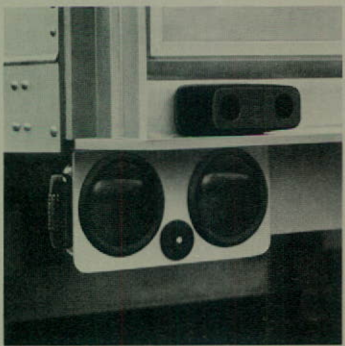
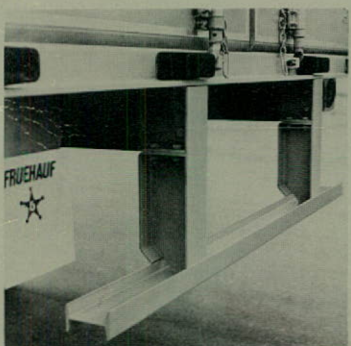
FRUEHAUF

Annual Report 1981





Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Fruehauf Canada Inc. will be held on Friday, April 23, 1982, at 2:30 p.m. (Toronto time) in the York Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario.

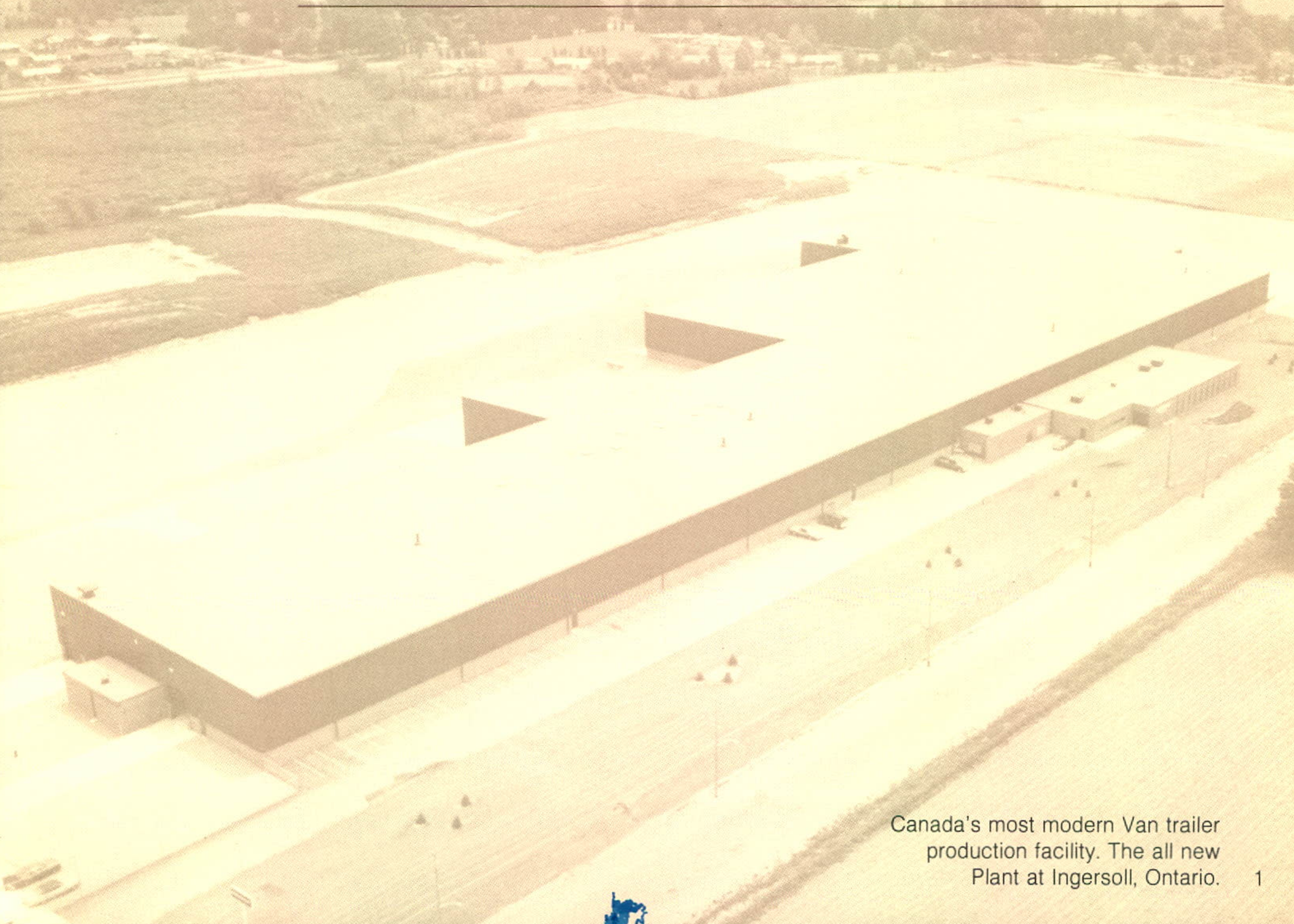
Proxies will be solicited from Shareholders when the Notice of Annual Meeting and Proxy Statements are mailed on or about March 26, 1982.

Contents

Head Office:
Fruehauf Canada Inc.
2450 Stanfield Road
Mississauga, Ontario
L4Y 1S3

Financial Highlights

	1981	1980
Net Sales	$ 80,688,550	$ 85,803,397
Earnings before Taxes on Income	6,007,187	10,289,169
Percent to Sales	7.4	12.0
Net Earnings	3,633,187	6,267,169
Percent to Sales	4.5	7.3
Net Earnings per Share	1.34	2.32
Dividends per Share	.60*	.45
*Includes .10 on change to quarterly payments		
Book Value per Share	21.12	20.37
Total Assets	66,569,055	67,020,237
Working Capital	44,317,358	41,875,407
Number of Shareholders	442	404
Number of Employees	688	670



Canada's most modern Van trailer production facility. The all new Plant at Ingersoll, Ontario.

Report on Operations 1981

To the Shareholders

Net earnings of $3.6 million were attained on sales of $80.7 million, a gratifying result in an extremely difficult year for a large segment of the business community.

We commenced 1981 with a relatively strong backlog of orders for production which at that point indicated an ability to expand as the year progressed. Unfortunately this trend was greatly curtailed by mid year as the entire economy began to reflect a downturn in business. The timing of the general economic slowdown was unfortunate from Fruehauf's standpoint, in view of our significant increased capacity with the opening of the new Ingersoll plant as the year commenced. The fixed cost associated with this facility and the overall manufacturing renovations program have impacted costs as revenues declined. However, we are most pleased with the new facility's performance and with the year's total results given the challenge of this year's economy.

Total sales in 1981 were $80,688,550, off 6% from the $85,803,397 in the 1980 year and 20% below the all-time high record 1979 year. Net earnings for the current year were $3,633,187 off 42% from the near record $6,267,169 in the preceding year. Earnings per share were $1.34 for the current year and $2.32 in the prior year.

Dividends

During the year, following completion of the manufacturing expansion program, a dividend rate increase of 11% was made, moving to an annual rate of 50 cents from 45 cents per share. In conjunction with this increase we adopted a program of quarterly dividend payments in lieu of the former semi annual basis. As a result a total of 60 cents was paid in this change-over year. In April a 22½ cent semi annual dividend related to the last half of 1980 was paid. Subsequently quarterly payments of 12½ cents were paid related to each of the first three quarters of 1981.

On February 25, 1982, a dividend of 12½ cents relating to the final quarter of 1981 was declared. This dividend is payable April 2, 1982 to holders of record on March 12, 1982. Fruehauf Corporation (U.S.) the major shareholder has waived its right to this dividend permitting the funds to be retained in Canada. This action apart from strengthening Fruehauf-Canada does also enhance the equity position of all other shareholders. Similar action improving the working capital of our Company has previously been taken by Fruehauf Corporation when dividends were waived in the 1975 year and in the years 1968 through 1971.

Costs and Expenses

During the year cost of sales as a percent to net sales increased to 86.9% from 82.8% in the previous year. The increase in the current year is directly attributable to the costs of operating two major manufacturing facilities compared to only one plant in the previous year. Due to the decline in customer demand the two manufacturing facilities operated at a production rate considerably below the single facility rate in the 1980 year.

In this climate a great deal of effort was concentrated on cost control as we attempted to hold the line while commencing operations in the new facility. Growing pains were experienced in developing operating systems for the second facility. We do feel we have been successful in bringing the unit into regular production, albeit at a level well below designed capacity. We do handle many of the control and supply functions for the new Ingersoll plant on a consolidated basis from the Dixie manufacturing location. These measures have a beneficial effect in restricting cost escalation and have proved extremely helpful during this difficult operating year.

In 1981 costs for material components rose at a somewhat higher rate than the preceding year. This was particularly evident in the latter half of the year. While the increase in the consumer price index was 12.1% in the current year compared to 11.8% in the prior year, our material cost increases exceeded this relationship on a large number of our component items.

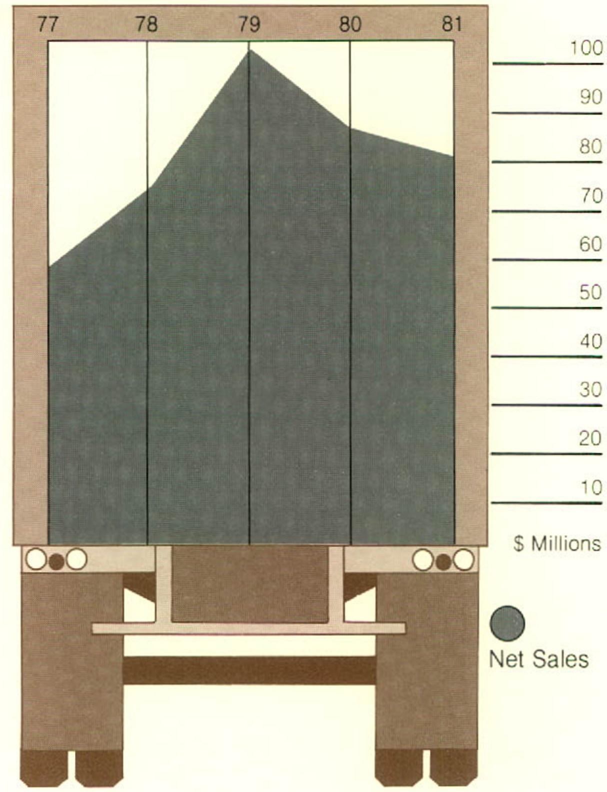
Selling and administration expenses in 1981 were 7.9% of net sales compared to 6.8% in the previous year. The large proportion of these expenses are not directly variable with sales volume fluctuations. While staffing is being held at or below previous levels, the effects of inflation have impacted expense relationships.

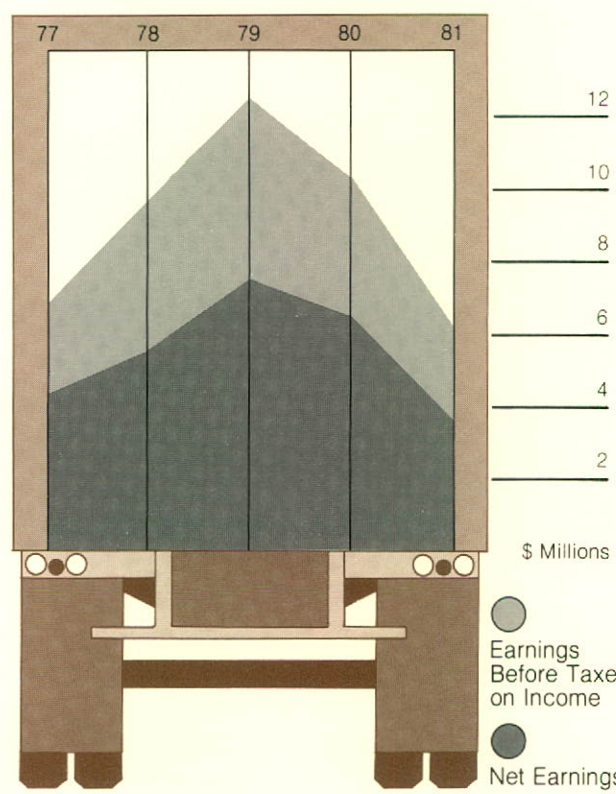
Financing

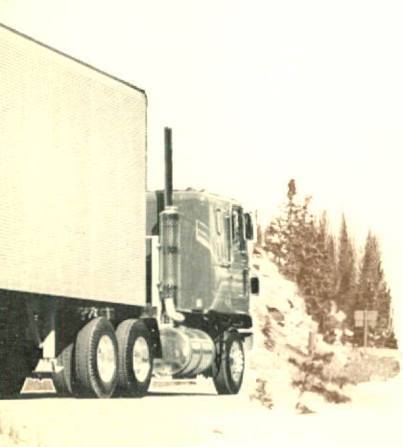
Revenue from financing in the year was up 31% in total despite the year's lower sales volume. The increase reflects the effect of the higher prevailing interest rates throughout the current year. This is demonstrated by the comparison of chartered bank prime rates with an average 19.5% rate in 1981 up from an average 13.9% in 1980. We also benefitted from an increased revenue from short term investments as cash flow improved during the year. Financing continues to be a highly competitive activity. There is however, a definite indication that the increased number of chartered banks sponsored by the new bank act, together with the high cost of money, is minimizing the erratic rate variations of earlier periods.

We continue to aggressively promote our financing capability and it is our objective to consistently increase our penetration in financing equipment sold by the Company. We are cognizant of the benefits of our financial portfolio earnings potential, particularly the stabilizing effect in periods of fluctuating sales.

Investment in installment contracts of $14,778,565 at year end is down 7.3% from 1980 reflecting the reduced sales volume of the year. At the same time a continuing reduction in equipment leased to customers is a consequence of a trend toward financing which provides ultimate ownership. During the year no new leases were added to the portfolio which now stands at $448,309, slightly more than half of the previous year's investment.







Fixed Assets

Expenditures on capital equipment in 1981 were $2,284,132 and represent primarily the cost to complete the plant expansion and manufacturing renovations program. All of these expenditures totalling approximately $13 million in the last three years, have been financed out of current working capital. The ability to handle the funding in this manner has in itself been a major benefit during a continuous period of abnormally high cost of money. With the completion of the manufacturing projects and given today's cost of funds we have restricted any major expenditures for the coming year.

Depreciation of plant and equipment in 1981 totalled $1,427,615 compared to $921,428 in the preceding year. The current year's change, more than one and a half times that of the prior year, reflects the higher depreciation costs attributable to two manufacturing facilities. We depreciate assets over an estimated useful life - ten years for machinery, seven years for automotive equipment and up to forty years for building structures. While we follow this basis for accounting purposes we do claim maximum available allowance from a tax standpoint. This technique, which gives rise to the major portion of deferred income taxes, has a significant cash flow benefit.

Financial Strengths

The current ratio, one of the measurements of a Company's financial strength, is a strong 7.8 to 1 at December 31, 1981. This is up from 5.3 to 1 at the close of the prior year. Working capital at $44,317,358 compares to $41,875,407 at the previous year end. As indicated above we have now paid for the entire capital expansion within our projected period of two years.

The year began on an optimistic note, however it subsequently gave way to a progressively slowing economy and by mid year had reversed to a definite downturn. We experienced inventory increases in production components as business fell off and to a lesser degree increases associated with two manufacturing locations in lieu of one facility previously. We, as all other manufacturers, are closely monitoring material purchases to minimize inventory in today's economic climate.

Facilities and Outlook

The improvements in our manufacturing facilities and processes have been most encouraging. The new Ingersoll plant has performed exceptionally well. While we have experienced some growing pains with the additional unit, the new modern methods and equipment provide us an unequalled potential for the manufacture of the van trailer model. At the same time renovations to modernize the Dixie plant have greatly enhanced its capability for the production of the welding intensive processes associated with tank, dump and platform model trailers. These two facilities, now completed and in place, represent our manufacturing restructuring for the decade of the 80's.

Over the years we have followed consistent practices in maintaining our branch sales and service facilities. All of our locations have had significant renovations and improvements to ensure our continued ability to provide the best customer service possible. We view this program as mandatory to business strength. We will retain our philosophy of regular consistent improvement in order not to adversely impact funds in any single period. We do plan a thermal improvement for energy conservation benefit in one location in 1982 and have general plans for renovations over the next several years for other locations.

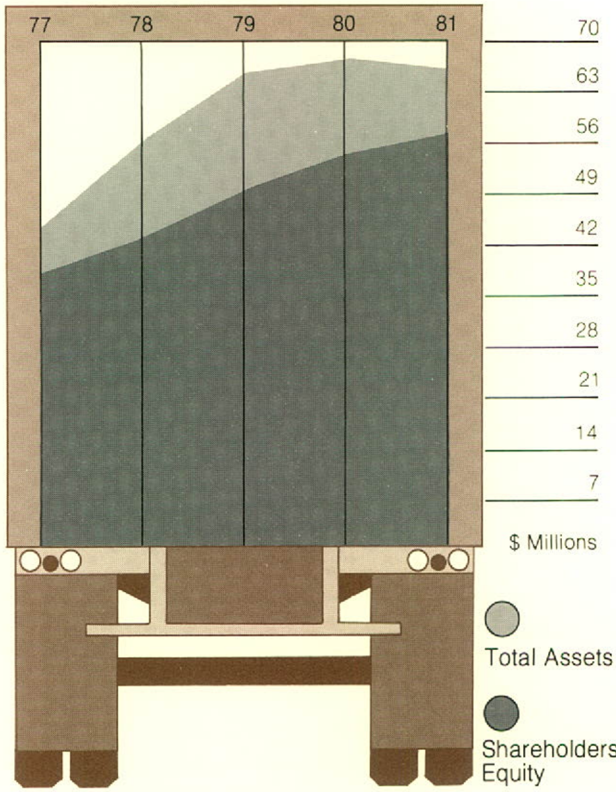
Branch locations, of which we have eight in strategic transportation centres across Canada, are combined sales and service centres. They represent a base for our area sales force and at the same time are a service repair facility, each with the capability to undertake the most extensive rebuilding. In addition to our "direct to transport operator" mode of selling, we have a distributor and dealer

organization in the more remote and smaller centres of the country. From "coast to coast" throughout Canada Fruehauf service is available for the transportation industry.

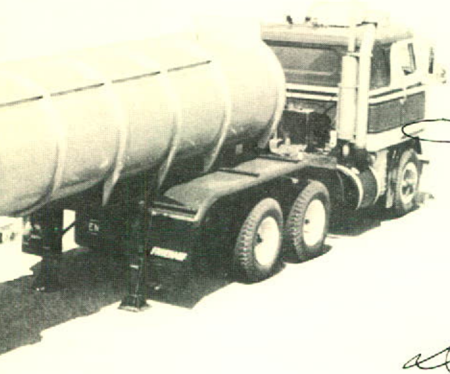
The 1982 year has commenced on a slow business note and the current outlook indicates mid year before any significant turn around can be expected. Today, Canada, North America and indeed the World, face challenges of gigantic proportions. However, numerous concerns have been faced and overcome in the past - we have every confidence in our ability to cope with our immediate economic and related problems. There is a need for cost restraint, particularly in Government spending, and at the same time industry must attempt to enlighten Government as to the need for consistent legislation continuing in place, to permit long term industrial planning which will enable sound economic growth.

We remain convinced of Canada's potential for future growth. We believe that the 1980's will realize this growth and that our planning for this decade will be well justified.

Our achievements and our potential for the future are realized through people. We take this opportunity to express the appreciation of your directors to all of the people who promote Fruehauf - to our employees, to our customers and to our shareholders.

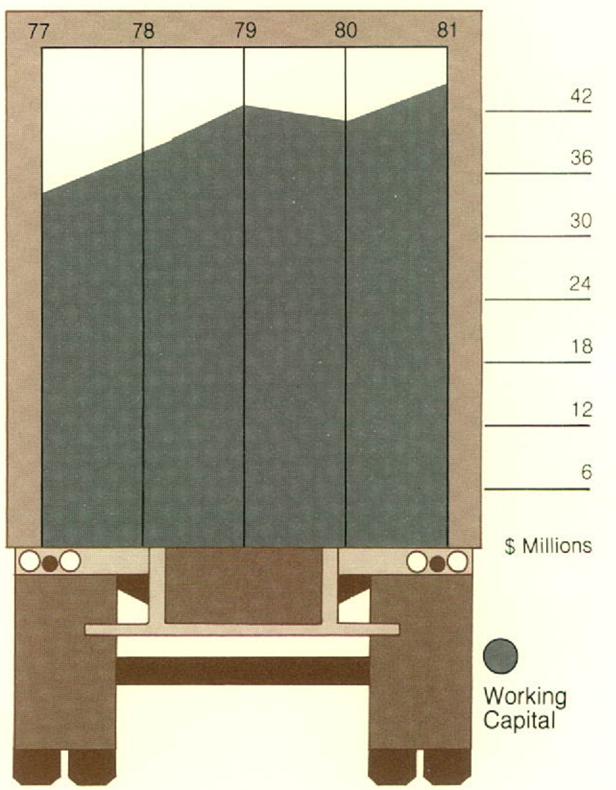


On behalf of the Board



T. J. Reghanti,
President

D. A. Grinstead
Vice President



Auditors' Report

The Shareholders
Fruehauf Canada Inc.

We have examined the balance sheet of Fruehauf Canada Inc. as at December 31, 1981 and the statements of net earnings, retained 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 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.

Touche Ross & Co.

Chartered Accountants

Toronto, Ontario
February 8, 1982

First Canadian Place - 100 King
Street West - Toronto, Ontario.

Statement of Net Earnings

Years Ended December 31

	1981	1980
Revenues		
Net sales	$ 80,688,550	$ 85,803,397
Finance and other interest	3,418,782	2,596,796
	84,107,332	88,400,193
Costs and Expenses		
Cost of sales	70,104,569	71,038,237
Selling and administration	6,414,357	5,865,401
Depreciation	1,581,219	1,207,386
	78,100,145	78,111,024
Earnings Before Taxes on Income	6,007,187	10,289,169
Taxes on income		
Current	1,571,400	2,745,500
Deferred	802,600	1,276,500
	2,374,000	4,022,000
Net Earnings for the Year	$ 3,633,187	$ 6,267,169
Earnings per share	$ 1.34	$2.32

Balance Sheet

As at December 31

Assets	1981	1980
Current Assets		
Cash and short-term notes	$ 646,001	$ 4,103,256
Trade receivables		
Current accounts	10,570,159	9,114,612
Installment contracts (Note 1)	14,778,565	15,958,358
Inventories (Note 2)	24,741,647	22,486,191
Prepaid expenses	39,436	66,544
Total Current Assets	50,775,808	51,728,961
Equipment Leased to Customers (Note 3)	448,309	802,855
Fixed Assets		
Land	737,475	737,475
Buildings and equipment	11,510,607	10,544,504
Machinery and other equipment	10,904,439	9,890,775
	23,152,521	21,172,754
Less accumulated depreciation	7,807,583	6,684,333
	15,344,938	14,488,421
Total Assets	$66,569,055	$ 67,020,237

On behalf of the Board

Director

Director

Freuhauf Canada Inc.

Incorporated under the Canada Business Corporations Act

Liabilities and Shareholders' Equity

	1981	1980
Current Liabilities		
Accounts payable		
Trade	$ 4,158,629	$ 4,308,714
Affiliates (Note 4)	602,311	1,274,012
Taxes on income		
Current	62,210	2,503,928
Deferred	1,635,300	1,766,900
Total Current Liabilities	6,458,450	9,853,554
Deferred Taxes on Income	2,972,200	2,038,000
Shareholders' Equity		
Capital stock		
Authorized		
Unlimited number of shares of one class		
Issued and outstanding		
2,705,775 shares	5,149,063	5,149,063
Retained earnings	51,989,342	49,979,620
	57,138,405	55,128,683
Total Liabilities and Shareholders' Equity	$66,569,055	$67,020,237

Statement of Retained Earnings

Years Ended December 31

	1981	1980
Balance at beginning of year	$49,979,620	$ 44,930,050
Net earnings for the year	3,633,187	6,267,169
	53,612,807	51,197,219
Cash dividends	1,623,465	1,217,599
Balance at end of year	$51,989,342	$ 49,979,620

Statement of Changes in Financial Position

Years Ended December 31

	1981	1980
Working Capital Derived From		
Operations		
Net earnings	$ 3,633,187	$ 6,267,169
Depreciation of equipment leased to customers	153,604	285,958
Depreciation of fixed assets	1,427,615	921,428
Increase in deferred taxes on income	934,200	1,144,100
Total from Operations	6,148,606	8,618,655
Retirement of equipment leased to customers	200,942	78,845
	6,349,548	8,697,500
Working Capital Applied to		
Additions to equipment leased to customers	—	353,760
Additions to fixed assets - net	2,284,132	7,478,670
Cash dividends	1,623,465	1,217,599
	3,907,597	9,050,029
Net Increase (Decrease*) in Working Capital	2,441,951	352,529*
Working Capital at Beginning of Year	41,875,407	42,227,936
Working Capital at End of Year	$ 44,317,358	$ 41,875,407

Notes to Financial Statements

December 31

Summary of Accounting Principles

Inventories

Inventory amounts are based upon physical determinations during the year and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method, and market prices represent the lower of replacement cost or estimated net realizable value.

Equipment Leased to Customers

Leased equipment is stated at cost, less accumulated depreciation which is provided for on a straight line basis to a projected lease terminal value. Rental payments are recognized as income over the term of the lease.

Fixed Assets

The Corporation records fixed assets at their historical cost. Depreciation is provided on a straight line basis over the life expectancy of the assset. Buildings and machinery and equipment are depreciated over 25 to 40 years and 5 to 10 years respectively.

Taxes on Income

The Corporation claims maximum reductions available for income tax purposes in any fiscal period and follows the tax allocation method of accounting for income taxes.

Pensions

The Corporation has noncontributory pension plans covering substantially all employees. Current service costs of pension benefits are accrued and funded on a current basis. Past service costs are amortized and funded over periods not exceeding fifteen years.

Note 1 - Installment Contracts

At December 31 installment contracts are stated after deduction of deferred finance charges of $4,195,277 for 1981 and $3,937,016 for 1980 and include installments due after one year of approximately $8,847,000 for 1981 and $10,155,000 for 1980.

Note 2 - Inventories

	December 31, 1981	December 31, 1980
New trailers	$ 8,103,443	$ 9,405,834
Production parts, work in process and raw materials	9,622,451	6,796,846
Service parts and orders in process	4,589,992	4,411,210
Used trailers	2,425,761	1,872,301
	24,741,647	22,486,191

Note 3 - Equipment Leased to Customers

Accumulated depreciation at December 31 is $503,655 for 1981 and $502,869 for 1980.

Note 4 - Transactions with Affiliates

Shares of the Corporation are 91% owned by Fruehauf Corporation (U.S.). Under a long standing agreement the major shareholder provides technical assistance on products and methods for which a fee is paid. In addition the Corporation purchases production components from Fruehauf Corporation (U.S.) and its affiliates in the normal course of business. Costs and expenses include costs arising from these transactions, primarily purchases of production components, aggregating approximately 7.6% of total costs and expenses for 1981 and 9.0% for 1980.

Note 5 - Pensions

Based on actuarial valuations and estimates, unfunded service costs of pension plans at December 31 amount to approximately $1,670,000 for 1981, $3,320,000 for 1980. Unfunded vested benefits at December 31 amount to approximately $301,000 for 1981, $1,270,00 for 1980. Total pension expense was $330,606 in 1981 and $630,345 in 1980.

Note 6 - Segmented Information

The Corporation is a supplier in the domestic commercial trailer industry and is involved in the manufacture, sales and service of commercial truck trailers including replacement parts thereto. Sales are made directly to transport operators from branch facilities or distributors throughout Canada and finance revenue relates solely to the sale of the Corporation's products.

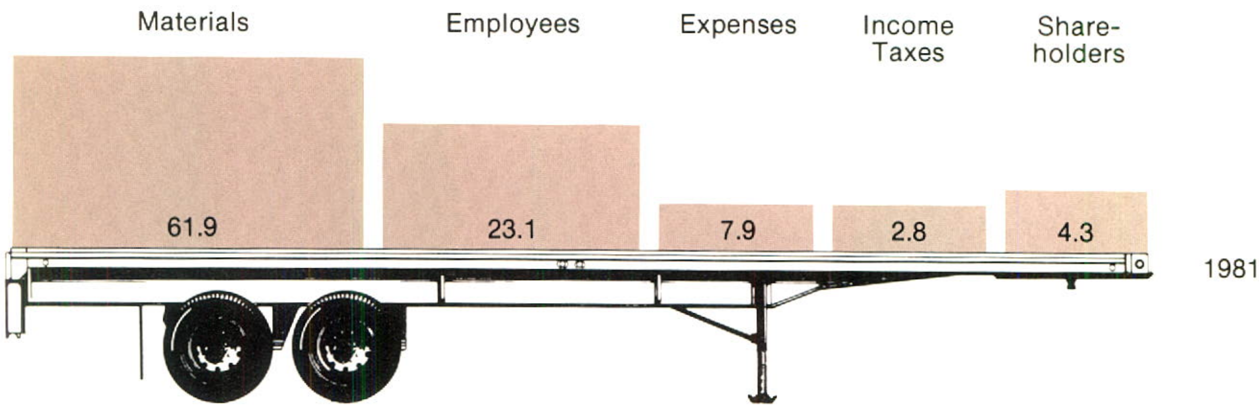
Statistical Summary

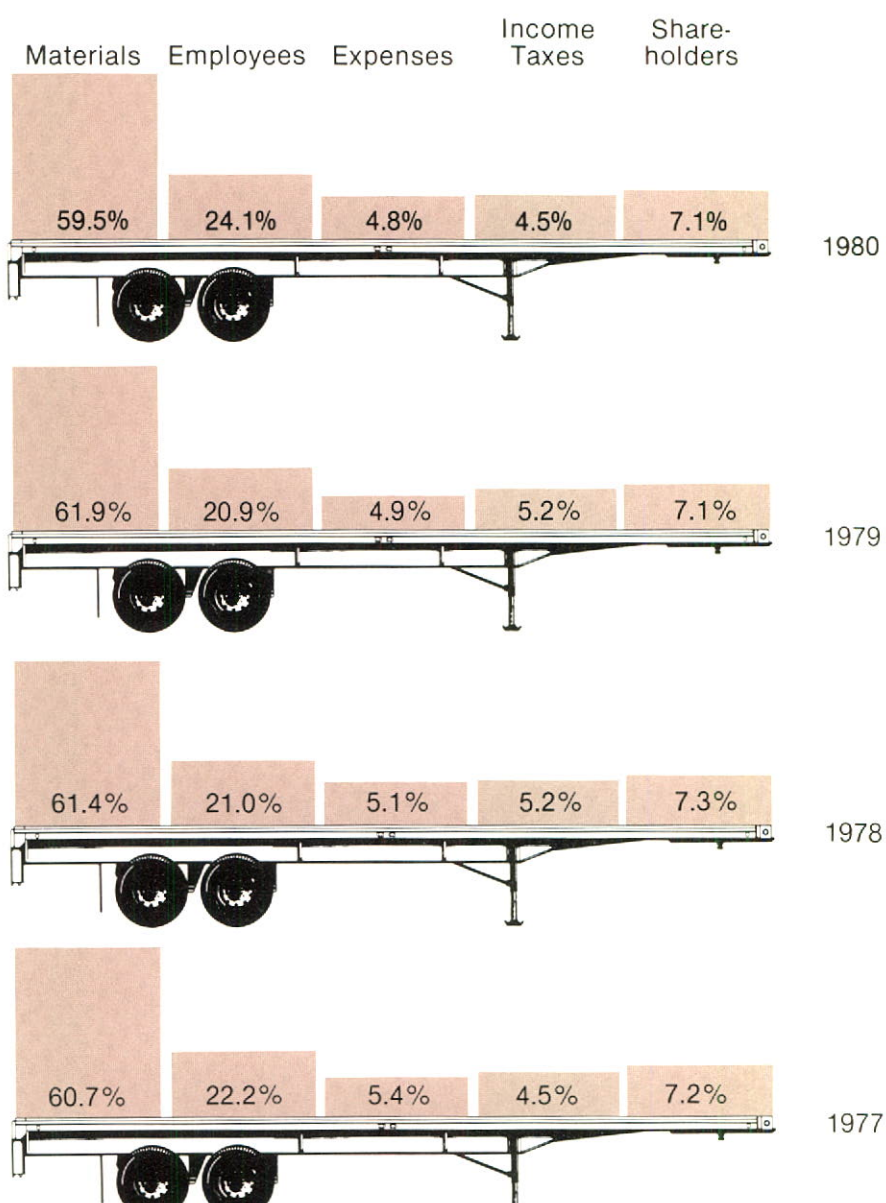
	1981	1980	1979	1978
Income Data				
Sales	$ 80,688,550	$ 85,803,397	$ 100,535,167	$ 75,382,328
Finance and Other Interest	3,418,782	2,596,796	2,717,010	2,611,338
Cost of Sales	70,104,569	71,038,237	84,442,352	62,860,803
Per cent to Sales	86.9	82.8	84.0	83.3
Selling and Administration	$ 6,414,357	$ 5,865,401	$ 5,353,159	$ 4,641,935
Per cent to Sales	7.9	6.8	5.3	6.2
Depreciation				
Equipment Leased to Customers	$ 153,604	$ 285,958	$ 219,612	$ 312,234
Fixed Assets	1,427,615	921,428	532,106	477,760
Earnings before Taxes on Income	6,007,187	10,289,169	12,704,948	9,700,934
Per cent to Sales	7.4	12.0	12.6	12.9
Net Earnings	$ 3,633,187	$ 6,267,169	$ 7,377,648	$ 5,670,934
Per cent to Sales	4.5	7.3	7.3	7.5
Per Share Outstanding	1.34	$ 2.32	$ 2.73	$ 2.10
*Includes Extraordinary gain 1977				
Capital Investment in Year				
Equipment Leased to Customers	$ —	$ 353,760	$ 130,553	$ 809,291
Fixed Assets	2,284,132	7,482,816	3,086,502	1,406,844
Financial Position Year-End				
Total Assets	$ 66,569,055	$ 67,020,237	$ 65,541,843	$ 57,125,200
Working Capital	44,317,358	41,875,407	42,227,936	38,115,160
Current Ratio	7.8 to 1	5.3 to 1	3.9 to 1	4.0 to 1
Installment Contracts Receivable	$ 14,778,565	$ 15,958,358	$ 14,265,578	$ 15,283,484
Equipment Leased to Customers—Net	448,309	802,855	813,898	932,665
Fixed Assets—Net	15,344,938	14,488,421	7,931,179	5,389,539
Shareholders' Equity	57,138,405	55,128,683	50,079,113	43,919,064
Book Value per Share	21.12	20.37	18.51	16.23
Employment				
Number of Employees at Year-end	688	670	1138	1008
Shareholders				
Number of Shareholders	442	404	412	419
Dividends per Share	$ .60**	$ .45	$ .45	$ .45

**Includes .10 on change to quarterly payments
***Includes .20 interim 1972

1977	1976	1975	1974	1973	1972
$ 58,657,252	$ 40,872,708	47,161,334	$ 60,073,980	$ 51,031,753	$ 40,609,738
2,435,626	2,588,410	2,320,268	2,049,814	1,464,868	1,684,879
49,387,915	33,413,631	37,271,914	46,651,292	39,677,021	31,172,253
84.2	81.8	79.0	77.7	77.7	76.8
$ 4,018,933	$ 3,371,762	$ 3,414,829	$ 3,585,503	$ 3,079,854	$ 2,484,024
6.9	8.2	7.2	6.0	6.0	6.1
$ 461,312	$ 691,128	$ 999,485	$ 1,164,293	$ 1,323,637	$ 1,115,512
450,868	454,399	434,194	481,757	382,910	346,739
7,185,551*	5,488,035	6,866,271	9,539,837	7,687,493	6,946,136
12.3	13.4	14.6	15.9	15.1	17.1
$ 4,419,551*	$ 2,993,035	$ 3,674,271	$ 5,388,837	$ 4,260,493	$ 3,597,136
7.5	7.3	7.8	9.0	8.3	8.9
$ 1.63*	$ 1.11	$ 1.36	$ 1.99	$ 1.57	$ 1.33
$ 93,541	$ 91,446	$ 226,910	$ 404,096	$ 2,490,012	$ 1,532,537
487,349	327,018	310,015	424,063	1,121,288	718,624
$ 46,574,491	$ 44,496,305	$ 43,168,288	$ 49,429,223	$ 41,022,816	$ 35,063,723
34,725,033	31,108,456	28,294,922	25,054,640	19,713,525	18,625,830
6.3 to 1	5.1 to 1	4.5 to 1	2.5 to 1	2.7 to 1	3.1 to 1
$ 14,583,474	$ 14,472,937	$ 17,656,167	$ 17,545,115	$ 14,404,473	$ 13,001,551
847,494	1,292,459	2,239,625	3,417,789	4,694,717	3,696,762
4,473,602	4,501,418	4,629,361	4,766,718	4,829,978	4,097,745
39,465,729	36,196,133	34,285,408	30,707,047	26,400,520	23,222,337
14.59	13.38	12.67	11.35	9.75	8.58
779	792	635	966	1145	1001
428	425	406	417	394	331
$ .42½	$ .40	$ .40	$ .40	$ .40	$ .53***

Revenue Distribution*





Materials
Raw materials, component parts, accessories and trade-in units for resale

Employees
Wages, salaries and benefits

Expenses
Operating and general expenses including depreciation and interest expense

Income Taxes
Federal and provincial taxes on income

Shareholders
Net earnings after taxes available for dividends and reinvestment for future growth

*Revenues include sales plus finance and other interest earned in each of the periods.

Fruehauf — Coast to Coast

▲ Head Office

2450 Stanfield Road
Mississauga, Ontario

■ Sales and Service

Quebec
Montreal
Toronto
London
Winnipeg
Calgary
Edmonton
Vancouver

● Distributors & Dealers

Pasadena
Dartmouth
Saint John
Moncton
Ottawa
North Bay
Kitchener
Sarnia
Windsor
Prince Albert
Saskatoon
Whitehorse

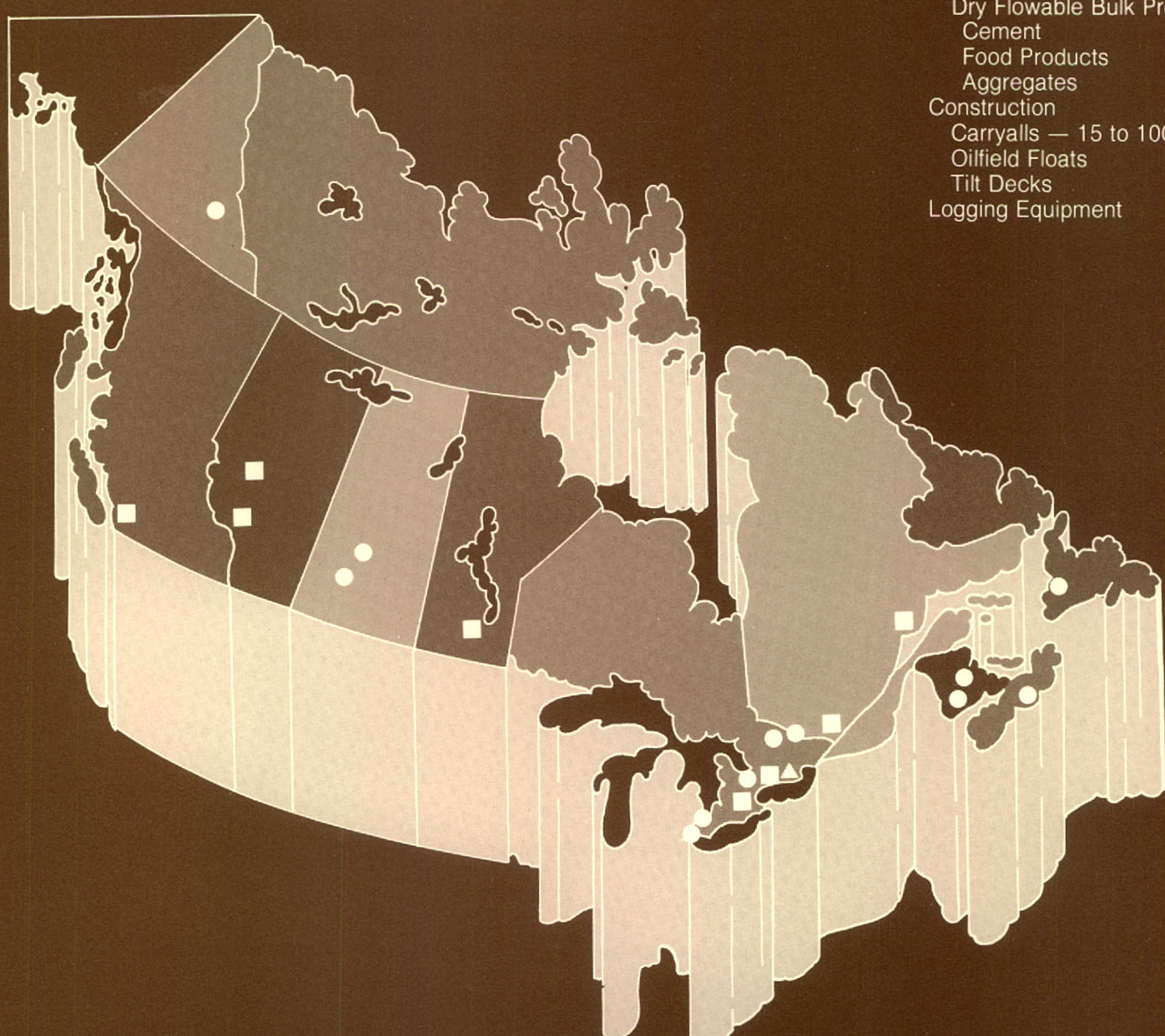
Products

Vans
- Dry Freight
  - — Smooth Panels
  - — Beaded Panels
  - — FRP Panels
  - — Drop Frame
- Insulated-Refrigerated
- City Delivery
- Livestock
- Grain Haul

Platforms
Stake and Rack
Dumps
Container Chassis
Dollies
Truck Bodies
Tanks — Steel, Aluminum and Stainless Steel
- Liquid Products:
  - Petroleum
  - Hot Material
  - Chemical
  - Food Products
- Dry Flowable Bulk Products:
  - Cement
  - Food Products
  - Aggregates

Construction
- Carryalls — 15 to 100 ton
- Oilfield Floats
- Tilt Decks

Logging Equipment



Directors and Officers

Directors

T. J. Reghanti
President of the Corporation and
President and Chief Operating Officer,
Fruehauf Corporation, Detroit, Michigan

D. A. Grinstead
Vice President of the Corporation
Toronto, Ontario

W. T. McDougall*
Vice President-Finance of the Corporation
Toronto, Ontario

T. N. Combs
Secretary of the Corporation and Vice President,
General Counsel and Secretary,
Fruehauf Corporation, Detroit, Michigan

F. P. Coyer, Jr.
Vice-Chairman - Finance and Administration,
Fruehauf Corporation, Detroit, Michigan

A. Paulin*
President, H. Paulin & Co. Limited
Toronto, Ontario

M. Reid*
Corporate Director

R. J. Telford
Retired - former Vice President of the Corporation
Toronto, Ontario

*Member, Audit Committee

Officers

T. J. Reghanti, President
D. A. Grinstead, Vice President
W. T. McDougall, Vice President-Finance
T. N. Combs, Secretary
B.A. West, Controller
A. Purdon, Assistant Secretary

Share Listing

Toronto Stock Exchange

Transfer Agents and Registrar

National Trust Company Limited
Toronto and Montreal

Solicitors

Borden & Elliot
Toronto, Ontario

Auditors

Touche Ross & Co.
Toronto, Ontario

TOTAL

TRANSPORTATION

FRUEHAUF