

TOROMONT INDUSTRIES LTD.

1981 Annual Report



The Company

Each member of the Toromont group of companies produces and sells specialized products and/or services. Their markets are clearly defined niches. In each specialty segment served, your Company is a leading or important supplier.

Toromont has manufacturing operations in Canada and the United States and sells to international markets.

Major areas of operations are the following:

1. **Forged products**

Design and manufacture of quality forgings for the aircraft, energy and heavy vehicle industries.

2. **Electromagnetic products**

Steel laminations and wound electrical cores — serving the electrical and electronic industries.

3. **Industrial refrigeration products and services**

Specializing in the design, manufacture, sale, installation and servicing of refrigeration systems for the petrochemical, recreational and food processing industries.

4. **Other products**

Design and manufacture of products for the petroleum, petrochemical processing and utility industries.

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Auditors

1	Touche Ross & Co.
2	Chartered Accountants

Transfer Agent and Registrar

6	Crown Trust Company
	Toronto, Ontario

Common shares

	Listed on the Toronto Stock Exchange
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Bankers

12	The Toronto-Dominion Bank
13	The Royal Bank of Canada

Annual Meeting

The Annual General Meeting of Shareholders of Toromont Industries Ltd. will be held at 11 A.M., April 30, 1982 in the Quebec Room of the Royal York Hotel, Toronto, Ontario.

Shareholders are invited to join directors and members of management for light refreshment following the Annual Meeting.

Cover

Unloading of press columns and crosshead of 3,000 ton press for installation at CanForge's facilities in Welland, Ontario. This press will be the largest open die forging press in the province and the third largest in Canada.

Financial highlights

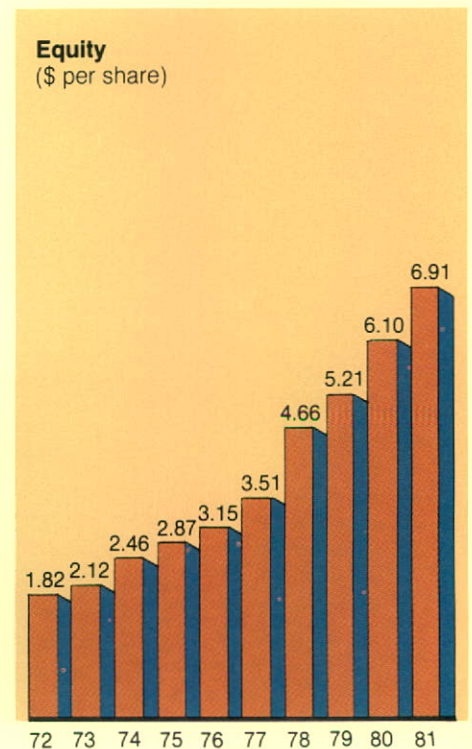
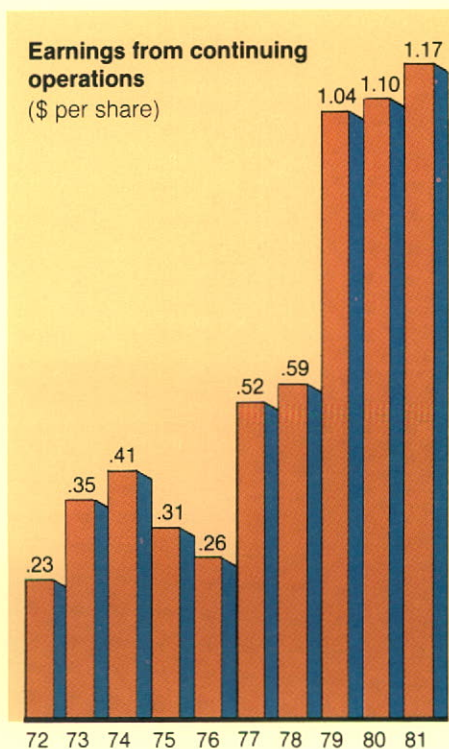
	Years ended December 31		
	1981	1980	% Change
Sales	\$84,495,000	\$75,059,000	+ 13
Net earnings from continuing operations	3,654,000	3,416,000	+ 7
Net earnings	3,654,000	3,601,000	+ 1
Working capital	9,500,000	10,040,000	- 5
Capital expenditures	3,992,000	1,740,000	+129
Funds from operations	5,721,000	5,097,000	+ 12
Depreciation	1,248,000	1,226,000	+ 2
Dividends declared	1,125,000	810,000	+ 39
Common shareholders' equity	21,585,000	19,056,000	+ 13

Common share data

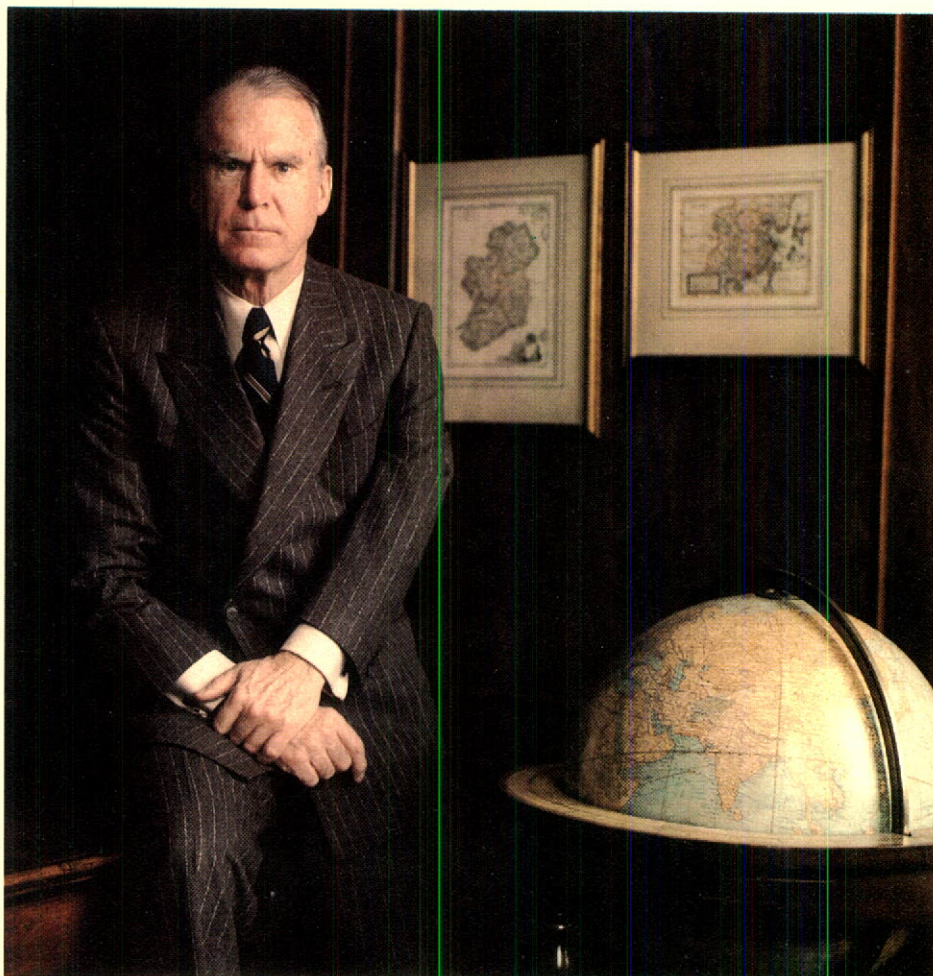
Per share

Net earnings from continuing operations	\$1.17	\$1.10	+ 6
Net earnings	1.17	1.16	+ 1
Funds from operations	1.83	1.63	+ 12
Dividends declared	.36	.26	+ 38
Shareholders' equity	6.91	6.10	+ 13

Number of shareholders	888	916
Number of shares outstanding	3,124,884	3,124,884
Price range of shares - high	\$9.50	\$7.625
- low	\$5.75	\$3.05



To our shareholders



In 1981, for the fifth consecutive year, your company increased its sales and earnings from continuing operations and both figures reached record highs. All major segments of our operations improved their results over the prior year. These results, achieved in the face of developing recession, high interest rates and general business uncertainty, are gratifying.

Despite last year's encouraging results, a word of caution is in order. While our operating units have a strong underlying growth trend to their businesses, they are not immune to economic conditions. The current recession appears to be more severe and protracted than anticipated and is impacting all of our units. If present adverse trends continue, we would expect to earn substantial profits this

year but significantly less than last year.

Toromont continues to be in a strong financial position. Long term debt at the end of the year was \$1,479,000 compared to equity of \$21,585,000.

Highlights

Your management is sensitive to the developing trend toward greater disclosure by public companies to their shareholders. Last year's annual report was augmented by new levels of segmented reporting. This year, a restatement of our financial statements, prepared in accordance with the proposal of the Canadian Institute of Chartered Accountants, is included to reflect the effects of inflation. While the profits adjusted for inflation are, as expected, below the reported profits, they are still substantial and represent a significant real return on shareholders' equity.

In August 1981, the quarterly dividend was increased from 8 cents to 10 cents.

Toromont operates primarily in three industry segments — forged products,

electromagnetic products and industrial refrigeration products and services. These industry segments will be reviewed in detail elsewhere, including data on sales, operating profits and capital expenditures, but the highlights are as follows.

Forged products

1981 was a year of major expansion for CanForge with the acquisition of a 3,000 ton re-conditioned press which will have an installed cost of over \$2 million. The new press, which is expected to be operational this summer, will increase the throughput of CanForge's ring rolling facilities and allow the division to manufacture high temperature alloy rings for such sophisticated applications as turbine engines for jet aircraft.

Constructing the foundation for the new press caused major disruption to production since a large excavation had to be dug in the middle of the heavy forge plant. Despite production delays and the extra costs that this entailed, CanForge achieved record sales and earnings for the fourth consecutive year.

Because of economic conditions, this year's results for CanForge are expected to be down. However, as a result of major investments in new equipment in recent years, CanForge has consolidated its position as a leading supplier of technologically complex forgings where quality assurance is of paramount importance.

We expect this division to show major gains in sales and earnings in the years ahead.

Electromagnetic products

El-Met-Parts had excellent results in 1981 and continued to increase its penetration of the U.S. market. Sales were higher and operating profit increased 23% compared to the prior year.

The division also continued its program of modernization and expansion and is well positioned to maintain its leadership as a high quality producer of electromagnetic steel products.

Current economic conditions have caused a slow down in El-Met's business and it is anticipated that operating profit will be lower this year. However,

with the large investment in new equipment in the last three years, the division is well placed to capitalize on significant increases in product demand foreseen for next year and subsequent years.

Industrial refrigeration

Our Canadian industrial refrigeration subsidiary, CIMCO Limited, is the largest operation in this field. In 1981, CIMCO continued its steady growth in sales and earnings.

While we expect that normal contracting volume will be down in Canada, the anticipated increase in petrochemical and service business in 1982 should aid earnings.

The company's U.S. industrial refrigeration operation, Lewis Refrigeration Co., had an excellent year last year. The unit completed some major international orders, including dehumidification units for the government of Mexico and large screw compressor units for use in power generation in Indonesia.

In 1981, this unit made considerable progress in strengthening its management resources and developing its service business.

The immediate outlook for this year is for a satisfactory performance. Profit level is expected to be less than last year which was exceptionally strong because of the substantial international business.

Capital expenditures

Capital expenditures in 1981 were \$3,992,000 compared with \$1,740,000 in the prior year. In the five year period 1977-1981, your company generated total funds of \$24,951,000 which were used as follows:

	\$	%
Investment in plant and equipment	\$12,669,000	51%
Reduction in long term debt	6,195,000	25%
Dividends	3,487,000	14%
Increase in working capital	2,600,000	10%
Total	<u>\$24,951,000</u>	<u>100%</u>

The expenditures on plant and equipment of more than 50% of our total funds generated reflects Toromont's policy of continually upgrading our technological capability, expanding our capacity and increasing our operating efficiency.

1982 and beyond

We expect 1982 to represent a year of consolidation with lower capital expenditures after the major investments of 1981. Your management strongly believes that the modernization and expansion program of recent years has put your company in an excellent position to supply specialized products and services to markets with above average growth. In addition, Toromont expects to benefit significantly from the proposed large scale energy projects when these projects get underway.

Enclosed with this annual report is a Notice of Intention covering the company's plans to purchase its common shares from time to time on the Toronto Stock Exchange at prices below book value. Any shares purchased will be cancelled and the total of such purchases will not exceed 5% of the number of common shares outstanding. We believe that at prices below book value, our shares are an attractive investment for the company and that these purchases will benefit our shareholders.

Your Board and management hope to have the pleasure of meeting as many shareholders as possible at the Annual Meeting of the company.



S. J. Sinclair
Chairman of the Board

April 1, 1982

Forged products

Toromont's Canada Forgings Division is a supplier of high quality specialty forged products to the energy-related, aircraft and off-road vehicle industries.

1981 was a year of major expansion for CanForge with the acquisition of a 3,000 ton re-conditioned press which will have an installed cost of over \$2 million. The press weighs in excess of 350 tons and is the largest open die forging press in Ontario and the third largest in Canada. It will increase the throughput of CanForge's ring rolling facilities and allow the division to manufacture high temperature alloy rings for such sophisticated applications as turbine engines for jet aircraft.

Installation of the press was delayed by foundation problems and the new equipment is now expected to be operative this summer. Constructing the foundation for the new press caused major disruption to production in the open die plant since an excavation of 60 feet by 60 feet and 33 feet deep had to be dug in the middle of the plant. Despite significant production delays and extra costs due to this construction, both sales and operating profits of CanForge again set new records.

The present recession is impacting CanForge's business and has led to a slow down in incoming orders and some stretch-outs and cancellations in the backlog. Because of these economic conditions, 1982 results for CanForge are expected to be down. However, with the major capital expenditures of recent years (\$4.1 million in the 1979-1981 period), this division has positioned itself as a leading supplier of technologically complex products where quality assurance is of paramount importance.

As economic conditions improve, we expect CanForge to make very substantial gains in sales and earnings.

CanForge's two plants are located at Welland, Ontario. The open die plant, with 117,000 square feet under roof, is equipped with Canada's only ring rolling mills, including one which is among the most technically advanced in the world. It serves a wide variety of applications, including parts for aircraft turbine engines, nuclear reactors and pressure vessels, large off-road equipment, bearings and gears and pipeline flanges.

In addition, the open die plant is equipped with presses, hammers, heat treat furnaces and automated machines for turning and machining.

Machining facilities include lathes that can turn shaft forgings up to 55" in diameter and 40' in length, vertical boring mills that can rough machine forgings up to 100" in diameter and an 80' trepanning lathe that can remove solid cores accurately.

The closed die plant of some 60,000 square feet, has steam and board drop hammers in addition to the appropriate heat treating, cleaning and quality assurance facilities. The plant is capable of forging products up to 200 pounds. It has a machine die shop with complete die sinking equipment.

This April, CanForge will move into its new headquarters office building which will provide the division with much needed modern office space. The building has over 9,000 square feet and was constructed at a cost of \$550,000.



J. W. Fraser
President

Financial data for the past three years are:

(In thousands of dollars)

	1981	1980	1979
Sales	\$23,457	\$21,836	\$17,503
Operating profit	2,797	2,744	2,096
Identifiable assets	14,884	10,868	9,867
Capital expenditures	2,288	792	1,026
Depreciation	482	550	422



The press foundation excavation of 60 feet by 60 feet by 33 feet deep completely severs the forge plant.

The weld fabricated press base weighing over 85 tons is the heaviest single component.



Electromagnetic products



J. Papakyriakou
President

Toromont's El-Met-Parts Division manufactures steel laminations and wound electrical cores for the electrical and electronic industries.

The division had excellent results in 1981 with operating profit increasing 23% over the prior year.

Last year, El-Met continued its program of modernization and expansion. The major item of equipment acquired was a 200 ton high speed progressive die stamping press with an installed cost of approximately \$500,000.

The present recession has caused a slow down in El-Met's business and it is anticipated that operating profits will be down this year. However, the substantial capital expenditures of the last three years (\$2.1 million) have placed the division in a position to capitalize on the significant increases in

product demand foreseen for 1983 and subsequent years.

El-Met has demonstrated that it can compete successfully in the U.S. market with 1981 sales to the U.S. up significantly over the prior year. In the longer term, El-Met expects to increase its penetration of the U.S. market and this is expected to be a major source of growth.

The division operates two adjacent plants in Dundas, Ontario with a total of 63,000 square feet. Production operations include the testing, slitting, stamping and fabricating of electrical grade steels. After stamping and fabricating, parts may be heat treated to enhance magnetic properties. El-Met also operates a warehouse service business specializing in electrical grade steels. El-Met's slitting facility is one of the most efficient in North America and is specifically designed and dedicated to

slit electrical grade steel. It has a rated speed of 1,200 feet per minute and can slit 25 cuts at a time with precision, consistency, uniformity and repeatability.

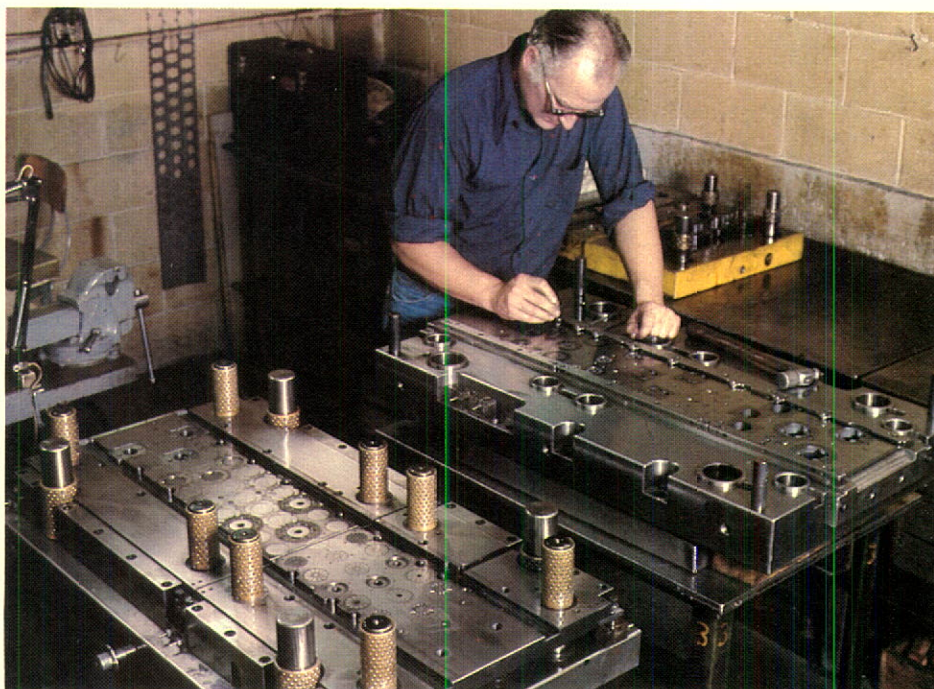
The division's basic products, laminations and wound electrical cores, are used in transformers, lighting ballasts and motors for small appliances, portable tools and other industrial and household uses. El-Met is the largest independent producer of these essential specialty products in Canada.

View of high-speed precision slitter at El-Met-Parts showing slitting head and 75 foot deep recoiler pit.

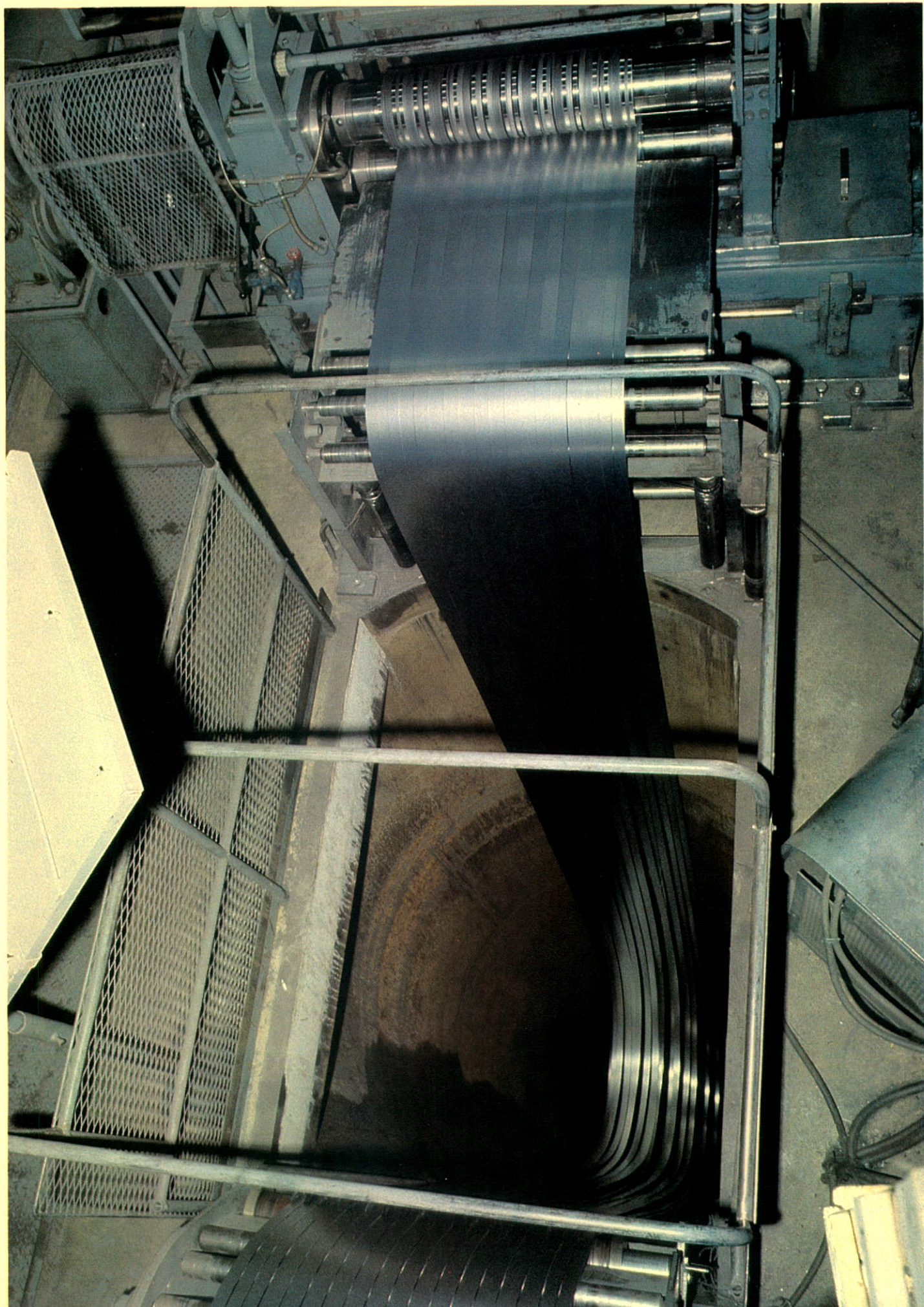
Financial data for the past three years are:

(In thousands of dollars)

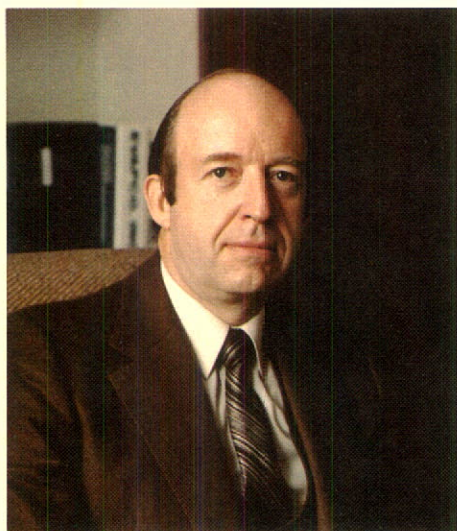
	1981	1980	1979
Sales	\$14,598	\$13,222	\$13,219
Operating profit	1,836	1,490	1,967
Identifiable assets	10,461	7,456	7,633
Capital expenditures	739	718	652
Depreciation	246	233	156



Pre-production maintenance performed on high-speed triple cavity progressive carbide die.



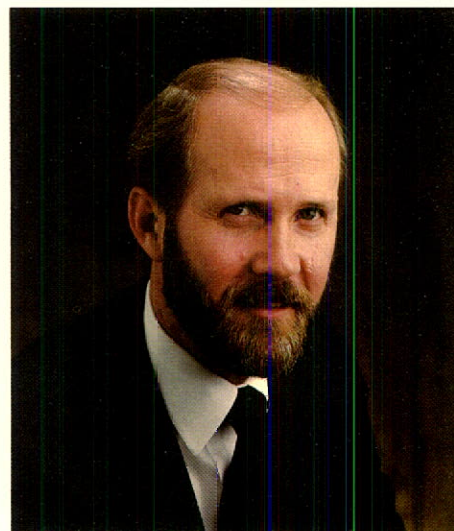
Industrial refrigeration products and services



F. G. Lunn
President, CIMCO Limited



N. J. Lucas
Chairman, CIMCO Limited
and Lewis/Aero Tech Group



C. L. Smith
President
Lewis/Aero Tech Group

Toromont's industrial refrigeration group designs, manufactures, sells, installs and services industrial refrigeration systems for the petrochemical, recreational, food and other industries. The group is active in both Canada and the U.S.

The Canadian unit, CIMCO, has its head office and manufacturing facilities in Toronto. It is the only industrial refrigeration company with sales, service and installation centres in every major city in Canada.

CIMCO had an excellent year in 1981 with both sales and earnings reaching new highs. Operating results were aided by completion of orders for two large ammonia recovery systems, one shipped to Spain and the other to the People's Republic of China.

The recreational market was strong, both in new construction and the replacement and maintenance of existing facilities.

The food sector, however, was weaker than the prior year as high interest rates caused the postponement of a number of capital projects.

CIMCO continued to improve its position in the petrochemical markets and was successful in securing four large orders for equipment for fertilizer plants.

CIMCO's association as a licensee of Evapco in Maryland has proven a successful arrangement and the licensing has been extended to cover packaged cooling towers for the industrial and commercial air conditioning markets. Agents have been established across Canada to market this product line and

we anticipate obtaining a significant share of the Canadian markets.

Except for the petrochemical market, there was a slow down in incoming orders during the fourth quarter of last year which has continued into this year as high interest rates continue to impact capital investment. We anticipate that CIMCO will have lower contracting volume in its recreational and food areas this year but anticipate continued strength in the petrochemical market and also continued growth in the service business and in the sale of new products which should offset this to some extent. Overall, however, CIMCO is likely to have lower earnings in 1982.

The Collins Electric Division, purchased early in 1981, grew significantly

last year and further growth is anticipated this year. The division expects to extend its support of industrial refrigeration systems beyond the greater Toronto area.

The operations of Allen Tank (London) Limited were transferred to Allen Tank's Scarborough and CIMCO's Toronto location in the spring of 1982.

Toromont's U.S. unit, Lewis Refrigeration Co., has its head office, engineering and manufacturing activities in North Salt Lake, Utah and operates sales and service centres in Houston,

Air cooled condenser built by CIMCO for a large ammonia fertilizer storage plant in Manitoba.



Seattle and Boston and a sales office in Philadelphia.

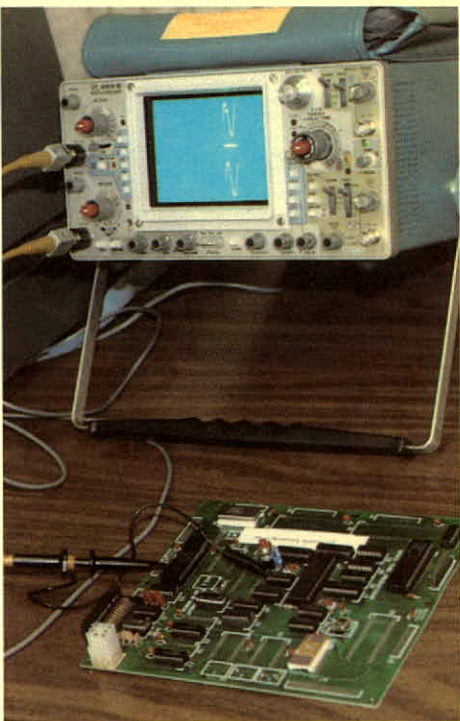
Lewis is primarily a designer and manufacturer of highly specialized industrial refrigeration systems for the petrochemical, food and energy-related industries.

Sales and operating profits improved in 1981 as the operation completed major international orders, including dehumidification units for the Government of Mexico and large screw compressor units for use in power generation in Indonesia. The outlook for 1982 is for lower but satisfactory operating profits compared to exceptionally strong earnings achieved last year due to substantial international business.

Lewis is making significant progress in strengthening its management resources and in developing its service

business. This unit should continue to make a meaningful contribution to our profits.

Late in 1981, CIMCO and Lewis Refrigeration established a new venture to broaden their services to the refrigeration market. Micro Monitoring Systems will provide monitoring of operating conditions at refrigeration plants from central locations for selected customers. This new division brings together the latest in computer technology with the group's well established service business. Options to this program will include energy management and complete preventative maintenance programs.

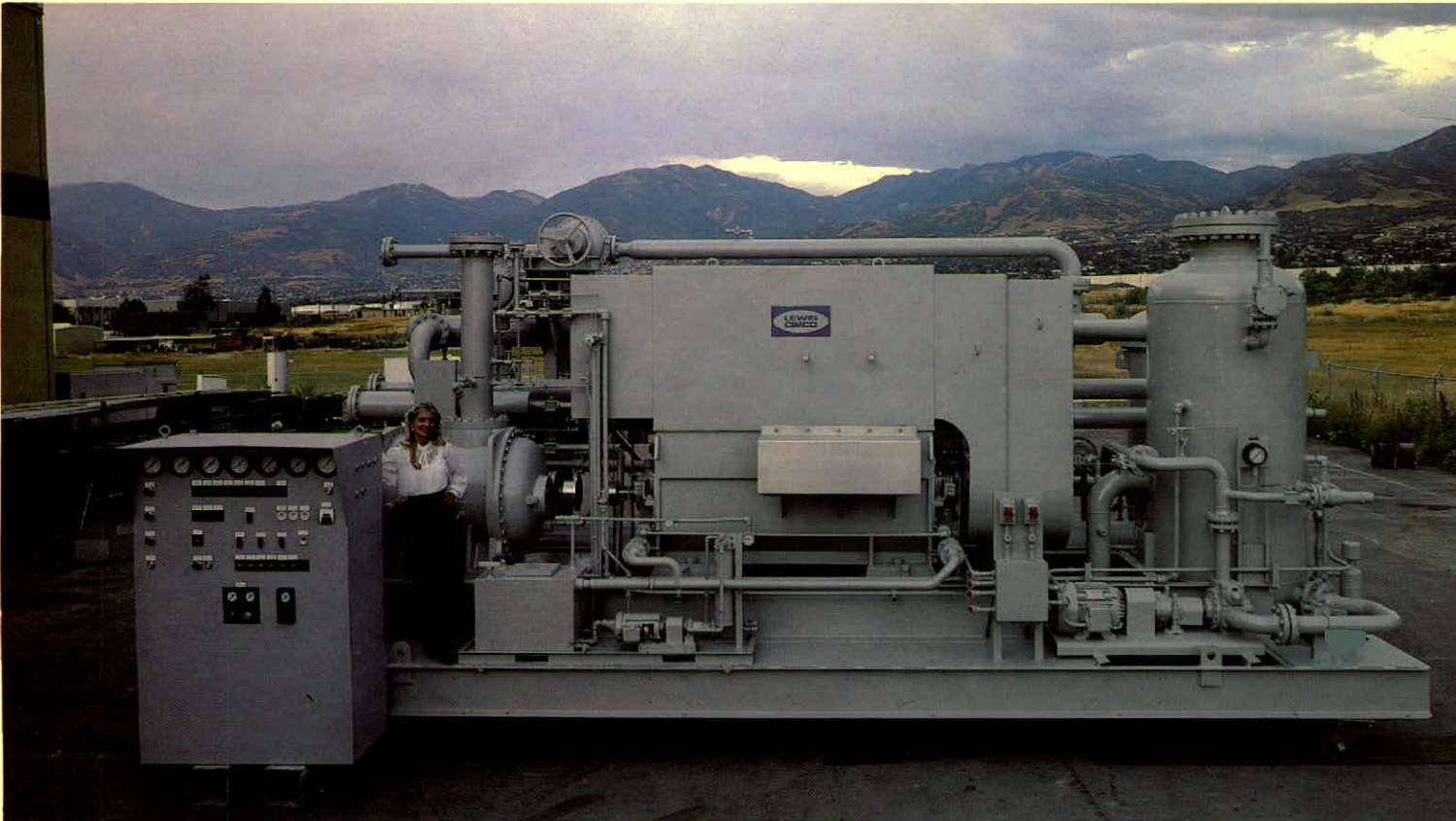


Toromont/1 microcomputer developed by Micro Monitoring Systems for remote monitoring and control of industrial refrigeration equipment.

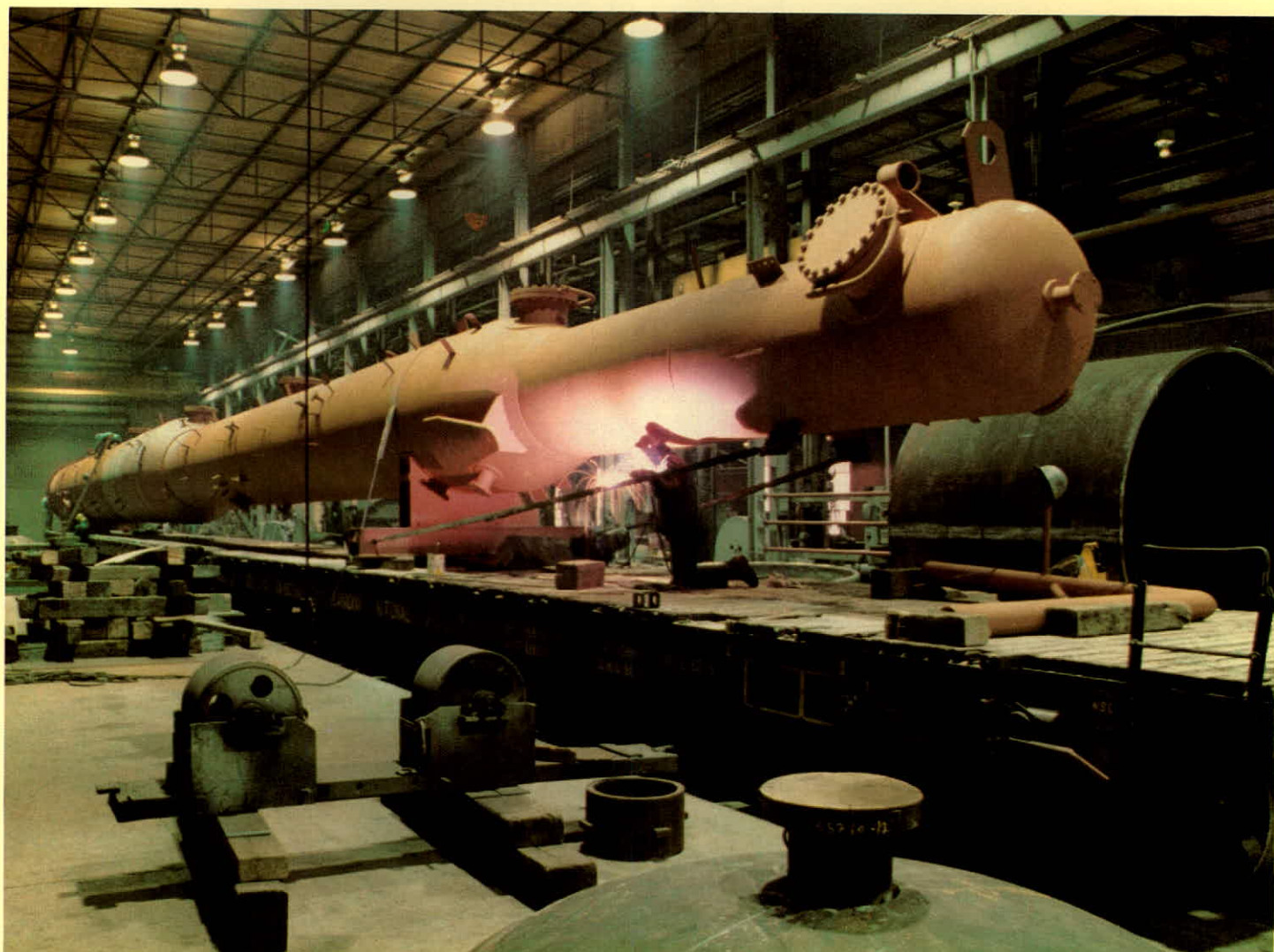
Natural gas compressor to be used for power generation in Indonesia.

Financial data for the past three years are:

(In thousands of dollars)	1981	1980	1979
Sales	\$39,864	\$32,703	\$29,773
Operating profit	3,536	3,075	2,316
Identifiable assets	17,109	15,296	14,753
Capital expenditures	804	54	492
Depreciation	375	256	229



Other products



Deethanizer tower to be used in a refinery upgrading in Quebec. The vessel is 10½ feet in diameter, 200 feet in length and weighs 120 tons. It required three special rail cars to ship.

Aero Tech Mfg., Inc. operates a 70,000 square foot manufacturing facility in North Salt Lake, Utah. This plant produces packages and systems for the industrial refrigeration group for use in the petrochemical and energy industries. The plant also manufactures custom sheet metal products, processors for photopolymer printing plates and tote boxes. The financial results of these product lines are included in Other Products.

In 1981, Aero Tech's custom sheet metal products business reflected increased sales of sheet metal components for the computer and instrumentation industries. A multi-year sole source agreement was recently signed for the supply of high precision sheet metal items to a manufacturer of equipment for monitoring nuclear plant operations.

This arrangement should contribute significantly to the growth of Aero Tech.

Allen Tank Limited operates a 60,000 square foot integrated plate fabricating facility in Toronto where the company designs and manufactures products for the petroleum, petrochemical processing and utility industries.

The markets for Allen's products were weak in 1981 and results were unsatisfactory. However, market conditions are

now considerably improved and the company has been successful in securing substantial orders including a contract to supply \$3 million of pressure vessels to a world scale ethylene plant being constructed in Alberta. Allen Tank is expected to have significant profits in 1982 and following years.

Financial data for the past three years are:

(In thousands of dollars)

	1981	1980	1979
Sales	\$6,576	\$7,298	\$7,576
Operating profit	115	508	(10)
Identifiable assets	3,314	4,476	5,143
Capital expenditures	161	153	192
Depreciation	145	187	173

Five year statement of changes in financial position

	(Thousands of dollars)
	1977-1981
Source of funds	
Operations	
Net earnings	\$15,161
Add items not requiring use of funds	
Depreciation	4,986
Deferred income taxes	1,904
Goodwill written off	959
	23,010
Issuance of capital stock	274
Unrealized gain on foreign exchange	252
Decrease in notes receivable and other assets	597
Sale of fixed assets	818
	24,951
Application of funds	
Additions to property, plant and equipment	12,669
Common share dividends	3,487
Decrease in long-term debt, net	6,195
	22,351
Increase in working capital	2,600
Working capital at beginning of period	6,900
Working capital at end of period	\$ 9,500

Ten year financial review

	1981	1980	1979 ¹	1978	1977	1976	1975	1974 ⁶	1973	1972
Operating results (\$000)										
Sales	84,495	75,059	68,071	59,779	59,478	53,441	50,237	44,639	40,474	27,134
Net earnings from										
continuing operations	3,654	3,416	3,281	1,808	1,572	1,175	1,463	1,885	1,592	1,055
Extraordinary items	—	497	296	312	—	—	—	—	—	40
Discontinued operations	—	(312)	(1,273)	2,081 ³	(171)	—	705 ⁴	153	—	—
Net earnings	3,654	3,601	2,304	4,201 ³	1,401	1,175	2,168	2,038	1,592	1,095
Interest expense										
Long term	459	943	1,041	796	892	483	304	192	150	30
Other	1,254	735	535	418	162	316	281	374	204	142
Depreciation	1,248	1,226	980	789	743	674	424	478	442	300
Capital expenditures	3,992	1,740	2,362	3,154	1,421	1,869	1,553	1,447	1,813	260
Funds from operations	5,721	5,097	3,657	5,301	2,673	1,938	2,074	2,833	2,198	1,387
Dividends declared on common shares	1,125	810	628	618	306	391	476	446	333	217
Financial position (\$000)										
Working capital	9,500	10,040	11,031	11,158	8,376	6,900	8,115	6,134	5,227	4,315
Fixed assets, net	14,109	11,225	10,711	9,329	7,269	7,240	6,051	5,267	4,274	2,903
Total assets	47,525	41,211	40,746	36,202	31,285	29,962	31,986	30,386	25,205	16,300
Long term debt	1,479	2,682	6,784	7,690	7,740	7,674	3,651	2,606	2,517	196
Common shareholders' equity	21,585	19,056	16,202	14,637	10,731	9,636 ⁵	13,668	11,005	9,442	7,878
Financial ratios										
Working capital	1.4:1	1.6:1	1.7:1	1.9:1	1.7:1	1.6:1	1.6:1	1.4:1	1.5:1	1.6:1
Return on common shareholders' equity (%) ²	18.0	20.4	14.9	33.1	13.8	10.0	17.3	19.4	17.7	13.7
Long term debt to common shareholders' equity	1:14.6	1:7.1	1:2.4	1:1.9	1:1.4	1:1.3	1:3.7	1:4.2	1:3.8	1:41
Common share data										
Earnings from continuing operations (\$)	1.17	1.10	1.04	.59	.52	.26	.31	.41	.35	.23
Extraordinary items (\$)	—	.16	.09	.10	—	—	—	—	—	.01
Discontinued operations (\$)	—	(.10)	(.40)	.68 ³	(.06)	—	.15 ⁴	.03	—	—
Net earnings (\$)	1.17	1.16	.73	1.37 ³	.46	.26	.46	.44	.35	.24
Funds from operations (\$)	1.83	1.63	1.17	1.73	.87	.42	.44	.62	.49	.31
Dividends declared (\$)	.36	.26	.20	.20	.10	.10	.10	.10	.075	.05
Equity (\$)	6.91	6.10	5.21	4.66	3.51	3.15	2.87	2.46	2.12	1.82
Shares outstanding at year end	3,124,884	3,124,884	3,109,884	3,141,469	3,061,469	3,061,459 ⁵	4,758,969	4,466,519	4,453,769	4,336,144
Price range										
— high (\$)	9.50	7.625	4.15	4.40	3.15	3.20	3.30	3.20	3.45	2.90
— low (\$)	5.75	3.05	3.10	2.55	2.35	1.85	2.00	1.65	2.00	1.25

Notes: 1) Restated to reflect sale of the Lewis Food Freezing Division.

2) On average equity.

3) Includes \$2,020,000 (\$0.66 per share) gain on sale of subsidiary, F. B. McFarren, Limited.

4) Includes \$668,000 (\$0.14 per share) gain on sale of two subsidiaries.

5) During this year, 1,700,000 common shares were retired for a cash consideration of \$4,675,000.

6) Restated to reflect sale of two subsidiaries.


Consolidated financial statements

Auditors' report

The Shareholders,
Toromont Industries Ltd.

We have examined the consolidated balance sheet of Toromont Industries Ltd. as at December 31, 1981 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Toronto, Ontario
March 16, 1982

Chartered Accountants

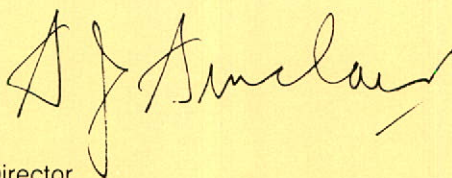
Consolidated balance sheet

as at December 31, 1981
(with comparative figures for 1980)

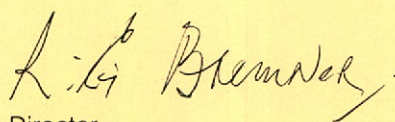
	(Thousands of dollars)	
	<u>1981</u>	<u>1980</u>
Assets		
Current		
Accounts receivable		
Trade	\$15,739	\$15,720
Other	170	14
Inventories (Note 1)	13,946	10,458
Notes receivable (Note 2)	22	460
Prepaid expenses	695	407
Income taxes recoverable	—	16
Deferred income taxes	413	246
Total current assets	30,985	27,321
Notes receivable and other assets (Note 2)	300	529
Property, plant and equipment (Note 3)		
Buildings, machinery and equipment	22,783	18,790
Less accumulated depreciation	9,313	8,199
	13,470	10,591
Land	639	634
	14,109	11,225
Goodwill	2,131	2,136
	\$47,525	\$41,211

See accompanying notes to consolidated financial statements.

On behalf of the Board



Director



Director

	(Thousands of dollars)	
Liabilities	1981	1980
Current		
Bank indebtedness, secured	\$ 9,113	\$ 2,643
Accounts payable and accrued liabilities	10,108	8,203
Billing on uncompleted contracts in excess of costs	325	2,298
Dividends payable	313	250
Income taxes payable	882	701
Current portion of long-term debt (Note 4)	744	3,186
Total current liabilities	21,485	17,281
Long-term debt (Note 4)	1,479	2,682
Deferred income taxes	2,718	1,904
Unrealized gain on foreign exchange	252	282
Minority interest in subsidiary corporation	6	6
Total liabilities	25,940	22,155
Shareholders' equity		
Capital stock (Note 5)	5,069	5,069
Contributed surplus	386	386
Retained earnings	16,130	13,601
	21,585	19,056
	\$47,525	\$41,211

See accompanying notes to consolidated financial statements.

Consolidated statement of earnings

For the year ended December 31, 1981
(with comparative figures for 1980)

	(Thousands of dollars)	
	1981	1980
Sales	\$84,495	\$75,059
Costs and expenses		
Cost of products sold and services rendered	64,674	58,790
Selling, general and administrative	12,218	9,121
Interest on long-term debt	459	943
Other interest	1,254	735
	78,605	69,589
Other income	5,890	5,470
	228	197
Earnings for the year before provision for income taxes	6,118	5,667
Provision for income taxes		
Current	1,739	2,166
Deferred	725	85
	2,464	2,251
Net earnings from continuing operations	3,654	3,416
Extraordinary items		
Recovery of income taxes due to loss carry-forward	—	497
Loss from discontinued operations of a division, net of income tax recoveries of \$178	—	(312)
	—	185
Net earnings for the year	\$ 3,654	\$ 3,601
Earnings per common share (Note 6)		
Continuing operations	\$ 1.17	\$ 1.10
Extraordinary items		
Recovery of income taxes due to loss carry-forward	—	0.16
Loss from discontinued operations of a division	—	(0.10)
Net earnings for the year	\$ 1.17	\$ 1.16

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

For the year ended December 31, 1981
(with comparative figures for 1980)

	(Thousands of dollars)	
	1981	1980
Retained earnings at beginning of year	\$13,601	\$10,810
Net earnings for the year	3,654	3,601
	17,255	14,411
Common dividends, \$0.36 per share (1980 - \$0.26)	1,125	810
Retained earnings at end of year	\$16,130	\$13,601

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position

For the year ended December 31, 1981
(with comparative figures for 1980)

	(Thousands of dollars)	
	1981	1980
Source of funds		
Operations		
Net earnings from continuing operations	\$ 3,654	\$ 3,416
Add items not requiring use of funds		
Depreciation	1,248	1,226
Deferred income taxes	814	265
Amortization of goodwill	5	5
Funds from continuing operations	5,721	4,912
Recovery of income taxes due to loss carry-forward	—	497
Loss from discontinued operations	—	(312)
	5,721	5,097
Issuance of capital stock	—	63
Increase in amount due to minority shareholders	—	2
Decrease in notes receivable and other assets	89	475
	5,810	5,637
Application of funds		
Additions to property, plant and equipment	3,992	1,740
Common share dividends	1,125	810
Decrease in long-term debt, net	1,203	4,102
Decrease (Increase) in unrealized gain on foreign exchange	30	(24)
	6,350	6,628
Decrease in working capital	540	991
Working capital at beginning of year	10,040	11,031
Working capital at end of year	\$ 9,500	\$10,040

See accompanying notes to consolidated financial statements.

Summary of significant accounting policies

Consolidation

Toromont Industries Ltd. is incorporated under the Canada Business Corporations Act and these financial statements, prepared on a historic cost basis, are in accordance with generally accepted accounting principles in Canada and are in conformity with the International Accounting Standards in all material respects.

The consolidated financial statements include the accounts of the Corporation and all of its subsidiary corporations which, with the exception of CIMCO Limited, are wholly-owned. The Corporation owns 99.9% and 98.9% respectively of the common and Class "A" shares of CIMCO Limited. All significant inter-corporation transactions and profits between the Corporation and its subsidiary corporations have been eliminated on consolidation.

Newly acquired subsidiary corporations are consolidated from the effective date of their acquisition. The results of operations of subsidiary corporations sold during the year are disclosed separately up to the effective date of sale. The gain or loss on disposal is also disclosed separately.

Revenue recognition

Revenues from contracting activities involving design, manufacture and installation of equipment are recorded on the completed contract method based upon substantial technical completion. Any foreseeable losses on contracts are charged to operations at the time they become evident.

Revenues from the sale of products and services are recorded when goods are shipped and services are rendered, or in accordance with contractual agreements.

Inventories

Inventories of raw materials, work-in-process and finished goods are valued at the lower of cost (principally on the first-in, first-out method) and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Government grants received to acquire assets are deducted from the cost of the related asset. Depreciation is provided using substantially the straight-line method

over the estimated useful lives of the various classes of assets.

Gains or losses on the disposal of assets are included in earnings and the cost and accumulated depreciation related to these assets are removed from the accounts.

Repairs and maintenance costs are charged to operations as incurred and renewals and betterments are capitalized. Interest costs on funds borrowed to finance property, plant and equipment under construction are capitalized.

Foreign exchange

The accounts of foreign subsidiary corporations have been translated into Canadian dollars using the temporal method and as such at exchange rates prevailing at the balance sheet dates for monetary items, at exchange rates prevailing at the respective transaction dates for non-monetary items and at average exchange rates prevailing during the year for revenue, costs and expenses, excluding depreciation and amortization which are translated at rates in effect when the corresponding assets were acquired. Unrealized translation gains and losses are deferred and realized translation gains and losses are included in the determination of earnings for the year.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets of businesses acquired. Goodwill acquired prior to 1974 is considered to have continuing value and is not being amortized. Goodwill acquired subsequently is being amortized on the straight-line method over its estimated useful life, not exceeding forty years.

Income taxes

The Corporation follows the tax deferral method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

Notes to consolidated financial statements

December 31, 1981

1. Inventories	1981	1980
	(\$000)	
Raw material	\$ 9,200	\$ 5,852
Work-in-process	2,885	3,217
Finished goods	1,691	1,389
Contract costs net of progress billings	170	—
	\$13,946	\$10,458

2. Notes receivable and other assets	1981	1980
	(\$000)	
Secured, interest free notes receivable		
Employee Incentive Stock Purchase Plan		
Officers and directors	\$ 26	\$ 345
Other employees	75	219
Mortgage and other employee loans	142	161
Other	79	264
	322	989
Less current portion	22	460
	\$ 300	\$ 529

3. Property, plant and equipment

Buildings and improvements with a net book value of \$605,760 are situated on leased land. The lease expires in 2002 at which time the lessor must offer to renew the lease or the lessor must purchase the buildings, including improvements, at the then appraised fair market value.

Property, plant and equipment includes a machine leased under a capital lease with a capitalized cost of \$332,692 and accumulated amortization of \$106,937.

4. Long-term debt	1981	1980
	(\$000)	
Term bank loans, secured by a floating charge on all assets of the Corporation and bearing interest at $\frac{3}{4}\%$ above the current prime rate, repayable in 1982	\$ 500	\$4,000
Notes payable, secured		
Repayable to the Government of Canada in five annual instalments commencing in 1979 and non-interest bearing	235	352
Mortgage payable and other instalment notes bearing interest at 9% to 13.2%	1,245	1,180
Obligation under capital lease	243	287
Policy loans, secured by cash surrender value of life insurance policies bearing interest at 5% to 6%	—	49
	2,223	5,868
Less instalments due within one year, including capital lease portion of \$45	744	3,186
	\$1,479	\$2,682

4. Long-term debt (continued)

The following is a schedule of minimum lease payments under the capital lease:	
	(\$000)
1982	\$ 61
1983	61
1984	61
1985	61
1986	44
	288
Less amount representing interest	45
	<u>\$243</u>

5. Capital stock

The capital stock of the Corporation consists of preferred and common shares of which 3,124,884 common shares are issued at December 31, 1981 (1980 — 3,124,884).

6. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year which was 3,124,884 (1980 — 3,111,141).

7. Pension plan

The Corporation contributes to pension plans available to a majority of its salaried and certain of its other employees. Pension costs charged against revenue during the period include \$457,703 for current and past service. The latest actuarial valuations of these plans indicated a total surplus of \$375,000 in one plan and a total unfunded past service liability of \$582,000 in other plans. \$339,000 of the unfunded liability is being funded over future years to 1996 and the balance to 1997.

8. Other commitments

The Corporation leases land, buildings and equipment under several non-cancelable operating leases which require minimum annual payments as follows: 1982 — \$464,000; 1983 — \$389,000; 1984 — \$357,000; 1985 — \$218,000; 1986 — \$102,000 and \$366,000 thereafter.

The Corporation has subleased certain property on which rentals receivable are as follows: 1982 — \$216,000; 1983 — \$174,000; 1984 — \$116,000 and 1985 — \$39,000.

The Corporation is contingently liable to repay the forgiveable portion of a loan from the Government of Canada to acquire certain equipment amounting to \$587,000 if conditions in the agreement are not met.

At December 31, 1981, the Corporation was contractually committed to the completion of assets under construction in the amount of \$991,000.

9. Segmented information

The Board of Directors has determined the following business segments: forged products, electromagnetic products, industrial refrigeration products and services and other products. In the forged products industry, the Corporation manufactures rolled rings, shafts and impression die forgings which are sold primarily to the aircraft, energy, railroad and heavy vehicle industries. In the electromagnetic products industry, the Corporation manufactures and sells steel laminations and wound electrical cores which are basic components of transformers, lighting ballasts and electric motors. In the industrial refrigeration industry, the Corporation designs, manufactures, sells, installs and services refrigeration systems for petrochemical, recreational and food storage customers. The category other products includes pressure vessels, tote boxes, equipment for processing photopolymer printing plates and sheet metal jobbing.

9. Segmented information (continued)

Business segments

	(\$000)									
	Forged products		Electromagnetic products		Industrial refrigeration products and services		Other products		Consolidated	
	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980
Sales	\$23,457	\$21,836	\$14,598	\$13,222	\$39,864	\$32,703	\$6,576	\$7,298	\$84,495	\$75,059
Segment operating profit	\$ 2,797	\$ 2,744	\$ 1,836	\$ 1,490	\$ 3,536	\$ 3,075	\$ 115	\$ 508	8,284	7,817
General corporate expense									453	472
Interest expense									1,713	1,678
Income taxes									2,464	2,251
									4,630	4,401
Net income from continuing operations									\$ 3,654	\$ 3,416
Identifiable assets	\$14,884	\$10,868	\$10,461	\$ 7,456	\$17,109	\$15,296	\$3,314	\$4,476	\$45,768	\$38,096
Corporate assets									1,757	3,115
Total assets									\$47,525	\$41,211
Capital expenditures	\$ 2,288	\$ 792	\$ 739	\$ 718	\$ 804	\$ 54	\$ 161	\$ 153		
Depreciation and amortization	\$ 482	\$ 550	\$ 246	\$ 233	\$ 375	\$ 256	\$ 145	\$ 187		

Geographic segments

	(\$000)							
	Canada		U.S.		Elimination		Consolidated	
	1981	1980	1981	1980	1981	1980	1981	1980
Sales to outside customers	\$67,134	\$61,686	\$17,361	\$13,373	\$ —	\$ —	\$84,495	\$75,059
Inter-company sales between geographic segments	256	351	13	97	269	448	—	—
	\$67,390	\$62,037	\$17,374	\$13,470	\$269	\$448	\$84,495	\$75,059
Segment operating profit	\$ 6,579	6,387	\$ 1,705	\$ 1,430			\$ 8,284	7,817
General corporate expenses							453	472
Interest expense							1,713	1,678
Income taxes							2,464	2,251
							4,630	4,401
Net income from continuing operations							\$ 3,654	\$ 3,416
Identifiable assets	\$38,159	\$29,637	\$ 7,609	\$ 8,459			\$45,768	\$38,096
Corporate assets							1,757	3,115
Total assets							\$47,525	\$41,211

Transfers between geographic segments are accounted for at prices comparable to open market prices for similar products and services.

Canadian operations include export sales of \$8,791,000 in 1981 and \$5,462,000 in 1980 mostly to customers in the United States.

U.S. operations include export sales of \$4,521,000 in 1981 and \$3,226,000 in 1980.

Supplementary financial information



A. L. Fagan Jr., Vice-President,
Finance & Secretary

The effect of changing prices on Toromont Industries Ltd.

One of the characteristics of recent years has been the existence of persistent inflation in the price of all goods and services used by Toromont. The hidden effects of inflation are particularly damaging to financial statements prepared under the historical cost assumptions of generally accepted accounting principles. These assumptions do not take into account, in the computation of net income, any changes in the costs of raw materials or of fixed assets between the date of their acquisition and eventual recognition in net income. As a result, the provisions made against revenue will generally not be sufficient to provide adequate funds for the replacement of such assets at their current costs.

A method of adjusting for the effects of inflation in general, and of changing prices in particular, has been proposed by the Canadian Institute of Chartered Accountants in the December 1981 Exposure Draft entitled "Reporting the Effects of Changing Prices". The following information has been prepared in accordance with this exposure draft. It provides for the restatement of cost of goods sold and depreciation expense on a current cost basis, the restatement of inventory and fixed assets on a replacement cost basis, and other data

reflecting the effect of general inflation and specific price changes on Toromont Industries Ltd. These data, and the method of their preparation, have been reviewed by and agreed to by our auditors, Touche Ross & Co., Chartered Accountants.

The data on changing prices presented on the next page have been prepared under the following bases:

- Inventories and costs of goods sold have been restated based on replacement cost,
- Land has been restated at appraised values,
- Fixed assets and depreciation expense have been restated based on replacement cost.

The financing adjustment represents that portion of the increase in costs and expenses that reflect assets financed by the net borrowings of the Company. The gain from holding net monetary items reflects the fact that while general prices rose, the amount of these obligations remained fixed.

The comparative data show that the use of historical cost accounting, the normal method used by Canadian business, has resulted in a consistent underprovision on Toromont's conventional financial statements for depreciation of fixed assets and the consumption of inventory. The adjustments to correct for the effects of changing prices increased the costs and expenses of operations by \$1,554,000 in 1981 and \$973,000 in 1980. The use of debt to finance a portion of Toromont's assets means that the effects of these price changes are not entirely charged against shareholders' equity. The 1981 financing adjustment of \$310,000 (1980 — \$229,000) reflects this saving.

While in 1981, the historical earnings from continuing operations increased 7% over the prior year, inflation adjusted earnings were down 10% from the year before. This decrease resulted from the carrying of higher physical inventories when prices were escalating rapidly.

In total, Toromont has substantial earnings, even after adjusting for the effects of changing prices and its financial position continues to strengthen. Your management is concerned with the preservation and growth of the company's capital and continues to give close attention to improving the operating performance on a "real" basis.

Auditors' report

The Shareholders
Toromont Industries Ltd.

We have reviewed the condensed current cost consolidated balance sheets of Toromont Industries Ltd. as at December 31, 1981 and 1980, the condensed current cost consolidated statements of earnings for the years then ended and the additional information on the effects of changing prices. We have reported separately on March 16, 1982 on the consolidated financial statements of Toromont Industries Ltd. as at December 31, 1981 which were prepared on a historical cost basis in accordance with generally accepted accounting principles.

In our opinion, the condensed current cost consolidated balance sheets, the current cost consolidated statements of earnings and the additional information on the effects of changing prices referred to above are prepared in accordance with the proposal on Reporting the Effects of Changing Prices, issued in December, 1981 by the Canadian Institute of Chartered Accountants.

Touche Ross & Co.

Toronto, Ontario
March 16, 1982

Chartered Accountants

Condensed current cost consolidated statements of earnings

For the years ended
December 31, 1981 and 1980
(with comparative historical costs)

	1981		1980	
	Current cost	Historical cost	Current cost	Historical cost
Sales	\$84,495	\$84,495	\$75,059	\$75,059
Costs and expenses	80,159	78,605	70,562	69,589
	4,336	5,890	4,497	5,470
Financing adjustment	310	—	229	—
Other income	228	228	197	197
Earnings for the year before provision for income taxes	4,874	6,118	4,923	5,667
Provision for income taxes				
Current	1,739	1,739	2,166	2,166
Deferred	725	725	85	85
Net earnings from continuing operations	\$2,410	\$3,654	\$2,672	\$3,416
Earnings per common share from continuing operations	\$0.77	\$1.17	\$0.86	\$1.10

Adjustments to costs of products sold include an adjustment of \$665 (1980 — \$382) for the restatement of depreciation expense, and \$889 (1980 — \$591) for the restatement of purchased material.

Condensed current cost consolidated balance sheets

as at December 31, 1981 and 1980
(with comparative historical costs)

	(\$000)			
	1981		1980	
	Current cost	Historical cost	Current cost	Historical cost
Total current assets	\$31,187	\$30,985	\$27,415	\$27,321
Notes receivable, and other assets	300	300	529	529
Property, plant and equipment, net	21,595	14,109	18,186	11,225
Goodwill	2,131	2,131	2,136	2,136
	\$55,213	\$47,525	\$48,266	\$41,211
Total current liabilities	\$21,485	\$21,485	\$17,281	\$17,281
Other liabilities	4,455	4,455	4,874	4,874
Shareholders' equity	29,273	21,585	26,111	19,056
	\$55,213	\$47,525	\$48,266	\$41,211
Net equity per share	\$9.37	\$6.91	\$8.36	\$6.10

Adjustments to ending inventories and prepaids from historical cost to current cost were \$202 (1980 — \$94).

Additional information on the effects of changing prices

The total increases in the current cost amounts of inventory and property, plant and equipment held at any time during the year was \$2,409,000 (1980 — \$2,459,000). The amount of this increase, if calculated using the Consumer Price Index instead of

the specific price indices used by Toromont Industries Ltd. would be \$3,327,000 (1980 — \$2,359,000).

The gain from holding net monetary items during the period was \$574,000 (1980 — \$563,000).

Corporate directory

The Board of Directors

- †*R. G. Bremner
Toronto, Ontario
Chartered Accountant
J. W. Fraser
St. Catharines, Ontario
President
Canada Forgings, a Division of
Toromont Industries Ltd.
- ‡*N. B. Ivory
Montreal, Quebec
President
Pembroke Management Ltd.
N. J. Lucas
Chairman
CIMCO Limited and
Lewis/Aero Tech Group
- †C. A. Maase
Brockville, Ontario
President
Maase Corporation Limited
- †*W. A. McKenzie
London, Ontario
President
Admac Holdings Ltd.
- ‡W. C. Pittfield
Toronto, Ontario
President
Pittfield Mackay Ross Limited
- †‡S. J. Sinclair
Chairman of the Board and
Chief Executive Officer
Toromont Industries Ltd.
- *Member of Audit Committee
†Trustee of Pension Funds
‡Member of Management
Resources Committee

Officers of the Corporation

S. J. Sinclair
Chairman of the Board and
Chief Executive Officer
J. W. Fraser
Vice-President
N. J. Lucas
Vice-President
A. L. Fagan, Jr.
Vice-President, Finance &
Secretary

Head office

65 Villiers Street
Toronto, Ontario
M5A 3S1
(416) 465-3518

Officers of Subsidiaries and Divisions

Canada Forgings, a Division of Toromont Industries Ltd.

P.O. Box 308
Welland, Ontario L3B 5P8
(416) 735-1220
J. W. Fraser
President
J. H. Gillow
Vice-President, Manufacturing
R. A. Kuhns
Vice-President,
Sales and Marketing
C. G. Finlayson
Controller

EI-Met-Parts, Division of Toromont Industries Ltd.

47 Head Street
Dundas, Ontario L9H 3H6
(416) 628-6366
J. Papakyriakou
President
M. A. Stinson
Controller

CIMCO Limited

65 Villiers Street
Toronto, Ontario M5A 3S1
(416) 465-7581

N. J. Lucas
Chairman
F. G. Lunn
President
H. R. Hepburn
Vice-President, Marketing
R. S. Rose
Vice-President, Special Projects
L. W. Goodman
Chief Financial Officer
S. D. McLeod
General Manager, District Operations
R. F. Jackson
General Manager, Production Operations

Collins Electric, Division of Toromont Industries Ltd.

65 Villiers Street
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(416) 465-3572
G. B. Collins
General Manager

Lewis/Aero Tech Group

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North Salt Lake, Utah 84054
(801) 292-0493
N. J. Lucas
Chairman
C. L. Smith
President
J. R. Morphis
Vice-President, Petrochemical Division
B. M. Osojnak
Vice-President
J. J. Shepherd
Vice-President
M. A. Kaufmann
Controller

Allen Tank Limited

285 Raleigh Avenue
Scarborough, Ontario M1K 1A5
(416) 261-7201
N. J. Lucas
Chairman
F. G. Lunn
President
J. N. Buckley
Vice-President

