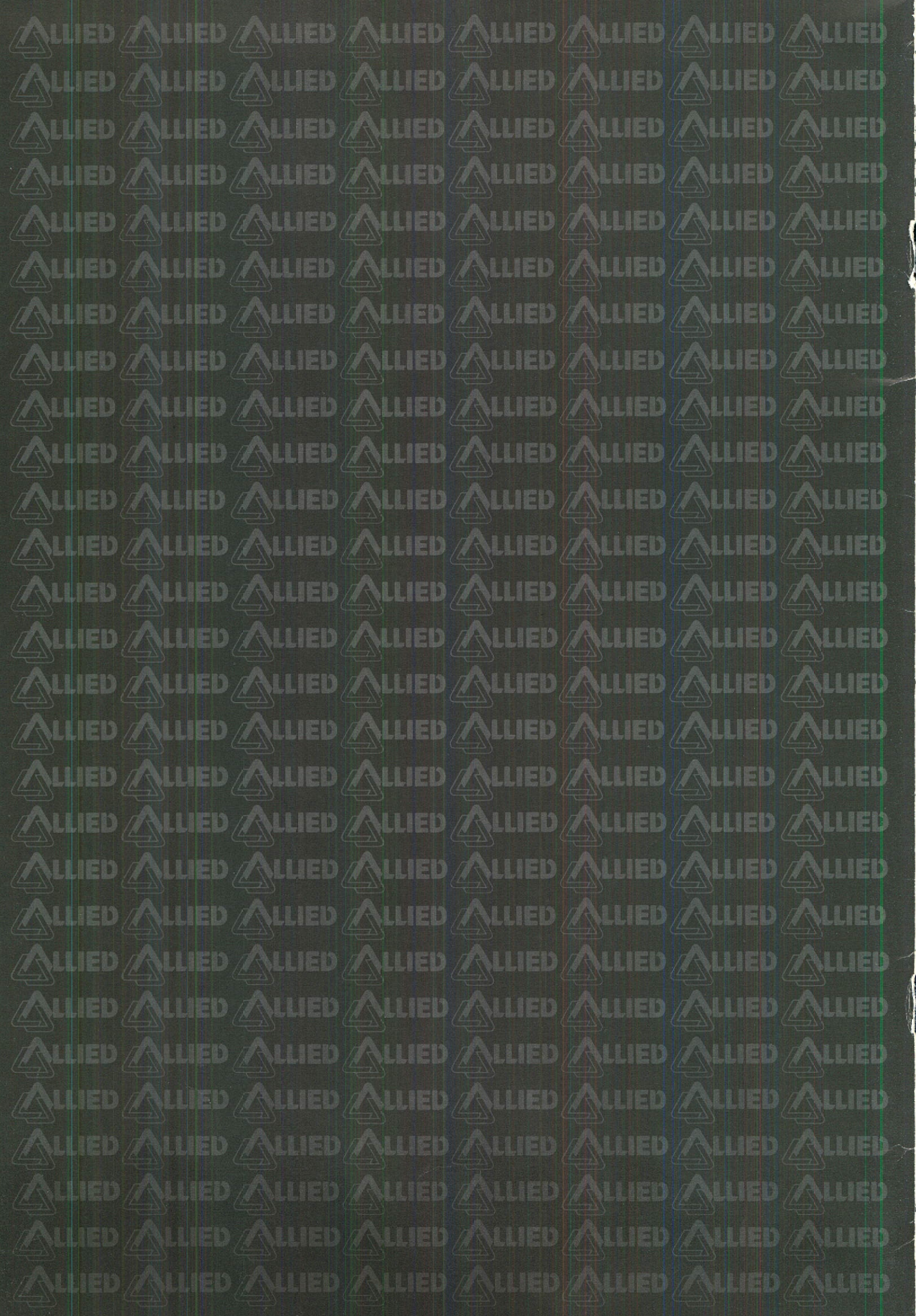




ALLIED CANADA INC. Annual Report 1983



Allied in Canada

Allied in Canada is a diversified manufacturer with 13 strategic businesses and divisions in Canada. Allied employs more than 5,000 people at 50 plants, warehouses, and sales offices across the country. The Allied divisions and subsidiaries are grouped into five sectors: chemical, industrial and technology, aerospace, automotive, and oil and gas.

In Canada Allied manufactures or distributes a wide range of products including chemicals, aircraft components and systems, electrical and electronic components, laboratory instruments and apparatus, typesetting equipment, industrial batteries, refractory materials, automotive fans, air cleaners, and emission control devices, seat belts, spark plugs, filters, ignition and charger systems, and brake components.

Highlights of 1983

M. Jack Ripley, the former President of Canadian Fram Limited, was appointed Chairman and Chief Executive Officer of Allied Canada Inc.

Allied in Canada reported net sales of \$636 million and income from continuing operations of \$25 million during the year.

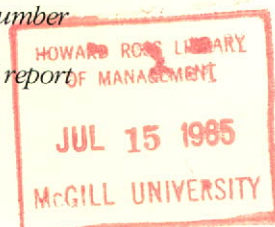
Application for Allied's acquisition of the Canadian operations of Bendix was put before the Foreign Investment Review Agency.

Allied Canada established a new Office of Technology budgeted to spend an additional \$7.3 million over the next two years on research and development. This augments the \$7.6 million already spent annually on these activities.

Productivity improvements throughout the organization made a major contribution to the performance of Allied in Canada.

Cover

Because of the significance productivity holds for North American industry, we have chosen it as the theme of our 1983 annual report. The Allied divisions in Canada developed a number of innovative productivity solutions. Perhaps the most interesting is a unique employee incentive program developed by C&D Power Systems. Shown on the cover of our annual report is Timothy Crawford, at the C&D Power Systems plant in Perth, Ontario.



Our Businesses

Chemical/Oil and Gas

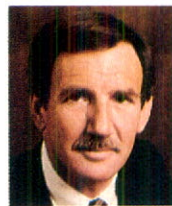


A. Russell Latham,
President,
Allied Chemical

Allied Chemical manufactures soda ash, calcium chloride, hydrofluoric acid, aluminum sulphate and fluorocarbons as its main products. These are used respectively in glass and chemical products, highway maintenance, aluminum and fluorocarbon production, water treatment, pulp and paper, and mining processes, and air conditioning, refrigeration and foam products.

Union Texas Canada has interests in oil and gas properties.

Industrial and Technology



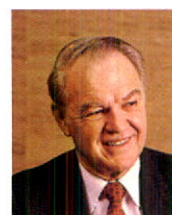
Robert J. Mackenzie,
President,
Ampenol Products

Ampenol Products manufactures and distributes electrical and electronic connectors, coaxial cable and interconnection devices for the military/aerospace, business equipment and communications markets.



Norman N. Siomra,
Director,
C&D Power Systems

C&D Power Systems manufactures motive power batteries for use in fork lift trucks, mine tractors, diesel locomotives and other vehicles, and produces stationary batteries for standby power use in major utility installations, uninterruptible power systems plus process control and computer back-up systems.



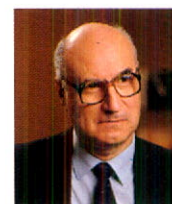
John R. Todd,
President,
Fisher Scientific

Fisher Scientific supplies analytical and measuring instruments and apparatus, glassware, hardware, reagent chemicals and diagnostics, laboratory furniture and many other products to medical, industrial, educational and government research laboratories.



Frank Minor,
President,
Linotype Canada

Linotype Canada supplies a wide range of electronic typesetting equipment and systems to newspapers, commercial typesetters, institutions and corporations.



Thomas C. Davis,
General Manager,
North American
Refractories

North American Refractories manufactures refractory specialty products for use as furnace linings in high-temperature processes.

Aerospace



Ernest Wall,
President,
Aviation Electric
(retired 1983)

Aviation Electric repairs and overhauls aircraft instruments and accessories, and manufactures fuel controls for small-aircraft gas-turbine engines. The company also designs and manufactures vehicle navigation and compass systems, custom-made industrial hydraulic power units and installations, as well as pneumatic, hydraulic and universal test stands for aircraft.

Automotive



Carl W. Martindale,
Plant Manager,
Bendix Heavy Vehicle
Systems

Bendix Heavy Vehicle Systems manufactures air brake components and systems for medium and heavy trucks, buses and off-highway vehicles.



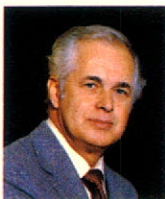
Michael H. McGregor,
Vice-President
and General
Manager,
Canadian Fram

Canadian Fram produces air cleaners, engine control devices, and engine cooling fans and modules for the original equipment automotive market. Its subsidiary, Superior Machine and Tool, designs and builds new metal stamping tools for automotive parts suppliers and repairs tooling for local customers.



Michael F. James,
Plant Manager,
Daal Specialties

Daal Specialties manufactures seat belt systems for the original equipment automotive market.



Robert Green,
President,
Fram Canada

Fram Canada makes oil, air and gas filters, fuel and water separators, and assembles spark plugs for the automotive aftermarket.



R. Joseph Gillis,
Manager,
Prestolite Electronics

Prestolite Electronics supplies electrical components in ignition and charger systems for the automotive market.

The Chairman's Report

"The future of North American industry may well depend on our ability to find new productivity solutions. The key to productivity lies in harnessing the full potential of people with technology."

Jack Ripley, Chairman and Chief Executive Officer, Allied Canada

The issue which has been uppermost in the minds of businessmen across North America in 1983 is that of productivity. The example set by Japanese industry has caused all of us to re-examine traditional manufacturing methods and management approaches. At Allied we believe that the productivity challenge is of the utmost importance and we have chosen to make this the theme of our annual report.

In the 1980's everyone is becoming more concerned about quality and price. In this intensely competitive business environment, the number one challenge facing Allied is to improve productivity by building more value into our products at less cost. This means seeking out new ways of adding value to our products and businesses through more effective use of people and technology.

1983 was a year in which the Allied companies in Canada demonstrated an impressive ability to adapt to a competitive business environment by introducing a range of productivity improvements. At Linotype Canada, sales productivity nearly doubled as a result of more vigorous marketing strategies. At C&D Power Systems, an innovative employee incentive plan was instrumental in boosting output, enhancing product quality and making the company the top industrial battery producer in Canada.

At Allied Chemical, energy conservation projects over the past several years have saved the company millions of dollars. Investments in computer-aided design and manufacturing (CAD-CAM) equipment resulted in significant productivity gains at many of our companies. At Canadian Fram, an increased emphasis on employee participation led to a threefold increase in the number of productivity ideas submitted and implemented.

While current efforts aided Allied in maintaining income levels during a difficult year, sustained long-term growth and profitability will depend not only on continuing productivity improvements, but also on an ability to develop new products for world markets. This requires substantial investments in a sophisticated research and development program.

In 1983, Allied Canada Inc. established an Office of Technology, which is budgeted to spend an additional \$7.3 million over the next two years on a select group of promising research and development projects. The funding for this corporate-wide R&D program enhances the \$7.6 million already invested in research and development activities by the Allied companies in Canada.

These projects are designed to create new product mandates for Allied

companies in Canada. One such project involves the development of a cold-weather battery for military and industrial markets. Another involves the development of a fuel-efficient, state-of-charge sensor that will automatically disconnect a clutch-driven alternator when the battery is fully charged. Allied Canada is also working to develop a broader range of specialty chemicals for use in the electronics industry. These will be manufactured in Canada and marketed worldwide.

Excellent progress is already being made in agricultural research, which is designed to develop pure hybrid plant strains that will increase crop yields. Another project which promises environmental benefits involves the application of previously developed Allied membrane technology to remove toxic metals from electroplating effluent. This method, combined with another Allied technology, may also help to extract sulphur dioxide, which is believed to be one of the principal causes of acid rain, from stack gases or scrubber effluent.

On behalf of the Board of Directors and the entire organization, I would like to thank all of our employees for suggesting and implementing so many outstanding productivity improvement ideas in 1983. These ranged from perfecting a new technique at Amphenol which cuts the production costs for commercial filter connectors almost in half to the design of a hydraulic frame straightener at C&D Power Systems that squares off five battery grids at a time rather than just one. The quality of these efforts is testimony to the many talents and skills that exist within our organization. I am confident that by continuing to work together to harness the full potential of our people with technology we can create new value and build a future rich with opportunity.



M. Jack Ripley,
Chairman and Chief Executive Officer



Jack Ripley, Chairman and Chief Executive Officer of Allied Canada, visiting Amphenol Products' cable manufacturing plant in Renfrew, Ontario.

"Good ideas helped to slash our energy bill by millions in the past few years. That kind of thinking gives us the extra competitive edge we need."

Ben Manschot, Director of Engineering,
Technical and Environmental Services, Allied Chemical

In mature industries such as chemicals, productivity improvements are the best guarantee of long-term business viability. In 1983 Allied Chemical reduced operating costs by \$4 million through a combination of energy-saving projects, more efficient utilization of labour and other cost-cutting initiatives. This enabled Allied Chemical to maintain reasonable profitability in a difficult, price-competitive environment.

In 1983, income from operations was \$22 million and sales totalled \$190 million. While business was slow in the first quarter of 1983, volumes in most product lines strengthened during the remainder of the year.

In the soda ash business, savings in energy and other operating costs helped to minimize losses in the face of fierce competition. Energy conservation measures included installation of a computerized boiler control system, improved control of steam to distillers and the installation of two economizers in the steam boilers at Allied's manufacturing facility in Amherstburg, Ontario.

In our calcium chloride business, process improvements reduced costs by 30% at the calcium chloride brine well in Brooks and Drumheller, Alberta.

Allied Chemical is the largest division within Allied Canada and has a major plant in Amherstburg, Ontario, with smaller plants in eight other locations across Canada. The company's health and safety program is one of the most innovative and comprehensive in the industry. The program is based on a philosophy of long-term, preventive health care, which recognizes that good health and productivity go hand in hand.

Because of the importance of the energy sector in our economy, Allied maintains, through Union Texas Canada, holdings in a number of oil and gas properties.



Shift foreman Doug Duff, production manager Roger Booth and general foreman Ken Brook discuss production at Allied Chemical's soda ash plant in Amberstburg, Ontario. This plant is one of the most efficient solvay-process production facilities in existence (left). Soda ash is used in the manufacture of most glass products (above).

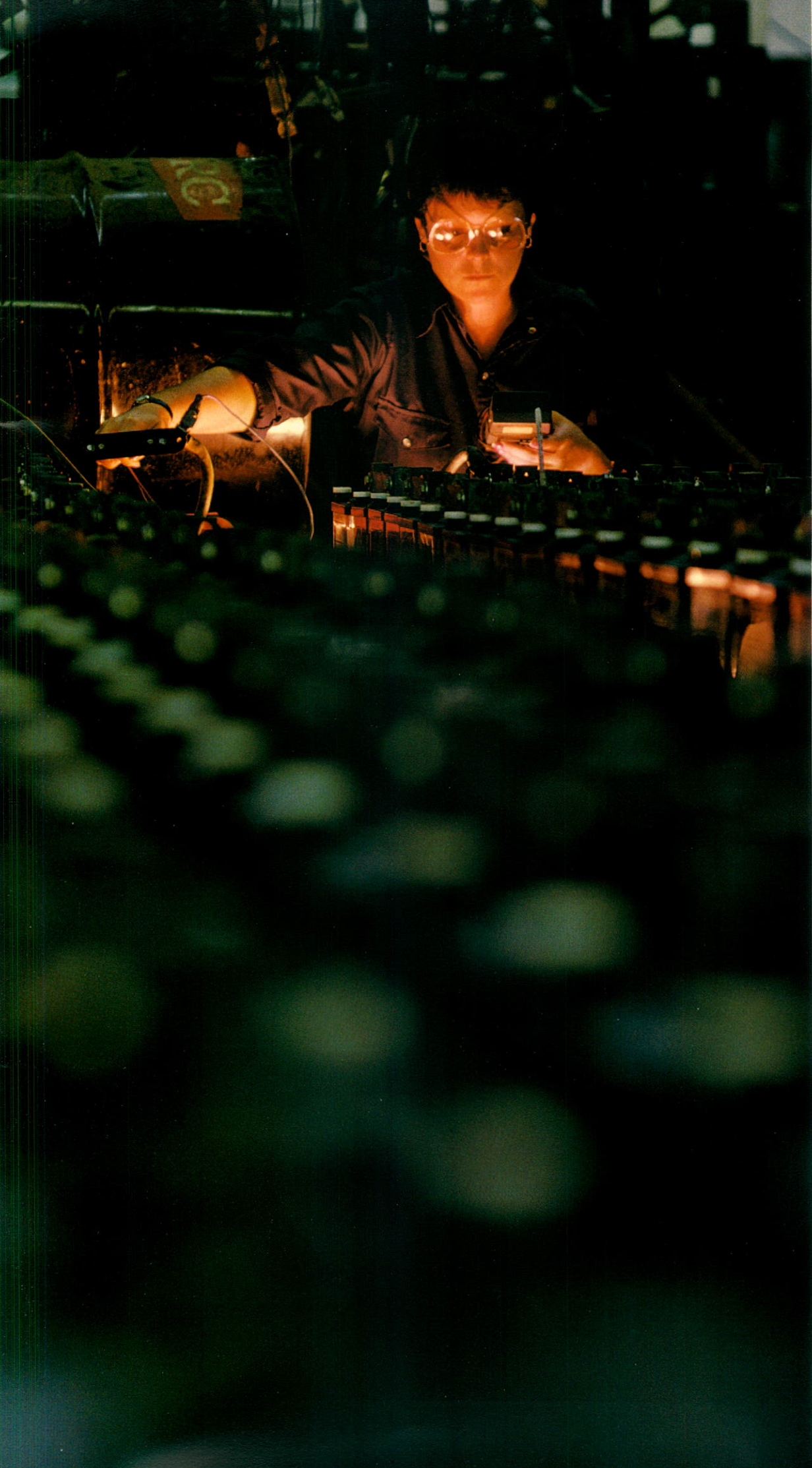
"We went from a humdrum existence to an exciting one. Productivity is up 82 per cent since the inception of our employee incentive plan three years ago."

Jim Swarner, Plant Manager, C&D Power Systems

In 1983 a large number of changes in the manufacturing process suggested by employees were implemented, resulting in productivity gains and quality improvements even greater than in the two previous years. For example, Gary Pierman built a hydraulic frame straightener that squares off five battery grids at a time rather than individually and Lloyd Peters suggested using both sides of a scraper in applying lead paste to battery grids.

This collective effort enabled C&D Power Systems to outperform the industry during the year and become the largest industrial battery company in Canada. In a declining Canadian battery market, C&D increased its market share and order intake volume increased by over 20% from the previous year. Among the major orders obtained this year was a \$2-million contract from Ontario Hydro to supply stationary batteries for the Darlington nuclear generating station.

In 1983 C&D strengthened its distribution network, particularly in Quebec, and expanded into mining areas in northern Ontario. Outstanding field service also gave the company a significant edge, while enhanced quality standards enabled C&D Power Systems to better serve the needs of its customers and maintain its position as a leading supplier in both stationary and motive power battery markets. C&D's attention to producing a quality product has resulted in its being the major supplier to the nuclear power generating industry and aided in obtaining orders from other major Canadian industries where quality is of prime importance.



Shirley Molyneaux, a quality control technician, inspects batteries at the C&D Power Systems plant in Perth, Ontario (left). The motive power batteries manufactured by C&D are used to power lift trucks, mining vehicles and other industrial equipment (above).

"Every major instrument we sell is designed to help the customer improve productivity."

Robert Baldwin, Vice-President, Analytical Systems Group, Fisher Scientific

Fisher Scientific sells many new automated products which allow customers to obtain faster and more precise test results. For instance, Fisher's Tecator flow-injection analyzer increases productivity within research or testing laboratories by automating the sampling process and the reading of results in nutritional analyses. The computer-aided titrimer allows for more rapid, accurate measurement of specific chemical content in quality control testing.

In 1983, Fisher Scientific boosted its own sales productivity by achieving significant cost reductions and introducing successful new selling techniques. At the same time, sales volume showed a healthy increase over the previous year. The acquisition of Instrumentation Laboratories Inc. in April 1983 has opened new opportunities in advanced and complex instrumentation for hospitals and clinical laboratories.

In the final quarter of 1983, Fisher Scientific reorganized its sales and marketing staff to pursue the analytical and diagnostic systems markets through the use of specialized sales and service representatives.

Fisher Scientific, the leading supplier of laboratory products in Canada, sells some 40,000 different products to medical, educational, industrial and government markets. The company has streamlined its catalogue to help customers select and order products more quickly and easily.



Mary Jane Clarridge, a Fisher Scientific technical representative, discusses product features with Sue Lee, chief technologist in histology at St. Michael's Hospital in Toronto (left). Fisher Scientific is the leading supplier of scientific instruments and supplies to medical, educational, industrial and government laboratories in Canada (above).

"Quality assurance is a productivity philosophy. We have the tools, the resources and the determination to do the job right the first time. At this company, we want to build quality in, not inspect it in."

Don Ross, General Foreman, Amphenol Products

In 1983 Amphenol launched a zero-defect quality assurance program designed to eliminate component defects at the beginning rather than the end of the manufacturing process. Productivity also increased as a result of many cost-cutting measures and an investment in computer-aided design (CAD) and computerized numerical control (CNC) manufacturing equipment. For example, an automatic tester was designed and developed at Amphenol to automatically test for five different parameters at the same time and sort out rejected contacts. This has cut down the required test time by 80%.

These and other productivity improvements helped the company to post a record performance in filter connector activities. They also improved the company's competitive position in standard connectors, which were adversely affected by the 1982-83 recession.

An R&D breakthrough enabled Amphenol to introduce a new commercial filter connector product designed to limit electronic emissions from computers, telecommunications equipment and video games. During the year Amphenol obtained a \$3-million order for commercial filter connectors from Northern Telecom Inc. of Santa Clara, California, which is the single largest order for filter connectors generated by any company.

With an increase of approximately 50% in order volume in 1983, Amphenol strengthened its position as the market leader worldwide in custom-engineered, high-technology filter connectors. These filter connectors must meet high-quality standards for use in sophisticated satellite, missile, submarine and aerospace applications. As a quality leader, Amphenol has a significant competitive advantage in high-technology markets.

During the year cable sales to communications markets recovered from a low point in 1982 and significant new business was generated in specialty cable markets in both the U.S. and Canada.



Dave Adachi, an inspector at Amphenol Products, prepares a fixture for computer testing of the 57 SERIES filter connectors used in the telecommunications industry (left). Amphenol's commercial filter connector products are widely used in computer and telecommunications installations (above).

"In 1983 sales per person nearly doubled at our company. As Linotype Canada's first national sales manager for typesetting products, I'm keenly aware that customers want us to be as aggressive in our service as in our sales effort."

Gord Allcock, National Sales Manager, Linotype Canada

When the Linotype machine was invented almost a century ago, the new product revolutionized the publishing business by speeding up the typesetting process and cutting production costs dramatically. Today, Linotype digital typesetting systems such as the Linotron 202 family of products are up to 1,000 times faster and continuing to help customers in the newspaper, corporate, institutional and commercial typesetting markets boost their productivity.

1983 saw a dramatic turnaround in sales productivity. Order volume increased by more than one-third over the previous year. The appointment of a national sales manager and a strategy of product specialization in service and sales were key factors in the company's impressive sales growth. The company also benefited from such initiatives as the institution of a longer work week, a new incentive plan for sales personnel and enhanced protection plans for customers.

North American Refractories manufactures a broad line of heat-resisting materials for furnace linings used primarily by the steel industry. The company boosted productivity in 1983 by installing a high-intensity mixer that shortens the mixing cycle by a factor of five and improves the quality of the product. This has enabled the company to plan and implement other equipment modifications further increasing efficiency and reducing costs.

In 1983 the company's sales increased by 10% from the previous year. This was highlighted by a doubling in sales of high-technology refractory products such as carbon-magnesite brick, which provides longer life than conventional linings. Another successful new product is Romag-liner, a magnesite-chrome liner which is used in the burning zone of rotary cement kilns. These were installed in three Canadian cement mills during the year.



Barry Stubbs, newspaper group sales representative, and Gail Yetman, customer education specialist, discuss training techniques at Linotype Canada's demonstration showroom in Mississauga, Ontario (left). Linotype typesetting equipment is used by many of Canada's largest newspapers. (above).

"At Aviation Electric, we measure productivity both in terms of efficiency and quality. In an industry where precision manufacturing and maintenance are of such paramount importance, we can't afford to give our customers anything less than the best."

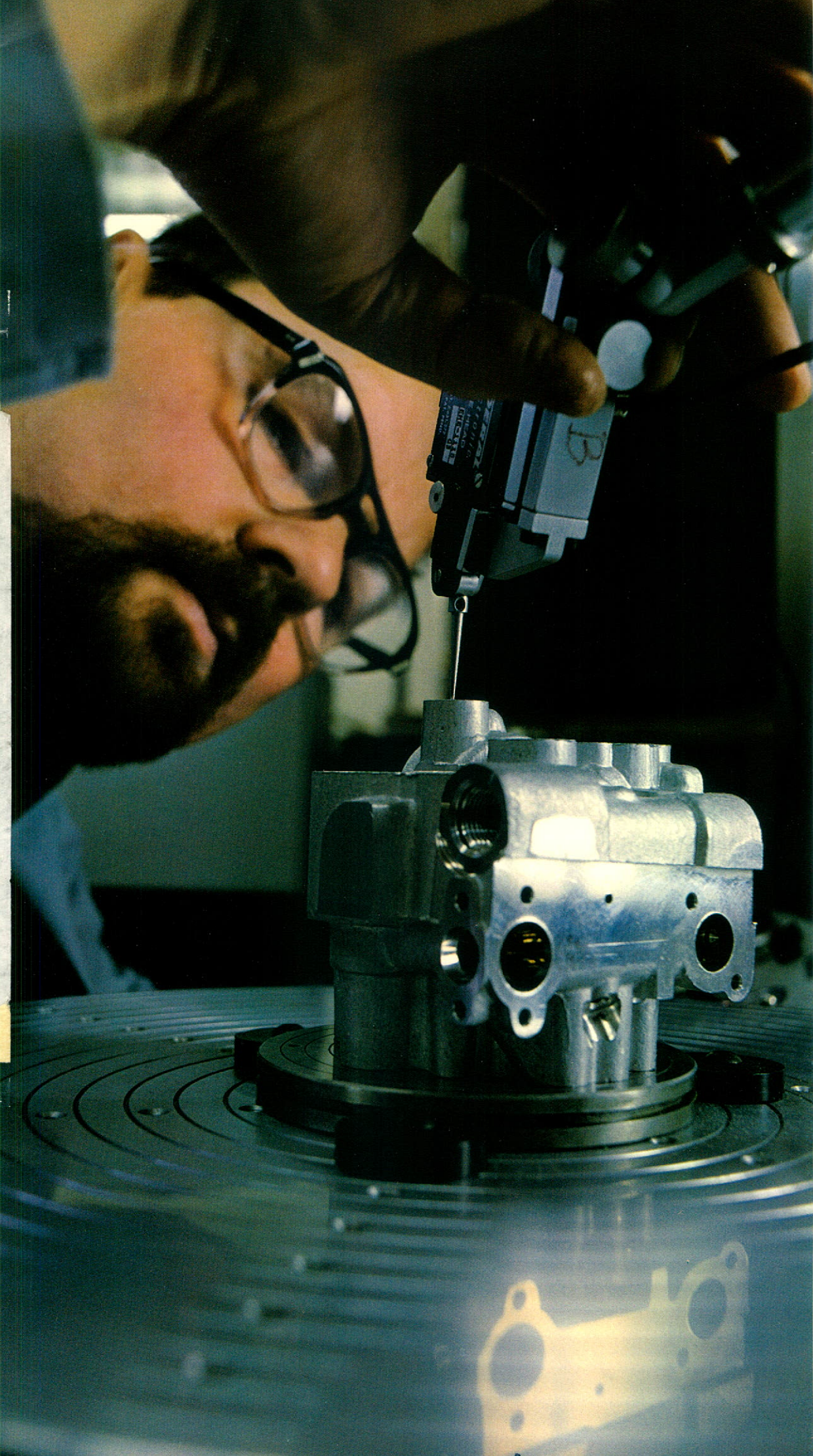
John Beaven, Director of Marketing, Aviation Electric

New technology can be an effective way to improve productivity. In 1983, Aviation Electric made several key investments to raise quality standards and increase manufacturing efficiency. The company expanded its computer-aided design and manufacturing (CAD-CAM) capabilities by installing new equipment in its engineering, manufacturing and management information systems departments.

Construction was also started on a fuel control system repair and overhaul facility for the CF-18, a multi-purpose, high-performance military aircraft used by Canadian and NATO defence forces. Once in operation in 1984, this fully automated test stand is expected to reduce testing time by 30%.

Aviation Electric won two major contracts in 1983. One was a \$9-million order for the repair and overhaul of CF-18 fuel system components. The second was a multi-million dollar contract to supply the Saudi Arabian National Guard with vehicle navigation systems, including spare parts, maintenance, installation and test equipment. This is the largest contract ever awarded to a company for this type of equipment and it establishes Aviation Electric as a world leader in land navigation.

The company had sales of \$61 million in 1983 and exceeded its profit objectives by 10%. Through the repair and overhaul of instruments and accessories, Aviation Electric helps customers to extend the life of their aircraft, an important consideration at a time of rising costs for new equipment. The company also serves world markets in the manufacture of fuel controls for small-aircraft gas-turbine engines, land vehicle navigation systems, and artillery gun and alignment control systems. Aviation Electric is also the marketing representative in Canada for the Allied aerospace sector's products as well as for a number of high-technology electronic systems.



Productivity and quality go hand in hand with precision machining at Aviation Electric. George Koszegi, a quality assurance inspector, checks the circular geometry of a bore in a fuel control main housing (left). Aviation Electric supplies brakes and wheels for aircraft and has the largest repair and overhaul operation for aircraft instruments and accessories in the country (above).

"The number of productivity proposals submitted and approved at Canadian Fram increased by 300% in 1983."

John VanRooyen, Vice President of Finance, Canadian Fram

At Canadian Fram long-term planning and intensive research and development activities are an important part of productivity solutions. In 1983 efforts to improve quality and productivity paid major dividends as many valuable suggestions were implemented during the year. Ideas for improving the production process included the use of non-synchronous conveyors to assemble products in unique ways. Similarly, the use of large, automatic transfer tools made it possible to convert three single-stage presses to one large, three-stage press.

Canadian Fram's commitment to produce more value at less cost was strengthened by the universal adoption of statistical process control and the launching of an intensive employee participation program. Capital expenditures in 1983, which were double those of the previous year, were also directed, in part, towards the purchase of more advanced and efficient equipment such as programmable robots and automatic transfer devices.

At Canadian Fram, R&D activities have been instrumental in the development of new and better products such as sophisticated emission control devices to reduce automobile exhaust emissions. In 1983, major R&D projects included work on an electric vacuum regulator valve to give improved control over engine emissions, new electromagnetic clutching devices and unique non-ram air cooling systems for more efficient vehicle performance. Sales at Canadian Fram in 1983 were \$121 million, up 25% from the previous year.

Superior Machine and Tool, a subsidiary of Canadian Fram, designs and builds new metal stamping tools for automotive parts suppliers. In 1983 the purchase of an electronic co-ordinate measuring machine increased the precision of the tooling dies supplied to customers. As a result, customer product quality improved as well.



Alan Stoner, a press-room operator, stamps out an air cleaner component at Canadian Fram's manufacturing facilities in Chatham, Ontario (left). The air cleaners, cooling fans and control products made by Canadian Fram have helped to increase fuel efficiency in North American automobiles and also reduce emission levels (above).

"At a time of increasing competitiveness in the automotive market, re-thinking your quality philosophy and manufacturing philosophy is essential to improving productivity."

Robert Green, President, Fram Canada

At a time when our customers are keeping their cars an average of almost two years longer than a decade ago, the products manufactured by Fram Canada - oil, air and gas filters, fuel and water separators, and spark plugs - are helping to extend the life of their vehicles. With a sales increase of 17% in 1983, Fram Canada invested \$3 million in new machinery and upgraded equipment at its production facility in Stratford, Ontario. This includes heavy-duty presses to make large cans for truck filters. Other significant cost-savings in the manufacturing process have been achieved through the introduction of new technologies such as heavy-duty filters with urethane rather than metal caps.

At Bendix Heavy Vehicle Systems advances in manufacturing technology and processes are helping the company to achieve productivity gains. The purchase and installation of two robots and employee participation programs contributed to improvements this year.

Sales in 1983 increased by 30% from the previous year. The company expanded its production facility in London, Ontario, to meet the growing demand. A number of new products including a range of valves were launched and the company was recognized as a Q-1, preferred quality supplier by Ford Motor Company.

Prestolite Electronics supplies battery cables and electrical components in ignition and charger systems for the automotive aftermarket. The addition of automated equipment and robotics helped the company increase its manufacturing efficiency. With sales of approximately \$5 million in 1983, the company established a second production facility to make battery cables in Cambridge, Ontario. This will double employment and a target of 75,000 battery cables a week has been set.

Careful analysis of the interaction of materials, machinery and people in the manufacturing process at Daal Specialties, assisted by the implementation of statistical process control, resulted in key changes for productivity improvement in 1983. Reduced down time and scrap costs were among the benefits gained.



Yvonne Turner is working on an air filter line at the Fram Canada plant, Stratford, Ontario (left). Filters, spark plugs and other replacement auto parts made by Fram Canada help to extend the life of customer vehicles (above).

Pro Forma Combined Balance Sheet

	(Dollars in Thousands)		
ASSETS	December 31	1983	1982
Current assets:			
Cash and short-term investments		\$ 11,791	\$ 14,210
Accounts receivable		81,399	67,798
Income taxes recoverable		1,234	5,910
Inventories		93,158	95,278
Prepaid expenses		1,902	1,512
Net assets of discontinued operations (Note 5)		18,139	24,229
Total current assets		207,623	208,937
Property, plant and equipment		259,865	239,443
Less: Accumulated depreciation, depletion and amortization		(123,332)	(110,760)
		136,533	128,683
Other non-current assets:			
Notes receivable		521	—
Investments, at cost		1,186	1,186
Deferred charges and other assets		1,382	1,668
Goodwill, at cost		9,188	9,188
Total other non-current assets		12,277	12,042
		<u>\$356,433</u>	<u>\$349,662</u>

The "Notes to Pro Forma Combined Financial Statements" are an integral part of this statement.

(Dollars in Thousands)

LIABILITIES	December 31	1983	1982
Current liabilities:			
Bank indebtedness		\$ 14,607	\$ 34,059
Accounts payable and accrued liabilities		67,425	42,946
Income taxes payable		984	2,013
Due to Allied Corporation and subsidiaries		15,243	24,276
Notes payable to Allied Corporation and subsidiaries		32,614	37,178
Current portion of long-term debt		469	101
Total current liabilities		131,342	140,573
Long-term debt		737	468
Deferred income taxes		6,117	8,196
EQUITY OF COMBINED CANADIAN OPERATIONS			
Capital stock issued		3,183	3,183
Retained earnings		215,054	197,242
Total equity		218,237	200,425
		<u>\$356,433</u>	<u>\$349,662</u>

Pro Forma Combined Statement of Income

	(Dollars in Thousands)	
	Year ended Dec. 31	
	1983	1982
Net sales	\$636,115	\$607,337
Cost of goods sold and other expenses	574,588	543,351
Depreciation, depletion and amortization	14,914	13,249
Total costs and expenses	589,502	556,600
Income from operations	46,613	50,737
Other income - net	339	3,186
Interest income (expense) - net	(4,044)	3,287
Income from continuing operations before income taxes	42,908	57,210
Taxes on income	17,971	22,555
Income from continuing operations	24,937	34,655
Loss from discontinued operations	(5,275)	(6,885)
Income before extraordinary items	19,662	27,770
Extraordinary items:		
Loss on disposal of discontinued operations, less related tax recovery (Note 5)	(4,942)	—
Income tax reduction on the application of prior years' losses	3,092	—
	(1,850)	—
Net income	<u>\$ 17,812</u>	<u>\$ 27,770</u>

The "Notes to Pro Forma Combined Financial Statements" are an integral part of this statement.

Pro Forma Combined Statement of Retained Earnings

	(Dollars in Thousands)	
	Year ended Dec. 31	
	1983	1982
Balance, beginning of year	\$197,242	\$288,162
Net income	17,812	27,770
Net loss of Fram and Bendix for the three month period ended December 31, 1982 (Note 1)	—	(15)
	215,054	315,917
Dividends	—	118,675
Balance, end of year	<u>\$215,054</u>	<u>\$197,242</u>

The "Notes to Pro Forma Combined Financial Statements" are an integral part of this statement.

Pro Forma Combined Statement of Changes in Financial Position

	(Dollars in Thousands)	
	Year ended Dec. 31	
	1983	1982
Financial resources were provided by:		
Continuing operations -		
Income from continuing operations	\$24,937	\$ 34,655
Add (deduct): Items not requiring (providing) working capital -		
Depreciation, depletion and amortization	14,914	13,249
Deferred income taxes	5,779	(3,110)
Loss on disposal of property, plant and equipment	128	89
Working capital provided by continuing operations	45,758	44,883
Discontinued operations -		
Loss from discontinued operations	(5,275)	(6,885)
Add: Deferred income tax recovery	(3,670)	(5,042)
	(8,945)	(11,927)
Working capital provided by operations before extraordinary items	36,813	32,956
Proceeds on disposal of property, plant and equipment	199	496
Increase (decrease) in long-term debt	269	(34)
Decrease in deferred charges	286	206
Extraordinary item - Income tax reduction on the application of prior years' losses	3,092	—
	40,659	33,624
Financial resources were used for:		
Extraordinary item - Loss on disposal of discontinued operations	4,942	—
Add: Deferred income tax recovery	4,412	—
	9,354	—
Additions to property, plant and equipment	22,867	24,450
Dividends	—	118,675
Increase in notes receivable - long-term	521	—
Net change in working capital of Fram and Bendix for the three month period ended Dec. 31, 1982 (Note 1)	—	457
	32,742	143,582
Increase (decrease) in working capital	7,917	(109,958)
Working capital, beginning of year	68,364	178,322
Working capital, end of year	\$76,281	\$ 68,364

The "Notes to Pro Forma Combined Financial Statements" are an integral part of this statement.

Notes to Pro Forma Combined Financial Statements

(Dollars in Thousands)

1. Principles of combination:

The pro forma combined financial statements include the accounts of (1) Allied Canada Inc. and subsidiaries (ACI) (2) Fram Canada Inc. and subsidiaries (Fram) and (3) Bendix Heavy Vehicle Systems, Inc. and subsidiary (Bendix). These companies are all wholly-owned by Allied Corporation or its affiliates. Investments held by Fram in foreign subsidiaries have been eliminated from the pro forma combined financial statements.

Control of Fram and Bendix was acquired by Allied Corporation effective January 1, 1983. The pro forma combined financial statements reflect the assets, liabilities and operations of these companies as though the investment therein had been held throughout 1982 and 1983. Prior to their acquisition by Allied Corporation the fiscal year end of Fram and Bendix was September 30 and audited financial information for the twelve month period ended December 31, 1982 is not therefore available. In order to provide a meaningful comparison of the combined results of operations, the pro forma combined financial statements for the year ended December 31, 1982 include the results of operations and changes in financial position of Fram and Bendix for the year ended September 30, 1982. The results of operations and net changes in working capital for the three month period ended December 31, 1982 have been included as adjustments in the pro forma combined statements of retained earnings and changes in financial position respectively.

The capital stock of \$3,183 combines the outstanding share capital of ACI, Fram and Bendix.

2. Summary of significant accounting policies:

Foreign currency translation -

Foreign currency transactions included in the financial statements have been translated into Canadian dollars at rates approximating the rates of exchange prevailing at the dates of transactions. Current assets and current liabilities have been translated at the year-end rate of exchange. The resulting net exchange gain or loss is included in income.

Inventories -

Inventories are valued at the lower of cost (first-in, first-out or average) and net realizable value. Manufactured inventories include costs for materials, labour and manufacturing overhead.

Property, plant and equipment -

Property, plant and equipment are carried at cost and are principally depreciated on a composite, straight-line basis for asset groups using lives which range from 3 to 40 years, the majority of which have a useful life of 15 years. For certain operations, depreciation is computed on the diminishing balance method generally over projected lives of 3 to 20 years.

Goodwill -

Goodwill relates to the excess of cost of acquired companies over net assets at dates of acquisition of businesses acquired prior to April 1, 1974. It is considered to have an indeterminate life and accordingly is not amortized.

Income taxes -

Income taxes are based on pre-tax financial statement income with an appropriate deferred tax provision to provide for the tax effect of temporary differences between pre-tax financial statement income and taxable income.

Investment tax credits are included in income as a reduction of the current year's tax provision when earned.

3. Inventories:

December 31	1983	1982
Raw materials	\$20,086	\$23,024
Work in process	19,750	15,334
Finished products	46,680	50,574
Supplies and containers	6,642	6,346
	<u>\$93,158</u>	<u>\$95,278</u>

4. *Property, plant and equipment, at cost:*

December 31	1983	1982
Land and land improvements	\$ 12,292	\$ 12,170
Oil and gas property and equipment	6,891	6,416
Machinery and equipment	186,624	165,540
Buildings	45,919	45,605
Construction in progress	8,139	9,712
	<u>\$259,865</u>	<u>\$239,443</u>

5. *Discontinued operations:*

During the year decisions were made to sell or shut down certain operations of ACI. The losses on disposal of these discontinued operations have been charged to income as extraordinary items as follows:

(i) ACI entered into an agreement to sell its Prestolite Battery operations effective December 31, 1983. The loss on disposal is estimated as follows:

Book value of net assets sold	\$24,977
Estimated net cash proceeds	18,139
Loss on sale before income tax recovery	6,838
Less: Income tax recovery	3,380
Loss on sale	<u>\$3,458</u>

(ii) In June 1983 ACI shut down its sulphuric acid production facility at Valleyfield, Quebec, and withdrew from the sulphuric acid market in Eastern Canada. The losses related to shutdown costs and provisions for dismantling the facility are summarized as follows:

Total shutdown costs and dismantling provisions	\$2,516
Less: Income tax recovery	1,032
Loss on shutdown	<u>\$1,484</u>

The net assets of these discontinued operations and the results of operations to the dates of discontinuance have been segregated and disclosed separately in the pro forma combined financial statements for 1983.

In addition the comparative 1982 financial statements have been restated to give effect to the segregation.

A summary of the results of the discontinued operations to the respective dates of discontinuance and for the prior year is as follows:

	1983	1982
Net sales	\$33,999	\$39,156
Cost of goods sold and other expenses	39,236	47,208
Depreciation and amortization	811	1,818
Interest expense	2,897	2,057
	<u>42,944</u>	<u>51,083</u>
Loss before income taxes	8,945	11,927
Income tax recovery	3,670	5,042
Loss from discontinued operations	<u>\$ 5,275</u>	<u>\$ 6,885</u>

6. *Pensions:*

The companies' pension plans cover substantially all employees. Based on the latest actuarial valuations, unfunded liabilities for past service pensions are estimated at \$7,200. The companies are amortizing and funding these liabilities on a straight-line basis over various periods of up to fifteen years. All vested pension rights are fully funded.

7. *Long-term debt:*

December 31	1983	1982
12 $\frac{1}{4}$ % loan from Ontario Development Corporation payable in monthly instalments to 1992	\$ 439	\$476
10 $\frac{1}{2}$ % mortgage payable in monthly instalments, due 1988	343	—
11 $\frac{3}{8}$ % mortgage payable in monthly instalments, due 1984	393	—
Other debt	31	93
	<u>1,206</u>	<u>569</u>
Less: Current portion	469	101
	<u>\$ 737</u>	<u>\$468</u>

8. Related party transactions:

The companies are indirectly wholly-owned subsidiaries of Allied Corporation, a U.S. corporation. Transactions between the parent and affiliates are recorded at fair market value. Details of these transactions are summarized as follows:

	1983	1982
Sales	\$59,854	\$67,491
Purchases of product, raw materials, services and equipment	85,280	80,305
Interest income (expense)-net	(4,228)	4,699
Payment of royalties and commissions	2,772	2,294

9. Research and development:

Research and development expense charged to operations amounts to approximately \$7,600 (1982-\$7,100)

10. Summary of segmented financial information:

The segments are Chemical-industrial chemicals and highway products: Automotive-safety restraints, filters, fans, air cleaners and electrical and brake components: Aerospace-fuel control systems and aircraft overhaul and repairs: Industrial and Technology-laboratory equipment and supplies, electronic components and refractory products: and, Oil and Gas.

		Chemical	Automotive	Aerospace	Industrial and Technology	Oil and Gas	Total
Net sales	1983	\$189,907	\$261,224	\$60,666	\$122,265	\$2,053	\$636,115
	1982	188,425	224,490	69,889	118,518	6,015	607,337
Income (loss) from operations	1983	22,049	19,156	1,115	5,576	(1,283)	46,613
	1982	27,701	15,823	2,646	4,862	(295)	50,737
Depreciation, depletion and amortization	1983	7,447	4,293	857	1,109	1,208	14,914
	1982	7,049	4,274	658	1,212	56	13,249
Property, plant and equipment additions	1983	7,776	11,202	1,764	1,956	169	22,867
	1982	13,856	4,816	2,216	1,443	2,119	24,450
Total identifiable Assets	1983	128,607	107,376	30,891	58,670	959	326,503
	1982	130,890	98,437	22,859	55,975	3,062	311,223

Both the 1983 and comparative 1982 figures exclude discontinued operations.

Identifiable assets excludes cash and net assets of discontinued operations totalling \$29,930 (1982-\$38,439). Included in net sales are export sales of \$215,206 (1982-\$192,645) mainly to the United States.

Auditors' Report

March 16, 1984

To the Board of Directors of
Allied Corporation:

We have examined the pro forma combined balance sheets of Allied Corporation - Canadian Operations as at December 31, 1983 and 1982 and the pro forma combined statements of income, retained earnings and changes in financial position for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these pro forma combined financial statements have been properly compiled to set forth the financial position of Allied Corporation -

Canadian Operations as at December 31, 1983 and 1982 and the results of their operations and changes in their financial position for the two years then ended on a pro forma combined basis using the principles of combination as described in Note 1 to the financial statements.

The 1982 consolidated financial statements of Fram Canada Inc. and subsidiaries and Bendix Heavy Vehicle Systems, Inc. and subsidiary, which form part of the 1982 pro forma combined financial statements as shown in Note 1, were reported on by other auditors.

Price Waterhouse

Chartered Accountants

Suite 1600, Mississauga Executive Centre
Two Robert Speck Parkway
Mississauga, Ontario L4Z 1H8

Five Year Summary of Continuing Operations (unaudited) ⁽¹⁾

	Years ended December 31				
For the year (Dollars in Millions)	1983	1982	1981	1980	1979
Sales in Canada	\$420.9	\$414.7	\$448.6	\$394.3	\$328.4
Export sales	215.2	192.6	210.6	174.7	185.4
Net sales	636.1	607.3	659.2	569.0	513.8
Income from continuing operations (after tax)	24.9	34.7	54.8	38.4	37.4
Research and development expense	7.6	7.1	7.0	4.7	5.0
Property, plant and equipment additions	22.9	24.5	22.0	24.4	25.1
Salaries, wages and benefits	175.4	160.5	158.9	132.7	133.2
Dividends paid out of operations to Allied Corporation and subsidiaries	—	118.7	22.1	.2	54.7
At year-end					
Equity of Canadian operations	218.2	200.4	279.9	289.9	247.2
Number of employees	5,388	5,398	5,782	5,928	5,887

(1) For comparative purposes all numbers have been restated to include companies acquired during the years.

ALLIED CANADA INC.
BOARD OF DIRECTORS

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Chief Executive Officer
Allied Corporation*

*M.J. Ripley,
*Chairman and
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Allied Canada Inc.*

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*Executive Vice President
and President
Chemical Sector,
Allied Corporation*

H.W. Buirkle,
*Senior Vice President
and Chief Financial Officer
Allied Corporation*

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*President and
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Polar Gas Project*

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Allied Chemical*

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*Vice Chairman,
United Corporation Ltd.*

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Amphenol Products*

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*Former Chairman,
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A.G. Moreton,
*Former President
Esso Chemical Canada*

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*President,
Fisher Scientific*

* Also Officers

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General Counsel
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D.J. Cowie,
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Amphenol Products*

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General Manager and
Assistant Secretary,
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M.F. James,
*Plant Manager,
Daal Specialties
(Canada) Ltd.*

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*Director,
Public Affairs*

N.N. Siomra,
*Director,
C & D Power Systems*

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Superior Machine & Tool
(Chatham) Ltd.*

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Kenneth Kivenko,
*President,
Aviation Electric Limited*

C.W. Martindale,
*Plant Manager,
Bendix Heavy Vehicle
Systems, Inc.*

M.H. McGregor,
*Vice-President and
General Manager,
Canadian Fram Limited*

