

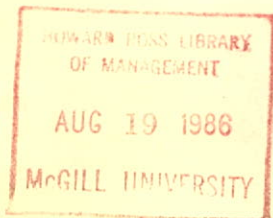


Seaway Multi-Corp Limited

ANNUAL REPORT

For the Year Ended

December 31, 1985



Seaway Multi-Corp Limited

PRESIDENT'S REPORT

To The Shareholders

Sales for 1985 increased to \$28 million from \$22 million in 1984. However, due mainly to provision for uncollectible advances and unforeseen expenses, the company had a loss of \$863,000 or \$0.74 per share before extraordinary items, compared to a loss of \$2 million or \$1.55 per share in 1984.

The company is presently going through a difficult transition, as outlined in the notes to the financial statements. In order to improve its financial position, as requested by our bankers, the company has entered into negotiations towards the sale of certain subsidiaries. The company has also entered into a joint venture for the development of the Weston Road property. A 30% equity has been retained and the development is proceeding satisfactorily.

The intention of management is to improve efficiency and productivity by relocating its Auto Parts Division to suitable modern facilities.

Yours truly,

A handwritten signature in dark ink, appearing to be 'M. J. ...', written over a horizontal line.

President

Toronto, Ontario
July 2, 1986

Seaway Multi-Corp Limited

CONSOLIDATED BALANCE SHEET December 31, 1985

ASSETS

| | notes | 1985 | 1984 |
|--|-------|---------------------|---------------------|
| Current | | | |
| Cash | | \$ 742,819 | \$ 616,367 |
| Accounts receivable | 2 | 3,516,359 | 5,772,635 |
| Income taxes recoverable | | 2,531 | 703,900 |
| Inventories | | 15,188,067 | 15,385,306 |
| Prepaid expenses and sundry assets | | 372,549 | 941,022 |
| | | 19,822,325 | 23,419,230 |
| Note receivable | 3 | 291,200 | 391,040 |
| Property, plant and equipment | 4 | 23,082,634 | 25,332,213 |
| Other | 5 | 135,008 | 710,630 |
| | | <u>\$43,331,167</u> | <u>\$49,853,113</u> |

LIABILITIES


| | | | |
|--|----|--------------|--------------|
| Current | | | |
| Bank indebtedness | 6 | \$10,812,434 | \$10,256,211 |
| Accounts payable and accrued liabilities | | 4,165,261 | 3,919,810 |
| Income and other taxes payable | | 197,107 | 391,459 |
| Current portion of long-term debt | 8 | 1,352,039 | 2,526,827 |
| | | 16,526,841 | 17,094,307 |
| Long-term debt | 8 | 9,870,954 | 14,148,201 |
| Deferred income taxes | | 170,370 | 171,274 |
| Minority interest | 9 | 1,480,600 | 1,529,350 |
| | | 28,048,765 | 32,943,132 |
| Continuing operations | 1 | | |
| Contingencies | 14 | | |

SHAREHOLDERS' EQUITY

| | | | |
|---|--|---------------------|---------------------|
| Capital and other equity accounts | | 15,282,402 | 16,909,981 |
| | | <u>\$43,331,167</u> | <u>\$49,853,113</u> |

See accompanying notes

On behalf of the Board:

Morris P. Levy
Director

K.P. Foreht
Director

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF INCOME Year ended December 31, 1985

| | note | 1985 | 1984 |
|--|------|---------------------|-----------------------|
| Sales and revenues | | \$ 28,118,357 | \$ 22,107,428 |
| Costs and expenses | | | |
| Cost of products sold | | 16,752,057 | 12,162,525 |
| Other operating costs and expenses | | 9,077,905 | 7,875,193 |
| Interest on long-term debt | | 1,472,759 | 1,514,295 |
| Bank and other interest | | 1,092,605 | 1,868,068 |
| Depreciation and amortization | | 449,420 | 480,785 |
| | | <u>28,844,746</u> | <u>23,900,866</u> |
| Income (loss) before income taxes | | (726,389) | (1,793,438) |
| Income taxes | | | |
| Current | | — | 54,216 |
| Deferred (reduction) | | — | (253,041) |
| | | <u>—</u> | <u>(198,825)</u> |
| Income (loss) before undernoted | | (726,389) | (1,594,613) |
| Research and development costs | | 57,073 | 307,500 |
| Minority interest | | 80,248 | 75,903 |
| Income (loss) before extraordinary items | | (863,710) | (1,978,016) |
| Extraordinary items | 10 | <u>119,797</u> | <u>335,425</u> |
| Net income (loss) | | <u>\$ (743,913)</u> | <u>\$ (1,642,591)</u> |
| Earnings (loss) per common share | | | |
| Before extraordinary items | | <u>\$ (0.74)</u> | <u>\$ (1.55)</u> |
| After extraordinary items | | <u>\$ (0.65)</u> | <u>\$ (1.30)</u> |

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF DEFICIT Year ended December 31, 1985

| | note | 1985 | 1984 |
|--|--------|---------------------|---------------------|
| Balance, beginning of year | | \$17,060,912 | \$15,852,632 |
| Net loss (income) | | 743,913 | 1,642,591 |
| Write off of share issue expenses | | 523,666 | — |
| Amortization of appraisal excess | 1 | (176,845) | (176,845) |
| Transfer from contributed surplus | 12 (d) | (3,271,128) | — |
| Unamortized appraisal excess applicable to property sold | | — | (257,466) |
| Balance, end of year | | <u>\$14,880,518</u> | <u>\$17,060,912</u> |

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY December 31, 1985

| | notes | 1985 | 1984 |
|---|--------|---------------------|---------------------|
| Capital stock | | | |
| Authorized | | | |
| 2,145,534 Preference shares, without par value, of which 1,645,834 have been designated as cumulative, Series "A" preference shares, with a dividend rate of \$0.675 per share, convertible on the basis of three preference shares for one common share and redeemable at the issue price of \$15 per share | 12 | | |
| 4,357,500 Common shares, without par value | | | |
| Stated capital | | | |
| 157,719 Series "A" preference shares | 12 | \$ 2,365,785 | \$ 2,365,785 |
| 1,302,458 (1984 — 1,347,458) Common shares | 12 (c) | 9,522,642 | 9,882,642 |
| | | <u>11,888,427</u> | <u>12,248,427</u> |
| Excess of appraised value of land and building over book value | 1 | 18,274,493 | 18,451,338 |
| Contributed surplus | 12 (c) | — | 3,271,128 |
| Deficit | | <u>(14,880,518)</u> | <u>(17,060,912)</u> |
| | | <u>\$15,282,402</u> | <u>\$16,909,981</u> |

See accompanying notes

Seaway Multi-Corp Limited

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year ended December 31, 1985

| | 1985 | 1984 |
|---|--------------|---------------|
| Funds provided by | | |
| Operations | | |
| Income (loss) before extraordinary items | \$ (863,710) | \$(1,978,016) |
| Items not affecting working capital, principally depreciation, amortization and deferred income taxes. | 551,278 | 553,647 |
| | (312,432) | (1,424,369) |
| Issue of long-term debt. | — | 5,000,000 |
| Net proceeds from sale of land and buildings | 2,119,797 | 1,008,000 |
| Reduction of income taxes on application of prior years' losses. | — | 112,400 |
| | 1,807,365 | 4,696,031 |
| Funds used for | | |
| Retirement of long-term debt | 4,177,407 | 1,636,242 |
| Fixed assets and other (net) | 199,841 | 76,452 |
| Acquisition of minority interest | 57,866 | 218,011 |
| Dividends paid to minority shareholders of subsidiary companies | 41,690 | — |
| Common stock repurchased | 360,000 | — |
| | 4,836,804 | 1,930,705 |
| Increase (decrease) in working capital. | (3,029,439) | 2,765,326 |
| Working capital, beginning of year. | 6,324,923 | 3,559,597 |
| Working capital, end of year | \$3,295,484 | \$6,324,923 |

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, 1985 and the consolidated statements of income, 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, 1985 and the results of its operations and changes in 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.

Laventhol & Horwath

June 30, 1986

Chartered Accountants

Seaway Multi-Corp Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1985

1. SUMMARY OF ACCOUNTING POLICIES

Continuing operations

These financial statements have been prepared on the basis of a going concern. However, the company's bankers, because of the action taken by the Government of the United States (See note 14), have expressed concern about the company's ability to service its debt. In addition, the company is in default on its bank debt in instalments aggregating \$500,000, due subsequent to the year-end.

The company's bankers have indicated that by August 1st, 1986 they require a commitment which will result in a paydown of \$10 million of bank indebtedness within a reasonable period of time. The company is presently in negotiations, to divest itself of certain assets, as well as alternative financing.

Should the company be unable to satisfy the bank's requirements or obtain alternative financing, there would be a question as to the company's viability, which could result in significant downward adjustments to the amounts at which inventories and other assets are stated.

Management is of the opinion that it can meet the bank's requirements.

Consolidation policy

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

Translation of foreign currencies

Assets, liabilities, revenues and expenses arising from foreign currency transactions are recorded in Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date, which are denominated in a foreign currency, are adjusted to reflect the exchange rate in effect at the balance sheet date. Gains or losses arising from such adjustments are included in net income.

Inventories

Certain types of inventories approximating \$9.6 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 at December 31, 1977. 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 deficit in amounts equal to the annual depreciation provided on such appraisal excess. The current year's transfer amounts to \$176,845. 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% |

2. ACCOUNTS RECEIVABLE

| | 1985 | 1984 |
|---------------------------------|---------------------|---------------------|
| Trade | \$ 2,771,247 | \$ 3,624,610 |
| Insurance claim | — | 1,824,025 |
| Promissory notes | — | 324,000 |
| Parent company advances * | 745,112 | — |
| | <u>\$ 3,516,359</u> | <u>\$ 5,772,635</u> |

* The major asset of the parent company is its 70% shareholding in Seaway Multi-Corp Limited. These advances are being reduced as management services are provided (See note 13).

3. NOTE RECEIVABLE

The note is receivable over a period of 4 years with interest thereon at $9\frac{1}{2}\%$ per annum and is secured by a standby letter of credit from a Canadian chartered bank. The current portion of the note receivable, amounting to \$99,840 (1984 \$99,840) is included in prepaid expenses and sundry assets.

4. PROPERTY, PLANT AND EQUIPMENT

| | 1985 | 1984 |
|--|----------------------|----------------------|
| Buildings, at appraised value | \$ 7,460,000 | \$ 7,460,000 |
| Building additions, at cost | 524,576 | 528,921 |
| Machinery and equipment, at cost | 5,152,146 | 4,995,714 |
| | 13,136,722 | 12,984,635 |
| Less accumulated depreciation | 5,709,587 | 5,307,921 |
| | 7,427,135 | 7,676,714 |
| Land, at appraised value | 14,750,000 | 14,750,000 |
| Land, at cost | 905,499 | 2,905,499 |
| | <u>\$ 23,082,634</u> | <u>\$ 25,332,213</u> |

5. OTHER

| | 1985 | 1984 |
|---|-------------------|-------------------|
| Net investment in lease, current portion of \$52,244 included in prepaid expenses and sundry assets | \$ 74,339 | \$ 126,583 |
| Deferred financing costs, at cost less amortization | 960 | 1,320 |
| Share issue expenses | — | 523,666 |
| Sundry | 59,709 | 59,061 |
| | <u>\$ 135,008</u> | <u>\$ 710,630</u> |

6. BANK INDEBTEDNESS

As security for the bank indebtedness the company has pledged accounts receivable, inventory and a fixed and floating charge debenture covering fixed and movable property of the company.

7. INCOME TAXES

The company and its subsidiaries have accumulated capital losses of approximately \$1,200,000 and non-capital losses of approximately \$2,472,000 for income tax purposes in current and prior years which may be used to reduce taxable income as follows:

| |
|----------------------|
| \$ 85,000 to 1986 |
| \$ 63,000 to 1987 |
| \$ 23,000 to 1989 |
| \$ 534,000 to 1990 |
| \$ 1,681,000 to 1991 |
| \$ 86,000 to 1992 |

The combined basic Canadian Federal and Provincial income tax rate for the company is 51%. These financial statements do not reflect an income tax provision (recovery), due mainly to tax losses for which no benefit has been recognized.

8. LONG-TERM DEBT

| | 1985 | 1984 |
|--|---------------------|----------------------|
| Seaway Multi-Corp Limited: | | |
| Debentures, due January 31, 1987* | \$ 364,823 | \$ 3,054,874 |
| Unsecured promissory notes | — | 7,573 |
| 7½% convertible, unsecured sinking fund debentures, Series "A", maturing August 23, 1988 (Note 12(a) (i)) | 300,000 | 300,000 |
| Levy Industries Limited: | | |
| Bank term loan, secured by pledge of note receivable, prime rate plus 7/8%, maturing November 30, 1989 (Note 3) | 391,040 | 490,880 |
| Levy-Russell Limited: | | |
| Conditional sales contracts | — | 69,558 |
| Bank loan, real estate pledged as collateral, prime rate plus 1½% maturing August 31, 1990 | 893,040 | 965,540 |
| Bank loan, prime rate plus ¾%, maturing May 31, 1992 (Note 6) | 2,615,000 | 2,990,000 |
| Bank loan, prime rate plus 1½%, maturing November 30, 1994 (Note 6) | 4,625,000 | 5,000,000 |
| Russell Industries Limited: | | |
| 11% first mortgage loan | — | 1,540,393 |
| Levy Service Industries Limited: | | |
| First mortgage loan, prime rate plus 1½%, maturing August 31, 1990 | 2,034,090 | 2,256,210 |
| | 11,222,993 | 16,675,028 |
| Less amounts due within one year | 1,352,039 | 2,526,827 |
| | <u>\$ 9,870,954</u> | <u>\$ 14,148,201</u> |

*Common shares of Levy Industries Limited have been pledged as collateral for the debentures, which bear interest at bank prime rate plus 1%.

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

1986 — \$1,352,000
1987 — \$1,333,000
1988 — \$1,357,000
1989 — \$1,373,000
1990 — \$2,322,000

9. MINORITY INTEREST

| | 1985 | 1984 |
|-------------------------|---------------------|---------------------|
| Common shares | \$ 58,216 | \$ 66,541 |
| Preference shares | 1,422,384 | 1,462,809 |
| | <u>\$ 1,480,600</u> | <u>\$ 1,529,350</u> |

10. EXTRAORDINARY ITEMS

| | 1985 | 1984 |
|---|-------------------|-------------------|
| Gain on sale of land | \$ 119,797 | \$ — |
| Reduction of income taxes on application of prior years' losses | — | 112,400 |
| Gain on settlement of insurance claim | — | 324,025 |
| Loss on sale of shares in subsidiary | — | (101,000) |
| | <u>\$ 119,797</u> | <u>\$ 335,425</u> |

11. SEGMENTED INFORMATION (in thousands of dollars)

| | 1985 | | | 1984 | | |
|-------------------------------|---------------------|---------------------------------|--------------|---------------------|---------------------------------|--------------|
| | Automotive Parts | Cold Storage and Property | Total | Automotive Parts | Cold Storage and Property | Total |
| Sales and revenues | \$ 25,104 | \$ 3,014 | \$ 28,118 | \$ 19,455 | \$ 2,652 | \$ 22,107 |
| Operating income (loss) | \$ 1,447 | \$ 392 | \$ 1,839 | \$ 1,408 | \$ (127) | \$ 1,281 |
| Interest expense | | | \$ 2,566 | | | \$ 3,382 |
| Income taxes (recovery) | | | 57 | | | (199) |
| Minority interest | | | 80 | | | 76 |
| Extraordinary items | | | (120) | | | (335) |
| | | | <u>2,583</u> | | | <u>2,924</u> |
| Net income (loss) | | | \$ (744) | | | \$ (1,643) |
| Identifiable assets | \$ 34,925 | \$ 8,406 | \$ 43,331 | \$ 39,270 | \$ 10,583 | \$ 49,853 |
| Depreciation, amortization .. | \$ 103 | \$ 346 | \$ 449 | \$ 133 | \$ 346 | \$ 479 |
| Capital expenditure | \$ 45 | \$ 154 | \$ 199 | \$ 123 | \$ 202 | \$ 325 |
| Export sales | \$ 16,934 | \$ — | \$ 16,934 | \$ 12,038 | \$ — | \$ 12,038 |

The company operates two divisions: a plant for the cold storage of produce and foodstuffs and the automotive parts division which sells new parts and major components for heavy duty and specialized vehicles and builds shunter tractors for the moving of large containers in other industries.

12. SHAREHOLDERS' EQUITY

- (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, 1985 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, 1985, dividends on the Series "A" preference shares are \$425,000 (sixteen quarters) in arrears.
- (c) As agreed, the loans granted to Mark A. Levy, Morris P. Levy, Peter Levy, Kenneth P. Foreht and Howard N. Levy, for the purchase of 45,000 common shares of the corporation, were cancelled and the shares reverted to Seaway Multi-Corp Limited at the same value.
- (d) The transfer of the Contributed Surplus, which represented the excess of the issue price of preference shares cancelled in June 1982 and the company's repurchase price, to deficit, was confirmed by a resolution of the Board of Directors.

13. RELATED PARTY TRANSACTIONS

- (a) The company is a subsidiary of Peplevy Corporation Limited, which owns approximately 70% of its issued common shares. Payments to Peplevy Corporation Limited for management services in 1985 amounted to \$120,000 and is included in other operating costs and expenses.
- (b) Sales commission advances aggregating \$605,000 have been written off in the current year to other operating costs and expenses. These represent advances to corporations controlled by the family of the major shareholder of Seaway Multi-Corp Limited.

14. CONTINGENCIES

- (a) In December 1985, charges were laid by the Attorney General of Ontario, alleging the unlawful conferring of benefits on two employees of the Department of National Defense, against a subsidiary, two directors and officers, an employee and the former president of the company. As a result, the Government of the United States has temporarily suspended the individuals and two subsidiaries of the company from contracting or subcontracting with it pending the disposition of the charges. The suspensions do not affect current orders. The possible loss, if any, of not being able to receive contracts during the suspension period, cannot be determined by management at this time.
- (b) A 1982 indictment for violation of U.S. customs laws against the same subsidiary, an officer and a former employee were dismissed in 1984 because of lack of venue. This decision was reversed in April 1986 by a U.S. Court of Appeals in Virginia. Appeal procedures are being pursued by the company and the individuals to reinstate the original dismissal. Should the company's appeal not be successful, the possible effect on the company contracting with the U.S. Government cannot be determined by management at this time.
- (c) A subsidiary company has guaranteed a director and officer's loan of \$1,600,000 to accommodate his purchase of shares in this corporation.
- (d) Revenue Canada has reassessed a subsidiary with respect to the years 1981 to 1983 for \$805,000 including interest. The reassessment relates to a company that ceased operations in 1984 for which Revenue Canada has disallowed the claim for a terminal loss.
The subsidiary has filed Notices of Objection with Revenue Canada and the Ontario Ministry of Revenue. No provision has been made in the financial statements for the reassessment, as the outcome is not yet determinable.

15. PENSION PLANS

The company has no liability for past services under its pension plans.

16. SUBSEQUENT EVENT

Subsequent to the year end, a subsidiary entered into a co-venture agreement for the development of the Weston Road property for residential and commercial use. It was agreed that the land be sold to the co-venture for a price to be determined, between \$13,500,000 and \$14,500,000.

The subsidiary will retain a 30% equity in the co-venture. The closing is subject to municipal approval and various conditions satisfactory to the co-venturer. Closing date for the transaction is December 31, 1986, but extension of the closing to fulfill conditions is provided for. The sale will not result in any material gain or loss to the company.