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The Hamilton Group Limited

Annual Report 1982

The Hamilton Group Limited

HIGHLIGHTS

		1982		1981
Income (loss) before extraordinary item	$	(875,599.00)	$	52,892.00
Net income (loss)	$	(5,180,855.00)	$	274,892.00
Earnings per share				
Income (loss) before extraordinary item	$	(.37)	$	.02
Net income (loss)	$	(2.19)	$	.12
Number of Class A and B shares outstanding		2,364,945		2,338,194
Class A and B shares registered in Canada		90.4%		91.6%

CONTENTS

The Hamilton Group Limited

DIRECTORS AND OFFICERS

HEAD OFFICE:

5050 South Service Road, Burlington, Ontario L7L 4Y7

DIRECTORS:

Frederick W. Dakin	President, The G.W. Robinson Co. Limited
Graham R. Dawson	President, Dawson Construction Ltd.
Lincoln S. Magor	President, Mimik Limited
John F. Schunk	Retired, former Vice-President, The Hamilton Group Limited
John G. Sheppard	Vice Chairman, Dofasco Inc.
Paul A. Southall	Vice-President, The Hamilton Group Limited
Alan B. Young	Senior Vice-President, The Hamilton Group Limited
David M. Young	Senior Vice-President, The Hamilton Group Limited
William H. Young	President, The Hamilton Group Limited

HONORARY DIRECTOR:

James M. Young

OFFICERS:

William H. Young	President
Alan B. Young	Senior Vice-President
David M. Young	Senior Vice-President
Paul A. Southall	Vice-President
C. Leslie McCarthy	Secretary

REGISTRAR AND TRANSFER AGENT:

Canada Permanent Trust Company, Toronto, Ontario

AUDITORS:

Peat, Marwick, Mitchell & Co.

ANNUAL REPORT OF DIRECTORS

TO THE SHAREHOLDERS

High interest rates, the poor economy in North America and Europe, and a major devaluation of the Mexican peso, combined to cause a severe loss to The Hamilton Group Limited in its fiscal year ended April 30, 1982. Highlights of the year were:

- Net loss of $875,599, or $.37 per share, before extraordinary items
- Net loss of $5,180,855, or $2.19 per share, after extraordinary items
- A profit of $65,425 from Hamilton Group's 40% interest in Citibank Leasing Canada Limited and Citibank Factoring Canada Limited
- A contribution to consolidated income of a profit of $331,132 from investments in International Mercantile Factors Ltd. and Torham Packaging Inc.
- A loss of $213,054 from the 90% interest in HGL Leasing Inc., a newly formed vehicle leasing company
- A loss of $172,689 from Hamilton Rentals operations in North America and Europe
- A loss of $19,668 from Mexican operations before extraordinary items
- A loss of $3,946,195 from Mexican operations after extraordinary items

The net loss, after allowing for minority interests and extraordinary items, was $5,180,855 for the year, or $2.19 per Class A and B share. This compares with a re-stated net profit of $274,892, or $.12 per Class A and B share for the previous year.

Several extraordinary items were part of the figure of $4,305,256 which increased the loss for the year. Of this amount $3,926,527 related to the Mexican subsidiaries with most of it due to the new value of the peso after it was allowed to float freely in February 1982. This was in addition to losses absorbed in the operating income in Mexico as the peso declined in value throughout the earlier part of the year. The extraordinary items in the Mexican subsidiaries are explained more fully in note 14(c). There was a gain, net of deferred tax, of $700,246 from recognizing 60% of the profit on the sale of Hamilton Group's Burlington office building to Citibank Leasing Canada Limited on May 1, 1981. The remaining 40% profit appears as a separate item in shareholders' equity and it will be amortized to retained earnings over the next five years. The remaining goodwill, amounting to $685,275, which arose on the purchase of Charter Credit Corporation in 1972, was written off. A future tax benefit of $393,700 arising from past losses was also written off.

The regular quarterly dividend on the Class A and B shares of the Company was discontinued after the payment on October 1, 1981. A 1% share dividend on both classes of common shares was declared in April, 1982 and paid on May 28, 1982.

The consolidated financial statements contain two adjustments of prior years accounts, both of which have an effect on the 1981 extraordinary credit in the consolidated statement of income. The larger of the two relates to the new legislation in the United Kingdom which gives relief from taxation of inventory appreciation due to inflation. The effect of the legislation was reflected in the 1981 consolidated financial statements as an extraordinary item by crediting income to eliminate accumulated deferred income tax related to inventory appreciation relief. During 1982, a final resolution was reached with the taxing authorities in the United Kingdom. As a result of this resolution and a recomputation of the inventory appreciation relief, the amount of the extraordinary credit related to this item declined by $1,093,000 to a revised amount of $222,000. In addition, certain adjustments of deferred taxes in the amount of $371,000, previously charged to the 1981 extraordinary item, were adjusted against the 1981 opening retained earnings to reflect these adjustments in the period to which they properly relate. The two adjustments result in a net reduction in the 1981 extraordinary credit from $944,000 to $222,000.

The adjustment for inventory appreciation relief caused a reduction of $1,093,000 in the consolidated retained earnings of Hamilton Group and an increase in deferred tax of the same amount. Because of differences between Canadian and United Kingdom accounting standards, deferred taxes related to the United Kingdom companies only arise on consolidation in Canada. Consequently there was no change in the audited retained earnings figure of the United Kingdom companies themselves because of accounting treatment of inventory appreciation relief.

Mexican operations are carried on through Hamilton Group's wholly-owned subsidiary, Sercomex S.A. de C.V., which in turn owns the shares of IMEXA, the leasing company. As it is the intention of Hamilton Group to dispose of, or substantially reduce, its Mexican involvement as rapidly as practical, its control of IMEXA is considered temporary. Therefore, Hamilton Group's investment in Sercomex, which has no significant operations other than its holding in IMEXA, has been accounted for on an equity basis in the consolidated statements, whereby Hamilton Group recognizes its share of the consolidated loss of Sercomex. Summarized pro forma financial statements of Sercomex are included as note 14 to Hamilton Group's consolidated financial statements.

Hamilton Group received a dividend of 40% of the common shares of Citibank Factoring Canada Limited (CFCL) which was previously a wholly-owned subsidiary of Citibank Leasing Canada Limited (CLCL). Thus the company now owns 40% of both CFCL and CLCL with Citibank Canada owning the other 60%. These 40% interests contributed $65,425 to Hamilton Group's consolidated profit for the year, a disappointing result. What was encouraging is that a loss from these interests in the first six months of Hamilton Group's fiscal year of $564,633 was more than overcome by a profit of $630,058 in the second six months as CLCL continued to make progress in matching the maturities of debt and leases receivable during the year. The Citibank companies continue to be profitable but their level of earnings is affected by the high interest costs and the low level of economic activity in Canada.

The operations of Charter Credit Corporation showed a small profit for the year. Its portfolio of mortgages and real estate held for sale declined from $8,792,386 to $5,327,794 during the year. Non-income producing assets of real estate held for sale and mortgages in arrears over ninety days dropped from $3,280,331 to $2,090,031 at the year end. The property of 80 townhouses in Quebec City which is carried at $2,517,200, less a first mortgage of $1,178,819, is fully rented and profitable. It is now shown as rental property on the balance sheet.

HGL Leasing Inc., a newly formed company owned 90% by Hamilton Group and 10% by Citibank Canada, acquired the vehicle leasing division of Citibank Leasing Canada Limited (CLCL) for $250,000 when vehicle leasing became an activity denied to CLCL under the terms of the new Bank Act. HGL Leasing contributed a loss of $213,054 to Hamilton Group's consolidated income in the year. Subsequent to the year end the company sold one-half of its 90% interest.

The Hamilton Rentals companies, whose business is the rental, sale and servicing of computer related equipment, showed a combined pre-tax profit of $353,711 after allowing for minority interests. However, after providing for deferred tax in countries where operations were profitable and making no deferred tax credit provision where losses occurred, the Hamilton Rentals operations showed a loss of $172,689 when consolidated into The Hamilton Group Limited figures for the year.

FUTURE

The continuing high interest rates and deteriorating world economy have clouded the present outlook for The Hamilton Group Limited. A company-wide program of expense and asset reduction is underway. Control and administrative procedures are being strengthened. Information systems are being improved. Organizational changes are being made. In short, high priority is being given to measures to return the company to a profitable level under the adverse conditions prevailing today. While severance, professional assistance, and other costs delay the full realization of benefits from this program, there should be an improvement in the profit of the company as the year progresses.

CANADA

CITIBANK LEASING CANADA LIMITED (CLCL) CITIBANK FACTORING CANADA LIMITED (CFCL)

On November 1, 1981 Citicorp's banking interests in Canada were incorporated under the revised Bank Act of 1980. As of October 31, 1981, Citicorp Leasing Canada Limited, 40% owned by Hamilton Group, changed its year end to October 31, to comply with banking regulations and subsequently changed its name to Citibank Leasing Canada Limited. Under the terms of the Bank Act, Citibank Leasing Canada Limited's financial results will be made public with those of Citibank Canada. Therefore, detailed results of Citibank Leasing operations will no longer be published with Hamilton Group's results.

In the last annual report of Hamilton Group it was predicted that the leasing group would show a first half loss and second half profit resulting in a break-even for the year. This came to pass and Hamilton Group's share of the equity increase for its fiscal year ended April 30, 1982 was $65,425.

During the year CLCL distributed the shares of its wholly-owned subsidiary, CFCL, by dividend to its two owners. Thus Hamilton Group now owns directly 40% of CFCL and Citibank Canada the other 60%.

The program to match lease and borrowing terms is now nearing completion and leasing operations of CLCL will continue to show improved profit. The administration of lease portfolios for others by CFCL will remain profitable. Hamilton Group's profit from its 40% share of earnings of these two companies will show an increase for its fiscal year ending April 30, 1983 despite higher bad debt expense and lower than expected volume of new business due to the current economic recession.

CHARTER CREDIT CORPORATION

The plan to liquidate Charter's mortgage portfolio that started in 1980 was continued through the year. Total mortgages and properties held for resale as at April 30, 1982 were valued at $5.33 million — down from $8.80 million in 1981 and $11.20 million in 1980. The reduction of $3.47 million during the year included a transfer of a property with a net value of $1.36 million from "property held for resale" to "rental properties" and reduction of loans from Hamilton Group of $2.10 million. This rental property contains 80 townhouses in the Quebec City area which are fully rented and profitable with potential for a capital gain on disposal.

While Charter is not expected to experience a loss on book value on the liquidation of its mortgage portfolio and properties held for resale, it is doubtful that there will be sufficient gain to equal the goodwill that is carried on Hamilton Group's balance sheet as a result of the premium it paid over book value on the acquisition of Charter in 1972. The amount of this goodwill as at April 30, 1981 was $685,275 and this amount was written off during the year by Hamilton Group.

Charter showed a small profit for the year ended April 30, 1982. However, this was due to Charter paying less than market interest rates on its debt to Hamilton Group. Administrative expenses were reduced by $152,000 or 31% during the year just ended and further reductions will take place during the present fiscal year.

Charter will continue to let its mortgage portfolio run out and to dispose of properties held for sale. Since April 30, 1982 one property, valued at $496,500 in Charter's books, was sold for $625,000.

INTERNATIONAL MERCANTILE FACTORS LTD.

Net income of IMF for the year ended December 31, 1981 was a record and was 85% higher than the previous year. Net income as a percentage of average shareholders' equity outstanding over the year was 42%. Hamilton Group received a dividend of $195,000 during the year.

Hamilton Group invested $187,000 in IMF common shares during Hamilton Group's fiscal year and thereby maintained its 37.5% ownership. This increase in investment plus Hamilton Group's share of earnings of IMF increased Hamilton Group's equity and debt investment in IMF to $1,382,000. The return on the average total investment of debt and equity to Hamilton Group during the fiscal year was 30%.

IMF continues to increase its volume of business and its earnings. Its current fiscal year to December 31 should set new records for both total assets and net income. Thus, Hamilton Group by April 1983 should be able to report another excellent return on its investment in IMF.

TORHAM PACKAGING INC.

In view of the generally poor economic situation in its marketing area of Southern Ontario, Torham had a very satisfactory year. Net income for the year was equal to 20.7% return on average common shareholders' equity.

During the year two changes in issued share capital took place. Firstly, Torham purchased some of its outstanding common shares which had the result of increasing Hamilton Group's percentage ownership of the remaining issued common shares to 39.4% from 38.8%. Secondly, preference shares were redeemed that reduced Hamilton Group's original investment by $42,000 to $86,000. Torham paid both preferred and common share dividends. After the above transaction, Hamilton Group's equity investment in Torham was $545,000, an increase of 10% over last year. Hamilton Group's share of earnings for the year as a percentage of its average equity investment in Torham was 23%. Torham continues to be an excellent investment.

The paperbox industry generally reflects the overall economic activity of the area. It is expected that Torham will have lower earnings for the year ending April 30, 1983 unless there is an unexpected recovery in the Southern Ontario economy. However, Torham has recently acquired on favourable terms a company that manufactures a diversified product line that is complimentary to Torham's box manufacturing operation. The profit of this operation should partially offset any decline in the earnings from paper box manufacturing. The outlook is for a difficult but profitable year.

HAMILTON RENTALS

The Hamilton Rentals group of five companies, operating in Canada, the U.S.A, the U.K., France and Germany, in total had a very poor year in 1981/82. The profit contribution to Hamilton Group's consolidated total was a loss for the year of $172,689, versus a small profit for the year before of $137,000. Much of the swing into loss was due to increased losses in Germany and the U.S.A. — in total these were $246,000 higher than the year before.

Two general conditions affected all the Hamilton Rentals companies last year.

The first was the turmoil in the financial markets of the world, and the very high interest rates that prevailed for the most of the year. Last years annual report, commenting on prospects in the U.K., mentioned lower U.K. interest rates as a favourable factor there, and within a few weeks of writing that, U.K. interest rates jumped a full 4% over a period of two weeks. In France, monetary conditions were unsettled most of the year, and France has suffered two devaluations of the franc in eight months. Prior to each devaluation, there was a run on the currency, and during these runs Euro-French franc rates rose over the 30% level. In Canada, the banks' prime rate reached 22-1/2% last summer.

The second general condition is that the computer business everywhere is now becoming more mature, and thus more subject to the economic fluctuations of the capital goods industries. Previously, growth rates in the business were high enough that economic recessions were very transitory, marked more by reductions in backlogs and improvements in deliveries rather than by actual cut backs of production. This has all changed as the industry has matured, and growth is no longer automatic.

Hamilton Rentals, like everyone else in the industry, has always had people working on forward looking projects, where the costs are incurred now but the pay-off is sometime in the future, and in the past most of these projects have paid off. Under current conditions these have had to be severely cut back, and no new projects are being undertaken at this time.

At the start of the fiscal year for all Hamilton Rentals companies, May 1, 1981, the rate of depreciation for rental equipment was changed to a six year rather than a five year write-off basis. This was done after a study of the depreciation policies of competitors, and brings the rental companies in line with industry practice. The rental companies make good profits on the sale of ex-rental equipment, on this six year write-off basis, so industry practice seems conservative enough. Rapid obsolescence only applies to some parts of a computer installation and many other parts have relatively long economic lives. In addition, as the industry has matured, there is a huge mass of installed equipment already in place working, and there is no way this equipment can all be replaced quickly because of some new technological breakthrough. The rental companies deal with customers with existing computer installations, who need equipment compatible with their existing equipment, and the rate of changeover in a rental company's inventory due to technology is manageable.

Despite the gloomy business outlook, prospects for the Hamilton Rentals group are very much brighter, primarily because of the turn around in Hamilton Rentals U.S.A.

U.S.A.

Losses in the U.S.A. were $566,000 in 1981/82, from $372,000 for the year before. Despite this, much progress was made during the year, and rental revenue built rapidly from last summer.

Hamilton Rentals U.S.A. was investing a lot of money in the forward looking projects referred to above, and the costs of these were severely cut back in March just as they were beginning to pay off. Rental revenue has continued to grow, and the result of reduced costs, some pay-off from past investments, and growing rental income has resulted in Hamilton Rentals U.S.A. moving into profit.

The current level of profitability is not yet satisfactory, but it should continue to grow, and it is a vast improvement over last year's loss of $566,000.

CANADA

Hamilton Rentals Canada was acquired by Hamilton Group in January 1981, and its 1980/81 year was nine months only which distorts comparisons. However, it had a very successful year, about doubling sales from the year before and actually improving its pre-interest margins. An increase in interest costs from 8.0% to 10.7% of sales, due to higher rates, reduced its pre-tax profitability, but overall, after income taxes and minority interests, it contributed $146,500 to Hamilton Group's profits for the year.

This year it expects to do considerably better. The recession in Canada has reduced sales of computer products very noticeably, but the rental business continues to grow, and some of Hamilton Rentals past investments are now paying off for it. Interest rates are still high, but they are much lower than a year ago, and Hamilton Rentals Canada expects its margins to improve in 1982/83.

UNITED KINGDOM

Hamilton Rentals in the United Kingdom (U.K.) had a very disappointing year. Rental income for its traditional products showed no growth, and sales of computer products were actually 4% below the year before. Overall income for the year was up 15%, but about half of this increase was due to the transfer of the microprocessor development systems business from Labhire, referred to in last year's annual report, and most of the rest was due to increased sales of third party maintenance. Total contribution of the U.K. to Hamilton Group's consolidated profits for the year was $407,000, compared to $667,000 the year before, and of this reduced profit much was due to the change in depreciation referred to earlier.

The London operations of Hamilton Rentals have worked out of two premises, an office building and a separate warehouse. Last year it was decided to combine the two by building a false floor over much of the warehouse to create extra office space, and then to vacate the office building and offer the long term lease for sale. The costs of moving the office were absorbed during the year. The end result of combining the two locations will be a substantial reduction in costs, most of which will result when the lease on the office building is sold.

While it appears that the recession has bottomed in the United Kingdom, business conditions are not expected to get much better in the year. This means a period of no growth for Hamilton Rentals U.K. The company has therefore embarked on a program to reduce its costs and increase its profits under these conditions.

FRANCE

Hamilton Rentals France contributed $125,000 profit to Hamilton Group's consolidated profits for the year, compared to $108,000 profit the year before. However all of this profit was due to the depreciation change referred to above, and without this France would have shown a loss for the year.

The Mitterand socialist government has announced many new policies, some of them contradictory, and thus has created an air of confusion and uncertainty which has greatly affected the business community. There have been two devaluations of the French franc in the past eight months with turmoil in the financial markets before each one. Interest rates have been erratic but overall they have been much higher than the year before.

The government has announced its intention to push France rapidly into the expanding world electronics industry and to provide the country with the latest in data processing technology. This augurs well for Hamilton Rentals France in the longer term. However until the Mitterand government adopts consistent policies, business will remain depressed and the short term prospects for Hamilton Rentals France will be for limited growth. The company is therefore adopting a program similar to that of Hamilton Rentals U.K. to maximize its profits under present conditions.

GERMANY

Some progress was made in Germany last year, despite the increase in Germany's contribution to Hamilton Group's losses — from $233,000 loss to $285,000 loss for the year. During the year operations were cut back severely in Germany, and the rate of monthly loss at the end of the year was much reduced.

A major administrative change was made early this year placing Hamilton Rentals GmbH directly under Hamilton Rentals U.K., with U.K. personnel and U.K. inventory being made available for the German business. This is starting to show constructive results and will allow the German staff to offer much more to their customers with no increase in their own costs.

The budget for Germany for the year expects continuing losses for the first few months but with a gradual move into profit later, and the early months of 1982/83 are slightly better than budget.

MEXICO

SERCOMEX S.A. DE C.V.
IMPULSORA MEXICANA DE ARRENDAMIENTO, S.A. (IMEXA)

The three-year plan for Mexico, adopted in 1979, was to reinvest funds in IMEXA to make it profitable and then to sell it or have it financed without Hamilton Group's support. Key elements of the plan were to reduce foreign exchange exposure by writing new leases in U.S. dollars, to increase the yield on new leases and to minimize the effect of interest rate fluctuations by shortening lease terms. Although these elements of the plan were carried out successfully, IMEXA has continued to have a rapidly reducing, although still significant, excess of peso assets over peso liabilities. This has made the company vulnerable to sizeable devaluations of the Mexican peso and the large losses on foreign exchange which result from them.

On February 17, 1982 the Bank of Mexico announced that it would no longer support the peso against the United States dollar. As a result, the exchange rate had changed from 26.85 pesos to 46.37 pesos to US $1.00 by April 30, 1982, a devaluation of 42%. This major devaluation created an environment of uncertainty in the business community in Mexico that was increased by the Presidential elections of July 4, 1982. Consequently, sales and collections suffered during the last months of the year.

The loss for the year from Mexican operations was $19,668 before extraordinary items, and $3,946,195 after the extraordinary items. The extraordinary items included $500,017, net of deferred tax, due to the peso devaluation; a write-down of $2,738,400 of deferred income taxes to reflect its net realizable value considering the new valuation of 80 pesos to US $1.00; a write-down of $688,110 which was the share of IMEXA deficit previously allocated to minority interests but now assumed by Hamilton Group when it increased its equity ownership to 97.8% from 85.9%. This latter transaction involved no new cash investment by Hamilton Group in Mexico but resulted from conversion of preferred shares and debt of IMEXA, held by Sercomex, into equity of IMEXA.

On August 5, 1982, the Bank of Mexico again withdrew its support of the peso and another substantial devaluation occurred. A three-tier system of exchange rates has been announced since then, but at the time of writing details on how the system will work are uncertain. It appears that there will be one lower rate for converting interest payments on loans, another intermediate rate for converting the principal of loans on repayment, and a third rate which will be freely set by market forces. At an exchange rate of 80 pesos to US $1.00, which is a lower value for the peso than either of the proposed exchange rates for servicing debt, it is estimated that Hamilton Group would suffer a further loss of $850,000 before tax. The effect of the deterioration of the Mexican peso exchange rate during the past seven months is discussed under note 15.

While the latest major devaluation of the peso has caused uncertainty and confusion in the business community which slows collections and brings new business to a halt, it has been the experience of past devaluations that conditions return to normal after a period of time. This time period may be extended on this occasion because the newly elected government with Miguel de la Madrid Hurtado as President does not take office until December 1, 1982. Consequently there is a "lame-duck" administration in place until that time.

While the economic turmoil prevailing in Mexico because of the two major devaluations may delay the final part of the three-year plan which is to reduce, or dispose of, Hamilton Group's interest in IMEXA and to release the company from its guarantees of IMEXA debt, it is intended to pursue this final phase actively as business confidence returns. Some factors which could be attractive to potential purchasers include:

(i) IMEXA is the only experienced vendor leasing company in Mexico and the only leasing company with a branch network.

(ii) The net excess of peso assets over peso liabilities will be almost eliminated by April 30, 1983 and the exposure to devaluation of the peso will disappear.

(iii) Mexico has frozen the issuance of new leasing company charters. IMEXA appears to be the only leasing company readily available for a Mexican financial institution wishing to enter the leasing market.

(iv) IMEXA itself is profitable before any loss due to changes in the exchange rate of the peso.

In the meantime IMEXA is continuing its program to reduce costs and to reduce its peso exposure.

The Hamilton Group Limited

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1982 and the consolidated statements of income, retained earnings (deficit), contributed surplus 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 April 30, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Hamilton, Canada
July 13, 1982
except for notes 7, 14(c)(iii) and 15(a),
which are as of August 19, 1982

Chartered Accountants

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF INCOME
Year ended April 30, 1982
with comparative figures for 1981

	1982	1981
Gross income (note 10)	$ 38,718,000	$ 39,392,455
Income before the following	8,107,354	10,558,295
Cost of borrowed money including $150,704 (1981; $204,240) on indebtedness initially incurred for a term exceeding one year	5,542,015	5,852,780
Depreciation and amortization	3,551,481	5,727,849
	9,093,496	11,580,629
Loss before the following	(986,142)	(1,022,334)
Investments:		
Income (loss) from investments:		
Mexican subsidiaries (note 14)	(19,668)	(212,045)
Other (note 4)	221,966	583,249
	202,298	371,204
Gain on dispositions	—	173,024
Amortization of excess of cost over net book value of subsidiaries	(14,072)	(62,292)
	188,226	481,936
Gain on sale of assets of a subsidiary	—	560,418
Foreign exchange	(150,288)	(33,929)
	37,938	1,008,425
Loss before income taxes, minority interests and extraordinary items	(948,204)	(13,909)
Income taxes, deferred	95,005	104,000
Income (loss) before minority interests and extraordinary items	(853,199)	90,091
Minority interests	(22,400)	(37,199)
Income (loss) before extraordinary items	(875,599)	52,892
Extraordinary items:		
Parent and consolidated subsidiaries (note 12)	(378,729)	222,000
Mexican subsidiaries (note 14(c))	(3,926,527)	—
	(4,305,256)	222,000
Net income (loss)	$ (5,180,855)	$ 274,892
Earnings per share:		
Income (loss) before extraordinary items	$ (.37)	$ .02
Net income (loss)	$ (2.19)	$ .12

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED

CONSOLIDATED BALANCE SHEET
April 30, 1982
with comparative figures for 1981

ASSETS

	1982	1981
Cash and short-term deposits	$ 148,661	$ 265,121
Mortgages receivable, less allowance for losses, $139,847 (1981; $140,385)	3,562,036	5,940,634
Equipment and supplies for sale, rental or service (note 2)	27,808,026	24,241,950
Accounts and notes receivable	7,369,676	9,073,083
Real estate held for sale (note 3)	2,495,558	3,136,399
Investments and advances:		
Mexican subsidiaries (note 14)	(182,036)	2,236,659
Other (note 4)	8,398,366	7,942,935
Rental property (note 5)	2,517,200	—
Property, plant, equipment and improvements (note 6)	3,583,830	6,424,942
Excess of cost over net book value of subsidiaries at dates of acquisition less amounts written off (note 12)	125,928	825,275
Other assets	1,551,250	1,608,795
	$ 57,378,495	$ 61,695,793

THE HAMILTON GROUP LIMITED

CONSOLIDATED BALANCE SHEET
April 30, 1982
with comparative figures for 1981

LIABILITIES AND SHAREHOLDERS' EQUITY

	1982	1981
Short-term secured debt (note 7)	$ 33,889,165	$ 32,502,732
Notes and accounts payable and accrued charges	9,813,978	9,263,372
Long-term secured debt (note 8)	484,000	592,000
Mortgage payable (note 5)	1,178,819	1,390,125
Deferred income taxes	1,732,472	1,433,777
Minority interests in preferred shares of subsidiaries	538,200	617,900
Shareholders' equity:		
Stated capital (note 9)	9,599,457	9,508,763
Retained earnings (deficit)	(827,399)	4,751,158
Excess of appraised value of fixed assets over cost (note 6(a))	682,328	1,387,524
Contributed surplus	287,475	248,442
Total shareholders' equity	9,741,861	15,895,887
Contingencies (note 15)		
	$ 57,378,495	$ 61,695,793

On behalf of the Board:

A.B. YOUNG, Director

W.H. YOUNG, Director

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
Year ended April 30, 1982
with comparative figures for 1981

	1982	1981
Retained earnings at beginning of year:		
As previously reported	$ 5,844,158	$ 5,452,316
Adjustments (note 11)	(1,093,000)	(335,775)
As restated	4,751,158	5,116,541
Net income (loss)	(5,180,855)	274,892
	(429,697)	5,391,433
Dividends:		
Class A shares	372,401	596,985
Class B shares	25,301	43,290
	397,702	640,275
Retained earnings (deficit) at end of year	$ (827,399)	$ 4,751,158

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1982
with comparative figures for 1981

	1982	1981
Amount at beginning of year	$ 248,442	$ 245,948
Discount on redemption of preferred shares of a subsidiary	39,033	2,494
Amount at end of year	$ 287,475	$ 248,442

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year ended April 30, 1982
with comparative figures for 1981

	1982	1981
Funds provided:		
Income (loss) before minority interests and extraordinary items	$ (853,199)	$ 90,091
Add items not affecting funds, principally depreciation	3,723,678	4,584,094
Funds provided from operations	2,870,479	4,674,185
Repayment of mortgages receivable	2,256,473	921,173
Decrease (increase) in accounts and notes receivable	1,703,407	(2,383,856)
Proceeds on sale of business	—	3,929,840
Proceeds on sale of real estate, net of mortgage payable assumed by purchaser	2,109,875	1,295,737
Proceeds on sale of investments	—	466,286
Increase in short-term secured debt	1,386,433	2,260,629
Mortgage payable assumed, less current repayment	1,178,819	—
Issue of capital stock	—	108,000
Increase (decrease) in liabilities other than borrowings	550,606	(2,102,524)
Decrease in cash and short-term deposits	116,460	31,987
	$ 12,172,552	$ 9,201,457
Funds applied:		
Purchases of equipment and supplies for sale, rental or service, net	7,307,493	5,479,925
Increase in real estate held for sale	41,696	—
Acquisition of rental property	1,437,409	—
Increase in investments and advances, net:		
Mexican subsidiaries	1,527,500	2,310,690
Other	551,545	—
Additions to plant, equipment and improvements, net	866,206	1,115,551
Repayment of long-term secured debt	108,000	9,000
Dividends paid in cash	307,008	597,202
Decrease in funds on acquisition of business	—	196,865
Other	25,695	(507,776)
	$ 12,172,552	$ 9,201,457

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

The company, incorporated under the Canada Business Corporations Act, carries on leasing, financing and equipment sales and rental operations through its subsidiaries and associates in Canada, England, Mexico, Europe and the United States.

1. Summary of significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements consolidate the accounts of the company and all subsidiaries except for the Mexican subsidiaries (note 14) and HGL Leasing Inc. (note 4), which are accounted for on the equity basis. All material intercompany balances and transactions have been eliminated. Certain accounts of the previous year have been reclassified to conform with the current year's presentation.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year and leases and notes receivable arising in foreign currencies have been translated at the rates of exchange in effect at the year end. Other foreign currency items have been translated at the rates in effect when the transactions occurred.

For consolidation purposes, accounts of foreign subsidiaries are translated to Canadian dollars using the current rate method. Unrealized gains or losses on translation of foreign subsidiaries' accounts for consolidation purposes are deferred until realized.

(c) Leases receivable and unearned income:

The leasing subsidiaries follow the practice of recording gross rentals to be received over the periods of the leases and estimated residual values on leases written (estimated as a percentage of the original equipment cost) as assets when leases are executed. The excess of such amounts over the cost of the related equipment is recorded as unearned income. A portion of the unearned income is credited to current income at the commencement of the lease periods in an amount estimated to offset lease acquisition costs. The balance of unearned income is credited to current income over the terms of the leases in amounts to approximate a constant rate of return on the investment in the lease based on payments deemed to be made in accordance with the lessees' contractual obligations. The balance of the payments deemed to be made is recorded as recovery of cost of leased equipment.

(d) Mortgages receivable and interest income:

The mortgage financing subsidiaries generally follow the practice of recording as an asset the principal portion of the mortgage payments to be received over the term of the mortgage when the funds are advanced.

Interest is taken into income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are taken into income in equal monthly amounts over the remaining life of the mortgages.

(e) Income taxes:

The company follows the tax allocation method of accounting for income taxes which makes full provision for such taxes on all reported income.

(f) Depreciation and amortization:

(i) Generally, depreciation is provided on plant and equipment, and amortization on leasehold improvements on a straight-line basis at annual rates which are designed to write off the assets over their estimated useful life.

During the year, the company's rental subsidiaries modified the depreciation rate applicable to computer and ancillary equipment, held for sale or rental, to write off the cost of these assets on a straight-line basis at 16-2/3% annually rather than at 20% annually. This revision was made to more appropriately reflect the economic life of these assets. Had the depreciation rate used in 1981 been used in 1982, depreciation expense would have been greater by approximately $1,193,000 and the net loss would have been increased by approximately $817,000.

(ii) The excess of cost over net book value of a subsidiary at the date of acquisition is being amortized over ten years.

2. Equipment and supplies for sale, rental or service:

	1982	1981
Equipment and supplies for rental or sale, at cost	$ 36,418,731	$ 32,429,201
Less accumulated depreciation	8,610,705	8,187,251
	$ 27,808,026	$ 24,241,950

3. Real estate held for sale:

Included in real estate held for sale are properties, acquired by subsidiary companies as a result of foreclosure proceedings, with a carrying value of $1,625,911 (1981; $2,711,367). The carrying value represents the amount of defaulted loans plus disbursements made to protect the companies' positions or to maintain or improve the properties, less revenues, if any, from these properties. The realizable value of certain of these properties, because of their nature, cannot readily be determined.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

4. Investments and advances — other (excluding Mexican subsidiaries):

	1982	1981
Investments:		
Citibank Leasing Canada Limited, at equity	$ 5,433,788	$ 5,864,863
Citibank Factoring Canada Limited, at equity	406,500	—
HGL Leasing Inc., at equity	18,292	—
Associated companies, at equity	1,293,147	1,028,259
Other, at cost	321,639	299,813
	7,473,366	7,192,935
Advances to associated companies	750,000	750,000
Advances to HGL Leasing Inc.	175,000	—
	925,000	750,000
	$ 8,398,366	$ 7,942,935

	1982	1981
Share of earnings (loss) of companies carried at equity:		
Citibank Leasing Canada Limited	$ (313,875)	$ 207,704
Citibank Factoring Canada Limited	379,300	—
HGL Leasing Inc.	(213,054)	—
Other associated companies	369,595	375,545
	$ 221,966	$ 583,249

(a) Effective May 1, 1981, the company received by way of a dividend in kind from its associated company, Citibank Leasing Canada Limited, 40% of the common shares of Citibank Factoring Canada Limited.

(b) During the year, the company invested initial equity of $225,000 cash for a 90% interest in a newly formed company, HGL Leasing Inc. In October 1981, HGL Leasing Inc. purchased a vehicle leasing portfolio from Citibank Leasing Canada Limited, in which the company has a 40% equity interest, for an amount of $4,182,440.

Subsequent to the year-end, effective June 1, 1982, the company sold to a company controlled by certain shareholders of The Hamilton Group Limited, one-half of its 90% interest in HGL Leasing Inc., for cash consideration of $112. The company's share of the cumulative losses of HGL Leasing Inc. to June 1, 1982, amounted to $237,903 and the sale resulted in a net gain on disposal of $6,563.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

5. Rental property:

Effective May 1, 1981, a subsidiary's management decided to operate a property previously held for resale, as a rental property. Accordingly, this property has been disclosed separately in the consolidated financial statements and is stated at cost less accumulated depreciation of $47,831.

The first mortgage, due in 2002, with interest at 9.5%, is payable in equal monthly instalments of $10,795, including principal and interest, and is secured by the rental property.

6. Property, plant, equipment and improvements:

	1982	1981
Buildings	$ 1,926,687	$ 4,955,921
Equipment and improvements	2,707,379	1,394,148
Automobiles	173,380	338,975
	4,807,446	6,689,044
Less accumulated depreciation and amortization	1,223,616	1,064,102
	3,583,830	5,624,942
Land	—	800,000
	$ 3,583,830	$ 6,424,942

(a) During 1981, the carrying value of a building and certain land in Burlington, Ontario, was increased by $1,690,410 based on an independent appraisal dated June 10, 1980 carried out by Keith Hobcraft and Associates Ltd., Accredited Appraisers. The excess of appraised value over cost was included in Shareholders' Equity after providing for deferred income tax in the amount of $523,000.

Effective May 1, 1981, the company sold the building and land to Citibank Leasing Canada Limited, in which the company has a 40% equity interest, for an aggregate cash consideration of $3,500,000. The sale price was negotiated based on the aforementioned independent appraisal.

During the current year, the company recognized as an extraordinary item in the consolidated statement of income, 60% of the gain, amounting to $700,246, net of deferred income tax of $314,000. 40% of the gain, representing that portion attributable to the company's proportionate equity interest in the purchasing company, remains in Shareholders' Equity, net of deferred income tax, and will be amortized to retained earnings over a period of five years.

(b) The carrying value of land and building owned by a United Kingdom subsidiary was increased by $220,114, based on an independent appraisal at April 30, 1981 by Cluttons, Chartered Surveyors.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

7. Short-term secured debt:

Under the banking agreement in existence at the year-end, the company pledged, as collateral, its shares in its principal investments. Effective August 19, 1982, the company pledged, as additional security, a fixed and floating charge on the assets and undertakings of the company and its subsidiaries in Canada and the United Kingdom, a general assignment of accounts receivable and a general security agreement of the company and its subsidiaries in Canada and the United States and a fixed charge on all interests in real property of the company and its subsidiaries.

At April 30, 1982, short-term bank lines of credit available to the company and its subsidiaries, excluding the Mexican subsidiaries and HGL Leasing Inc., amount to $38,268,000.

8. Long-term secured debt (payable by a subsidiary):

Long-term secured debt consists of 6.75% senior notes, series A, maturing April 15, 1984. The senior notes rank prior to all other indebtedness of Charter Credit Corporation and are secured by a first floating charge on its assets. The sinking fund requirements, net of purchases of par value of $16,000 made in advance of sinking fund requirements, are $84,000 in 1983 and $400,000 in 1984.

9. Stated capital:

(a) The stated capital is comprised of Class A and Class B shares without par value. The Class A and Class B shares are fully voting and are convertible into each other on a one-for-one basis.

(b) Subsequent to December 31, 1978, Class B shareholders receive a stock dividend equivalent to Class A cash dividends.

(c) Summary of changes in shares and stated value:

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,207,895	130,299	$ 9,508,763
Shares converted during the year	(15,790)	15,790	—
Shares issued as result of stock dividends	23,336	3,415	90,694
Balance end of year	2,215,441	149,504	$ 9,599,457

An amount of $100,167 is receivable from employees for shares issued under the company's Stock Purchase Plan.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

10. Segmented information:

The Directors have determined that the company is an investment holding company with the operations of its subsidiaries classified into two business segments: Financial Services, including leasing and financing, substantially all of which is carried on by the Mexican subsidiaries (note 14); Equipment sales and rental, substantially all of which is carried on by the remaining subsidiaries.

The following is a summary of the geographic segments of the company (excluding Mexican subsidiaries and HGL Leasing Inc.):

	Canada	United States	Europe	Eliminations	Consolidated
Gross income, Third party.....	$ 10,149,600	$ 2,459,500	$ 26,108,900		$ 38,718,000
Transfers between geographic segments......	571,638	2,268,000		$ (2,839,638)	
Gross income....	$ 10,721,238	$ 4,727,500	$ 26,108,900	$ (2,839,638)	$ 38,718,000
Operating income (loss)..........	$ (1,053,242)	$ (572,400)	$ 639,500		$ (986,142)
Identifiable assets	$ 41,291,241	$ 3,127,876	$ 28,933,395	$ (15,974,017)	$ 57,378,495

11. Prior period adjustments:

(a) In 1981, certain adjustments of deferred taxes in the amount of $371,000 were charged to an extraordinary credit. To reflect such adjustments in the period to which they relate, retained earnings at April 30, 1980, previously reported as $5,452,316, has been reduced by $335,775, minority interests for 1981 reduced by $35,225 and the extraordinary credit for 1981 increased by $371,000.

(b) During 1981, changes in the United Kingdom allowed the write-off of past inventory appreciation relief, the tax effect of which had been reflected in the consolidated financial statements in prior years as deferred income taxes. The effect of the change was reflected in the 1981 consolidated financial statements as an extraordinary item by crediting income to eliminate the accumulated deferred income tax relating to inventory appreciation relief.

During 1982, a final resolution of the amount of inventory appreciation relief was reached with the taxing authorities. As a result of this resolution and a recomputation of inventory appreciation relief, retained earnings as at April 30, 1981, previously reported as $5,844,158, and the 1981 extraordinary credit, have been reduced by an amount of $1,093,000.

The Hamilton Group Limited

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

12. Extraordinary items:

		1982		1981
Gain on sale of building and land, net of applicable deferred income taxes of $314,000 (note 6(a))	$	700,246		—
Future tax benefit of loss carry forward written off		(393,700)		—
Goodwill written off		(685,275)		—
Deferred income taxes relating to inventory appreciation relief (note 11(b))		—	$	222,000
	$	(378,729)	$	222,000

The directors have determined that there has been an impairment in the goodwill relating to Charter Credit Corporation and the company has written off the unamortized balance of the goodwill arising on the acquisition of that subsidiary company.

13. Income taxes:

The consolidated income tax provision is affected by non-taxable items which are included in the determination of income.

The company and certain of the subsidiaries have losses for tax purposes aggregating approximately $7,674,500 which are available to reduce taxable income of future years. Approximately $4,756,000 have no expiry date and the balance expires as follows:

1984	$	121,000
1985		196,000
1986		1,081,400
1987 and thereafter		1,520,100

Of the total, $4,398,100 relates to losses for tax purposes arising in a United Kingdom subsidiary due to accelerated depreciation allowed for tax purposes in that country. Such amount has been applied to reduce deferred income tax credits in that subsidiary.

14. Investment and advances — Mexican subsidiaries:

The company has a formal long-range plan to dispose of its Mexican leasing operations, at present carried on through a subsidiary, Impulsora Mexicana de Arrendamiento, S.A., (Imexa) which is 97.8% owned by the company. The company owns 3.1% directly and a wholly-owned Mexican holding company subsidiary, Sercomex S.A. de C.V. (Sercomex), owns 94.7%. Sercomex has no significant operations other than its holding in Imexa. Accordingly, in the year to April 30, 1982, the company's investment in Sercomex has been accounted for on the equity basis of accounting which management estimates to be equivalent to net realizable value.

Summarized information with respect to the consolidated financial position of Sercomex at April 30, 1982 and the results of its operations for the year then ended are provided in the condensed consolidated financial statements below. These consolidated financial statements have been prepared using the same accounting policies as have been adopted by the company (note 1).

14. Investment and advances — Mexican subsidiaries (continued):

SERCOMEX S.A. DE C.V.

Pro-Forma Consolidated Balance Sheet (note 14(a))

April 30, 1982
with comparative figures for 1981

Assets	1982	1981
Cash and short-term deposits	$ 811,508	$ 1,313,767
Leases receivable, less allowance for losses, $359,512 (1981; $353,741) (notes 14(b) and 15(a))	17,302,909	17,339,651
Unearned income (includes U.S. $3,616,000; 1981 — $3,233,000)	(4,558,060)	(4,992,196)
Other lease and rental assets, net	1,714,956	1,582,978
Accounts and notes receivable (includes U.S. $1,343,000; 1981 — $218,000)	3,260,561	3,474,577
Deferred income taxes (note 14(d))	1,271,293	3,538,798
Other assets	752,867	952,392
	$ 20,556,034	$ 23,209,967

Liabilities and Shareholders' Deficiency	1982	1981
Short-term secured debt (U.S. $16,124,000; 1981 — $13,974,000) (note 15(a))	$ 19,703,772	$ 18,316,062
Notes and accounts payable and accrued charges	665,692	2,801,030
Due to The Hamilton Group Limited (U.S. $1,250,000; 1981 — nil)	1,527,500	3,597,578
Minority interests in subsidiary company	368,606	(143,784)
Shareholders' deficiency:		
Capital stock, including contributions for future increases to capital stock	6,265,026	2,667,448
Deficit	(7,974,562)	(4,028,367)
Total shareholders' deficiency	(1,709,536)	(1,360,919)
Contingency (note 15(a))		
	$ 20,556,034	$ 23,209,967

See accompanying notes to consolidated financial statements.

The Hamilton Group Limited

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

14. Investment and advances — Mexican subsidiaries (continued):

SERCOMEX S.A. DE C.V.

Pro-Forma Consolidated Statement of Income (note 14(a))

Year ended April 30, 1982
with comparative figures for 1981

	1982	1981
Gross income	$ 14,244,306	$ 11,662,607
Income before the following	11,266,889	9,447,452
Recovery of cost of leased property	6,835,107	5,599,413
Cost of borrowed money	4,270,925	3,338,939
Depreciation and amortization	219,654	177,298
	11,325,686	9,115,650
Operating income (loss)	(58,797)	331,802
Adjustment to lease renewal and residual values in a subsidiary	—	(1,236,500)
Foreign exchange	(136,223)	—
	(136,223)	(1,236,500)
Loss before income taxes, minority interests and extraordinary items	(195,020)	(904,698)
Income taxes, deferred (note 14(d))	164,600	635,000
Loss before minority interests and extraordinary items	(30,420)	(269,698)
Minority interests	10,752	57,653
Loss before extraordinary items	(19,668)	(212,045)
Extraordinary items (note 14(c))	(3,926,527)	—
Net loss	$ (3,946,195)	$ (212,045)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

14. Investment and advances — Mexican subsidiaries (continued):

SERCOMEX S.A. DE C.V.

Notes to Pro-Forma Consolidated Financial Statements
April 30, 1982

(a) Pro-forma basis of presentation:

These financial statements have been prepared on a pro-forma basis as if the 3.1% (1981; 62.8%) direct interest of The Hamilton Group Limited in Imexa were held by Sercomex.

(b) Leases receivable:

The lease contracts provide for equal periodic payments to be received over their terms. The amount of lease payments to be received over the next five years is summarized below:

Within:	
One year	$ 11,796,244
Two years	4,583,810
Three years	1,148,655
Four years	117,896
Five years	15,816

Included in leases receivable is U.S. $13,639,000 (1981; $10,697,600) receivable in peso equivalents of U.S. dollars.

(c) Extraordinary items:

	1982	1981
Loss on foreign exchange due to devaluation of Mexican peso during the year, net of applicable deferred income taxes of $367,900 and minority interest of $103,367 (i)	$ 500,017	—
Increase in share of deficit of subsidiary company arising on purchase of additional equity interest (ii)	688,110	—
Write down of deferred income taxes net of minority interest of $61,600 (iii)	2,738,400	—
	$ 3,926,527	—

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

14. Investment and advances — Mexican subsidiaries (continued):

SERCOMEX S.A. DE C.V.

(c) (i) On February 17, 1982, the Mexican government allowed the peso to float freely against other currencies and a substantial devaluation occurred (note 15(a)). The effect of this devaluation has been treated as an extraordinary item in the consolidated financial statements. Other fluctuations in the exchange rate prior to and subsequent to the official devaluation have been reflected in the results of operations for the year.

(ii) In April 1982, Imexa issued additional common shares to Sercomex in the amount of $4,350,856 in exchange for the redemption of $1,350,000 in preferred shares and cancellation of $3,000,856 of debt owing to Sercomex.

As a result of this transaction, the principal shareholders' equity interest in Imexa, held both directly by The Hamilton Group Limited and through Sercomex, increased from 85.9% to 97.8%. An amount of $688,110, representing the principal shareholders' increased share in the deficit of Imexa, has been charged to earnings as an extraordinary item.

(iii) During the period from May 1, 1981 to August 19, 1982, there were significant devaluations of the Mexican peso in relation to the Canadian dollar (note 15(a)). These devaluations have affected the amount of future income taxes that can be deferred for consolidation purposes due to the timing differences and losses carry forward which have been tax effected in the accounts. Accordingly, deferred income taxes have been written down by $2,800,000 in order to adjust the carrying value of deferred income taxes to its estimated net realizable value.

(d) Income taxes:

The company and its subsidiaries have losses for tax purposes aggregating approximately $766,000 which are available to reduce taxable income in future years. Such losses expire as follows:

1983	$ 213,200
1984	363,800
1985	152,000
1986	37,000

Management expects such losses to be converted to timing differences having no expiry date. The remainder of the deferred income tax asset is due to timing differences relating primarily to bad debt expense and unrealized foreign exchange losses recorded in the accounts but not yet deducted for income tax purposes.

(e) Segmented information:

These consolidated financial statements represent all of the Mexican operations of The Hamilton Group Limited.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1982

15. Contingencies:

(a) At April 30, 1982, The Hamilton Group Limited guaranteed U.S. $14,750,000 bank loans of its Mexican subsidiaries (note 14). Subsequent to the year-end, the amount of U.S. $1,250,000 due to The Hamilton Group Limited was repaid and bank loans of the Mexican subsidiaries guaranteed by The Hamilton Group Limited increased to U.S. $16,000,000.

On February 17, 1982, the Mexican government allowed the peso to float freely against other currencies. Immediately prior to this action, the prevailing rate of exchange was 27 pesos equals U.S. $1 but this changed to 39 pesos equals U.S. $1 on February 18, 1982. The rate of exchange gradually declined to 49 pesos equals U.S. $1 at August 5, 1982 when further Mexican government action resulted in a precipitous change in the rate of exchange so that 80 pesos equalled U.S. $1 at the close of business on August 11, 1982. Since that date, the peso exchange rate has fluctuated significantly and has not yet stabilized.

It is too early to assess what impact this latter change will have on collections by Imexa with respect to its lease receivables, U.S. $13,639,000 of which at April 30, 1982 were receivable from Mexican customers in peso equivalents of U.S. funds. An adverse impact would impair the Mexican subsidiaries' ability to repay their U.S. fund bank loans and might result in The Hamilton Group Limited being called upon to honour its guarantee of U.S. $16,000,000 with respect to the Mexican subsidiaries' bank loans.

Assuming an exchange rate of 80 pesos equals U.S. $1, the company's share of the estimated loss on foreign exchange due to the effect of the August 5, 1982 devaluation, amounted to $850,000 before income taxes. This estimated loss, which has not been recorded in these consolidated financial statements, may be reduced through the provisions of a preferential rate system now in effect; however, it is not possible to determine the amount of the potential reduction at this time.

(b) A foreign country has claimed taxes on certain profits made by the company in prior years. The company has claimed offsetting losses which, in management's opinion, more than offset such claim.

BANKERS

CANADA	The Bank of Nova Scotia Canadian Imperial Bank of Commerce National Bank of Canada
UNITED STATES OF AMERICA	Bank of Virginia International Crocker National Bank The First National Bank of Chicago