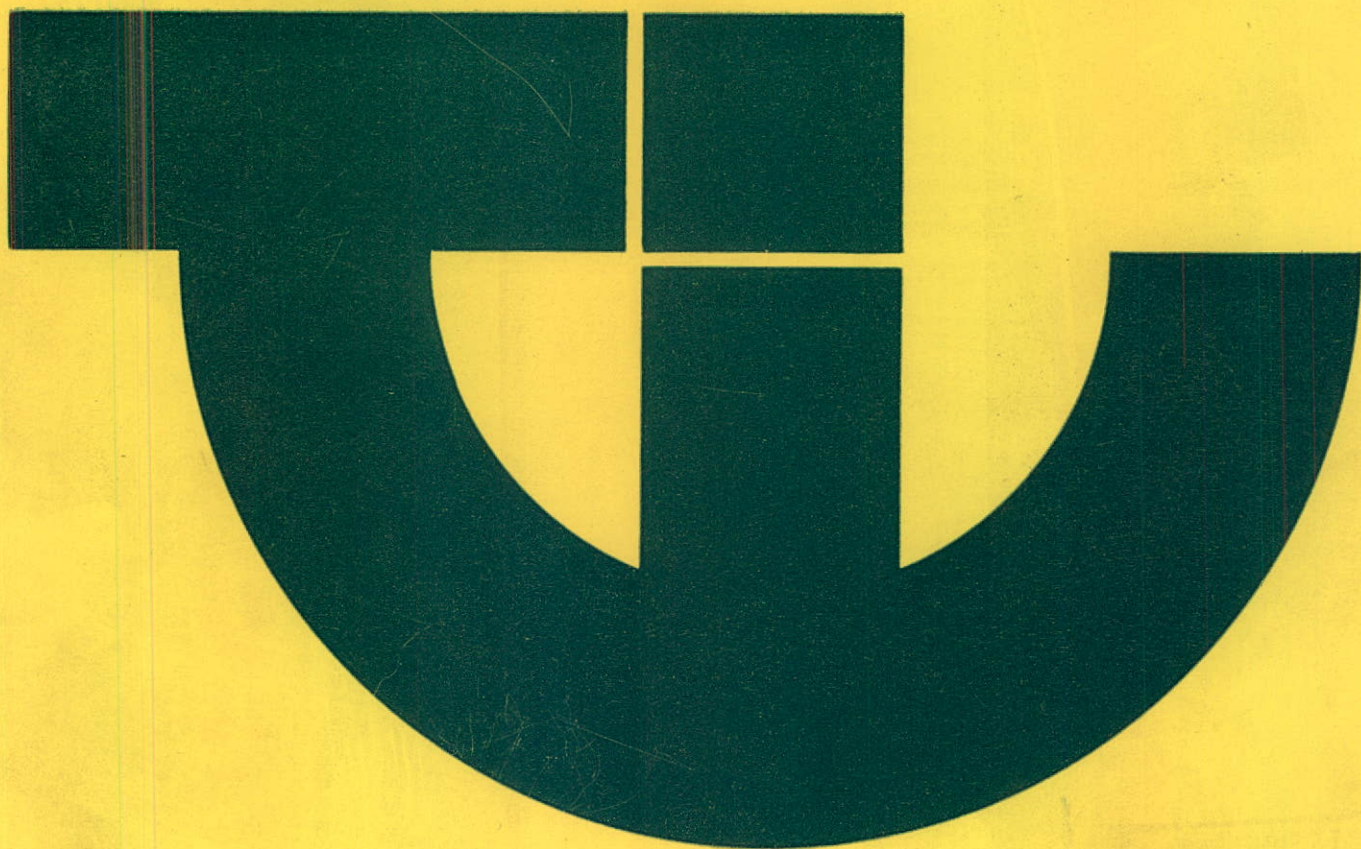


**1971
ANNUAL
REPORT**



THE TORONTO IRON WORKS, LIMITED

highlights

THE TORONTO IRON WORKS, LIMITED

	<u>1971</u>	<u>1970*</u>
Sales	\$22,208,450	\$22,765,248
Consolidated profit before extraordinary items	\$ 888,450	\$ 650,715
Per share	\$ 2.21	\$ 1.62
Consolidated net profit after extraordinary items	\$ 888,450	\$ 590,853
Per share	\$ 2.21	\$ 1.47
Working capital	\$ 2,811,003	\$ 2,004,581
Shareholders' equity	\$ 5,512,436	\$ 4,542,994
Per share	\$ 13.73	\$ 11.31
Number of shares outstanding	401,568	401,568
Number of shareholders	263	273

*Restated as per note 1 (b) to the consolidated financial statements



directors and officers

directors

John B. Clements, Q.C.

Partner, Lash, Johnston, Sheard & Pringle

George B. Kimpton

Treasurer and Director, The Toronto Star Limited

Henry E. Langford, Q.C.

Chairman, The Toronto Iron Works, Limited

George I. MacKenzie

Retired Executive

William P. Petrie, C.A.

Vice-President and Secretary-Treasurer, The Toronto Iron Works, Limited

Merrill C. Stafford

President, The Toronto Iron Works, Limited

William A. Stewart

Senior Vice-President, Midland-Osler Securities Limited

officers

Henry E. Langford, Q.C.

Chairman

Merrill C. Stafford

President

Lawrence R. Wright

Executive Vice-President

William P. Petrie, C.A.

Vice-President and Secretary-Treasurer

Donald M. Cameron

Vice-President and General Manager, Central Bridge Division

Gerald F. Carr

Vice-President and Assistant General Manager,
Plate Fabrication Division

Stewart L. Kerby

Vice-President and Assistant General Manager,
Plate Fabrication Division

E. A. Shillington, C.A.

Comptroller

bankers

The Bank of Nova Scotia

Bank of Montreal

transfer agent and registrar

Canada Permanent Trust Company,

1901 Yonge Street, Toronto 295

auditors

Clarkson, Gordon & Co., Chartered Accountants,

Toronto Dominion Centre, Toronto 111

report of the board of directors

TO THE SHAREHOLDERS:

Your directors present herewith the Annual Report of The Toronto Iron Works, Limited for the year ended December 31, 1971.

The results as shown on the statements attest to further improvement in the Company's financial position.

However, the postponement of many capital projects on which the Company traditionally relies for much of its business has resulted in a reduction in its sales backlog so that volume and, hence, profit in 1972 are not expected to equal those for 1971.

It will be noted that the accounts of the Company have been consolidated with those of its wholly-owned subsidiaries, Wimco Steel Sales Co. Limited and T.I.W. Western Limited, the latter being now dormant.

Mention should also be made of the fact that a control block of shares of the Company has been advertised for sale by tender, the deadline for the receipt of which has been set at February 29, 1972.

On behalf of the Board

February 22, 1972


President

consolidated balance sheet

December 31, 1971

(with comparative figures at December 31, 1970)
(note 1)

ASSETS

	<u>1971</u>	<u>1970</u>
Current:		
Cash and deposit receipts	\$ 1,736,199	\$ 623,008
Accounts receivable including holdbacks	3,727,571	6,330,635
Inventories, at lower of cost and net realizable value —		
Contracts in process (less advance billings 1971—\$2,299,574 ; 1970—\$4,153,083) (note 1 (d))	1,338,111	814,753
Steel and supplies	1,639,907	1,513,372
	<u>2,978,018</u>	<u>2,328,125</u>
Advance to parent company, Wimco Industries (Eastern) Limited (note 3)	1,275,873	1,275,873
Prepaid expenses	111,814	159,135
Total current assets	<u>9,829,475</u>	<u>10,716,776</u>
Fixed (note 4):		
Land, buildings and equipment, at cost less accumulated depreciation	3,807,891	4,311,633
	<u>\$13,637,366</u>	<u>\$15,028,409</u>

On behalf of the Board:

M. C. Stafford, Director

W. P. Petrie, Director

THE TORONTO IRON WORKS, LIMITED
(Incorporated under the laws of Ontario)
and its subsidiaries

LIABILITIES

	<u>1971</u>	<u>1970</u>
Current :		
Accounts payable and accrued charges	\$ 2,637,355	\$ 3,031,170
Accounts payable to steel mills—secured (note 5)	2,071,768	4,082,071
Sales, income and other taxes payable	1,017,349	387,954
Deferred income taxes—current portion	1,292,000	1,211,000
Total current liabilities	<u>7,018,472</u>	<u>8,712,195</u>
Long-term debt (note 6)	<u>455,703</u>	<u>1,000,147</u>
Unearned income (note 2 (a))	<u>292,055</u>	<u>377,081</u>
Deferred income taxes (note 7)	<u>358,700</u>	<u>315,000</u>
Excess of net book value of subsidiary over cost of shares (note 1 (c))		<u>80,992</u>
Shareholders' equity :		
Capital stock—		
Authorized :		
1,000,000 shares without par value		
Issued :		
401,568 shares	2,530,411	2,530,411
Retained earnings	2,982,025	2,012,583
	<u>5,512,436</u>	<u>4,542,994</u>
	<u>\$13,637,366</u>	<u>\$15,028,409</u>

(See accompanying notes)

THE TORONTO IRON WORKS, LIMITED

and its subsidiaries

For the year ended December 31, 1971 *(with comparative figures for 1970)*
(note 1)

CONSOLIDATED STATEMENT
OF SOURCE AND
DISPOSITION OF FUNDS

	<u>1971</u>	<u>1970</u>
Source of funds:		
From operations—		
Net profit for the year	\$ 888,450	\$ 590,853
Add (deduct) amounts included in arriving at net profit which did not involve an outlay (receipt) of funds:		
Depreciation	555,281	668,321
Other (net)	(16,373)	(77,802)
Total funds from operations	<u>1,427,358</u>	<u>1,181,372</u>
Disposal of fixed assets	48,365	
Total funds provided	<u>1,475,723</u>	<u>1,181,372</u>
Disposition of funds:		
Long-term debt reduction (note 6)	544,444	212,779
Fixed asset additions	124,857	175,934
Total funds applied	<u>669,301</u>	<u>388,713</u>
Increase in working capital	806,422	792,659
Working capital, beginning of year	<u>2,004,581</u>	<u>1,211,922</u>
Working capital, end of year	<u>\$ 2,811,003</u>	<u>\$ 2,004,581</u>
Represented by:		
Current assets	\$ 9,829,475	\$10,716,776
Less current liabilities	7,018,472	8,712,195
	<u>\$ 2,811,003</u>	<u>\$ 2,004,581</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS
OF INCOME AND
RETAINED EARNINGS

	<u>1971</u>	<u>1970</u>
INCOME		
Sales	<u>\$22,208,450</u>	<u>\$22,765,248</u>
Operating profit for the year before the following deductions	<u>\$ 2,660,488</u>	<u>\$ 2,413,772</u>
Depreciation	555,281	668,321
Interest on long-term debt	61,442	112,384
Interest on secured accounts payable	<u>205,615</u>	<u>214,752</u>
	<u>822,338</u>	<u>995,457</u>
Profit before income taxes and extraordinary items	1,838,150	1,418,315
Income taxes:		
Current	825,000	
Deferred	<u>124,700</u>	<u>767,600</u>
	<u>949,700</u>	<u>767,600</u>
Profit before extraordinary items	888,450	650,715
Extraordinary items:		
Receivership and reorganization costs net of related income tax reductions of \$95,000		(87,851)
Reduction of pre-bankruptcy liabilities of subsidiary to the amount of claims filed by creditors, net of related income taxes of \$31,000		<u>27,989</u>
Net profit for the year	<u>\$ 888,450</u>	<u>\$ 590,853</u>
Earnings per share of capital stock:		
Profit before extraordinary items	\$ 2.21	\$ 1.62
Extraordinary items		(.15)
Net profit	<u>\$ 2.21</u>	<u>\$ 1.47</u>
RETAINED EARNINGS		
Retained earnings, beginning of year:		
As previously reported	\$ 1,630,182	\$ 1,003,632
Adjustments to reflect equity in net assets of Wimco Steel Sales Co. Limited (note 1 (b))	<u>382,401</u>	<u>418,098</u>
As restated	2,012,583	1,421,730
Add:		
Excess of net book value of subsidiary over cost of the shares of that subsidiary (note 1 (c))	80,992	
Net profit for the year	<u>888,450</u>	<u>590,853</u>
Retained earnings, end of year	<u>\$ 2,982,025</u>	<u>\$ 2,012,583</u>

(See accompanying notes)

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

December 31, 1971

1. Accounting policies

(a) *Basis of consolidation*

The accounts of the Company have been consolidated with those of its wholly-owned subsidiaries, Wimco Steel Sales Co. Limited and T.I.W. Western Limited.

(b) *Wimco Steel Sales Co. Limited*

Wimco Steel was adjudged bankrupt in 1968 and the Company's investment in the shares of that company were written down to \$1 at that time.

During 1969 and 1970, Wimco Steel continued in bankruptcy and operated under the direction of a receiver and manager appointed in 1968 by the Court. In 1970 a proposal made by Wimco Steel to its creditors was accepted by them and on February 17, 1971 the Court annulled the bankruptcy and the Company reassumed control of its operations. At December 31, 1970 a number of uncertainties existed concerning the valuation of certain material assets and liabilities of Wimco Steel, the effect of which could not be determined at that time. Because of the foregoing, the accounts of Wimco Steel were not consolidated with those of the Company in 1970 and no adjustment was made in the carrying value of \$1.

As the Wimco Steel bankruptcy has been annulled and as the more material uncertainties have been resolved, 1970 figures have been restated to consolidate the accounts of Wimco Steel and the balance of consolidated retained earnings at January 1, 1970 has been restated to reflect the net equity of that company at that date.

(c) *T.I.W. Western Limited*

Retained earnings have also been adjusted in 1971 to include the excess of net book value of T.I.W. Western Limited over the cost of acquiring that subsidiary which has ceased operations and has no substantial assets or liabilities.

(d) *Accounting for construction contracts*

The Company follows the "completed contract" method of accounting and accordingly takes up profits on contracts only when the final stage of completion has been reached; any losses on contracts are provided for as soon as such become apparent.

2. Transactions with Continuous Colour Coat Limited

(a) *Unearned income*

- (i) Wimco Steel entered into a twenty-seven year agreement commencing April 1, 1966 with Continuous Colour Coat whereby that company would purchase the complete production of a particular material. The purchaser has the exclusive right to purchase such material and undertook to pay for the first seven years' production by an initial payment plus certain production costs as defined. Thereafter the agreement calls for a reduced selling price. The unearned portion of the initial payment amounting to \$18,750 at December 31, 1971 (\$87,275 at December 31, 1970) is included in unearned income.

As such unearned income is realized, an amount in proportion thereto is written off the Continuous Colour Coat account.

described in (b) below, as it is the policy of Wimco Steel not to recognize income on pre-bankruptcy transactions with Continuous Colour Coat until such time as certain disputed matters are settled.

- (ii) In addition, Wimco Steel, as lessor, net-leased a building to Continuous Colour Coat for a term of twenty years from July 1, 1965 and received a payment on account of rent. Prepaid rent of \$311,105 at December 31, 1971 (\$333,905 at December 31, 1970) is included in unearned income and is being amortized over the term of the lease as part of the annual rental income which amounts to approximately \$63,000. The lease contains an option to renew for a further ten years at a reduced rental.
- (iii) The current portion of unearned income is included with accounts payable and accrued charges and amounted to \$37,800 at December 31, 1971 (\$44,100 at December 31, 1970).

(b) *Accounts receivable*

The Trustee for Wimco Steel instituted legal action to collect an account in the amount of approximately \$640,000 due from Continuous Colour Coat in respect of the period prior to bankruptcy. Continuous Colour Coat, in turn, is claiming against Wimco Steel approximately \$950,000, alleging breach of agreements for processing metals and for the provision of certain management services by Wimco Steel to Continuous Colour Coat.

The Company is of the opinion that the larger part of the Continuous Colour Coat claim is of doubtful merit, and that the Company's own claim would be substantially upheld by the Court. However, negotiations are proceeding to settle the claims and, pending settlement of this matter, the account receivable from Continuous Colour Coat arising prior to bankruptcy in the amount of approximately \$640,000, has been written down to \$18,750 at December 31, 1971, equivalent to the non-refundable portion of unearned income arising through transactions with Continuous Colour Coat described in (a) above.

(c) *Option on certain machinery and equipment*

Continuous Colour Coat has taken steps to exercise an option it held to acquire certain machinery and equipment of Wimco Steel with a depreciated value of approximately \$333,000 at December 31, 1971 (\$417,000 at December 31, 1970). As certain conditions of the option agreement are in dispute, the total proceeds to the Company cannot be accurately determined at this time. A provision for loss on the exercise of the option has been applied to reduce the carrying value of the machinery and equipment to its estimated minimum realizable value.

The Company is satisfied that adequate allowance has been made in the accounts in respect of all matters relating to Continuous Colour Coat.

3. Advance to parent company, Wimco Industries (Eastern) Limited

The parent company, Wimco Industries was adjudged bankrupt in 1968 and A. W. Moreton and J. L. Biddell were appointed Joint Trustees. The principal asset of Wimco Industries is 248,519 (approximately 62%) of the Company's issued shares. Through The Clarkson Company Limited as

agent, the Joint Trustees have called for tenders, to be received by February 29, 1972 to effect the sale of such shares, subject to a reserve price to be set by the Court.

Prior to the bankruptcy, Wimco Steel had advanced \$1,275,873 to Wimco Industries and this advance is still outstanding. In February 1972 the Joint Trustees of Wimco Industries borrowed funds to allow it to purchase \$1,275,000 of debt owing to a steel mill by Wimco Steel (note 5).

Following the sale of the Company's shares it is expected that liabilities of Wimco Industries ranking ahead of the Company's claim will be paid from the proceeds of the sale and the advance and debt of \$1,275,000 will be offset. In the event that the shares are not sold on or before March 31, 1972, the Company has agreed to pay the debt owing, on the request of the Joint Trustees, and will remain a creditor of Wimco Industries.

4. Fixed assets

The major categories of fixed assets are as follows:

	December 31	
	1971	1970
Buildings.....	\$ 3,688,735	\$ 3,907,601
Machinery and equipment.....	6,708,929	6,912,427
	<u>10,397,664</u>	<u>10,820,028</u>
Less accumulated depreciation.....	6,947,835	6,866,457
	<u>3,449,829</u>	<u>3,953,571</u>
Land.....	358,062	358,062
	<u>\$ 3,807,891</u>	<u>\$ 4,311,633</u>

Depreciation is provided on the diminishing balance basis at the following rates:

Buildings	— 5%-10%
Machinery and equipment—shop	—20%
—field	—30%

Machinery and equipment includes the machinery under option referred to in note 2 (c).

5. Debentures given as collateral security

Wimco Steel

At the time of the annulment of its bankruptcy, a debenture was issued and pledged to John A. Orr as security, to a maximum of \$100,000, for the contingent liability of Wimco Steel to indemnify him from and against liabilities that he may have incurred in respect of the performance of his duties as Receiver and Manager and in respect of which he receives written notice prior to February 15, 1974. No claim has been made to date.

At the same time, Wimco Steel pledged certain debentures which created a fixed charge on realty and a floating charge on the other assets as security for amounts owing to three steel mills. Subsequent to December 31, 1971, a total of \$796,768 due to the steel mills was paid and the balance of \$1,275,000 due to one steel mill on May 1, 1972 was assigned to Wimco Industries.

The foregoing debentures are subordinate to the long-term debt of Wimco Steel.

Toronto Iron Works

The following debentures were pledged by the Company as security in connection with its interim receivership :

(i) First priority—

Series A debentures of \$750,000 to each of the Bank of Montreal and the Bank of Nova Scotia as collateral security for any future borrowings by the Company from such banks ;

(ii) Second priority—

Western Surety Company to the extent of \$3,000,000 as collateral security for the indemnification given to it to obtain performance bonds during interim receivership. The debenture holder has consented to its discharge ;

(iii) Third priority—

Lawrence R. Wright, William P. Petrie, Benton Dixon, Harry Johnston, George B. Kimpton and John B. Clements, directors and former directors of the Company, to the extent of \$200,000 in the aggregate as collateral security for the indemnification given to them as directors and officers of the Company during interim receivership.

6. Long-term debt

Long-term debt consists of the following debt of Wimco Steel :

	December 31	
	<u>1971</u>	<u>1970</u>
6.8% first mortgage payable to London Life Insurance Company in monthly instalments to 1981	\$506,703	\$ 557,328
9.5% first fixed and floating charge debenture payable in monthly instalments to 1975		442,829
9.5% second fixed and floating charge debenture payable in monthly instalments to 1972 ..		226,990
	<u>506,703</u>	<u>1,227,147</u>
Less current portion included with accounts payable and accrued charges	<u>51,000</u>	<u>227,000</u>
	<u>\$455,703</u>	<u>\$1,000,147</u>

During 1971 the Company purchased from the holders thereof the 9.5% first and second fixed and floating charge debentures issued by Wimco Steel.

7. Deferred income taxes

The balance of deferred income taxes has been reduced by recoveries of tax resulting from losses incurred by Wimco Steel in 1967, 1968 and 1970. Wimco Steel's recovery of income taxes in 1967 has been computed on the basis that losses sustained in that year will be deductible for income tax purposes. While the Company is of the opinion that all amounts included in the calculation of the tax recovery represent deductions in arriving at taxable income as permitted by the Income Tax Act, the taxation authorities have not issued final notices of assessment for the years in question. Until such assessments are received, and/or the period during which assessment can be made has expired, the ultimate tax recovery for

the year in question cannot be finally determined. Any adjustment in the loss carry-forward from 1967, that might result from assessment, is not expected to be material in relation to the financial position of the Company.

8. Events subsequent to December 31, 1971

Concurrent with the arrangements with the Joint Trustees of Wimco Industries referred to in note 3, and to facilitate settlement of the outstanding matters between Wimco Steel and Continuous Colour Coat (note 2), which settlement may not be concluded without the approval of the Joint Trustees of Wimco Industries, Wimco Steel carried out the following transaction. In consideration for (i) the agreement by the creditors of Wimco Industries to subordinate their claims against Wimco Industries to the repayment of the \$1,275,873 owing by Wimco Industries to Wimco Steel (note 3), (ii) the granting by Wimco Industries to Wimco Steel of an option to acquire from Wimco Industries the one-third interest in shares and certain notes of Continuous Colour Coat held by Wimco Industries, and (iii) the delivery by Wimco Industries from the Canadian Imperial Bank of Commerce of a release of Wimco Steel from any and all liabilities to that bank, Wimco Steel assigned to the Joint Trustees of Wimco Industries all its right, title and interest in an action which had been brought by the Trustee in bankruptcy of Wimco Steel against a major supplier for alleged damages incurred as a result of allegedly defective steel supplied.

9. Contingent assets and liabilities

Contingent asset

The Company commenced an action in 1968 claiming additional charges from a customer in respect of a construction contract. This action has not yet been tried and the financial statements reflect no revenue from this claim.

Contingent liabilities

- (a) Following the petition in bankruptcy against the Company in December 1967, certain shareholders commenced litigation against two suppliers and certain of their directors and officers and against certain of the Company's directors and former directors, for damages. While the Company is a party defendant in this action, no Company liability should result as any damages awarded would accrue to the benefit of the Company. In the opinion of special counsel for the directors and counsel for the Company, the action is without merit and is improperly brought because of the lack of status of the plaintiff. Further, the plaintiff has undertaken to consent to an order dismissing the action if the sale of shares referred to in note 3 is completed prior to March 31, 1972.
- (b) A claim for damages has been made against the Company by a customer, which in the opinion of the Company's counsel should not give rise to any significant liabilities.

10. Remuneration of directors and officers

The aggregate direct remuneration paid by the Company and its subsidiary to directors and senior officers (as defined by The Business Corporations Act, Ontario) amounted to \$231,857 in 1971 and \$165,963 in 1970.

AUDITORS' REPORT

To the Shareholders of
The Toronto Iron Works, Limited :

We have examined the consolidated balance sheet of The Toronto Iron Works, Limited and its subsidiary companies as at December 31, 1971 and the consolidated statements of income, retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the consolidation of the accounts of Wimco Steel Sales Co. Limited referred to in note 1 (b).

We further report that The Clarkson Company Limited, the interim receiver whose appointment by the Court was terminated during 1970 and the agent for the sale of shares of the Company (note 3), is associated with our firm and that Mr. J. L. Biddell, one of the Joint Trustees of Wimco Industries (Eastern) Limited (note 3) is a partner in our firm.

Toronto, Canada,
February 22, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

