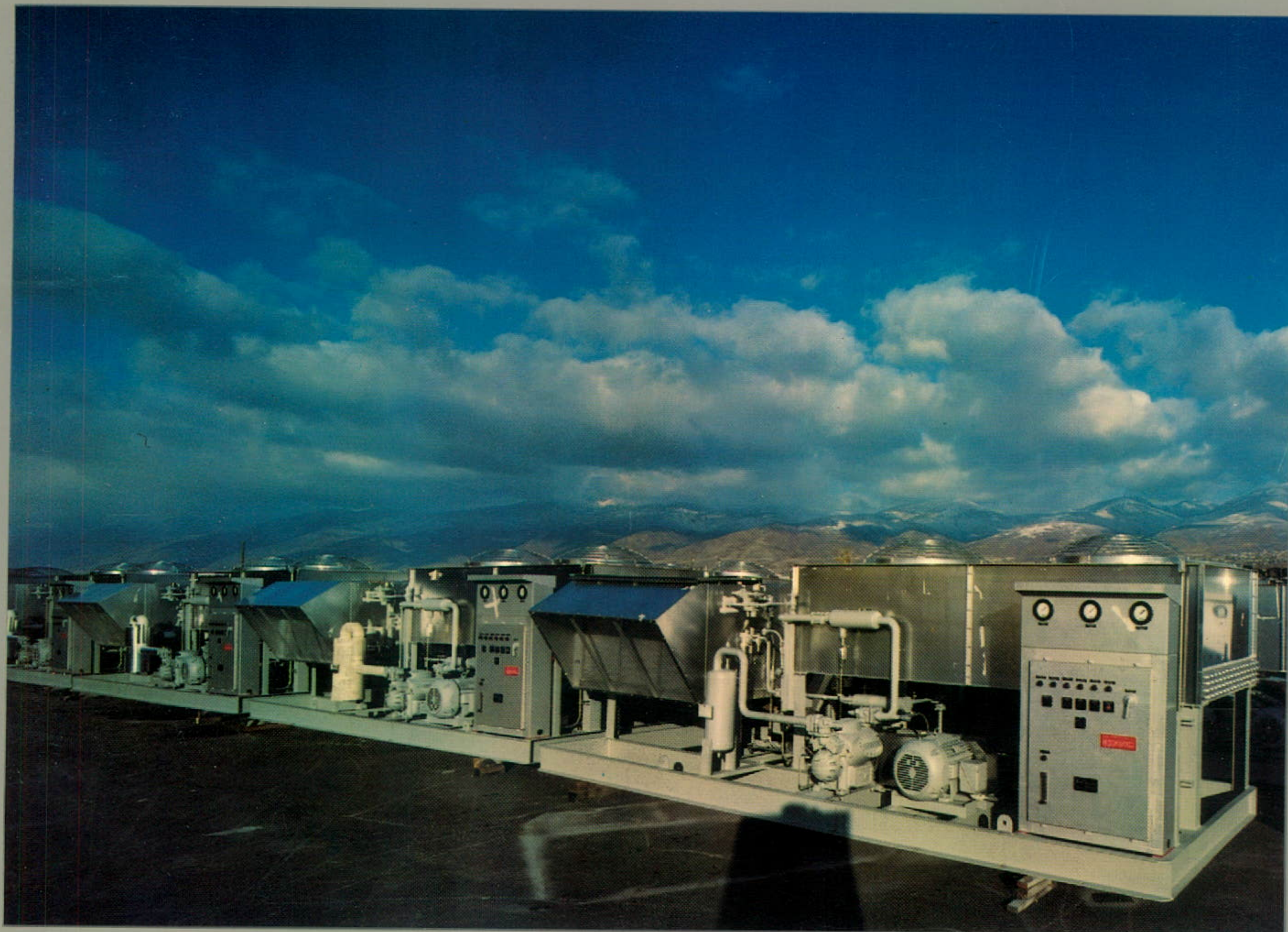
TOROMONT
INDUSTRIES LTD.



1980 Annual Report

The Company

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

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

Major areas of operations are the following:

1. **Forged Products**
   Design and manufacture of quality forgings for the aircraft, energy and heavy vehicle industries.

2. **Electromagnetic Products**
   Steel laminations and wound electrical cores — serving the electrical and electronic industries.

3. **Industrial Refrigeration Products and Services**
   Specializing in the design, manufacture, sale, installation and servicing of refrigeration systems for the petrochemical, recreational and food processing industries.

4. **Other Products**
   Design and manufacture of pressure vessels and custom sheet metal products.

Auditors

Touche Ross & Co.
Chartered Accountants

Transfer Agent and Registrar

Crown Trust Company
Toronto, Ontario
Montreal, Quebec

Common Shares

Listed on the Toronto Stock Exchange and the Montreal Stock Exchange

Bankers

The Toronto-Dominion Bank
The Mercantile Bank of Canada

Contents

Annual Meeting

The Annual General Meeting of Shareholders of Toromont Industries Ltd. will be held at 11 A.M., May 29, 1981 in Tudor Rooms 8 and 9 of the Royal York Hotel, Toronto, Ontario.

The Cover

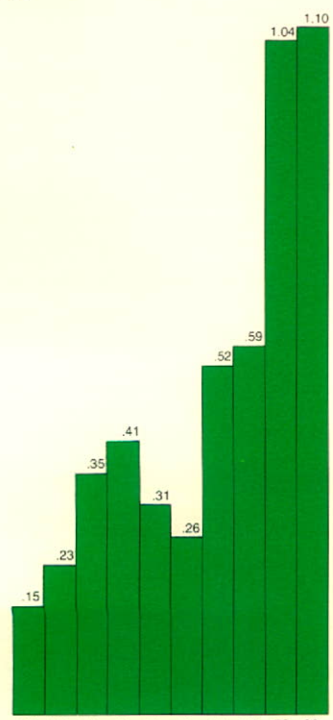
This year's Annual Report cover shows our dehumidification units built for the Government of Mexico by our U.S. industrial refrigeration operation, Lewis/Aero Tech.

FINANCIAL HIGHLIGHTS

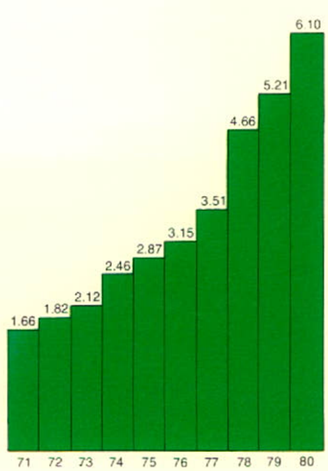
	Years ended December 31		
	1980	1979*	% Change
Sales	**$75,059,000**	$68,071,000	+ 10
Net earnings from continuing operations	**3,416,000**	3,281,000	+ 4
Net earnings	**3,601,000**	2,304,000	+ 56
Working capital	**10,040,000**	11,031,000	− 9
Capital expenditures	**1,740,000**	2,362,000	− 26
Funds from operations	**5,097,000**	3,657,000	+ 39
Depreciation	**1,226,000**	980,000	+ 25
Dividends declared	**810,000**	628,000	+ 29
Common shareholders' equity	**19,056,000**	16,202,000	+ 18
Common share data			
Per share			
Net earnings from continuing operations	**$1.10**	$1.04	+ 6
Net earnings	**1.16**	.73	+ 59
Funds from operations	**1.63**	1.17	+ 39
Dividends declared	**.26**	.20	+ 30
Shareholders' equity	**6.10**	5.21	+ 17

*Restated to reflect sale of the Lewis Food Freezing Division.

Number of shareholders	**916**	968
Number of shares outstanding	**3,124,884**	3,109,884
Price range of shares - high	**$7.625**	$4.15
- low	**$3.05**	$3.10

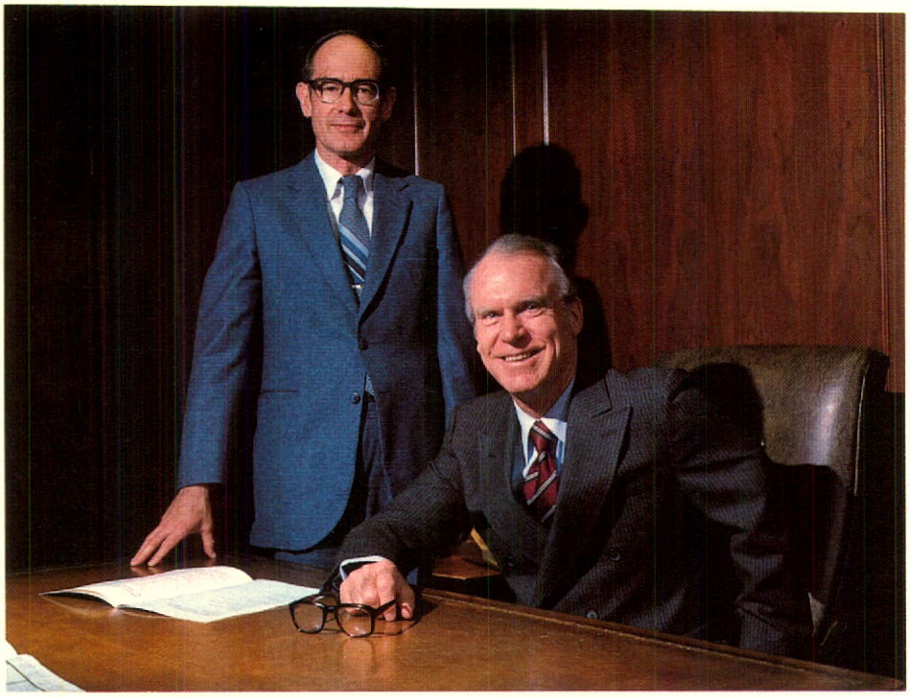


EARNINGS FROM CONTINUING OPERATIONS
($ per share)



EQUITY
($ per share)

TO OUR SHAREHOLDERS



Left, A. Lawrence Fagan Jr., *Vice-President, Finance & Secretary, and* S. J. Sinclair, *Chairman of the Board.*

1980 was the best year in our history. We achieved record sales and earnings from continuing operations. We significantly improved our operating position by the sale, on favourable terms, of a division of a subsidiary which had been experiencing substantial losses.

We believe the 1980 results represent a basic level of earning power from which we expect to show significant growth in the years ahead.

Operating Results

In 1980, Toromont's sales were $75.1 million, net earnings from continuing operations were $3.4 million or $1.10 per share and net earnings were $3.6 million or $1.16 per share. Comparative figures for 1979, which have been restated for the sale of the unprofitable Lewis Food Freezing Division, were sales of $68.1 million, net earnings from continuing operations of $3.3 million or $1.04 per share and net earnings of $2.3 million or 73 cents per share. Cash flow from operations reached $5.1 million, which permitted the pay down of $2.1 million of long-term debt. Toromont is in a strong financial position with long-term debt of only $2.7 million compared with shareholders' equity of $19.1 million.

Highlights

Your Company operates primarily in three different industries — forged products, electromagnetic products and industrial refrigeration products and services. Included elsewhere in this report is a review of these industry segments, including for the first time, data on sales, operating profit, identifiable assets, capital expenditures and depreciation for the last three years.

Forged Products

In 1980, for the third consecutive year, CanForge achieved record sales and earnings. Our ring rolling facility, the only one of its kind in Canada, was installed in 1978 and is continuing to have a very positive impact on our operating results.

In the last five years, we have invested more than $4 million in plant and equipment and believe we now have one of the most modern open die forge shops in Canada. The growth opportunities for this segment of our business appear exceptional and we expect to make substantial capital expenditures over the next several years to increase and extend our productive capacity.

In March of this year, we purchased a 3,000 ton, reconditioned press with an estimated installed cost of $2 million which is expected to be operating in the fourth quarter of the year. This press is substantially larger than any which we now have. It will benefit us by increasing the utilization of our ring roller and by giving us for the first time the ability to manufacture rings of exotic metals for turbine engines primarily for jet aircraft. "Exotic" is an industry term applied to metals or alloys which contain characteristics not present in ordinary metals, the most significant of which is "toughness" resulting from the retention of tensile strength at extremely high temperatures.

We expect this division to have increased sales and earnings again this year.

Electromagnetic Products

1980 was a difficult year for El-Met with flat sales and, starting in the second quarter, there was substantial pressure on margins for both domestic and U.S. sales. As a result, El-Met's operating profit was down materially from its record high results of 1979.

The weakness in the markets for El-Met's products continues but we anticipate some strengthening in the second half and we expect El-Met's 1981 operating results will show improvement over 1980. El-Met has shown itself to be competitive in the U.S. market and is beginning to make significant sales there. Longer term, we see this as an important factor for the growth of this operation.

Industrial Refrigeration Products and Services

Our Canadian industrial refrigeration subsidiary, CIMCO Limited, is the largest operation in this field in Canada. In 1980, CIMCO continued its steady growth in sales and earnings and we expect a further improvement in 1981.

The Company's U.S. industrial refrigeration operations, Lewis/Aero Tech, were reorganized last year. We sold the Lewis Food Freezing Division for cash and without loss. This division was operating at a significant loss and was also a drain on management time. We have redirected the operations of Lewis/Aero Tech towards the petrochemical and energy industries where we see strong business opportunities.

The U.S. operations, excluding the Food Division which was sold, have historically been profitable. They contributed a meaningful profit in 1980 and should do even better this year. For the long run, we are optimistic that our U.S. industrial refrigeration operations will become a major contributor to earnings.

Capital Expenditures

As a result of investment in productive capacity in recent years, both the industrial refrigeration and the electromagnetic products divisions have efficient facilities which are capable of meeting foreseeable increases in demand without requiring major capital investment.

However, as previously discussed, it is our intent to increase capital expenditures to take advantage of the opportunities for expansion currently available to CanForge. We believe that we will be able to fund anticipated capital expenditures by cash flow from operations and by some increase in long-term debt.

1981 and Beyond

We expect this year to have continued strong performances from our forging division, our industrial refrigeration operations and improved earnings from our electromagnetic products division.

In addition to the growth planned for our present businesses and in view of our strong financial position, we continue to seek acquisition opportunities in industries where we have management capability.

One of the important strengths of your Company is its strategic position as a supplier of specialized and precision products for large scale energy projects. Resolution of the governmental disputes, now delaying the large energy projects planned for Western Canada, would significantly accelerate our growth.

In 1980, your directors reviewed dividend policy with the aim of providing an improved return to shareholders consistent with the principle that Toromont is a growth company with a need to reinvest a substantial part of its profits. The dividend rate was increased to 8 cents quarterly from the prior rate of 10 cents semi-annually. The dividend policy of your Company will continue to be reviewed on a regular basis.

In March of this year, several directors and members of senior management formed a holding company to hold and manage their equity interests comprising approximately 49% of the outstanding shares of Toromont. The transfer of the respective interests of these individuals in Toromont was completed in April. This development will provide for an orderly succession within the management group and for a more meaningful equity participation for present and future management personnel of your Company. However, it is our intention that Toromont remain a public company with substantial public ownership.

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

S. J. Sinclair
Chairman of the Board

April 20, 1981

FORGED PRODUCTS

J. W. Fraser
President

Toromont's forging operations are conducted by CanForge which manufactures rolled rings, shafts and impression die forgings in two plants, at Welland, Ontario, one for open die work and the other for closed die.

Each of CanForge's plants occupies a four acre plot and the recent purchase of an additional four acre parcel adjacent to the open die plant provides adequate land for expansion.

During the past three years, significant growth has been achieved in both open and closed die operations. By continued upgrading of manufacturing facilities, deliberate change to the product mix to accentuate more technologically complex products and concentration on quality assurance programs, CanForge has become a leading supplier of forged products to the aircraft, energy and heavy vehicle industries.

In the past five years, CanForge has made a major investment in plant and equipment and now has one of the most modern open die forge shops in Canada.

One important trend has been the steady penetration of the Canadian market for rolled ring products. The open die plant is equipped with Canada's only ring rolling mills, including one which is among the most technically advanced in the world. It serves a wide variety of applications including parts for aircraft turbine engines, nuclear reactors and pressure vessels, large off-road equipment, bearings and gears and pipeline flanges.

The open die plant has mills to roll 140″ diameter seamless rings and is equipped with presses, hammers, heat treat furnaces and automated machines for turning and machining.

Machining facilities serving the open die plant occupy some 30,000 square feet. Engine lathes can turn forgings up to 55″ in diameter and 40′ in length. Vertical boring mills can rough machine forgings up to 100″ in diameter. An 80′ trepanning lathe can remove solid cores accurately.

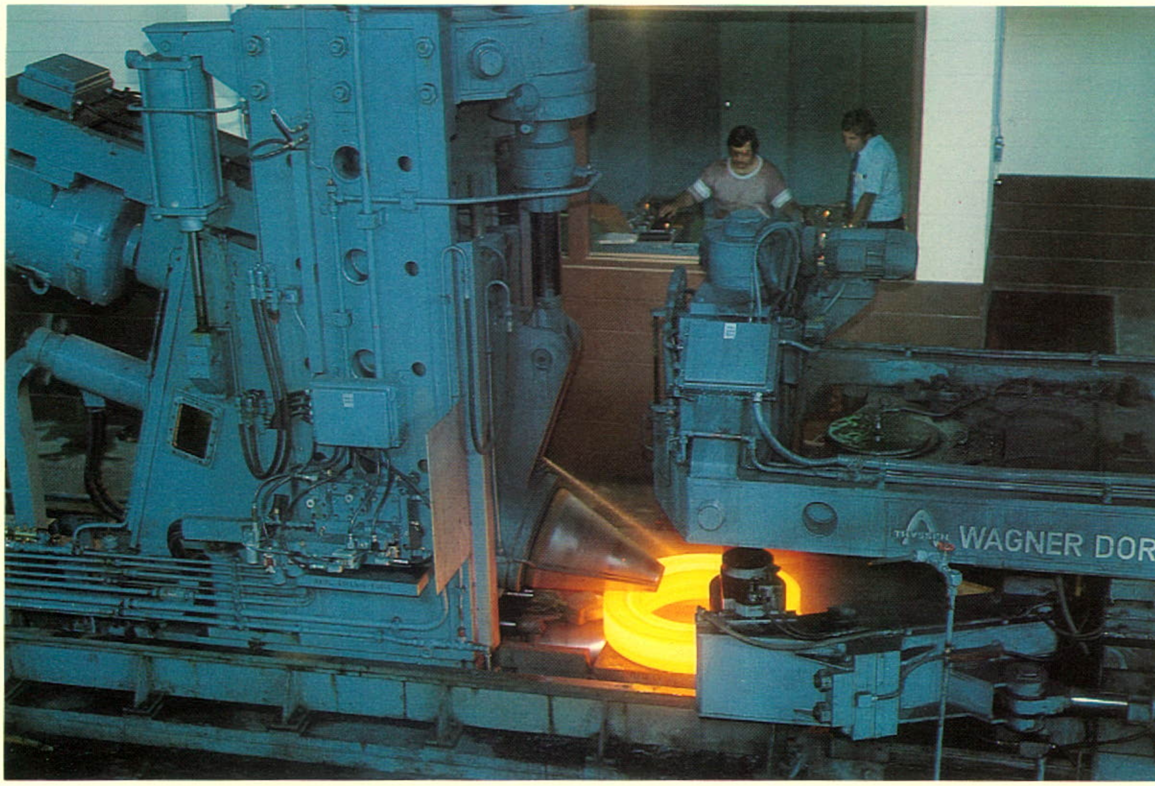
The closed die plant has steam and board drop hammers in addition to the appropriate heat treating, cleaning and quality assurance facilities. The plant is capable of forging products up to 200 pounds. It has a machine and die shop with complete die sinking equipment.

CanForge has embarked upon an expansion program to produce both closed die and ring forged products of high-temperature alloy materials, products in great demand in the aerospace and defense industries. As a result, capital expenditures will increase significantly in 1981.

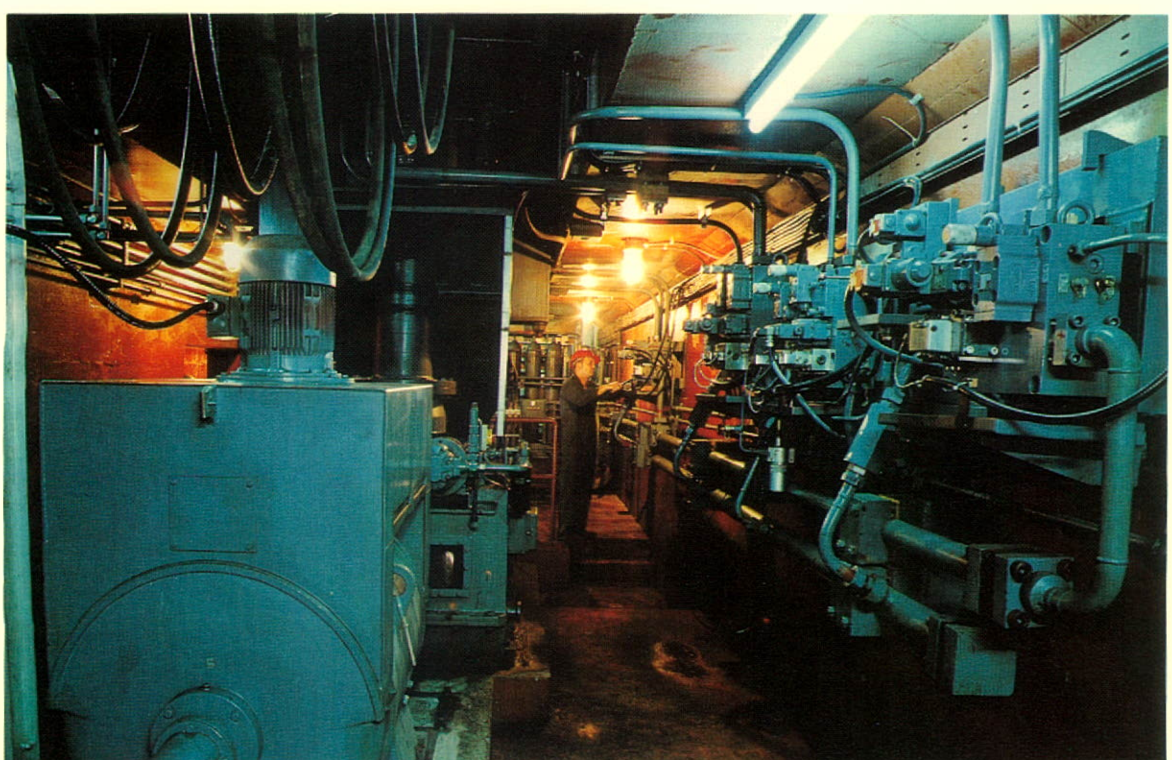
1980 was an excellent year. Both sales and earnings reached record levels.

Financial Data for the past three years:

(In thousands of $)	**1980**	1979	1978
Sales	**$21,836**	$17,503	$13,330
Operating profit	**2,744**	2,096	1,274
Identifiable assets	**10,868**	9,867	8,013
Capital expenditures	**792**	1,026	874
Depreciation	**550**	422	234



This seamless forged ring can be produced in about three minutes on a CanForge ring roller.



Hydraulic and electrical services for the ring roller.

ELECTROMAGNETIC PRODUCTS

J. Papakyriakou
President

Toromont's electromagnetic products division is located at Dundas, Ontario. El-Met-Parts is a specialized converter of steel, producing electromagnetic parts for the electrical and electronic industries. These are steel laminations and wound electrical cores which are basic components of transformers, lighting ballasts and motors for appliances, portable tools and other industrial and household uses.

The division is the largest independent producer of these essential specialty products in Canada and it exports significant volume to the U.S. El-Met also operates a profitable warehouse service business, specializing in electrical grade steels, through which it services a broad list of electrical product manufacturers.

El-Met's basic raw material is specialty steel which must meet strict specifications and the Company has developed a sound reputation for its testing and quality assurance capabilities.

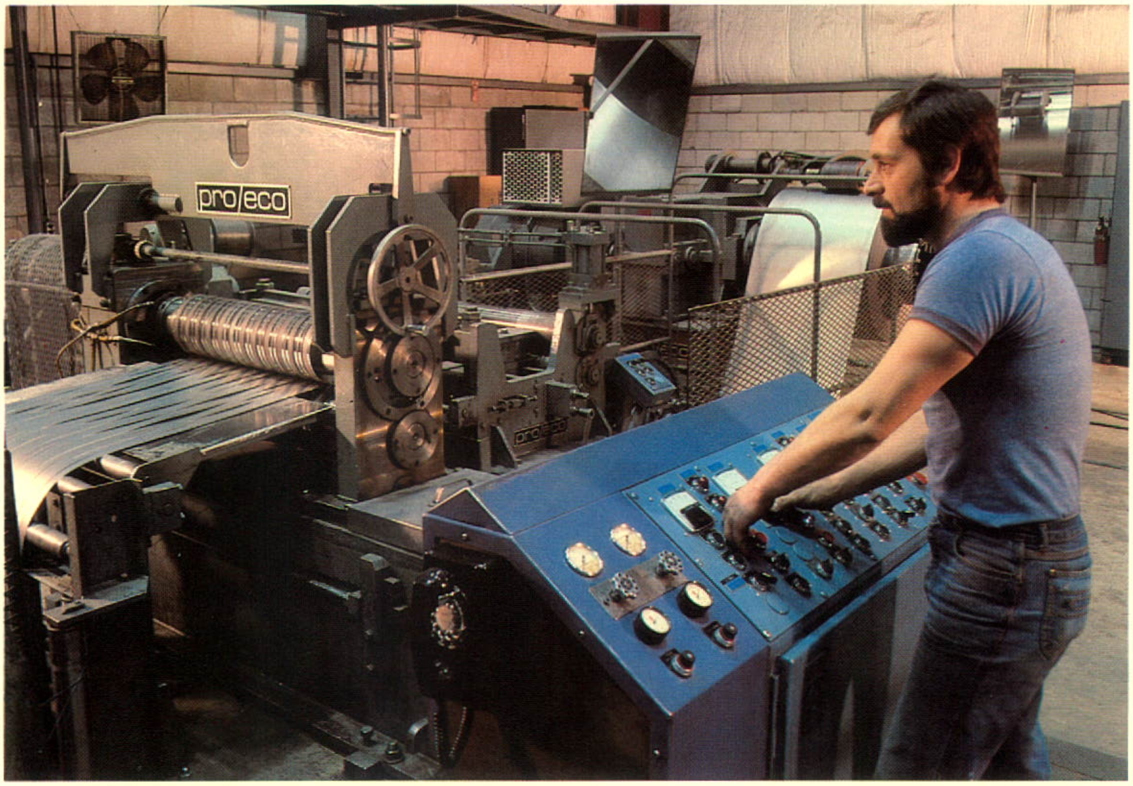
One major asset employed by El-Met is its steel slitting facility. It is one of the most efficient in North America and is the only installation in Canada specifically designed and dedicated to slit electrical grade steel. It has a rated capacity of 1,200 feet per minute and can slit 25 cuts at a time with precision, consistency, uniformity and repeatability.

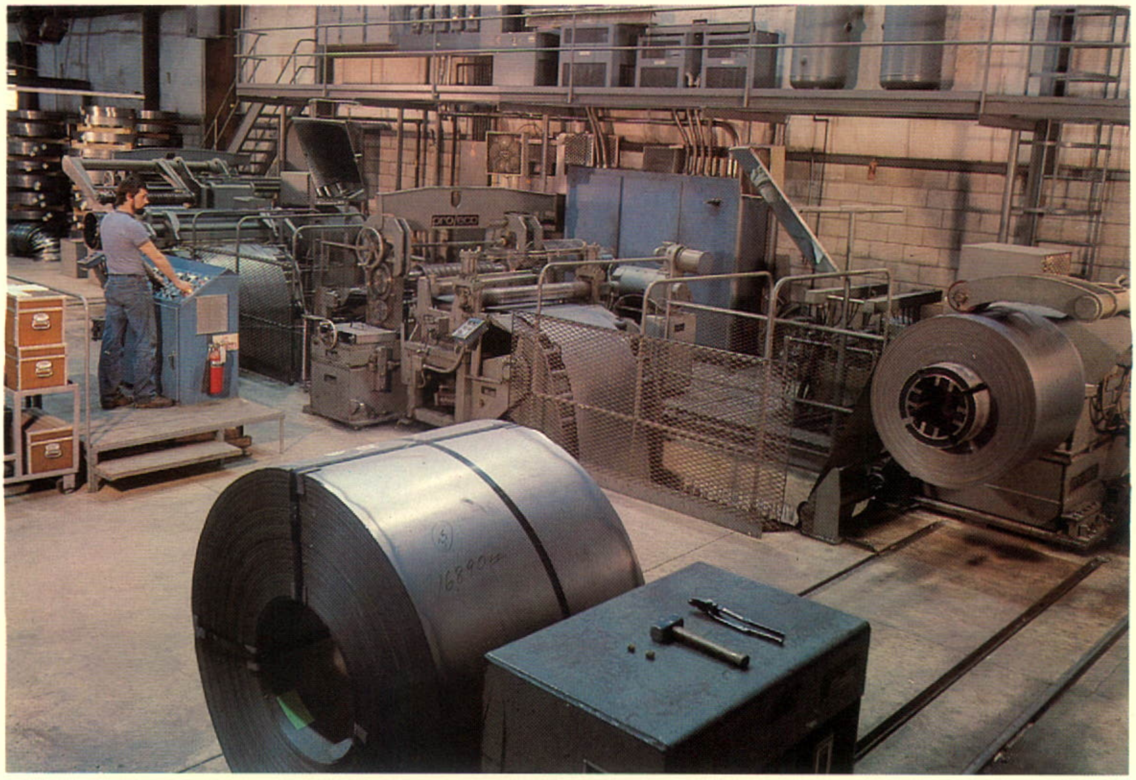
Despite the slowdown in demand experienced by El-Met's customers in 1980, which resulted in flat sales and reduced margins for the year, the Company maintained its continuing program of expansion and modernization. As a result of recent additions to productive capacity, including installation of new high speed stamping presses in both 1979 and 1980, El-Met is favourably positioned to capitalize on increases in product demand foreseen for the near future without major capital expenditures.

El-Met has demonstrated that it can compete successfully in the U.S. and sales to this market are becoming increasingly significant. Longer term, this is expected to be an important factor in El-Met's growth.

Financial data for the past three years:

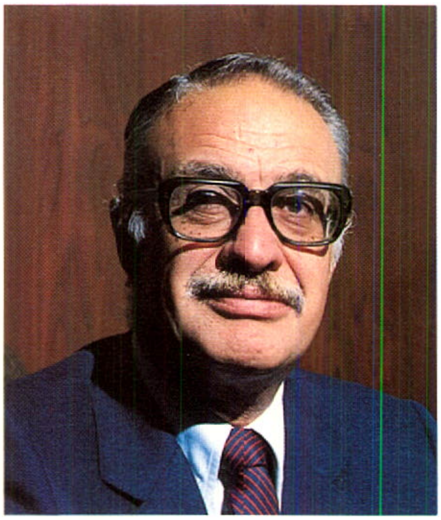
(In thousands of $)	**1980**	1979	1978
Sales	**$13,222**	$13,219	$8,744
Operating profit	**1,490**	1,967	985
Identifiable assets	**7,456**	7,633	5,369
Capital expenditures	**718**	652	32
Depreciation	**233**	156	150





Two different views of the El-Met slitter in operation.

INDUSTRIAL REFRIGERATION PRODUCTS AND SERVICES



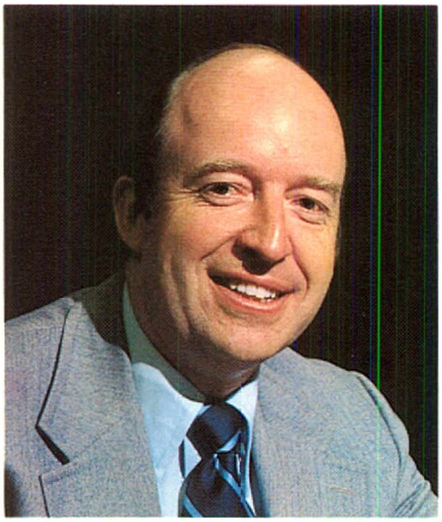
N. J. Lucas
Chairman, CIMCO Limited and Lewis/Aero Tech Group

Toromont's industrial refrigeration group designs, manufactures, sells, installs and services industrial refrigeration systems for the petrochemical, recreational, food and other industries.

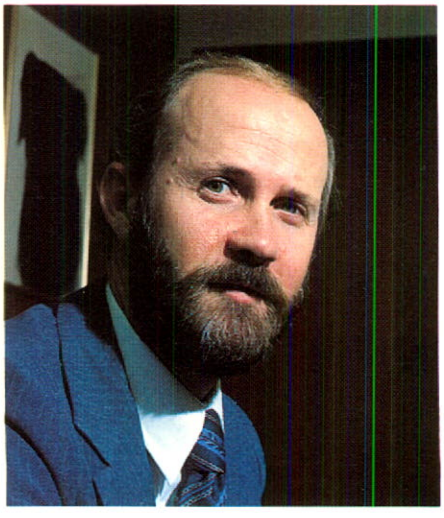
The group is active in both Canada and the U.S. Progress was made last year in selling to international markets with sales of refrigeration systems to China, Indonesia, Spain, Greece and Mexico.

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

CIMCO is the largest refrigeration supplier to the Canadian food and beverage industry. It is also the country's major designer and builder of refrigeration systems for ice and curling rinks. The fastest growing market for the 1980's will be the petrochemical and energy fields. CIMCO has been mobilizing its design and manufacturing resources to become a major supplier of refrigeration systems to these expanding industries.



F. G. Lunn
President, CIMCO Limited



C. L. Smith
President, Lewis/Aero Tech Group

Performance, in terms of sales and earnings, has shown steady growth for the past three years and this is anticipated to continue in 1981. A major factor in the improved operating results has been the company's expansion in service and manufacturing operations.

Early in 1981, Toromont acquired the operations of Gordon Collins Electrical Contractors Ltd. of Toronto. The Collins Electric Division now provides services to our Canadian refrigeration manufacturing and contracting activities and also expands the services which we offer our customers.

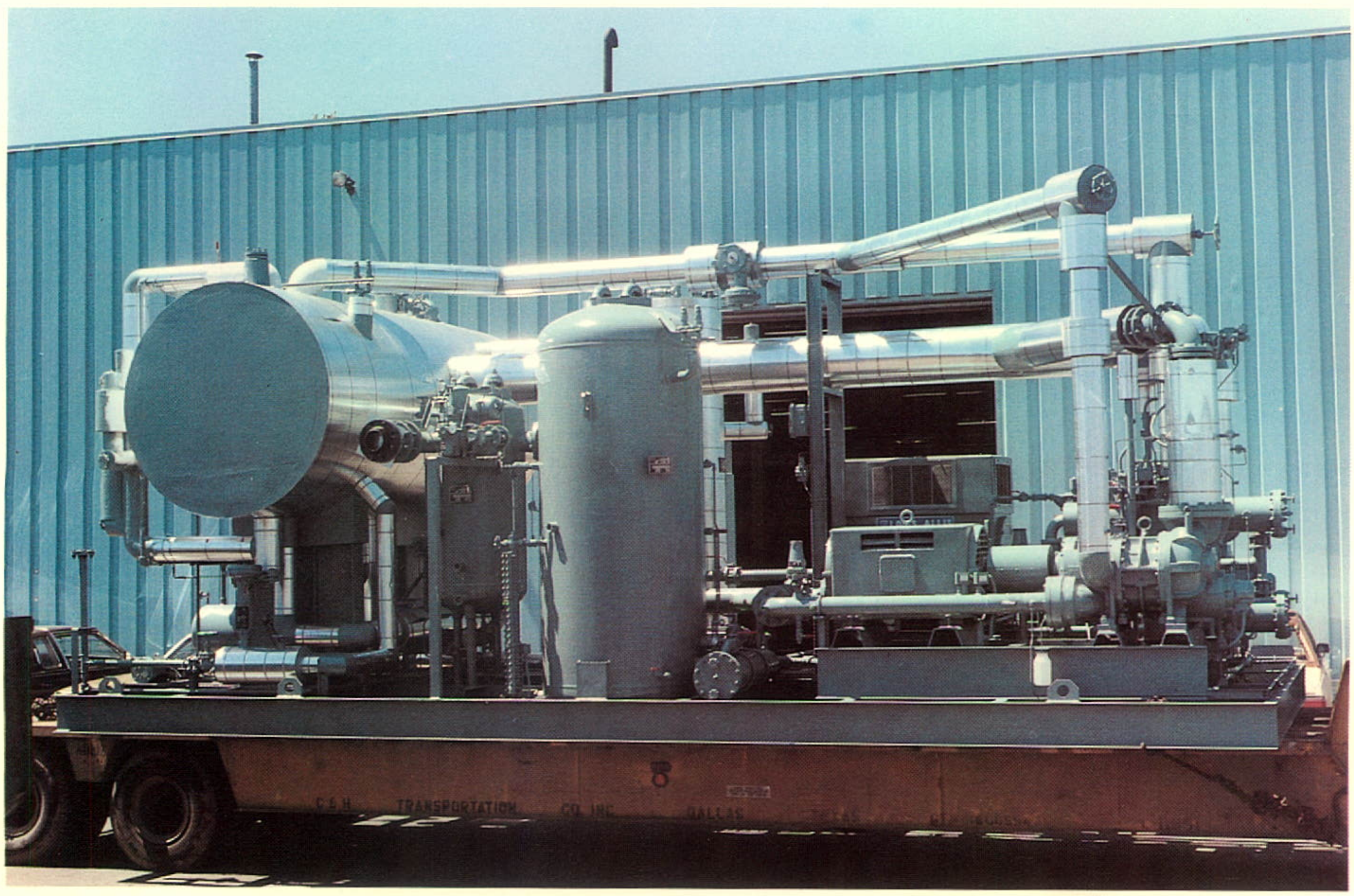
CIMCO and Lewis/Aero Tech service activities provide an important revenue base for these operations. In addition, these facilities assure our customers that our systems are supported by competent start-up and service personnel.

Toromont's U.S. unit, Lewis/Aero Tech, has located its head office, engineering and manufacturing activities in North Salt Lake, Utah and operates sales and service centres in Houston, Seattle and Boston.

Lewis/Aero Tech is primarily a designer and manufacturer of highly specialized industrial refrigeration systems primarily for the petrochemical and energy related industries. This unit earned significant profits in 1980. A substantial backlog of orders for both custom and standard industrial refrigeration systems is on the books and should favourably influence 1981 results.

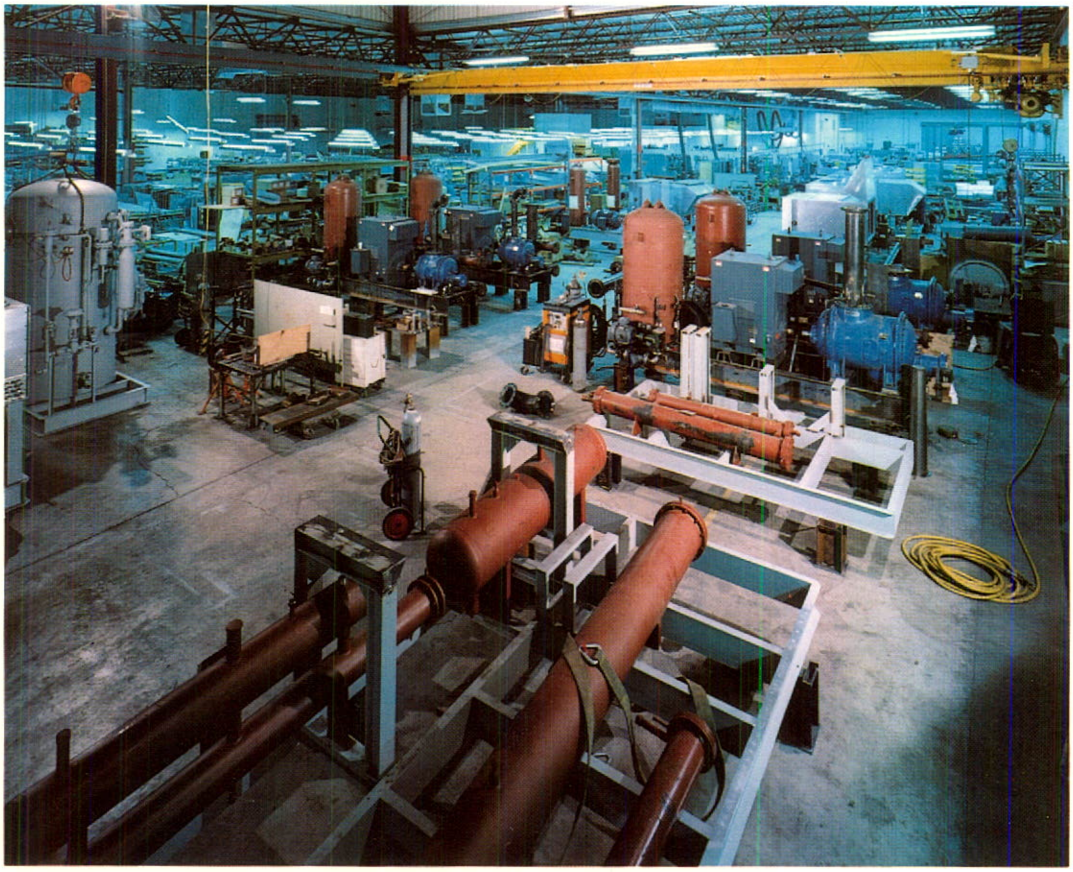
Financial data for the past three years:

(In thousands of $)	**1980**	1979	1978
Sales	**$32,703**	$29,773	$24,800
Operating profit	**3,075**	2,316	1,351
Identifiable assets	**15,296**	14,753	11,366
Capital expenditures	**54**	492	1,690
Depreciation	**256**	229	173



This refrigeration unit is part of a proprietary system which preshrinks textiles.

Industrial Refrigeration Products and Services (Continued)



Overview of Lewis/Aero Tech plant at North Salt Lake, Utah.

OTHER PRODUCTS

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

Allen Tank Limited operates a 60,000 square foot plant in Toronto. The major products are custom tanks and pressure vessels for the petroleum, petrochemical and food processing industries.

The markets for Allen's products have been depressed by the delays in the start-up of major energy projects resulting from the lack of agreement between federal and provincial governments on the sharing of natural resources. A resolution of these differences and a go-ahead on these projects should greatly improve the outlook for Allen Tank.

Financial data for the past three years:

(In thousands of $)	**1980**	1979	1978
Sales	**$7,298**	$7,576	$8,177
Operating profit	**508**	(10)	991
Identifiable assets	**4,476**	5,143	5,291
Capital expenditures	**153**	192	13
Depreciation	**187**	173	89

TEN YEAR FINANCIAL REVIEW

	1980	1979 [1]	1978	1977	1976	1975	1974 [6]	1973	1972	1971
Operating Results ($000)										
Sales	**75,059**	68,071	59,779	59,478	53,441	50,237	44,639	40,474	27,134	25,819
Net earnings from continuing operations	**3,416**	3,281	1,808	1,572	1,175	1,463	1,885	1,592	1,055	692
Extraordinary items	**497**	296	312	—	—	—	—	—	40	145
Discontinued operations	**(312)**	(1,273)	2,081 [3]	(171)	—	705 [4]	153	—	—	—
Net earnings	**3,601**	2,304	4,201 [3]	1,401	1,175	2,168	2,038	1,592	1,095	837
Interest expense										
Long term	**943**	1,041	796	892	483	304	192	150	30	49
Short term	**735**	535	418	162	316	281	374	204	142	N/A
Depreciation	**1,226**	980	789	743	674	424	478	442	300	302
Capital expenditures	**1,740**	2,362	3,154	1,421	1,869	1,553	1,447	1,813	260	106
Funds from operations	**5,097**	3,657	5,301	2,673	1,938	2,074	2,833	2,198	1,387	1,172
Dividends declared on common shares	**810**	628	618	306	391	476	446	333	217	—
Financial Position ($000)										
Working capital	**10,040**	11,031	11,158	8,376	6,900	8,115	6,134	5,227	4,315	3,933
Fixed assets, net	**11,225**	10,711	9,329	7,269	7,240	6,051	5,267	4,274	2,903	2,942
Total assets	**41,211**	40,746	36,202	31,285	29,962	31,986	30,386	25,205	16,300	13,581
Long term debt	**2,682**	6,784	7,690	7,740	7,674	3,651	2,606	2,517	196	255
Common shareholders' equity	**19,056**	16,202	14,637	10,731	9,636 [5]	13,668	11,005	9,442	7,878	7,199
Financial Ratios										
Working capital	**1.6:1**	1.7:1	1.9:1	1.7:1	1.6:1	1.6:1	1.4:1	1.5:1	1.6:1	1.9:1
Return on common shareholders' equity (%) [2]	**20.4**	14.9	33.1	13.8	10.0	17.3	19.4	17.7	13.7	12.6
Long term debt to common shareholders' equity	**1:7.1**	1:2.4	1:1.9	1:1.4	1:1.3	1:3.7	1:4.2	1:3.8	1:41	1:28
Common Share Data										
Earnings from continuing operations ($)	**1.10**	1.04	.59	.52	.26	.31	.41	.35	.23	.15
Extraordinary items ($)	**.16**	.09	.10	—	—	—	—	—	.01	.03
Discontinued operations ($)	**(.10)**	(.40)	.68 [3]	(.06)	—	.15 [4]	.03	—	—	—
Net earnings ($)	**1.16**	.73	1.37 [3]	.46	.26	.46	.44	.35	.24	.18
Funds from operations ($)	**1.63**	1.17	1.73	.87	.42	.44	.62	.49	.31	.25
Dividends declared ($)	**.26**	.20	.20	.10	.10	.10	.10	.075	.05	—
Equity ($)	**6.10**	5.21	4.66	3.51	3.15	2.87	2.46	2.12	1.82	1.66
Shares outstanding at year end	**3,124,884**	3,109,884	3,141,469	3,061,469	3,061,459 [5]	4,758,969	4,466,519	4,453,769	4,336,144	4,333,644
Price range										
— high ($)	**7.625**	4.15	4.40	3.15	3.20	3.30	3.20	3.45	2.90	1.40
— low ($)	**3.05**	3.10	2.55	2.35	1.85	2.00	1.65	2.00	1.25	.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.

CONSOLIDATED BALANCE SHEET

As at December 31, 1980
(with comparative figures for 1979)

	(Thousands of dollars) 1980	1979
ASSETS		
Current		
Accounts receivable		
Trade	**$15,720**	$13,984
Other	**14**	307
Inventories (Note 1)	**10,458**	12,021
Notes receivable (Note 2)	**460**	185
Prepaid expenses	**407**	308
Income taxes recoverable	**16**	—
Deferred income taxes	**246**	85
Total current assets	**27,321**	26,890
Notes receivable and other assets (Note 2)	**529**	1,004
Property, plant and equipment (Note 3)		
Buildings, machinery and equipment	**18,790**	17,217
Less accumulated depreciation	**8,199**	7,144
	10,591	10,073
Land	**634**	638
	11,225	10,711
Goodwill	**2,136**	2,141
	$41,211	$40,746

See accompanying notes to consolidated financial statements.

On behalf of the Board

Director

Director

	(Thousands of dollars) 1980	1979
LIABILITIES		
Current		
Bank indebtedness, secured	**$ 2,643**	$ 5,333
Accounts payable and accrued liabilities	**8,203**	8,699
Billing on uncompleted contracts in excess of costs	**2,298**	—
Dividends payable	**250**	324
Income taxes payable	**701**	354
Current portion of long-term debt	**3,186**	1,149
Total current liabilities	**17,281**	15,859
Long-term debt (Note 4)	**2,682**	6,784
Deferred income taxes	**1,904**	1,639
Unrealized gain on foreign exchange	**282**	258
Minority interest in subsidiary corporation	**6**	4
Total liabilities	**22,155**	24,544
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	**5,069**	5,006
Contributed surplus	**386**	386
Retained earnings	**13,601**	10,810
	19,056	16,202
	$41,211	$40,746

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31, 1980
(with comparative figures for 1979)

	(Thousands of dollars)	
	1980	1979
Sales	**$75,059**	$68,071
Costs and expenses		
Cost of products sold and services rendered	**58,790**	54,470
Selling, general and administrative	**9,121**	7,394
Interest on long-term debt	**943**	1,041
Other interest	**735**	535
	69,589	63,440
	5,470	4,631
Other income	**198**	297
Earnings for the year before provision for income taxes	**5,668**	4,928
Provision for income taxes		
Current	**2,166**	1,301
Deferred	**85**	345
	2,251	1,646
Earnings from continuing operations before minority interest	**3,417**	3,282
Minority interest in earnings of subsidiary corporation	**(1)**	(1)
Net earnings from continuing operations	**3,416**	3,281
Extraordinary items		
Recovery of income taxes due to loss carry-forward	**497**	296
Loss from discontinued operations of a division, net of income tax recoveries of $178	**(312)**	(1,273)
	185	(977)
Net earnings for the year	**$ 3,601**	$ 2,304
Earnings per common share (Note 6)		
Continuing operations	**$1.10**	$1.04
Extraordinary items		
Recovery of income taxes due to loss carry-forward	**0.16**	0.09
Loss from discontinued operations of a division	**(0.10)**	(0.40)
Net earnings for the year	**$1.16**	$0.73

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1980
(with comparative figures for 1979)

	(Thousands of dollars) 1980	1979
Retained earnings at beginning of year	**$10,810**	$ 9,195
Net earnings for the year	**3,601**	2,304
	14,411	11,499
Premium on repurchase of common shares (Note 5)	—	61
Common dividends, 26¢ per share (1979 — 20¢)	**810**	628
Retained earnings at end of year	**$13,601**	$10,810

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, 1980 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, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Toronto, Ontario,
April 8, 1981.

Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1980
(with comparative figures for 1979)

	(Thousands of dollars)	
	1980	1979
Source of funds		
Operations		
Net earnings from continuing operations	**$ 3,416**	$ 3,281
Add items not requiring use of funds		
Depreciation	**1,226**	980
Deferred income taxes	**265**	369
Goodwill written off	**5**	4
Funds from continuing operations	**4,912**	4,634
Recovery of income taxes due to loss carry-forward	**497**	296
Loss from discontinued operations	**(312)**	(1,273)
	5,097	3,657
Issuance of capital stock	**63**	—
Increase in amount due to minority shareholders	**2**	—
Unrealized gain on foreign exchange	**24**	8
Decrease in notes receivable and other assets	**475**	216
	5,661	3,881
Application of funds		
Additions to property, plant and equipment	**1,740**	2,362
Common share dividends	**810**	628
Decrease in long-term debt, net	**4,102**	906
Repurchase of common shares (Note 5)	**—**	112
	6,652	4,008
Decrease in working capital	**(991)**	(127)
Working capital at beginning of year	**11,031**	11,158
Working capital at end of year	**$10,040**	$11,031

See accompanying notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

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

Revenue recognition

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

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

Inventories

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

Property, plant and equipment

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

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

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

Foreign exchange

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

Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net tangible assets of businesses acquired. Goodwill acquired prior to 1974 is considered to have continuing value and is not being amortized. Goodwill acquired subsequently is being amortized over its estimated useful life on the straight-line method, 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, 1980

1. Inventories

	1980	1979
	($000)	
Raw material	**$ 5,852**	$ 7,622
Work-in-process	**3,217**	3,619
Finished goods	**1,389**	744
Contract costs net of progress billings	**—**	36
	$10,458	$12,021

2. Notes receivable and other assets

	1980	1979
	($000)	
Secured, interest free notes receivable		
Employee Incentive Stock Purchase Plan		
Officers and directors	**$ 345**	$ 413
Other employees	**219**	176
Mortgage and other employee loans	**161**	72
Notes receivable	**—**	200
Other	**264**	328
	989	1,189
Less current portion	**460**	185
	$ 529	$ 1,004

3. Property, plant and equipment

Buildings and improvements with a net book value of $523,748 are situated on leased land. The lease expires in 1981 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 $286,945 and accumulated amortization of $59,825.

4. Long-term debt

	1980	1979
	($000)	
Term bank loans, secured by a floating charge on all assets of the Corporation and bearing interest at 1% to 1¾% above the current prime rate, repayable on various terms	**$ 4,000**	$ 5,967
Notes payable, secured		
Repayable to the Government of Canada in five annual instalments commencing in 1979 and non-interest bearing	**352**	470
Mortgage payable and other instalment notes bearing interest at 9% to 10.9%	**1,180**	1,128
Obligation under capital lease	**287**	319
Policy loans, secured by cash surrender value of life insurance policies bearing interest at 5% to 6%	**49**	49
	5,868	7,933
Less instalments due within one year, including capital lease portion of $42	**3,186**	1,149
	$ 2,682	$ 6,784

The following is a schedule of minimum lease payments under the capital lease:

	($000)
1981	$ 61
1982	61
1983	61
1984	61
1985	61
Thereafter	47
	352
Less amount representing interest	65
	$ 287

5. Capital stock

The capital stock of the Corporation consists of preferred and common shares of which 3,124,884 common shares are issued at December 31, 1980 (1979 — 3,109,884).

During the year the Corporation issued 15,000 common shares for a cash consideration of $63,750 under the Employee Incentive Stock Purchase Plan.

During 1979 the Corporation repurchased and cancelled 31,585 of its issued common shares for $112,126 ($3.55 per share). The premium of $61,287, representing the excess of purchase price over paid-in capital, has been charged to retained earnings.

55,000 common shares have been reserved until May 18, 1981 for future issuance at the market price at time of issue under the Employee Incentive Stock Purchase Plan.

6. Earnings per common share

Earnings per share are calculated based upon the weighted average number of shares outstanding during the year which was 3,111,141 (1979 — 3,140,153).

7. Pension plan

The Corporation contributes to pension plans available to a majority of its salaried and certain of its other employees. Pension costs charged against revenue during the period include $409,230 for current and past service. The latest actuarial valuations of these plans indicated a surplus of $374,921 in one plan and a total unfunded past service liability of $1,030,950 in the other plans. $820,000 of the unfunded liability is being funded over future years to 1991 and the balance to 1997.

8. Other commitments

The Corporation leases land, buildings and equipment under several non-cancellable operating leases which require minimum annual payments as follows: 1981 — $355,000; 1982 — $345,000; 1983 — $336,000; 1984 — $295,000 and 1985 — $158,000 and $313,000 thereafter.

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

The Corporation has subleased certain property and rentals receivable are as follows: 1981 — $179,000; 1982 — $183,000; 1983 — $178,000; 1984 — $117,000 and 1985 — $39,000.

9. Restatement of comparative figures

1979 comparative figures have been restated to reflect discontinuance and sale of the food division of a subsidiary corporation.

10. Segmented information

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

Note 10 (continued)

SEGMENTED INFORMATION

For the Year Ended December 31, 1980
(with comparative figures for 1979)

Business Segments

($000)

	Forged products		Electromagnetic products		Industrial refrigeration products and services		Other products		Consolidated	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979	**1980**	1979
Sales	**$21,836**	$17,503	**$13,222**	$13,219	**$32,703**	$29,773	**$ 7,298**	$ 7,576	**$75,059**	$68,071
Segment operating profit	**$ 2,744**	$ 2,096	**$ 1,490**	$ 1,967	**$ 3,075**	$ 2,316	**$ 508**	$ (10)	**$ 7,817**	$ 6,369
General corporate expense (income)									**472**	(136)
Interest expense									**1,678**	1,578
Income taxes									**2,251**	1,646
									4,401	3,088
Net income from continuing operations									**$ 3,416**	$ 3,281
Identifiable assets	**$10,868**	$ 9,867	**$ 7,456**	$ 7,633	**$15,296**	$14,753	**$ 4,476**	$ 5,143	**$38,096**	$37,396
Corporate assets									**3,115**	3,350
Total assets									**$41,211**	$40,746
Capital expenditures	**$ 792**	$ 1,026	**$ 718**	$ 652	**$ 54**	$ 492	**$ 153**	$ 192		
Depreciation and amortization	**$ 550**	$ 422	**$ 233**	$ 156	**$ 256**	$ 229	**$ 187**	$ 173		

Geographic Segments

($000)

	Canada		U.S.		Eliminations		Consolidated	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979
Sales to outside customers	**$61,686**	$55,166	**$13,373**	$12,905	**$ —**	$ —	**$75,059**	$68,071
Intercompany sales between geographic segments	**351**	1,082	**97**	—	**448**	1,082	**—**	—
	$62,037	$56,248	**$13,470**	$12,905	**$ 448**	$ 1,082	**$75,059**	$68,071
Segment operating profit	**$ 6,387**	$ 5,653	**$ 1,430**	$ 716			**$ 7,817**	$ 6,369
General corporate expenses							**472**	(136)
Interest expense							**1,678**	1,578
Income taxes							**2,251**	1,646
							4,401	3,088
Net income from continuing operations							**$ 3,416**	$ 3,281
Identifiable assets	**$29,637**	$29,095	**$ 8,459**	$ 8,301			**$38,096**	$37,396
Corporate assets							**3,115**	3,350
Total Assets							**$41,211**	$40,746

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 $5,462,000 in 1980 and $7,286,000 in 1979 mostly to customers in the United States. U.S. operations include export sales of $3,226,000 in 1980 and $1,106,000 in 1979.

CORPORATE DIRECTORY

The Board of Directors

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

† P. F. Fenton, Jr.
Hanover, New Hampshire
Investment counsellor

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

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

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

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

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

‡ W. C. Pitfield
Toronto, Ontario
President
Pitfield Mackay Ross Limited

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

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

Officers of the Corporation

S. J. Sinclair
Chairman of the Board and Chief Executive Officer

J. W. Fraser
Vice-President

N. J. Lucas
Vice-President

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

Head office

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Officers of Subsidiaries and Divisions

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President

J. H. Gillow
Vice-President, Manufacturing

C. G. Finlayson
Controller

El-Met-Parts, Division of Toromont Industries Ltd.
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Dundas, Ontario
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J. Papakyriakou
President

M. A. Stinson
Controller

CIMCO Limited
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Chairman

F. G. Lunn
President

H. R. Hepburn
Vice-President, Marketing

R. S. Rose
Vice-President, Engineering

L. W. Goodman
Comptroller

Allen Tank (London) Limited
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General Manager

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Vice-President

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