TOROMONT INDUSTRIES LTD.

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1985 ANNUAL REPORT

TOROMONT INDUSTRIES LTD.

Contents

Financial Highlights

	1985	1984*
Operating Results (thousands)		
Sales	**$97,872**	$89,917
Operating income	**3,593**	5,038
Earnings before extraordinary items	**1,591**	1,868
Net earnings	**1,411**	1,868
Cash from operations	**2,396**	4,113
Financial Position at Year End (thousands)		
Working capital	**$11,761**	$ 8,145
Long-term debt	**6,340**	1,373
Shareholders' equity	**24,121**	23,522
Total assets	**48,324**	53,147
Ratios		
Debt to equity ratio	**.3:1**	.1:1
Working capital	**1.7:1**	1.3:1
Per Share Data ($)		
Earnings before extraordinary items	**$ 0.51**	$ 0.60
Net earnings	**0.45**	0.60
Cash from operations	**0.77**	1.33
Dividends declared	**0.40**	0.40
Shareholders' equity	**7.79**	7.60

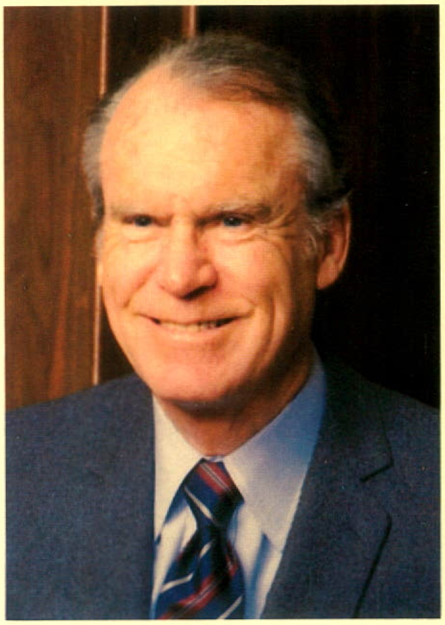
*Restated to reflect the sale of CanForge.

Annual Meeting
The Annual Meeting of Shareholders of Toromont Industries Ltd. will be held at 11 A.M., April 23, 1986 in The Territories Room of The Royal York Hotel, Toronto, Ontario.

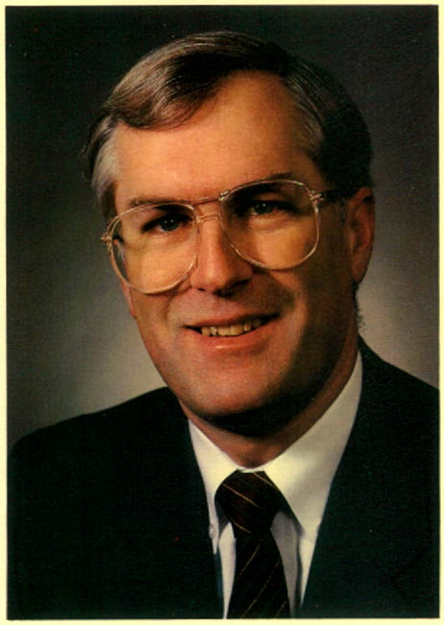
Shareholders are invited to join directors and members of management for light refreshment following the Annual Meeting.

Transfer Agent
The Canada Trust Company
Toronto, Ontario

Common shares
Listed on The Toronto Stock Exchange



S. J. Sinclair



R. M. Ogilvie

To Our Shareholders

1985 was a disappointment for your Company because the optimistic outlook which prevailed at the beginning of the year failed to materialize. This was due to deterioration in the results from commercial refrigeration.

Summary

- Sales were $97.9 million.
- Net earnings were $1,411,000.
- Net earnings per share were 45 cents.
- Industrial refrigeration results were comparable to 1984.
- Electromagnetic steel parts were on target.
- Precision sheet metal performance was excellent.
- Commercial refrigeration underperformed significantly.

A number of problems, most or all of which are now resolved or in the process of correction, occurred at Kimmel-Motz, the commercial refrigeration division. One of the major problems was a branch expansion at Dallas, Texas. It recorded losses of $285,000 before closure. Other non-recurring charges within commercial refrigeration, including the restructuring of management, have added $80,000 to this loss.

The net result was that commercial refrigeration recorded a loss of $590,000 for the year of which $365,000 was of a non-recurring nature.

We expect that the results for commercial refrigeration for 1986 will show a significant improvement over 1985.

It should be noted that, excluding commercial refrigeration, results for 1985 were up substantially over the comparable results for 1984.

Major Events

A number of events occurred during the year. These were:

- The sale of Canada Forgings at book value to its management. Toromont realized $7.2 million in cash, a promissory note for $147,000, and preferred and common shares to a value of $1.8 million. Your Company's 29% equity interest in CanForge is expected to be purchased by the controlling shareholder during the next three or four years. The sale will provide positive benefits in 1986 and subsequent years. CanForge had not delivered earnings of consequence since 1981 and, as a result, drastically lowered the Company's return on investment for the years since.
- Purchase, for $5 million, of a 40% interest in Enerflex Systems Ltd., a Calgary-based supplier of compression and other systems.

to the natural gas industry. Even though the investment closed late in November, Enerflex contributed more than 2 cents per share in 1985.

- Approval was received late in the year for the Company to draw down $1.2 million from its overfunded pension plan.

- As part of its ongoing policy of assessing the carrying values of goodwill, an extraordinary charge of $838,000 has been made to 1985 earnings. This charge does not affect the cash position of the Company.

Other Developments

Toromont cancelled its previously announced plan to enter a joint venture with a U.S. company to create a Canadian enterprise designed to provide energy saving systems.

During 1985 we made some important additions and changes to our organization. Your Board of Directors was strengthened by the addition of Dr. John McCallum and Mr. John Papakyriakou. Dr. McCallum is a respected economist and a Professor in the Faculty of Administrative Studies, University of Manitoba, Winnipeg. Mr. Papakyriakou has been President of our El-Met-Parts Division for the last 15 years. John Papakyriakou's election to the Board recognizes the valuable contributions he has made to the Company.

Mr. Robert M. Ogilvie and Mr. Wayne S. Hill joined the Company as President and Vice-President, Finance and Secretary, respectively. Robert Ogilvie has extensive experience in building growth companies and has expertise in mergers, acquisitions and corporate finance. Wayne Hill was V.P. Finance for a large public company.

At the divisional operating level, Mr. Steve McLeod was appointed President of CIMCO. Mr. Cliff Smith, President of Lewis, has assumed the additional responsibility for Kimmel-Motz.

Mr. J. W. Fraser retired from the Presidency of CanForge in September 1985 and retired from the Board late in the year. His dedicated contribution is acknowledged with thanks.

Shortly after year end, Mr. N. J. Lucas, President of our refrigeration group resigned as an Officer and Director of the Company.

Some years ago, several Directors and members of senior management pooled their Toromont holdings in a private corporation which then became the controlling shareholder. It is anticipated that this private corporation will be dissolved so that the individuals will hold their Toromont shares directly. This change will not affect the operations of your Company in any way nor will it affect the other shareholders.

During each of the past four years, your Directors have approved a motion permitting the Company to acquire up to 5% of its shares through purchases on The Toronto Stock Exchange. During the past year, no purchases were made. Your Directors believe that, in principle, it is wise to extend this capability and they have done so for another year.

Outlook

Your Company continues in excellent financial shape.

The working capital ratio at the end of the year was a very healthy 1.7:1 and long-term debt to shareholders' equity a conservative .3:1. As a result of its strong balance sheet, your Company has ready access to substantial additional capital to fund growth and acquisitions.

We continue the search for acquisitions which would complement, strengthen or add to our present operations.

The decline in crude oil prices is having a material adverse impact on some energy related industries. Toromont has some operations which serve oil and gas production and petrochemical manufacturing industries and the short term effect may be negative.

Changes introduced in the recent Canadian budget will result in an increase in Toromont's effective tax rate for 1986.

On balance, our current outlook for 1986 is for an improvement in earnings.

S. J. Sinclair
Chairman and
Chief Executive Officer

R. M. Ogilvie
President

March 14, 1986

INTRODUCTION TO TOROMONT

Toromont operates or invests in enterprises which have leading positions in identifiable business niches.

These niches are usually characterized by markets which require manufactured products having a degree of engineering or technological expertise and in which the quality of continued after sales service is an important competitive factor.

Manufacturing, sales, and service operations are conducted in both the United States and Canada.

The principal operations are in two segments:

- Refrigeration: both industrial and commercial;
- Industrial products: electromagnetic steel parts, and precision sheet metal parts.

In addition to its wholly-owned operations in refrigeration and industrial products, Toromont also has investments in two other businesses: compression systems for the natural gas industry and high quality steel forgings.

The Company has some 700 employees and revenues are approximately balanced between Canada and the United States.

REFRIGERATION

Canadian and U.S. operations have developed a comprehensive approach to industrial refrigeration. This includes design of systems, manufacture of components, installation, and continued service. The Company's commercial refrigeration business in the U.S., oriented primarily to supermarkets, employs the same comprehensive approach.

One important benefit arising from this strategy is that previously installed systems require continuing service and parts support. As a result, significant management attention is given to ensuring that service operations achieve high standards of quality with resulting stability to the revenue flow.

CIMCO in Canada and Lewis and Kimmel-Motz in the U.S. provide industrial and commercial refrigeration systems.

Refrigeration Products and Services
Financial data

(thousands)	**1985**	1984
Sales	**$60,508**	$57,351
Operating profit	**1,561**	2,998
Identifiable assets	**21,298**	20,388
Capital expenditures	**525**	1,333
Depreciation	**327**	405

Canadian Refrigeration

CIMCO had a successful year in 1985. It recorded excellent increases in both sales and earnings.

It has Canada's only national installation and service network for industrial refrigeration customers. In addition to a permanent presence in every major industrial market in the country, it has a strong and innovative engineering and design team at Toronto. Full scale manufacturing and assembly of refrigeration systems is also done at Toronto.

Part of a large scale CIMCO refrigeration system shipped during 1985.

This comprehensive refrigeration capability, combined with several decades of service reliability, has helped to make CIMCO the country's leading supplier. Most of its installations utilize ammonia-based refrigeration systems and, in addition to technical sophistication at the initial design phase, sometimes combine computer controlled remote monitoring and computer assisted preventive maintenance systems.

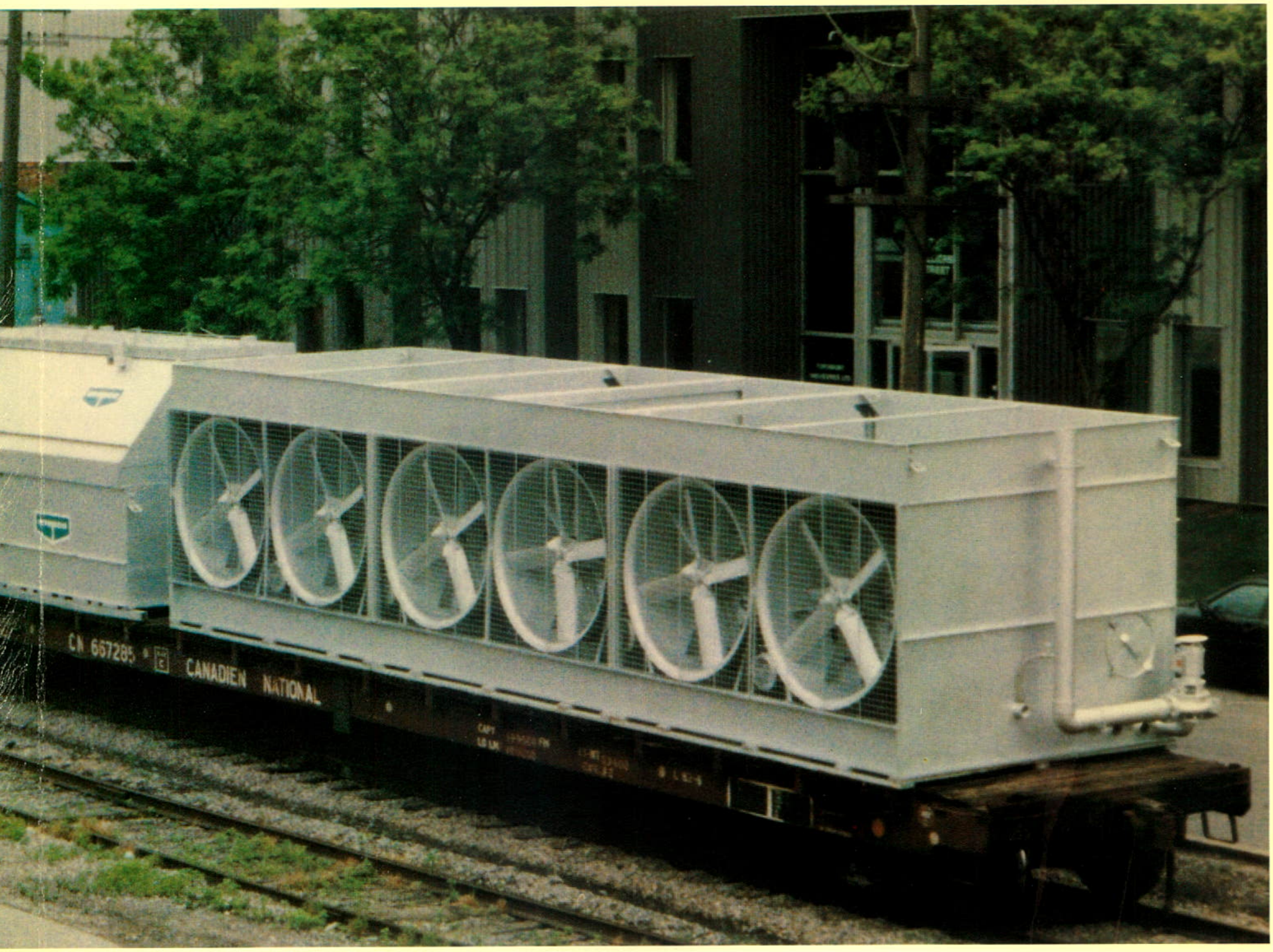
The principal customers for this type of industrial refrigeration are the food, beverage, and recreational industries.

A number of notable projects were awarded or completed in 1985.

- Supply and installation of refrigeration for the new Minute Maid Canada Inc. juice plant at Peterborough, Ontario. This is a fully automated, computerized and large scale plant designed to handle frozen concentrate fruit juices.

- Design, manufacture, and installation of refrigeration for the ultra-modern Kaslo Cold Storage distribution warehouse at Vancouver, B.C. This advanced refrigeration plant is monitored, operated and controlled from a remote computer centre.

- Supply and installation of a large scale low temperature freezing



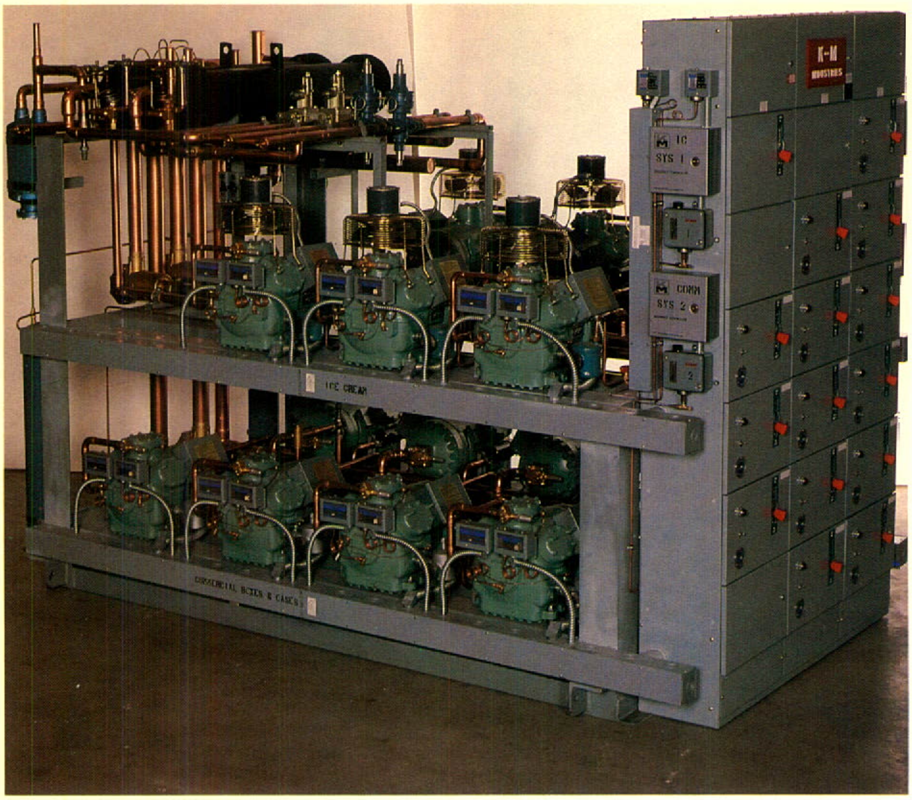
tunnel for Weston Bakeries Ltd., Essex, Ontario to handle a new frozen dough product for the North American market.

- Addition of new and expanded refrigeration for large scale ammonia liquefaction and storage for the Ocelot Ammonia Co. at Kitimat, B.C.

- Installation of a micro-processor controlled refrigeration system for a plant producing frozen foods. This project, begun in 1985 and scheduled for completion in 1986, is one of the largest ever installed in Canada and was undertaken for Stouffer's, a Division of Nestlé Enterprises Ltd. at Trenton, Ontario.

- Contract award to supply and install refrigeration equipment for the 400 meter speed skating oval and two Olympic-sized rinks for the XV Winter Olympic Games to be held in Calgary in 1988.

CIMCO entered 1986 with a strong backlog and it anticipates healthy expansion and growth in demand for refrigeration products and services in the year ahead.



A Kimmel-Motz commercial refrigeration package destined for a California supermarket.

The Houston Branch, serving the petrochemical industry, had a difficult year in 1985. The oil and gas industry in the U.S. southwest was under considerable pressure during the year, limiting market opportunities.

On the industrial refrigeration side, a number of noteworthy projects were either completed or initiated in 1985. Among them:

- Design and manufacture of a complete ice rink for export to Saudi Arabia. The Houston office will supervise construction and installation of the refrigeration package in 1986.
- Design, manufacture, and installation of a refrigerated precooling system for a very large processor of french fried potatoes. The project was managed by the Seattle Branch. The precooling system extends the processor's production season to year round operation and greatly reduces the product rejection rate.

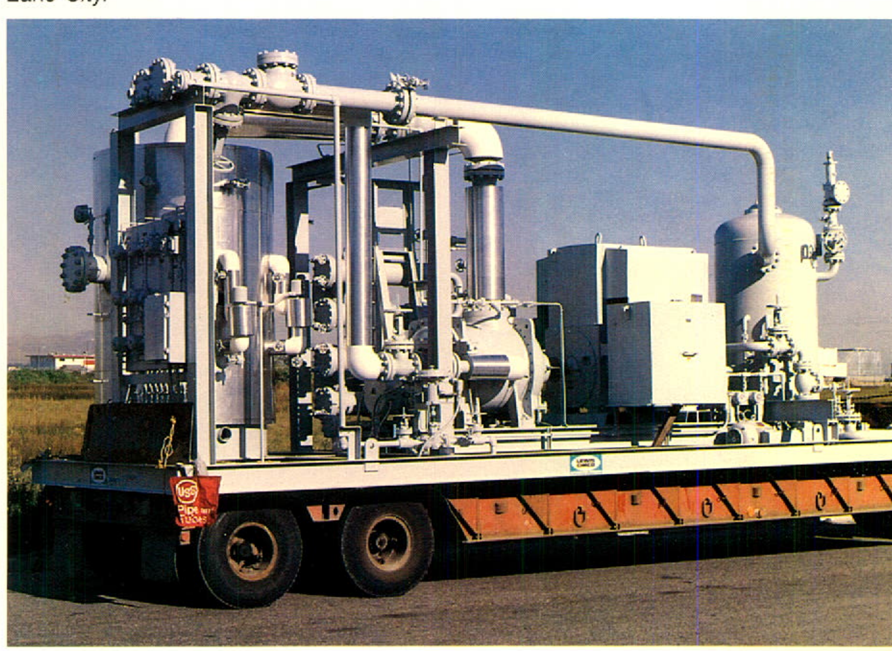
U.S. Refrigeration

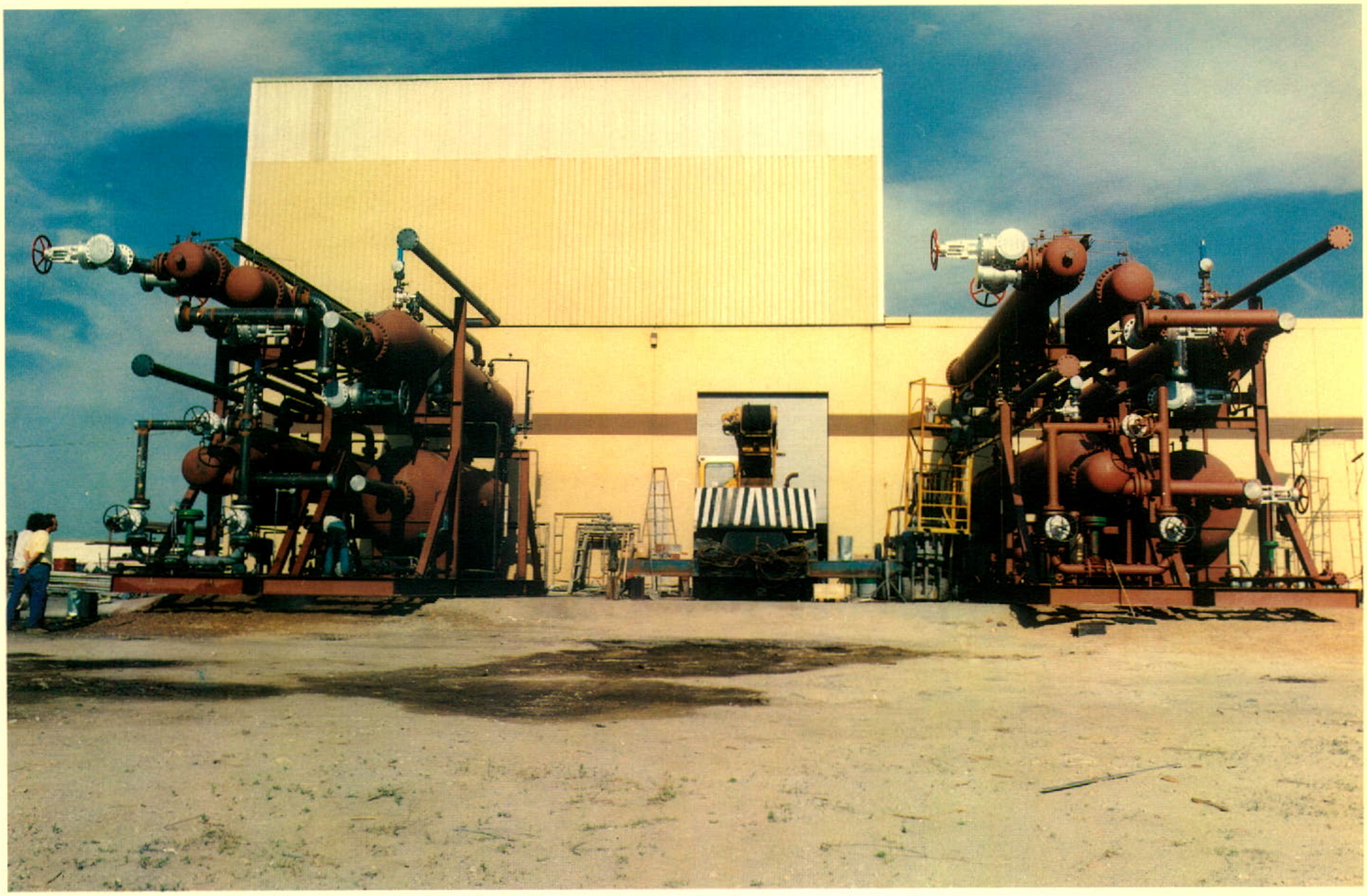
Lewis and Kimmel-Motz are important suppliers of industrial and commercial refrigeration systems and continuing service to several key regional markets in the U.S.

The Lewis and Kimmel-Motz operations have been restructured to achieve greater management efficiency and to create opportunities for achieving marketing synergy.

Major refrigeration sales and service operations are located in Boston, Houston, Seattle and Los Angeles. The U.S. Head Office, as well as industrial refrigeration engineering and manufacturing, are located in Salt Lake City.

Pre-assembled heat exchange unit is shipped from the Lewis plant at Salt Lake City.





A Lewis Liquid Recovery System ready for shipment to a customer's plant.

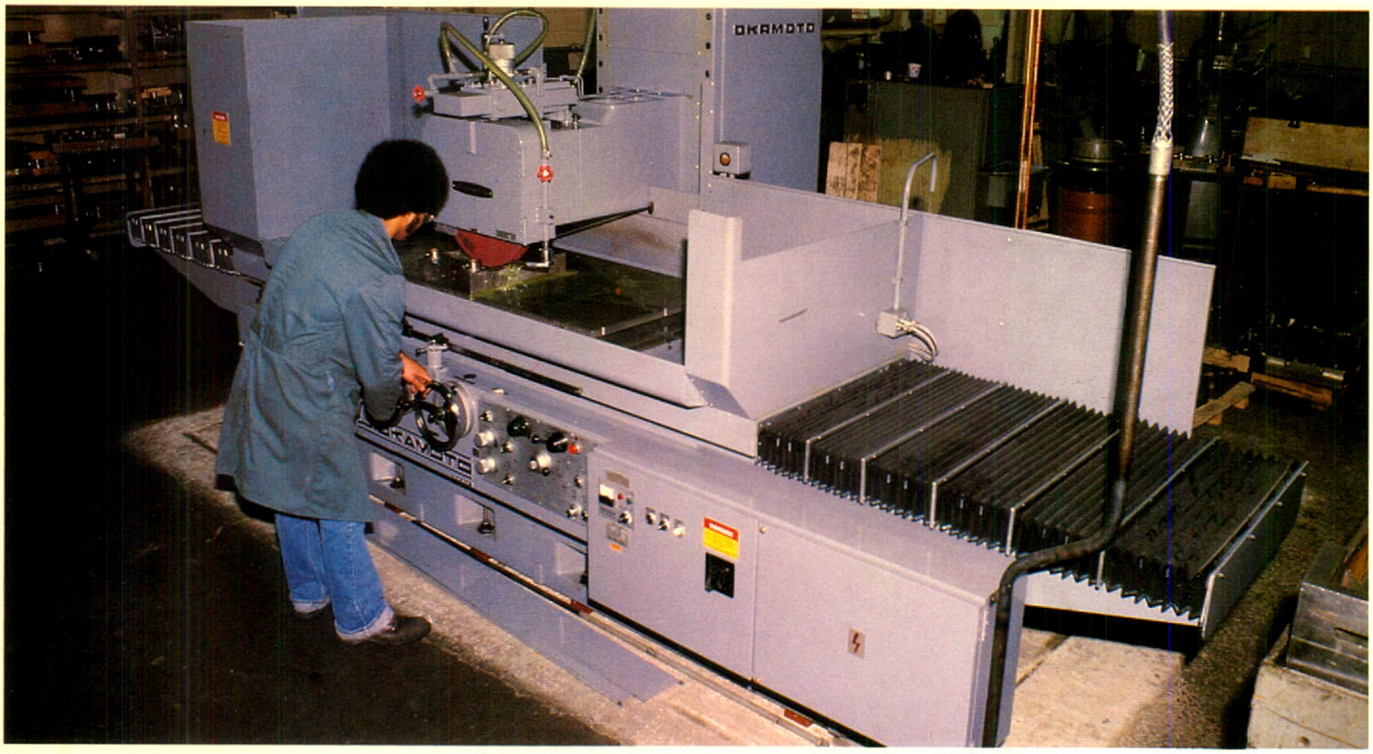
- The Boston Branch had an extraordinarily busy year serving East Coast projects for the bakery, yogurt, dairy and fishing industries. One project completed toward the end of the year was an ice manufacturing plant. The project employed highly innovative engineering and was run in satisfactorily in the current year. It will be monitored closely during the first full year of operation and if the projected customer savings materialize as expected, this new concept should result in substantial repeat applications.

- East Coast operations achieved another major triumph late in the year with the award of a contract to undertake a substantial and comprehensive project to serve the New York/New Jersey fishing industry. The project calls for large scale ice manufacturing, ice storage, freezing facilities and refrigerated warehouse and distribution space. It is a multi-year, major operation which Lewis will design and build on a turnkey basis.

Commercial refrigeration operations are centered at Los Angeles. Kimmel-Motz is a leader in supplying and servicing refrigeration systems to the California supermarket industry, which is one of the more complex and demanding commercial refrigeration markets in the world.

Considerable attention has been given to expansion and improvement to the product line. The new supermarket refrigeration packages have computer operated energy management systems that are gaining in market share.

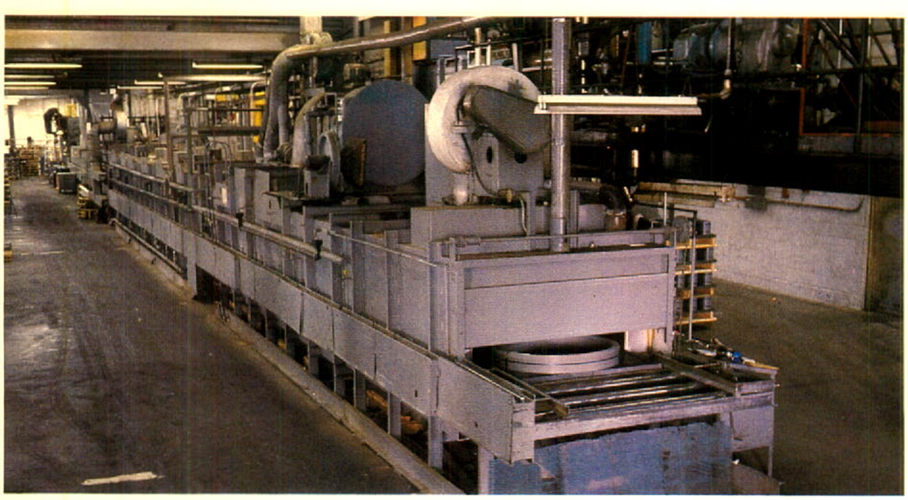
A combination of new products, management changes, and the involvement of Lewis resources are all part of recent changes at Kimmel-Motz. Substantial improvement is expected in 1986.



Precision grinding of dies used for high speed stamping of electromagnetic steel parts at El-Met-Parts.

INDUSTRIAL PRODUCTS

Toromont has industrial product operations in Canada and the U.S. Products include electromagnetic steel parts, and precision sheet metal products.



An automated heat treat furnace at El-Met-Parts.

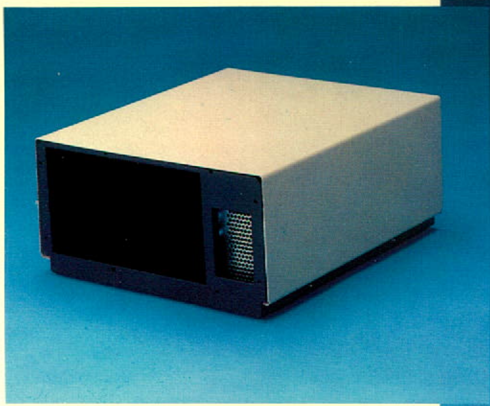
El-Met-Parts

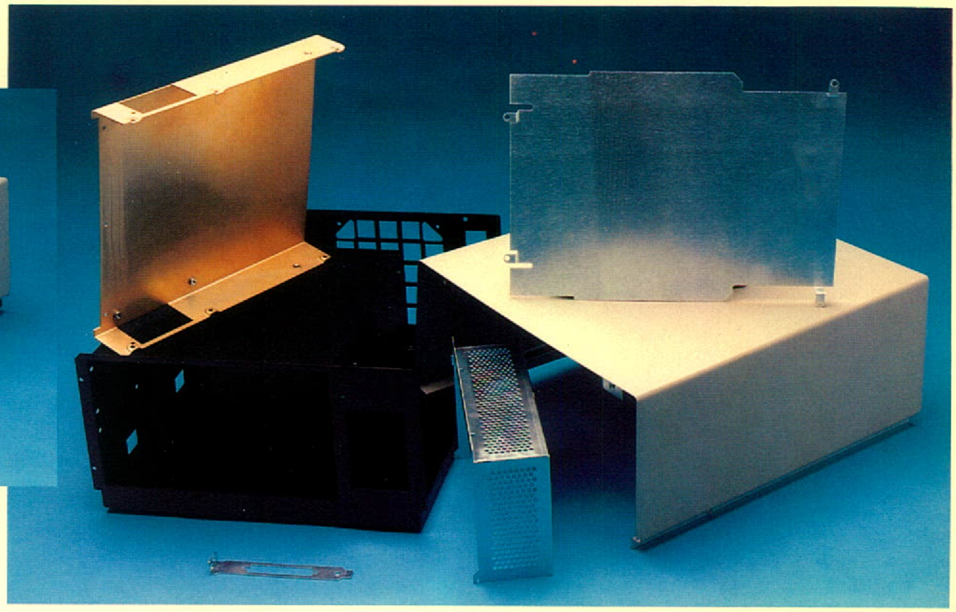
El-Met-Parts is a leading independent producer of electromagnetic steel parts.

Its products are essential components in the manufacture of electric motors, transformers and lighting systems.

El-Met works with specialty grades of steel which have particular electrical qualities. The Company slits coils of steel precisely to exacting specifications; stamps out the rotors, stators and other products to precision tolerances on very high speed presses; and heat treats the resulting parts so that exacting electrical characteristics are maintained. Quality assurance and quality control play a significant role.

1985 was a good year. The outlook for the current year is also encouraging.





Aero Tech manufactures these precision sheet metal components for a popular computer peripheral.

Aero Tech

Aero Tech is a precision sheet metal fabricator. Its plant is located at Salt Lake City, Utah.

The Company converts coiled steel strip to sheet metal enclosures and panels which must meet exacting standards.

The market for precision enclosures encompasses the computer and computer peripheral industries.

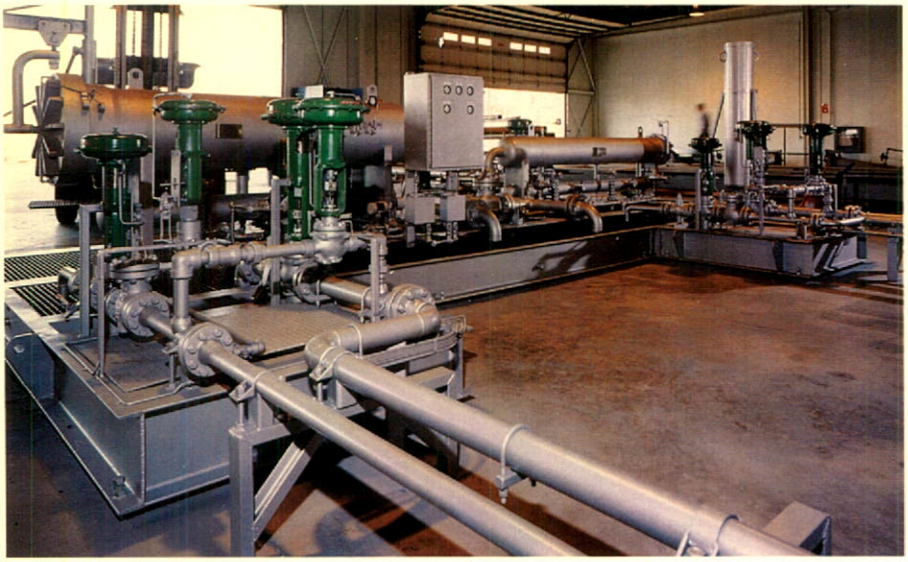
During 1985 it completed running in a "Class A" hard tooling line which permits high speed fabrication of the parts. This hard tooling capacity is a significant step forward for Aero Tech because it provides capacity for larger quantity runs at higher speeds and with greater productivity per unit. This capability has already resulted in the attraction of new customers.

Plant productivity was further enhanced late in 1985 with the completion of an automated conveyorized paint and baking oven system.

1985 was an outstanding year for Aero Tech and the outlook for the current year is also positive.

Industrial Products
Financial data

(thousands)	**1985**	1984
Sales	**$37,364**	$32,566
Operating profit	**2,032**	2,040
Identifiable assets	**17,907**	17,519
Capital expenditures	**707**	1,015
Depreciation	**881**	1,238



Modular gas transmission facility for Petrocorp Ltd., New Zealand.

INVESTMENTS

Toromont has investments in two separate enterprises: Enerflex Systems Ltd. and Canada Forgings Inc.

Enerflex Systems Ltd.

Toromont purchased a 40% interest in Enerflex late in 1985.

This Calgary based business was commenced in 1980 by management which has extensive experience in the sale and service of natural gas compression systems. It has grown remarkably well and has continued scope for growth into the future.

Enerflex is a specialist in the packaging of reciprocating gas compressors into portable, self contained modules. These modular facilities range from 50 to 2600 horsepower and are custom designed to the exact requirements of each individual customer. One subsidiary, Flexpac Systems, packages refrigeration systems for the extraction of natural gas liquids and another, Enerflex Leasing Ltd., operates a fleet of portable gas compressor stations on a rental basis.

We believe these companies offer a natural synergy to Toromont's petrochemical refrigeration operations.

The availability and quality of

Modular gas compression unit being shipped by Enerflex to a natural gas producer.

service to units in the field is a vital part of the Enerflex success. The company has service depots in three areas which provide comprehensive coverage of Alberta and British Columbia. Ability to achieve short response time to solve equipment problems, no matter how remote the location, has been a major factor in the dramatic Enerflex growth.

The company's modular facilities are utilized for wellhead compression, gas gathering, gas reinjection, and gas processing.

By applying design innovation and technical excellence, Enerflex has been able to offer its customers reduced installed cost through its specialization in modular units.

Enerflex has just completed its best winter season since inception. While enquiry levels remain high, there is now considerable uncertainty as to the impact of declining oil prices.

Canada Forgings Inc.

Canada Forgings Inc. of Welland, Ontario was a division of Toromont until mid 1985. At that time control was sold to a management group and your Company had a 29% voting interest at year end. It is anticipated that Toromont's interest in CanForge will be purchased by the major shareholder group and it is intended that this will take place within three or four years.

It is the most diversified forging operation in Canada, operating open and closed die presses and hammers as well as the only ring mills in Canada.

Its key markets include the defense, aerospace, transportation, nuclear, and oilfield industries.

FINANCIAL STATEMENTS

Summary of Accounting Policies

Toromont Industries Ltd. is incorporated under the Canada Business Corporations Act.

The accompanying consolidated financial statements for the year ended December 31, 1985 (with comparative figures for 1984) have been prepared by management in accordance with accounting principles generally accepted in Canada consistently applied.

The principal accounting policies followed by the Company are summarized below.

Consolidation

The accounts of subsidiaries are consolidated with those of the Company. Significant transactions and profits between the Company and its subsidiaries have been eliminated on consolidation.

Investments in affiliated companies (where significant influence is exercised) are recorded using the equity basis of accounting under which the Company includes its share of their earnings and losses in consolidated earnings.

Translation of foreign currencies

The accounts of foreign subsidiaries, all of which are deemed to be self sustaining, are translated into Canadian dollars using the current rate method. Under this method, all assets and liabilities are translated at exchange rates in effect at the balance sheet date, and income statement items are translated at average exchange rates for the year. Unrealized translation gains or losses on the Company's net investment in these subsidiaries are accumulated in the foreign currency translation adjustment account in shareholders' equity.

Revenue recognition

Revenues from contracting activities involving the 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 or transfer of manufactured products and services are recorded when goods are shipped and services are rendered, or in accordance with contractual agreements.

Inventories

Inventories 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, less related investment tax credits. 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 such disposals are removed from the accounts.

Repairs and maintenance costs are charged to operations as incurred and renewals and improvements are capitalized.

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets of businesses acquired. Goodwill is considered to have ongoing value and that portion arising prior to 1974 is not amortized in the accounts. Goodwill acquired subsequently is being amortized on a straight-line basis over its estimated useful life, not exceeding forty years. The carrying value of goodwill is reduced when it is considered that an impairment in its ongoing value has occurred.

Income taxes

The deferral method is used in accounting for income taxes whereby timing differences between income reported in the financial statements and taxable income result in deferred income taxes. Such timing differences occur when revenues or expenses are recognized in the accounts in one year and are included in taxable income in another year. The tax effect of these timing differences is referred to in the Consolidated Balance Sheet as "Deferred income taxes".

Investment tax credits

Investment tax credits resulting from additions to property, plant and equipment are deducted from the cost of the related asset. The benefits from investment tax credits are included in income through reduced depreciation expense over the estimated life of the asset.

Consolidated Statement of Earnings

	Notes	December 31 1985	1984
		(thousands)	
Sales		**$97,872**	$89,917
Costs and expenses			
Cost of products and services		**79,356**	71,573
Selling, general and administrative		**14,923**	13,306
		94,279	84,879
Operating income		**3,593**	5,038
Interest expense	13	**(1,257)**	(1,585)
Provision for income taxes	7	**(829)**	(1,454)
Share of earnings from affiliated companies	11	**104**	—
Loss from discontinued operations	3	**(20)**	(131)
Earnings before extraordinary items		**1,591**	1,868
Extraordinary items	5	**(180)**	—
Net earnings		**$ 1,411**	$ 1,868
Earnings per share	4		
Before extraordinary items		**$ 0.51**	$ 0.60
Extraordinary items		**(0.06)**	—
Net earnings		**$ 0.45**	$ 0.60

Consolidated Statement of Retained Earnings

	December 31 1985	1984
	(thousands)	
Retained earnings, beginning of year	**$17,401**	$16,831
Net earnings	**1,411**	1,868
	18,812	18,699
Dividends ($0.40 per share)	**(1,238)**	(1,241)
Premium on purchase of common shares for cancellation	**(—)**	(57)
Retained earnings, end of year	**$17,574**	$17,401

Consolidated Statement of Changes in Financial Position

SOURCES (USES) OF CASH	Notes	December 31 1985	1984
		(thousands)	
Cash from operations	9	**$ 2,396**	$ 4,113
Investment activities			
Sale of forging division	2	**11,147**	—
Deferred income taxes		**(2,000)**	—
Investment in shares of purchaser	11	**(1,800)**	—
Note receivable		**(147)**	—
Net cash inflow from sale		**7,200**	—
Purchase of interest in Enerflex Systems Ltd.	11	**(5,000)**	—
Proceeds from sale of property, plant and equipment		**41**	279
Additions to property, plant and equipment		**(1,232)**	(2,348)
Increase in goodwill		—	(381)
Decrease (increase) in notes receivable and other assets		**204**	(620)
Total cash from (used in) investment activities		**1,213**	(3,070)
Financial activities			
Dividends		**(1,238)**	(1,241)
Issue of long-term debt		**4,967**	135
Purchase of common shares for cancellation		**—**	(78)
Total cash from (used in) financial activities		**3,729**	(1,184)
Decrease (increase) in bank indebtedness		**7,338**	(141)
Bank indebtedness, beginning of year		**(10,790)**	(10,649)
Bank indebtedness, end of year		**$ (3,452)**	$(10,790)

Consolidated Balance Sheet

ASSETS	Notes	December 31 1985	1984
		(thousands)	
Current assets			
Accounts receivable			
Trade		**$14,260**	$16,589
Other	5	**1,471**	669
Inventories	10	**11,645**	15,020
Prepaid expenses		**698**	516
Total current assets		**28,074**	32,794
Notes receivable and other assets		**711**	915
Investments	11	**6,904**	—
Property, plant and equipment	12		
Buildings, machinery and equipment		**17,302**	28,189
Less accumulated depreciation		**(8,474)**	(13,552)
		8,828	14,637
Land		**668**	788
		9,496	15,425
Goodwill	5	**3,139**	4,013
		$48,324	$53,147

On behalf of the Board

Director

Director

LIABILITIES	Notes	December 31 1985	1984
		(thousands)	
Current liabilities			
Bank indebtedness, secured		**$ 3,452**	$10,790
Accounts payable and accrued liabilities		**11,005**	13,016
Dividends payable		**310**	310
Income taxes	5	**1,458**	408
Current portion of long-term debt	13	**88**	125
Total current liabilities		**16,313**	24,649
Long-term debt	13	**6,340**	1,373
Deferred income taxes		**1,550**	3,603
		24,203	29,625
SHAREHOLDERS' EQUITY			
Share capital	14	**5,021**	5,021
Retained earnings		**17,574**	17,401
Foreign currency translation adjustment		**1,526**	1,100
		24,121	23,522
		$48,324	$53,147

Notes to Consolidated Financial Statements

December 31, 1985

1. Change in accounting policy

In 1985, the Company changed its method of accounting for investment tax credits to comply with the recommendations issued by the Canadian Institute of Chartered Accountants. Under the new method, investment tax credits are deducted from the cost of the related asset and the benefits are included in income through reduced depreciation expense over the estimated useful life of the asset. Previously, the benefit from investment tax credits was accounted for as a reduction of income tax expense when realized.

The effect of this change in accounting is not material.

2. Sale of Canada Forgings Division

Effective June 30, 1985 the Canada Forgings division was sold at book value to Canada Forgings Inc. ("CanForge"). Proceeds included cash ($7,200,000); preferred shares of CanForge ($1,510,000); common shares ($290,000) representing a 29% interest in CanForge and a promissory note ($147,000) due November 5, 1986. The preferred shares are 6% cumulative, redeemable units of $10 each, with a premium on redemption of $4.30 each share. The common shares may be redeemed at net book value pro-rata to the redemption of the preferred shares.

3. Changes in presentation

In order to improve comparability of results, the Consolidated Statement of Earnings has been changed to present the net results of the forging operations separately as discontinued operations. The Company's proportionate share of earnings of CanForge subsequent to June 30, 1985 (effective date of sale) is included in "Share of earnings from affiliated companies".

In addition to the change referred to above, the Consolidated Financial Statements include the following changes in presentation from the prior year:

a) The presentation of the Consolidated Statement of Changes in Financial Position has been changed to emphasize cash flows resulting from operating, investing and financial activities.

b) Certain of the 1984 figures have been reclassified to conform with the presentation adopted in 1985.

4. Earnings per share

Earnings per share are calculated based on the weighted average number of shares outstanding during the year which was 3,095,345 (1984 – 3,100,984).

5. Extraordinary items

Extraordinary items include:

	1985	1984
	(thousands)	
Refund of pension surplus (net of income taxes of $564,000)	**$ 658**	$ —
Reduction of goodwill	**(838)**	—
	$(180)	$ —

As a result of the Company's pension plans having been overfunded, the Ontario Pension Commission approved the return of part of the surplus in December 1985 resulting in an extraordinary gain. The refund was received in January, 1986. At December 31, 1985, the surplus to be refunded was included in the Consolidated Balance Sheet as "Accounts receivable – other" and the related tax obligation was included in "Income taxes".

Consistent with the policy of reviewing the ongoing value of goodwill, 1985 earnings include a charge of $838,000, reflecting a reduction of goodwill carrying values. The remaining unamortized balance of goodwill will be amortized over its expected useful life in accordance with the Company's accounting policy.

6. Segmented information

The Company operates in the following business segments: Refrigeration products and services and industrial products. In the refrigeration industry, the Company designs, manufactures, sells, installs and services industrial and commercial refrigeration systems for a broad range of applications, including food processing, petrochemical, oil and gas production, beverage, cold storage, recreational and supermarkets. Industrial products include production of steel laminations and wound electrical cores (which are basic components of transformers, lighting ballasts and electric motors), together with the manufacture of precision sheet metal products. Segmented results of the forging operations, included in industrial products in prior years, are presented as discontinued operations (see Note 3).

By industry

(thousands)

	Industrial products		Refrigeration products and services		Total	
	1985	1984	**1985**	1984	**1985**	1984
Sales	**$37,364**	$32,566	**$60,508**	$57,351	**$97,872**	$89,917
Segment operating profit	**$ 2,032**	$ 2,040	**$ 1,561**	$ 2,998	**$ 3,593**	$ 5,038
Interest expense					**(1,257)**	(1,585)
Income taxes					**(829)**	(1,454)
Earnings from affiliates					**104**	—
Loss from discontinued operations					**(20)**	(131)
Earnings before extraordinary items					**$ 1,591**	$ 1,868
Identifiable assets						
Continuing operations	**$17,907**	$17,519	**$21,298**	$20,388	**$39,205**	$37,907
Discontinued operations					**—**	12,894
					39,205	50,801
Corporate assets					**9,119**	2,346
Total assets					**$48,324**	$53,147
Capital expenditures	**$ 707**	$ 1,015	**$ 525**	$ 1,333		
Depreciation	**$ 881**	$ 1,238	**$ 327**	$ 405		

By geographic location

(thousands)

	Canada		U.S.		Elimination		Total	
	1985	1984	**1985**	1984	**1985**	1984	**1985**	1984
Sales	**$61,804**	$55,032	**$36,068**	$34,885	**$ —**	$ —	**$97,872**	$89,917
Intercompany sales between geographic segments	**66**	326	**—**	—	**66**	326	**—**	—
	$61,870	$55,358	**$36,068**	$34,885	**$ 66**	$326	**$97,872**	$89,917
Segment operating profit	**$ 3,568**	$ 3,466	**$ 25**	$ 1,572			**$ 3,593**	$ 5,038
Interest expense							**(1,257)**	(1,585)
Income taxes							**(829)**	(1,454)
Earnings from affiliates							**104**	—
Loss from discontinued operations							**(20)**	(131)
Earnings before extraordinary items							**$ 1,591**	$ 1,868
Identifiable assets								
Continuing operations	**$25,026**	$24,096	**$14,179**	$13,811			**$39,205**	$37,907
Discontinued operations							**—**	12,894
							39,205	50,801
Corporate assets							**9,119**	2,346
Total assets							**$48,324**	$53,147

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 $15,776,000 in 1985 and $13,830,000 in 1984. U.S. operations include export sales of $1,098,000 in 1985 and $65,000 in 1984.

7. Income taxes

The difference between the income tax provision and the amount that would have been provided using statutory income tax rates is explained as follows:

	1985	1984
	(thousands)	
Federal, Provincial and State taxes at statutory rate	**$1,028**	$1,623
Additional taxes due to various non-deductible expenses, net	**111**	61
Tax reduction due to 3% inventory allowance	**(310)**	(230)
Income taxes	**$ 829**	$1,454

Details of the income tax provision are as follows:

	1985	1984
	(thousands)	
Current	**$ 885**	$ 988
Deferred	**(56)**	466
Total	**$ 829**	$1,454

8. Pension plans

The Company 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 charges for current and past service. The latest actuarial valuations indicate surpluses in all plans after the withdrawal described in Note 5.

9. Cash from operations

Sources (Uses) of Cash	**1985**	1984
	(thousands)	
Earnings before extraordinary items	**$1,591**	$1,868
Items not requiring cash		
Depreciation	**1,208**	1,643
Deferred income taxes	**(56)**	668
Amortization of goodwill	**100**	54
Share of earnings from affiliated companies	**(104)**	—
Other	**98**	225
	2,837	4,458
Resulting from changes in		
Accounts receivable	**(608)**	1,681
Inventories	**(351)**	(2,456)
Prepaid expenses	**(254)**	(198)
Accounts payable and accrued liabilities	**358**	1,393
Dividends	**—**	(1)
Income taxes	**451**	(775)
Current portion of long-term debt	**(37)**	11
	(441)	(345)
Cash from operations	**$2,396**	$4,113

10. Inventories

	1985	1984
	(thousands)	
Raw material	**$ 8,132**	$ 9,956
Work-in-process	**1,344**	3,956
Finished goods	**1,318**	1,256
Contract costs net of progress billings	**851**	(148)
Total inventories	**$11,645**	$15,020

11. Investments

Investments are comprised of a 40% interest in Enerflex Systems Ltd. acquired in late November, 1985 at a cost of $5,000,000, the $1,800,000 common and preference shares held in Canada Forgings Inc. (see Note 2) and the Company's proportionate share of earnings in Enerflex and Canada Forgings. 40% of the net book value of Enerflex assets at date of acquisition was $2,369,000.

12. Property, plant and equipment

Buildings and improvements with a net book value of $1,208,000 are situated on leased land. The lease expires in 2002 at which time the lessor must purchase the buildings, including improvements, at the then appraised fair market value.

13. Long-term debt

	1985	1984
	(thousands)	
Bank revolving line, secured by first floating charge on assets*	**$5,000**	$ —
Notes and other indebtedness bearing interest at 9½% to 11¼%	**1,428**	1,498
	6,428	1,498
Less installments due within one year	**(88)**	(125)
Total long-term debt	**$6,340**	$1,373

**Interest rates on the bank revolving line of credit are based on various options including prime and fixed rates. At the Company's option, before December, 1987, this line can be taken out on a fixed rate term loan basis with minimum annual principal repayments of 10%. Full repayment is required by November 30, 1992.*

Principal repayments –	(thousands)
1986	$ 88
1987	38
1988	539
1989	536
1990	540
Thereafter	4,599
	$6,340

Interest expense as presented in the Consolidated Statement of Earnings includes interest on long-term debt of $160,000 in 1985 and $117,000 in 1984.

14. Share capital

Authorized share capital consists of preferred and common shares of which 3,095,345 common shares are issued at December 31, 1985 and 1984.

15. Other commitments

Land, buildings and equipment are leased under several non-cancellable operating leases which require minimum annual payments as follows:

	(thousands)
1986	$ 584
1987	484
1988	433
1989	336
1990	279
Subsequent years	2,064

Auditors' Report

To the Shareholders of
Toromont Industries Ltd.:

We have examined the consolidated balance sheet of Toromont Industries Ltd. as at December 31, 1985 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 Company as at December 31, 1985 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, Canada
February 28, 1986.

TOUCHE ROSS & CO.
Chartered Accountants

Ten Year Financial Review

	1985	1984(1)	1983	1982(2)	1981	1980	1979(3)	1978	1977	1976
Operating Results ($000)										
Sales	**97,872**	89,917	89,889	73,467	84,459	75,059	68,071	59,779	59,478	53,441
Net earnings from continuing operations	**1,611**	1,999	1,379	1,372	3,654	3,416	3,281	1,808	1,572	1,175
Extraordinary items	**(180)**	—	—	—	—	497	296	312	—	—
Discontinued operations	**(20)**	(131)	(110)	216	—	(312)	(1,273)	2,081(4)	(171)	—
Net earnings	**1,411**	1,868	1,269	1,588	3,654	3,601	2,304	4,201(4)	1,401	1,175
Interest expense	**1,257**	1,585	883	1,342	1,713	1,678	1,575	1,214	1,054	799
Depreciation	**1,208**	1,643	1,553	1,279	1,248	1,226	980	789	743	674
Capital expenditures	**1,232**	2,348	1,637	2,197	3,992	1,740	2,362	3,154	1,421	1,869
Dividends declared	**1,238**	1,241	1,243	1,245	1,125	810	628	618	306	391
Financial Position ($000)										
Working capital	**11,761**	8,145	7,918	9,063	9,500	10,040	11,031	11,158	8,376	6,900
Fixed assets, net	**9,496**	15,425	15,241	15,157	14,109	11,225	10,711	9,329	7,269	7,240
Total assets	**48,324**	53,147	51,044	41,708	47,525	41,211	40,746	36,202	31,285	29,962
Long-term debt	**6,340**	1,373	1,238	1,229	1,479	2,682	6,784	7,690	7,740	7,674
Shareholders' equity	**24,121**	23,522	22,527	22,415	21,585	19,056	16,202	14,637	10,731	9,636
Financial Ratios										
Working capital	**1.7:1**	1.3:1	1.3:1	1.6:1	1.4:1	1.6:1	1.7:1	1.9:1	1.7:1	1.6:1
Return on shareholders' equity (%) (5)	**5.9**	8.1	5.7	7.2	18.0	20.4	14.9	33.1	13.8	10.0
Long-term debt to shareholders' equity	**.3:1**	.1:1	.1:1	.1:1	.1:1	.1:1	.4:1	.5:1	.7:1	.8:1
Per Share Data										
Earnings from continuing operations ($)	**0.51**	0.64	0.44	0.44	1.17	1.10	1.04	0.59	0.52	0.26
Extraordinary items ($)	**(0.06)**	—	—	—	—	0.16	0.09	0.10	—	—
Discontinued operations ($)	**—**	(0.04)	(0.03)	0.07	—	(0.10)	(0.40)	0.68(4)	(0.06)	—
Net earnings ($)	**0.45**	0.60	0.41	0.51	1.17	1.16	0.73	1.37(4)	0.46	0.26
Dividends declared ($)	**0.40**	0.40	0.40	0.40	0.36	0.26	0.20	0.20	0.10	0.10
Equity ($)	**7.79**	7.60	7.25	7.21	6.91	6.10	5.21	4.66	3.51	3.15
Shares outstanding at year end	**3,095,345**	3,095,345	3,108,245	3,108,245	3,124,884	3,124,884	3,109,884	3,141,469	3,061,469	3,061,459
Price range — high ($)	**11.25**	7.50	8.625	7.125	9.50	7.625	4.15	4.40	3.15	3.20
— low ($)	**7.25**	6.00	6.875	4.90	5.75	3.05	3.10	2.55	2.35	1.85

Notes: 1) Operating results restated to reflect sale of Canada Forgings Division.
2) Restated to reflect discontinued operations and change in foreign currency translation policy.
3) Restated to reflect sale of Lewis Food Freezing Division.
4) Includes $2,020,000 ($0.66 per share) gain on sale of subsidiary, F. B. McFarren, Limited.
5) On average equity.

Corporate Directory

The Board of Directors

†*R. G. Bremner
Toronto, Ontario
Chartered Accountant

‡*N. B. Ivory
Montreal, Quebec
President
Pembroke Management Ltd.

†C. A. Maase
Brockville, Ontario
President
Maase Corporation Limited

†J. S. McCallum
Winnipeg, Manitoba
Professor
Faculty of Administrative Studies
University of Manitoba

‡A. G. McCaughey
Toronto, Ontario
President and
Chief Executive Officer
North American Life
Assurance Company

†*W. A. McKenzie
London, Ontario
President
Admac Holdings Ltd.

†R. M. Ogilvie
Toronto, Ontario
President
Toromont Industries Ltd.

J. Papakyriakou
Dundas, Ontario
President
El-Met-Parts

†‡S. J. Sinclair
Toronto, Ontario
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

R. M. Ogilvie
President

W. S. Hill
Vice-President, Finance
and Secretary

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C. L. Smith
President

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