

Inter-City Products

Corporation

Consolidated Financial Statements

For the year ended December 31, 1993

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Annual Report
McGILL UNIVERSITY

Corporate Description

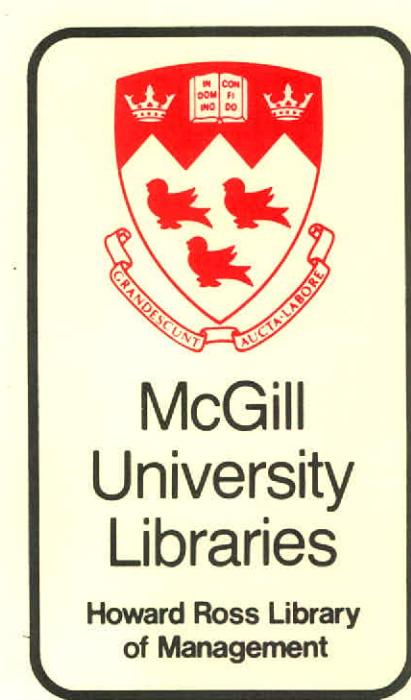
Through its Heil, KeepRite, Tempstar, Arcoaire, Comfortmaker, Villager, Maratherm and ZoneAire brand name lines, Inter-City Products Corporation is one of North America's largest producers of heating and cooling products for residential and light commercial markets.

Through its Engineered Products business unit, the Company manufactures spiral welded steel pipe for water transmission projects under the name Thompson Pipe & Steel.

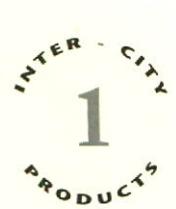
The Company's ordinary and Class C preference shares are traded on the Toronto and American stock exchanges.

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Management's Discussion and Analysis of Financial Condition and Results of Operations



The following discussion and analysis of operations for the current year and the two prior years, is provided by management to assist the shareholders in their review of the Company's consolidated financial statements and accompanying notes, which should be read in conjunction with this discussion.

The Company's wholly-owned subsidiaries, Inter-City Products Corporation (USA) and Inter-City Products Corporation (Canada) are referred to herein, as ICP USA and ICP Canada, respectively.

On November 10, 1993, the Company announced its intention to divest the operations of the commercial refrigeration division ("Refrigeration Operation") of the Engineered Products business unit. Consequently, the results of operations and financial position of the Refrigeration Operation for the current and prior years are disclosed as discontinued operations.

RESULTS OF OPERATIONS

The following table sets forth certain operating items as a percentage of operating revenue for the periods indicated.

Years Ended December 31	1993	1992	1991
Operating Revenue	100.0%	100.0%	100.0%
Gross margin	17.7%	21.3%	21.6%
Selling, general and administrative expenses	16.4%	17.8%	18.8%
Restructuring costs	2.2%	0.9%	0.2%
Gain on sale of Unifin operation	-	-	(.7)%
Operating profit (loss)	(.9)%	2.6%	3.3%

YEAR ENDED DECEMBER 31, 1993 COMPARED TO DECEMBER 31, 1992.

Set forth below are selected financial data for the years ended December 31, 1993 and 1992 and the percentage change between the periods.

(in millions of Canadian dollars)	December 31		Percentage Change
	1993	1992	
Operating revenue	\$ 878.8	\$ 814.9	7.8%
Gross margin	155.4	173.3	(10.3)%
Selling, general and administrative expenses	144.3	145.0	(.5)%
Restructuring costs	18.9	7.2	-
Operating profit (loss)	(7.8)	21.1	(137.0)%
Financial expenses (excluding refinancing costs)	24.3	23.8	2.1%
Refinancing costs	1.6	-	-
Provision for (recovery of) income taxes	(7.3)	.1	-
Discontinued operations			
- utilization of prior years' tax losses	.6	1.9	-
- loss from Refrigeration Operation	(2.0)	(3.3)	-
Net loss	(27.8)	(4.2)	-

Operating Revenue

Operating revenue in 1993 was \$878.8 million compared to \$814.9 million in 1992. The increase in operating revenue of \$63.9 million in 1993 compared to 1992 was primarily attributable to the following factors: (a) higher translation value of \$48.9 million for U.S. denominated sales in 1993 as compared to 1992 due to the appreciation of the U.S. dollar vis-a-vis the Canadian dollar; (b) increased sales of steel pipe of \$14.0 million; (c) higher service parts and other revenue of \$14.1 million; (d) higher operating revenue from the sale of furnaces of \$.4 million offset by (e) lower operating revenue from sales of air conditioners of \$13.5 million. The reduction in operating revenue from sales of air conditioners was primarily due to unfavourable pricing and model mix of \$15.0 million partially offset by higher shipments of \$1.5 million. The unfavourable pricing impact was primarily a result of significant downward pressure on cooling product pricing in the latter half of 1992 brought about by excessive inventory build-up at the distributor level due to an unseasonably cool summer. Air conditioner pricing remained depressed throughout 1993 and was, on average, about 5% lower than 1992. The increase in steel pipe revenue in 1993 compared to 1992 was a result of a 44.7% increase in tonnes shipped.

Gross Margin

Gross margin in 1993 was \$155.4 million or 17.7% as a percentage of operating revenue, compared to \$173.3 million or 21.3% in 1992. The decline in gross margin of \$17.9 million in 1993 compared to 1992 was mainly due to the competitive pricing pressures on cooling products as mentioned above, a shift in sales to lower margin air conditioning units and higher freight costs. The Company's steel pipe operations also incurred lower margins in 1993 compared to 1992 principally due to an unfavourable mix of lower margin projects recorded during 1993.

Selling, General and Administrative Expenses

In 1993, selling, general and administrative ("SG&A") expenses totalled \$144.3 million as compared to \$145.0 million in 1992. Excluding the impact of the higher translation value of U.S. dollars into Canadian dollars during 1993, SG&A expenses were lower in 1993 compared to 1992 by \$5.9 million. This decrease was due primarily to reductions in salaried personnel in the U.S. heating and cooling business, lower selling and advertising expenses and reductions in employee long-term incentive plan expense; partially offset by an increase in warranty expense in the U.S. heating and cooling business.

Restructuring Costs

In December 1993, the Company initiated a cost saving program designed to reduce production and operating costs and to improve profitability. The Company recorded total restructuring costs of \$18.9 million comprised of \$15.7 million relating primarily to the shut down of the Brantford, Ontario manufacturing facility and \$3.2 million relating mainly to reductions of salaried personnel in the U.S. heating and cooling business. The restructuring costs associated with the closure of the Brantford manufacturing facility which occurred January 21, 1994, consisted primarily of severances and other employee related costs, the cost of transferring production equipment from the Brantford, Ontario facility to the Lewisburg, Tennessee and Laval, Quebec facilities, the loss from operations to January 21, 1994, and the write-down of fixed assets and inventories.

In 1992, the results of operations included restructuring costs of \$7.2 million relating primarily to the physical relocation and integration of heating and cooling production lines from the Red Bud, Illinois plant to the manufacturing facilities in Lewisburg, Tennessee and Brantford, Ontario. ICP USA acquired the Red Bud plant as part of its June 28, 1991 acquisition of the residential and light commercial air conditioning and heating business carried on by the Arocaire Comfortmaker operations ("ACO"), formerly the Dealer Products Group of Snyder General Corporation.

Operating Profit (Loss)

Excluding restructuring costs in both years, operating profit in 1993 was \$11.1 million as compared to \$28.3 million in 1992. This reduction in operating profit of \$17.2 million resulted primarily from the decline in gross margin as discussed above. After restructuring costs of \$18.9 million in 1993 and \$7.2 million in 1992 there was an operating loss of \$7.8 million in 1993 versus an operating profit of \$21.1 million in 1992.

Financial Expenses

The financial expenses for 1993 of \$25.9 million included refinancing costs of \$1.6 million relating to the extinguishment of previously existing debt of ICP USA as part of its March 1993 refinancing. The financial expenses for 1992 of \$23.8 million included \$3.9 million of foreign exchange gains on U.S. dollar denominated assets. Excluding these two items, there was a decrease in financial expenses of \$3.4 million, mainly due to the lower cost of borrowings resulting from the refinancing of ICP USA.

Income Taxes

In 1993, the effective recovery rate of income taxes of 21.7% was lower than the combined statutory tax rate of 38.8% primarily as a result of the impact of non-deductible depreciation and accrued restructuring costs of \$13.0 million on which the future potential tax benefit was not recognized. In 1992, the Company recorded a tax provision of \$.1 million on a loss before income taxes of \$2.7 million. Income taxes were affected primarily by the impact of non-deductible depreciation.

Net Loss

In 1993 the Company recorded a net loss of \$32.7 million after preference share dividends of \$4.9 million, or a loss of \$1.32 per ordinary share. After excluding the following items the net loss in 1993 after preference share dividends amounted to \$13.6 million or 55 cents per ordinary share: (a) restructuring costs of \$18.9 million (or \$16.7 million, net of income taxes); (b) refinancing costs of \$1.6 million (or \$1.0 million, net of income taxes) and (c) loss from discontinued operations of \$2.7 million (or \$1.4 million, net of income taxes).

In 1992, the Company recorded a net loss of \$9.1 million after preference share dividends of \$4.9 million, or a loss of 40 cents per ordinary share. After excluding the following items, the net loss in 1992 after preference share dividends amounted to \$3.2 million or 14 cents per ordinary share: (a) restructuring costs of \$7.2 million (or \$4.5 million, net of income taxes) and (b) loss from discontinued operations of \$3.3 million (or \$1.4 million, net of income taxes).

**Management's Discussion and Analysis
of Financial Condition and Results of Operations**

YEAR ENDED DECEMBER 31, 1992 COMPARED TO DECEMBER 31, 1991.

Set forth below are selected financial data for the years ended December 31, 1992 and 1991 and the percentage change between the periods.

(in millions of Canadian dollars)	December 31		Percentage Change
	1992	1991	
Operating revenue	\$ 814.9	\$ 657.1	24.0%
Gross margin	173.3	141.7	22.3%
Selling, general and administrative expenses	145.0	123.4	17.5%
Restructuring costs	7.2	1.1	-
Gain on sale of Unifin operation	-	(4.7)	-
Operating profit	21.1	21.9	(3.7)%
Financial expenses (excluding refinancing costs)	23.8	25.4	(6.3)%
Refinancing costs	-	11.1	-
Provision for (recovery of) income taxes	.1	(7.0)	-
Discontinued operations			
- utilization of prior years' tax losses	1.9	-	-
- loss from Refrigeration Operation	(3.3)	(1.6)	-
Net loss	(4.2)	(9.2)	-

Operating Revenue

Operating revenue in 1992 was \$814.9 million compared to \$657.1 million in 1991. In 1991, operating revenue included \$27.0 million pertaining to the Company's former Unifin operation which was sold in December 1991. Excluding the operating revenue contributed by the Unifin operation, the increase in operating revenue of \$184.8 million in 1992 compared to 1991 was mainly due to the following factors: (a) the inclusion of ACO for all of 1992, which added approximately \$118.6 million of incremental operating revenue in 1992; (b) higher sales of steel pipe of \$22.8 million; (c) higher shipments of furnaces and an increase in sales of higher efficiency, higher priced furnace units in the United States and Canada totalling \$32.5 million; (d) higher sales of air conditioners of \$4.2 million; and (e) higher revenue from service parts and other income of \$6.7 million. The increase in operating revenue from the sale of air conditioners of \$4.2 million in 1992 compared to 1991 is primarily attributable to a 6.3% increase in the average price of cooling units due to a product mix shift toward higher efficiency, higher priced units totalling \$21.3 million and an increase of \$17.3 million due to the impact of a higher translation value of U.S. dollars into Canadian dollars, largely offset by lower volumes of \$34.4 million as a result of the unseasonably cool weather during the peak summer selling season.



Gross Margin

Gross margin for 1992 was \$173.3 million or 21.3% as a percentage of operating revenue, compared to \$141.7 million or 21.6% in 1991. The decline in gross margin percent in 1992 compared to 1991 was primarily due to competitive pricing pressures on cooling products and the elimination of the gross margin contributed by the Unifin operation, partially offset by the impact of fixed and product cost savings achieved in connection with the integration of ACO during 1992 and higher margins on sales on high efficiency furnaces. In 1992, gross margin dollars was adversely affected by lower volumes of air conditioners as result of the unseasonably cool summer weather.

Selling, General and Administrative Expenses

Selling, general and administrative expense for 1992 totalled \$145.0 million or 17.8% as a percentage of operating revenue, compared to \$123.4 million or 18.8% for 1991. The \$21.6 million increase is mainly due to the inclusion of ACO for all of 1992. The decrease in selling, general and administrative expenses as a percentage of operating revenue was principally due to a reduction of salaried personnel in connection with the integration of ACO.

Restructuring Costs

In 1992, the Company incurred restructuring costs of \$7.2 million relating primarily to the physical relocation and integration of heating and cooling production lines from the Red Bud, Illinois facility to the Lewisburg, Tennessee and Brantford, Ontario facilities. In 1991, the Company also recorded a restructuring provision of \$1.1 million which reflected the cost of relocating equipment between Lewisburg and Brantford.

Operating Profit

Operating profit for 1992 amounted to \$21.1 million compared to \$21.9 million in 1991. Excluding restructuring costs in both 1992 and 1991 and excluding the gain on sale of the Unifin operation in 1991, the increase in operating profit of \$10.0 million in 1992 was due to much the same factors as were responsible for the increase in operating revenue, partially offset by higher selling, general and administrative expenses.

Financial Expenses

Financial expenses for 1992 were \$23.8 million compared to \$36.5 million in 1991. The financial expenses in 1991 included refinancing costs of \$11.1 million relating to the refinancing of ICP USA's previously existing debt and the financing of the ACO acquisition. Excluding this unusual item, the decrease in financial expense of \$1.6 million was largely due to foreign exchange gains of approximately \$3.9 million relating primarily to a higher translation value of U.S. dollars into Canadian dollars on U.S. dollar denominated assets and lower interest rates in both the United States and Canada, partially offset by higher borrowing levels relating to a full year of financing of ACO and higher U.S. inventory levels.



Management's Discussion and Analysis of Financial Condition and Results of Operations

Income Taxes

In 1992, the Company recorded a tax provision of \$.1 million on a loss before income taxes of \$2.7 million. Income taxes were affected primarily by the impact of non-deductible depreciation. In 1991, the effective recovery rate of income taxes of 47.9% was higher than the combined statutory tax rate primarily due to offsetting factors which included the impact of the non-taxable gain on sale of the Unifin operation, non-deductible depreciation and utilization of tax loss carry forwards.

Net Loss

In 1992, the Company recorded a net loss of \$9.1 million after preference share dividends of \$4.9 million, or a loss of 40 cents per ordinary share. After excluding the following items, the net loss in 1992 after preference share dividends amounted to \$3.2 million or 14 cents per ordinary share: (a) restructuring costs of \$7.2 million (or \$4.5 million, net of income taxes) and (b) loss from discontinued operations of \$3.3 million (or \$1.4 million, net of income taxes).

In 1991, the net loss was \$14.1 million after preference share dividends of \$4.9 million, or a loss per ordinary share of \$1.14. After excluding the following items, the net loss in 1991 after preference share dividends amounted to \$10.1 million, or 82 cents per ordinary share: (a) refinancing costs of \$11.1 million (or \$6.9 million, net of income tax); (b) a restructuring provision of \$1.1 million (or \$.6 million, net of income taxes); (c) gain on sale of the Unifin operation of \$4.7 million (or \$5.1 million including income tax recoveries) and (d) loss from discontinued operations of \$2.7 million (or \$1.6 million, net of income taxes).

LIQUIDITY AND CAPITAL RESOURCES

In 1993, cash used in operations was \$74.0 million. Excluding the repurchase of \$118.2 million of accounts receivable pursuant to the refinancing of ICP USA's receivable purchase facility described in Note 3 to the Consolidated Financial Statements, the Company generated \$44.2 million of cash flow from its operations.

During 1993, the Company invested \$14.0 million in property, plant and equipment, and financed the losses of discontinued operations and other items amounting to \$2.6 million.

On March 11, 1993, the Company completed the refinancing of ICP USA under a financing plan established to improve operating and financial flexibility. The financing plan consisted of ICP USA issuing U.S. \$140 million of 9.75% Senior Secured Notes maturing in 2000 in a public offering in the United States and the establishment of a new U.S. \$135 million Revolving Credit Facility. The proceeds of the public offering and a portion of the Revolving Credit Facility were used to repay all of ICP USA's existing borrowings and to refinance the receivables purchase facility. ICP USA also entered into interest rate swap transactions whereby it has converted U.S. \$80 million of its fixed rate financing to floating rate debt in order to take advantage of lower interest rates. As a result of these interest rate swap transactions, the financing cost on this U.S. \$80 million of floating rate debt was approximately 7.15% at December 31, 1993.

In March 1994, certain amendments were made to the Company's various loan agreements as fully described in Notes 7 and 8 to the Consolidated Financial Statements. The amendments to ICP USA's Revolving Credit Facility included a covenant to require the hiring of a new Chief Operating Officer by September 30, 1994 to replace the former Chief Operating Officer who retired in December 1993.

During 1993, the Company issued 311,898 ordinary shares for net proceeds of approximately \$1.5 million under the Employee Share Ownership Plan and paid dividends of \$4.9 million on preference shares.

Capital expenditures in 1994 for all operating subsidiaries are estimated to be approximately \$14.0 million. Such cash requirements are expected to be met by way of internally generated funds.

On March 11, 1994, the Company announced that its management had developed a proposal to cause each Class C preference share to be exchanged for 5.50 ordinary shares to improve the Company's financial position and liquidity. In conjunction with the announcement of this proposal, the Board of Directors of the Company determined not to declare and pay the quarterly dividend on the Class C preference shares ordinarily payable on April 1, 1994. A final decision by the Company's Board of Directors to proceed with the Class C preference share exchange proposal will be conditional upon a review of the fairness of the proposal by a Special Committee of the Board and the satisfactory resolution of certain regulatory and other matters. Further, any change in the terms of the Class C preference shares requires an amendment to the Company's articles of incorporation which must be submitted to and approved by the Company's ordinary and Class C preference shareholders at a special meeting.

The Company believes that the current financing structure and anticipated cash flows generated from operations will provide sufficient operating flexibility to conduct its business, to make all anticipated capital expenditures necessary to carry out its business plan and meet its required interest payments as they come due.

1994 OUTLOOK

In 1993, the Company hired an independent consulting firm, to conduct a thorough review of the United States heating and cooling market and to assess the Company's competitive position in that market. The study included a review of past and present industry trends, as well as the Company's strategic response to these trends. The consulting firm also reviewed the cost structure of the Company's U.S. heating and cooling operations.

The study indicated that the trends in the U.S. cooling market have shifted over the last several years towards lower cost, price competitive units. The Company did not have a product line to effectively compete in this segment of the market. At the same time, poor weather conditions in 1992 and a weak economy exerted major pressure on margins.

As a result the Company has changed its operating strategy in two key ways. The first is to significantly reduce the Company's operating costs. In early 1994, the Company followed through with a major cost reduction program that will continue throughout the year. To remove excess manufacturing capacity, the Company mothballed its heating and cooling plant in Brantford in January. Production was then re-located to existing manufacturing facilities in Tennessee and Quebec. Also in January, the company's U.S. head office was downsized. To further reduce costs, the Company has also embarked on a more targeted and cost effective advertising program to support product sales.

The second change is the introduction of a new cooling product line to appeal to the low-cost, "no frills" builder market. Scheduled for introduction in time for the summer cooling season, the new product line will appeal to the value-conscious consumer, while still offering the Company solid margins.

Finally, the Company plans to hire a new President and Chief Operating Officer in 1994. A search is underway for the ideal candidate, who must possess significant experience and a proven record in managing a large, dynamic manufacturing and sales corporation.

These operating changes will allow the Company to compete effectively in a redefined marketplace and management anticipates that corporate performance will improve due to these strategic steps.

Management's Responsibility For Financial Reporting

The accompanying consolidated financial statements of the Company were prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies, which management believes are appropriate for the Company, are described in Note 1 to the consolidated financial statements. The financial information contained elsewhere in this document is consistent with that in the consolidated financial statements.

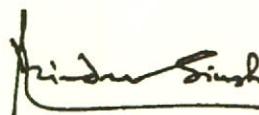
Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgements, have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is comprised of outside directors, and which meets periodically with management and the independent auditors to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting controls, the planned scope of examinations by independent auditors and their findings and recommendations. It also reviews the Company's consolidated financial statements.

The Company's independent auditors, Coopers & Lybrand, Chartered Accountants, conduct an independent examination on behalf of the shareholders, in accordance with generally accepted auditing standards and express their opinion on the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have free access to the Audit Committee of the Board.



R.G. Graham
Chairman of the Board and
Chief Executive Officer



A. Singh
Senior Vice President
Chief Financial Officer and Secretary

March 4, 1994

Auditors' Report



To The Shareholders
Inter-City Products Corporation

We have audited the consolidated balance sheets of Inter-City Products Corporation as at December 31, 1993 and 1992 and the consolidated statements of loss, deficit and changes in financial position for the years ended December 31, 1993, 1992 and 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Inter-City Products Corporation as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years ended December 31, 1993, 1992 and 1991 in accordance with generally accepted accounting principles.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Toronto, Ontario

March 4, 1994,
March 11, 1994 as to Note 23, and
March 31, 1994 as to Notes 7 and 8

Consolidated Balance Sheets

As at December 31, 1993 and 1992

(in millions of Canadian Dollars)

	1993	1992
ASSETS		
Current Assets		
Cash and short-term deposits	\$ 16.1	\$ 12.0
Restricted cash	2.9	4.7
Accounts receivable - trade (less allowance for doubtful accounts; 1993- \$11.2; 1992- \$10.2)	197.1	80.4
Deferred income taxes	15.4	16.0
Inventories	165.1	175.7
Prepaid expenses	4.6	5.9
	401.2	294.7
 Discontinued Operation	 9.1	 8.5
 Fixed Assets	 	
Property, plant and equipment - at cost	315.2	294.7
Accumulated depreciation	133.5	110.2
	181.7	184.5
 Intangible And Other Assets	 34.6	 30.6
	 \$ 626.6	 \$ 518.3

See accompanying notes



Director



Director

	1993	1992
LIABILITIES		
Current Liabilities		
Bank advances	\$ 49.4	\$ 41.4
Accounts payable and accrued liabilities	135.7	118.0
Current portion of long-term debt	13.3	9.3
	198.4	168.7
Long-Term Debt	244.5	134.1
Product Warranty And Other Long-Term Liabilities	22.6	17.8
Deferred Income Taxes	2.8	13.6
	468.3	334.2
Commitments And Contingencies (Note 18)		
SHAREHOLDERS' EQUITY		
Convertible Preference Shares	61.0	61.0
Ordinary Shares	158.8	157.3
Deficit	(61.1)	(28.4)
Foreign Currency Translation Adjustment	(.4)	(5.8)
	158.3	184.1
	\$ 626.6	\$ 518.3

See accompanying notes

Consolidated Statements of Loss

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars)

	1993	1992	1991
Operating Revenue	\$ 878.8	\$ 814.9	\$ 657.1
Costs of Sales	723.4	641.6	515.4
Gross Margin	155.4	173.3	141.7
Selling, General and			
Administrative Expenses	144.3	145.0	123.4
Gain on Sale of Unifin Operation	-	-	(4.7)
Restructuring Costs	18.9	7.2	1.1
Operating Profit (Loss)	(7.8)	21.1	21.9
Financial Expenses			
Discount on sale of receivables	1.1	13.3	-
Interest on long-term debt	19.3	10.3	11.2
Other interest	1.1	3.2	13.0
Amortization of financing costs	2.9	0.9	1.2
Gain on foreign exchange	(.1)	(3.9)	-
Refinancing costs	1.6	-	11.1
	25.9	23.8	36.5
Loss Before Income Taxes	(33.7)	(2.7)	(14.6)
Provision for (recovery of)			
Income Taxes	(7.3)	.1	(7.0)
Loss From Continuing Operations	(26.4)	(2.8)	(7.6)
Discontinued Operations			
Utilization of prior years' tax losses	.6	1.9	-
Loss from Refrigeration Operation, net of income taxes	(2.0)	(3.3)	(1.6)
	(1.4)	(1.4)	(1.6)
Net Loss	\$ (27.8)	\$ (4.2)	\$ (9.2)

See accompanying notes

Consolidated Statements of Deficit

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars)



	1993	1992	1991
Balance - Beginning of the year			
As previously reported	\$ (26.8)	\$ (17.8)	\$ (3.8)
Prior period adjustment - Mischer litigation claim	(1.6)	(1.5)	(1.4)
As restated	(28.4)	(19.3)	(5.2)
Net Loss	(27.8)	(4.2)	(9.2)
Dividends On Preference Shares	4.9	4.9	4.9
Balance - End of the year	\$ (61.1)	\$ (28.4)	\$ (19.3)

See accompanying notes

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars)

	1993	1992	1991
Cash provided by (used for):			
Operations			
Loss from continuing operations	\$ (26.4)	\$ (2.8)	\$ (7.6)
Items not involving current cash flows	21.3	20.7	16.2
Changes in operating working capital	(68.9)	52.1	10.0
	(74.0)	70.0	18.6
Investment			
Property, plant and equipment	(14.0)	(17.5)	(15.8)
Acquisition of Arcoaire Comfortmaker Operations	-	-	(87.7)
Net payments to ICP Canada dissenting shareholders	-	-	(9.6)
Net proceeds on sale of Unifin operation	-	(1.4)	18.8
Discontinued operations and other	(2.6)	(12.7)	(.6)
	(16.6)	(31.6)	(94.9)
Financing			
Ordinary shares issued	1.5	52.1	37.7
Long-term debt issued	189.8	.3	120.4
Repayment of long-term debt and other	(90.9)	(4.6)	(110.7)
Refinancing costs	(8.8)	-	(10.7)
Dividends on preference shares	(4.9)	(4.9)	(4.9)
	86.7	42.9	31.8
Increase (Decrease) in Cash Deficiency	3.9	(81.3)	44.5
Cash Deficiency - Beginning of the year	29.4	110.7	66.2
Cash Deficiency - End of the year	33.3	29.4	110.7
Represented by			
Bank Advances	49.4	41.4	134.5
Less: Cash and short-term deposits	16.1	12.0	23.8
	33.3	29.4	110.7

Notes to Consolidated Financial Statements

For the years ended December 31, 1993, 1992 and 1991
(in millions of Canadian Dollars unless otherwise stated)



1. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain respects with accounting principles in the United States. The differences between generally accepted accounting principles in Canada and the United States as they affect the Company are described in the Company's report on Form 20-F, filed with the Securities and Exchange Commission.

Consolidation

The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies from the dates of acquisition, on the basis of purchase accounting, except for the discontinued operation which is described in Note 17.

Foreign Currency Translation

The assets and liabilities of the Company's self-sustaining foreign operations are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. The resulting gains and losses are accumulated in a separate component of shareholders' equity. Revenues and expenses are translated at the average exchange rates prevailing during the year.

For domestic companies, monetary assets and liabilities are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date; whereas non-monetary assets and liabilities are translated at the rates of exchange prevailing at the transaction date. Revenue and expenses (other than depreciation and amortization which are translated at the rates applicable to the related assets) are translated at the average exchange rates prevailing during the year. Gains and losses from foreign currency translation are included in the consolidated statements of loss.

Inventories

Raw materials and supplies, work in process and finished goods, are valued at the lower of cost (first-in, first-out) and net realizable value.

Fixed Assets

Fixed assets are recorded at cost, which includes interest and overhead capitalized on construction in progress, less accumulated depreciation.

Depreciation is provided on a straight-line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2.5%	—	10%
Machinery, equipment and furniture	5%	—	13%
Tooling and drawings	17%	—	33%

1. Significant Accounting Policies (Cont'd)

Intangible and Other Assets

Intangible and other assets include amounts paid for patents, tradenames, distributor relationships, a non-competition agreement, deferred financing costs and goodwill. The excess of the cost of acquiring businesses over the fair value of the identifiable tangible assets is allocated first to intangible assets and then to goodwill. Amortization of deferred financing costs is provided on a straight line basis over the term of the related debt. Amortization of intangible and other assets is provided on a straight-line basis over various periods, not exceeding twenty years.

Income Taxes

The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Postretirement Benefits Other Than Pensions

The Company provides certain retirement benefits for its retired employees. Retirement benefits include health care benefits and life insurance. The Company accounts for these benefit payments on a cash basis.

Product Warranties

A liability for estimated warranty expense is established by a charge against operations at the time products are sold. The subsequent costs incurred for warranty claims serve to reduce the product warranty liability. Certain subsidiaries offer and sell extended warranty contracts for their products through certain distributors. The revenue for such contracts is deferred and recognized over the life of the contract on a straight-line basis.

2. Acquisition Of Arcoaire Comfortmaker Operations

On June 28, 1991, Inter-City Products Corporation (USA) ("ICP USA"), a United States wholly-owned subsidiary of the Company, acquired substantially all of the assets and assumed substantially all of the operating liabilities of the residential and light commercial air conditioning and heating business carried on by the Arcoaire Comfortmaker operations (the "Arcoaire Comfortmaker Operations"), formerly the Dealer Products Group of Snyder General Corporation. The acquisition was accounted for using the purchase method of accounting and accordingly, the results of operations of the Arcoaire Comfortmaker Operations have been included in the consolidated statements of loss since the date of acquisition.

Included in the assets purchased was a fully equipped and operating manufacturing facility in Red Bud, Illinois which the Company operated through March 1992. Prior to March 1992, certain of the Red Bud production lines were consolidated with the Company's existing manufacturing facilities in Lewisburg, Tennessee and Brantford, Ontario.

Notes to Consolidated Financial Statements

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars unless otherwise stated)

2. Acquisition Of Arcoaire Comfortmaker Operations (Cont'd)

During 1992 the values assigned to certain plant assets along with certain estimated plant shut down costs were restated and consequently the amounts originally assigned to property, plant and equipment, accrued shutdown costs and goodwill were adjusted. These adjustments did not have a material effect on income. The purchase price, which was comprised of the consideration paid, estimated equipment relocation costs and acquisition related expenses, was allocated on the basis of the final estimated fair values of the net assets acquired as summarized below:

Net assets acquired:

Working capital	\$ 47.2
Property, plant and equipment	25.9
Intangible assets	27.8
Long-term liabilities assumed	(6.9)
<i>Net purchase price</i>	\$ 94.0

3. Accounts Receivable

Until March 11, 1993 ICP USA was party to a receivables purchase agreement to sell with recourse certain customer accounts receivable to an unrelated entity. Effective March 1, 1992, transfers of receivables qualified as sales under generally accepted accounting principles in Canada on the basis that the significant risks and rewards of ownership of the receivables were being transferred to the purchaser. The Company discounted the accounts receivable sold and recognized a loss at the time of the sale. Prior to December 1992 the loss was equal to the U.S. prime interest rate plus 4.5% applied to the average outstanding uncollected balance. During December 1992, the receivables purchase agreement was modified to reduce the discount rate to an amount equal to U.S. prime interest rate plus 2% through December 31, 1993. As part of the refinancing of ICP USA described in Note 8, ICP USA repurchased \$118.2 (U.S. \$95.0 million) of receivables and the receivables purchase agreement was terminated.

At December 31, 1992, \$93.1 (U.S. \$ 73.2 million) of accounts receivable sold were uncollected. A provision for potential liabilities under the recourse provisions of the agreement was included in the allowance for doubtful accounts at December 31, 1992.

4. Inventories

Inventories are classified as follows:

	1993	1992
Raw materials and supplies	\$ 41.3	\$ 52.9
Work in process	10.8	16.5
Finished goods	113.0	106.3
	\$ 165.1	\$ 175.7

5. Fixed Assets

Property, plant and equipment are classified as follows:

	1993			1992		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Machinery, equipment						
and furniture	\$ 162.4	\$ 74.0	\$ 88.4	\$ 160.8	\$ 70.5	\$ 90.3
Buildings	72.0	22.1	49.9	73.5	20.3	53.2
Tooling and drawings	52.4	29.8	22.6	46.2	19.4	26.8
Land and land improvements	14.7	—	14.7	14.2	—	14.2
Idle Assets	13.7	7.6	6.1	—	—	—
	\$ 315.2	\$ 133.5	\$ 181.7	\$ 294.7	\$ 110.2	\$ 184.5

As a result of the temporary closure of the Brantford manufacturing facility described in note 20, fixed assets with a net book value of \$6.1 have been idled. Net book value of these assets approximates market value on the basis of their continued use as determined by an independent appraisal firm.

Depreciation expense during the year amounted to \$23.4 (1992-\$21.7; 1991- \$18.2).

6. Intangible And Other Assets

Intangible and other assets are classified as follows:

	1993	1992
Patents	\$ 8.0	\$ 7.3
Non-competition agreement	5.2	5.1
Distributor relationships	3.6	3.4
Tradenames	3.2	3.1
Technology	2.1	2.0
Goodwill	7.7	7.4
Other intangible assets	6.0	6.5
Deferred financing costs	11.1	2.9
	46.9	37.7
Less: Accumulated amortization	12.3	7.1
	\$ 34.6	\$ 30.6

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For the years ended December 31, 1993, 1992 and 1991

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7. Bank Advances

a) Inter-City Products Corporation (Canada) ("ICP Canada")

(i) ICP Canada, a wholly-owned subsidiary of the Company has a \$50.0 operating line of credit, of which \$37.2 was utilized at December 31, 1993 (1992 - \$36.7). ICP Canada's operating loan accrues interest at prime plus 0.25% per annum or at Bankers' Acceptance rates plus a stamping fee of 1% as selected by the company. ICP Canada's accounts receivable and inventories are pledged as collateral under its loan agreement which contains covenants, the most restrictive of which require it to maintain a certain minimum interest coverage ratio and precludes the payment of dividends.

(ii) In March 1994, in conjunction with the restructuring plan described in Note 20, ICP Canada's loan agreement was amended. The amendments included revisions to certain financial covenants, an increase in the interest rate to prime plus 0.75% or the Bankers' Acceptance rate plus a stamping fee of 1 1/2%, and a reduction in the line of credit based on the expected sale of the Refrigeration Operation referred to in Note 17. The proceeds from the sale of the Refrigeration Operation must be used firstly to fully repay ICP Canada's term bank loan described in Note 8, and the balance to reduce the operating line of credit.

b) Thompson Pipe & Steel Company ("TP&S")

(i) TP&S a wholly-owned United States subsidiary of the Company has a U.S. \$10 million operating line of credit of which \$12.2 (U.S. \$9.2 million) was utilized at December 31, 1993 and \$4.7, (U.S. \$3.7 million) at December 31, 1992. The operating loan accrues interest at prime plus 0.75%. All the assets of TP&S are pledged as collateral under its loan agreement which contains covenants, the most restrictive of which require it to maintain a minimum working capital ratio and restrict the payment of dividends.

(ii) In March 1994, the loan agreement was amended to reduce the amount available under the operating line of credit to U.S. \$7.0 million, increase the borrowing rate to prime plus 3.5%, modify the debt covenants including the addition of a minimum tangible net worth requirement and establish a maturity date of March 31, 1995.

(c) The maximum amount of bank advances outstanding, excluding the advances received under the receivables purchase facility, at any month-end during the year ended December 31, 1993 was \$54.9 (1992 - \$49.0). The average bank advances outstanding, excluding the advances received under the receivables purchase facility, calculated by averaging month-end balances, during the year ended December 31, 1993 was \$35.8 (1992 - \$41.2).

The weighted average interest rate on the outstanding bank advances at December 31, 1993 was 5.8% (1992 - 7.5%). Weighted average interest rates are calculated based on actual interest rates in effect and the bank advances outstanding as at December 31.

8. Long-Term Debt

a) The details of long-term debt are as follows:

	1993	1992
9.75% Senior Secured Notes due March 2000	\$ 185.3	\$ -
Revolving credit loan repayable January 1997	18.3	-
Term and revolving loans	-	89.0
Term bank loans, repayable during the period of 1994 to 1996	45.2	44.8
Industrial revenue bonds, repayable during the period of 1994 - 2005	8.7	9.3
Other indebtedness	.3	.3
	257.8	143.4
Current portion included in current liabilities	13.3	9.3
	\$ 244.5	\$ 134.1

Of the total amount outstanding at December 31, 1993, debt denominated in U.S. dollars amounted to U.S. \$185.5 million (1992 - U.S. \$102.6 million).

b) ICP USA

(i) On March 11, 1993, ICP USA issued U.S. \$140.0 million of 9.75% senior secured notes ("Senior Notes") in a public offering in the United States and entered into a U.S. \$135.0 million revolving credit loan (the "Revolving Credit Facility"). The proceeds of the public offering and a portion of the Revolving Credit Facility was used to repay all of ICP USA's existing borrowings and to re-finance the receivables purchase facility. ICP USA expensed \$1.6 of costs relating to the extinguishment of the previously existing debt. ICP USA's receivables purchase facility and previous term and revolving loans were entered into on June 28, 1991 in conjunction with the acquisition of Arcoaire Comfortmaker Operations. In 1991 ICP USA expensed costs of \$11.1 relating to the 1991 refinancing and acquisition of Arcoaire Comfortmaker Operations.

The Senior Notes are repayable in March 2000 and require mandatory prepayments if ICP USA has certain cash proceeds from asset sales as defined in the Senior Note agreement. Interest on the Senior Notes is payable semi-annually in March and September. The Senior Notes are collateralized by substantially all the real and personal property of ICP USA, other than accounts receivable and inventories. The Senior Note indenture contains financial covenants which limit certain transactions including the payment of dividends. In March 1993, ICP USA entered into interest rate swap agreements which expire March 1, 2000, that effectively convert U.S. \$80 million of its 9.75% fixed rate Senior Notes into variable rate obligations. Under the terms of these interest rate swap agreements, ICP USA makes payments at variable rates which are based on LIBOR (3.5% at December 31, 1993) and receives payments at fixed interest rates which average 5.9% over the terms of the swap agreements.

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8. Long-Term Debt (Cont'd)

b) ICP USA (Cont'd)

Advances under the Revolving Credit Facility totalled \$18.3 (U.S. \$13.8 million) at December 31, 1993. The Revolving Credit Facility is collateralized by the accounts receivable and inventories of ICP USA and contains covenants, the most restrictive of which require ICP USA to maintain certain minimum amounts of net worth and earnings before interest, taxes, depreciation and amortization, maintain certain financial ratios and restrict the payment of dividends on its common and preferred shares. The Revolving Credit Facility was modified during 1993 to lower the commitment amount from U.S. \$135.0 million to U.S. \$120.0 million, reduce the amount of inventory included in the borrowing base and revise certain financial covenants. The Revolving Credit Facility accrues interest at a rate selected by ICP USA which at December 31, 1993 was either prime plus 1.25% or 2.75% per annum over the London interbank offering rate ("LIBOR"). ICP USA is required to pay a commitment fee under the Revolving Credit Facility on the unused credit equal to 0.5% per year. A fee is charged on any letters of credit issued at 2.75% per year for the period the obligation is outstanding.

(ii) In March 1994, the Revolving Credit Facility was amended to revise certain financial covenants, change the maturity date from March 1998 to January 1997, increase the interest rate to prime plus 1.75% or LIBOR plus 3.5% and increase the letter of credit fee to 3.5%.

c) ICP Canada

(i) ICP Canada's term bank loan accrues interest at prime plus 0.25% per annum or at Bankers' Acceptance rates plus a stamping fee of 1% as selected by the company. At December 31, 1993 the interest rate on the term bank loan was 4.96%. The property, plant and equipment of ICP Canada are pledged as collateral for the term bank loan.

(ii) In March 1994, ICP Canada's loan agreement was amended to require the repayment of its term bank loan in 1994. The repayment of the term bank loan will be financed by proceeds from the sale of production equipment to ICP USA described in Note 20, by proceeds from the sale of the Refrigeration Operation and if required by utilizing the operating line of credit. Accordingly, at December 31, 1993 the term bank loan of \$12.1 has been included as part of the current portion of long-term debt.

d) CHL Holdings Inc.

On June 28, 1991, CHL Holdings Inc. a wholly-owned United States subsidiary of the Company, arranged an unsecured term bank loan in the amount of \$33.1 (U.S. \$25.0 million) due in 1996 to facilitate the acquisition of the Arcoaire Comfortmaker Operations and for general corporate purposes. The term bank loan accrues interest at LIBOR plus 0.625%. The shares of TP&S have been pledged in support of an arm's length third party guarantee of this term bank loan. The pledge agreement contains certain covenants, the most restrictive of which requires TP&S to maintain a minimum net worth. Subsequent to year-end the company obtained a waiver of certain breaches of covenants of the pledge agreement, which existed at December 31, 1993.

8. Long-Term Debt (Cont'd)

e) TP&S

The rate of interest on the industrial revenue bonds is calculated by reference to the rates applicable to the short-term tax exempt securities of highly rated issues. At December 31, 1993, the variable interest rate on these bonds was 3.5% (1992 - 4.4%). The bonds are collateralized by two letters of credit issued by the financial institution which provides TP&S its operating line of credit. TP&S is subject to letter of credit covenants similar to those under its operating line of credit described in Note 7.

f) Under the provisions of the various loan agreements and indentures, the Company is required to make the following installments during the next five years:

Year	
1994	\$ 13.3
1995	1.0
1996	34.2
1997	19.1
1998	1.0

9. Preference Shares

a) Authorized

Unlimited number of Class A preference shares are issuable in series and rank senior to the Class B preference shares, Class C preference shares and ordinary shares as to dividends and participation in certain distributions of assets on liquidation. Any series of the shares may be made convertible into ordinary shares and have no voting rights as a class.

Unlimited number of Class B preference shares are issuable in series and rank senior to the Class C preference shares and ordinary shares and junior to the Class A preference shares as to dividends and participation in certain distributions of assets on liquidation. Any series of the shares may be made convertible into ordinary shares and have no voting rights as a class.

Unlimited number of Class C preference shares carrying a cumulative annual dividend entitlement of \$2.00 per share. They rank senior to the ordinary shares and rank junior to the Class A preference shares and Class B preference shares as to dividends and participation in certain distributions of assets on liquidation. They are convertible into ordinary shares of the Company at the option of the holder prior to the close of business on June 30, 2000 at a conversion rate of 2.866 ordinary shares for each Class C preference share. The Class C preference shares are redeemable at any time at \$25.00 per share plus accrued and unpaid dividends. See Note 23.

Subject to the provisions of the Canada Business Corporations Act, the holders of Class C preference shares do not have voting privileges at any meetings of shareholders, unless the Company shall have failed to pay eight quarterly dividends, whether or not consecutive, on the Class C preference shares.

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9. Preference Shares (Cont'd)

b) Issued and Outstanding

	1993		1992	
	Number	Amount	Number	Amount
Class C preference shares	2,439,887	\$ 61.0	2,439,887	\$ 61.0

c) Purchase Fund Requirements

Class C preference shares

During each period of 12 consecutive months commencing June 30, 2000, the Company will make reasonable efforts to purchase for cancellation in the open market, 10% of the Class C preference shares outstanding at the commencement of such 12 month period at a price not to exceed the redemption price of such shares plus costs of purchase.

10. Ordinary Shares

a) Authorized and Outstanding

The Company is authorized to issue an unlimited number of ordinary shares. Changes in the issued and outstanding ordinary shares for the years 1993, 1992 and 1991 are as follows:

	1993		1992		1991	
	Number	Amount	Number	Amount	Number	Amount
Issued and outstanding beginning of the year	24,618,905	\$ 157.3	17,226,836	\$ 105.2	7,226,836	\$ 67.5
Issued under private placement	-	-	7,250,000	51.1	10,000,000	37.7
Issued under the Share Ownership Savings Plan	311,898	1.5	141,975	1.0	-	-
Issued under the terms of the convertible Class C preference shares	-	-	94	-	-	-
Issued and outstanding end of the year	24,930,803	\$ 158.8	24,618,905	\$ 157.3	17,226,836	\$ 105.2

b) Employee Stock Option Plan

A total of 1,060,400 ordinary shares have been reserved for issuance to officers and employees of the Company under the Employee Stock Option Plan.

10. Ordinary Shares (Cont'd)

b) Employee Stock Option Plan (Cont'd)

The term of all options cannot exceed ten years from the date the option is granted and no more than 20% of the total options granted to any individual can be taken up and paid for in any one year on a cumulative basis, except in certain circumstances where the exercise of such options would be accelerated, and for stock options received in exchange for long-term incentive plan units as described in Note 10(d) below. The option exercise price is fixed by the Board of Directors at the time each option is authorized and cannot be less than 90% of the weighted average sales price per share on The Toronto Stock Exchange ("TSE") on the business day preceding the date of authorization.

Changes in the outstanding share options from January 1, 1991 to December 31, 1993 are as follows:

	1993	1992	1991
Balance - beginning of the year	500,000	500,000	500,000
Granted	20,000	-	-
Cancelled	(30,000)	-	-
Balance - end of the year	490,000	500,000	500,000

The option exercise prices, expiry dates and the number of options outstanding at December 31, 1993 at each price are as follows:

Exercise Price	Expiry Date	Number
\$ 4.15	December 31, 1994	120,000
\$ 4.15	November 5, 1997	350,000
\$ 3.65	August 10, 2000	20,000
		490,000

c) Share Ownership Savings Plan

Effective July 1, 1992, certain employees of the Company are eligible to participate in the Company's Share Ownership Savings Plan (the "Savings Plan"). Generally, the Savings Plan is available to all non-union employees following the completion of one year of continuous service with the Company. The Savings Plan allows eligible employees to contribute from one to six percent of their salary to the Savings Plan. The Company is required to match 25% of the employees' contributions and may make additional annual contributions of up to 75% of the employees' contribution at its discretion. In 1993 the Company's expense with respect to the Savings Plan was \$.3 (1992 - \$.7).

Effective January 1, 1994, ICP USA's Savings Plan was amended to provide additional investment options, allowing participants to purchase bond, money market, or index funds in addition to ordinary shares of the Company. The Company will only match contributions directed toward the purchase of the Company's ordinary shares.

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10. Ordinary Shares (Cont'd)

d) Long-Term Incentive Plan

Effective November 5, 1990, the Company adopted a long-term incentive plan (the "Plan"). Under the Plan, certain key officers and employees of the Company may be granted long-term incentive compensation units ("LTIP Units") the value of which shall be determined by reference to the appreciation in the market value of the ordinary shares over stated periods of time. Based on the discretion of the Board of Directors of the Company, the appreciation in the market value of the ordinary shares will be distributed to the holder thereof by payment of cash, issuance of ordinary shares or a combination thereof.

The initial value of the units at the date of granting is established as the weighted average price of board lot sales of ordinary shares on the TSE during the five consecutive trading days immediately preceding the date of granting of such units. The value of the ordinary shares on the valuation date is established as the simple average of the closing sale price for the ordinary shares on the TSE on each trading day for the six month period ending on the valuation date. The valuation date of the units is determined by the Board of Directors and shall be no sooner than the year in which the fifth anniversary of the date of grant occurs and in no event shall a valuation date be later than the date which is ten years after the date of grant.

On August 10, 1993, the Plan was amended to permit Canadian holders of LTIP Units to exchange all or any part of their LTIP Units for options to purchase ordinary shares granted under the Employee Stock Option Plan, on the basis of one ordinary share for each LTIP Unit exchanged. The stock options received in exchange for LTIP Units will be exercisable at any time during the six month period used to establish the value of the ordinary shares on the valuation date of the respective LTIP Unit.

As at December 31, 1993, the following units were outstanding under the Plan:

Date of Grant	Initial Value Per Unit	Number of Units	Valuation Date
November 5, 1990	\$4.15	1,240,000	October 31, 1995
July 1, 1991	\$4.15	30,000	June 30, 1996
December 13, 1991	\$5.30	356,000	November 30, 1996
February 1, 1993	\$7.125	34,000	February 1, 1998
		1,660,000	

10. Ordinary Shares (Cont'd)

d) Long-Term Incentive Plan (Cont'd)

As at December 31, 1993, 547,400 LTIP Units were held by Canadian employees eligible to exchange such units for stock options.

The Company accrues as compensation over the vesting period, the appreciation in the market value of the ordinary shares over the initial value at the date of grant. In 1993 due to lower market prices for the Company's ordinary shares the Company included in income \$1.3 in respect of amounts expensed under the plan in prior years. The amounts expensed in 1992 and 1991 were \$1.1 and \$.2 respectively.

e) Legal Stated Capital

The aggregate stated capital of the ordinary and Class C preference shares, for the purposes of the Canada Business Corporations Act, are as follows:

Ordinary shares	\$ 138.9
Class C preference shares	\$ 51.4

11. Foreign Currency Translation Adjustment

This adjustment which is included as a component of shareholders' equity represents the unrealized gain or loss on translation of financial statements of self-sustaining operations in the United States. Changes during the respective years are as follows:

	1993	1992	1991
Cumulative unrealized loss at January 1	\$ (5.8)	\$ (15.1)	\$ (14.5)
Unrealized gain (loss) on translation of net assets	5.4	9.3	(.6)
Cumulative unrealized loss at December 31	\$ (.4)	\$ (5.8)	\$ (15.1)

The rate of exchange as at December 31, 1993 was Cdn. \$1.3240 = U.S.\$1.00 (1992 - Cdn. \$1.2711 = U.S. \$1.00), and the average rate for the year was Cdn. \$1.2898 = U.S. \$1.00 (1992 - Cdn. \$1.2085 = U.S. \$1.00; 1991 - Cdn. \$1.1457 = U.S. \$1.00).

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INTER-CITY
27
PRODUCTS

12. Income Taxes

The components of loss before income taxes and the income tax provision (recovery) are as follows:

	1993	1992	1991
Loss before income taxes			
Canada	\$ (4.4)	\$ (.8)	\$ (9.4)
United States	(29.3)	(1.9)	(5.2)
	\$ (33.7)	\$ (2.7)	\$ (14.6)
Current income tax provision (recovery)			
Canada	\$ 3.3	\$ 2.9	\$ (5.2)
United States	(2.9)	(1.1)	(2.4)
	.4	1.8	(7.6)
Deferred income tax provision (recovery)			
Canada	(0.4)	(3.6)	(.4)
United States	(7.3)	1.9	1.0
	(7.7)	(1.7)	.6
	\$ (7.3)	\$.1	\$ (7.0)

A reconciliation between the combined statutory and the effective rate of income taxes is provided below:

	1993	1992	1991
Loss before income taxes	\$ (33.7)	\$ (2.7)	\$ (14.6)
Combined statutory tax rate	38.8%	38.8%	38.8%
Computed income tax recovery	(13.1)	(1.0)	(5.7)
(Increase) decrease resulting from			
Non-deductible depreciation	1.1	1.3	1.5
Unrecognized losses and expenses	5.0	.7	—
Non-taxable gains	—	—	(1.9)
Utilization of loss carryforward	—	—	(1.5)
Other	(.3)	(.9)	.6
Actual income tax provision (recovery)	\$ (7.3)	\$.1	\$ (7.0)
Effective rate of income taxes	21.7%	(3.7)%	47.9%

12. Income Taxes (Cont'd)

The deferred income tax provision (recovery) results from timing differences in the recognition of revenues and expenses for income tax purposes and financial statement purposes. The source and the tax effect of each difference is as follows:

	1993	1992	1991
Excess of tax over book depreciation	\$.3	\$.8	\$ 2.4
Warranty and product liability reserves	–	.1	(.7)
Bad debt reserves	(.1)	(1.5)	(.1)
Pension and employee benefits	.8	(.6)	(.4)
Inventory reserves	.6	(.4)	–
Benefit of loss carry-forwards	(8.1)	–	–
Other, net	(1.2)	(.1)	(.6)
Deferred income tax provision (recovery)	\$ (7.7)	\$ (1.7)	\$.6

The Company has accumulated non-capital losses for Canadian income tax purposes totalling approximately \$22.0 which are available to reduce future taxable income. The potential future income tax benefits arising from these losses have not been recognized in the consolidated financial statements. The expiry dates of these losses are as follows:

Year
1997
1998
1999
\$ 22.0

The future potential tax benefit of \$13.0 of 1993 restructuring costs has not been recognized in the consolidated financial statements.

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13. Net Loss Per Ordinary Share

The net loss per ordinary share is calculated on the weighted average number of shares outstanding during the respective years as follows:

	1993	1992	1991
Loss from continuing operations	\$ (26.4)	\$ (2.8)	\$ (7.6)
Add - dividends on preference shares	(4.9)	(4.9)	(4.9)
Loss to ordinary shareholders before discontinued operations	(31.3)	(7.7)	(12.5)
Loss from discontinued operations	(1.4)	(1.4)	(1.6)
Net loss to ordinary shareholders	\$ (32.7)	\$ (9.1)	\$ (14.1)
Weighted average number of ordinary shares outstanding during the year (in millions)	24.745	22.517	12.350
Loss per ordinary share			
From continuing operations	\$ (1.27)	\$ (0.34)	\$ (1.01)
Including discontinued operations	\$ (1.32)	\$ (0.40)	\$ (1.14)

The calculation of net loss per ordinary share on a fully diluted basis assumes conversion of the Class C convertible preference shares and exercise of outstanding stock options if such action would result in dilution of earnings per share. In 1993, 1992 and 1991, both fully diluted net loss per ordinary share from continuing operations and net loss per ordinary share including discontinued operations were anti-dilutive.

14. Pension Plans

The Company and its subsidiaries have various defined benefit pension plans available to substantially all permanent full-time employees. The total pension expense for 1993 amounted to \$5.8 (1992 - \$5.2; 1991 - \$4.7). The pension expense for 1993 consisted of the following:

Current service cost	\$ 4.3
Interest costs on projected benefit obligation	6.0
Return on assets held in the plans	(5.1)
Net amortization and deferral	.6
	\$ 5.8

14. Pension Plans (Cont'd)

A summary of pension fund assets and accrued pension benefits at December 31, 1993 is as follows:

	Canada	United States
Market value of pension fund assets	\$ 22.7	\$ 49.1
Actuarial present value of accrued pension benefits	\$ 24.8	\$ 57.9

The actuarial present value of accrued pension benefits represents the discounted value of benefits expected to be paid to plan members, based on projected salaries prorated on service. No escalation of salaries is used to determine the actuarial present value of accrued pension benefits where the pension benefit is fixed and subject to renegotiation.

Certain key assumptions used in determining both the pension expense for 1993, and the actuarial present value of accrued pension benefits as at December 31, 1993, are as follows:

	Canada	United States
Discount rate	8.0%	7.5%
Rate of increase of compensation levels	5.0%	4.0%
Expected long-term rates of return on plan assets	8.0%	8.0%

The status of pension plans at December 31, 1993, is as follows:

	Canada	United States
Actuarial present value of -		
Vested benefit obligations	\$ 23.1	\$ 42.4
Nonvested benefit obligations	-	4.2
Accumulated benefit obligations	23.1	46.6
Additional amounts related to projected salary and wage increases	1.7	11.3
Total projected benefit obligations	24.8	57.9
Plan assets at market value	22.7	49.1
Plan assets less than projected benefit obligations	2.1	8.8
Unrecognized net loss	(1.4)	(4.5)
Unrecognized prior service cost	(.8)	(1.5)
Unrecognized net asset (obligation)	1.5	(4.6)
Accrued (prepaid) pension cost	\$ 1.4	\$ (1.8)

Notes to Consolidated Financial Statements

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars unless otherwise stated)



15. Business Segments

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1993, 1992 and 1991 as it relates to operating revenue, operating profit, identifiable assets, capital expenditures and depreciation and amortization expense. Operating profit is total revenue less operating expenses which includes an allocation of corporate expenses. Identifiable assets include only those assets directly identifiable with those operations.

	Operating Revenue			Operating Profit (Loss)		
	1993	1992	1991	1993	1992	1991
Heating and cooling						
Canada	\$ 99.5	\$ 96.9	\$ 92.0	\$ (9.4)	\$ (5.6)	\$ (8.6)
United States	708.1	665.3	508.4	3.1	26.4	25.4
	807.6	762.2	600.4	(6.3)	20.8	16.8
Engineered products						
Canada	-	-	22.6	-	-	3.6
United States	69.9	52.4	33.9	(2.6)	1.7	2.4
	69.9	52.4	56.5	(2.6)	1.7	6.0
Corporate and other	1.3	.3	.2	1.1	(1.4)	(.9)
	\$ 878.8	\$ 814.9	\$ 657.1	\$ (7.8)	\$ 21.1	\$ 21.9

	Identifiable Assets			Capital Expenditures			Depreciation & Amortization of Intangibles		
	1993	1992	1991	1993	1992	1991	1993	1992	1991
Heating and cooling									
Canada	\$ 89.8	\$ 88.6	\$ 90.7	\$ 2.1	\$ 4.8	\$ 6.0	\$ 2.9	\$ 2.8	\$ 2.2
United States	458.5	358.2	381.5	10.7	15.6	8.5	21.5	20.1	15.0
	548.3	446.8	472.2	12.8	20.4	14.5	24.4	22.9	17.2
Engineered products									
Canada	-	-	-	-	-	1.0	-	-	.4
United States	46.0	45.2	33.5	1.5	1.0	2.3	1.5	1.3	1.0
	46.0	45.2	33.5	1.5	1.0	3.3	1.5	1.3	1.4
Corporate and other									
	32.3	26.3	37.8	-	-	-	1.0	1.0	1.0
	\$ 626.6	\$ 518.3	\$ 543.5	\$ 14.3	\$ 21.4	\$ 17.8	\$ 26.9	\$ 25.2	\$ 19.6

16. Sale Of Unifin Operation

On December 9, 1991, the Company sold its Unifin operation, which was formerly included in the Engineered Products business, for total consideration of \$19.2 consisting of a cash payment of \$11.8 and the assumption of certain bank indebtedness of \$7.4. In 1991, the Company recorded a total after-tax gain on the sale of the Unifin operation of \$5.1, including a tax recovery of \$.4.

17. Discontinued Operation

On November 10, 1993, the Company announced its intention to sell its commercial refrigeration division ("Refrigeration Operation") which was included in the Engineered Products business. The Company is negotiating with prospective purchasers and the transaction is expected to be completed in fiscal 1994. The Company's results of operations of this business segment have been accounted for as a discontinued operation and previously reported financial statements have been restated to reflect this presentation.

Operating results of the Refrigeration Operation for each of the three years ended December 31, 1993, 1992 and 1991 are as follows:

	1993	1992	1991
Operating revenue	\$ 10.2	\$ 9.2	\$ 8.3
Loss before income taxes	(2.7)	(3.3)	(2.7)
Recovery of income taxes	.7	-	1.1
Loss from discontinued operation	(2.0)	(3.3)	(1.6)

18. Commitments And Contingencies

- a) In December 1988, an action was commenced against the Company, ICP USA, ICP Canada, and others, in the District Court of Harris County, Texas ("District Court") by the Mischer Corporation and its subsidiary (collectively "Mischer"), claiming unspecified damages for misrepresentation, breach of contract and other causes of action arising out of the breakdown of business relations between Mischer and ICP USA. Mischer also claimed punitive damages, attorney's fees, prejudgment and postjudgment interest and costs. This case was tried by a jury and a verdict was returned on February 14, 1991. The jury awarded Mischer U.S. \$20,000 in actual damages and punitive damage awards totalling U.S. \$4.0 million. Of this total, actual damages of U.S.\$ 10,000 and punitive damages of U.S.\$ 3.0 million were awarded against ICP USA and actual damages of U.S.\$ 10,000 and punitive damages of U.S.\$ 1.0 million were awarded against ICP Canada. ICP USA which counterclaimed for breach of contract was awarded approximately U.S. \$675,000 for this claim and attorney's fees which ICP USA has recorded as an account receivable. During 1992, the Company appealed the judgment of the District Court to the Texas Court of Appeals. In 1993, the Texas Court of Appeals reversed the ruling against ICP USA and upheld the award of damages against ICP Canada. Mischer has requested the Texas Supreme Court to consider the case; however, the Court has yet to indicate whether such case will be considered. The Company and its attorneys believe

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For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars unless otherwise stated)



18. Commitments And Contingencies (Cont'd)

that Mischer's arguments lack merit. Accordingly, the Company has made no provision in its financial statements for any damages in respect to claims against ICP USA. The Company has accrued for the judgment against ICP Canada as a prior period adjustment as described in Note 19. In accordance with the appeals procedures, the Company was required to place a surety bond with the Texas Court of Appeals. The insurance company that issued that bond required the Company to provide collateral and, the Company set aside U.S. \$2.1 million as restricted cash at December 31, 1992. Upon reversal of the initial ruling, the Company was no longer required to provide collateral and, accordingly, no restricted cash exists at December 31, 1993 in respect to this action.

b) In conjunction with a state authority, ICP USA has been involved in assessing the extent of environmental contamination at its Lewisburg manufacturing facility, caused by a sudden and accidental spill in 1980. ICP USA and the state authority have participated in certain preliminary investigative activities and have commenced initial remediation. The cost of environmental cleanup discounted at 5% is currently estimated to be approximately U.S. \$4.5 million over the next twenty years.

The undiscounted cash flows are presently expected to be as follows:

Year	
1994	U.S. \$.6
1995	1.5
1996	.9
1997	.3
1998	.3
Thereafter	2.0
	\$ 5.6

ICP USA has been advised by its legal counsel that it is probable it will recover from its liability insurance carriers and the previous owner of the property amounts with respect to the foregoing matter on the basis that the damage resulted from a sudden and accidental spill. The expected recoveries from the previous owner of the property and the insurance carriers are expected to exceed the discounted costs and accordingly ICP USA has made no provision for these costs in its financial statements. ICP USA has recorded a U.S. \$.4 receivable from the previous owner under an indemnity agreement for remediation expenditures in 1993.

c) In December 1991, the Company and Flying J, Inc. ("Flying J") entered into a cost sharing agreement whereby the Company will participate with Flying J in the financing of future cleanup activities for environmental contamination at three refinery sites sold by the Company to Flying J in 1980. This settlement does not affect claims by Flying J or the Company against third parties who may be responsible for contribution to refinery cleanup costs. In December 1991, the Company also reached a settlement with several of its insurance carriers whereby the insurers will reimburse the Company for a portion of the expenses the Company will incur in the cleanup activities at the refineries.

18. Commitments And Contingencies (Cont'd)

The cleanup activities at the various sites are still at a preliminary study phase and the scope of the projects is uncertain. At December 31, 1993, the Company has a provision of U.S. \$7.7 million for its estimated share of future cleanup costs based on current information prepared by independent environmental consultants. It is not possible to definitively estimate the ultimate costs of remediation of such environmental contamination and accordingly such remediation could require the Company to make certain payments in excess of the amount provided for resulting in additional charges against the Company's income from discontinued operations in the future.

The Company's share of the cost of environmental cleanup, net of expected insurance recoveries, discounted at 5% is currently estimated to be approximately U.S. \$5.8 million over the next 30 years. The undiscounted cash flows net of expected insurance recoveries are presently expected to be as follows:

Year	
1994	U.S. \$.6
1995	.7
1996	.5
1997	.4
1998	.5
Thereafter	6.1
	\$ 8.8

d) The Company leases certain facilities and equipment under noncancelable operating leases. Lease rental expense during the current year amounted to \$10.4 (1992 - \$9.7; 1991 - \$8.1). The approximate aggregate minimum annual rentals under long-term leases in future years, excluding capital leases, at December 31, 1993, are as follows:

Year	
1994	U.S. \$ 7.4
1995	5.0
1996	2.9
1997	1.3
1998	.3
Thereafter	.2
	\$ 17.1

Notes to Consolidated Financial Statements

For the years ended December 31, 1993, 1992 and 1991

(in millions of Canadian Dollars unless otherwise stated)



19. Prior Period Adjustment

In February, 1991, judgment was given in the Mischer case in the District of Harris County, Texas, ("District Court") against ICP Canada as described in Note 18. In September, 1993, the judgment of the District Court was upheld by the Texas Court of Appeals.

As a result \$1.6 representing damages of \$1.4 and related interest of \$.2 has been charged to the deficit as a prior period adjustment. Interest of \$.1 applicable to each of 1992 and 1991 has been charged to income for those years. The remaining \$1.4 is applicable to years prior to January 1, 1991 and the deficit balance as at that date has been adjusted accordingly.

20. Restructuring Costs

In December, 1993, the Company initiated a cost saving program designed to reduce production and operating costs and to improve profitability. As a result of this decision the Company temporarily closed the Brantford, Ontario manufacturing facility on January 21, 1994, reduced both U.S. and Canadian workforces and implemented a wage freeze for all salaried employees. The restructuring costs associated with the closure of the Brantford manufacturing facility amounted to approximately \$15.7, consisting primarily of severances and other employee related costs, the cost of transferring production equipment from the Brantford, Ontario facility to the Lewisburg, Tennessee and Laval, Quebec facilities, the loss from operations to January 21, 1994, and the write-down of fixed assets and inventories. In addition, the Company also incurred restructuring costs of \$3.2 most of which represents termination costs relating to the downsizing of the administrative office in LaVergne, Tennessee.

In 1992 the Company expensed \$7.2 (1991 - \$1.1) of restructuring costs relating to the physical relocation and integration of heating and cooling production lines from the Red Bud, Illinois plant to the manufacturing facilities in Lewisburg, Tennessee and Brantford, Ontario.

21. Details Of Cash Provided By (Used For) Operations

	1993	1992	1991
a) Items not involving current cash flows			
Depreciation and amortization	\$ 29.6	\$ 26.1	\$ 20.8
Deferred income taxes	(7.7)	(1.7)	.6
(Gain) loss on disposal of assets	(.2)	.3	(5.2)
(Gain) on foreign exchange and other	(.4)	(4.0)	-
	\$ 21.3	\$ 20.7	\$ 16.2
b) Changes in operating working capital			
Accounts receivable	\$ (105.5)	\$ 68.2	\$ 17.6
Inventories	16.0	(39.1)	1.5
Prepaid expenses and other	1.9	9.9	.1
Accounts payable and accrued liabilities	18.4	7.0	(1.7)
Income taxes payable	.3	6.1	(7.5)
	\$ (68.9)	\$ 52.1	\$ 10.0



22. Selected Financial Data

Selected financial data for the five years ended December 31, 1989 to 1993 are as follows. Amounts are in millions of dollars except per share amounts.

	1993	1992	1991	1990	1989
Operating revenue	878.8	814.9	657.1	662.4	729.9
Net income (loss)					
From continuing operations	(26.4)	(2.8)	(7.6)	3.0	9.1
After discontinued operations	(27.8)	(4.2)	(9.2)	203.0	50.8
Basic net income (loss) per ordinary share					
From continuing operations	\$ (1.27)	\$ (0.34)	\$ (1.01)	\$ (0.28)	\$ (0.34)
After discontinued operations	\$ (1.32)	\$ (0.40)	\$ (1.14)	\$ 28.90	\$ 6.80
Dividends per ordinary share	\$ -	\$ -	\$ -	\$ -	\$.18
Total assets	626.6	518.3	543.5	429.3	1,006.3
Long-term obligations	305.5	195.1	193.9	149.2	249.9

Long-term obligations include long-term debt and redeemable preference shares.

23. Subsequent Event

On March 11, 1994, the Company announced that its management had developed a proposal to cause each Class C preference share to be exchanged for 5.50 ordinary shares to improve the Company's financial position and liquidity. In conjunction with the announcement of this proposal, the Board of Directors of the Company determined not to declare and pay the quarterly dividend on the Class C preference shares ordinarily payable on April 1, 1994. A final decision by the Company's Board of Directors to proceed with the Class C preference share exchange proposal will be conditional upon a review of the fairness of the proposal by a Special Committee of the Board and the satisfactory resolution of certain regulatory and other matters. Further, any change in the terms of the Class C preference shares requires an amendment to the Company's articles of incorporation which must be submitted to and approved by the Company's ordinary and Class C preference shareholders at a special meeting.

Supplementary Information



The following information on Quarterly Financial Data is provided by management as supplementary information as required by the Securities and Exchange Commission, but does not form part of the basic financial statements.

Quarterly Financial Data

Summarized quarterly financial data is as follows. Amounts are in millions of dollars except per share amounts.

	3 Months Ended			Year Ended	
	Mar 31	Jun 30	Sep 30	Dec 31	Dec 31
1993					
Operating revenue	162.9	243.5	246.2	226.2	878.8
Gross margin	30.1	47.2	47.4	30.7	155.4
Net income (loss) after dividends on preference shares					
From continuing operations	(10.4)	1.7	2.6	(25.2)	(31.3)
After discontinued operations	(11.0)	1.7	2.3	(25.7)	(32.7)
Net income (loss) per ordinary share					
From continuing operations	\$ (0.42)	\$ 0.07	\$ 0.10	\$ (1.01)	\$ (1.27)*
After discontinued operations	\$ (0.45)	\$ 0.07	\$ 0.09	\$ (1.03)	\$ (1.32)*
 1992					
Operating revenue	181.1	237.2	190.9	205.7	814.9
Gross margin	39.6	59.3	39.8	34.6	173.3
Net income (loss) after dividends on preference shares					
From continuing operations	(1.3)	2.9	(3.0)	(6.3)	(7.7)
After discontinued operations	(1.5)	3.3	(3.2)	(7.7)	(9.1)
Net income (loss) per ordinary share					
From continuing operations	\$ (0.07)	\$ 0.14	\$ (0.12)	\$ (0.26)	\$ (0.34)*
After discontinued operations	\$ (0.07)	\$ 0.15	\$ (0.13)	\$ (0.31)	\$ (0.40)*

* Net income per share by quarter does not add to the total for the year due to changes in the number of ordinary shares outstanding during the year.

Five Year Summary Of Operations

For the years ended December 31, 1993, 1992, 1991, 1990 and 1989

	1993	1992	1991	1990	1989
Operations (in millions of dollars)					
Operating revenue	878.8	814.9	657.1	662.4	729.9
Gross margin	155.4	173.3	141.7	151.4	169.0
Operating profit before restructuring costs	11.1	28.3	23.0	38.0	48.7
Financial expenses	25.9	23.8	36.5	29.8	30.1
Income (loss) from continuing operations	(26.4)	(2.8)	(7.6)	3.0	9.1
Per Ordinary Share (in dollars)					
Net loss from continuing operations	\$ (1.27)	\$ (0.34)	\$ (1.01)	\$ (0.28)	\$ (0.34)
Net income (loss) after discontinued operations	\$ (1.32)	\$ (0.40)	\$ (1.14)	\$ 28.90	\$ 6.80
Financial Position (in millions of dollars)					
Total Assets	626.6	518.3	543.5	429.3	1,006.3
Working capital	202.8	126.0	87.6	59.9	77.7
Fixed assets (cost)	315.2	294.7	260.8	228.4	226.2
Operational Data					
Heating and Cooling					
Air Conditioners - thousands of units	564	563	511	602	654
Furnaces - thousands of units	446	444	363	283	299
Engineered Products Steel pipe - thousands of tonnes	55	38	26	22	35

COMPANY OFFICES**Executive Office**

20 Queen Street West, Box 32
Toronto, Ontario M5H 3R3

Principal Operating Office

1136 Heil-Quaker Blvd.
LaVergne, Tennessee
37086-1985

STOCK SYMBOLS & CUSIP NUMBERS**Ordinary Shares**

IPR Toronto Stock Exchange
IPR American Stock Exchange
CUSIP number 45821E-10-1

Class C Preference Shares

IPR.PRC. Toronto Stock Exchange
IPR PR American Stock Exchange
CUSIP number 45821E-20-0

