Investment in Orenda Limited (Note 11)	—	—	—	—	—	—	4,850
Special provision (Note 6)	—	—	2,370	—	—	—	—
Reduction of –							
Long term debt	908	967	4,810	5,166	4,443	3,975	4,501
Provision for unfunded pensions (Note 12)	216	232	455	388	406	436	457
Dividends declared payable to –							
Shareholders of Hawker Siddeley Canada Ltd.	2,030	1,866	3,813	3,732	3,732	3,406	2,430
Minority shareholders of subsidiaries	462	437	885	810	683	638	638
	10,288	8,273	25,023	19,019	35,421	32,313	27,882
Working capital:							
Increase for the period	1,937	3,959	7,229	3,254	7,437	747	5,780
At beginning of period	55,836	48,607	48,607	45,353	37,916	37,169	31,389
At end of period	$ 57,773	$ 52,566	$ 55,836	$ 48,607	$ 45,353	$ 37,916	$ 37,169

HAWKER SIDDELEY CANADA LTD.

AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income and Retained Earnings and Changes in Financial Position for the years ended December 31, 1973 through 1977 and the six months ended June 30, 1977 and 1978

(Information for the six months ended June 30, 1977 and 1978 is unaudited)

1. Summary of principal accounting policies

Principles of consolidation –

The consolidated statements of income and retained earnings and changes in financial position include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary of Hawker Industries Limited prior to 1975. The accounts of Domco were not consolidated in 1973 and 1974 because that company had appointed a liquidator in 1973 to wind up its affairs and distribute its assets. Domco was liquidated in 1975.

Foreign currency translation –

Assets and liabilities in foreign currencies have been translated at the end of period rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

Revenue recognition –

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example, railway or rapid transit cars) is recorded as cars are accepted by the customer. Revenue on long term contracts involving a single product (for example, an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs –

These costs are expensed as incurred.

Product warranty costs –

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt –

Commission costs incurred on issue of long term debt are amortized over the term of the debt issue to which they relate.

Cost of patents and rights for new products –

Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories –

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

Fixed assets –

Depreciation on fixed assets is provided over their estimated useful lives primarily on the straight-line basis at rates of 2½% on buildings, 10% generally on equipment and 4% 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 employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans is in Hawker Industries Limited, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to a provision established for that purpose prior to 1973.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes –

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the annual provision for income taxes when realized.

2. Restatement of prior years

The figures for these years have been restated to conform with the presentation adopted in later years.

3. Net sales

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
				(in thousands)		(Note 2)	(Note 2)
Equipment for the transportation industry..	$ 86,017	$ 98,993	$196,090	$170,050	$177,199	$166,470	$115,560
Equipment for the forestry and forest products industries........................	26,007	18,491	39,708	29,043	33,908	51,484	45,738
Equipment for the mining industry.........	41,405	26,000	54,608	46,820	54,790	29,575	19,351
Shipbuilding and repair....................	7,613	14,822	28,071	35,458	44,305	28,494	29,988
Other general engineering and services......	24,980	24,590	44,212	53,710	55,032	48,992	42,991
	$186,022	$182,896	$362,689	$335,081	$365,234	$325,015	$253,628

4. Patents

Patents relating to the Chip-N-Saw product line were purchased in 1973 for $1,598,000 and were amortized by charges to income of $398,000 in 1973 and $300,000 in each of the years 1974 to 1977 inclusive.

5. Provision for income taxes

During 1977 a subsidiary had a loss and the related unrecorded tax benefit of approximately $960,000 is available for possible reduction of taxation prior to 1983. That subsidiary incurred a loss in the six months ended June 30, 1978 and the related unrecorded tax benefit of approximately $940,000 for that period is available for possible reduction of taxation prior to 1984.

6. Special provision

The extraordinary item of $4,200,000 ($2,586,000 after income taxes and minority interest) relates to the discontinuance of highway trailer manufacturing and ship construction. The charge comprises a provision of $2,370,000 and additional depreciation of $1,830,000 which reduces the book amount of the relevant fixed assets to estimated realizable value.

7. Income tax provision not required

The Company had accumulated costs and expenses which were charged in the accounts in certain years but could not be applied immediately in reduction of income for tax purposes. During 1976, 1975 and 1973 the Company applied these costs and expenses in reduction of income for tax purposes and the related tax benefits of $653,000 in 1976, $1,370,000 in 1975 and $1,496,000 in 1973 were recorded as extraordinary items of income.

8. Gain on properties

In 1974 lands and buildings no longer required by Canadian Car (Pacific) Division, Vancouver, B.C. and Canadian Bridge Division, Windsor, Ontario were sold and sections of the property of Canadian Steel Foundries Division in Montreal, P.Q., were expropriated by the Province of Quebec for construction of a major roadway. A provision of $2,206,000 was made for the loss on the sale of the Dominion Industrial lands and buildings in Montreal, P.Q.

A net gain of $256,000 was recorded with respect to these properties after income taxes of $226,000 on disposals and a tax recovery of $708,000 with respect to the anticipated loss.

9. Gain on investment in Dominion Coal Company, Limited (Domco)

These amounts represent the proceeds received, after income taxes and minority interest, in respect of the liquidation of Domco, a nonconsolidated subsidiary company, except for 1973 when $332,000 was applied to eliminate the investment by Hawker Industries Limited in preferred and common shares of Domco (see Note 1).

10. Common shares issued

During 1973 an option to subscribe for 12,000 common shares at $3.35 per share was exercised by an officer. During the six months ended June 30, 1978, an option to subscribe for 13,000 Class A common shares at $3.35 per share was exercised by an officer. At June 30, 1978 there were no options outstanding.

11. Investment in Orenda Limited

During 1973 the Company purchased from United Aircraft Corporation the 40% minority holdings in the shares and income debentures of Orenda Limited. On December 31, 1973 the net assets of Orenda Limited (100% owned) were distributed to the Company and the business is now carried on by the Orenda Division.

12. Pensions (see Note 1)

Obligations to unfunded pension plans were met and charged, after appropriate income taxes, to the pre 1973 provision established for that purpose as follows:

Six months ended June 30	
1978	$216,000
1977	232,000
Year ended December 31	
1977	455,000
1976	388,000
1975	406,000
1974	436,000
1973	457,000

Obligations under funded pension plans for past service are to be settled by annual payments charged to operations through 1991. Charges to operations for past service were:

Six months ended June 30	
1978	$893,000
1977	753,000
Year ended December 31	
1977	1,646,000
1976	1,247,000
1975	826,000
1974	792,000
1973	496,000

13. Government assistance

During the year 1977 the Company received $4,562,000 (in the six months ended June 30, 1978 – $2,583,000) under various government assistance programs. Of this sum in 1977, $3,867,000 (in the six months ended June 30, 1978 – $1,723,000) was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, $35,000 in 1977 (in the six months ended June 30, 1978 – $13,000) was applied in reduction of the cost of fixed assets and the balance of $660,000 in 1977 (in the six months ended June 30, 1978 – $847,000) was applied in reduction of costs, primarily for product development. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

14. Anti-inflation

Since October 14, 1975 the Company has been subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government which provides for restraint of prices, profit margins, dividends and employee compensation.

15. Subsequent event

Hawker Industries Limited, a subsidiary company, on April 28, 1978 granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to acquire certain of the fixed assets and inventories of the Halifax Shipyards Division. By agreements on June 29, 1978, July 28, 1978 and August 28, 1978 the option was extended and on August 30, 1978 the Province of Nova Scotia exercised its rights under the agreement. Closing of this transaction took place on August 30, 1978. Estimated costs and losses before income taxes on discontinuance of ship construction and disposal of all assets of the Halifax Shipyards Division of approximately $700,000 will be charged to a special provision of $2,600,000 before income taxes, recorded as an extraordinary item in 1977, for contraction to ship repair activities only.

AUDITORS' REPORT

To the Shareholders of
HAWKER INDUSTRIES LIMITED:

We have examined the consolidated balance sheet of Hawker Industries Limited as at December 31, 1977 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, 1977 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.

Toronto, Canada
March 16, 1978, except for
Note 13 which is as of
August 30, 1978

PRICE WATERHOUSE & CO.
Chartered Accountants

HAWKER INDUSTRIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet
(in thousands)

ASSETS

	June 30, 1978 (unaudited)	December 31, 1977
Current assets:		
Cash and short term bank deposits	$ 1,476	$ 2,574
Accounts receivable	30,181	23,086
Owing from affiliated companies	2,855	2,711
Inventories, less progress payments	36,567	27,698
Prepaid expenses	2,197	805
	73,276	56,874
Fixed assets, at cost (Note 3)	49,112	48,203
Less: Accumulated depreciation (Notes 3 and 6)	31,677	30,539
	17,435	17,664
	$ 90,711	$ 74,538

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 1978 (unaudited)	December 31, 1977
Current liabilities:		
Bank advances	$ 6,324	$ 2,365
Accounts payable and accrued liabilities	25,007	22,582
Income and other taxes payable	6,534	5,655
Advances on sales contracts	2,848	2,713
Owing to affiliated companies (Note 4)	9,719	358
	50,432	33,673
Provision for unfunded pensions (Note 5)	3,484	3,686
Deferred income taxes	7,338	6,915
Shareholders' Equity:		
Capital stock –		
Common shares without nominal or par value		
Authorized – 3,000,000 shares		
Issued – 2,996,086 shares	14,980	14,980
Retained earnings	14,477	15,284
	29,457	30,264
	$ 90,711	$ 74,538

Approved by the Board:

"E. J. WHITE", Director

"I. E. BULL", Director

HAWKER INDUSTRIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Retained Earnings
(in thousands)

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Revenue:		
Net sales (Note 2)	$ 66,041	$124,628
Income from investments	89	486
	66,130	125,114
Costs and expenses:		
Cost of sales, selling, general and administrative expenses exclusive of the following	61,428	119,595
Interest on short term borrowings	175	100
Provision for depreciation	1,213	2,544
Administration fees (Note 12)	438	895
	63,254	123,134
Income from operations	2,876	1,980
Provision for income taxes – current	2,266	30
– deferred (Note 6)	423	1,969
	2,689	1,999
	187	(19)
Exchange gain (loss) on the translation of the accounts of foreign subsidiaries	(95)	2,408
Income before extraordinary item	92	2,389
Special provision (Note 7)	—	(1,708)
Net income for the period	92	681
Retained earnings, beginning of period	15,284	15,502
	15,376	16,183
Dividend paid	899	899
Retained earnings, end of period	$ 14,477	$ 15,284
Earnings per share:		
Before extraordinary item	3¢	80¢
After extraordinary item	3¢	23¢

HAWKER INDUSTRIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position
(in thousands)

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Source of working capital:		
Income before extraordinary item	$ 92	$ 2,389
Charges to income not affecting working capital (mainly depreciation and deferred income taxes)	1,636	3,473
Working capital provided from operations	1,728	5,862
Proceeds on disposal of fixed assets	42	725
	1,770	6,587
Application of working capital:		
Additions to fixed assets	1,026	3,717
Special provision (Note 7)	—	1,150
Reduction of provision for unfunded pensions (Note 5)	202	428
Dividend paid	899	899
	2,127	6,194
Working capital:		
Increase (decrease) for the period	(357)	393
At beginning of period	23,201	22,808
At end of period	$ 22,844	$ 23,201

Changes in Elements of Working Capital

	Six months ended June 30, 1978 (unaudited)	Year ended December 31, 1977
Current assets – Increase (decrease):		
Cash and short term bank deposits	$ (1,098)	$(12,070)
Accounts receivable	7,095	6,691
Owing from affiliated companies	144	719
Income taxes recoverable	—	(1,776)
Inventories	8,869	8,661
Prepaid expenses	1,392	180
	16,402	2,405
Current liabilities – Increase (decrease):		
Bank advances	3,959	645
Accounts payable and accrued liabilities	2,425	4,840
Income and other taxes payable	879	261
Advances on sales contracts	135	(3,808)
Owing to affiliated companies	9,361	74
	16,759	2,012
Increase (decrease) in working capital for the period	$ (357)	$ 393

HAWKER INDUSTRIES LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements for the year ended December 31, 1977 and the six months ended June 30, 1978

(Information for the six months ended June 30, 1978 is unaudited)

1. Summary of principal accounting policies

Principles of consolidation –

The consolidated financial statements include the accounts of Hawker Industries Limited and all subsidiary companies.

Foreign currency translation –

Assets and liabilities in foreign currencies have been translated at the end of period rates of exchange.

Translation adjustments are charged or credited to current income.

Revenue recognition –

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example, railway cars) is recorded as cars are accepted by the customer. Revenue on long term contracts involving a single product (for example, an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs –

These costs are expensed as incurred.

Product warranty costs –

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Inventories –

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

Fixed assets –

Fixed assets are carried at cost. Depreciation on fixed assets other than those employed in shipbuilding and repair is provided over their estimated useful lives on the straight-line basis at rates of 2½%–5% on buildings and generally 10%–20% on equipment. Depreciation on assets employed in shipbuilding and repair is provided on the reducing balance basis at rates of 5% on buildings and 20% on equipment.

Pensions –

The Company has pension obligations to unfunded and funded pension plans.

Obligations to unfunded pension plans relate to retired employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to a provision established for that purpose.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past services; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes –

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the provision for income taxes when realized.

2. Net sales

	Six months ended June 30, 1978	Year ended December 31, 1977
	(in thousands)	
Equipment for the transportation industry	$14,267	$ 38,652
Equipment for the mining industry	39,598	51,527
Shipbuilding and repair	7,613	28,071
Other general engineering and services	4,563	6,378
	$66,041	$124,628

3. Fixed assets

	June 30, 1978		December 31, 1977	
	(in thousands)			
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	$ 2,860	$ 828	$ 2,860	$ 803
Buildings	16,855	10,184	16,574	9,791
Equipment	29,397	20,665	28,769	19,945
	$49,112	$31,677	$48,203	$30,539

4. Owing to affiliated companies

The liability to affiliated companies at December 31, 1977 includes amounts due to the parent company of $273,000 (June 30, 1978 – $9,652,000).

5. Pensions (see Note 1)

The provision for unfunded pensions of $3,686,000 at December 31, 1977 (June 30, 1978 – $3,484,000) together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments of $428,000 in 1977 (in the six months ended June 30, 1978 – $202,000) were charged to the provision for unfunded pensions.

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $2,340,000 at December 31, 1977 (June 30, 1978 – $2,240,000). These obligations are to be settled by annual payments charged to operations through 1991. During 1977 an amount of approximately $222,000 (in the six months ended June 30, 1978 – $158,000) was charged to operations with respect to these obligations.

6. Provision for income taxes

During 1977 the Company had a loss and the related unrecorded tax benefit of approximately $960,000 is available for possible reduction of taxation prior to 1983. In the six months ended June 30, 1978 the Company incurred a loss and the unrecorded tax benefit of approximately $940,000 for that period is available for possible reduction of taxation prior to 1984.

7. Special provision

The extraordinary item of $2,600,000 ($1,708,000 after income taxes) relates to the discontinuance of ship construction. The charge comprises a provision of $1,150,000, and additional depreciation of $1,450,000 which reduces the book amount of the relevant fixed assets of Halifax Shipyards and Trenton Works Divisions to estimated realizable value.

8. Contingent liabilities

A subsidiary company is contingently liable (principally for trade notes discounted) in the approximate amount of $600,000 at December 31, 1977 (June 30, 1978 – $400,000).

9. Commitments

The authorized capital budget at June 30, 1978 is approximately $4,700,000. Of this amount, commitments outstanding at June 30, 1978 are approximately $1,000,000 for expenditure over the balance of the year.

10. Anti-inflation

The Company is subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government which provides for restraint of prices, profit margins and employee compensation.

11. Government assistance

During the year 1977 the Company received $3,955,000 (in the six months ended June 30, 1978 – $1,762,000) under various government assistance programs. Of this sum, in 1977 $3,867,000 (in the six months ended June 30, 1978 – $1,723,000) was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, $35,000 in 1977 (in the six months ended June 30, 1978 – $13,000) was applied in reduction of the cost of fixed assets and the balance of $53,000 in 1977 (in the six months ended June 30, 1978 – $26,000) was applied in reduction of costs. Government assistance programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

12. Remuneration of directors and officers and management arrangements

For the year 1977 and the six months ended June 30, 1978 no remuneration was paid to officers and the remuneration of one director amounted to $1,000 in 1977 (in the six months ended June 30, 1978 – $500).

Subject to the Board of Directors, the management and all general corporate functions of the Company are provided by Hawker Siddeley Canada Ltd. (the parent company) under an agreement dated January 1, 1974.

13. Subsequent event

The Company, on April 28, 1978 granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to acquire certain of the fixed assets and inventories of the Halifax Shipyards Division. By agreements on June 29, 1978, July 28, 1978 and August 28, 1978 the option was extended and on August 30, 1978 the Province of Nova Scotia exercised its rights under the agreement. Closing of this transaction took place on August 30, 1978. Estimated costs and losses before income taxes on discontinuance of ship construction and disposal of all assets of the Halifax Shipyards Division of approximately $700,000 will be charged to the special provision of $2,600,000 before income taxes, recorded as an extraordinary item in 1977, for contraction to ship repair activities only.

AUDITORS' REPORT

To the Directors of
HAWKER INDUSTRIES LIMITED:

We have examined the consolidated statements of income and retained earnings and changes in financial position of Hawker Industries Limited for the five years ended December 31, 1977. 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 results of the operations of the Company and the changes in its financial position for the five years ended December 31, 1977 in accordance with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, Canada
March 16, 1978, except for
Note 12 which is as of
August 30, 1978.

HAWKER INDUSTRIES LIMITED
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings
(in thousands)

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
	(unaudited)				(Note 2)		(Note 2)
Revenue:							
Net sales (Note 3)	$ 66,041	$ 49,981	$124,628	$172,125	$201,436	$132,501	$102,059
Income from investments	89	420	486	381	77	43	88
	66,130	50,401	125,114	172,506	201,513	132,544	102,147
Costs and expenses:							
Cost of sales, selling, general and administrative expenses exclusive of the following	61,428	50,648	119,595	163,104	182,926	123,418	95,295
Interest on short term borrowings	175	56	100	800	1,007	575	146
Interest on long term debt	—	—	—	207	283	—	—
Provision for depreciation	1,213	1,337	2,544	2,344	2,137	1,776	1,598
Administration fees (Note 4)	438	441	895	835	625	560	590
	63,254	52,482	123,134	167,290	186,978	126,329	97,629
Income (loss) from operations	2,876	(2,081)	1,980	5,216	14,535	6,215	4,518
Provision for (recovery of) income taxes							
– current	2,266	440	30	2,095	4,003	2,077	1,545
– deferred (Note 5)	423	(682)	1,969	810	2,879	1,043	561
	2,689	(242)	1,999	2,905	6,882	3,120	2,106
	187	(1,839)	(19)	2,311	7,653	3,095	2,412
Exchange gain (loss) on the translation of the accounts of foreign subsidiaries	(95)	650	2,408	(1,144)	(1,168)	—	—
Income (loss) before extraordinary items	92	(1,189)	2,389	1,167	6,485	3,095	2,412
Special provision (Note 6)	—	—	(1,708)	—	—	—	—
Gain on properties (Note 7)	—	—	—	—	—	116	—
Gain on investment in Dominion Coal Company, Limited (Note 8)	—	—	—	—	146	289	225
Net income (loss) for the period	92	(1,189)	681	1,167	6,631	3,500	2,637
Retained earnings, beginning of period	15,284	15,502	15,502	15,234	9,501	6,900	5,162
	15,376	14,313	16,183	16,401	16,132	10,400	7,799
Dividend paid	899	899	899	899	898	899	899
Retained earnings, end of period	$ 14,477	$ 13,414	$ 15,284	$ 15,502	$ 15,234	$ 9,501	$ 6,900
Per share (full dollars):							
Earnings per share:							
Before extraordinary items	$ .03	$ (.40)	$ .80	$ .39	$ 2.16	$ 1.03	$ .80
After extraordinary items	.03	(.40)	.23	.39	2.21	1.17	.88
Dividend declared per share	.30	.30	.30	.30	.30	.30	.30
Book value per share	9.83	9.48	10.10				

HAWKER INDUSTRIES LIMITED
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Changes in Financial Position
(in thousands)

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
	(unaudited)					(Note 2)	(Note 2)
Source of working capital:							
Income (loss) before extraordinary items	$ 92	$ (1,189)	$ 2,389	$ 1,167	$ 6,485	$ 3,095	$ 2,412
Charges to income not affecting working capital (mainly depreciation and deferred income taxes)	1,636	408	3,473	2,838	5,197	2,799	1,856
Working capital provided (lost) from operations	1,728	(781)	5,862	4,005	11,682	5,894	4,268
Proceeds on disposal of fixed assets	42	184	725	59	77	217	543
Proceeds on realization of investment in Dominion Coal Company, Limited (Note 8)	—	—	—	—	146	289	557
Issue of long term debt	—	—	—	—	—	2,320	—
	1,770	(597)	6,587	4,064	11,905	8,720	5,368
Application of working capital:							
Additions to fixed assets	1,026	2,104	3,717	3,230	4,926	3,433	2,642
Special provision (Note 6)	—	—	1,150	—	—	—	—
Reduction of –							
Long term debt	—	—	—	1,720	—	—	—
Provision for unfunded pensions (Note 9)	202	218	428	359	376	408	445
Dividend paid	899	899	899	899	898	899	899
	2,127	3,221	6,194	6,208	6,200	4,740	3,986
Working capital:							
Increase (decrease) for the period	(357)	(3,818)	393	(2,144)	5,705	3,980	1,382
At beginning of period	23,201	22,808	22,808	24,952	19,247	15,267	13,885
At end of period	$ 22,844	$ 18,990	$ 23,201	$ 22,808	$ 24,952	$ 19,247	$ 15,267

HAWKER INDUSTRIES LIMITED
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Statements of Income and Retained Earnings and Changes in Financial Position for the years ended December 31, 1973 through 1977 and for the six months ended June 30, 1977 and 1978

(Information for the six months ended June 30, 1977 and 1978 is unaudited)

1. Summary of principal accounting policies

Principles of consolidation –

The consolidated statements of income and retained earnings and changes in financial position include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary prior to 1975. The accounts of Domco were not consolidated in 1973 and 1974 because that company had appointed a liquidator in 1973 to wind up its affairs and distribute its assets. Domco was liquidated in 1975.

Foreign currency translation –

Assets and liabilities in foreign currencies have been translated at end of period rates of exchange except for long term debt. Long term debt of a foreign subsidiary has been translated at the rate of exchange in effect when the obligation was incurred. Translation adjustments are charged or credited to current income.

Revenue recognition –

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example, railway cars) is recorded as cars are accepted by the customer. Revenue on long term contracts involving a single product (for example, an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs –

These costs are expensed as incurred.

Product warranty costs –

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Inventories –

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

Fixed assets –

Depreciation on fixed assets other than those employed in shipbuilding and repair is provided over their estimated useful lives on the straight-line basis at rates of 2½%-5% on buildings and generally 10%-20% on equipment. Depreciation on assets employed in shipbuilding and repair is provided on the reducing balance basis at rates of 5% on buildings and 20% on equipment.

Pensions –

The Company has pension obligations to unfunded and funded pension plans.
Obligations to unfunded pension plans relate to retired employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to a provision established for that purpose prior to 1973.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes –

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the provision for income taxes when realized.

2. Restatement of prior years

The figures for these years have been restated to conform with the presentation adopted in later years.

3. Net sales

	Six months ended June 30, 1978	1977	Year ended December 31, 1977	1976	1975	1974	1973
				(in thousands)			
Equipment for the transportation industry...	$14,267	$ 8,819	$ 38,652	$ 81,379	$ 94,748	$ 68,299	$ 46,999
Equipment for the mining industry...........	39,598	23,611	51,527	46,054	53,700	29,510	19,524
Shipbuilding and repair.....................	7,613	14,822	28,071	35,458	44,305	28,494	29,988
Other general engineering and services........	4,563	2,729	6,378	9,234	8,683	6,198	5,548
	$66,041	$49,981	$124,628	$172,125	$201,436	$132,501	$102,059

4. Administration fees

Subject to the Board of Directors, the management and all general corporate functions of the Company were provided by Hawker Siddeley Canada Ltd. (the parent company) under an agreement to provide these services.

5. Provision for income taxes

During 1977 the Company had a loss and the related unrecorded tax benefit of approximately $960,000 is available for possible reduction of taxation prior to 1983. In the six months ended June 30, 1978 the Company incurred a loss and the unrecorded tax benefit of approximately $940,000 for that period is available for possible reduction of taxation prior to 1984.

6. Special provision

The extraordinary item of $2,600,000 ($1,708,000 after income taxes) relates to the discontinuance of ship construction. The charge comprises a provision of $1,150,000, and additional depreciation of $1,450,000 which reduces the book amount of the relevant fixed assets of Halifax Shipyards and Trenton Works Divisions to estimated realizable value.

7. Gain on properties

Lands surplus to the requirements of the Canadian Bridge Division, Windsor, Ontario, were sold in 1974 resulting in a profit after income taxes of $116,000.

8. Gain on investment in Dominion Coal Company, Limited (Domco)

These amounts represent the proceeds received, after income taxes in respect of the liquidation of Domco, a non-consolidated subsidiary company, except for 1973 when $332,000 was applied to eliminate the investment of the Company in preferred and common shares of Domco (see Note 1).

9. Pensions (see Note 1)

Obligations to unfunded pension plans were met and charged, after appropriate income taxes, to the pre 1973 provision established for that purpose as follows:

Six months ended June 30	
1978..	$202,000
1977..	218,000
Year ended December 31	
1977..	428,000
1976..	359,000
1975..	376,000
1974..	408,000
1973..	445,000

Obligations under funded pension plans for past service are to be settled by annual payments charged to operations through 1991. Charges to operations for past service were:

Six months ended June 30	
1978..	$158,000
1977..	111,000
Year ended December 31	
1977..	222,000
1976..	191,000
1975..	157,000
1974..	103,000
1973..	34,000

10. Government assistance

During the year 1977 the Company received $3,955,000 (in the six months ended June 30, 1978 – $1,762,000) under various government assistance programs. Of this sum, in 1977 $3,867,000 (in the six months ended June 30, 1978 – $1,723,000) was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, $35,000 in 1977 (in the six months ended June 30, 1978 – $13,000) was applied in reduction of the cost of fixed assets and the balance of $53,000 in 1977 (in the six months ended June 30, 1978 – $26,000) was applied in reduction of costs. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

11. Anti-inflation

Since October 14, 1975 the Company has been subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government which provides for restraint of prices, profit margins and employee compensation.

12. Subsequent event

The Company, on April 28, 1978 granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to acquire certain of the fixed assets and inventories of the Halifax Shipyards Division. By agreements on June 29, 1978, July 28, 1978 and August 28, 1978 the option was extended and on August 30, 1978 the Province of Nova Scotia exercised its rights under the agreement. Closing of this transaction took place on August 30, 1978. Estimated costs and losses before income taxes on discontinuance of ship construction and disposal of all assets of the Halifax Shipyards Division of approximately $700,000 will be charged to the special provision of $2,600,000 before income taxes, recorded as an extraordinary item in 1977, for contraction to ship repair activities only.

AUDITORS' REPORT

To the Directors of
HAWKER SIDDELEY CANADA LTD.:

We have examined the pro forma consolidated statements of income and changes in financial position of Hawker Siddeley Canada Ltd. for the five years ended December 31, 1977. 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 pro forma consolidated financial statements present fairly the results of the operations of the Company and the changes in its financial position for the five years ended December 31, 1977, after giving effect to the proposed transactions set forth in Note 1 to the pro forma consolidated financial statements, in accordance with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & CO.
Chartered Accountants

Toronto, Canada
March 16, 1978, except for
Note 21 which is as of
August 30, 1978.

HAWKER SIDDELEY CANADA LTD.
AND CONSOLIDATED SUBSIDIARIES

Pro Forma Consolidated Balance Sheet

(after giving effect to the proposed amalgamation described in Note 1)

(in thousands)

ASSETS

	June 30, 1978 (unaudited)
Current assets:	
Cash and short term bank deposits	$ 5,917
Accounts receivable	76,414
Inventories, less progress payments	78,677
Prepaid expenses	3,973
	164,981
Investments, at cost (Note 5)	3,223
Fixed assets, at cost (Note 6)	272,978
Less: Accumulated depreciation (Notes 6 and 12)	138,993
	133,985
Issue costs of long term debt	299
	$302,488

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Bank advances	$ 9,695
Accounts payable and accrued liabilities	62,444
Dividends payable	1,015
Income and other taxes payable	9,707
Advances on sales contracts	19,559
Long term debt due within one year (Note 7)	4,751
Owing to affiliated companies	37
	107,208
Long term debt (Note 7)	34,449
Provision for unfunded pensions (Note 8)	3,794
Deferred income taxes	23,705
Minority interest (Note 1)	12,774
Shareholders' equity (Note 9):	
Preferred and common shares (Note 9)	68,383
Retained earnings	52,175
	120,558
	$302,488

Approved by the Board:

"E. J. WHITE", Director

"I. E. BULL", Director

HAWKER SIDDELEY CANADA LTD.
AND CONSOLIDATED SUBSIDIARIES

Pro Forma Consolidated Statement of Income

(after giving effect to the proposed amalgamation described in Note 1)
(in thousands)

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
	(unaudited)				(Note 2)	(Note 2)	(Note 2)
Revenue:							
Net sales (Note 4)	$186,022	$182,896	$362,689	$335,081	$365,234	$325,015	$253,628
Income from investments	488	684	1,235	695	331	682	489
	186,510	183,580	363,924	335,776	365,565	325,697	254,117
Costs and expenses:							
Cost of sales, selling, general and administrative expenses exclusive of the following	167,559	165,453	320,678	301,896	324,140	290,023	225,730
Interest on short term borrowings	241	308	361	2,253	3,751	3,069	1,605
Interest and amortization of costs of long term debt	1,787	1,912	3,778	4,276	3,962	3,557	2,828
Provision for depreciation	5,559	5,403	10,659	10,177	9,615	8,633	8,509
Amortization of patents (Note 10)	—	150	300	300	300	300	398
	175,146	173,226	335,776	318,902	341,768	305,582	239,070
Income from operations	11,364	10,354	28,148	16,874	23,797	20,115	15,047
Provision for income taxes							
– current	4,945	4,575	9,440	4,805	7,344	7,652	5,511
– deferred (Note 11)	1,006	837	3,760	3,265	3,967	2,237	1,750
	5,951	5,412	13,200	8,070	11,311	9,889	7,261
	5,413	4,942	14,948	8,804	12,486	10,226	7,786
Interest of minority shareholders in income of subsidiaries	498	611	1,247	1,264	999	957	1,580
	4,915	4,331	13,701	7,540	11,487	9,269	6,206
Exchange gain (loss) on the translation of the accounts of foreign subsidiaries	9	798	2,627	(1,188)	(1,127)	(2)	3
Income before extraordinary items	4,924	5,129	16,328	6,352	10,360	9,267	6,209
Special provision (Note 12)	—	—	(2,588)	—	—	—	—
Income tax provision not required (Note 13)	—	—	—	653	1,370	—	1,496
Gain on properties (Note 14)	—	—	—	—	—	256	—
Gain on investment in Dominion Coal Company, Limited (Note 15)	—	—	—	—	146	289	225
Net income for the period	$ 4,924	$ 5,129	$ 13,740	$ 7,005	$ 11,876	$ 9,812	$ 7,930
Income per common share after preferred dividends (Note 9):							
Before extraordinary items	$ .56	$ .58	$ 1.91	$ .68	$ 1.17	$ 1.04	$ .66
After extraordinary items	.56	.58	1.59	.76	1.36	1.11	.88
Pro Forma book value per preferred share	100.00	100.00	100.00				
Pro Forma book value per common share	13.07	11.91	12.73				

HAWKER SIDDELEY CANADA LTD.
AND CONSOLIDATED SUBSIDIARIES

Pro Forma Consolidated Statement of Changes in Financial Position

(after giving effect to the proposed amalgamation described in Note 1)

(in thousands)

	Six months ended June 30,		Year ended December 31,				
	1978	1977	1977	1976	1975	1974	1973
	(unaudited)				(Note 2)	(Note 2)	(Note 2)
Source of working capital:							
Income before extraordinary items.....	$ 4,924	$ 5,129	$ 16,328	$ 6,352	$ 10,360	$ 9,267	$ 6,209
Charges to income not affecting working capital (mainly depreciation, amortization of patents, deferred income taxes and interest of minority shareholders in income of subsidiaries)	6,838	6,539	14,627	14,126	14,836	11,963	11,207
Working capital provided from operations..........	11,762	11,668	30,955	20,478	25,196	21,230	17,416
Issue of long term debt..............	—	—	—	—	9,900	8,012	6,960
Proceeds on disposal of fixed assets.....	419	564	1,262	1,111	4,624	2,781	2,155
Income taxes recovered in extraordinary items..........	—	—	—	653	1,370	708	1,496
Proceeds on realization of investment in Dominion Coal Company, Limited (Note 15)..........	—	—	—	—	146	289	557
Shares issued by subsidiary to minority shareholders..........	—	—	—	—	1,215	—	—
Common shares issued (Note 9)........	44	—	—	—	—	—	40
Notes due from Sidbec reclassified to accounts receivable..........	—	—	—	—	—	—	5,000
Miscellaneous..........	—	—	35	31	407	40	38
	12,225	12,232	32,252	22,273	42,858	33,060	33,662
Application of working capital:							
Additions to fixed assets –							
Railway rolling stock leasing fleet....	1,648	901	3,401	791	14,898	11,582	7,533
Other..........	5,024	3,870	9,289	8,132	11,259	12,276	5,875
Patents (Note 10)..........	—	—	—	—	—	—	1,598
Investment in Orenda Limited (Note 16)	—	—	—	—	—	—	4,850
Special provision (Note 12)..........	—	—	2,370	—	—	—	—
Reduction of –							
Long term debt..........	908	967	4,810	5,166	4,443	3,975	4,501
Provision for unfunded pensions (Note 8)..........	216	232	455	388	406	436	457
Dividends declared payable to –							
Shareholders of Hawker Siddeley Canada Ltd..........	2,030	1,866	3,813	3,732	3,732	3,406	2,430
Minority shareholders of subsidiaries	462	437	885	810	683	638	638
	10,288	8,273	25,023	19,019	35,421	32,313	27,882
Working capital:							
Increase for the period..........	1,937	3,959	7,229	3,254	7,437	747	5,780
At beginning of period..........	55,836	48,607	48,607	45,353	37,916	37,169	31,389
At end of period..........	$ 57,773	$ 52,566	$ 55,836	$ 48,607	$ 45,353	$ 37,916	$ 37,169

Notes to the Pro Forma Consolidated Financial Statements

For the six months ended June 30, 1978

(Unaudited)

1. Amalgamation

The pro forma consolidated financial statements reflect the proposed statutory amalgamation of Hawker Siddeley Canada Ltd. and Hawker Industries Limited and give effect to the following:

(a) The conversion, on a share-for-share basis, of the existing 140,000 outstanding 5¾% cumulative redeemable preferred shares of $100 par value in Hawker Siddeley Canada Ltd. to 140,000 authorized, issued and outstanding 5¾% cumulative redeemable preferred shares of $100 par value each in the amalgamated company,

(b) The conversion, on a share-for-share basis, of the existing issued 7,722,010 Class A convertible common shares without nominal or par value in Hawker Siddeley Canada Ltd. to 7,722,010 issued Class A convertible common shares without nominal or par value in the amalgamated company,

(c) The conversion, on a share-for-share basis, of the existing issued 420,331 Class B convertible common shares without nominal or par value in Hawker Siddeley Canada Ltd. to 420,331 issued Class B convertible common shares without nominal or par value in the amalgamated company,

(d) The cancellation on amalgamation of 2,992,106 issued common shares without nominal or par value of Hawker Industries Limited presently held by Hawker Siddeley Canada Ltd. and the conversion, on a two-for-one basis, of the remaining 3,980 issued common shares without nominal or par value of Hawker Industries Limited to 7,960 Class A convertible common shares without nominal or par value in the amalgamated company.

The pro forma consolidated balance sheet of the amalgamated company at June 30, 1978 is identical with the consolidated balance sheet of Hawker Siddeley Canada Ltd. except that the interest of minority shareholders of Hawker Industries Limited in the $19,900 of share capital and $19,230 of retained earnings of that company has been included in the paid-in value of the common shares and retained earnings respectively of the amalgamated company.

The pro forma consolidated statements of income and changes in financial position of the amalgamated company for the five years ended December 31, 1977 and six months ended June 30, 1977 and 1978 are identical with the corresponding statements of Hawker Siddeley Canada Ltd. except for the elimination of the interest of minority shareholders in the income of Hawker Industries Limited.

2. Restatement of prior years

The figures for these years have been restated to conform with the presentation adopted in later years.

3. Summary of principal accounting policies

Principles of consolidation –

The pro forma consolidated financial statements include the accounts of all subsidiary companies except Dominion Coal Company, Limited (Domco), a partly-owned subsidiary prior to 1975. The accounts of Domco were not consolidated in 1973 and 1974 because that company had appointed a liquidator in 1973 to wind up its affairs and distribute its assets. Domco was liquidated in 1975.

Foreign currency translation –

Assets and liabilities in foreign currencies have been translated at the end of period rates of exchange except for investments and long term debt. Investments have been translated at rates of exchange in effect when they were acquired. Long term debt has been translated at rates of exchange in effect when the obligations were incurred or when determined by forward foreign exchange contracts.

Translation adjustments are charged or credited to current income.

Revenue recognition –

Revenue is recorded at the time the product is shipped or the services performed except on long term contracts. Revenue on long term contracts involving a series of shipments (for example, railway or rapid transit cars) is recorded as cars are accepted by the customer. Revenue on long term contracts involving a single product (for example, an oil drilling vessel) is recorded on the percentage of completion method. Losses, if any, are provided for in full as soon as they become evident.

Research and development costs –

These costs are expensed as incurred.

Product warranty costs –

Anticipated costs related to product warranty are provided at the time of the sale of the products.

Costs of long term debt –

Commission costs incurred on issue of long term debt are amortized over the term of the debt issue to which they relate.

Cost of patents and rights for new products –

Significant costs incurred in purchasing patents and rights for products are amortized on the straight-line method over the lesser of the period of anticipated or legal advantage. Other costs relating to patents and rights are expensed as incurred.

Inventories –

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

Fixed assets –

Fixed assets are carried at cost. Depreciation on these assets is provided over their estimated useful lives primarily on the straight-line basis at rates of 2½% on buildings, 10% generally on equipment and 4% 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 employees and certain current employees for benefits which, for the most part, arose before the establishment of funded pension plans. The principal obligation for unfunded pension plans is in the divisions which constituted the former Hawker Industries Limited, having originated in 1923. Under these pension plans monthly payments are made to pensioners which are charged, after appropriate income taxes, to a provision established for that purpose prior to 1973.

Obligations to funded pension plans relate to present, retired and former employees. For present employees, the obligations are for both current and past service; for former employees and pensioners, the obligations are for service during their period of employment. These current and past service obligations are settled by annual payments to trustees which are charged to operations.

Income taxes –

Some items of revenue, costs and expenses are recognized for income tax purposes in different years than these items are recorded in the annual accounts. When the cumulative net effect of these timing differences has reduced income taxes otherwise currently payable, the resultant reduction is stated as deferred income taxes on the balance sheet and the tax on the change in timing differences in the year is reflected in the statement of income as deferred income taxes. When net timing differences can only be applied in reduction of income for tax purposes in future years, the tax benefit is recorded in the statement of income as an extraordinary item when realized. Investment tax credits are applied in reduction of the annual provision for income taxes when realized.

4. Net sales

	Six months ended June 30		Year ended December 31				
	1978	1977	1977	1976	1975	1974	1973
			(in thousands)			(Note 2)	(Note 2)
Equipment for the transportation industry	$ 86,017	$ 98,993	$196,090	$170,050	$177,199	$166,470	$115,560
Equipment for the forestry and forest products industries	26,007	18,491	39,708	29,043	33,908	51,484	45,738
Equipment for the mining industry	41,405	26,000	54,608	46,820	54,790	29,575	19,351
Shipbuilding and repair	7,613	14,822	28,071	35,458	44,305	28,494	29,988
Other general engineering and services	24,980	24,590	44,212	53,710	55,032	48,992	42,991
	$186,022	$182,896	$362,689	$335,081	$365,234	$325,015	$253,628

5. Investments

These are sinking fund debentures issued by Sidbec-Dosco Ltd. (formerly Dominion Steel and Coal Corporation, Limited) carried at cost. At June 30, 1978 the market value of these debentures is estimated to be $2,500,000. Particulars of these debentures are:

Series	Amount	Interest rate	Maturity
	(in thousands)		
"A"	$1,395	5¾%	June 1, 1984
"B"	1,313	6 %	July 15, 1985
"C"	515*	5¾%	July 15, 1985
	$3,223		

*U.S. $480,000

The Company is holding these debentures as long term investments.

6. Fixed assets

	June 30, 1978 (in thousands)	
	Cost	Accumulated Depreciation
Land and land improvements	$ 8,175	$ 1,707
Buildings	52,909	30,987
Equipment	80,961	53,308
Railway rolling stock leasing fleet	130,933	52,991
	$272,978	$138,993

7. Long term debt

	June 30, 1978 (in thousands)
Canadian General Transit Company, Limited (55% owned) –	
Equipment Trust Certificates	
6¾% due 1979-1980	$ 224
First Mortgage Sinking Fund Equipment Notes	
5%-9% due 1978-1989 (U.S. $9,925,000)	10,566
6¾%-11⅛% due 1978-1995	26,070
First Mortgage Serial Equipment Notes	
6% due 1979-1984	690
10¼% due 1978	1,650
	39,200
Less – Due within one year included in current liabilities	4,751
	$34,449

Principal payments on long term debt will be as follows:

Year ending December 31	Amount (in thousands)
1978	$ 3,843
1979	3,103
1980	3,046
1981	3,046
1982	3,046
1983	3,046
1984-1995	20,070
	$39,200

Railway rolling stock with a net book value of $54,815,000 is pledged by Canadian General Transit Company, Limited as security for its long term debt.

Long term debt payable in foreign currencies translated at historical rates of exchange amounts to $8,677,000 after deducting the portion covered by forward foreign exchange contracts. At the June 30, 1978 rate of exchange this debt would be $9,044,000.

8. Pensions (see Note 3)

The provision for unfunded pensions of $3,794,000 at June 30, 1978 together with future tax allowances is considered adequate to provide for the cost, based on actuarial computations, of pensions under these unfunded plans. Pension payments, after income taxes, were charged to the pre 1973 provision established for that purpose as follows:

Six months ended June 30	
1978	$216,000
1977	232,000
Year ended December 31	
1977	$455,000
1976	388,000
1975	406,000
1974	436,000
1973	457,000

With respect to funded pension plans, the present value of past service obligations to be met, based on actuarial computations, is approximately $14,200,000 at June 30, 1978. These obligations are to be settled by annual payments charged to operations through 1991. Charges to operations for past service were:

Six months ended June 30	
1978	$893,000
1977	753,000
Year ended December 31	
1977	$1,646,000
1976	1,247,000
1975	826,000
1974	792,000
1973	496,000

9. Preferred and common shares

	June 30, 1978 (in thousands)
Preferred shares of the par value of $100 each	
Authorized, issued and outstanding –	
140,000 5¾ % cumulative redeemable shares	$14,000
Common shares without nominal or par value –	
Authorized – Class A convertible – 10,000,000 shares	
– Class B convertible – 10,000,000 shares	
Issued and outstanding –	
– Class A – 7,729,970 shares	51,576
– Class B – 420,331 shares	2,807
8,150,301 shares	54,383
	$68,383

The outstanding preferred shares are redeemable at the option of the Company at $105 per share.

The Class A shares and Class B shares are convertible into one another on a share-for-share basis and rank equally with respect to dividends and in all other respects except that dividends when declared by the Directors on the Class A shares will be taxable dividends, whereas in the case of the Class B shares, the Directors in their discretion, may declare dividends to be paid out of "1971 capital surplus on hand" as defined in the Income Tax Act, Canada. If any dividend is declared on Class B shares, the Directors must declare at the same time a dividend on the Class A shares in an amount equal to the dividend being paid on the Class B shares. Amendments to the Income Tax Act, Canada in December, 1977 terminate the right of holders of Class B shares to defer taxation on dividends paid on these shares after 1978.

During the six months ended June 30, 1978 options were exercised by an officer for 13,000 Class A common shares at $3.35 per share. At June 30, 1978 there are no options outstanding.

Total outstanding common shares at June 30, 1978 reflects the issuance of 7,960 Class A common shares to the former minority shareholders of Hawker Industries Limited.

10. Patents

Patents relating to the Chip-N-Saw product line were purchased in 1973 for $1,598,000 and were amortized by charges to income of $398,000 in 1973 and $300,000 in each of the years 1974 to 1977 inclusive.

11. Provision for income taxes

During 1977 the amalgamated subsidiary had a loss and the related unrecorded tax benefit of approximately $960,000 is available for possible reduction of taxation prior to 1983. That subsidiary incurred a loss in the six months ended June 30, 1978 and the related unrecorded tax benefit of approximately $940,000 for that period is available for possible reduction of taxation prior to 1984.

12. Special provision

The extraordinary item of $4,200,000 ($2,588,000 after income taxes) relates to the discontinuance of highway trailer manufacturing and ship construction. The charge comprises a provision of $2,370,000 and additional depreciation of $1,830,000 which reduces the book amount of the relevant fixed assets to estimated realizable value.

13. Income tax provision not required

The Company had accumulated costs and expenses which were charged in the accounts in certain years but could not be applied immediately in reduction of income for tax purposes. During 1976, 1975 and 1973 the Company applied these costs and expenses in reduction of income for tax purposes and the related tax benefits of $653,000 in 1976, $1,370,000 in 1975 and $1,496,000 in 1973 were recorded as extraordinary items of income.

14. Gain on properties

In 1974 lands and buildings no longer required by Canadian Car (Pacific) Division, Vancouver, B.C. and Canadian Bridge Division, Windsor, Ontario were sold and sections of the property of Canadian Steel Foundries Division in Montreal, P.Q., were expropriated by the Province of Quebec for construction of a major roadway. A provision of $2,206,000 was made for the loss on the sale of the Dominion Industrial lands and buildings in Montreal, P.Q.

A net gain of $256,000 was recorded with respect to these properties after income taxes of $226,000 on disposals and a tax recovery of $708,000 with respect to the anticipated loss.

15. Gain on investment in Dominion Coal Company, Limited (Domco)

These amounts represent proceeds received, after income taxes in respect of the liquidation of Domco, a non-consolidated subsidiary company except for 1973 when $332,000 was applied to eliminate the investment in preferred and common shares of Domco (see Note 3).

16. Investment in Orenda Limited

During 1973 the Company purchased from United Aircraft Corporation the 40% minority holdings in the shares and income debentures of Orenda Limited. On December 31, 1973 the net assets of Orenda Limited (100% owned) were distributed to the Company and the business is now carried on by the Orenda Division.

17. Contingent liabilities

The Company and subsidiaries are contingently liable (principally for trade notes discounted) in the approximate amount of \$3,000,000. Possible losses on claims and suits related to product sales have been provided for in an amount considered to be adequate.

18. Commitments

The authorized capital budget at June 30, 1978 is approximately \$63,900,000 (including \$49,700,000 for the tank car leasing fleet). Of this amount commitments outstanding at June 30, 1978 are approximately \$25,000,000 (including \$20,900,000 for the tank car leasing fleet). Expenditures on these commitments are expected to be \$18,700,000 (including \$14,600,000 for the tank car leasing fleet) for 1978 and \$6,300,000 in 1979.

19. Government assistance

During the six months ended June 30, 1978 the Company received \$2,583,000 under various government assistance programs. Of this sum, \$1,723,000 was received under the Shipbuilding Temporary Assistance Program for credit to the purchasers of vessels for the export market, \$13,000 was applied in reduction of the cost of fixed assets and the balance of \$847,000 was applied in reduction of costs, primarily for product development. Government assisted programs are proceeding in accordance with their respective terms and no liability for repayment of such assistance under various contingency clauses is foreseen.

20. Anti-inflation

Since October 14, 1975 the Company has been subject to, and believes it has complied with, the anti-inflation legislation enacted by the Federal Government which provides for restraint of prices, profit margins, dividends and employee compensation.

21. Subsequent events

(a) Hawker Industries Limited, a predecessor company, on April 28, 1978 granted an option, expiring on June 30, 1978, to the Province of Nova Scotia to acquire certain of the fixed assets and inventories of the Halifax Shipyards Division. By agreements on June 29, 1978, July 28, 1978 and August 28, 1978 the option was extended and on August 30, 1978 the Province of Nova Scotia exercised its rights under the agreement. Closing of this transaction took place on August 30, 1978. Estimated costs and losses before income taxes on discontinuance of ship construction and disposal of all assets of the Halifax Shipyards Division of approximately \$700,000 will be charged to a special provision of \$2,600,000 before income taxes, recorded as an extraordinary item in 1977, for contraction to ship repair activities only.

(b) Canadian General Transit Company, Limited (55% owned) on August 1, 1978 undertook to issue long term debt of \$10,000,000 on November 1, 1978 and \$5,500,000 on March 1, 1979.

EXHIBIT "A"

THIS AMALGAMATION AGREEMENT made as of this 31st day of August, 1978

BETWEEN:

HAWKER SIDDELEY CANADA LTD., a corporation under the laws of Canada,

(hereinafter referred to as "Hawker Siddeley")

–and–

HAWKER INDUSTRIES LIMITED, a corporation under the laws of Canada,

(hereinafter referred to as "Hawker Industries")

WHEREAS Hawker Siddeley was incorporated under Part I of the Companies Act, 1934 by letters patent dated September 1, 1945; and

WHEREAS supplementary letters patent have been issued to Hawker Siddeley dated: July 14, 1952; July 28, 1956; September 5, 1956; September 3, 1957; September 4, 1957; May 1, 1962; May 21, 1969; and September 30, 1976; and

WHEREAS the capital of Hawker Siddeley consists of:

(a) an authorized capital of 250,000 preferred shares of the par value of $100 each, issuable in one or more series, of which there was issued a first series of 240,000 preferred shares designated as "5¾% Cumulative Convertible Redeemable Preferred Shares", of which first series there are at present 140,000 preferred shares issued and outstanding as fully paid and non-assessable after conversion of 100,000 of such shares into then authorized common shares without nominal or par value; and

(b) an authorized capital of 10,000,000 Class A convertible common shares without nominal or par value and 10,000,000 Class B convertible common shares without nominal or par value, of which there are issued and outstanding in the aggregate as fully paid and non-assessable 8,142,341 shares; and

WHEREAS Hawker Industries was incorporated under Part I of the Companies Act, 1906 by letters patent dated July 16, 1920 and supplementary letters patent have been issued to it dated: March 30, 1929; November 28, 1946; June 22, 1948; September 23, 1960; and November 12, 1968; and

WHEREAS the authorized capital of Hawker Industries consists of 3,000,000 common shares without nominal or par value, of which there are issued and outstanding as fully paid and non-assessable 2,996,086 common shares, of which issued and outstanding common shares Hawker Siddeley is the beneficial owner of 2,992,106 common shares representing 99.87% of all issued and outstanding common shares; and

WHEREAS Hawker Siddeley and Hawker Industries acting under the authority contained in the Act have agreed to amalgamate on the terms and conditions hereinafter set forth; and

WHEREAS it is desirable that the amalgamation should be effected;

NOW THEREFORE, it is agreed:

1. In this Agreement:

   (a) "Act" means the Canada Corporations Act;

   (b) "Agreement" means this Amalgamation Agreement, and includes this Agreement as amended, modified or altered under section 20 hereof;

   (c) "Amalgamating Company" means individually each of Hawker Siddeley and Hawker Industries;

   (d) "Company" means the corporation amalgamated and continuing under the Act from the amalgamation under the Act of the Amalgamating Companies.

2. The Amalgamating Companies hereby agree to amalgamate under the provisions of section 137 of the Act and to continue as the Company, all on the terms and conditions set out in this Agreement.

3. The name of the Company shall be:

   HAWKER SIDDELEY CANADA LTD.

4. The objects of the Company shall be as follows:

   (a) to design, engineer, build, make, manufacture, repair, refit and generally deal in every kind of air, rail, ground and marine craft, vehicles, vessels, machinery, apparatus and equipment, including ships, drilling platforms, railway rolling stock, rapid and mass transit vehicles and trailers;

   (b) to design, engineer, build, make, manufacture, repair, refit, and generally deal in every kind of engine, turbine, motor, machine, equipment, appliance, instrument, tool, wheel, device, housing and structure, including forestry and sawmill equipment, mining and tunneling equipment, and power and communications equipment, and components;

   (c) to explore for, develop, process, refine, manufacture, produce and generally deal in any natural resource or the products or by-products thereof.

5. The authorized capital of the Company shall consist of:

   (a) 140,000 preferred shares of the par value of $100 each, designated as 5¾% Cumulative Redeemable Preferred Shares, the preferences, rights, restrictions, conditions and limitations attaching to which are set forth in section 6 of this Agreement (the said preferred shares being hereinafter referred to as the "5¾% Preferred Shares");

   (b) 10,000,000 Class A convertible common shares without nominal or par value (hereinafter referred to as the "Class A Shares"), the rights, restrictions, conditions and limitations of which are set out in section 7 of this Agreement; and

   (c) 10,000,000 Class B convertible common shares without nominal or par value (hereinafter referred to as the "Class B Shares"), the rights, restrictions, conditions and limitations of which are set out in section 7 of this Agreement.

6. The $5\frac{3}{4}\%$ Preferred Shares shall have attached thereto as a class the following rights, restrictions, limitations and conditions:

(a) The $5\frac{3}{4}\%$ Preferred Shares shall be preferred as to capital and dividends over the Class A and Class B Shares of the Company and any other shares of the Company ranking junior to the $5\frac{3}{4}\%$ Preferred Shares and shall also have such other preferences over the Class A and Class B Shares of the Company and any other shares of the Company ranking junior to the $5\frac{3}{4}\%$ Preferred Shares as may be determined hereinafter.

(b) The holders of the $5\frac{3}{4}\%$ Preferred Shares shall not, as such, be entitled as of right to subscribe for or purchase or receive any part of any issue of shares or of bonds, debentures or other securities of the Company now or hereafter authorized.

(c) No class of shares may be created ranking as to capital or dividends prior to or on a parity with the $5\frac{3}{4}\%$ Preferred Shares without the approval of holders of such shares given as hereinafter specified nor shall any additional preferred shares be created without such approval.

(d) The holders of the $5\frac{3}{4}\%$ Preferred Shares shall be entitled to receive and the Company shall pay thereon if, as and when declared by the board of directors out of the moneys of the Company properly applicable to the payment of dividends fixed cumulative preferential cash dividends at the rate of five and three-quarters per cent ($5\frac{3}{4}\%$) per annum payable quarterly on the second (2nd) days of January, April, July and October in each year on the amounts from time to time paid up thereon; such dividends shall accrue from such date or dates as at the time of issue was determined by the board of directors of the issuing company, or in case no date was so determined then from the date of allotment. Warrants or cheques of the Company payable at par at any branch of the Company's bankers for the time being in Canada shall be issued in respect of such dividends. If on any dividend payment date the dividend payable on such date is not paid in full on all of the $5\frac{3}{4}\%$ Preferred Shares then issued and outstanding, such dividend or the unpaid part thereof shall be paid on a subsequent date or dates determined by the board of directors of the Company on which the Company shall have sufficient moneys properly applicable to the payment of the same. The holders of the $5\frac{3}{4}\%$ Preferred Shares shall not be entitled to any dividends other than or in excess of the cash dividends hereinbefore provided for.

(e) In the event of the liquidation, dissolution or winding-up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs the holders of the $5\frac{3}{4}\%$ Preferred Shares shall be entitled to receive the amount paid up thereon together with all accrued and unpaid preferential dividends thereon (which for such purpose shall be calculated as if such dividends were accruing for the period from the expiration of the last quarterly period for which dividends thereon have been paid up to the date of distribution) before any amount shall be paid or any property or assets of the Company distributed to the holders of shares of any class ranking junior to the $5\frac{3}{4}\%$ Preferred Shares. After payment to the holders of the $5\frac{3}{4}\%$ Preferred Shares of the amount so payable to them they shall not be entitled to share in any further distribution of the property or assets of the Company.

(f) Subject to the provisions of paragraph (i) hereof, the Company may at any time or times purchase (if obtainable) for cancellation the whole or any part of the $5\frac{3}{4}\%$ Preferred

Shares outstanding from time to time in the market (including purchase through or from an investment dealer or firm holding membership on a recognized stock exchange) or by invitation for tenders addressed to all the holders of record of the 5¾% Preferred Shares outstanding at the lowest price at which, in the opinion of the board of directors, such shares are obtainable but not exceeding the price at which, at the date of purchase, such shares are redeemable as provided in paragraph (g) hereof plus costs of purchase. If upon any invitation for tenders under the provisions of this paragraph the Company shall receive tenders of 5¾% Preferred Shares at the same lowest price which the Company may be willing to pay in an aggregate number greater than the number for which the Company is prepared to accept tenders, the 5¾% Preferred Shares so tendered shall be purchased as nearly as may be *pro rata* (disregarding fractions) according to the number of 5¾% Preferred Shares so tendered by each of the holders of 5¾% Preferred Shares who submitted tenders at the said same lowest price. From and after the date of purchase of any 5¾% Preferred Shares under the provisions in this paragraph contained the shares so purchased shall be deemed to be redeemed and shall be cancelled.

(g) Subject to the provisions of paragraph (i) hereof, the Company may upon giving notice as hereinafter provided redeem at any time the whole or from time to time any part of the then outstanding 5¾% Preferred Shares on payment for each share to be redeemed of one hundred and five per cent (105%) of the amount paid up thereon together with all accrued and unpaid preferential dividends thereon (which for such purpose shall be calculated as if the dividends on the 5¾% Preferred Shares were accruing for the period from the expiration of the last quarterly period for which dividends thereon have been paid up to the date of such redemption). In case a part only of the then outstanding 5¾% Preferred Shares is at any time to be redeemed, the shares so to be redeemed shall be selected by lot in such manner as the directors or the transfer agent appointed by the Company in respect of the 5¾% Preferred Shares shall decide or if the directors so determine shall be redeemed *pro rata* (disregarding fractions).

(h) In any case of redemption of 5¾% Preferred Shares under the provisions of paragraph (g) hereof, the Company shall at least thirty (30) days before the date specified for redemption mail to each person who at the date of mailing is a registered holder of 5¾% Preferred Shares to be redeemed a notice in writing of the intention of the Company to redeem such shares. Such notice shall be mailed in a prepaid letter addressed to each such shareholder at his address as it appears on the books of the Company or in the event of the address of any such shareholder not so appearing then to the last known address of such shareholder, provided, however, that accidental failure to give any such notice to one (1) or more of such holders shall not affect the validity of such redemption as to the other holders. Such notice shall set out the redemption price and the date on which redemption is to take place and if part only of the shares held by the person to whom it is addressed is to be redeemed the number thereof so to be redeemed. On or after the date so specified for redemption the Company shall pay or cause to be paid to or to the order of the registered holders of the 5¾% Preferred Shares to be redeemed the redemption price on presentation and surrender at the head office of the Company or any other place designated in such notice of the certificates for the 5¾% Preferred Shares called for redemption. Such 5¾% Preferred Shares shall thereupon be and be deemed to be redeemed and shall be cancelled. If a part only of the shares represented by any certificate be redeemed, a new certificate for the balance shall be issued at the expense of the Company. From and after the date specified in any such notice, the 5¾% Preferred Shares called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be made upon presentation of certificates in accordance with the foregoing provisions, in which case the rights of the holders shall remain unaffected. The Company shall have the right at any time after the mailing of notice of its intention to redeem any 5¾% Preferred Shares as aforesaid to deposit the redemption price of the shares so called for redemption or of such of the said shares represented by certificates which have not at the date of such deposit been surrendered by the holders thereof in connection with such redemption to a special account in any chartered bank or any trust company in Canada named in such notice to be paid without interest to or to the order of the respective holders of such 5¾% Preferred Shares called for redemption upon presentation and surrender to such bank or trust company of the certificates representing the same and upon such deposit being made or upon the date specified for redemption in such notice, whichever is the later, the 5¾% Preferred Shares in respect whereof such deposit shall have been made shall be deemed to be redeemed and shall be cancelled and the rights of the holders thereof after such deposit or such redemption date, as the case may be, shall be limited to receiving without interest their proportionate part of the total redemption price so deposited against presentation and surrender of the said certificates held by them respectively.

(i) No dividends shall at any time be declared or paid or set apart for payment on any shares of the Company ranking junior to the 5¾% Preferred Shares unless all dividends up to and including the dividend payable for the last completed quarter on the 5¾% Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such declaration or payment or setting apart for payment on such shares of the Company ranking junior to the 5¾% Preferred Shares nor shall the Company call for redemption or purchase for cancellation or reduce or otherwise pay off any of the 5¾% Preferred Shares less than the total number of 5¾% Preferred Shares then outstanding or any shares of the Company ranking junior to the 5¾% Preferred Shares unless all dividends up to and including the dividend payable for the last completed quarter on the 5¾% Preferred Shares then issued and outstanding shall have been declared and paid or set apart for payment at the date of such call for redemption, purchase, reduction or other payment off.

(j) The holders of 5¾% Preferred Shares shall not be entitled (except as hereinafter specifically provided) to receive notice of or to attend any meeting of the shareholders of the Company and shall not be entitled to vote at any such meeting unless and until the Company from time to time shall fail to pay in the aggregate eight (8) quarterly dividends on the 5¾% Preferred Shares on the dates on which the same should be paid according to the terms hereof and unless and until eight (8) quarterly dividends on the 5¾% Preferred Shares shall remain outstanding and be unpaid, whether or not consecutive and whether or not such dividends have been declared and whether or not there are any moneys of the Company properly applicable to the payment of dividends. Thereafter each holder of 5¾% Preferred Shares shall be entitled to receive notice of all meetings of shareholders and to attend thereat and shall be entitled at any and all such meetings to one (1) vote in respect of each 5¾% Preferred Share held and shall continue so to be entitled until such time as all arrears of dividends on the outstanding 5¾% Preferred Shares shall have been paid whereupon the right of the holders of 5¾% Preferred Shares to receive notice of and to attend meetings and to vote in respect of such 5¾% Preferred Shares shall cease unless and until eight (8) quarterly dividends on the 5¾% Preferred Shares shall again be in arrears and unpaid whereupon the holders of the 5¾% Preferred Shares shall again have the right to receive notice of and to attend meetings and to vote thereat as above provided and so on from time to time.

(k) The foregoing provisions, the provisions of this paragraph and the provisions of paragraph (l) hereof may be repealed, altered, modified, amended or amplified by supplementary letters patent but only with the approval of holders of the 5¾% Preferred Shares given as hereinafter specified in addition to any other approval required by the Act.

(l) The approval of holders of the 5¾% Preferred Shares as to any matter referred to herein may be given by a resolution passed or confirmed or by a by-law confirmed by not less than seventy-five per cent (75%) of the votes cast on a poll at a meeting of holders of 5¾% Preferred Shares duly called and held upon at least fifteen (15) days' notice; the formalities to be observed with respect to the giving of notice of any such meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Company with respect to meetings of shareholders; on every poll taken at every such meeting every holder of 5¾% Preferred Shares shall be entitled to one (1) vote in respect of each share held.

7. Subject to the prior rights of the holders of the 5¾% Preferred Shares, the Class A Shares and the Class B Shares shall carry and be subject to the following rights, restrictions, conditions and limitations:

(a) subject to paragraph (b) hereof, the Class A Shares and the Class B Shares shall rank equally as to dividends and all dividends declared in any fiscal year shall be declared and paid in equal or equivalent amounts per share on all the Class A Shares and all the Class B Shares at the time outstanding without preference or distinction;

(b) subject to the provisions of the Act there shall be the following preferences as to dividends: in declaring dividends the Directors shall (unless in their discretion they consider it impracticable so to do) provide (without making any such provision in respect of the Class A Shares) for the payment, in whole or in part, of dividends on the Class B Shares by way of a dividend out of 1971 capital surplus on hand as defined in the Income Tax Act (Canada) as from time to time in force, or as defined in any successor federal income tax statute, provided however, that no such provision for payment may be made by the directors in respect of any such dividend on the Class B Shares unless, contemporaneously with the making of such provision, the directors declare an equivalent dividend but not out of the said 1971 capital surplus on hand, payable at the same time as the said dividend on the Class B Shares, on each Class A Share then outstanding;

(c) Each issued and fully-paid Class A Share may at any time, at the option of the holder, be converted into one (1) Class B Share. Each Class A Share so converted shall be restored by such conversion to the status of an authorized but unissued Class A Share in the capital of the Company. The conversion privilege herein provided for may be exercised by notice in writing given to a transfer agent of the Company accompanied by the certificate or certificates representing the Class A Shares in respect of which the holder thereof desires to exercise such right of conversion and such notice shall be signed by the person registered on the books of the Company as the holder of Class A Shares in respect of which such right is being exercised or by his duly authorized attorney and shall specify the number of Class A Shares which the holder desires to have converted. The holder shall also pay any governmental or other tax imposed in respect of such transaction. Upon receipt of such notice the Company shall issue certificates representing fully paid Class B Shares upon the basis above described and in accordance with the provisions hereof and the notice of conversion to the holder of the Class A Shares represented by the certificate or certificates accompanying such notice; if less than all the Class A Shares represented by any certificate are to be converted, the holder shall be entitled to receive a new certificate for the Class A Shares representing the shares comprised in the original certificate which are not to be converted;

(d) each issued and fully-paid Class B Share may at any time, at the option of the holder, be converted into one (1) Class A Share. Each Class B Share so converted shall be restored by such conversion to the status of an authorized but unissued Class B Share in the capital of the Company. The conversion privilege herein provided for may be exercised in the same manner as the conversion privilege provided for in paragraph (c) above and the provisions thereof shall apply mutatis mutandis;

(e) all shares resulting from any conversion of issued and fully-paid Class A Shares into Class B Shares or any conversion of issued and fully-paid Class B Shares into Class A Shares as aforesaid shall be deemed to be fully-paid and non-assessable. The Company shall not issue any Class A Shares or Class B Shares if after such issue the number of authorized but unissued Class A Shares or Class B Shares would be insufficient to satisfy the conversion privileges in paragraphs (c) and (d) above in the event that all the shares of the other class outstanding were converted into Class A or Class B Shares in accordance with the provisions of such paragraphs;

(f) in the event that the directors determine the 1971 capital surplus on hand at the date of such determination to be no longer sufficient to justify the payment of a dividend on the Class B Shares out of such surplus, all Class B Shares then outstanding shall be ipso facto converted into Class A Shares and the right to convert Class A Shares into Class B Shares shall terminate. The Company shall, within fifteen (15) days thereafter, give notice of such event to the holders of the Class B Shares and shall issue certificates representing Class A Shares on all subsequent transfers of shares represented by certificates for shares of either class or upon the request of any holder of a certificate for Class B Shares upon surrender thereof;

(g) each holder of Class A Shares and Class B Shares shall be entitled to receive notice of and to attend all meetings of shareholders of the Company and at all such meetings shall be entitled to one (1) vote in respect of each share of either class held by him;

(h) in the event that the Class A Shares and/or Class B Shares are at any time subdivided, consolidated, converted (except for the conversion of Class A Shares into Class B Shares or Class B Shares into Class A Shares pursuant to paragraphs (c) and (d) above) or exchanged for a greater or lesser number of shares of the same or another class, appropriate adjustment shall be made in the provisions attaching to the Class A Shares and to the Class B Shares so as to maintain and preserve the rights of the holders of shares of each of the said classes respectively;

(i) in the event of any liquidation, dissolution or winding up of the Company or other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Class A Shares and the holders of the Class B Shares shall be entitled to share equally, share for share, in all distributions of the assets of the Company;

(j) the holders of Class A Shares and Class B Shares shall be entitled to vote separately as a class or series on resolutions or matters requiring the approval or sanction of the common shareholders only if such matter or resolution affects the Class A Shares in a manner different from the manner in which it affects the Class B Shares;

(k) subject to confirmation by supplementary letters patent, the directors of the Company may at any time or from time to time pass a by-law or by-laws whereby the terms of this and the foregoing paragraphs may be altered, amended or repealed or the application thereof suspended in any particular case and changes made in the provisions attaching to the Class A Shares and Class B Shares respectively, but no such by-law shall be effective or acted upon unless and until sanctioned, at meetings of the holders of the Class A Shares and Class B Shares respectively, which may be held concurrently, called for considering such by-law or by-laws, by resolutions carried by the affirmative vote of the holders of not less than sixty-six and two-thirds per cent (66⅔%) of the Class A Shares and of not less than sixty-six and two-thirds per cent (66⅔%) of the Class B Shares represented and voted at such meetings, respectively, such vote by each class to be taken separately, in addition to such other vote, if any, as may be required by the Act. The formalities to be observed with respect to the giving of notice of any meeting of the Class A and/or Class B shareholders and the conduct thereof and the quorum therefor shall be those from time to time prescribed in the by-laws of the Company with respect to meetings of shareholders.

8. The issued capital of the Amalgamating Companies shall be converted into the issued capital of the Company as follows:

(a) the issued and outstanding 140,000 5¾% Cumulative Convertible Redeemable Preferred Shares of the par value of $100 each in the capital of Hawker Siddeley shall be converted share for share into 140,000 fully-paid and non-assessable 5¾% Preferred Shares of the Company;

(b) all the issued and outstanding Class A convertible common shares without nominal or par value in the capital of Hawker Siddeley shall be converted share for share into fully-paid and non-assessable Class A Shares of the Company;

(c) all the issued and outstanding Class B convertible common shares without nominal or par value in the capital of Hawker Siddeley shall be converted share for share into fully-paid and non-assessable Class B Shares of the Company;

(d) the 2,992,106 issued common shares in the capital of Hawker Industries beneficially owned by Hawker Siddeley shall be cancelled; and

(e) the remaining 3,980 issued common shares in the capital of Hawker Industries not owned by Hawker Siddeley shall be converted into 7,960 fully-paid and non-assessable Class A Shares of the Company, on the basis of one (1) common share of Hawker Industries for each two (2) Class A Shares of the Company.

9. After the date on which the amalgamation becomes effective, the holders of uncancelled shares in the Amalgamating Companies shall, if requested by the Company, surrender the certificates held by them representing shares in the Amalgamating Companies and in return shall be entitled to receive certificates for shares in the Company on the bases aforesaid.

10. The head office of the Company shall be in the Municipality of Metropolitan Toronto.

11. The Board of Directors of the Company, until otherwise changed in accordance with the Act, shall consist of 13 members, and the first directors of the Company shall be:

Name	Calling	Residence Addresses
SIR ARNOLD HALL	Executive	Wakehams, Dorney Common, Nr. Windsor, Berkshire, England
J. N. PATERSON	Executive	1735 McGregor Avenue, Thunder Bay, Ontario.
F. H. WOOD	Executive	"Ballyards", 87 Cotes Road, Barrow-Upon-Soar, Leicestershire, England.
E. J. WHITE	Executive	282 Watson Avenue, Oakville, Ontario.
I. E. BULL	Executive	42 Palomino Cr., Willowdale, Ontario.
J. H. COLEMAN	Executive	561 Avenue Road, Suite 603-4, Toronto, Ontario.
A. H. CROCKETT	Executive	47 Binscarth Road, Toronto, Ontario.
C. A. HAINES	Executive	21 Waymar Heights, Woodbridge, Ontario.
J. F. HOWARD	Barrister & Solicitor	10320 Pine Valley Drive, Woodbridge, Ontario.
A. J. LAURENCE	Executive	Melbury Cottage, Mill Lane, Manningford Bruce, Pewsey, Wiltshire, England.
A. W. MCKENZIE	Executive	963 Montcrieff Avenue, Mount Royal, Quebec.
L. A. MITTEN	Executive	5850 Athlone Street, Vancouver, British Columbia.
K. L. PHILLIPS	Executive	"Fenella", 9 Heath Drive, Sutton, Surrey, England.

The first directors shall hold office until the first annual meeting of the Company or until their successors are elected or appointed, and subsequent directors shall be elected thereafter at each succeeding annual meeting and shall hold office in accordance with the Company's by-laws.

12. (1) The directors may from time to time with or without a by-law to that effect:

(a) borrow money on the credit of the Company (by way of overdraft or otherwise);

(b) limit or increase the amount to be borrowed;

(c) issue debentures or other securities of the Company;

(d) pledge or sell such debentures or other securities for such sums and at such prices as may be deemed expedient;

(e) mortgage, hypothecate, charge, pledge or grant a security interest in all or any of the present or future real or personal property, assets, rights or undertaking of the Company to secure such debentures or any money borrowed or any other obligation or liability of the Company;

(f) delegate any one or more of such powers from time to time to such one or more directors or officers to such extent and in such manner as may be determined at the time of such delegation.

(2) Nothing in this section contained shall limit or restrict the borrowing of money by the Company on bills of exchange or promissory notes made, drawn, accepted or endorsed by or on behalf of the Company.

13. (1) The Company may pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the capital of the Company or procuring or agreeing to procure subscriptions, whether absolute or conditional, for any such shares, provided, however, that, if such shares are of a par value, such commission, whether in the form of money or of shares, shall not exceed fifteen per cent (15%) of the par value of such shares and, if such shares are without nominal or par value, such commission, if in the form of money, shall not exceed fifteen per cent (15%) of the consideration for which such shares are issued and, if in the form of shares, shall not exceed fifteen per cent (15%) of the number of shares subscribed for.

(2) For the amount of any dividend which the directors may lawfully declare payable in money they may declare a stock dividend and issue therefor shares of the Company as fully paid or may credit the amount of such dividend on the shares of the Company already issued but not fully paid and the liability of the holders of such shares shall be reduced by the amount of such dividend.

14. The by-laws of the Company shall, so far as is applicable, be the by-laws of Hawker Siddeley until amended, repealed or supplemented.

15. Each of the Amalgamating Companies shall contribute to the Company all its assets subject to its liabilities at the date the amalgamation becomes effective.

16. The Company shall possess all the property, rights, assets, privileges and franchises of, and shall be subject to all the contracts, liabilities, debts and obligations of, each of the Amalgamating Companies.

17. All rights of creditors against the property, rights, assets, privileges and franchises of and all liens upon the properties, rights, and assets of, the Amalgamating Companies shall be unimpaired by the amalgamation, and all debts, contracts, liabilities and duties of each Amalgamating Company shall attach to the Company and may be enforced against it.

18. No action or proceeding by or against either of the Amalgamating Companies shall abate or be affected by the amalgamation, but may be continued in the name of the Company.

19. Upon the shareholders of each of the Amalgamating Companies adopting this Agreement, such fact shall be certified on this Agreement by the Secretary of each Amalgamating Company

under its corporate seal, and the Amalgamating Companies by their joint application within six months from the final vote of such shareholders shall apply to the Minister of Consumer and Corporate Affairs for letters patent confirming this Agreement.

20. The Amalgamating Companies may by resolutions of their respective boards of directors assent to any amendment, modification or alteration of this Agreement which is approved by the Minister of Consumer and Corporate Affairs, provided that if any such amendment, modification or alteration is to section 8 of this Agreement, it shall have also been approved by the shareholders of each Amalgamating Company at meetings called to consider the same. This Agreement may be terminated, without cause or reason, at any time prior to the issuance of letters patent confirming this Agreement, by the directors of either Amalgamating Company, notwithstanding the approval of the shareholders.

WITNESS execution on behalf of the parties.

HAWKER SIDDELEY CANADA LTD.

By "E. J. WHITE"
President and Chief Executive Officer

c/s

By "C. A. HAINES"
Secretary

HAWKER INDUSTRIES LIMITED

By "E. J. WHITE"
Chairman and President

c/s

By "C. A. HAINES"
Secretary

EXHIBIT "B"

The following is the text of the resolution respecting the proposed amalgamation of Hawker Siddeley Canada Ltd. and Hawker Industries Limited to be put before:

(a) the Special Meeting of the Class A and Class B convertible common shareholders of Hawker Siddeley Canada Ltd.;

(b) the Special Meeting of the holders of 5¾% Cumulative Convertible Redeemable Preferred Shares of Hawker Siddeley Canada Ltd.; and

(c) the Special General Meeting of the common shareholders of Hawker Industries Limited.

"IT IS RESOLVED that the amalgamation of Hawker Siddeley Canada Ltd. and Hawker Industries Limited under the Canada Corporations Act is hereby approved, the Amalgamation Agreement made the 31st day of August, 1978 between Hawker Siddeley Canada Ltd. and Hawker Industries Limited is hereby approved and adopted, and the proper officers of the Company are hereby authorized to take all steps necessary to carry out the amalgamation."