

# Wescast Industries Inc.

ANNUAL REPORT 1999



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MEETING THE QUALITY AND DELIVERY STANDARDS OF A HIGHLY DEMANDING INDUSTRY, WHILE ENHANCING SHAREHOLDER RETURNS, DEMANDS THAT WE CONSTANTLY FIND BETTER WAYS TO REDUCE SCRAP, DEFECTS AND THEIR ASSOCIATED COSTS. THIS PRESSURE-POUR FURNACE, WITH ITS 13 METRIC TONNE CAPACITY AND SUPERIOR TEMPERATURE CONTROL, BRINGS WESCAST CLOSER TO THESE GOALS BY REDUCING POURING VARIATIONS AND SCRAP. ►

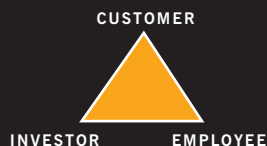
COVER: WESCAST'S COMMITMENT TO CONTINUOUSLY IMPROVING PROCESSES – TO BOOST PRODUCTION, REDUCE COSTS AND ENHANCE PROFITABILITY – IS ILLUSTRATED BY THIS THREE-METRIC-TONNE CONVERTER, WHICH TRANSFERS TREATED IRON TO THE PRESSURE-POUR FURNACE. ITS SUPERIOR CONVERSION CAPABILITIES TRANSLATE INTO LOWER OPERATING COSTS – AND IT YIELDS SEVERAL PROCESS IMPROVEMENTS, SUCH AS LESS SLAG.

### Stock Exchange Listings

Toronto Stock Exchange **WCS.A**  
The Nasdaq Stock Market, Inc. **WCST**

Ranked as one of "35 BEST COMPANIES TO WORK FOR IN CANADA" by Globe & Mail's *Report on Business Magazine*, January 2000

This report contains certain forward-looking information. Please see page 18 for further explanation.



Wescast employs a Scanlon-based participative management philosophy throughout the organization. An employee-designed plan, Helping Everyone Achieve Rewards Together (HEART), was developed and adopted in the late 1980's as a system for personal, professional and organizational development.

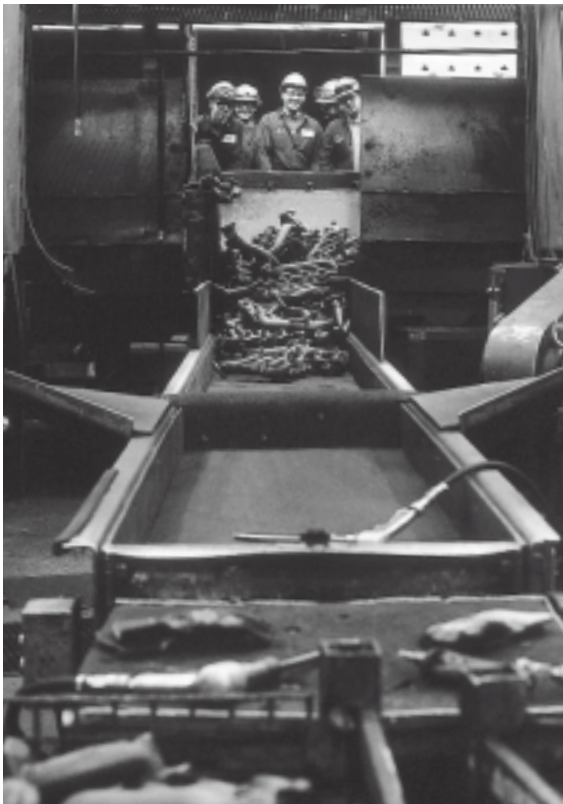




geared for growth

TAKE THE BEST EQUIPMENT INVESTMENT DOLLARS CAN BUY, ENSURE IT'S OPERATED BY MEN AND WOMEN WITH THE RIGHT SKILLS AND A PASSION FOR QUALITY, AND AMAZING RESULTS CAN HAPPEN. WE'RE TAKING THIS FORMULA TO CUSTOMERS AROUND THE WORLD.

THE GLOW IS A CHEMICAL REACTION CAUSED BY ADDING PURE MAGNESIUM TO CONVERT BASE METAL TO THE DUCTILE IRON USED IN MANY WESCAST PRODUCTS. ►







creating opportunity

PART OF WESCAST'S STRATEGY  
FOR MAINTAINING TECHNICAL  
LEADERSHIP FOCUSES ON BEING  
FIRST – WHERE IT COUNTS.  
SO WE WILL MAKE STRATEGIC  
INVESTMENTS THAT ENABLE US  
TO LEAP PAST OUR COMPETITORS  
AND ADD SHAREHOLDER VALUE.  
AS WITH OUR VACUUM MIXER,  
THE LARGEST IN NORTH AMERICA  
WITH A 7000-LITRE CAPACITY  
THAT NOT ONLY REDUCES THE  
NEED FOR OTHER EQUIPMENT TO  
COOL AND MIX SAND BUT ALSO  
DECREASES THE VARIATIONS  
THAT LEAD TO DEFECTS. ▼



WESCAST PRIDES ITSELF ON SETTING NEW PERFORMANCE STANDARDS LIKE  
THAT DELIVERED BY OUR 2.7 LITRE MACHINING LINE WHICH HAS BEEN PRODUCING  
DEFECT-FREE MANIFOLDS FOR CHRYSLER INTREPID, CONCORD, CIRRUSS AND  
SEBRING MODELS FOR MORE THAN A YEAR. ►



A black and white photograph showing a person in the background, slightly out of focus, working on a mechanical device in the foreground. The device has a prominent cylindrical component with a flange. The text "leading the field" is overlaid in a large, white, sans-serif font, oriented vertically on the right side of the image.

leading the field



WHILE OUR STRATEGY IS TO SEEK OUT – AND SEIZE – DIVERSIFIED GROWTH OPPORTUNITIES, WESCAST WILL CONTINUE TO ENHANCE OUR CAPABILITIES TO EXCEL IN OUR PRIMARY BUSINESS. JUST AS THESE CORE BASKETS MOVE INTO THE STAGING AREA, READY TO GO TO OUR MOULDING LINE (DESIGNED TO ACHIEVE HIGH QUALITY AND IMPROVED PRODUCTIVITY), SO WILL WE CAREFULLY CHOOSE THE ROUTES TO GROWTH THAT BEST SHAPE A STRONG, PROFITABLE FUTURE FOR WESCAST.





accelerating beyond

Wescast Industries Inc. is the world's largest supplier of cast exhaust manifolds for passenger cars and light trucks. The Company designs, develops, manufactures and machines high-quality iron and steel exhaust manifolds for automotive OEMs. In addition to auto parts, the Company produces pressure retaining high-alloy cast steel pump components for the petrochemical, pulp and paper and food processing industries. Wescast operates seven production facilities in North America, and three sales and design offices in North America and Europe. The Company is recognized worldwide for its quality products, innovative design solutions, and highly committed workforce.



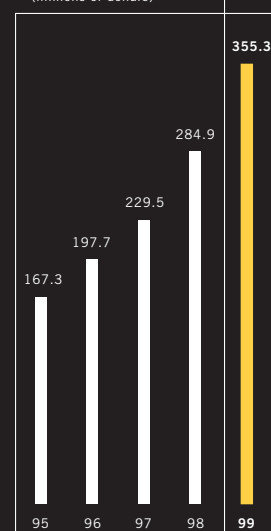
## FINANCIAL HIGHLIGHTS

### Five-Year Summary

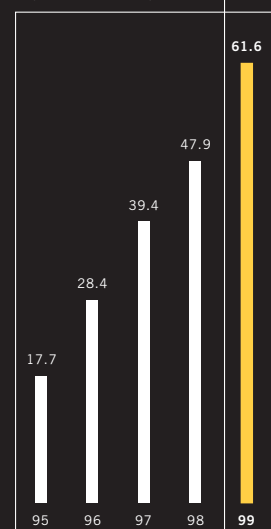
(in thousands of Canadian dollars, except per share amounts)

For the fiscal year ended	1999	1998	1997	1996	1995
Sales	<b>355,284</b>	284,861	229,478	197,717	167,299
Operating earnings	<b>94,957</b>	70,460	58,479	45,012	28,170
Net earnings	<b>61,553</b>	47,856	39,364	28,361	17,723
Basic net earnings per common share	<b>4.67</b>	3.65	3.02	2.63	1.65
Common shares outstanding	<b>13,213</b>	13,127	13,086	12,870	10,741
Total assets	<b>364,162</b>	280,261	233,121	188,899	125,807
Working capital	<b>95,009</b>	107,852	84,453	55,507	16,318
Current ratio	<b>3:1</b>	5:1	4:1	3:1	2:1
Cash, cash equivalents and short-term investments	<b>76,758</b>	65,023	60,037	35,863	1,290
Property and equipment – net	<b>215,589</b>	139,069	115,039	101,952	86,402
Long-term debt	<b>10,277</b>	10,260	3,945	4,771	32,165
Shareholders' equity	<b>297,743</b>	237,773	192,853	152,688	70,995
Return on average assets	<b>19%</b>	19%	19%	18%	16%
Capital expenditures	<b>97,545</b>	41,063	28,036	28,366	45,060
Depreciation and amortization	<b>20,164</b>	16,598	17,128	12,093	7,570
Market performance: High	<b>50.5</b>	45.0	49.5	34.5	16.0
Low	<b>30.8</b>	33.5	30.5	13.1	10.2
Number of employees	<b>1,980</b>	1,671	1,383	1,159	1,033

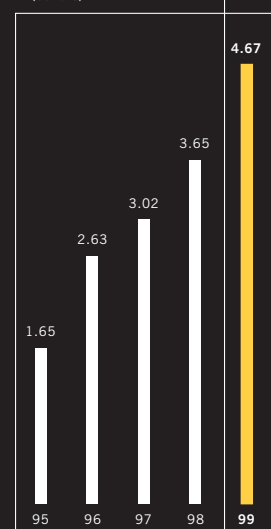
### Sales (millions of dollars)



### Net Earnings (millions of dollars)



### Earnings Per Share (dollars)



# LETTER FROM THE CHAIRMAN AND THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

Last year, our theme was one of Westcast continuing to become the company of choice for our customers, our employees and our shareholders. We also set out our key corporate goals for this year. In this letter, we would like to update you on our key accomplishments in 1999. More importantly, we will disclose to you the progress of current initiatives and share some future plans that show our commitment to a strategy of creating value for all our stakeholders.

## KEY ACCOMPLISHMENTS IN 1999

### RECORD PRODUCTION, SALES AND EARNINGS

INVESTED \$87 MILLION IN ADDITIONAL PRODUCTION CAPACITY

HIRED 220 ADDITIONAL PRODUCTION EMPLOYEES TO SUPPORT GROWTH

DISTRIBUTED GAIN AND PROFIT SHARING OF \$4,850 ON AVERAGE PER EMPLOYEE

AWARDED TWO JAPANESE PRODUCTION ORDERS – MAZDA AND ISUZU

COMMITTED TO ESTABLISHING A MANUFACTURING PRESENCE IN EUROPE THROUGH A JOINT VENTURE WITH LINAMAR CORPORATION

ENHANCED SALES AND DESIGN PRESENCE IN THE UNITED STATES AND GERMANY

DEVELOPED STEEL CASTING AND MACHINING CAPABILITY FOR EXHAUST MANIFOLD PRODUCTION

ESTABLISHED STRATEGIC ALLIANCE WITH LINAMAR CORPORATION FOR THE SALES AND MANUFACTURING OF DIVERSIFIED CASTING PRODUCTS

WON GM SUPPLIER OF THE YEAR – FOR THE SIXTH CONSECUTIVE YEAR

WINNER OF TWO FORD EXCELLENCE AWARDS FOR COST AND QUALITY

ACHIEVED BEST IN CLASS QUALITY RANKINGS AT DAIMLERCHRYSLER AND FORD

CHOSEN AS 8TH "BEST COMPANY TO WORK FOR IN CANADA" BY THE GLOBE AND MAIL'S *REPORT ON BUSINESS* MAGAZINE

## Achieving Above-Average Returns for our Shareholders

As you will see from our accomplishments in 1999, highlighted on this page, we have made tremendous strides towards these goals, especially toward becoming the "supplier of choice" as well as the "employer of choice". However we are both surprised and dismayed with the performance of our share price. Our share price has fallen by 30% since January of 1999. Although our stock has outperformed many other auto parts suppliers this year, our price-earnings multiple has become unacceptably low. We believe our shares are undervalued.

Westcast remains focused on providing exceptional returns to our shareholders by concentrating on developing profitable investments that will continue to provide greater than 15% annual growth through the following strategic avenues:

- Maintain a strong financial position to support future investments and potential acquisition opportunities.
- Actively target global market share growth to sustain cash flows and margins.
- Enhance our technical expertise through design and systems innovations.
- Leverage our foundry knowledge to cast diversified materials and products.

## MAINTAINING A STRONG FINANCIAL POSITION

Since we became a public company in 1994, we have annually improved our sales, production and earnings performance. Our share of the exhaust manifold market in North America has grown from 30% in 1994 to 49% today. We are recognized as a worldwide leader in the casting industry.

This year is no different. We have added yet another record year in 1999, producing 13.9 million manifolds (17% more than last year), generating sales at an all-time high of \$355 million (25% higher than in 1998) and achieving record earnings of \$61.6 million (a 29% improvement over 1998). This translates into exceptional earnings per share of \$4.67, a 28% increase over 1998.



Our growth continues because we employ a strong, disciplined managerial process while simultaneously fostering a culture of innovation at Wescast. We are committed to our strategy, especially when we evaluate potential expansion opportunities. We will continue to proactively focus on determining, evaluating and satisfying our customers' needs. As an industry leader, we have already established a solid reputation for demonstrating expertise in metal casting with our current North American customers, leveraging nearly one hundred years of "foundry" experience.

Our financial position is enviable. While providing continuous cost reductions to our customers, our gross and net margins remain healthy. Our cash flows from operations have grown 132% to reach \$112.5 million in 1999. This provides us with ample opportunity to reinvest in our business while at the same time serving to reduce the financial risk in our cyclical industry.

We are confident that our financial strategy will enhance our shareholders' value.

#### TARGETING GLOBAL MARKET SHARE GROWTH

We believe that the automotive market remains an ideal investment opportunity. In North America alone there are approximately 28 million exhaust manifolds produced annually, and Wescast currently satisfies 49% of these needs. We believe we can increase our market share by developing relations with new customers including non-North American OEMs now assembling engines in North America and by enhancing our relationships with our current customers. In addition, we will increase our market share in Europe where there are 17 million exhaust manifolds produced annually. Our goal is to achieve a 30% market share in Europe within the next five years.

We expect approximately \$54 million in additional annualized casting and machining business in 2000. We will invest almost \$190 million over the next two years in foundry and machining capacity, updating equipment, expanding our technical design centre capabilities and developing the human capital necessary for this future growth. Wescast plans to fund these initiatives through the Company's ample cash flow.

Some examples of these investment plans include:

- Wescast will bring two new casting facilities into operation during the next two years. This will provide 80% extra casting capacity and add flexibility that will result in significant production efficiencies. The first new casting facility in Wingham, Ontario, is scheduled to begin production by the second quarter of this year. A second new facility will be built as part of Weslin Industries, a joint venture between Wescast and Linamar Corporation. The plan for Weslin is to commission a fully integrated casting and machining facility in central Hungary ready for production by 2002. These new facilities will support additional business volumes awarded to Wescast as a result of geographic and product expansions.
- Wescast plans to add 11,000 square feet to its steel casting facility in Stratford. We plan to build an integrated casting and machining line to accommodate a new stainless steel casting program coming on stream in the middle of 2000, adding \$14 million in additional annualized revenue for the Company.
- Additional machining lines will be added to Wingham, Strathroy and United Machining's facilities to support production of over 1.6 million additional parts representing eight new business programs commencing in 2000 and beyond.
- In response to the increase in orders and demand, we plan to expand technical and product design capabilities in Europe, Canada and the United States.
- We plan a \$3.2 million consolidation strategy that will centralize corporate head office functions, increase efficiencies and improve corporate communications across our expanding employee base.
- We will also carefully consider potential acquisition opportunities that complement our current operations and support our strategic plan for long-term profitable growth.

**“We will invest almost \$190 million over the next two years in foundry and machining capacity, updating equipment, expanding our technical design centre capabilities and developing the human capital necessary for this future growth.”**

#### ENHANCING OUR TECHNICAL LEADERSHIP

Over the last decade, Wescast has established a clear technical focus on continuous improvement and quality control to exceed customer cost requirements. As a result, Wescast has the knowledge and demonstrated technical competence to broaden the scope of its capabilities to reach new markets and new customers within and beyond North America. Recent developments in the areas of testing, rapid prototypes and design analysis, have led to significant reductions in product cycle times for our customers and served to strengthen our leadership position:

- In 1999, a one-of-a-kind engine exhaust simulator test machine was designed, built and commissioned, giving Wescast the ability to provide manifold durability testing for our customers.
- Extremely efficient bench flow testing capability has been developed and Wescast is now a world leader in bench flow testing of exhaust manifolds.
- Advanced starch model capabilities have been commissioned that enhance our ability to rapidly produce prototypes. We can now provide a starch prototype to a customer within 24 hours.
- “Qwik Cast” capability was developed by meshing new technology with past foundry practices, accelerating our ability to produce a functional iron part in as little as 10 days from receipt of design.
- The MagmaSoft process simulation tools were utilized to generate scrap and yield improvements of up to 54% on some programs.
- In-house quality Computational Fluid Dynamics and Finite Element Analysis competence was developed.

This year, Wescast will invest \$4.8 million in a new technical development centre that will be completed in early 2001. This centre will allow Wescast to prototype foundry and machining tooling and to develop and invest in advanced manufacturing technologies.

#### PROVIDING DIVERSIFIED CASTING SOLUTIONS

Another of Wescast’s advantages in supplying to the automotive market is the industry’s “changing paradigms”. In addition to perfect quality and delivery, improved performance and better prices, OEMs are demanding significant improvements in technical developments. Even though this puts added pressure on auto parts suppliers who are competing on cost, quality and delivery, it provides a receptive environment for companies like Wescast to demonstrate new technology and lead advances in our field of expertise.

One of the strengths of the Company has been our ability to provide alternative solutions in a timely way for our customers. We continue to do so. For example, we recently converted a Mazda program from a tubular designed manifold over to our cast SiMo iron design. We demonstrated the benefits of improved flow and durability while offering a substantial cost advantage.

Wescast has developed relationships with some of the world’s leading research organizations including Oakridge National Labs and Edison Welding Institute. We continue to invest considerable resources in building our technical knowledge on several high-impact development projects that will create growth opportunities and cost savings for Wescast.



These technical developments will address current and future customer challenges with respect to emissions, weight, strength, durability and exhaust flow. These opportunities include:

- Development of a new iron alloy material for high-heat engine applications.
- Welding of stainless steel to iron castings.
- Study of emission differences between fabricated and cast designs.
- Development of "Qwik Cast" process.
- Understanding the technical relationships of the hot-end parts in the exhaust system.

Wescast remains committed to leveraging our success in focused manufacturing beyond exhaust manifolds, and retains our mission to find innovative casting solutions for other families of products that require specific design expertise.

We recently developed a strategic alliance with Linamar Corporation, a global manufacturer of precision-machined components, assemblies and castings, for the sale, design and manufacture of a focused range of iron automotive components, excluding exhaust manifolds. Our new alliance will enhance our ability to compete internationally in these components while maintaining the independence of our current core business.

We believe, based on our research, that several casting products within the automotive industry fit our research criteria. We will continue to build our knowledge in all of them. Our sales, marketing and design teams have made excellent progress: We have already landed our first diversified product order for differential cases which we will be shipping to Volkswagen in Germany in 2001. We're especially proud that this expansion of our customer base represents the first European OEM casting program for Wescast.



We, as the management of Wescast, are extremely proud of all of the accomplishments that our employees made possible during the 1999 fiscal year. We have met or exceeded our expectations in all areas except our share price. Wescast is a healthy, profitable corporation that has exceeded "The Street's" growth goals again. We believe we are making the right decisions to support growth and enhance shareholder value and we continue to look for ways to improve and raise the bar for ourselves. We commit ourselves to monitor and assess our performance to ensure we are aligning our corporate strategy to balance the needs of our investors, customers and employees.

**RICHARD W. LEVAN**  
Chairman

**RAYMOND T. FINNIE**  
President and  
Chief Executive Officer

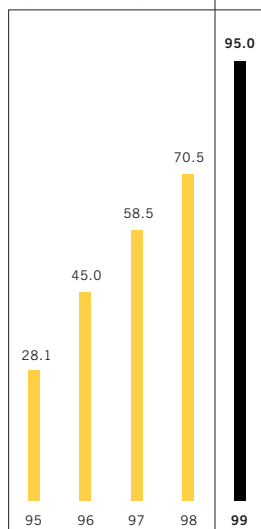
# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## Results of Operations

The following table sets forth for the periods indicated selected information from the Company's consolidated statement of earnings expressed as a percentage of sales. It also shows percentage change from the previous year.

<b>Statement of Earnings Highlights</b> (in thousands of Canadian dollars)								
Fiscal year ended	1999	% of Sales	1998	% of Sales	1997	% of Sales	% Change 1998 to 1999	% Change 1997 to 1998
Sales	\$ 355,284	100.0%	\$284,861	100.0%	\$229,478	100.0%	24.7%	24.1%
Cost of sales	236,075	66.4	192,902	67.7	155,613	67.8	22.4	24.0
Gross margin	119,209	33.6	91,959	32.3	73,865	32.2	29.6	24.5
Selling, general and administration	22,033	6.2	18,439	6.5	14,524	6.3	19.5	27.0
Research, development and design	2,219	0.6	3,060	1.1	862	0.5	(27.5)	255.0
Operating earnings	94,957	26.8	70,460	24.7	58,479	25.4	34.8	20.5
Interest expense	395	0.1	104	0.1	135	0.1	279.8	(23.0)
Other income	(1,846)	(0.5)	(4,717)	(1.8)	(4,841)	(2.2)	(60.9)	(2.6)
Earnings before income taxes	96,408	27.2	75,073	26.4	63,185	27.5	28.4	18.8
Income taxes	34,855	9.8	27,217	9.6	23,821	10.4	28.1	14.3
Net earnings	\$ 61,553	17.4%	\$ 47,856	16.8%	\$ 39,364	17.1%	28.6%	21.6%

**Operating Earnings**  
(millions of dollars)



## Results of Operations: 1998 to 1999

**SALES:** Total sales increased by 25%. Sales of exhaust manifolds increased by 17%, from 11.9 million to 13.9 million units, reflecting increased market penetration and increased sales of higher-value-added parts. Sales of manifolds internally machined increased 31% from 6.2 million to 8.1 million units, and the percentage of SiMo (silicon molybdenum) iron parts increased from 72% to 80% of total manifolds produced. Tooling, prototype and pump sales of \$27.7 million decreased by 11% from 1998, reflecting the decreased number of new program launches in 1999 versus 1998.

**GROSS MARGIN:** The gross margin strengthened to 33.6% in 1999, up from 32.3% in 1998 despite continued requirements to provide our customers with annual price reductions in the 3 to 5% range. The increase in gross margin is the result of manufacturing efficiencies that have dramatically increased our production capacity and significantly reduced waste. In addition, continued increases in internal machining and value-added SiMo parts have also contributed to strengthened margins. Depreciation and amortization charges were \$20.1 million or 6% of sales in 1999, compared to \$16.6 million or 6% of sales in 1998.

**OPERATING EXPENSES:** Selling, general and administrative expenses increased \$3.6 million from 1998 to 1999, mostly due to a provision for bad debts of approximately \$2.7 million. These expenses decreased as a percentage of sales from 6.5% in 1998 to 6.2% in 1999.



Overall, research, development and design expenses decreased \$0.8 million to 0.6% of sales from 1.1% in 1998. Expenditures related specifically to in-house design capabilities increased by \$1.2 million or 91% as compared to 1998. Expenditures related to the design and development of the stainless steel exhaust manifold decreased by \$1.3 million from 1998 as we completed a major development program early in 1999. What we learned from this program has been instrumental in securing the high-value-production GMT 800 program for General Motors. Production will begin in 2000 and will reach \$14 million in annual revenues by 2001. Research and development investment tax credits of \$0.7 million have been offset against the related expenditures incurred in 1999.

**OTHER INCOME:** Other income decreased by \$2.9 million in 1999. Foreign-exchange losses on working capital in 1999 were \$2.8 million as compared to foreign-exchange gains in 1998 of \$2.1 million. The losses were a result of the strengthening Canadian dollar in 1999. Approximately \$2.0 million of additional interest income on cash reserves held throughout the year offset this exchange loss.

**INCOME TAXES:** The effective income tax rate for 1999 was 36.2%.

**NET EARNINGS:** Net earnings increased by 29%, reflecting increased sales, manufacturing efficiencies and additional interest income. The increase in net earnings was partially offset by the foreign-exchange losses on working capital.

## Results of Operations: 1997 to 1998

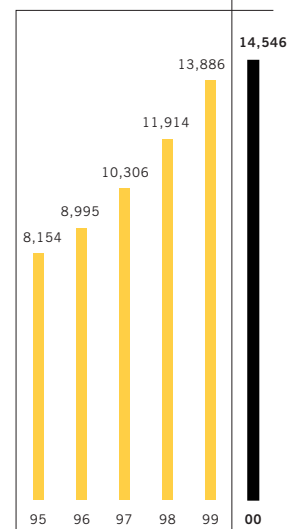
**SALES:** Total sales increased by 24%. Sales of exhaust manifolds increased by 16%, from 10.3 million to 11.9 million units, reflecting increased market penetration and increased sales of higher-value-added parts. Sales of manifolds internally machined increased 23% from 5.1 million to 6.2 million units, and the percentage of SiMo iron parts increased from 70% to 72% of total manifolds produced. Tooling, prototype and pump sales of \$31.1 million increased by 59%, reflecting the start-up of new machining programs such as the General Motors Gen III program. Third-quarter sales were negatively affected by the General Motors strike; however, this was offset by higher-than-expected sales to Ford and DaimlerChrysler.

**GROSS MARGIN:** The gross margin was 32% in 1998, similar to 1997. Depreciation and amortization charges were \$16.6 million or 6% of sales in 1998, as compared to \$17.1 million or 8% of sales in 1997. The 1997 depreciation and amortization charges included a complete write-off of goodwill amounting to \$3.0 million from the 1995 acquisition of the Magalloy stainless steel operation.

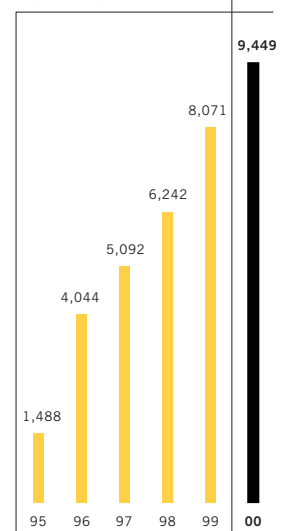
**OPERATING EXPENSES:** Selling, general and administrative expenses increased \$3.9 million to 7% of net sales from 6% in 1997. This was attributable to a special community donation of \$2.0 million to the Town of Wingham to construct a recreational facility, as well as increased staffing to support present and future growth. Research, development and design expenses increased by \$2.2 million in 1998 and represented 1% of sales, compared to 0.5% of sales in 1997. This increase can be attributed to the design and development of the stainless steel exhaust manifold, as well as an increased commitment to in-house design capabilities.

**OTHER INCOME:** Other income decreased \$0.1 million in 1998. Foreign-exchange gains on working capital were less in 1998 than in 1997 as a result of the conversion by General Motors of contracts to Canadian dollars from U.S. dollars. This was offset by additional interest income on cash reserves held throughout the year.

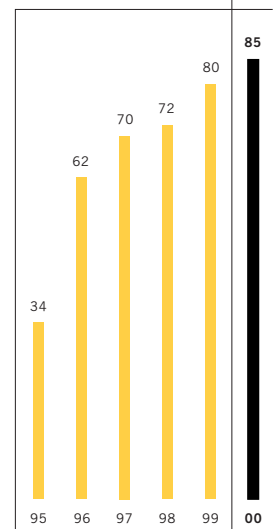
**Manifolds Sold**  
Actual & Projected  
(thousands)



**Manifolds Machined**  
Actual & Projected  
(thousands)

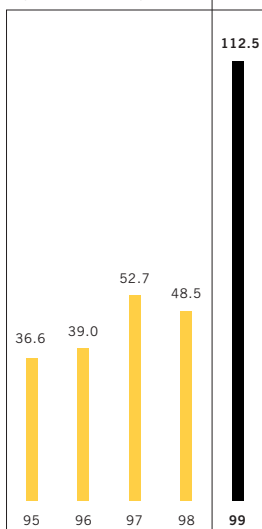


**SiMo Penetration**  
Actual & Projected  
(percentage of manifolds)



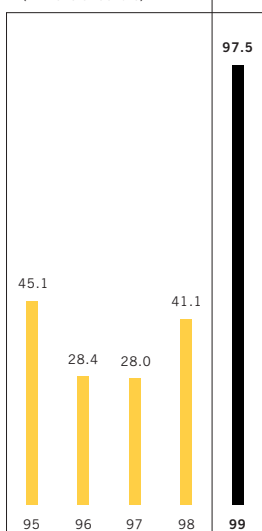
#### Cash Flow – Operations

(millions of dollars)



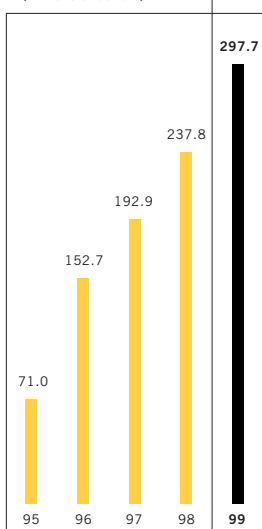
#### Capital Expenditures

(millions of dollars)



#### Shareholders' Equity

(millions of dollars)



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

**INCOME TAXES:** The effective corporate income tax rate for 1998 decreased to 36.2%, compared to 37.7% in 1997, because of a reassessment in 1997 of prior year taxes.

**NET EARNINGS:** Net earnings increased by 22%, reflecting the increased sales level, improved manufacturing efficiencies and additional interest income.

### Financial Condition Highlights

(in thousands of Canadian dollars)

Fiscal year ended	1999	1998
Cash derived from operations	\$ 112,471	\$ 48,472
Net cash flow	15,033	(341)
Net working capital	95,009	107,852
Current ratio	3:1	5:1
Capital expenditures	97,545	41,063
Deferred pre-production costs	3,895	—

### Liquidity and Capital Resources

The Company's financial condition has remained strong. Cash flow derived from operations was \$112.5 million. Net cash flow for the year was \$15.0 million reflecting capital expenditures of over \$97 million. The increase in cash derived from operations from 1998 to 1999 is a result of:

- Increased net earnings;
- Unusually high balance of receivables at the end of 1998 due to the timing of the year-end; and
- High balance of payables in 1999 due to the new facility construction.

The Company's ratio of current assets to current liabilities decreased from 5:1 at the end of 1998 to 3:1 at the end of 1999. This decrease was due to a high level of accounts payable in 1999 related to the construction of a new foundry in Wingham costing approximately \$70.8 million.

Management considers the Company's working capital of approximately \$95.0 million, together with internally generated cash flow and the Company's operating lines of credit of \$35.5 million U.S. dollars, to be sufficient to cover anticipated cash needs for the foreseeable future.

## **Other**

The Company acquired a 50% interest in Weslin Industries Inc. Through Weslin Industries Inc., the Company has decided to construct a new manufacturing facility in Hungary with expected completion in 2002. Wescast's portion of expenditures for the facility over the next three years is expected to be \$60 million.

The Company incurred deferred pre-production costs at its new Wingham facility and its Stratford facility of approximately \$3.9 million in 1999, primarily for recruiting and training personnel. These costs will be amortized over a five-year period to reflect the long-term value of these investments and provide a better matching of costs and revenues.

## **Potential Year-2000 Issues**

Wescast has implemented an enterprise-wide program for the Year-2000 issue with respect to its computer systems and other systems compliance. The program involved upgrading, replacing and testing certain of its computer and other manufacturing equipment to ensure continued operations without disruption before, during or after the year 2000. A cross-functional team was established to ensure that each operating unit within Wescast addressed the Year-2000 issue.

To date the Company has experienced no disruptions in operations as a result of the Year-2000 issue. The Company is confident that most aspects of the Year-2000 issue have been fully resolved.

## **Inflation, Changing Prices and Other**

As noted in the financial statements, the Company derives a substantial portion of its revenue from the United States in U.S. dollars. The Company minimizes the net foreign-currency exposure in contracts by entering into forward-exchange contracts. The Company's policy is not to speculate on exchange rates.

Substantially all of the Company sales are to Ford, General Motors and DaimlerChrysler. The loss of any of these customers or the delay or cancellation of any orders or production projects at any such customer could have a material adverse effect on the financial condition of the Company.

## **Future Outlook**

Even though the Company expects the overall automotive market to decline slightly in 2000, the Company anticipates that its sales revenue will continue to grow in 2000 as a result of improved manifold market share and additional value added to the manifold products sold by the Company. Additional value added is a result of an increased percentage of internal machining and the continued trend to a higher percentage of manifolds made of SiMo ductile iron.

To support new business over the next two years, the Company will continue to invest heavily in the acquisition of equipment necessary for the new casting and machining programs. Capital investment will be needed to maintain existing equipment and to meet evolving environmental laws.

The Company has entered into a strategic alliance with Linamar Corporation for the sales, design and manufacture of a focused range of automotive iron products, other than exhaust manifolds. The new alliance will enhance Wescast's ability to increase market share, while maintaining the independence of our core businesses.



### A Note About Forward-Looking Information

This report contains forward-looking statements in the letter from the Chairman and the President and CEO, Management's Discussion and Analysis and elsewhere, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In connection with forward-looking statements made by or on behalf of the Company, persons should carefully review the factors set forth below and more detailed statements contained in certain of the Company's other documents filed with the U.S. Securities and Exchange Commission (SEC). Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including:

- The Company's dependence on one class of products; i.e., the potential for heightened competition, including the intensification of price competition, the entry of new competitors and the introduction by competitors of new manufacturing techniques or types of manifolds.
- The Company is dependent upon three customers; i.e., the potential of less-than-projected sales by General Motors, Ford and DaimlerChrysler of car models for which the Company supplies the exhaust manifolds.
- Adverse government regulations, including U.S. Corporate Average Fuel Economy standards or emissions regulations and Canadian federal, provincial and local environmental laws and regulations.
- Increased pressure from the OEMs to reduce prices.
- Changes in automotive industry characteristics.
- Increases in the price of raw materials upon which the Company is dependent, including steel and electricity.
- Failure to adequately integrate expanded capacity or acquired businesses and other risks associated with continuing expansion.

### Environmental Report

Wescast is committed to establishing and maintaining sound environmental practices. The Company continuously monitors and controls the impact of all production processes, and has developed policies in light of federal, provincial and municipal laws and regulations to assure a safe and healthy environment for our employees and communities.

The environmental team at Wescast is responsible for the development of procedures, training and co-ordination of all efforts to address the generation of emissions and the collection and disposal of waste. Such efforts are carried out in compliance with governmental regulations and guidelines, as well as in accordance with the Company policies.

Through these efforts, the Company has been able to maintain emission levels at or better than government guidelines, and to recycle almost 100% of the spent foundry materials.

In 1999 the cost to operate and maintain emission control equipment was approximately \$2.0 million, and spending on capital improvements to both the internal and external (on-site) environments was approximately \$1.0 million.

In keeping with the philosophy of "reduce or recycle," in 1999 Wescast delivered 44,000 tons of spent foundry materials off-site to be manufactured into other products. Approximately 70% of this material is spent moulding sand, which is used by the concrete industry in making powdered cement.

To further enhance the Company's efforts toward minimizing its impact on the environment, the Environmental Management System (EMS) is undergoing the necessary changes to be compliant with ISO 14001 standards. This international standard incorporates management review and continuous improvement into the Company's environmental practices. We are on target for ISO 14001 registration by the end of 2000.

## STATEMENT ON CORPORATE GOVERNANCE

Wescast's Board of Directors is composed of 12 members, the majority of which are unrelated based on the definition of this term in the TSE Report on Corporate Governance. The Board met five times in 1999. Each of the directors attended at least 75% of the meetings of the Board. The Board discharges its responsibilities directly and through its two committees, the Audit and Corporate Governance Committee and the Human Resources Committee. The Board does not have an Executive Committee.

The Audit and Corporate Governance Committee is pleased to report the election during the year of Raymond T. Finnie and J. Emilien Bolduc to the Board. Mr. Finnie is the Corporation's President and Chief Executive Officer and Mr. Bolduc is a retired Vice Chairman of the Royal Bank of Canada.

The Audit and Corporate Governance Committee is currently comprised of Board members L. Tapp (Chair), R. LeVan, E. Frackowiak, E. Bolduc, T. Bright and R. Finnie. In 1999 the Committee met four times. The Audit and Corporate Governance Committee met separately with the financial officers of the Corporation and the independent auditors to review financial reporting matters, the system of internal accounting controls and the overall audit plan, and examined the quarterly and year-end financial statements before their presentation to the Board of Directors. The Committee also ensured that appropriate policies and controls are in place at all times to facilitate the effective governance of the Corporation.

The other Committee of the Board that operated during 1999 was the Human Resources Committee. That Committee is currently comprised of Board members W. Greenwood (Chair), P. Kenny, E. Frackowiak, R. LeVan, H. Sloan, D. Baumgardner and R. Finnie and met nine times in 1999. As in the past, the Human Resources Committee oversaw that annual formal assessments of the Chairman and Chief Executive Officer were conducted, and that external guidance was obtained regarding the compensation structure for the Chairman of the Board, the Chief Executive Officer and other executive officers of the Corporation to ensure conformity with good governance practices.

The Board also performs an annual self-assessment to augment its good governance practices. The Board has determined that the size and composition of the Board is appropriate to discharge its responsibilities.



**LAWRENCE G. TAPP**

Director

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Wescast Industries Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments.

Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Wescast Industries Inc. maintains high quality, consistent systems of internal accounting and administrative controls. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board is assisted in its responsibility by the Audit and Corporate Governance Committee and the external auditors.

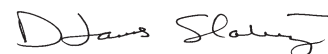
The Audit and Corporate Governance Committee is appointed by the Board, and a majority of its members are outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report.

The findings and recommendations of the Committee, as with all committees of the Board, are submitted to the full Board for approval or other disposition. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The annual financial statements have been audited by Grant Thornton, the external auditors, for the year ended January 2, 2000 in accordance with generally accepted auditing standards on behalf of the shareholders. Grant Thornton has full and free access to the Audit and Corporate Governance Committee.



**RAYMOND. T. FINNIE**  
President and  
Chief Executive Officer  
February 16, 2000



**D. JAMES SLATTERY**  
Vice President and  
Chief Financial Officer

## AUDITORS' REPORT

### To the Shareholders of Wescast Industries Inc.

We have audited the consolidated balance sheet of Wescast Industries Inc. as at January 2, 2000 and December 27, 1998 and the consolidated statement of earnings and retained earnings and cash flows for the 53 week period ended January 2, 2000, and each of the 52 week periods ended December 27, 1998 and December 28, 1997. 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 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 the Company as at January 2, 2000 and December 27, 1998 and the results of its operations and its cash flows for the 53 week period ended January 2, 2000, and for each of the 52 week periods ended December 27, 1998 and December 28, 1997 in accordance with generally accepted accounting principles in Canada.

**GRANT THORNTON, LLP (signed)**  
Toronto, Canada  
January 28, 2000



## Consolidated Statement of Earnings and Retained Earnings

(in thousands of Canadian dollars, except per share amounts)

Fiscal year (Note 23)	1999	1998	1997
Sales	\$ 355,284	\$ 284,861	\$ 229,478
Cost of sales	236,075	192,902	155,613
Gross margin	119,209	91,959	73,865
Selling, general and administration	22,033	18,439	14,524
Research, development and design	2,219	3,060	862
Operating earnings	94,957	70,460	58,479
Other (income) expense			
Interest – long term	263	28	7
Interest – other	132	76	128
Other (Note 14)	(1,846)	(4,717)	(4,841)
	(1,451)	(4,613)	(4,706)
Earnings before income taxes	96,408	75,073	63,185
Income taxes (Note 15)	34,855	27,217	23,821
Net earnings	\$ 61,553	\$ 47,856	\$ 39,364
Net earnings per common share (Note 16)	\$ 4.67	\$ 3.65	\$ 3.02
Fully diluted net earnings per common share (Note 16)	\$ 4.47	\$ 3.53	\$ 2.91
Retained earnings, beginning of year	\$ 131,648	\$ 87,984	\$ 50,778
Net earnings	61,553	47,856	39,364
Dividends paid	(4,218)	(4,192)	(2,158)
Retained earnings, end of year	\$ 188,983	\$ 131,648	\$ 87,984
Dividends paid per common share	\$ 0.32	\$ 0.32	\$ 0.16

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheet

(in thousands of Canadian dollars)

	January 2, 2000	December 27, 1998
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 43,164	\$ 28,131
Short-term investments	33,594	36,892
Receivables (net of allowance of \$2,919 and \$319 respectively)	45,149	53,997
Inventories (Note 4)	19,809	16,793
Prepays	728	351
	142,444	136,164
Property and equipment (Note 5)	215,589	139,069
Other (Note 6)	6,129	5,028
	\$ 364,162	\$ 280,261
<b>LIABILITIES</b>		
Current		
Payables and accruals (Note 8)	\$ 40,042	\$ 22,979
Income taxes payable	5,197	4,038
Current portion of long-term debt (Note 9)	2,196	1,295
	47,435	28,312
Long-term debt (Note 9)	4,502	5,220
Future income taxes (Note 15b)	8,707	3,916
Employee benefits (Note 10)	5,775	5,040
	66,419	42,488
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 11)		
5,745,843 Class A Common shares issued	96,181	93,546
7,466,907 Class B Common shares issued	12,579	12,579
Retained earnings	188,983	131,648
	297,743	237,773
	\$ 364,162	\$ 280,261

Commitments and uncertainty (Notes 12 and 13).

See accompanying notes to the consolidated financial statements.

Approved by the Board



**RICHARD W. LEVAN**

Chairman



**LAWRENCE G. TAPP**

Director

## Consolidated Statement of Cash Flows

(in thousands of Canadian dollars)

Fiscal year (Note 23)	1999	1998	1997
Cash derived from (applied to)			
<b>OPERATING</b>			
Net earnings	\$ 61,553	\$ 47,856	\$ 39,364
Depreciation and amortization	20,164	16,598	17,128
Future income taxes (recovered)	4,791	997	(471)
Loss on disposal of equipment	289	89	171
Employee benefits	994	1,737	1,344
	87,791	67,277	57,536
Change in non-cash operating working capital (Note 17)	24,680	(18,805)	(4,859)
	112,471	48,472	52,677
<b>FINANCING</b>			
Issue of long-term debt	1,184	5,832	–
Repayment of long-term debt	(1,015)	(369)	–
Payments of obligations under capital lease	(616)	(453)	(449)
Employee share loan repayments	277	–	–
Dividends paid	(4,218)	(4,192)	(2,158)
Issue of common shares	977	250	578
	(3,411)	1,068	(2,029)
<b>INVESTING</b>			
Purchase of property and equipment	(96,539)	(40,820)	(27,267)
Purchase of short-term investments	(34,209)	(36,837)	(31,565)
Purchase of license	(74)	–	–
Restricted cash from long-term debt	3,415	(3,946)	–
Deferred pre-production costs	(3,895)	–	–
Redemption of short-term investments	36,892	31,565	–
Proceeds on disposal of equipment	383	157	793
	(94,027)	(49,881)	(58,039)
Net increase (decrease) in cash and cash equivalents	15,033	(341)	(7,391)
Cash and cash equivalents			
Beginning of year	28,131	28,472	35,863
End of year	\$ 43,164	\$ 28,131	\$ 28,472

See accompanying notes to the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

## 1 NATURE OF OPERATIONS

The major operations of Wescast Industries Inc. are the manufacture and machining of exhaust manifolds for the automotive industry. It also manufactures steel pump equipment parts for the petrochemical, pollution control and food processing industries.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** The consolidated financial statements have been prepared in Canadian dollars following accounting policies generally accepted in Canada. These policies are also in conformity, in all material respects, with accounting policies generally accepted in the United States, except as described in Note 22 to the consolidated financial statements.

**Principles of consolidation** The consolidated financial statements include the accounts of Wescast Industries Inc. and its subsidiaries (the "Company"). The Company accounts for its interests in United Machining Inc. and Weslin Industries Inc., jointly controlled entities, using the proportionate consolidation method. All significant inter-company balances and transactions have been eliminated.

**Revenue recognition** Revenue is recognized when products are delivered to customers. Tooling and prototype revenue is recognized when the customer has received, tested and accepted the tooling or prototype.

**Cash and cash equivalents** Cash and cash equivalents includes cash and investments that have a maturity of three months or less from the date of acquisition.

**Short-term investments** Short-term investments are carried at cost, which approximates market value, and may be liquidated promptly and have maturities greater than three months and less than one year.

**Inventories** Raw materials and supplies are valued at the lower of cost and replacement cost. Tooling and finished goods are valued at the lower of cost and net realizable value. Cost includes material, labour and manufacturing overhead. Cost is determined on the first-in, first-out basis.

**Depreciation** Rates of depreciation are applied to write off the cost less estimated salvage value of property and equipment over their estimated useful lives. Buildings and improvements have an estimated useful life of 10 to 30 years and are depreciated on a declining balance basis at 3% to 10% per year or on a straight-line basis over their respective lives. Machinery, equipment and vehicles have an estimated useful life of 2 to 15 years and are depreciated on the diminishing balance basis at 10% to 50%, and the straight-line basis up to 15 years or on a unit of production basis calculated on the estimated volume over the life of the product.

**Amortization of other long-term assets** Licences are being amortized on the straight-line method over their estimated lives of fifteen years. Bond issue costs are being amortized over seven years, the term of the related bonds.

**Deferred pre-production costs** Costs incurred in the pre-production or start-up period of new facilities and new businesses are deferred until commercial production levels are attained. These costs are amortized over a period not to exceed five years commencing on completion of the pre-production or start-up period.

**Employee benefit plans** The Company changed its policy for accounting for employee future benefits by adopting the provisions of Section 3461, Employee Future Benefits, of the Handbook of the Canadian Institute of Chartered Accountants. This change has been adopted on a prospective basis.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 19 years. The average remaining service period of the active employees covered by the other retirement benefits plan is 19 years.

**Stock-based compensation plans** The Company has two stock-based compensation plans, which are described in Note 21. No compensation expense is recognized with respect to these plans. Any consideration paid upon exercise of options and issues of shares is credited to share capital.

**Translation of foreign currencies** Current assets and current liabilities are translated at the year-end rate of exchange. Revenue and expenses are translated at monthly average rates of exchange. Fixed assets and depreciation are translated at rates prevailing when the related assets are acquired. Translation gains and losses are included in earnings, except for unrealized gains and losses arising from translation of long-term liabilities, which are deferred and amortized over the term of the contracted repayment arrangements.

With regards to self-sustaining subsidiaries, all of the assets and liabilities are translated at the year-end rate of exchange. Revenues and expenses are translated at the average rate of exchange for the year. Gains and losses are recorded as an adjustment to shareholders' equity.

With regards to integrated subsidiaries, monetary assets and liabilities are translated at the year-end rate of exchange. Fixed assets and depreciation are translated at rates prevailing when the related assets are acquired. Revenue and expenses are translated at monthly average rates of exchange. Translation gains and losses are included in earnings, except for unrealized gains and losses arising from translation of long-term monetary assets and liabilities, which are deferred and amortized over the remaining life of the asset or liability.

To minimize the effect of exchange rate fluctuations, the Company hedges future cash receipts by entering into contracts to sell U.S. dollars at times that match the receipt of revenue. Accordingly, the Company accounts for exchange gains and losses on these contracts at the time of occurrence of the hedged transaction.

**Use of estimates** In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 3 INTEREST IN JOINTLY CONTROLLED ENTITIES

In 1999 the Company acquired a 50% interest in Weslin Industries Inc. and in 1998 it acquired a 49% interest in United Machining Inc. The following is the Company's proportionate share of the major components of these jointly controlled entities (before eliminations):

	January 2, 2000	December 27, 1998
<b>Balance sheet</b>		
Current assets	\$ 4,184	\$ 178
Long-term assets	5,022	5,422
Current liabilities	5,635	1,060
Long-term liabilities	4,585	4,965
Deficit	(1,014)	(425)
<b>Statement of earnings</b>		
Sales	1,870	240
Cost of sales and expenses	2,564	672
Net loss	(694)	(432)
<b>Statement of cash flows</b>		
Cash derived from (applied to)		
Cash flows from operating activities	(640)	(425)
Cash flows from financing activities	503	5,751
Cash flows from investing activities	200	(5,318)

### 4 INVENTORIES

	January 2, 2000	December 27, 1998
Finished goods – castings	\$ 4,025	\$ 2,829
– tooling	8,987	7,471
Raw materials and supplies	6,797	6,493
	\$ 19,809	\$ 16,793

### 5 PROPERTY AND EQUIPMENT

	January 2, 2000	December 27, 1998
<b>Cost</b>		
Land	\$ 2,836	\$ 2,756
Buildings and improvements	89,067	51,724
Machinery, equipment and vehicles	220,753	162,448
	312,656	216,928
<b>Accumulated depreciation</b>		
Buildings and improvements	9,131	6,907
Machinery, equipment and vehicles	87,936	70,952
	97,067	77,859
<b>Net book value</b>		
Land	2,836	2,756
Buildings and improvements	79,936	44,817
Machinery, equipment and vehicles	132,817	91,496
	\$ 215,589	\$ 139,069

At January 2, 2000 assets under capital lease amounted to \$1,924 (1998 – \$1,635) less accumulated depreciation of \$741 (1998 – \$714).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

### 6 OTHER

	January 2, 2000	December 27, 1998
Deferred pre-production costs	\$ 3,895	\$ –
Director and employee share purchase plan loans	1,634	906
Bond issue costs	99	124
Restricted cash from long-term debt (Note 9b)	378	3,946
Licence	123	52
	<b>\$ 6,129</b>	<b>\$ 5,028</b>

The director and employee share purchase plan loans are non-interest bearing, repayable over ten years and are secured by the underlying shares. The current portion of these loans of \$212 (1998 – \$101) is included in receivables. The total market value of the underlying shares was \$1,930 at January 2, 2000.

### 7 BANK INDEBTEDNESS

The Company's overall credit limit is \$35.5 million U.S. dollars. No Company assets are pledged as security on those loan facilities, however, with certain specific exceptions, the Company is not permitted to encumber its assets.

	January 2, 2000	December 27, 1998
Balance at end of period	–	–
Weighted average interest rate	6.07%	6.32%
Maximum amount outstanding during the period	–	\$ 8,966
Average amount outstanding during the period	–	\$ 28

### 8 PAYABLES AND ACCRUALS

	January 2, 2000	December 27, 1998
Accounts payable	\$ 32,865	\$ 14,317
Accruals	1,001	2,525
Accrued payroll and benefits	6,176	6,137
	<b>\$ 40,042</b>	<b>\$ 22,979</b>

### 9 LONG-TERM DEBT

	January 2, 2000	December 27, 1998
a) Obligations under capital leases	\$ 1,442	\$ 1,052
b) Limited obligation revenue bonds	4,245	5,322
c) Revolving bank note	303	141
d) Fixed rate single payment note	708	–
	<b>6,698</b>	<b>6,515</b>
Less current portion of long-term debt	<b>2,196</b>	<b>1,295</b>
	<b>\$ 4,502</b>	<b>\$ 5,220</b>

**(a) Obligations under capital leases** The obligations under capital leases are payable in monthly instalments with interest at rates from 5.0% to 7.0%, maturing at various dates to the year 2004, and secured by vehicles and applicable computer equipment.

The principal payments for the next five years are as follows:

2000	\$ 517
2001	489
2002	299
2003	112
2004	25
Total	1,442
Less current portion	517
	<b>\$ 925</b>

**(b) Limited obligation revenue bonds** The limited obligation revenue bonds are payable in annual instalments of principal of US\$490 with a variable interest rate which at January 2, 2000 was 5.65%, and mature in the year 2005. As security, United Machining Inc., the Company's 49% owned joint venture, has provided a first charge over its receivables, inventory, machinery and equipment. Also, the Company has provided a US\$2,940 guarantee of the bonds and any of the Company's inter-company loans with United Machining Inc. are subordinate to the bonds.

The proceeds of the bond issue are restricted for use in capital expenditures and are being held in trust until such expenditures are incurred. At January 2, 2000, \$378 (1998 – \$3,946) was held in trust.

**(c) Revolving bank note** The revolving bank note is payable on demand, bears interest at U.S. prime less 0.5% and security is provided by a charge on the assets of United Machining Inc.

**(d) Fixed rate single payment note** The fixed rate single payment note matures on December 1, 2000 and bears interest at 6.95% payable monthly. Security is provided by a charge on the assets of United Machining Inc.



## 10 EMPLOYEE BENEFITS

The Company has a number of defined benefit and defined contribution plans providing pension and other retirement benefits to most of its employees.

**Defined contribution plans** The total expense for the Company's defined contribution plans is as follows:

	1999	1998	1997
Plans providing pension benefits	\$ 2,811	\$ 2,194	\$ 1,945

**Defined benefit plans** Information about the Company's defined benefit plans, in aggregate, is as follows. Prior to 1999, the Company did not have any benefit plans other than pension plans.

	Pension Benefit Plans			Other Benefit Plans
	1999	1998	1997	1999
<b>Accrued benefit obligation</b>				
Balance at beginning of year	\$ 5,407	\$ 4,125	\$ 2,727	\$ -
Current service cost	274	1,436	1,338	28
Interest cost	563	319	302	23
Plan initiation	6,805	-	-	665
Benefits paid	(296)	(25)	-	-
Actuarial (gains) losses	(466)	50	(242)	-
Balance at end of year	\$ 12,287	\$ 5,905	\$ 4,125	\$ 716
<b>Plan assets</b>				
Fair value at beginning of year	\$ 842	\$ 796	\$ 680	\$ -
Actual return on plan assets	34	64	116	-
Benefits paid	(37)	-	-	-
Fair value at end of year	\$ 839	\$ 860	\$ 796	\$ -
<b>Funded status</b>				
Plan deficit	\$(11,448)	\$(5,045)	\$(3,329)	\$(716)
Unamortized net actuarial loss	(422)	(143)	(175)	-
Unamortized past service costs	6,621	148	193	646
Unamortized transitional obligation	(449)	-	-	-
Accrued benefit liability	(5,698)	(5,040)	(3,311)	(70)
Valuation allowance	(7)	-	-	-
Accrued benefit liability, net of valuation allowance	\$ (5,705)	\$ (5,040)	\$ (3,311)	\$ (70)

Only one of the Company's pension plans is funded. Included in the above accrued benefit obligation at year-end are the following amounts in respect of plans that are not funded:

	Pension Benefit Plans			Other Benefit Plans
	1999	1998	1997	1999
Accrued benefit obligation	\$ 4,750	\$ 5,146	\$ 3,072	\$ 70

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

	Pension Benefit Plans			Other Benefit Plans
	1999	1998	1997	1999
Discount rate	6.5%	6.0%	6.5%	6.5%
Expected long-term rate of return on plan assets	9.25%	9.25%	9.25%	
Rate of compensation increase	3.0%	4.0%	3.0%	

For measurement purposes, a 3% annual rate of increase in the per capita cost of covered health care benefits was assumed, a rate that is expected to be slightly in excess of inflation.

The Company's net benefit plan expense is as follows:

	Pension Benefit Plans			Other Benefit Plans
	1999	1998	1997	1999
Current service cost	\$ 274	\$ 1,693	\$ 1,338	\$ 28
Interest cost	563	46	44	23
Expected return on plan assets	(77)	(73)	(67)	-
Amortization of past service costs	184	-	-	19
Amortization of net actuarial loss	(4)	71	29	-
Amortization of transitional obligation	(23)	-	-	-
Valuation allowance provided against accrued benefit asset	7	-	-	-
Net benefit plan expense	\$ 924	\$ 1,737	\$ 1,344	\$ 70

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

### 11 CAPITAL STOCK

#### Authorized:

Unlimited	Preference shares, no par value
Unlimited	Class A subordinate, voting common shares, no par value
9,000,000	Class B multiple voting common shares, no par value

	January 2, 2000	December 27, 1998
--	--------------------	----------------------

#### Issued and outstanding:

5,745,843	Class A common shares (1998 – 5,659,945)	\$ 96,181	\$ 93,546
7,466,907	Class B common shares (1998 – 7,466,907)	12,579	12,579
		<b>\$ 108,760</b>	<b>\$ 106,125</b>

i) During 1999, 10,400 Class A common share options were cancelled, 105,500 Class A common share options were issued, and 45,167 Class A common share options were exercised for cash proceeds of \$584 and debt of \$541. As at January 2, 2000, there were 894,867 options outstanding.

During 1998, 1,500 Class A common share options were cancelled, 230,500 Class A common share options were issued, and 9,166 Class A common share options were exercised for cash proceeds of \$154. As at December 27, 1998, there were 844,934 options outstanding.

ii) During 1999, 40,731 Class A common shares were issued for cash of \$393 and debt of \$1,117 under the director and employee share purchase plan.

During 1998, 32,009 Class A common shares were issued for cash of \$87 and debt of \$1,015 under the director and employee share purchase plan.

### 12 COMMITMENTS

(a) The Company has signed a licensing agreement with Metal Casting Technology Inc. to use the LSVAC process in developing a thin-wall cast stainless steel exhaust manifold. According to the terms of the agreement, the Company is required to pay commercialization fees of US\$150 for the first machine and US\$100 for each additional machine. In addition, royalties of 4% of sales (minimum of US\$50 per annum) will be paid once commercial production begins.

(b) Through its jointly controlled entity, Weslin Industries Inc., the Company is committed to construct a new manufacturing facility in Hungary with expected completion in 2002. The Company's portion of expenditures for the facility over the next three years is approximately \$60 million. The Company's portion of pre-production costs in 2000 is expected to be approximately \$2.5 million.

(c) As a result of its ongoing expansion programs, the Company has committed an additional \$8.7 million to acquire capital assets in 2000.

### 13 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 Issue that may affect the Company, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

### 14 OTHER (INCOME) EXPENSE

	1999	1998	1997
Foreign exchange translation loss (gain)	\$ 2,802	\$ (2,116)	\$ (2,777)
Interest and miscellaneous	(4,937)	(2,690)	(2,235)
Loss on disposal of equipment	289	89	171
	<b>\$ (1,846)</b>	<b>\$ (4,717)</b>	<b>\$ (4,841)</b>

### 15 INCOME TAXES

(a) The following table reconciles the statutory federal and provincial income taxes to the effective income tax on earnings before taxes.

	1999	1998	1997
Statutory income tax	\$ 42,998	\$ 33,783	\$ 28,178
Manufacturing and processing deduction	(8,700)	(6,757)	(5,687)
Tax effect of non-deductible expenses	248	191	820
Unrecognized losses of jointly controlled entities	309	–	–
Reassessment of prior years	–	–	510
Effective income tax	<b>\$ 34,855</b>	<b>\$ 27,217</b>	<b>\$ 23,821</b>
The effective income tax includes:			
Current income taxes	\$ 30,064	\$ 26,220	\$ 24,292
Future income taxes	4,791	997	(471)
	<b>\$ 34,855</b>	<b>\$ 27,217</b>	<b>\$ 23,821</b>

(b) The composition of the future income taxes balance is as follows:

	January 2, 2000	December 27, 1998
Future income tax liability		
Tax depreciation in excess of accounting depreciation	\$ 9,980	\$ 7,161
Deferred pre-production costs	1,387	–
	11,367	7,161
Future income tax asset		
Deductible offering expenses	235	699
Accrued pension costs	2,057	1,794
Other non-deductible accruals	368	752
	2,660	3,245
	\$ 8,707	\$ 3,916

#### 16 EARNINGS PER COMMON SHARE

Basic earnings per share are based on the weighted average common shares outstanding. Weighted average common shares used in the computation of earnings per share under Canadian generally accepted accounting principles ("Canadian GAAP") were 13,043,005, 13,101,699 and 13,178,453 in 1997, 1998 and 1999 respectively. The shares used in the computation of fully diluted earnings per share were 13,644,986, 13,744,341 and 13,977,853 in 1997, 1998 and 1999 respectively.

Under United States generally accepted accounting principles ("U.S. GAAP"), the weighted average common shares outstanding for basic earnings per share are the same as under Canadian GAAP. The shares used in the computation of fully diluted earnings per share were 13,378,451, 13,549,356, and 13,527,279 for 1997, 1998 and 1999 respectively. All of the dilution is caused by the effect of stock options outstanding.

#### 17 CONSOLIDATED STATEMENT OF CASH FLOWS

The following is additional information to the statement of cash flows. Change in non-cash operating working capital

	1999	1998	1997
Receivables	\$ 9,502	\$(11,941)	\$ (4,557)
Inventories	(3,016)	(1,148)	(5,628)
Prepays	(377)	(132)	59
Payables and accruals	17,412	557	1,057
Income taxes payable	1,159	(6,141)	4,210
	\$ 24,680	\$(18,805)	\$ (4,859)
Cash paid for interest	\$ 356	\$ 118	\$ 90
Cash paid for income taxes	\$ 29,742	\$ 32,955	\$ 20,989

#### 18 RELATED PARTY TRANSACTIONS

The Company paid freight of \$3,779 in 1999 (1998 – \$2,979, 1997 – \$2,609) to a related company, 25% of whose shares are owned by a company controlled by one of the Class B shareholders of the Company. Payables and accruals include \$344 (1998 – \$219) which is owed to this company.

#### 19 SEGMENT INFORMATION

(a) **Sales to major industries and customers** Substantially all the Company's operations are derived from the production, manufacturing and sale of exhaust manifolds for the automotive industry. The Company's automotive customers are either the Big Three car manufacturers or Tier 1 suppliers to these manufacturers.

	1999	%	1998	%	1997	%
Automotive	\$348,918	98	\$278,069	98	\$223,583	97
Pump equipment	6,366	2	6,792	2	5,895	3
	\$355,284		\$284,861		\$229,478	

(b) **Export sales** The Company's operations are conducted primarily in Canada, however, most of its products are exported.

	United States (Foreign)	United Kingdom (Foreign)	Canada (Domestic)	Total
1999 Revenues	\$337,624	\$16,928	\$ 732	\$355,284
1998 Revenues	\$268,267	\$15,832	\$ 762	\$284,861
1997 Revenues	\$222,195	\$ 5,863	\$1,420	\$229,478

#### 20 FINANCIAL INSTRUMENTS

**Foreign exchange contracts** The Company receives a substantial portion of its revenue in U.S. dollars and some costs and expenses are paid in U.S. dollars. The Company manages exchange rate volatility by entering into 12 to 36 month forward exchange contracts. These activities serve to minimize, but not eliminate, the risk from fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar.

The Company has entered into forward exchange contracts to fix the rate at which U.S. dollar revenues are to be received in 2000 through 2002. At January 2, 2000, the Company had committed to sell US\$36,960 at an average rate of 1.4665. The fair market value of those contracts at January 2, 2000 was US\$37,535.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

### 20 FINANCIAL INSTRUMENTS (continued)

**Fair value of financial instruments** The methods and assumptions used to estimate the fair value of financial instruments are described below:

**Cash and cash equivalents, short-term investments, receivables, and payables and accruals** Due to the short-term period to maturity of the instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

**Long-term debt** The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, are not materially different from their carrying value.

**Credit risk** The majority of the Company's receivables are from the Big Three auto manufacturers. Exposure to any particular customer is significant, but the Company does not believe that any material credit risk exists.

The Company also has receivables from Tier I machinists who did represent a credit risk in 1999. The Company believes that this exposure has been adequately reflected in these financial statements. While the Company continues to ship to these customers, any potential future risk has been avoided through negotiated terms and conditions on sale, including cash on delivery.

**Interest rates** The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. The long-term debt bears interest at market rates as disclosed in Note 9.

### 21 STOCK-BASED COMPENSATION PLANS

**Employee Share Purchase Plan** Under the 1997 Employee Share Purchase Plan, the Company is authorized to issue up to 500,000 Class A common shares to employees with not less than three months service, and to directors. Under the terms of the plan, employees may acquire shares annually up to an amount not exceeding 10% of their annual compensation. Shares are acquired under the plan at a price equal to 85% of the market value of such shares. Under the plan, the Company issued 40,731 shares in 1999 and 32,009 shares in 1998. The aggregate amount of shares issued under the plan was 72,740 at January 2, 2000 and 32,009 at December 27, 1998.

**Stock Option Plan** The Company has a stock option plan which grants options to employees up to an aggregate of 1 million Class A common shares. The options, which have a term not exceeding ten years when issued, vest immediately for directors and over five years for all others at a rate of 1/3 for each year over three years commencing on the third anniversary. The exercise price of each option equals the market price of the Company's stock on the date of grant.

A summary of the status of the Company's stock option plan as of the fiscal year-ends of 1997, 1998 and 1999 and changes during each fiscal year is presented below.

TABLES BELOW RELATE TO NOTE 21

	Shares (000)			Weighted Average Exercise Price		
	1999	1998	1997	1999	1998	1997
Outstanding, beginning of year	845	625	590	\$29	\$24	\$21
Granted	105	231	95	\$33	\$43	\$33
Exercised	(45)	(9)	(38)	\$24	\$15	\$15
Forfeited	(10)	(2)	(22)	\$39	\$40	\$23
Outstanding, end of year	895	845	625	\$30	\$29	\$24
Options exercisable at year-end	504	381	205	\$25	\$26	\$22
Weighted-average fair value of options granted during the year				\$12	\$15	\$12

The following information applies to options outstanding at January 2, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at January 2, 2000	Weighted Average Exercise Price
\$1 to \$12	5,333	5.3 years	\$11	5,333	\$11
\$13 to \$24	293,734	5.0 years	\$15	279,734	\$15
\$25 to \$36	317,500	8.0 years	\$34	113,833	\$34
\$37 to \$48	278,300	8.7 years	\$42	105,500	\$42
	894,867		\$30	504,400	\$25



**22 RECONCILIATION TO ACCOUNTING PRINCIPLES  
GENERALLY ACCEPTED IN THE UNITED STATES  
OF AMERICA**

In certain respects, Canadian GAAP differ from U.S. GAAP.

**(a) Statements of earnings**

	1999	1998	1997
Net earnings according to Canadian GAAP	\$ 61,553	\$ 47,856	\$ 39,364
Depreciation effect of interest capitalization (i)	(30)	(31)	(31)
Deferred pre-production cost (ii)	(3,895)	—	—
Decrease in income tax expense (iii)	1,398	11	11
	(2,527)	(20)	(20)
Net earnings according to U.S. GAAP	59,026	47,836	39,344
Retained earnings, beginning of year	131,708	88,064	50,878
Dividends	(4,218)	(4,192)	(2,158)
Retained earnings, end of year	\$ 186,516	\$ 131,708	\$ 88,064
Basic earnings per common share	\$ 4.48	\$ 3.65	\$ 3.02
Fully diluted earnings per common share (Note 16)	\$ 4.36	\$ 3.53	\$ 2.94

(i) The depreciation effect of interest capitalization reflects the change in depreciation expense due to interest expense capitalization for U.S. GAAP purposes.

(ii) Deferred pre-production costs must be expensed for U.S. GAAP purposes.

(iii) Income tax effect of items in (i) and (ii).

**(b) Balance sheets**

	January 2, 2000		
	Canadian GAAP	Adjustment	U.S. GAAP
Current assets (i) and (iv)	\$ 142,444	\$ (1,436)	\$ 141,008
Property and equipment (ii) and (iv)	215,589	(4,484)	211,105
Other long-term assets (i), (iii) and (iv)	6,129	(5,901)	228
	\$ 364,162	\$ (11,821)	\$ 352,341
Current liabilities (iv)	\$ 47,435	\$ (2,024)	\$ 45,411
Long-term debt (iv)	10,277	(3,576)	6,701
Future income taxes (v)	8,707	(1,366)	7,341
Shareholders' equity (i) and (vi)	297,743	(4,855)	292,888
	\$ 364,162	\$ (11,821)	\$ 352,341

	December 27, 1998		
	Canadian GAAP	Adjustment	U.S. GAAP
Current assets (i) and (iv)	\$ 136,164	\$ (310)	\$ 135,854
Property and equipment (ii) and (iv)	139,069	(1,259)	137,810
Other long-term assets (i) and (iv)	5,028	(4,915)	113
	\$ 280,261	\$ (6,484)	\$ 273,777
Current liabilities (iv)	\$ 28,312	\$ (1,009)	\$ 27,303
Long-term debt (iv)	10,260	(4,561)	5,699
Future income taxes (v)	3,916	32	3,948
Shareholders' equity (i) and (vi)	237,773	(946)	236,827
	\$ 280,261	\$ (6,484)	\$ 273,777

(i) The shareholders' equity adjustment reflects the reclassification of director and employee share purchase loans as a reduction of share capital.

(ii) Property and equipment have been adjusted at each balance sheet date for the effect of capitalized interest which is discussed in Note 22 (a)(i).

(iii) Other long-term assets have been adjusted such that the deferred pre-production costs are expensed.

(iv) The Company's interest in its jointly controlled entities has been proportionately consolidated in the financial statements. This adjustment is required such that the Company's interests are accounted for by the equity method.

(v) This adjustment reflects the income tax effects of (ii) and (iii).

(vi) The shareholders' equity adjustment reflects the cumulative effect of the adjustments outlined in Note 22 (a) and (b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of Canadian dollars, except per share amounts)

### 22 RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (continued)

**(c) Stock-based compensation plans** The Company accounts for its stock-based compensations plans disclosed in Note 21 under APB Opinion 25 and related interpretations. The exercise price of each option equals the market price of the Company's stock on the date of grant. The employee share purchase plan offers shares of the Company at 85% of the market value. Accordingly, no compensation cost has been recognized for these plans. Had compensation costs for these plans been determined based on the fair value of the options and shares as of their grant dates consistent with the method of Statement of Financial Accounting Standards 123, Accounting for Stock-Based Compensation (SFAS 123), the Company's net earnings and earnings per common share would have been reduced to the pro forma amounts indicated below. The effects of applying SFAS 123 are not likely to be representative of the effects on reported net earnings for future years because options vest over several years and additional awards may be made each year and employee share purchases are voluntary.

	1999	1998	1997
Net earnings			
As reported	\$ 59,026	\$ 47,836	\$ 39,344
Pro forma	\$ 57,738	\$ 46,552	\$ 38,698
Basic earnings per common share			
As reported	\$ 4.48	\$ 3.65	\$ 3.02
Pro forma	\$ 4.38	\$ 3.55	\$ 2.97
Fully diluted earnings per common share			
As reported	\$ 4.36	\$ 3.53	\$ 2.94
Pro forma	\$ 4.27	\$ 3.44	\$ 2.89

The fair value of each option grant is estimated on the date of grant using the bi-nominal options-pricing model with the following weighted-average assumptions used for grants in 1997, 1998 and 1999, respectively; expected dividend yield of 0.42%, 0.74% and 0.90%; expected volatility of 43%, 39%, and 35%; risk-free interest rates of 6.02%, 4.77% and 6.15%; and expected lives of 5 years in all cases.

**(d) Future changes in United States accounting policies** Financial Accounting Standards Board pronouncement 133 – Accounting for Derivative Instruments and Hedging Activities will have no significant effect on the Company.

### 23 FISCAL YEARS

The 1999 fiscal year was for the 53 weeks ended January 2, 2000 and the 1998 and 1997 fiscal years were for the 52 weeks ended December 27, 1998 and December 28, 1997.

### 24 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

## Summary of Operations

(in thousands of Canadian dollars, except per share amounts)

For the fiscal year	1999	1998	1997	1996	1995	1994	1993	1992
Sales	355,284	284,861	229,478	197,717	167,299	131,848	93,708	70,655
Cost of sales	236,075	192,902	155,613	140,407	131,450	103,199	77,758	61,305
Gross margin	119,209	91,959	73,865	57,310	35,849	28,649	15,950	9,350
Gross margin percentage	34%	32%	32%	29%	21%	22%	17%	13%
Selling, general and administration	22,033	18,439	14,524	11,752	7,195	5,805	3,528	4,378
Research, development and design	2,219	3,060	862	546	484	483	302	339
Operating earnings	94,957	70,460	58,479	45,012	28,170	22,361	12,120	4,633
Interest expense	395	104	135	1,438	786	1,656	1,790	1,946
Other (income) expense	(1,846)	(4,717)	(4,841)	(630)	(271)	553	(2)	(1,278)
Earnings before income taxes	96,408	75,073	63,185	44,204	27,655	20,152	10,332	3,965
Percentage of sales	27%	26%	28%	22%	17%	15%	11%	6%
Income taxes	34,855	27,217	23,821	15,843	9,932	7,893	4,200	1,401
Tax rate	36%	36%	38%	36%	36%	39%	41%	35%
Net earnings	61,553	47,856	39,364	28,361	17,723	12,259	6,132	2,564
Percentage of sales	17%	17%	17%	14%	11%	9%	7%	4%
Return on average equity	23%	22%	23%	25%	28%	38%	85%	75%
Net earnings per common share	\$4.67	\$3.65	\$3.02	\$2.63	\$1.65	\$1.40	\$0.73	\$0.30
Price/earnings ratio range	11–7	12–9	16–10	13–5	10–6	12–8	N/A	N/A
Weighted average common shares outstanding	13,178	13,102	13,043	10,794	10,741	8,779	8,408	8,408
Capital expenditures	97,545	41,063	28,036	28,366	45,060	26,342	5,086	2,735
Manifolds sold (units)	13,886	11,914	10,306	8,995	8,154	7,582	6,113	5,021
Manifolds internally machined/sold (units)	8,071	6,242	5,092	4,044	1,488	695	614	680
Pump components produced (pounds)	859	1,035	705	609	180	N/A	N/A	N/A

## Financial Position at Year-End

(in thousands of Canadian dollars, except per share amounts)

	1999	1998	1997	1996	1995	1994	1993	1992
Cash, cash equivalents and short-term investments	<b>\$76,758</b>	\$65,023	\$60,037	\$35,863	\$ 1,290	\$ –	\$ –	\$ –
Total current assets	<b>142,444</b>	136,164	117,857	83,557	35,744	44,147	17,598	12,536
Total current liabilities	<b>47,435</b>	28,312	33,404	28,050	19,426	26,581	12,755	11,405
Working capital	<b>95,009</b>	107,852	84,453	55,507	16,318	17,566	4,843	1,131
Property and equipment – net	<b>215,589</b>	139,069	115,039	101,952	86,402	53,195	31,246	30,922
Total assets	<b>364,162</b>	280,261	233,121	188,899	125,807	97,886	50,785	44,828
Long-term debt	<b>10,277</b>	10,260	3,945	4,771	32,165	15,589	19,136	18,826
Shareholders' equity	<b>297,743</b>	237,773	192,853	152,688	70,995	54,447	9,756	4,624
Debt/equity ratio	<b>0:1</b>	0:1	0:1	0:1	0.5:1	0.3:1	2:1	4:1
Common shares outstanding	<b>13,213</b>	13,127	13,086	12,870	10,741	10,741	10,741	10,741
Book value per share	<b>\$ 22.53</b>	\$ 18.11	\$ 14.74	\$ 11.86	\$ 6.61	\$ 5.07	\$ 0.91	\$ 0.43

## Quarterly Results of Operations

(in thousands of Canadian dollars, except per share amounts)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1999	1998	1999	1998	1999	1998	1999	1998
Sales	<b>\$84,099</b>	\$64,397	<b>\$95,264</b>	\$77,965	<b>\$82,427</b>	\$62,961	<b>\$93,494</b>	\$79,538
Gross margin	<b>29,526</b>	19,997	<b>32,728</b>	23,773	<b>23,176</b>	16,856	<b>33,779</b>	31,333
Operating earnings	<b>23,867</b>	15,620	<b>26,426</b>	19,087	<b>17,746</b>	12,048	<b>26,918</b>	23,705
Net earnings	<b>14,897</b>	10,400	<b>16,984</b>	13,256	<b>12,043</b>	8,804	<b>17,629</b>	15,396
Earnings per share	<b>\$ 1.13</b>	\$ 0.80	<b>\$ 1.29</b>	\$ 1.01	<b>\$ 0.91</b>	\$ 0.67	<b>\$ 1.34</b>	\$ 1.17



## DIRECTORS AND SENIOR MANAGEMENT TEAM

### Directors

**RICHARD W. LEVAN<sup>1,2</sup>**

Elected Director 1958  
Chairman of the Corporation

**J. DWANE BAUMGARDNER<sup>2</sup>**

Elected Director 1998  
Chairman & Chief Executive Officer  
Donnelly Corporation

**J. EMILIEN BOLDUC<sup>1</sup>**

Elected Director 1999  
Retired Vice Chairman  
Royal Bank of Canada

**M. THOMAS BRIGHT<sup>1</sup>**

Elected Director 1984  
Owner and President  
Southwestern Gage

**GEORGE S. DICKSON**

Elected Director 1958  
Retired Corporate Vice-President  
General Steel Wares

**RAYMOND T. FINNIE<sup>3</sup>**

Elected Director 1999  
President and Chief Executive Officer  
of the Corporation

**EDWARD G. FRACKOWIAK<sup>1,2</sup>**

Elected Director 1992  
Vice President & General Counsel Canada  
First American Title Insurance Company

**WILLIAM H. GREENWOOD<sup>2</sup>**

Elected Director 1992  
Owner  
Greenwood Consulting Services

**PETER J. KENNY<sup>2</sup>**

Elected Director 1985  
Chairman of the Board  
Atlantis Submarines International Holding Inc.  
and Cambridge Stamping Inc.

**WILLIAM R. LEVAN**

Elected Director 1991  
Vice President Manufacturing  
of the Corporation

**HUGH W. SLOAN, JR.<sup>2</sup>**

Appointed Director 1998  
Deputy Chairman of the Board  
The Woodbridge Group

**LAWRENCE G. TAPP<sup>1</sup>**

Elected Director 1997  
Dean  
Richard Ivey School of Business

### Senior Management Team

**RAYMOND T. FINNIE (48)**

President and Chief Executive Officer

**WILLIAM R. LEVAN (39)**

Vice President  
Manufacturing

**EDWIN R. HAINES (38)**

Group Vice President

**PAUL A. LAWRENCE (38)**

Vice President  
Sales and Marketing

**TIMOTHY J. ARMSTRONG (38)**

Vice President  
Quality and Information Systems

**DARELL W. DUTTON (47)**

Vice President  
Human Resources

**D. JAMES SLATTERY (40)**

Vice President and  
Chief Financial Officer

<sup>1</sup> Audit and Corporate Governance Committee Member

<sup>2</sup> Human Resources Committee Member

<sup>3</sup> Ex officio member of both committees

Numbers in brackets indicate team members' ages.

## SHARE INFORMATION AND FACILITIES

### Share Information

#### ANNUAL MEETING

Ramada Inn  
664 Colborne Street  
Brantford, Ontario  
May 9, 2000  
10:30 a.m.

#### WESCAST CAPITAL STOCK

The capital stock of the Company consists of Class A subordinate, voting common shares which are publicly traded, and Class B multiple voting common shares, which are not publicly traded.

#### LISTING OF STOCK

The Class A subordinate, voting common shares are traded on The Nasdaq Stock Market, Inc. under the trading symbol WCST and the Toronto Stock Exchange under the trading symbol WCS.A.

#### DIVIDENDS

The Company's current intention is to pay quarterly dividends of \$0.12 per share on outstanding common shares. The declaration and payment of dividends will be at the sole discretion of the Board of Directors.

#### REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada,  
Toronto

#### CO-TRANSFER AGENT

The Bank of Nova Scotia Trust Company  
of New York, New York

#### INVESTOR RELATIONS CONTACT

Virginia LeVan  
519-759-0452

### Facilities

#### WINGHAM CASTING

P.O. Box 460  
200 Water Street  
Wingham, Ontario N0G 2W0  
Phone: 519-357-3450  
Fax: 519-357-2486

#### BRANTFORD CASTING

P.O. Box 1930  
799 Powerline Road West  
Brantford, Ontario N3T 5W5  
Phone: 519-759-0452  
Fax: 519-759-8535

#### NORTH HURON CASTING

R.R. #4  
Wingham, Ontario N0G 2W0  
Phone: 519-357-2020  
Fax: 519-357-3131

#### WINGHAM MACHINING

P.O. Box 40  
100 Water Street  
Wingham, Ontario N0G 2W0  
Phone: 519-357-4447  
Fax: 519-357-4127

#### STRATHROY MACHINING

28648 Centre Road  
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