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JAMES *united steel limited*

ANNUAL REPORT FOR THE YEAR 1968

DIRECTORS

D. Applebaum, Montreal, Quebec

H. E. Beaton, Calgary, Alberta

B. O. Brynelsen, Vancouver, British Columbia

J. F. MacArthur, Calgary, Alberta

J. M. Pryde, Calgary, Alberta

OFFICERS

J. F. MacArthur, President and Chief Executive Officer

J. M. Pryde, Senior Vice President

A. J. P. LaPrairie, Executive Vice President

T. H. MacArthur, Vice President, Sales

H. E. Beaton, Secretary and Treasurer

G. F. Hayden, Assistant Secretary

REGISTRAR AND TRANSFER AGENTS

Canada Permanent Trust Company at Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Montreal, Saint John, N.B., Halifax, St. Johns, Nfld., Charlottetown.

BANKERS

The Mercantile Bank of Canada

AUDITORS

Peat, Marwick, Mitchell & Co.

EXECUTIVE AND HEAD OFFICE

816 - 7th Avenue S.W., Calgary, Alberta

SHARES LISTED

Toronto Stock Exchange

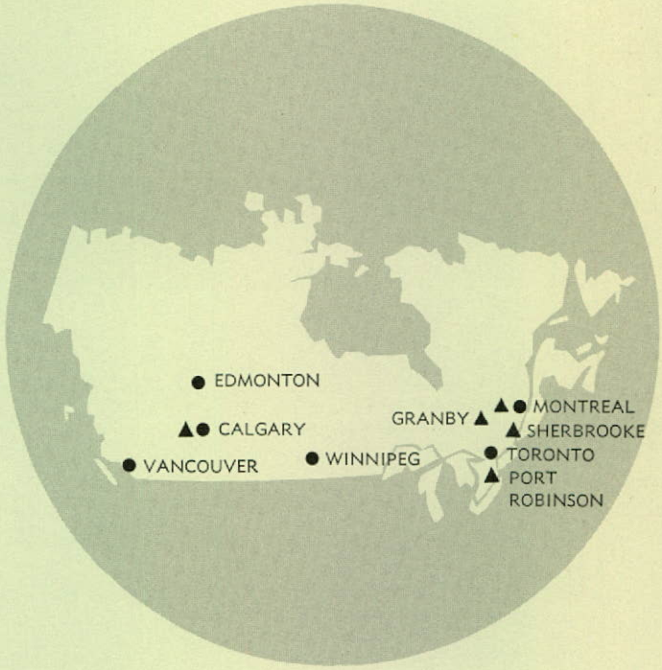
Montreal Stock Exchange

The Annual General Meeting of the Shareholders of the Company will be held in the Banff Suite of the Calgary Inn, Calgary, Alberta, on June 18, 1969 at 11:00 a.m. A formal notice of the meeting, together with a form of proxy, is enclosed with this report.

SCOPE OF OPERATIONS

Sales Offices and Warehouses ●

Plants ▲



HIGHLIGHTS

OPERATIONS	
Net Sales	$18,584,458
Net Loss	273,626
Capital Expenditures	1,440,752
YEAR END POSITION	
Working Capital	1,236,929
Property, Plant and Equipment	4,258,460
Long Term Debt	1,036,466
OTHER STATISTICS	
Working Capital Ratio	1.16
Number of Employees	956
Common Shares Outstanding	1,326,055
Number of Shareholders	2,610

REPORT TO THE SHAREHOLDERS

The following report is submitted by the Board of Directors of James United Steel Limited for the year ended December 31st, 1968.

The year was financially disappointing for the Company as shown by the accompanying financial statements, however, it marked the beginning of a new era in the Company's business.

During the summer of 1968 the Management had become increasingly concerned over the cyclical nature of the business in which the Company was engaged. Margins and potential sales volume had declined during the past business year and it seemed obvious that employment of the Company's capital should be diversified to hedge against the effects of the steel industry business cycles.

To do this, Management considered a number of plans which could be recommended to shareholders and the course which was finally chosen was a program of diversification into other industries, through acquisitions and/or mergers. Much of the final six months of 1968 was spent reorganizing the Company's capital and altering the Company's By-Laws so that this acquisition plan could proceed on the proper basis.

In September 1968 the Management concluded an agreement with Jack P. Rattner of Los Angeles, California, whereby Mr. Rattner and an associate, Charles H. Penneys of Philadelphia, would assist the Company to strengthen its financial position and to enable it to formulate and follow a plan of acquisitions and/or mergers which would broaden the Company's operating base.

Mr. Rattner and Mr. Penneys are fulfilling their commitments to the Company. They have assisted materially in establishing new Canadian and American banking connections for the Company and have assisted management to develop a system of acquisitions using a form of contract not heretofore used in Canada.

During this period the energy and resources of the Company were concentrated in an attempt to reverse the losses experienced during the last half of 1967 and the first six months of 1968. While notable results were achieved, unfortunately it was not possible to complete sufficient contracts in 1968 to reverse the loss position. However, the Company closed its 1968 fiscal year and entered its 1969 fiscal year with the largest backlog of orders in its recent history.

The details of the change in capital and By-Laws of the Company, in addition to the details of the arrangement with the Rattner Group were contained in an informational circular dated the 31st of August 1968 and the resolutions pertaining thereto were approved at a special shareholders meeting held at Calgary on October 9th, 1968.

As at December 31st, 1968 two companies, The Peeters Textile Mills Ltd. and Ideal Bedspread Company both of Montreal, Quebec had acquired through a share exchange. Peeters is a nationally known carpet manufacturer operating a mill at Granby, Quebec, and produces domestic and commercial carpet products. It had sales of $6.6 million in 1968. Ideal, operating a plant in Montreal, manufactures bedspreads, housecoats, swimwear and other specialties sold coast to coast. The company had 1968 sales of $4.1 million.

The Company's acquisition program provides, in general, that all companies being acquired shall have a proven history of profits and growth, sound and aggressive management, and the ability to produce annual increases in sales and profits in future years. Acquisitions may be made by share exchange, for cash, or by combinations thereof, and the acquisition contracts are designed so as to produce a continued increase in earnings per share of the Company with each acquisition.

On November 8, 1968, the Company terminated its management contract and cancelled its purchase option with Vancouver Iron and Engineering Works Limited of Vancouver, B.C.

The quarterly report of the Company will contain further information with respect to the increased sales in the Steel Division and the current progress of the Company's acquisition program.

We would like to acknowledge with thanks the efforts of all the Company's employees during the adverse conditions of 1968.

On Behalf of the Board of Directors,

April 30, 1969

J. F. MacARTHUR,
President.

J. M. PRYDE,
Vice-President.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of James United Steel Limited and subsidiaries as at December 31, 1968 and the consolidated statements of earnings, deficit and source and application of funds for the year then ended as set out in Note 1. Our examination of the financial statements of James United Steel Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of the accounting records as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the subsidiaries acquired pursuant to an agreement dated December 23, 1968, referred to in Note 1.

Subject to the comments relating to the unaudited results of operations and source and application of funds of Ideal Bedspread Company and subsidiaries referred to in Note 1, in our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 14, 1969

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF DEFICIT

	Year ended	
	December 31, 1968 (Note 1)	Restated for Pooling of Interests December 31, 1967 (Note 1)
Deficit at beginning of year (Note 9)	$ 799,627	940,366
Prior years' deferred income taxes (Note 6)	–	298,000
Net loss (earnings) for the year	273,626	(438,739)
Deficit at end of year	$1,073,253	799,627

See accompanying notes.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated March 14, 1969.

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1968	Restated for Pooling of Interests December 31, 1967 (Note 1)
Current assets:		
Marketable securities, at cost (market value $21,464)	$ 16,238	28,238
Accounts receivable	3,798,369	3,484,390
Inventories (Note 2)	4,648,779	3,613,872
Loans receivable	154,616	112,883
Due from shareholders	69,850	46,128
Prepaid expenses	85,205	66,000
Total current assets	8,773,057	7,351,511
Promissory note receivable (Note 7)	880,000	–
Property, plant and equipment (Note 3)	4,258,460	3,101,230
Excess of cost of shares of subsidiary companies over underlying net book values at dates of acquisition	393,121	393,121
Other assets including unamortized patent costs and debt discount and expenses of $55,182	157,011	164,867
	$14,461,649	11,010,729

Approved on behalf of the Board:

, Director

, Director

See

Subject to the accompanying report of Peat, Marwick,

LIABILITIES

	December 31, 1968	Restated for Pooling of Interests December 31, 1967 (Note 1)
Current liabilities:		
Bank (Note 4)	$ 2,859,182	1,618,505
Accounts payable and accrued liabilities	3,925,723	2,509,951
Income taxes	537,036	275,815
Current portion of long-term debt	214,187	189,145
Total current liabilities	7,536,128	4,593,416
Long-term debt (Note 5)	1,036,466	1,795,360
Deferred income taxes (Note 6)	208,000	253,000
Shareholders' equity:		
Capital stock (Note 7):		
Authorized: 100,000 preferred shares of the par value of $30 each. 5,000,000 common shares without par value.		
Issued: 1,326,055 common shares without par value	6,529,308	4,943,580
Acquisition warrants (Note 8)	225,000	225,000
	6,754,308	5,168,580
Deficit (Note 9)	1,073,253	799,627
	5,681,055	4,368,953
Contingency (Note 8)		
	$14,461,649	11,010,729

accompanying notes.

Mitchell & Co., Chartered Accountants, dated March 14, 1969.

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended Decem	
	James United Steel Limited and Subsidiaries (excluding Ideal Bedspread Company and Subsidiaries)	Ideal Bedspread and Subsid (Note 1 (Unaudit
Sales	$14,451,640	4,132,8
Costs and expenses:		
Cost of sales and operating expenses	11,544,660	3,182,9
Selling and administrative expenses	2,290,953	489,7
Depreciation	422,308	97,6
Interest on long-term debt and amortization of debt discount and expenses	113,572	35,7
Bank interest	144,450	53,2
	14,515,943	3,859,2
Less other income	28,906	8
	14,487,037	3,858,3
Earnings (loss) before income taxes	(35,397)	274,4
Income taxes:		
Current year	449,178	141,8
Deferred	(45,000)	–
	404,178	141,8
Net earnings (loss) before the following	(439,575)	132,5
Reduction in income taxes due to loss-carry-forward credits	–	–
Minority interest	33,358	–
	33,358	–
Net earnings (loss) for the year	$ (406,217)	132,5

See accom

Subject to the accompanying report of Peat, Marwick, M

ber 31, 1968		Year ended December 31, 1967 Restated for Pooling of Interests		
Company aries) ed)	Total (Note 1)	James United Steel Limited and Subsidiaries (excluding Ideal Bedspread Company and Subsidiaries)	Ideal Bedspread Company and Subsidiaries (Note 1) (Unaudited)	Total (Note 1)
318	18,584,458	15,353,795	3,500,300	18,854,095
74	14,727,634	12,659,839	2,764,908	15,424,747
03	2,780,656	1,662,213	413,069	2,075,282
14	519,922	346,079	77,492	423,571
65	149,337	123,771	9,284	133,055
20	197,670	133,626	61,180	194,806
76	18,375,219	14,925,528	3,325,933	18,251,461
89	29,795	16,016	724	16,740
87	18,345,424	14,909,512	3,325,209	18,234,721
31	239,034	444,283	175,091	619,374
40	591,018	199,060	91,575	290,635
	(45,000)	(45,000)	–	(45,000)
40	546,018	154,060	91,575	245,635
91	(306,984)	290,223	83,516	373,739
	–	65,000	–	65,000
	33,358	–	–	–
	33,358	65,000	–	65,000
91	(273,626)	355,223	83,516	438,739

panying notes.

litchell & Co., Chartered Accountants, dated March 14, 1969.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION

	Year
	James United Steel Limited and Subsidiaries (excluding Ideal Bedspread Company and Subsidiaries)
Source of funds:	
Net earnings (loss) for the year	$ (406,217)
Depreciation and amortization	453,308
Reduction in deferred income taxes	(45,000)
Funds provided by operations	2,091
Common shares issued	1,585,728
Long-term debt issued	–
Other	14,129
	1,601,948
Application of funds:	
Property, plant and equipment	1,087,851
Conversion of 6½% Convertible General Mortgage Sinking Fund Bonds to common shares	690,800
Note receivable	880,000
Reduction of long-term debt	141,011
Debt discount and expenses	–
Excess of cost of shares of subsidiary company over underlying net book value at date of acquisition	–
Other	18,260
	2,817,922
Increase (decrease) in working capital	$(1,215,974)

See

Subject to the accompanying report of Peat, Marwick,

OF FUNDS

ended December 31, 1968		Year ended December 31, 1967 Restated for Pooling of Interests		
Ideal Bedspread Company and Subsidiaries (Note 1) (Unaudited)	Total (Note 1)	James United Steel Limited and Subsidiaries (excluding Ideal Bedspread Company and Subsidiaries)	Ideal Bedspread Company and Subsidiaries (Note 1) (Unaudited)	Total (Note 1)
132,591	(273,626)	355,223	83,516	438,739
97,614	550,922	352,796	77,492	430,288
–	(45,000)	(45,000)	–	(45,000)
230,205	232,296	663,019	161,008	824,027
–	1,585,728	2,015	–	2,015
–	–	504,490	168,750	673,240
–	14,129	12,792	–	12,792
230,205	1,832,153	1,182,316	329,758	1,512,074
352,901	1,440,752	703,975	298,813	1,002,788
–	690,800	2,000	–	2,000
–	880,000	–	–	–
68,750	209,761	159,764	68,750	228,514
–	–	45,131	–	45,131
–	–	96,146	–	96,146
2,980	21,240	–	4,278	4,278
424,631	3,242,553	1,007,016	371,841	1,378,857
(194,426)	(1,410,400)	175,300	(42,083)	133,217

accompanying notes.

Mitchell & Co., Chartered Accountants, dated March 14, 1969.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and all subsidiaries, after elimination of material intercompany transactions.

Pursuant to an agreement dated December 23, 1968, the company acquired all of the outstanding shares of Ideal Bedspread Company and its subsidiaries and The Peeters Textile Mills Ltd. in exchange for acquisition warrants of the company as set out in Note 8. This transaction has been accounted for as a pooling of interests and accordingly, the consolidated financial statements for the year ended December 31, 1968 include the results of operations of the acquired companies for the full year. For comparative purposes the 1967 consolidated financial statements have been restated from those previously reported to include the subsidiary companies acquired in 1968.

The fiscal year of Ideal Bedspread Company and its subsidiaries ended September 30 and financial information for 1967 is available only at that date. As a result, the consolidated balance sheet for 1967 includes the accounts of these companies as at September 30, 1967. The 1968 consolidated balance sheet reflects audited December 31, 1968 figures for all companies.

Estimated costs and expenses based on gross sales or annual reported figures were used to obtain unaudited results of operations of Ideal Bedspread Company and subsidiaries for the calendar years 1968 and 1967.

The consolidated statement of source and application of funds contains unaudited figures for Ideal Bedspread Company and subsidiaries for the calendar years 1968 and 1967.

2. Inventories:

Inventories are valued at the lower of cost or net realizable value and are classified as follows:

Raw materials and supplies	$1,821,188
Work in progress	1,325,433
Finished goods	1,502,158
	$4,648,779

3. Property, plant and equipment:

Property, plant and equipment is stated at cost less accumulated depreciation and consists of the following:

Land	$ 110,109
Buildings	3,176,220
Machinery and equipment	5,431,910
	8,718,239
Less accumulated depreciation	4,459,779
	$4,258,460

4. Bank:

Bank indebtedness consists of the following:

Overdrafts	$ 114,803
Loans	2,744,379
	$2,859,182

The indebtedness is secured by assignments of book debts, inventories and hypothecation of the First Mortgage Bonds of a subsidiary company as more fully set out in Note 5.

5. Long-term debt:

Long-term debt, excluding the current portion, consists of the following:

7% Promissory Note, principal and interest payable in quarterly instalments of approximately $28,000 (U.S.)	$ 299,548
6½% Convertible General Mortgage Sinking Fund Bonds Series A due October 1, 1980	14,000
7½% First Mortgage Bonds, payable $8,333 monthly and $500,000 on November 1, 1970	591,668
5¾% First Mortgage, due December 1, 1976, payable $18,750 annually	131,250
6% First Mortgage Bonds, authorized principal amount $3,000,000; issued to the company's bankers as collateral for the bank loan, $1,900,000 principal amount designated as Series A and $600,000 principal amount designated as Series B maturing July 1, 1966 and July 1, 1971 respectively. These bonds are payable prior to maturity on demand.	—
	$1,036,466

The 7% Promissory Note is secured by a first mortgage on certain land and buildings and a first chattel mortgage on certain machinery of the company.

The 6½% Convertible General Mortgage Sinking Fund Bonds Series A are secured by:

(a) A fixed and floating charge on all the immovable and movable property, rights, undertakings and assets of the company, both present and future, subject to the prior claim of the 7% Promissory Note.

5. Long-term debt (continued):

(b) Certain of the outstanding shares of subsidiary companies.

(c) The General Mortgage Bonds of a subsidiary company which are secured as to principal and interest by a fixed and specific charge and floating charge on all the immovable and movable property and rights, undertakings and assets of the subsidiary company both present and future subject to the prior charge of the First Mortgage Bonds.

During the year $690,800 of the Sinking Fund Bonds were converted into 106,235 common shares and subsequent to December 31, 1968 an additional $11,000 of the bonds were converted into 1,691 common shares.

The Trust Deed securing the Sinking Fund Bonds imposes certain restrictions on the company's actions including the declaration or payment of dividends and issuance of additional bonds.

Each Sinking Fund Bond is convertible, under certain conditions, into common shares as follows:

(a) At $6.50 per share if converted on or before October 1, 1970;

(b) At $8.50 per share after October 1, 1970 and on or before October 1, 1975;

(c) At $10.50 per share after October 1, 1975 and on or before September 30, 1980.

The 7½% First Mortgage Bonds are secured by a fixed and floating charge on all the immovable and movable property rights, undertakings and assets, both present and future, of certain subsidiary companies.

The trust deeds securing these First Mortgage Bonds impose certain restrictions on the actions of the applicable subsidiary companies, including the payment of dividends and working capital.

The principal and interest of the 6% First Mortgage Bonds is secured by a first fixed and specific charge and a floating charge on all the immovable and movable property and rights, undertakings and assets both present and future of a subsidiary company.

6. Deferred income taxes:

Certain subsidiaries have claimed capital cost allowance for income tax purposes in amounts different from depreciation provided in the accounts or included in reported income amounts which have been deferred for income tax purposes. Accordingly a retroactive provision has been made in the accounts for income taxes that have been deferred as a result of such timing differences.

7. Capital stock:

Changes in common shares outstanding were as follows:

	Shares	*Amount*
Balance December 31, 1967	775,820	$4,943,580
Shares issued on conversion of $690,800 principal amount of 6½% convertible General Mortgage Sinking Fund Bonds Series A under the conversion terms described in Note 5. Fractional shares were not issued and cash of $272 was paid in lieu thereof	106,235	690,528
Shares issued pursuant to a stock option agreement at the price of $3.80 per share	4,000	15,200
Shares issued pursuant to an agreement in consideration for services and a fixed price of $2 per share for which was given a non-interest bearing promissory note in the amount of $880,000 due November 1, 1970	440,000	880,000
	1,326,055	$6,529,308

During the year the authorized number of common shares of the company was increased from 1,200,000 shares without nominal or par value to 5,000,000 shares without par value.

The company has reserved for issue 1,000,000 common shares pursuant to an agreement dated December 23, 1968 as more fully explained in Note 8.

Stock Options:

During the year an officer acquired 4,000 common shares of the company pursuant to a stock option agreement granted in 1967 at the option price of $3.80 per share.

The following stock options for common shares were outstanding as of December 31, 1968:

	Number of Shares	*Expiry Date*	*Exercisable per Annum*	*Option Price*
Employee	5,000	December 31, 1972	1,000	$2.75
Officers	6,000	December 31, 1970	2,000	3.80
	10,000	December 31, 1973	2,000	2.75

The last bid price for the company's shares at the close of the last business day in 1968, as reported by The Toronto Stock Exchange was $13.75.

8. Acquisition warrants:

The acquisition warrants were issued pursuant to an agreement dated December 23, 1968 relating to the acquisition of certain subsidiary companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

8. Acquisition warrants (continued):

This transaction has been accounted for as a pooling of interests and accordingly, the value of $225,000 attributed to the warrants issued is the stated value of the shares acquired, as recorded by the respective pooled companies on a consolidated basis.

The acquisition warrants provide for the issue of a maximum of 1,000,000 common shares of the company as follows:

Acquisition warrant:	
No. 1	350,000 shares
No. 2	150,000 shares
No. 3	500,000 shares
	1,000,000 shares

The shares under Warrant No. 1 are issuable at any time. This warrant has been issued to make available 350,000 shares to satisfy $3,500,000 payable by the company pursuant to the provisions of an agreement dated December 23, 1968. Should the gross proceeds ultimately realized on the sale of the 350,000 shares be less than $3,500,000 the company will be required to make up the difference in cash. The holder of Warrant No. 1 is not required to sell the shares within any particular period of time, or at all.

The shares under Warrant No. 2 are issuable at any time subsequent to the issue of the shares issuable under Warrant No. 1.

After all of the shares issuable under Warrants Nos. 1and 2 have been issued, as soon in each of the years 1971, 1972, 1973, and 1974 as the cumulative total of the combined net earnings of the acquired companies from January 1, 1969 to the beginning of each such year has been determined, the registered holder of Warrant No. 3 is entitled to such number of shares (but not exceeding in the aggregate 500,000 shares under this Warrant) as shall be required to make the value at $10 per share of the total number of shares allotted and issued or issuable under Warrants Nos. 1 and 2 and 3 equal to twice such total, but in no event more than 1,000,000 shares in the aggregate for all three Warrants; provided, however, that if the cumulative total of the combined net earnings of the acquired companies for the five years ended December 31, 1973 is less than $5,000,000 the number of shares to be delivered under Warrant No. 3 shall be reduced by two shares for each $10 by which $5,000,000 exceeds such cumulative total. In addition it is further provided that, in any event, in calculating the combined net earnings of the acquired companies for the year ended December 31, 1969, an amount, to be determined by agreement, shall be added to such combined net earnings. Notwithstanding the foregoing and the provisions of the agreement, once the cumulative total of the combined net earnings of the acquired companies from January 1, 1969 to the end of 1973 or earlier is $5,000,000, then the registered holder of Warrant No. 3 is entitled to all the shares issuable thereunder without reduction.

Until the agreement can no longer be rescinded as provided therein, all proceeds from sales of shares issued under the acquisition Warrants must be deposited and held in escrow by a bank and any dividend paid by an acquired subsidiary is to be held by a trustee.

9. Deficit:

The restated balance of consolidated deficit at January 1, 1967 has been decreased by $1,191,583, which is the consolidated retained earnings at that date of subsidiaries accounted for as a pooling of interests in 1968. As of December 31, 1968, approximately $1,500,000 of these subsidiaries' retained earnings is designated surplus for tax purposes. The company will be required to pay tax at the approximate rate of 50% on any dividends received out of this designated surplus.

10. Subsequent events:

(a) Pursuant to an agreement dated February 6, 1969 the company has agreed to issue 114,286 of its common shares in exchange for all of the issued and outstanding shares of Rose Marx Brassieres Limited.

(b) Pursuant to an agreement dated March 1, 1969 the company has agreed to issue not less than 50,000 nor more than 156,250 of its common shares in exchange for all of the issued and outstanding shares of Zenith Engraving Company Limited, Zenith Printing Plates Ltd., Calgary Pnoto Engraving Ltd. and Western Graphic Arts Supply Ltd.

11. Statutory Information:

The aggregate remuneration paid by the company and subsidiaries to directors and senior officers of the company for the year ended December 31,1968 amounted to $204,965.

Loans to shareholders during the year ended December 31, 1968 amounted to $105,135.

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