

**The Hamilton
Group Limited**



**Annual
Report 1983**

HIGHLIGHTS

	1983	1982
Income (loss) before extraordinary item	\$1,443,156.00	\$ (875,599.00)
Net loss	\$ (708,308.00)	\$(5,180,855.00)
Earnings per share		
Income (loss) before extraordinary item	\$.61	\$ (.37)
Net loss	\$ (.30)	\$ (2.19)
Number of Class A and B shares outstanding.....	2,364,945	2,364,945
Class A and B shares registered in Canada	89.7%	90.4%

CONTENTS

	Page
Directors and Officers	2
Annual Report of Directors.....	3
Auditors' Report to the Shareholders	6
Consolidated Financial Statements.....	7
Bankers.....	27

DIRECTORS AND OFFICERS

April 30, 1983

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	Executive
David M. Young	Executive
William H. Young	President, The Hamilton Group Limited

HONORARY DIRECTOR:

James M. Young

OFFICERS:

John G. Sheppard	Chairman
William H. Young	President
G. Duncan Shearer	Vice-President
Robert F. Young	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

There has been a marked up-turn in the company's activities, particularly in recent months. Earnings through 1982 were poor due to the depressed economic conditions. This led the company to introduce a program to reduce overhead and improve asset utilization ratios, which together with lower interest costs, has resulted in improved efficiency and profit levels. The deterioration in the Mexican economy has had a negative impact on corporate earnings, and the company has substantially increased its provision for loss on its guarantees of bank loans to the Mexican companies, resulting in an overall net loss for the year.

In addition to the highlights of the year summarized on Page 1, the following extracts from the income statement are of interest:

- Share of earnings of \$1,367,375 from Hamilton Group's 40% interest in Citibank Leasing Canada Limited and Citibank Factoring Canada Limited
- Share of earnings of \$336,561 from investments in International Mercantile Factors Ltd. and Torham Packaging Inc.
- A profit of \$908,517 from Hamilton Rentals companies in North America and Europe, before taxes and unusual expenses
- An extraordinary increase in the provision for loss on guarantees of bank loans in the Mexican companies of \$2,290,464

FINANCIAL REVIEW

Income for the year, after tax and unusual charges, but before extraordinary items, was \$1,443,156 (\$.61 per share). This compares with a loss of \$875,599 (\$.37 per common share) before extraordinary items in 1982.

The unusual charges were legal costs arising from the pledge of additional security to the company's bankers; fees of consultants to assist the company and monitor its progress; and severance payments to staff made redundant by cutbacks in Europe. These charges totalled \$580,318 in the year.

Extraordinary items, net \$2,151,464, comprise an increase of \$2,290,464 in the provision for loss on

the guarantee of bank loans to the former Mexican subsidiaries (note 13), less a reduction of income taxes of \$139,000, due to the application of prior years' losses.

The loss after the extraordinary items was \$708,308 (\$.30 per common share) compared to a loss after extraordinary items of \$5,180,855 (\$2.19 per common share) in 1982.

Despite a 6.5% increase in gross income, to \$41,242,714, improved control of operating assets enabled the company to reduce bank debt by \$5.6 million in 1983. This reduction was after the establishment of cash deposits with the Company bankers, amounting to \$2.1 million as security against interest due on bank loans to the Mexican companies. Due to exchange restrictions, the former Mexican subsidiaries were unable to convert pesos to dollars to pay their own interest costs, and accordingly deposited the funds locally in Mexico. Subsequent to the year end, the Mexican authorities have established regulations to provide for payment of on-going interest costs, and the company has received U.S.\$615,000 from Mexico, which has been released from the collateral deposit accounts, and applied to further reduce bank debt.

INVESTMENTS

Hamilton Group's wholly-owned subsidiary, Charter Credit Corporation, showed a small loss as it continued to reduce its mortgage portfolio and sell its surplus properties. Its mortgages receivable declined by \$1,149,726 to \$2,412,310 and its real estate held for sale by \$650,013 to \$975,898 in the year.

Both International Mercantile Factors Ltd. (IMF) and Torham Packaging Inc. (Torham) had satisfactory years in view of the difficult economic environment. Earnings from Hamilton Group's investment in these companies were \$336,561 in the year compared to \$331,132 in 1982. Torham showed a reduction in earnings as its sales of boxes and similar packaging material to the wholesale and retail trade declined with lower economic activity. IMF was able to improve its earnings from the previous year despite a bad year for the factoring industry as a whole.

CITIBANK COMPANIES

Hamilton Group's 40% interest in Citibank Leasing Canada Limited (CLCL) and Citibank Factoring Canada Limited (CFCL) contributed \$1,367,375 to the consolidated profit for the year compared to \$65,425 in 1982. Profits from this source continued to improve during the year as interest rates declined and the economy strengthened. The profit contribution for the second half of the fiscal year was \$1,021,275 compared to \$346,100 for the first half. The outlook for the coming year is for profit contributions to continue at a high level.

In May, 1983 the company received a cash offer of \$12,000,000 for its investment in the Citibank companies which is \$5,682,337 over the carrying value on Hamilton Group's books. The directors of the company do not intend to accept the offer as the investment appears to be worth substantially more, particularly in view of the growing levels of profitability.

HAMILTON RENTAL COMPANIES

The rental companies in both Canada and the United States are operating close to capacity. Demand for computer rental services is intense and these two well run companies are contributing good profit levels, and demonstrate solid growth potential for the future.

The European operations have been cutting back inventory levels, reducing staff and absorbing high severance costs, and strengthening their overall efficiency and administrative control. These actions have now resulted in consistent profit contributions from the United Kingdom company, and trends from France and Germany to indicate these two locations should be profitable in the coming year.

Rental operations contributed a total of \$908,517 to consolidated profit, prior to unusual items and deferred taxes.

MEXICO

The economy in Mexico has not yet recovered from the trauma of the substantial devaluations of the peso which occurred since the peso was allowed to float against other currencies. In early February,

1982, the prevailing rate of exchange was 27 pesos to US\$1.00 and by April 30, 1983 the controlled rate was 112 pesos to US\$1.00. Consequently, monthly peso payments by a Mexican lessee, under a contract tied to the value of the U.S. Dollar, increased by over four times in that period placing a severe strain on the ability of many individuals and businesses to meet their obligations. Under these conditions, the Mexican leasing company is concentrating on collections and the booking of new business has been at a minimum. There are indications of returning confidence by the Mexican business community and a pick up in the economy which will mean an increase in demand for leasing service in a capital short country.

The Mexican government through its recently nationalized banking system is implementing plans to assist the private sector in Mexico to meet its large U.S. debt obligations. The regulations which will govern the debt of the leasing industry have yet to be published. Note No. 16 in the financial statements outlines the problems in Mexico and action taken by the Company in greater detail.

Before the fiscal year end, the controlling interest in Mexican companies was sold to a company owned by certain shareholders of The Hamilton Group Limited for \$1.00. The financial results for Mexico are no longer accounted for in Hamilton Group's statements on an equity basis. Hamilton Group remains as the guarantor for US\$16,000,000 in bank loans to the former Mexican subsidiaries. A provision of \$4,000,000 Canadian has been made for a contingent loss arising from this guarantee, an increase of \$2,290,464 in the year.

DIVIDENDS

No dividends were declared. The return to improved levels of profitability are encouraging, but further improvement to the company's borrowing position is still a primary objective.

BOARD OF DIRECTORS

Subsequent to the year end the resignation of Mr. Paul A. Southall, now a full-time employee of the Citibank Companies, was regretfully accepted. Mr. Southall first became an officer of Hamilton

Group in 1970 and a member of its Board of Directors in 1974. In both positions he made an invaluable contribution to the affairs of the Company which is much appreciated.

Mr. Edward B. Priestner, Vice President, Operations of Westinghouse Canada Inc. was appointed to the Board of Directors on May 26, 1983 to fill the vacancy.

OUTLOOK

The past year has been one of consolidation and concentration on cash conservation.

The company today is benefiting from the improvements instituted, and profit levels are returning or increasing in all sectors. Demand for rental operations is growing and the outlook is bright for a major increase in the earnings from the rental companies and the investment in Citibank.

The situation in Mexico has clarified to the point that the company can concentrate on increasing the lease portfolio, and, as the regulations to cope with foreign exchange transactions are announced, the company is hopeful that re-sale of the Mexican companies can be arranged. The ultimate loss on the loan guarantees held by the company bankers

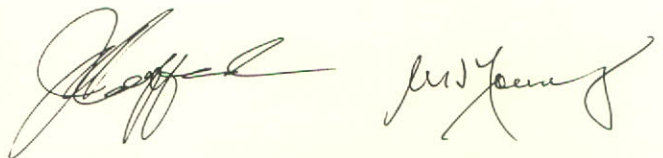
cannot be predicted with certainty, due to the large number of future intangibles, but the provision now established appears to be a fair estimate at this point in time.

The company's bankers are supportive of the company's future plans, and there has been close consultation on all activities.

The fiscal year ending April 30, 1984 should be a profitable year for the company with its restructuring program largely complete and the beneficial effects of it evident in the financial results.

On behalf of the Board of Directors, we extend appreciation to our customers, suppliers and shareholders for their support and co-operation. Our employees performed well in a most difficult year, and we congratulate them for their excellent performance.

July 29, 1983

Two handwritten signatures are shown side-by-side. The signature on the left is 'J. G. Sheppard' and the signature on the right is 'W. H. Young'.

J. G. Sheppard, Chairman; W. H. Young, President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Hamilton Group Limited as at April 30, 1983 and the consolidated statements of income, 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, 1983 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.

Hamilton, Canada
June 30, 1983

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF INCOME

Year ended April 30, 1983

with comparative figures for 1982

	1983	1982
Gross income (note 12)	\$41,242,714	\$38,718,000
Income before the following	4,616,487	4,391,513
Income from investments	1,726,976	202,298
	6,343,463	4,593,811
Cost of borrowed money including \$152,517 (1982; \$150,704) on indebtedness initially incurred for a term exceeding one year	4,797,789	5,542,015
	1,545,674	(948,204)
Other expenses:		
Special legal and consulting fees	279,718	—
Employee severance costs	300,600	—
	580,318	—
Income (loss) before income taxes minority interest and extraordinary items	965,356	(948,204)
Income taxes, deferred	494,600	95,005
Income (loss) before minority interests and extraordinary items	1,459,956	(853,199)
Minority interests	(16,800)	(22,400)
Income (loss) before extraordinary items	1,443,156	(875,599)
Extraordinary items (note 13)	(2,151,464)	(4,305,256)
Net loss	\$ (708,308)	\$ (5,180,855)
Earnings per share:		
Income (loss) before extraordinary items	\$.61	\$ (.37)
Net loss	(.30)	(2.19)

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED
CONSOLIDATED BALANCE SHEET
April 30, 1983
with comparative figures for 1982

ASSETS		
	1983	1982
Cash and short-term deposits	\$ 124,580	\$ 148,661
Collateral cash deposits (note 2).....	2,108,751	—
Mortgages receivable, less allowance for losses, \$78,207 (1982; \$139,847)	2,412,310	3,562,036
Equipment for sale, rental or service (note 3)	23,260,491	27,808,026
Accounts and notes receivable	6,858,817	7,369,676
Real estate held for sale (note 4)	1,790,593	2,495,558
Investments and advances (note 5)	8,963,979	9,925,866
Rental property (note 6)	2,469,369	2,517,200
Property, plant, equipment and improvements (note 7)	2,697,683	3,583,830
Excess of cost over net book value of subsidiary at date of acquisition less amounts written off	111,936	125,928
Deferred foreign exchange translation adjustment	1,311,216	594,949
Other assets.....	1,273,994	1,551,250
	<u>\$53,383,719</u>	<u>\$59,682,980</u>

THE HAMILTON GROUP LIMITED

CONSOLIDATED BALANCE SHEET

April 30, 1983

with comparative figures for 1982

LIABILITIES AND SHAREHOLDERS' EQUITY

	1983	1982
Short-term secured debt (note 8)	\$28,224,567	\$33,889,165
Notes and accounts payable and accrued charges	9,235,248	10,408,927
Long-term secured debt (note 9)	393,000	484,000
Mortgage payable (note 6)	1,158,705	1,178,819
Deferred income taxes	1,153,886	1,732,472
Minority interests in preferred shares of subsidiaries	209,410	538,200
Provision for loss on guarantees (note 16)	4,000,000	1,709,536
Shareholders' equity:		
Stated capital (note 10)	9,599,457	9,599,457
Deficit	(1,277,055)	(827,399)
Excess of appraised value of property over cost (note 11)	368,662	682,328
Contributed surplus	317,839	287,475
Total shareholders' equity	9,008,903	9,741,861
Contingencies (note 16 and 17)		
	<u>\$53,383,719</u>	<u>\$59,682,980</u>

On behalf of the Board:

W. H. YOUNG, Director

A. B. YOUNG, Director

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
Year ended April 30, 1983
with comparative figures for 1982

	1983	1982
Retained earnings (deficit) at beginning of year	\$ (827,399)	\$ 4,751,158
Net loss	(708,308)	(5,180,855)
Realization of excess of appraised value of property over cost (note 11(a))	165,100	—
Amortization of excess of appraised value of property over cost (note 11(b))	93,552	—
	<u>(1,277,055)</u>	<u>(429,697)</u>
Dividends:		
Class A shares	—	372,401
Class B shares	—	25,301
	<u>—</u>	<u>397,702</u>
Deficit at end of year	<u>\$ (1,277,055)</u>	<u>\$ (827,399)</u>

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year ended April 30, 1983
with comparative figures for 1982

	1983	1982
Amount at beginning of year	\$ 287,475	\$ 248,442
Discount on redemption of preferred shares of a subsidiary	30,364	39,033
Amount at end of year	<u>\$ 317,839</u>	<u>\$ 287,475</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended April 30, 1983

with comparative figures for 1982

	1983	1982
Funds provided:		
Income (loss) before minority interests and extraordinary items.....	\$ 1,459,956	\$ (853,199)
Add (deduct) items not affecting funds:		
Depreciation and amortization	5,255,584	3,565,553
Non-cash gain on rental assets sold	(4,033,694)	(2,659,769)
Income from investments	(1,726,976)	(202,298)
Deferred income taxes	(494,600)	(95,005)
Other	2,128	137,348
	<u>462,398</u>	<u>(107,370)</u>
Dividends received from investee companies.....	1,186,632	318,080
	<u>1,649,030</u>	<u>210,710</u>
Funds provided from operations	1,053,698	2,256,473
Repayment of mortgages receivable	3,915,197	—
Decrease in equipment for sale, rental or service, net.....	498,090	1,703,407
Decrease (increase) in real estate for sale	704,965	(41,696)
Decrease (increase) in investments and advances, net.....	1,515,000	(2,079,045)
Disposals (additions) of plant, equipment and improvements, net	85,218	(866,206)
Proceeds on sale of property	367,100	2,109,875
Mortgage payable assumed, less current repayment.....	—	1,178,819
Other	240,342	14,972
	<u>10,028,640</u>	<u>4,487,309</u>
Total funds provided		
Funds applied:		
Purchases of equipment for sale, rental or service, net	—	4,647,724
Increase in collateral cash deposits.....	2,108,751	—
Decrease (increase) in liabilities other than borrowings	1,173,679	(1,147,317)
Repayment of long-term debt	91,000	108,000
Redemption of preference shares held by minority interests.....	88,426	40,667
Purchase of preference shares held by minority interests	210,000	—
Acquisition of rental property	—	1,437,409
Dividends paid in cash	—	307,008
Increase in foreign currency translation adjustment.....	716,267	596,711
	<u>4,388,123</u>	<u>5,990,202</u>
Total funds applied.....		
Decrease (increase) in short-term debt net of change in cash	\$ 5,640,517	\$ (1,502,893)
Funds provided from operations, per share	\$.70	\$.09

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****April 30, 1983**

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

1. Summary of significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the company and all subsidiaries excluding the former Mexican subsidiaries (note 16) and HGL Leasing Inc. (note 5(b)). All material intercompany balances and transactions have been eliminated. Certain of the 1982 comparative figures have been reclassified to conform to the 1983 presentation.

(b) Currency translation:

Assets and liabilities arising in foreign currencies due within one year 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) 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 recognized as income according to standard mortgage amortization tables. Discounts on mortgages and unrealized profits on sales of repossessed properties are recognized as income in equal monthly amounts over the remaining life of the mortgages.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

(d) Depreciation and amortization:

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

Depreciation is provided on equipment for rental at an annual rate of 16-2/3%.

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

2. Collateral cash deposits:

Due to exchange restrictions in Mexico, the former Mexican subsidiaries were unable to convert cash from pesos to U.S. dollars to pay U.S. \$1,723,000 for normal interest charges on U.S. bank loans. The company was required to deposit this amount with its bankers in Canada and the United States as collateral deposits.

The Mexican companies converted pesos to U.S. \$615,000 in accordance with the terms established by Mexican authorities and this amount was released to the company from collateral deposits subsequent to the year-end. The remaining U.S. \$1,108,000 of collateral deposits will be released to the company over an extended time period to be defined by the Mexican authorities.

3. Equipment for sale, rental or service:

	1983	1982
Equipment for rental, at cost	\$28,546,716	\$29,019,284
Less accumulated depreciation	9,243,043	8,610,705
	<u>19,303,673</u>	<u>20,408,579</u>
Equipment for sale and service, at cost	3,956,818	7,399,447
	<u>\$23,260,491</u>	<u>\$27,808,026</u>

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1983
4. 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 \$975,898 (1982; \$1,625,911). 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 be readily determined.

5. Investments and advances:

	1983	1982
Investments:		
Citibank Leasing Canada Limited, at equity	\$ 5,880,763	\$ 5,433,788
Citibank Factoring Canada Limited, at equity	436,900	406,500
Associated companies, at equity	1,536,973	1,311,439
Other, at market value	359,343	321,639
	<u>8,213,979</u>	<u>7,473,366</u>
Advances:		
Associated companies	750,000	925,000
Mexican subsidiaries	—	1,527,500
	<u>750,000</u>	<u>2,452,500</u>
	<u>\$ 8,963,979</u>	<u>\$ 9,925,866</u>

- (a) Subsequent to the year-end, the company received, subject to approval by regulatory authorities, an offer to purchase its investments in Citibank Leasing Canada Limited and Citibank Factoring Canada Limited for an aggregate amount of \$12,000,000.
- (b) During the year, 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 sale resulted in a net gain on disposal of \$6,563.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

6. Rental property:

	1983	1982
Rental property, at cost	\$ 2,565,031	\$ 2,565,031
Less accumulated depreciation.....	95,662	47,831
	<u>\$ 2,469,369</u>	<u>\$ 2,517,200</u>

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.

7. Property, plant, equipment and improvements:

	1983	1982
Buildings	\$ 1,647,727	\$ 1,926,687
Equipment and improvements	2,460,983	2,707,379
Automobiles	52,089	173,380
	<u>4,160,799</u>	<u>4,807,446</u>
Less accumulated depreciation and amortization.....	1,463,116	1,223,616
	<u>\$ 2,697,683</u>	<u>\$ 3,583,830</u>

8. Short-term secured debt:

As security for short-term debt, the company has pledged its shares of its subsidiaries and other investments and has given a demand debenture as collateral for a floating charge on all of the assets and undertakings of the company and its subsidiaries as well as a fixed charge on its real property in Canada. The company has also provided a general assignment of accounts receivable and a general security agreement of the company and its subsidiaries in Canada and the United States.

At April 30, 1983, short-term bank lines of credit available to the company and its subsidiaries amount to \$31,300,000.

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1983

9. 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, a subsidiary company, and are secured by a first floating charge on its assets. The sinking fund requirements, net of purchases of par value of \$7,000 made in advance of sinking fund requirements, are \$393,000 in 1984.

10. 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. Class B shareholders receive a stock dividend equivalent to Class A cash dividends.

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

	Class A Shares	Class B Shares	Stated Value
Balance beginning of year	2,215,441	149,504	\$9,599,457
Shares converted during the year	(800)	800	—
Balance end of year	<u>2,214,641</u>	<u>150,304</u>	<u>\$9,599,457</u>

An amount of \$97,560 is receivable from employees for shares issued under the company's Stock Purchase Plan.

11. Excess of appraised value of property over cost:

(a) In 1981, the carrying value of land and buildings owned by a U.K. subsidiary was increased by \$220,114, based on an independent appraisal. During the year, the land and buildings were sold for an amount in excess of the appraised value and the excess of appraised value over cost, net of deferred income taxes, was transferred to retained earnings.

(b) At April 30, 1983, the remaining balance of the excess of appraised value of fixed assets over cost relates to land and a building in Burlington, Ontario which were sold in 1981 to Citibank Leasing Canada Limited, in which the company has a 40% equity interest. 40% of the gain on the sale, 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 is being amortized to retained earnings over a period of five years.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

12. Segmented information:

The Directors have determined that the company is an investment holding company with the operations of its subsidiaries classified into one business segment of equipment sales and rental. Summarized results of operations of the former Mexican subsidiaries, engaged in leasing and financing activities, are included in note 16.

A summary of the geographic segments of the company, excluding the former subsidiaries in Mexico and HGL Leasing Inc., follows:

1983	Canada	United States	Europe	Eliminations	Consolidated
Gross income, Third parties	\$12,084,015	\$ 5,582,256	\$23,576,443		\$41,242,714
Transfers between geographic segments	513,195	354,344	409	\$ (867,948)	
Gross income	<u>\$12,597,210</u>	<u>\$ 5,936,600</u>	<u>\$23,576,852</u>	<u>\$ (867,948)</u>	<u>\$41,242,714</u>
Segment income	<u>\$ 2,114,350</u>	<u>\$ 499,000</u>	<u>\$ 1,827,100</u>		<u>\$ 4,440,450</u>
Add expenses allocated to segments, net					<u>\$ 176,037</u>
Income before the following, per Consolidated Statement of Income					<u>\$ 4,616,487</u>
Identifiable assets	<u>\$40,755,599</u>	<u>\$ 4,159,231</u>	<u>\$20,172,932</u>	<u>\$(11,704,043)</u>	<u>\$53,383,719</u>
1982					
Gross income, Third parties	\$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	<u>\$10,721,238</u>	<u>\$ 4,727,500</u>	<u>\$26,108,900</u>	<u>\$ (2,839,638)</u>	<u>\$38,718,000</u>
Segment income (loss)	<u>\$ 1,671,761</u>	<u>\$ (498,300)</u>	<u>\$ 3,322,200</u>		<u>\$ 4,495,661</u>
Deduct expenses not allocated to segments					<u>\$ (104,148)</u>
Income before the following, per Consolidated Statement of Income					<u>\$ 4,391,513</u>
Identifiable assets	<u>\$41,291,241</u>	<u>\$ 3,127,876</u>	<u>\$28,933,395</u>	<u>\$(13,669,532)</u>	<u>\$59,682,980</u>

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1983

13. Extraordinary items:

	1983	1982
Parent and consolidated subsidiaries:		
Provision for loss on guarantee of bank loans of former Mexican subsidiaries (note 16)	\$ 2,290,464	\$ —
Reduction of income taxes due to application of prior years' losses	(139,000)	—
Gain on sale of building and land, net of applicable deferred income taxes	—	(700,246)
Future tax benefit of loss carry forward written off	—	393,700
Goodwill written off	—	685,275
	<u>2,151,464</u>	<u>378,729</u>
Mexican subsidiaries:		
Loss on foreign exchange due to devaluation of Mexican peso during the year, net of applicable deferred income taxes and minority interest of \$28,152	—	500,017
Increase in share of deficit of former subsidiary company arising on purchase of additional equity interest	—	688,110
Write down of deferred income taxes, net of minority interest of \$61,600	—	2,738,400
	<u>—</u>	<u>3,926,527</u>
	<u>\$ 2,151,464</u>	<u>\$ 4,305,256</u>

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

14. 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 \$8,215,000 which are available to reduce taxable income of future years. Approximately \$4,065,000 have no expiry date and the balance expires as follows:

1984.....	\$ 121,000
1985.....	294,000
1986.....	1,200,000
1987.....	1,236,000
1988 and thereafter	<u>1,299,000</u>

The tax effect of \$4,327,000 of the total amount has been reflected in deferred income taxes as a future tax benefit.

In addition, the company has net capital losses available for carry-forward of approximately \$6,700,000 which are available to apply against capital gains of future years. An amount of \$400,000 has been reflected in deferred income taxes as a future tax benefit with respect to a portion of these losses.

15. Transactions with related parties:

	1983	1982
Balance due to shareholders (included in notes and accounts payable and accrued charges)	<u>\$ 310,000</u>	<u>\$ 100,000</u>

The company entered into transactions with related parties in the normal course of business as follows:

Management fees charged to an associated company	<u>\$ 205,000</u>	<u>\$ 211,000</u>
Interest charged to an associated company	<u>\$ 140,000</u>	<u>\$ 157,500</u>

THE HAMILTON GROUP LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****April 30, 1983****16. Provision for loss on Mexican guarantees:**

The company resolved to dispose of its Mexican subsidiaries, Sercomex S.A. de C.V. (Sercomex) and its subsidiaries, Impulsora Mexicana de Arrendamiento, S.A. (Imexa) and Rent-E-Quipo S.A. prior to its year-end in April, 1982. At that date, the investment in Sercomex was written off, and a provision of \$1,709,536 was accrued to reflect the estimated loss on disposal.

In March, 1983, the company sold its investment in Sercomex to a company controlled by certain shareholders of The Hamilton Group Limited for \$1.00. The company remains contingently liable as guarantor for the bank loans of the former Mexican subsidiaries, which at April 30, 1983 amounted to U.S. \$16,083,000.

The company's objectives are still to arrange for the sale of the Mexican operations to a third party and to be relieved of the guarantee as part of the terms of sale. Negotiations cannot commence until the Mexican authorities issue definitive guidelines for the repayment of foreign debt and define exchange control regulations applicable to leasing operations in Mexico (note 16(c)). Announcements to date by Mexican authorities encourage the company to believe that rulings will be issued in the near future clarifying the situation. The ultimate loss on the company's guarantee will not be established until the Mexican leasing operations are resold or, if not resold, until several years have passed. However, based on information available and assuming that the company enters the Bank of Mexico foreign exchange program (note 16(c)), management has increased the provision for loss on the company's guarantee of the Mexican companies' bank debt at April 30, 1983, by \$2,290,464 to \$4,000,000.

Summarized information with respect to the consolidated financial position of Sercomex at April 30, 1983 and the results of its operations for the year then ended are provided in the condensed pro-forma 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).

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Pro-Forma Consolidated Balance Sheet

April 30, 1983

with comparative figures for 1982

Assets	1983	1982
Cash and term deposits	\$ 3,745,000	\$ 811,508
Leases receivable, net of unearned income and allowance for losses (note b)	4,225,500	12,744,849
Accounts and notes receivable, net of allowance for losses (includes U.S. \$123,000; 1982 — \$1,343,000) (note c)	5,239,500	3,260,561
Deferred income taxes (note d)	1,271,293	1,271,293
Deferred foreign exchange translation adjustment	1,010,676	1,044,120
Other assets	1,336,800	2,467,823
	<u>\$16,828,769</u>	<u>\$21,600,154</u>
Liabilities and Shareholders' Deficiency		
Short-term debt (U.S. \$16,083,000; 1982 — \$16,124,000)	\$19,690,400	\$19,703,772
Notes and accounts payable (includes U.S. \$1,827,000; 1982 — \$1,250,000)	2,474,399	3,237,312
Minority interests	—	368,606
Shareholders' deficiency:		
Capital stock	6,265,026	6,265,026
Deficit	(11,601,056)	(7,974,562)
Total shareholders' deficiency	<u>(5,336,030)</u>	<u>(1,709,536)</u>
	<u>\$16,828,769</u>	<u>\$21,600,154</u>

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1983

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Pro-Forma Consolidated Statement of Income

April 30, 1983

with comparative figures for 1982

	1983	1982
Gross income	\$10,889,150	\$14,244,306
Income before the following	3,890,450	4,826,197
Cost of borrowed money	2,987,500	4,270,925
Operating income	902,950	555,272
Loss on foreign exchange	771,200	136,223
Provision for loss on receivables	2,458,450	614,069
Loss before income taxes, minority interests and extraordinary items	2,326,700	195,020
Income taxes, deferred (note d)	—	164,600
Loss before minority interests and extraordinary items	2,326,700	30,420
Minority interests	368,606	10,752
Loss before extraordinary items	1,958,094	19,668
Extraordinary items (note e)	1,668,400	3,926,527
Net loss	\$ 3,626,494	\$ 3,946,195

See accompanying notes to consolidated financial statements.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Notes to Pro-Forma Consolidated Financial Statements

April 30, 1983

(a) Pro-forma basis of presentation:

These financial statements have been prepared on a pro-forma basis as if the 3.1% 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, net of unearned income, before deduction of allowance for losses, is summarized below:

Within:

One year.	\$ 3,768,462
Two years	818,416
Three years	79,900
Four years	13,322
Five years.	<u>—</u>

Included in leases receivable, net of unearned income, before deduction of allowance for losses, is U.S. \$3,359,000 (1982; \$9,753,000) receivable in peso equivalents of U.S. dollars.

(c) Bank of Mexico foreign exchange program:

During the current year, a variety of two and three tier exchange rate systems have been in effect in Mexico. Due to the regulations governing leasing companies, the company was required to collect its \$ U.S. lease receivables at the lowest of these rates while having to pay its \$ U.S. liabilities at a higher rate. This situation was corrected on March 15, 1983, when the controlled rate became the required rate for both collections and payments of \$ U.S. accounts.

THE HAMILTON GROUP LIMITED**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****April 30, 1983**

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Notes to Pro-Forma Consolidated Financial Statements
April 30, 1983

(c) Bank of Mexico foreign exchange program (continued):

The Bank of Mexico has recently announced a program to provide for payment of private sector foreign currency debts outside Mexico.

Subject to the company's entry into this program, The Bank of Mexico has agreed to compensate the leasing companies for the loss caused by having to collect their \$ U.S. receivables at the lower exchange rates. A formula for calculating this loss has been tentatively approved by the Bank of Mexico and used by the company in preparing these financial statements. On the assumption that the company enters the foreign exchange program and as a result of using this formula, the companies' total foreign exchange loss was reduced by \$2,580,000 compared to what it would have been had U.S. assets and liabilities been valued at the controlled rate of 112.13 pesos equals U.S. \$1. Final approval of the compensation scheme is expected in the near future, at which time some adjustments to these figures may be necessary to reflect any further modifications.

The company has until October 25, 1983 to decide whether to enter the foreign exchange program. Under the program, in addition to receiving compensation for recent foreign exchange losses, the company would exchange notes with The Bank of Mexico such that, in 1991, the Bank would provide U.S. dollars to allow the company to discharge all of its foreign debts, in return for payment, in 1991, from the company to the Bank, of the peso equivalent established at 1983 exchange rates. During the term of the program, the company would incur interest expense on its note payable to the Bank at peso borrowing rates, currently approximately 60% per annum, while earning interest on the U.S. dollar note receivable, at Libor.

Although the company now plans to enter the foreign exchange program and has prepared these financial statements on that basis, no final decision has been reached, as details of the program are not yet finalized. Entry into the program would require the approval of the company's bankers.

THE HAMILTON GROUP LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

April 30, 1983

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Notes to Pro-Forma Consolidated Financial Statements

April 30, 1983

(d) Income taxes:

(i) Deferred income tax asset:

The company and its subsidiaries have losses for tax purposes aggregating approximately \$507,200 which are available to reduce taxable income in future years. Such losses expire as follows:

1984.....	\$ 354,200
1985.....	152,000
1986.....	<u>1,000</u>

The potential future benefit of these losses has been recognized in these accounts. Management expects such losses to be converted to timing differences having no expiry date.

The remainder of the deferred income tax asset on the company's balance sheet is due to timing differences relating primarily to bad debt expense and unrealized foreign exchange losses recorded in the accounts in years prior to April 30, 1982, but not yet deducted for income tax purposes.

The realization of the deferred income tax asset is dependent on the future profitability of the company.

(ii) Accounting loss for income tax purposes:

During the current year, the company incurred an accounting loss for income tax purposes in the amount of approximately \$3,600,000. The potential future benefit of this loss has not been reflected in these accounts.

THE HAMILTON GROUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1983

16. Provision for loss on Mexican guarantees (continued):

SERCOMEX S.A. DE C.V.

Notes to Pro-Forma Consolidated Financial Statements

April 30, 1983

(e) Extraordinary items:

	1983	1982
Loss on foreign exchange due to government devaluation of Mexican peso during the year, net of applicable deferred income taxes of NIL (1982; \$367,900) and minority interest of NIL (1982; \$103,367)	\$ 1,668,400	\$ 500,017
Increase in share of deficit of subsidiary company arising on purchase of additional equity interest	—	688,110
Write down of deferred income taxes, net of minority interest of \$61,600	—	2,738,400
	<u>\$ 1,668,400</u>	<u>\$ 3,926,527</u>

(f) Segmented information:

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

17. Contingency:

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
The First National Bank of Chicago (Canada)
National Bank of Canada

UNITED STATES OF AMERICA

Bank of Virginia International
Crocker National Bank
The First National Bank of Chicago

