C

TOROMONT INDUSTRIES LTD.

1983 Annual Report

Focus on

REFRIGERATION

GROWTH MARKETS FOR THE EIGHTIES

Financial Highlights

	1983	1982(1)	% Change
Sales	**$89,889,000**	$73,467,000	+22%
Net earnings from continuing operations	**1,379,000**	1,372,000	0%
Net earnings	**1,269,000**	1,588,000	−20%
Working capital	**7,918,000**	9,063,000	−13%
Capital expenditures	**1,637,000**	2,197,000	−25%
Funds from operations	**3,323,000**	3,283,000	+ 1%
Depreciation	**1,553,000**	1,279,000	+21%
Dividends declared	**1,243,000**	1,245,000	0%
Common shareholders' equity	**22,527,000**	22,415,000	0%
Common share data			
Per share			
Net earnings from continuing operations	**$0.44**	$0.44	0%
Net earnings	**0.41**	0.51	−20%
Funds from operations	**1.07**	1.06	+ 1%
Dividends declared	**0.40**	0.40	0%
Shareholders' equity	**7.25**	7.21	0%
Number of shareholders	**771**	845	
Number of shares outstanding	**3,108,245**	3,108,245	
Price range of shares – high	**$8.625**	$7.125	
– low	**$6.875**	$4.90	

Note: (1) Restated to reflect discontinued operations and change in foreign currency translation policy.

Contents

Cover:
Cover illustrations highlight the principal markets served by Toromont's refrigeration systems for: supermarkets, petrochemical plants, and food processing.

Auditors
Touche Ross & Co.
Chartered Accountants

Bankers
The Toronto-Dominion Bank
The Royal Bank of Canada

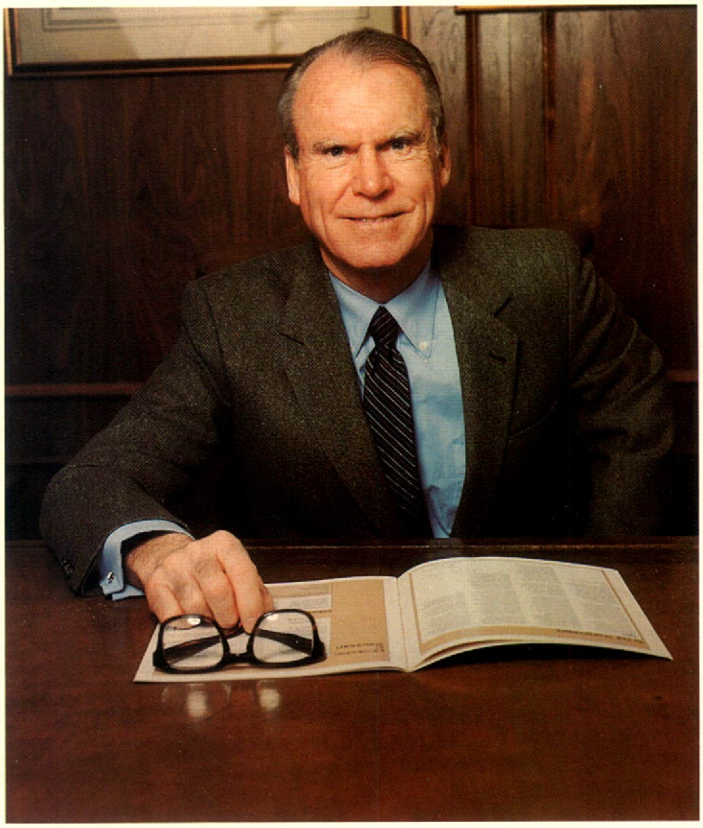
Transfer Agent
Canada Permanent Trust Company
Toronto, Ontario

Common shares
Listed on The Toronto Stock Exchange

Annual Meeting
The Annual Meeting of Shareholders of Toromont Industries Ltd. will be held at 11 A.M., April 25, 1984 in The Windsor Room of The Sheraton Centre, Toronto, Ontario.

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

To Our Shareholders



S. J. Sinclair

1983 was an encouraging year in terms of corporate development and a disappointing year in terms of financial results.

One positive trend was the penetration of the U.S. West Coast commercial refrigeration market which, along with gains elsewhere within the Company, doubled the size of our refrigeration business in the United States. This marks our first entry into the commercial refrigeration market which is larger in size than the other major refrigeration markets which we serve.

The disappointment stemmed from the slower than expected growth in quarterly earnings from the recession lows of 7 cents per share recorded in the fourth quarter of 1982 and the first quarter of 1983. Net earnings from continuing operations for 1983 were $1,379,000, unchanged from the level earned in the prior year. Our refrigeration operations in the U.S., with the inclusion of Kimmel-Motz, showed a marked improvement and our electromagnetic parts showed strength in the second half. However, the recession for capital goods continued throughout 1983 and as a result, our shipments of quality forgings to the aircraft, energy and heavy vehicle industries were drastically curtailed. In fact, the tonnage of forgings shipped was at its lowest level in 15 years and as a result, Canada Forgings operated at a loss for the first time since it was acquired in 1975. Because of this deterioration in its normal markets, CanForge management has taken action to redirect the division to other markets and was successful in 1983 in obtaining increasing volumes of U.S. defense contracts.

The acquisition of Kimmel-Motz, of Los Angeles, a leading commercial refrigeration company in California, was completed at the end of the first quarter and has been a rewarding addition to Toromont. Kimmel-Motz will complete its first year as a Toromont subsidiary with record sales and earnings. Its management remains unchanged since the acquisition and it has both the capabilities and the internal resources to achieve substantial growth.

Your Company also made two acquisitions in Canada during the year. These are: (i) Thermo Design, of Edmonton, an industrial refrigeration contractor; and (ii) Climate Control, of London, Ontario, a regionally-based air conditioning installation and service contractor.

Late last year the decision was regretfully taken to close Allen Tank Ltd. Allen Tank's volume came almost entirely from work sold in the previous year and by year end its work force was reduced to about 10 persons with little evidence of recovery in sight for at least the next two years. The financial impact of the closure is minimal and is shown under discontinued operations in the financial statements.

Excepting a large new stamping press at El-Met-Parts, capital spending during the year was minimal and directed principally to improvements in productivity.

During the year, several acquisition opportunities were investigated which were in product areas new to Toromont. None of these discussions has been fruitful to date but the search continues. We are placing substantial and equal emphasis on growth in the refrigeration industries: commercial, industrial, and petrochemical. The refrigeration industry is particularly appropriate for expansion by Toromont and serious effort is being marshalled toward that end. Toromont is well positioned to co-ordinate the diverse engineering skills of its specialist refrigeration activities not only to broaden its contracting and service capabilities but also to penetrate those large areas of the U.S. not yet served.

Your Company has been managed conservatively through the recession with the result that overheads are lower and the balance sheet is strong. Toromont is prepared to optimize any improvement in demand from the markets it serves.

During the year Mr. W. C. Pitfield retired from the Board. His years of valued counsel are acknowledged with appreciation. We welcome Mr. A. G. McCaughey, President and Chief Executive Officer of North American Life Assurance Company, to our Board.

During each of the past two years, your Directors approved a motion permitting the Company to acquire and cancel up to 5% of its shares through purchases on The Toronto Stock Exchange. During this period only one block of 16,639 shares was acquired at $4.75. Your Directors believe that, in principle, it is wise to extend this capability and they have done so for another year even though current prices make further purchases unlikely.

We have weathered a severe recession and are making progress toward normal earnings. The market for refrigeration and electromagnetic steel products will strengthen this year and, we expect CanForge to achieve profitability in 1984 and to return to significant levels of earnings by 1985.

The outlook for 1984 is for increased earnings.

S. J. Sinclair
Chairman of the Board
March 15, 1984.

An Introduction to Toromont

Your Company's operations naturally segment into two distinct categories. These are:

- refrigeration products and services;
- industrial products.

Refrigeration expertise includes industrial, commercial, petrochemical and air conditioning applications. It covers the complete spectrum from design engineering through manufacture of custom refrigeration packages and systems and includes installation, contracting and continuing after-sales service.

Included in the refrigeration segment is a precision sheet metal manufacturing operation which, while also servicing other industries profitably, gives the company sophisticated resources for specialty air conditioning and heat transfer applications.

Industrial products include high quality steel forgings and components produced from electromagnetic steel for electric motors and other electric apparatus.

By developing and consolidating its niche strategy, Toromont has identified a number of potentially significant expansion opportunities, particularly in the refrigeration industries.

Refrigeration

On a consolidated basis, 1983 was a relatively good year for your Company's refrigeration segment. All units coped with recession conditions extremely well and market share increases were recorded virtually across the board.

North American industry has four principal refrigeration users: (i) petroleum, petrochemical, and chemical plants; (ii) food, beverage and recreation industries; (iii) supermarkets and other retailers and (iv) air conditioning.

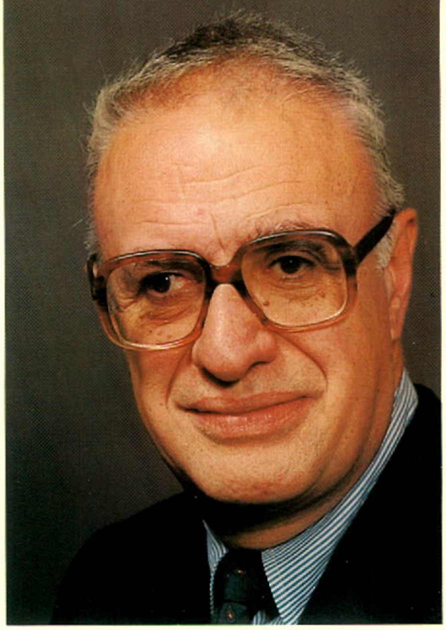
The acquisition during the past year of Kimmel-Motz, a Los Angeles based company specializing in supermarket refrigeration, resulted in Toromont being active in the designing, manufacturing, installing and servicing for all four of these specialist areas. Considerable potential synergy exists within Toromont as a result of this comprehensive, multi-product capability.

The Kimmel-Motz proprietary commercial refrigeration packages are already achieving excellent customer acceptance in states beyond California and indications exist that the technology is marketable in Canada. This is not, however, a one way flow. Micro Monitoring's procedures for computer controlled remote sensing and reporting of refrigeration package performance has applications in supermarkets.

The success of CIMCO's national service network in Canada strongly suggests the desirability of expanding the Lewis/Aero Tech service network now concentrated on regional markets centered by Boston, Seattle, Houston and Philadelphia. Lewis/Aero Tech's objective for 1984 is the addition of at least two new branches covering major regions not now served by the company.

The petroleum and chemical industries are major consumers of refrigeration and its related heat transfer technology. Despite the recession, opportunities continue to develop, more particularly in the U.S.

The refrigeration segment of your Company spans a large part of North America, with manufacturing plants in Toronto, Salt Lake City and Los Angeles and sales and service facilities in all major cities in Canada and at Boston, Houston, Seattle, Los Angeles, Philadelphia, San Francisco and Salt Lake City.



N. J. Lucas

Refrigeration, Products and Services
Financial data from continuing operations for the past three years are:

(in thousands of dollars)	**1983**	1982(1)	1981(1)
Sales	**$57,344**	$41,929	$42,146
Operating profit	**2,148**	2,034	3,615
Identifiable assets	**24,976**	17,341	18,972
Capital expenditures	**974**	282	905
Depreciation	**535**	415	428

Note: (1) Restated to reflect discontinued operations and change in foreign currency translation policy.

CIMCO

CIMCO is Canada's leading designer, manufacturer and contractor for industrial refrigeration systems and is the only contractor and service facility with branches coast to coast.

During 1983, demand from the petroleum and chemical industries was sharply reduced while sales to the food and other sectors were relatively stable. Excluding petrochemicals, regular industrial refrigeration business produced satisfactory volumes both in manufacturing and contracting. Market share was increased despite a substantial decline in aggregate demand although, to a marked extent, at the cost of diminished margins.

A major bright spot for CIMCO during the past year was the continued growth of service activity despite severe competitive conditions which affected margins adversely. The indications are that this growth will continue.

Long term lease of four acres adjacent to the Toronto manufacturing plant was completed to provide ample room for anticipated expansion through the end of this century.

The outlook for 1984 is for a considerably improved business climate.

Early in 1984, the company won a Government of Canada contract to provide the refrigeration packages for 10 ice plants to be located at 9 sites in eastern Quebec to support the inshore fishing industry.

CIMCO will continue to expand its service network. Planning is now under way to develop a much stronger marketing thrust to serve the commercial refrigeration market, particularly supermarkets.

Both sales and earnings are expected to improve during the year.

F. G. Lunn

Lewis/Aero Tech

Lewis/Aero Tech is a fast growing supplier of engineering, manufacturing, construction and service to the users of industrial refrigeration in the United States. It also manufactures precision sheet metal for the computer, materials handling and architectural products markets.

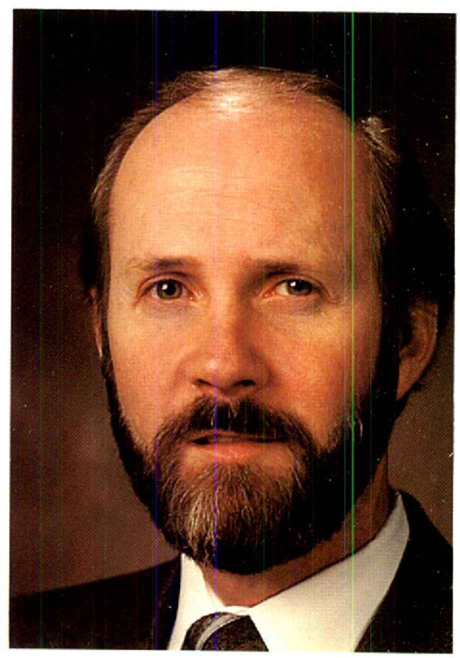
Its engineers are skilled in the design and manufacture of systems and products for applications such as petroleum storage, CO_2 liquification, natural gas processing, food freezing and processing, and large warehousing and distribution centers.

1983 was a growth year despite the dramatic fall off in demand for big plant construction by the petroleum and chemical industries. Lewis/Aero Tech has focused its attention on smaller projects and productivity-oriented retrofits with gratifying success. While petroleum megaprojects remained in limbo through the year, projects based on natural gas began to pick up.

The field service and construction component continued to grow during the year. Lewis/Aero Tech is the leading industrial/commercial refrigeration service contractor in the New England states and is a major force in the market in the southwest.

Excellent progress was made during the year in the precision sheet metal field.

Capacity was increased by some 30% during the year, product quality was upgraded, and excellent progress was made toward "just in time" delivery schedules.



C. L. Smith

Lewis/Aero Tech *(continued)*

New products include the design and manufacture of custom air conditioning for the "people movers" which will be used at the New Orleans World Fair, steel radiant heat ceiling panels and rigid steel panels specifically designed for use in "clean" rooms where computer chips are manufactured. The ceiling panel product is ideal for hospitals, particularly for surgical facilities. A substantial order for these panels was received recently from a U.S. military hospital. Similarly, the architectural panels for "clean" rooms have been well received and the first order is now in process.

The outlook for 1984 is for continued depressed markets in the petrochemical industry but for adequate or better opportunities in the regular industrial refrigeration markets. Service volume should continue to increase. Excellent progress is anticipated in the precision sheet metal and architectural products markets.

Kimmel-Motz Refrigeration Corporation

In April of 1983, your Company acquired Kimmel-Motz, the largest commercial refrigeration contractor in California.

Kimmel-Motz designs, assembles, installs and services refrigeration packages for supermarkets and other users of industrial and commercial refrigeration.

Kimmel-Motz' principal market is the retail food industry and its proprietary WHIP system refrigeration package has received enthusiastic acceptance in the demanding southern California area.

The WHIP refrigeration package is a flexible system based on standardized components which can be custom assembled. The package produces and controls refrigeration, air conditioning, heat and hot water. It is an advanced energy saving system, using a technique called sub-cooling, and is assembled in one completely prewired and prepiped package that is inexpensive to install and service.

One important element of the WHIP system is that it employs a larger number of compressors than a traditional system – 12 to 16 as a general rule compared with 5 to 7. As a modern supermarket may have upwards of 60 different chilled or freezer sales cases, the flexibility offered by the WHIP system results in significant savings.

U.S. retail chains have ordered the system for stores in Texas, New Mexico, Hawaii, Missouri and Utah. They are engineered and assembled in Los Angeles and installed by local contractors working under Kimmel-Motz supervision.

As part of its service activities, Kimmel-Motz operates a large fleet of radio controlled service trucks and its well trained staff maintains a round-the-clock emergency response capability.

1983 was an excellent year for Kimmel-Motz. They had an unusually large backlog for supermarket refrigeration packages when acquired by Toromont in April of last year and the fulfillment of these orders has proceeded on budget and on time.

Service volume in southern California remained satisfactory through the past year and steps were taken to expand service capability in northern California through upgrading of facilities at San Francisco.

The outlook for 1984 is for satisfactory performance although some reduction in sales for installation of supermarket refrigeration packages should occur in light of the abnormally high sales levels last year.

J. W. Motz

Micro Monitoring

Micro Monitoring offers a custom designed service to industrial refrigeration users. Performance data is fed continuously to an on-site smart terminal which, in turn, is connected to a central computer.

The system reduces human monitoring, saves energy and improves service efficiency. Micro Monitoring's first large scale contract has completed a full year of operation with positive response from the customer.

A number of potential users have been identified and, although marketing progress has been slower than anticipated, future prospects appear encouraging.

Industrial Products

Toromont has two distinct types of industrial products. They are quality steel forgings and electromagnetic steel parts. Both are leading suppliers within their distinct market niches.

Canada Forgings has two plants at Welland, Ontario. One is for open die and seamless ring rolling operations, the other for closed die products.

CanForge people and facilities are geared up to high quality work, sophisticated steels and complex, precision specifications. Its 3,000 ton press is one of the largest in Canada and its computerized ring rolling facility is the only one in the country.

El-Met-Parts, at Dundas, Ontario, is a specialist in electromagnetic steel products. It converts specialty steels to components used for the manufacture of electric motors, lighting products and transformers.

It is the only independent producer of electromagnetic steel parts in Canada with the capacity to slit steel. The El-Met slitter is a high speed, precision facility that was custom designed for the Dundas plant. In addition to its own manufacturing operations, it serves as a steel service center.

El-Met has its own die shop and heat treating facilities and its precision steel stamping machines are automated to a high degree.

Industrial Products
Financial data from continuing operations for the past three years are:

(in thousands of dollars)	1983	1982	1981
Sales	**$32,545**	$31,538	$38,055
Operating profit	**1,280**	1,326	4,633
Identifiable assets	**21,978**	20,062	25,345
Capital expenditures	**616**	1,778	3,027
Depreciation	**936**	763	728

Canada Forgings

1983 was a most unsatisfactory year. Tonnage shipped was lower than at any time in the past 15 years.

The recession hit the capital goods industries much more severely than most sectors of the North American economy. CanForge's customers are predominantly the aircraft, energy and heavy vehicle industries and they were affected worse than most.

In late 1982, major salaried staff reductions were implemented. The resultant relocations and retraining were completed early in 1983 and the division operated efficiently through the year. Overhead has been reduced substantially and should result in much improved financial performance when demand improves.

During 1983, computerized estimating for a majority of products was implemented to improve accuracy and inquiry response time. This computer estimating program is being extended for production control planning and manufacturing operations.

Because of the deterioration of normal markets in 1983, the open die and ring mill facilities focused on new products. These efforts have resulted in significant penetration of the offshore oil drilling market for casing connectors and other components for both the Beaufort Sea and east coast drill sites. Additionally, CanForge has developed the tooling and techniques necessary to produce near net shape forged components on our open die hammers and presses. Both of these programs offer promise for 1984.

The near net shape program results in forged products being produced closer to their ultimate form. By forging to finer tolerances, downstream machining is reduced.

At the closed die facilities, more than 100 sets of new tools were produced in 1983 doubling the average of the past five years. The majority of this tooling is for new aircraft engines and the U.S. defense markets. The creation of this new tooling, while not a profit contributor in 1983, bodes well for future years, especially in the case of the aircraft markets.

J. W. Fraser

At the closed die plant, development expenditures were made on new products currently not produced by the forging process. These expenditures were significant relative to the low sales volume, but have proven successful and should begin to produce sales and earnings by mid 1984.

El-Met-Parts

1983 was a good year for El-Met.

Volume increased substantially for domestic and export finished products and for steel service center operations. Sales and earnings increased despite margins that remained irrationally low.

The recovery of consumer spending which occurred in both U.S. and Canadian economies last year brought about a strong demand for electric motors. El-Met's sales to the automotive industry and other export markets continued to rise and market share in North America was increased.

However, most of the volume increases recorded in 1983 resulted more from reduced margins than from increased general demand and full earnings potential will only be achieved when firmer pricing is realized.

Capital expenditures included the purchase of a new 300 ton stamping press. It will begin operations during the first half of 1984 and will increase stamping capacity by more than 10%.

The outlook for 1984 is for some continuation of the trend toward higher volume but, as yet, no sign of improved pricing is evident. Steel supplies, which were ample through most of 1983, became tighter early in 1984 and this may inhibit some prospects for sales growth.

J. Papakyriakou

Consolidated balance sheet

as at December 31, 1983
(with comparative figures for 1982)

Assets	(Thousands of dollars) 1983	1982
Current		
Accounts receivable		
Trade	**$18,717**	$13,434
Other	**222**	335
Inventories (Note 4)	**12,564**	9,290
Prepaid expenses	**318**	509
Income taxes recoverable	**–**	555
Total current assets	**31,821**	24,123
Notes receivable and other assets	**295**	262
Property, plant and equipment (Note 5)		
Buildings, machinery and equipment	**25,466**	23,712
Less accumulated depreciation	**11,586**	9,943
	13,880	13,769
Land	**528**	520
Property, plant and equipment of discontinued operations, net of accumulated depreciation (Note 3)	**833**	868
	15,241	15,157
Goodwill	**3,687**	2,166
	$51,044	$41,708

See accompanying notes to consolidated financial statements.

On behalf of the Board

Director

Director

Liabilities	(Thousands of dollars) 1983	1982
Current		
Bank indebtedness	**$10,649**	$ 5,046
Accounts payable and accrued liabilities	**11,623**	9,081
Dividends payable	**311**	311
Income taxes payable	**787**	–
Deferred income taxes	**419**	322
Current portion of long-term debt (Note 6)	**114**	300
Total current liabilities	**23,903**	15,060
Long-term debt (Note 6)	**1,238**	1,229
Deferred income taxes	**3,376**	3,004
Total liabilities	**28,517**	19,293
Shareholders' equity		
Capital stock (Note 7)	**5,043**	5,043
Contributed surplus	**386**	386
Retained earnings	**16,445**	16,419
Cumulative foreign currency translation adjustments (Note 1)	**653**	567
	22,527	22,415
	$51,044	$41,708

See accompanying notes to consolidated financial statements.

Auditors' report

The Shareholders,
Toromont Industries Ltd.

We have examined the consolidated balance sheet of Toromont Industries Ltd. as at December 31, 1983 and the consolidated statements of retained earnings, earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1983 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, after giving retroactive effect to the changes recommended by the Canadian Institute of Chartered Accountants in accounting for foreign currency translation, on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants

Toronto, Ontario,
March 14, 1984

Consolidated statement of earnings

For the year ended December 31, 1983
(with comparative figures for 1982)

	1983	1982
	(Thousands of dollars)	
Sales	**$89,889**	$73,467
Costs and expenses		
Cost of products sold and services rendered	**73,348**	59,410
Selling, general and administrative	**13,342**	10,940
Interest on long-term debt	**135**	152
Other interest	**748**	1,190
	87,573	71,692
	2,316	1,775
Other income	**152**	243
Earnings for the year from continuing operations before provision for income taxes	**2,468**	2,018
Provision for income taxes (Note 11)		
Current	**620**	471
Deferred	**469**	175
	1,089	646
Net earnings for the year from continuing operations	**1,379**	1,372
Extraordinary item (Note 3)		
(Loss) earnings of discontinued operations, net of income taxes	**(110)**	216
Net earnings for the year	**$ 1,269**	$ 1,588
Earnings per common share (Note 8)		
Continuing operations	**$0.44**	$0.44
Extraordinary item		
(Loss) earnings of discontinued operations	**(0.03)**	0.07
Net earnings for the year	**$0.41**	$0.51

See accompanying notes to consolidated financial statements.

Consolidated statement of retained earnings

For the year ended December 31, 1983
(with comparative figures for 1982)

	(Thousands of dollars) 1983	1982
Retained earnings at beginning of year	**$16,419**	$16,130
Net earnings for the year	**1,269**	1,588
	17,688	17,718
Common dividends, $0.40 per share (1982 – $0.40)	**1,243**	1,245
Premium on purchase of common shares for cancellation	**–**	54
Retained earnings at end of year	**$16,445**	$16,419

See accompanying notes to consolidated financial statements.

Consolidated statement of changes in financial position

For the year ended December 31, 1983
(with comparative figures for 1982)

	(Thousands of dollars) 1983	1982
Source of funds		
Operations		
Net earnings from continuing operations	**$ 1,379**	$ 1,372
Add items not requiring use of funds		
Depreciation	**1,553**	1,279
Deferred income taxes	**372**	286
Loss on disposal of fixed assets	**–**	27
Amortization of goodwill	**43**	5
Unrealized gain on conversion of U.S. subsidiaries	**86**	98
Funds from continuing operations	**3,433**	3,067
(Loss) earnings of discontinued operations	**(110)**	216
	3,323	3,283
Proceeds from sale of property	**–**	14
Increase (decrease) in long-term debt	**9**	(250)
	3,332	3,047
Application of funds		
Additions to property, plant and equipment	**1,637**	2,197
Increase in goodwill	**1,564**	–
Common share dividends	**1,243**	1,245
Increase (decrease) in notes receivable and other assets	**33**	(91)
Purchase of common shares for cancellation	**–**	80
Acquisition of shares of Cimco Ltd.	**–**	53
	4,477	3,484
Decrease in working capital	**1,145**	437
Working capital at beginning of year	**9,063**	9,500
Working capital at end of year	**$ 7,918**	$ 9,063

See accompanying notes to consolidated financial statements.

Summary of significant accounting policies

December 31, 1983

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

Consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiary corporations, all of which are wholly owned. All significant inter-corporation transactions and profits between the Corporation and its subsidiary corporations have been eliminated on consolidation.

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

Revenue recognition
Revenues from contracting activities involving 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 of raw materials, work-in-process and finished goods are valued at the lower of cost (principally on the first-in, first-out method) and net realizable value.

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

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

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

Translation of foreign exchange
The accounts of foreign subsidiary corporations, 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. The unrealized translation gains and losses on the Corporation's net investment in these subsidiaries are accumulated in a separate component of shareholders' equity, described in the consolidated balance sheet as cumulative foreign currency translation adjustments.

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

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

Notes to consolidated financial statements

December 31, 1983

1. Accounting change – translation of foreign currencies

Effective January 1, 1983, the Corporation changed its method of accounting for translation of foreign currencies to conform with new recommendations issued by The Canadian Institute of Chartered Accountants. The change has been applied retroactively and, accordingly, the unrealized gains on the translation of self-sustaining foreign subsidiaries for years prior to 1983 have been reclassified within shareholders' equity as cumulative foreign currency translation adjustments.

2. Acquisitions

During the year, the Corporation acquired three businesses in the refrigeration industry.

The cost of the acquisitions to December 31, 1983 is $2,868,665 of which $1,564,717 has been charged to goodwill. Goodwill could be further increased by up to $1,280,000 contingent upon future earnings of the acquired businesses.

The acquisitions have been accounted for using the purchase method and the results of operations have been consolidated from the dates of acquisition.

3. Discontinuance of a business

On December 13, 1983, the Corporation decided to terminate the operations of Allen Tank Ltd. and to close its Scarborough plant effective March 31, 1984.

The results of operations of this subsidiary have been shown as discontinued operations and the relevant comparative figures for 1982 in the consolidated financial statements have been reclassified. No further net losses are anticipated from this discontinuance.

4. Inventories

	1983	1982
	($000)	
Raw material	**$ 7,824**	$ 5,808
Work-in-process	**2,750**	1,833
Finished goods	**1,145**	1,228
Contract costs net of progress billings	**845**	421
	$12,564	$ 9,290

5. Property, plant and equipment

Buildings and improvements with a net book value of $611,793 are situated on leased land. The lease expires in 2002 at which time the lessor must offer to renew the lease or the lessor must purchase the buildings, including improvements, at the then appraised fair market value.

Property, plant and equipment includes a machine leased under a capital lease with a capitalized cost of $349,000 and accumulated amortization of $212,000.

6. Long-term debt

	1983	1982
	($000)	
Mortgage payable and other instalment notes bearing interest at 9% to 13.2%	**$ 1,085**	$ 1,206
Equipment contracts	**107**	–
Obligation under capital lease	**160**	206
Notes payable	**–**	117
	1,352	1,529
Less instalments due within one year, including capital lease portion of $54,000	**114**	300
	$ 1,238	$ 1,229

6. Long-term debt (continued)

The total long-term debt matures as follows:

	($000)
1984	$114
1985	112
1986	97
1987	51
1988	40
Thereafter	938

7. Capital stock

The authorized capital stock of the Corporation consists of preferred and common shares of which 3,108,245 common shares are issued at December 31, 1983 (1982 – 3,108,245).

8. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year which was 3,108,245 (1982 – 3,116,565).

9. Pension plans

The Corporation contributes to pension plans available to a majority of its salaried and certain of its other employees. Pension costs charged against revenue during the period include $288,762 for current and past service. The latest actuarial valuations of these plans (mainly as of December 31, 1981) indicated a total surplus of $1,679,604 in one plan and a total unfunded past service liability of $531,600 in other plans. $339,000 of the unfunded liability is being funded over future years to 1996 and the balance to 1997.

10. Other commitments

The Corporation leases land, buildings and equipment under several non-cancellable operating leases which require minimum annual payments as follows:

1984	$ 567,000
1985	492,000
1986	370,000
1987	231,000
1988	125,000
Subsequent years	1,058,000

The Corporation has subleased certain property on which rentals receivable are as follows: 1984 – $122,000 and 1985 – $41,000.

11. Income taxes

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

	($000)
Federal, Provincial and State taxes at statutory rate of 48%	$ 1,185
Additional provision of taxes resulting from prior year reassessments	150
Tax reduction due to 3% inventory allowance	(246)
Total taxes at effective rate of 44%	$ 1,089

12. Segmented information

The Board of Directors has determined the following business segments: industrial products, and refrigeration products and services. In the industrial products industry, the Corporation manufactures rolled rings, shafts and impression die forgings which are sold primarily to the aircraft, energy, railroad and heavy vehicle industries and produces steel laminations and wound electrical cores which are basic components of transformers, lighting ballasts and electric motors. In the refrigeration industry, the Corporation designs, manufactures, sells, installs and services industrial and commercial refrigeration systems for petrochemical, recreational, food storage and supermarket customers.

Business segments ($000)

	Industrial products		Refrigeration products and services		Consolidated	
	1983	1982	**1983**	1982	**1983**	1982
Sales	**$32,545**	$31,538	**$57,344**	$41,929	**$89,889**	$73,467
Segment operating profit	**$ 1,280**	$ 1,326	**$ 2,148**	$ 2,034	**$ 3,428**	$ 3,360
Interest expense					**960**	1,342
Income taxes					**1,089**	646
					2,049	1,988
Net income from continuing operations					**$ 1,379**	$ 1,372
Identifiable assets						
Continuing operations	**$21,978**	$20,062	**$24,967**	$17,341	**$46,945**	$37,403
Discontinued operations	**-**	–	**1,225**	**1,709**	**1,225**	1,709
	$21,978	$20,062	**$26,192**	$19,050	**48,170**	39,112
Corporate assets					**2,874**	2,596
Total assets					**$51,044**	$41,708
Capital expenditures	**$ 616**	$ 1,778	**$ 974**	$ 282		
Depreciation and amortization	**$ 936**	$ 763	**$ 535**	$ 415		

Geographic segments ($000)

	Canada		U.S.		Elimination		Consolidated	
	1983	1982	**1983**	1982	**1983**	1982	**1983**	1982
Sales	**$54,860**	$56,278	**$35,029**	$17,189	**$ -**	$ –	**$89,889**	$73,467
Intercompany sales between geographic segments	**69**	87	**103**	63	**172**	150	**-**	–
	$54,929	$56,365	**$35,132**	$17,252	**$ 172**	$ 150	**$89,889**	$73,467
Segment operating profit	**$ 1,414**	$ 2,275	**$ 2,014**	$ 1,085			**3,428**	3,360
Interest expense							**960**	1,342
Income taxes							**1,089**	646
							2,049	1,988
Net income from continuing operations							**$ 1,379**	$ 1,372
Identifiable assets								
Continuing operations	**$32,094**	$29,441	**$14,851**	$ 7,962			**$46,945**	$37,403
Discontinued operations	**1,225**	1,709	**-**	–			**1,225**	1,709
	$33,319	$31,150	**$14,851**	$ 7,962			**48,170**	39,112
Corporate assets							**2,874**	2,596
Total assets							**$51,044**	$41,708

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 $11,939,000 in 1983 and $7,588,000 in 1982 mostly to customers in the United States. U.S. operations include export sales of $840,000 in 1983 and $722,000 in 1982.

Ten Year Financial Review

	1983	1982[7]	1981	1980	1979[1]	1978	1977	1976	1975	1974[6]
Operating results ($000)										
Sales	**89,889**	73,467	84,495	75,059	68,071	59,779	59,478	53,441	50,237	44,639
Net earnings from continuing operations	**1,379**	1,372	3,654	3,416	3,281	1,808	1,572	1,175	1,463	1,885
Extraordinary items	**—**	—	—	497	296	312	—	—	—	—
Discontinued operations	**(110)**	216	—	(312)	(1,273)	2,081[3]	(171)	—	705[4]	153
Net earnings	**1,269**	1,588	3,654	3,601	2,304	4,201[3]	1,401	1,175	2,168	2,038
Interest expense										
Long term	**135**	152	459	943	1,041	796	892	483	304	192
Other	**748**	1,190	1,254	735	535	418	162	316	281	374
Depreciation	**1,553**	1,279	1,248	1,226	980	789	743	674	424	478
Capital expenditures	**1,637**	2,197	3,992	1,740	2,362	3,154	1,421	1,869	1,553	1,447
Funds from operations	**3,323**	3,283	5,721	5,097	3,657	5,301	2,673	1,938	2,074	2,833
Dividends declared on common shares	**1,243**	1,245	1,125	810	628	618	306	391	476	446
Financial position ($000)										
Working capital	**7,918**	9,063	9,500	10,040	11,031	11,158	8,376	6,900	8,115	6,134
Fixed assets, net	**15,241**	15,157	14,109	11,225	10,711	9,329	7,269	7,240	6,051	5,267
Total assets	**51,044**	41,708	47,525	41,211	40,746	36,202	31,285	29,962	31,986	30,386
Long term debt	**1,238**	1,229	1,479	2,682	6,784	7,690	7,740	7,674	3,651	2,606
Common shareholders' equity	**22,527**	22,415	21,585	19,056	16,202	14,637	10,731	9,636[5]	13,668	11,005
Financial ratios										
Working capital	**1.3:1**	1.6:1	1.4:1	1.6:1	1.7:1	1.9:1	1.7:1	1.6:1	1.6:1	1.4:1
Return on common shareholders' equity (%)[2]	**5.7**	7.2	18.0	20.4	14.9	33.1	13.8	10.0	17.3	19.4
Long term debt to common shareholders' equity	**1:18.2**	1:18.2	1:14.6	1:7.1	1:2.4	1:1.9	1:1.4	1:1.3	1:3.7	1:4.2
Common share data										
Earnings from continuing operations ($)	**.44**	.44	1.17	1.10	1.04	.59	.52	.26	.31	.41
Extraordinary items ($)	**—**	—	—	.16	.09	.10	—	—	—	—
Discontinued operations ($)	**(.03)**	.07	—	(.10)	(.40)	.68[3]	(.06)	—	.15[4]	.03
Net earnings ($)	**.41**	.51	1.17	1.16	.73	1.37[3]	.46	.26	.46	.44
Funds from operations ($)	**1.07**	1.06	1.83	1.63	1.17	1.73	.87	.42	.44	.62
Dividends declared ($)	**.40**	.40	.36	.26	.20	.20	.10	.10	.10	.10
Equity ($)	**7.25**	7.21	6.91	6.10	5.21	4.66	3.51	3.15	2.87	2.46
Shares outstanding at year end	**3,108,245**	3,108,245	3,124,884	3,124,884	3,109,884	3,141,469	3,061,469	3,061,459[5]	4,758,969	4,466,519
Price range										
—high ($)	**8.625**	7.125	9.50	7.625	4.15	4.40	3.15	3.20	3.30	3.20
—low ($)	**6.875**	4.90	5.75	3.05	3.10	2.55	2.35	1.85	2.00	1.65

Notes: 1) Restated to reflect sale of the Lewis Food Freezing Division.
2) On average equity.
3) Includes $2,020,000 ($0.66 per share) gain on sale of subsidiary, F. B. McFarren, Limited.
4) Includes $668,000 ($0.14 per share) gain on sale of two subsidiaries.
5) During this year, 1,700,000 common shares were retired for a cash consideration of $4,675,000.
6) Restated to reflect sale of two subsidiaries.
7) Restated to reflect discontinued operations and change in foreign currency translation policy.

Corporate Directory

The Board of Directors

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

J. W. Fraser
St. Catharines, Ontario
President
Canada Forgings, a Division of Toromont Industries Ltd.

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

N. J. Lucas
Chairman
CIMCO Division of Toromont Industries Ltd. and Lewis/Aero Tech Group

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

A. G. McCaughey
President and Chief Executive Officer
North American Life Assurance Company

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

†‡S. J. Sinclair
Chairman of the Board and Chief Executive Officer, Toromont Industries Ltd.

**Member of Audit Committee*
†*Trustee of Pension Funds*
‡Member of Management Resources Committee

Officers of the Corporation

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Chairman of the Board and Chief Executive Officer

J. W. Fraser
Vice-President

N. J. Lucas
Vice-President

Ms. B. E. Thompson
Secretary

Head Office

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Vice-President, Manufacturing

M. E. Fraser
Vice-President, Sales and Chief Metallurgist

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Manager, Drop Forge

C. G. Finlayson
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F. G. Lunn
President

S. D. McLeod
Vice-President and General Manager, District Operations

R. S. Rose
Vice-President, Special Projects

R. F. Jackson
General Manager, Refrigeration Products

S. C. Hnetinka
Controller

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