



Seaway Multi-Corp Limited

ANNUAL REPORT

For the Year Ended

December 31, 1981



Seaway Multi-Corp Limited

PRESIDENT'S REPORT

To The Shareholders

In 1981, for the third consecutive year, the company increased its sales and earnings. The results, achieved under the present economic climate, high interest rates and general business uncertainty, are gratifying.

Total revenues increased to \$37 million from \$30 million and net earnings to \$1.8 million from \$1.7 million. Capital expenditure increased to \$960,000 from \$580,000. The level of earnings is expected to be maintained for 1982. The Company continues to focus its efforts on the export markets as a key to future growth.

Enclosed with this annual report is an information circular, outlining the steps to be taken by management, subject to the approval of the Common and Preference Shareholders, of the purchase for cancellation of the Preference Shares at eight dollars per share.

The company has acquired 180 acres of which approximately 100 acres are zoned industrial in the Bradford, Ontario area, as a site for the relocation of the Levy Auto Parts operations and development as an industrial park. The timing of the move is indefinite.

The present site of Levy Auto Parts, 1400 Weston Road, is awaiting development as a large residential and commercial project.

Yours truly,

A handwritten signature in cursive script, appearing to read "Ben Levy".

President

Toronto, Ontario

April 16, 1982

Seaway Multi-Corp Limited

CONSOLIDATED BALANCE SHEET December 31, 1981

ASSETS

	notes	1981	1980
Current			
Cash		\$ 138,018	\$ 40,439
Accounts receivable	2	4,857,129	5,374,536
Inventories		16,930,137	16,473,616
Prepaid expenses and sundry		770,018	744,700
Net investment in lease, current portion		44,891	45,109
Note receivable, current portion		99,840	99,840
		22,840,033	22,778,240
Note receivable	3	690,560	790,400
Net investment in lease	4	261,223	305,896
Property, plant and equipment	5	27,567,532	27,093,491
Other	6	558,002	596,407
		<u>\$ 51,917,350</u>	<u>\$ 51,564,434</u>

LIABILITIES

Current			
Bank indebtedness	7	\$ 7,396,953	\$ 7,148,453
Notes payable		313,500	584,000
Accounts payable and accrued liabilities		4,047,127	3,278,498
Income and other taxes payable		3,687,755	3,081,978
Current portion of long term debt	9	1,886,564	1,746,245
		17,331,899	15,839,174
Long term debt	9	10,485,861	11,937,942
Deferred income taxes		46,361	36,250
Minority interest	10	1,895,360	2,576,259
		<u>29,759,481</u>	<u>30,389,625</u>

SHAREHOLDERS' EQUITY

Capital and other equity accounts		22,157,869	21,174,809
		<u>\$ 51,917,350</u>	<u>\$ 51,564,434</u>

See accompanying notes

Approved on behalf of the Board


B. Levy
Director


K.P. Foreht
Director

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF INCOME Year ended December 31, 1981

	<u>notes</u>	<u>1981</u>	<u>1980</u>
Sales and revenues		\$ 36,901,847	\$ 30,372,671
Costs and expenses			
Cost of products sold		18,378,388	14,956,950
Other operating costs and expenses		10,981,518	8,673,988
Interest on long term debt		2,338,285	1,648,560
Bank and other interest		1,399,251	1,269,514
Depreciation and amortization		524,147	530,902
		<u>33,621,589</u>	<u>27,079,914</u>
Income from operations before income taxes		3,280,258	3,292,757
Income taxes			
Current		1,454,161	1,520,805
Deferred		22,801	137,300
		<u>1,476,962</u>	<u>1,658,105</u>
Income from operations		1,803,296	1,634,652
Minority interest		(123,227)	(184,065)
Income before extraordinary items		1,680,069	1,450,587
Extraordinary items	11	124,563	275,635
Net income	12	<u>\$ 1,804,632</u>	<u>\$ 1,726,222</u>

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS Year ended December 31, 1981

	<u>1981</u>	<u>1980</u>
Balance (deficit), beginning of year	\$ (18,131,239)	\$ (19,631,525)
Net income	1,804,632	1,726,222
Amortization of appraisal excess	196,157	196,157
Dividends paid on Series "A" preference shares	(844,186)	(422,093)
Balance (deficit), end of year	<u>\$ (16,974,636)</u>	<u>\$ (18,131,239)</u>

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY December 31, 1981

	notes	1981	1980
Capital stock	15		
Authorized			
2,145,534	Preference shares, \$15 par value, of which 1,645,534 have been designated as 4 ¹ / ₂ % cumulative, Series "A" preference shares, convertible on the basis of three preference shares for one common share and redeemable at par		
4,357,500	Common shares, without par value		
Issued			
625,023	Series "A" preference shares	\$ 9,375,345	\$ 9,379,845
1,347,458	Common shares	9,882,642	9,878,142
		19,257,987	19,257,987
Excess of appraised value of land and buildings over book value	1	19,874,518	20,048,061
Retained earnings (deficit)		(16,974,636)	(18,131,239)
		\$ 22,157,869	\$ 21,174,809

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year ended December 31, 1981

	<u>1981</u>	<u>1980</u>
Funds provided by		
Operations		
Income from operations	\$ 1,803,296	\$ 1,634,652
Items not affecting working capital, principally depreciation, amortization and deferred income taxes	601,545	736,252
	<u>2,404,841</u>	<u>2,370,904</u>
Issue of long term debt	—	3,944,115
Reduction of income taxes on application of prior years' losses	248,690	275,635
	<u>2,653,531</u>	<u>6,590,654</u>
Funds used for		
Retirement of long term debt	1,352,241	2,860,173
Fixed and other assets	959,783	584,609
Acquisition of minority interest	680,899	804,096
Dividends paid to minority shareholders of subsidiary companies	123,227	155,427
Dividends paid on Series "A" preference shares	844,186	422,093
Extraordinary item	124,127	—
	<u>4,084,463</u>	<u>4,826,398</u>
Increase (decrease) in working capital	(1,430,932)	1,764,256
Working capital, beginning of year	6,939,066	5,174,810
Working capital, end of year	<u>\$ 5,508,134</u>	<u>\$ 6,939,066</u>

See accompanying notes

AUDITORS' REPORT

To the Shareholders of
Seaway Multi-Corp Limited

We have examined the consolidated balance sheet of Seaway Multi-Corp Limited as at December 31, 1981 and the consolidated statements of income, retained earnings (deficit), shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 14, 1982

Laventhol & Horwath

Chartered Accountants

Seaway Multi-Corp Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1980

1. SUMMARY OF ACCOUNTING POLICIES

Consolidation policy

The consolidated financial statements include the accounts of Seaway Multi-Corp Limited and all its subsidiaries.

Translation of foreign currencies

Amounts in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect at the balance sheet date for current items and at the rates in effect at acquisition dates for noncurrent items. Operating income and expenses are translated at average rates during the year except for depreciation which is on the same basis as fixed assets. Gains or losses arising on translation are included in net income.

Inventories

Certain types of inventories approximating \$11 million, for which costs cannot be determined, have been valued on the basis of a percentage of historical selling prices. The other inventories have been valued at the lower of cost and net realizable value. This valuation is consistent with that used in preceding years.

Property, plant and equipment

Certain land and buildings are recorded at appraised values as of December 31, 1977, based on appraisals by General Appraisal of Canada Limited, dated March 8, 1978 and July 1, 1978, and E. Karl Farstad & Associates dated July 20, 1978. The excess of the appraised value over the book value is shown in the Statement of Shareholders' Equity. A portion of the appraisal excess applicable to buildings is being transferred annually to retained earnings in amounts equal to the annual depreciation provided on such appraisal excess. The current year's transfer amounts to \$196,157. Land and buildings acquired subsequent to 1977 and plant and equipment are recorded at cost. Depreciation is provided on the straight line basis at the following annual rates:

Buildings	2 1/2%
Machinery and equipment	10 - 20%

Deferred charges

Financing costs are being amortized over the terms of the related debt, over periods not exceeding 5 years.

2. ACCOUNTS RECEIVABLE

Included in accounts receivable is an amount of \$1,500,000 which is the minimum value placed by the insurers on the business interruption claim arising from the fire which occurred at the Canada Cycle and Motor Company Limited (C.C.M.) St. Jean factory on February 17, 1977. Rights to this claim were acquired by the company as part of the consideration for the sale of C.C.M. in 1978. The company has claimed \$2,788,505 and the insurers have paid a portion of the amount receivable into court. The company is in the process of legal action against the insurers and their agents and in the opinion of legal counsel, the company's claim to an amount of at least \$1,500,000 is well founded.

3. NOTE RECEIVABLE

The note is receivable over a period of 8 years with interest thereon at 9 1/2% per annum and is secured by a standby letter of credit from a Canadian chartered bank. The same bank has loaned the company an amount equal to the balance due on the promissory note on the security of the note and the standby letter of credit. In the event of default on the note or nonrenewal of the letter of credit, the proceeds of the letter of credit will be used to repay the loan in full.

4. NET INVESTMENT IN LEASE

The company's net investment in a lease, which grants an option to the lessee to acquire the building for \$250,000 in 1983, is as follows:

	<u>1981</u>	<u>1980</u>
Minimum lease payments receivable	\$ 112,500	\$ 202,500
Residual value	250,000	250,000
Less unearned income	(56,386)	(101,495)
	<u>306,114</u>	<u>351,005</u>
Less current portion	(44,891)	(45,109)
	<u>\$ 261,223</u>	<u>\$ 305,896</u>

Minimum future lease payments receivable:

1982	90,000
1983	22,500
	<u>\$ 112,500</u>

5. PROPERTY, PLANT AND EQUIPMENT

	1981	1980
Buildings, at appraised value	\$ 9,270,000	\$ 9,270,000
Building additions, at cost	243,364	153,306
Machinery and equipment, at cost	4,207,030	3,794,238
	<u>13,720,394</u>	<u>13,217,544</u>
Less accumulated depreciation	4,023,075	3,534,042
	<u>9,697,319</u>	<u>9,683,502</u>
Land, at appraised value	15,070,000	15,070,000
Land, at cost	2,800,213	2,339,989
	<u>\$ 27,567,532</u>	<u>\$ 27,093,491</u>

6. OTHER

	1981	1980
Deferred financing costs, at cost less amortization	\$ 34,336	\$ 58,941
Deferred income taxes	—	13,800
Share issue expenses	523,666	523,666
	<u>\$ 558,002</u>	<u>\$ 596,407</u>

7. BANK INDEBTEDNESS

Accounts receivable and inventories are pledged as collateral for the bank indebtedness.

8. INCOME TAXES

The company and its subsidiaries have accumulated losses for income tax purposes in current and prior years amounting to approximately \$1,179,000 which may be used to reduce taxable income as follows:

\$ 85,000 to 1982
265,000 to 1983
402,000 to 1984
30,000 to 1985
397,000 to 1986

The benefit from the utilization of these losses to reduce taxable income in future years has not been recognized in the accounts.

9. LONG TERM DEBT

	1981	1980
Seaway Multi-Corp Limited		
Secured debentures, due January 31, 1983	\$ 4,044,343	\$ 4,289,343
Unsecured promissory notes, prime rate, due August 11, 1983	396,573	579,000
7 1/2% convertible, unsecured sinking fund debentures, Series "A", maturing August 23, 1988 (Note 15).....	300,000	300,000
Notes payable, prime rate plus 1 3/4%	416,852	336,694
Levy Industries Limited		
First mortgage loan, prime rate plus 2%, maturing October 30, 1984	1,026,000	1,038,000
Conditional sales contracts	—	6,898
Bank term loan, secured by pledge of note receivable, prime rate plus 7/8%, maturing November 1989	790,400	890,240
W. & M. Holdings Limited		
9 1/2% first mortgage loan, maturing December 1, 1983	134,969	196,314
Levy-Russell Limited		
8% sinking fund debentures, Series "A" secured by first mortgage, maturing November 15, 1982	400,000	800,000
12 3/4% chattel mortgage, due November 1, 1982	134,563	206,322
Conditional sales contracts	90,067	230,208
Bank loan, secured by real estate, prime rate plus 2 1/4%, maturing August 31, 1990	1,173,270	1,221,550
Drive Train Remanufacturing Limited		
Obligations under capital leases	35,178	47,284
Russell Industries Limited		
11 1/2% first mortgage loan, maturing February 1, 1982,		
extended at 18 1/4% to February 1, 1983	1,670,305	1,710,009
Levy Service Industries Limited		
First mortgage loan, prime rate plus 2 1/4%, maturing August 31, 1990	1,759,905	1,832,325
	12,372,425	13,684,187
Less amounts due within one year	1,886,564	1,746,245
	<u>\$ 10,485,861</u>	<u>\$ 11,937,942</u>

The secured debentures bear interest at the bank prime rate. The company has pledged common shares of Levy Industries Limited as security.

The aggregate amount of principal payments required in each of the next five years is approximately as follows:

1982	—	\$1,887,000
1983	—	2,697,000
1984	—	1,930,000
1985	—	917,000
1986	—	941,000

10. MINORITY INTEREST

	<u>1981</u>	<u>1980</u>
Common shares	\$ 107,300	\$ 146,499
Preference shares	1,788,060	2,429,760
	<u>\$ 1,895,360</u>	<u>\$ 2,576,259</u>

11. EXTRAORDINARY ITEMS

	<u>1981</u>	<u>1980</u>
Expenses related to previously held subsidiary	\$ (124,127)	\$ —
Reduction of income taxes on application of prior years' losses	248,690	275,635
	<u>\$ 124,563</u>	<u>\$ 275,635</u>

12. INCOME PER COMMON SHARE

	<u>1981</u>		<u>1980</u>	
Common shares outstanding	1,347,458		1,347,358	
		<u>Per Share</u>		<u>Per Share</u>
Income before extraordinary items	\$ 1,680,069		\$ 1,450,587	
Preferred dividend requirement	422,093		422,093	
Income for common shareholders before extraordinary items	1,257,976	\$0.93	1,028,494	\$0.76
Extraordinary items	124,563	0.09	275,635	0.21
Net income for common shareholders	<u>\$ 1,382,539</u>	<u>\$1.02</u>	<u>\$ 1,304,129</u>	<u>\$0.97</u>

13. SEGMENTED INFORMATION (in thousands of dollars)	1981			1980		
	Automotive Parts	Cold Storage and Property	Total	Automotive Parts	Cold Storage and Property	Total
Sales and revenues	\$ 33,773	\$ 3,129	\$ 36,902	\$ 27,143	\$ 3,230	\$ 30,373
Operating income	\$ 6,805	\$ 212	\$ 7,017	\$ 5,729	\$ 481	\$ 6,210
Interest expense			3,737			2,918
Income taxes			1,477			1,658
Minority interest			123			184
Extraordinary items			(125)			(276)
			5,212			4,484
Net income			\$ 1,805			\$ 1,726
Identifiable assets	\$ 37,996	\$ 13,921	\$ 51,917	\$ 37,637	\$ 13,927	\$ 51,564
Depreciation, amortization	\$ 180	\$ 344	\$ 524	\$ 151	\$ 380	\$ 531
Capital expenditure	\$ 205	\$ 758	\$ 963	\$ 357	\$ 228	\$ 585
Export sales	\$ 25,908	\$ —	\$ 25,908	\$ 20,268	\$ —	\$ 20,268

The company operates two divisions. The automotive parts division includes rebuilding of major components for heavy duty and specialized vehicles, construction of vehicles and general repairs. The cold storage and property division provides services for the cold storage of produce and foodstuffs and rental of certain real estate.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid by the company and its subsidiaries to the directors and senior officers of the company amounted to \$714,000 (1980 - \$442,000).

15. CAPITAL STOCK

(a) Reservations of common shares

- (i) 15,000 common shares are reserved for the conversion privileges of the company's \$300,000 7½% convertible unsecured debentures at the rate of 50 common shares for each \$1,000 of debentures outstanding, exercisable at any time until August 23, 1988.
- (ii) At December 31, 1981 there are 246,407 Series "A" warrants outstanding entitling the holders to acquire one common share of the company at a price of \$38 for each warrant held. The warrant privileges may be exercised at any time until February 28, 1989.

- (b) As at December 31, 1981 dividends on the Series "A" preference shares are \$1,477,000 (fourteen quarters) in arrears.

16. PENSION PLANS

Certain subsidiaries of the company maintain pension plans covering most of their employees. The total unfunded past service liability which has not been provided for at December 31, 1981 approximates \$528,000 and will be funded in varying amounts over a maximum of 15 years.

17. PROPOSED OFFER TO PURCHASE PREFERENCE SHARES

At the forthcoming Annual and General Meeting of the Company, approval of the Common and Preference Shareholders will be sought varying certain provisions attached to the Series "A" Convertible Preference Shares.

After approval, the Company will then make an offer of \$8 per share to the preference shareholders to purchase all shares for cancellation.