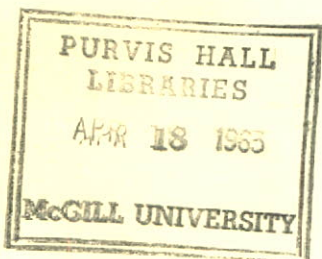


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ANNUAL REPORT 1962

THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED
and subsidiary companies

- AN INDEPENDENT CANADIAN COMPANY
- 97% OWNED IN CANADA
- 3800 CANADIAN SHAREHOLDERS



THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED

AND SUBSIDIARY COMPANIES

Board of Directors

Robert H. Morse — *Chairman, Lake Forest, Ill.*
Robert Morse III — *President and General Manager, Montreal*
L. Philippe Beaulieu — *Vice-President, Contract Sales Division, Montreal*
Henry G. Birks — *President, Henry Birks & Sons Ltd., Montreal*
Joseph M. Breen — *Chairman, Canada Cement Co. Ltd., Montreal*
L. René Gaiennie — *President, Howe Richardson Scale Company, Clifton, N.J.*
R. deWolfe MacKay, Q.C. — *Duquet, MacKay & Weldon, Montreal*
James E. McQuilkin — *Vice-President, Finance, Montreal*
Gérard Plourde — *President, United Auto Parts Ltd., Montreal*
Hubert T. Richardson — *President, Richardson Corporation, Clifton, N.J.*
John M. Rudel — *Vice-President, Rudel Industrial Division, Montreal*

Bankers

Bank of Montreal
The Royal Bank of Canada
The First National City Bank of New York
United California Bank
New Jersey Bank and Trust Co.
Continental Illinois National Bank and Trust Company of Chicago

Auditors

Price Waterhouse & Co.

Transfer Agents

The Royal Trust Company
The First National Bank of Chicago

Registrars

Bank of Montreal
Continental Illinois National Bank and Trust Company of Chicago

Executive Offices

Canadian Imperial Bank of Commerce Building
1155 Dorchester Boulevard West, Montreal 2, Quebec

Officers

Robert Morse III — *President and General Manager*
James E. McQuilkin — *Vice-President, Finance*
Russell J. Pederson — *Vice-President, Comptroller*
Claude M. Tétrault — *Vice-President, General Counsel and Secretary*
Fred M. Fairman — *Treasurer*

L. Philippe Beaulieu — *Vice-President, Contract Sales Division*
C. Marc Robert — *Vice-President, Scale Division*
John M. Rudel — *Vice-President, Rudel Industrial Division*
Meredith S. Hayes — *Vice-President, Machinery*

Subsidiary Companies

HOWE RICHARDSON SCALE COMPANY — Clifton, New Jersey

I. H. Richardson — *Chairman of the Board*
L. R. Gaiennie — *President and Genl. Mgr.; Senior Vice-Pres., Cdn. Fairbanks-Morse*
P. B. Richardson — *Asst. to Pres.* J. E. Giner — *Vice-Pres., Sales*
J. G. Fenton — *Senior Vice-Pres.* P. L. Kurdeka — *Vice-Pres., Manufacturing*
A. J. Burke — *Vice-Pres., Engineering* C. G. Gehringer — *Vice-President*
W. M. Young — *Vice-Pres., Marketing* W. L. Hamilton — *Vice-President*
J. F. Cron — *Comptroller, Secretary-Treasurer*

JOHNSTON PUMP COMPANY — Pasadena, California

L. A. Weom — *President and Genl. Mgr.; Vice-Pres., Cdn. Fairbanks-Morse*
P. H. Brown — *Vice-President, Engineering* J. R. Mapel — *Vice-President, Sales*

JOHNSTON PUMP COMPANY DE MEXICO S.A. DE C.V. — Naucalpan de Juarez, Mexico

Robert Morse III — *President* L. A. Weom — *Vice-President*

RICHARDSON SCALE COMPANY LIMITED — Nottingham, England

J. E. Dewstow — *President* T. A. Shore — *Managing Director*

RICHARDSON SCALE COMPANY (FRANCE) S.A. — Paris, France

Alphonse Dingemans — *President and Managing Director*

RICHARDSON SCALE CO. (AUST.) PTY. LTD. — Broadmeadow, N.S.W., Australia

John A. Uhrig — *Managing Director*

DYNAMIC ENGINEERING LTD. — Montreal

Robert Morse III — *President* L. P. Beaulieu — *Vice-Pres. and Genl. Mgr.*

THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED

AND SUBSIDIARY COMPANIES

To Our Shareholders

Summary

In 1962 the Company had a consolidated net profit of \$63,000, as compared to a net loss of \$1,138,000 for 1961, an improvement of \$1,201,000. Depreciation included was \$485,000, providing a "cash flow" of \$548,000.

The improvement in 1962 operating results, as compared to 1961, was only slight in the early part of the year, but increased steadily as the year progressed. The trend of improvement is expected to continue during 1963, and barring a general business recession, management predicts a further substantial profit increase for the current year.

Dividends of 47½¢ and 15¢ were paid in 1962 on the "A" and "B" shares, respectively, a total disbursement of \$275,000. Effective June 1, 1962, the dividend on the "B" shares was suspended and the quarterly rate of 17½¢ on the "A" shares was reduced to 10¢, which amounts to \$200,000 of disbursements on an annual basis.

Highlights of 1962 Operations

Consolidated sales set a new record at \$48,047,000, expressed in Canadian dollars, as compared to the previous record of \$40,559,000 in 1961. A large portion of the sales increase was due to the acquisition of the Richardson Scale Company, the balance being accounted for by sales increases in most Canadian divisions and one U.S. subsidiary.

Orders booked during 1962 set a new record at \$51 million, increasing the backlog of unshipped orders by \$3 million during the year to \$12 million at the year end.

Consolidated working capital increased by \$2,390,000 from \$4,026,000 at December 31, 1961 to \$6,416,000 at the end of 1962. \$1,337,000 of the increase resulted from acquiring the working capital of the Richardson Scale Company as of January 1, 1962. The balance of \$1,053,000 was the net increase created through profit, depreciation, sale of Canadian real estate and funding of some of the short term debt, after capital expenditures and dividend payments.

Substantial expense reductions were effected progressively during the year, principally as the result of three organizational integrations. Early in the year the machine tool and materials handling distribution activities of the Company's subsidiary, Rudel Machinery Company, were integrated with the corresponding operations of the parent company. The resulting single organization, the Rudel Industrial Division, is doing a higher volume of business with more efficiency and lower operating costs, and is the largest distributor of machine tools, materials handling equipment, and industrial supplies in Canada.

Late in the year the Company's two separate organizations handling diesel engines, pumps, water filtration, and sewage treatment installations, were consolidated into a single division, known as the Contract Sales Division. This Contract Sales Division operates across Canada, and is the leading organization of its type in the country.

The largest integration of two organizations was that involving the merger of Richardson Scale activities with those of our subsidiary, The Howe Scale Company. This integration commenced shortly after acquisition of Richardson Scale early in the year and continued step by step throughout the year, involving the elimination of duplicate corporate and management positions, relocation of a number of management people, and creation of a single sales and service organization throughout the United States. The major elements of this integration were completed by the end of the year, after incurring considerable non-recurring expense. The resulting organization, the Howe Richardson Scale Company, is one of the two largest producers of industrial scales and weighing equipment in North America, with world-wide engineering leadership in some segments of the industry. It is expected to contribute increasingly to consolidated net profit during 1963 and 1964, as momentum is gained under the new management and organizational structure.

In October the Company moved its Executive Offices, Contract Sales Division, and Canadian Scale Division management into one complete floor of the new Canadian

Imperial Bank of Commerce Building at 1155 Dorchester Blvd. West, Montreal. The Company now leases only two floors of the 980 St. Antoine St. building, whereas it formerly occupied all seven floors.

Expansion

The reorganization program undertaken in 1960 has included the liquidation of unprofitable activities doing approximately \$15 million of annual sales volume and the acquisition of new companies representing approximately \$30 million of annual volume. Our program does not include further major acquisitions in the near future, but rather consolidating our present position and obtaining the maximum potential efficiencies and profit from our present divisions and subsidiaries.

During 1962 the Company terminated its joint venture arrangement to manufacture scales in Japan. However, in accordance with its basic agreement to acquire the Richardson Scale Company, the Company acquired early in 1963 approximately seventy-five per cent of the Richardson Scale Company Limited of Nottingham, England, approximately eighty-five per cent of the Richardson Scale Company of Paris, France, a sixty per cent interest in Richardson Scale Company (Australia), and has undertaken to acquire a sixty per cent interest in Fairway-Howe Scale Company of Australia, the existing Howe manufacturing licensee. These are all profitable companies, and while small by North American standards, provide our Company with operations in some of the world's important market areas, including the European Common Market.

Personnel

Mr. Hubert Richardson, formerly Chairman of the Richardson Scale Company, was elected to the Board of Directors at the Annual Meeting in April 1962.

Mr. L. P. Beaulieu, Vice-President, was granted increased responsibilities as General Manager of the nationwide Contract Sales Division.

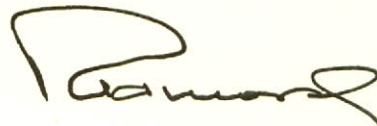
Future Outlook

The enlarged operations of our reorganized and reconstituted company are quite diversified. A portion of our business is represented by distribution activities in Canada; a portion is represented by manufacturing activities in the United States, Canada, Great Britain, France, Australia and Mexico, with varying degrees of world export business in each case. The markets served include all branches of industry, agriculture, transportation, and government.

We feel that each individual division or subsidiary is now under good management and either presently doing well or in process of improving. Each unit is planning and budgeting for improved earnings in 1963. Expenses are running lower than one year ago, backlog is higher, and new orders have started the year ahead of 1962. Thus, it appears probable that earnings for 1963 will be substantially higher than 1962.

The Company feels fortunate in now having very competent management and employees in its various divisions. Their loyalty and many fine accomplishments during the past year are deeply appreciated.

On behalf of the Board of Directors.



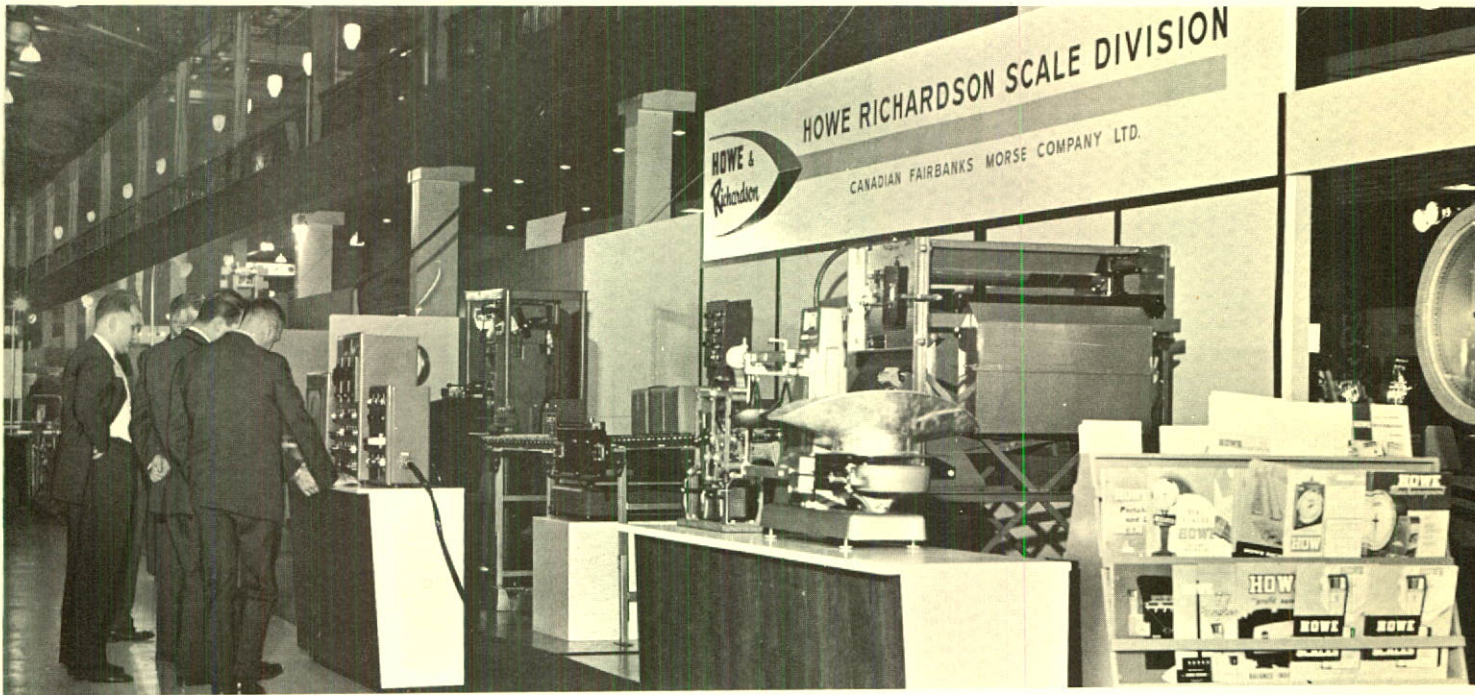
Chairman



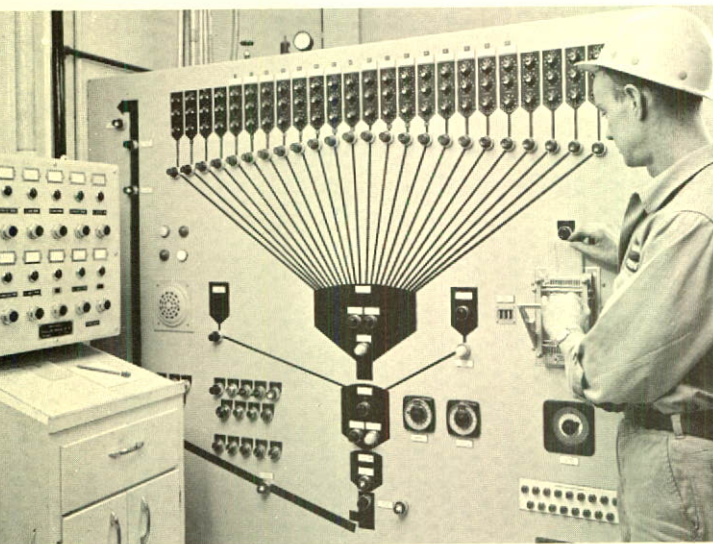
President and General Manager

April 4, 1963.

Mechanical Scales – Electronic Weighing Devices



Howe Richardson Scale Division display at the Materials Handling Exposition, Automotive Building, Exhibition Park Toronto, held in October 1962. 8,000 Materials Handling engineers and key executives attended this three day show which was not open to the general public. On display at the Scale Exhibit were Howe Dials, weightographs, check weighers and Richardson baggers and bag closing equipment.

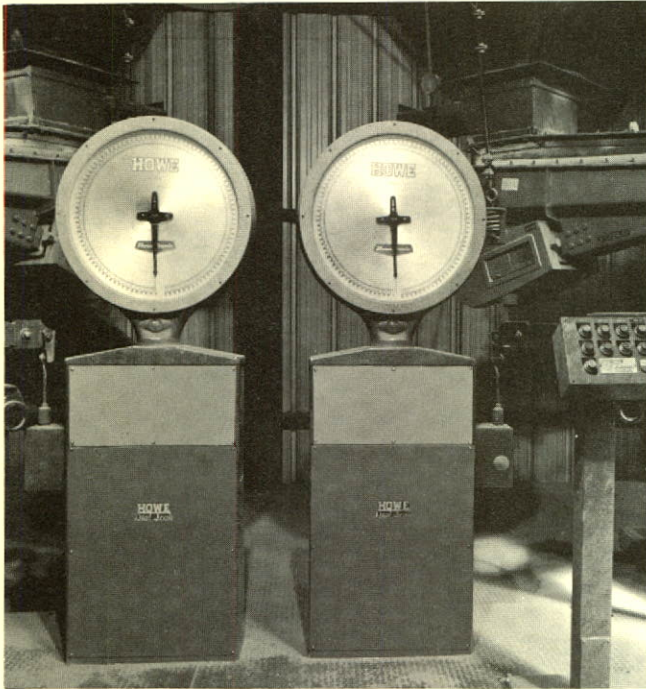


An excellent example of the application of electronics to industry is the new concentrate plant of the Shur-Grain Division of Canada Packers Ltd. at Calgary, Alberta. Punch cards and other automatic controls regulate virtually every phase of the operation. Illustration shows operator feeding a pre-punched card into the control panel of the Howe Batchmaster system.

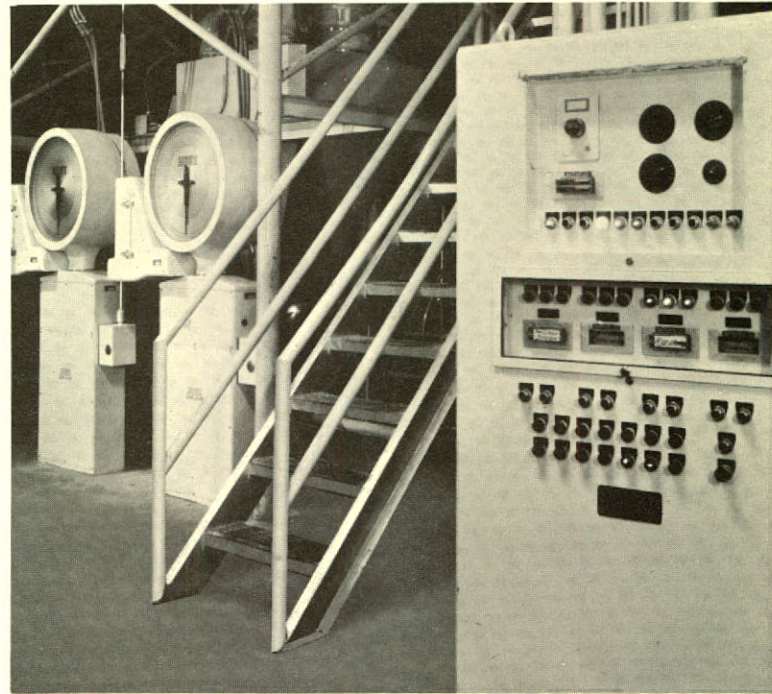
Installation of a Howe Motor Truck Scale that weighs trucks leaving the new Dufferin Quarry, Milton, Ont. This scale is engineered to give accurate and speedy weighing for long continuous service. The all-steel construction insures maximum strength with minimum weight factor.



– Automatic Proportioning by Weight

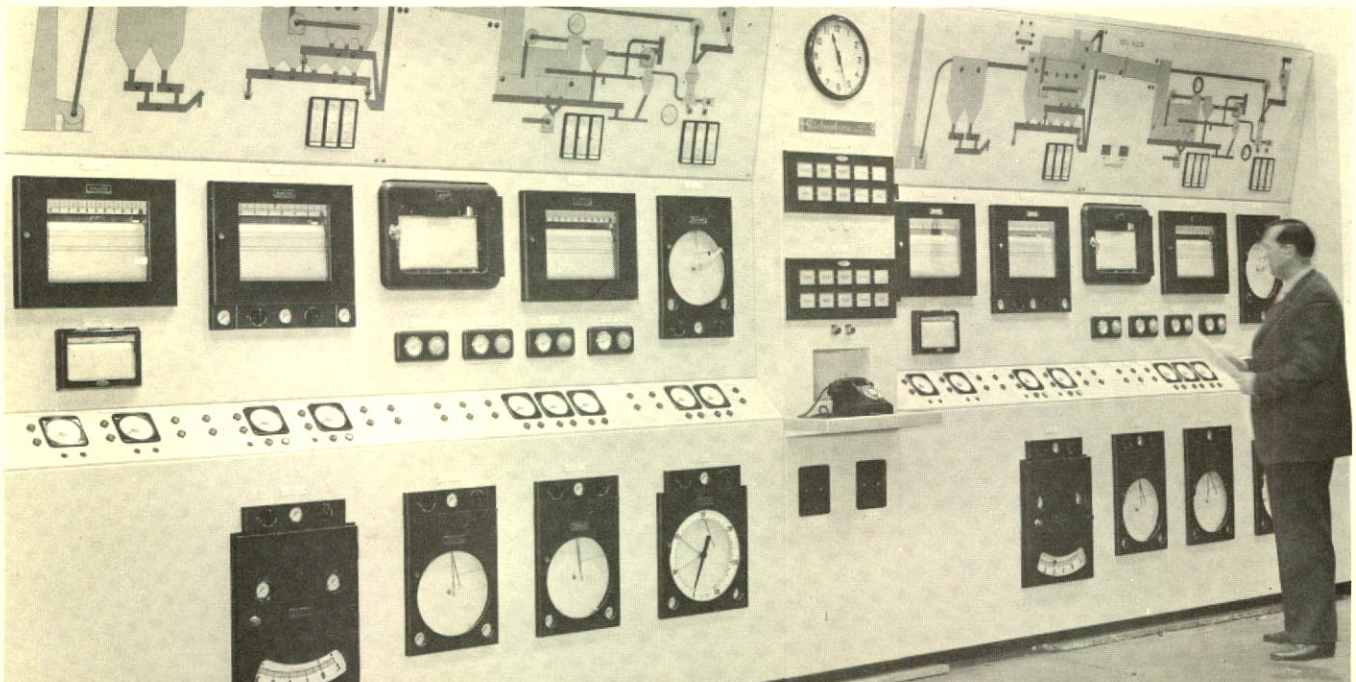


Howe scales used for batching ingredients in the manufacture of bricks at H. K. Porter Co., Inc., Refractories Division, Bessemer, Alabama. There are six Suspension Hopper Scales with Cabinet Dials. The scales are fed by Vibrating Feeders from twenty-four bins. They are arranged in two systems with three scales per system, with Batchmasters. One operator can batch-up and send by conveyor to the mixers enough clay to make fifty thousand bricks in an eight hour period.

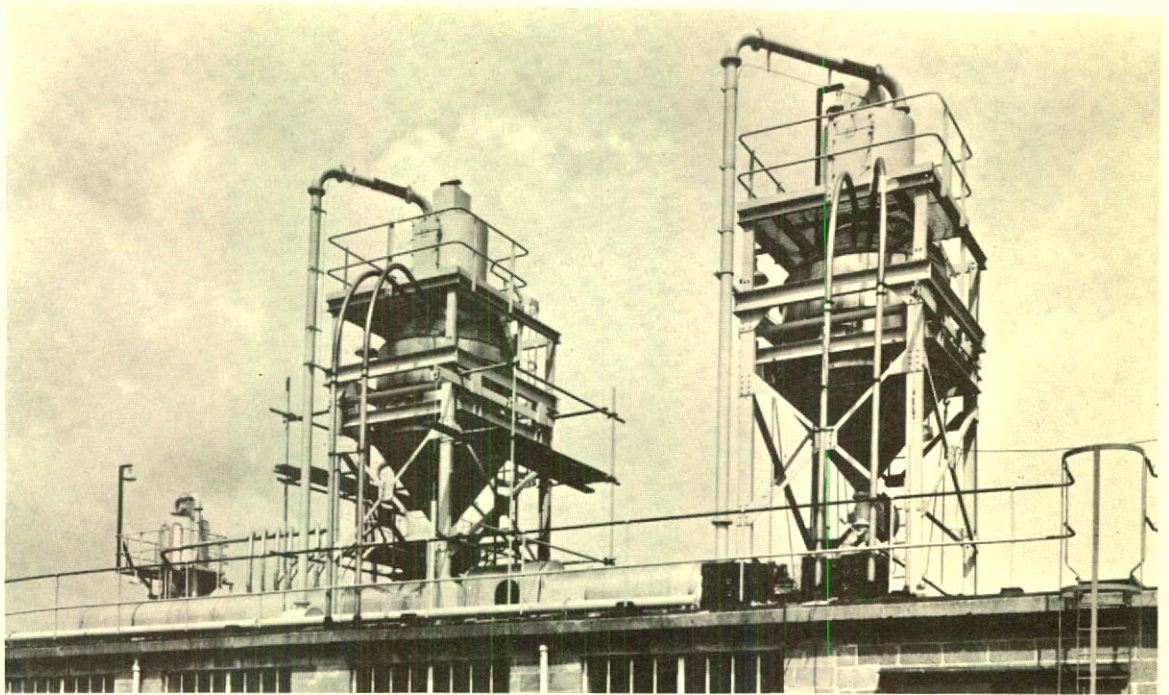


Weigh station with dials and Batchmaster control at Fink Baking Co., Long Island City, N.Y. These scales are used for batching ingredients in the making of many types of baked goods. The installation includes two Howe cabinet dial scales with mechanoprint, two fluidometers and Batchmaster control. One of the scales handles the six different types of flour, the other scale handles the sugar and salt. The fluidometers regulate the quantity of water and liquid shortening.

Instrument panel being given final inspection before shipment, at Richardson Scale Company, Nottingham, England. This panel was built for Associated Portland Cement Mfgs. Ltd. for installation in their new works at Oxwell Main in Scotland.



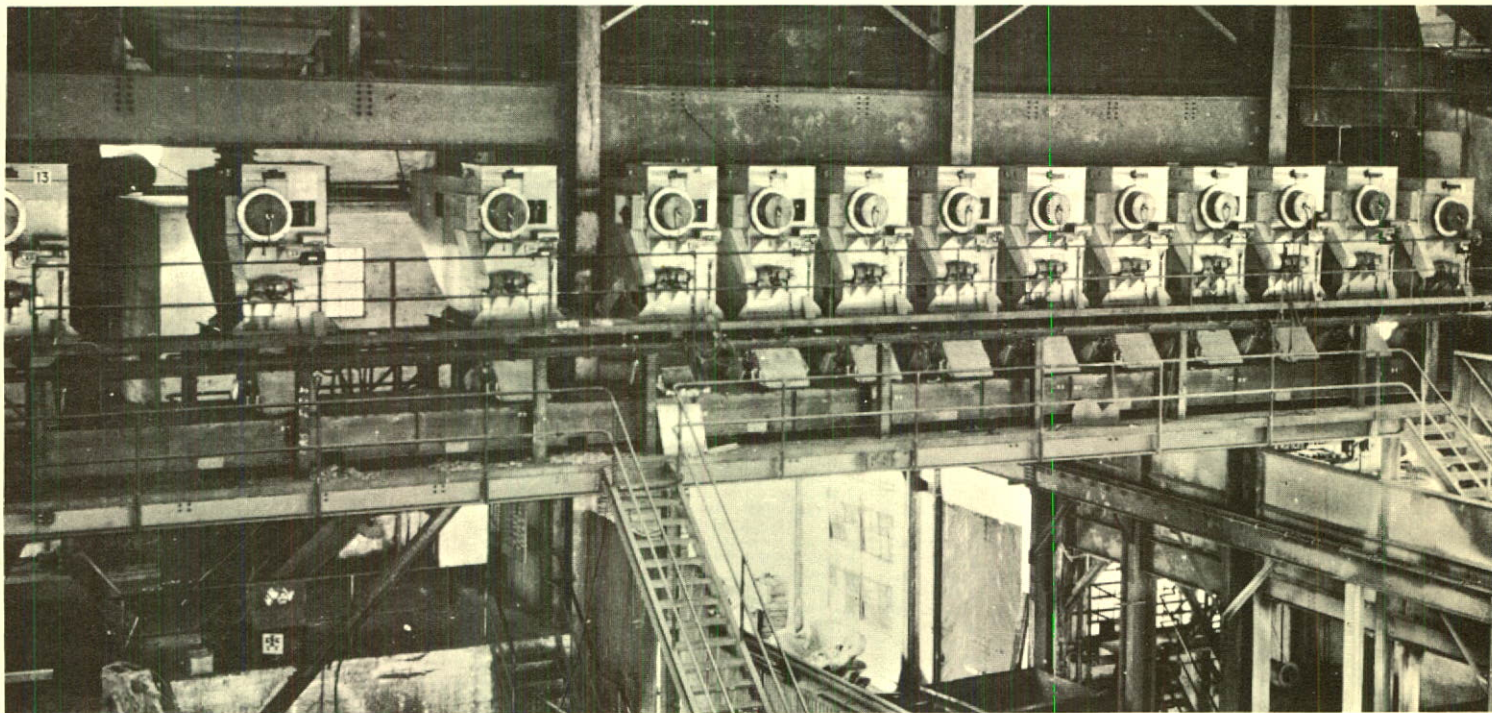
Two 12,000-lb. capacity Richardson Hopper Scales for handling polystyrene beads at Petro Chemicals, Lancashire, England. Each scale has a ticket printing dial head located three floors below the hoppers. In the same plant are seven 600-lb. capacity weighing systems, with dial heads equipped with photo electric switches for dispensing beads to various parts of the process.

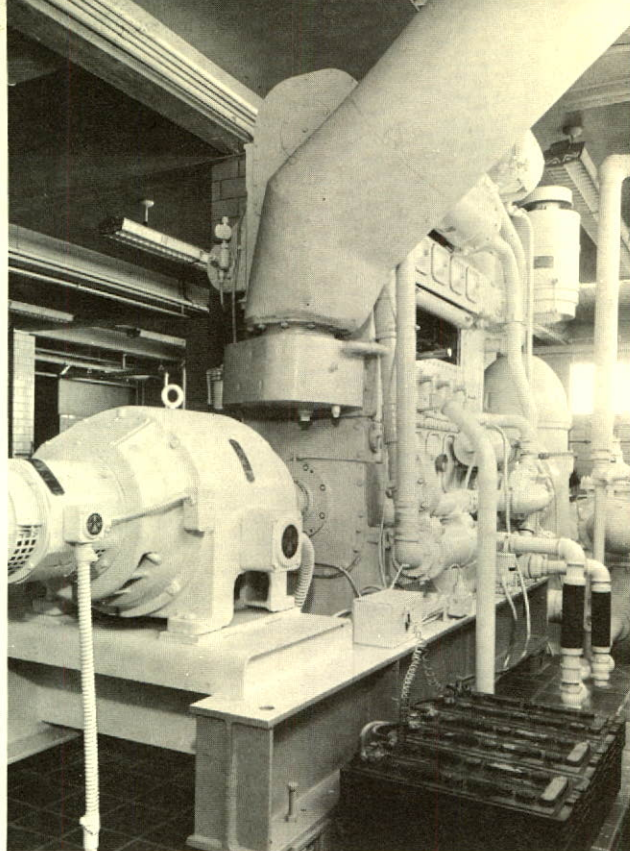
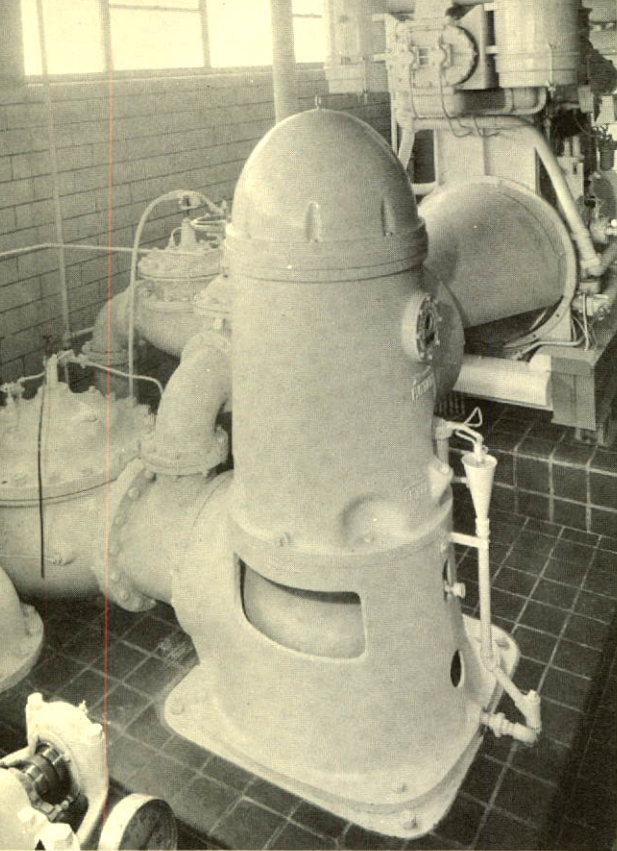


Mechanical Scales - Electronic Weighing Devices - Automatic Proportioning by Weight

An automatic system feeds various ingredients to two electric arc furnaces in the production of special steels at the plant of Electric Products, Sanda, Norway. Thirteen Richardson RH39 scales, fitted with 24" dials and with extended belt feeders,

take material from the base of the hoppers. Independent photoelectric cut-off controls enable a different formula to be fed to each furnace. Both of these installations were made by the Richardson Scale Company of Nottingham, England.





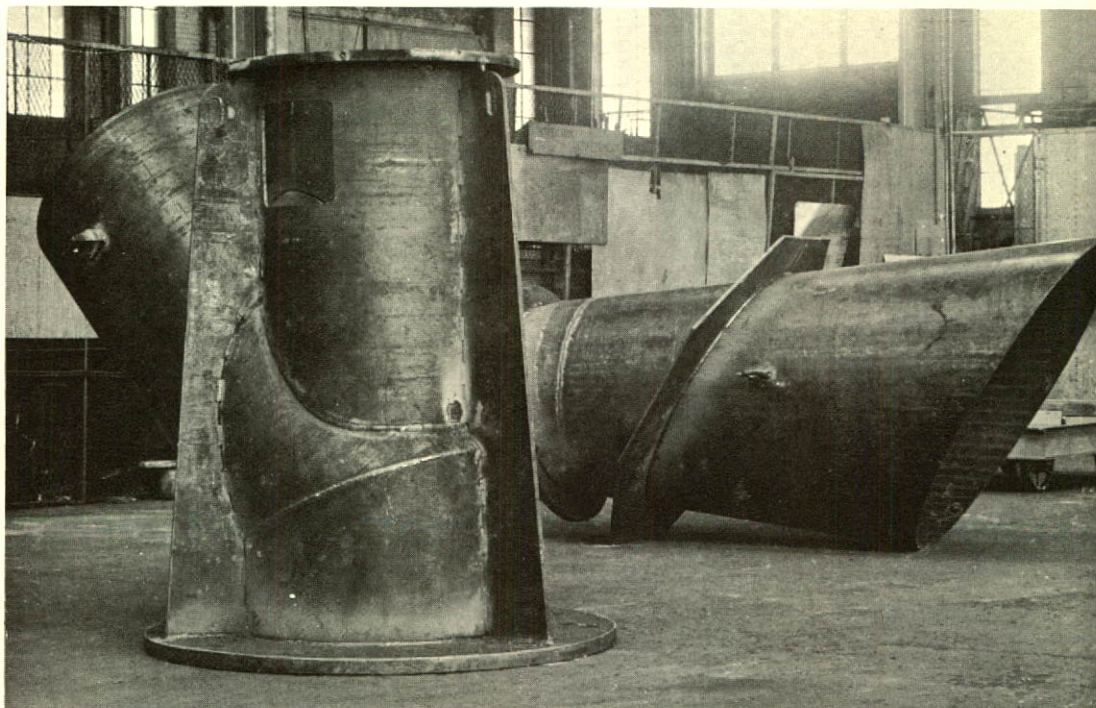
This Diesel driven, vertical turbine pump can supply eight million gallons a day as an emergency standby, for the twelve million gallons a day filtration plant of Ville Jacques Cartier, Quebec. The hydraulically pilot-operated valves eliminate the starting and stopping surges on the 24" main to provide constant pressure operation at various flows. The FM Model 38, 4 cylinder, Opposed Piston Diesel Engine also drives the 25 K.W. generator to provide emergency electrical power.

Contract Sales Division

Pumps, Waterworks and Engines

Semi-finished parts of Johnston pumps being manufactured in Canada. These are components of five Johnston pumps being built for the City of Montreal — an extension to Pumping Station "B". These pumps will supply raw water from the canal to the filter beds, each pump having a capacity of 35 million imperial gallons per day.

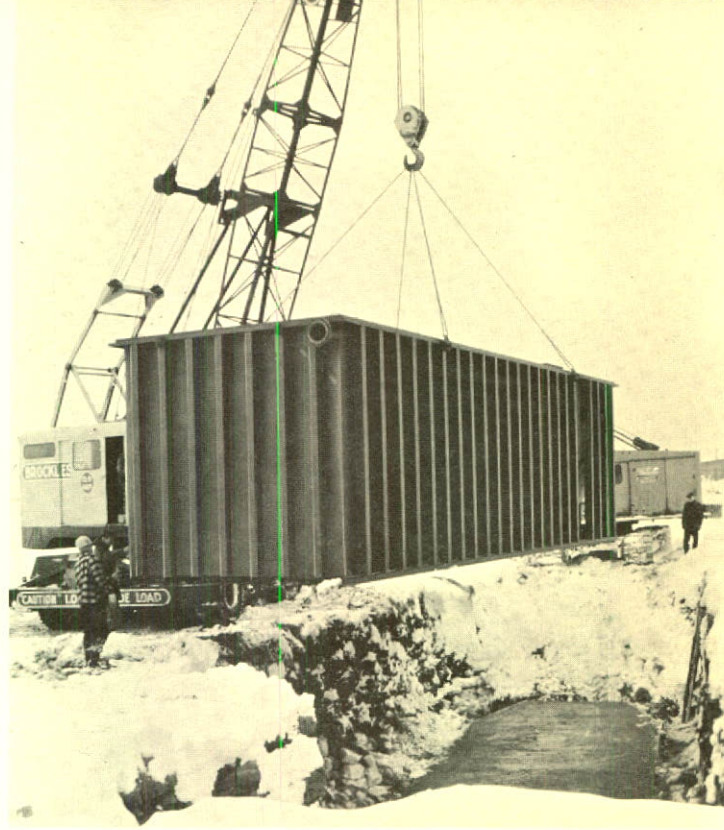
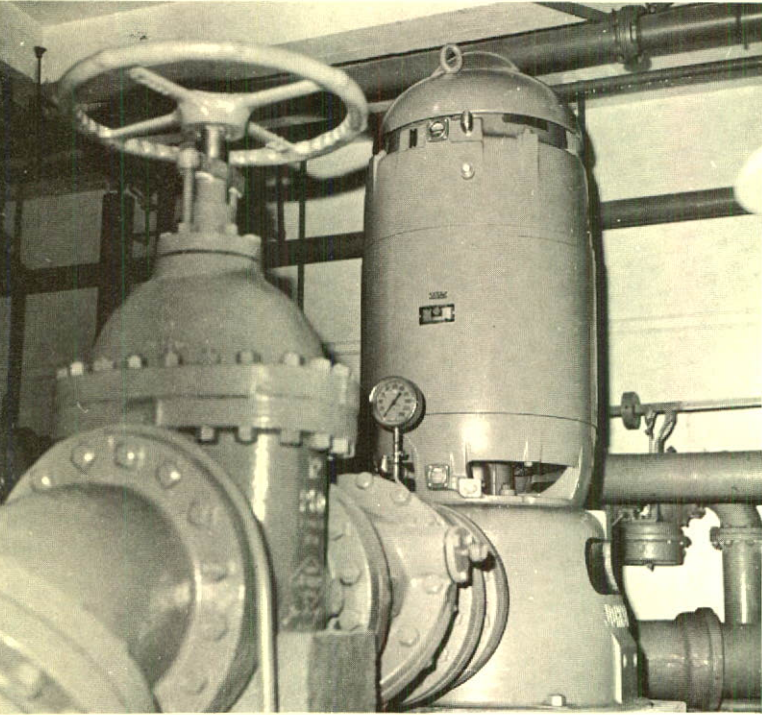
In the municipal field Johnston pumps are used for many pumping applications in filtration plants, sewage disposal and water distribution systems. Municipal users range from small towns to some of the world's largest cities.



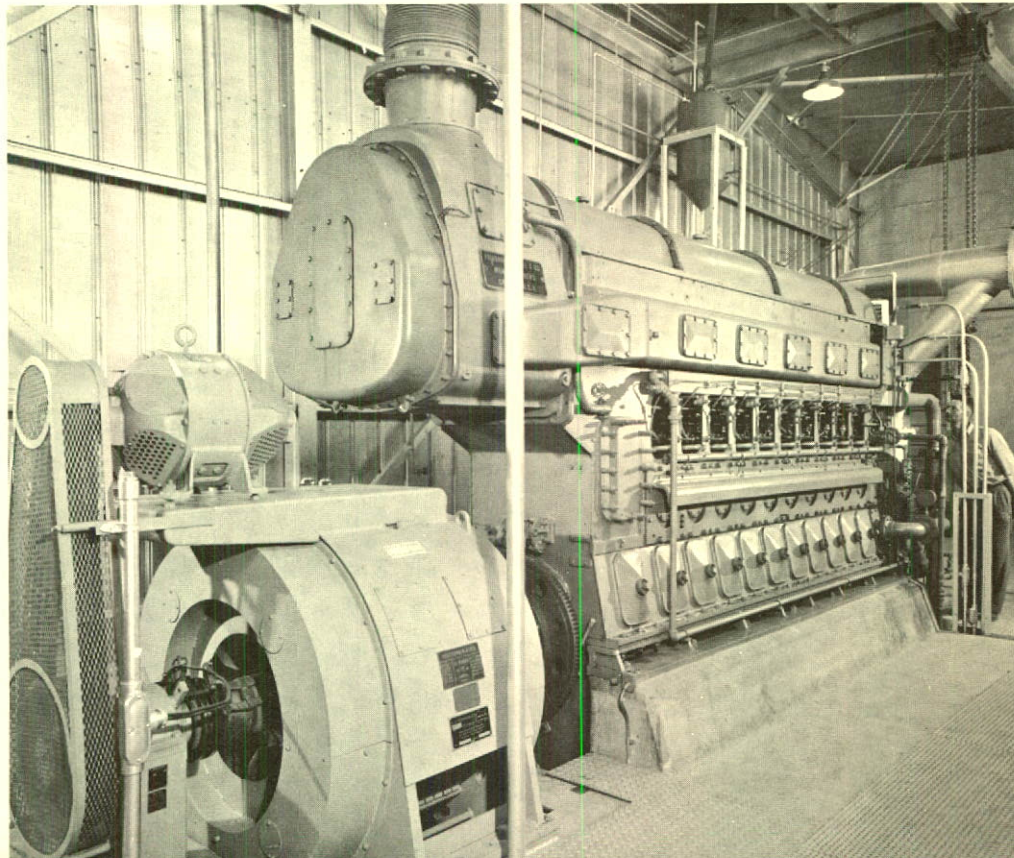
Contract Sales Division

Pumps, Waterworks and Engines

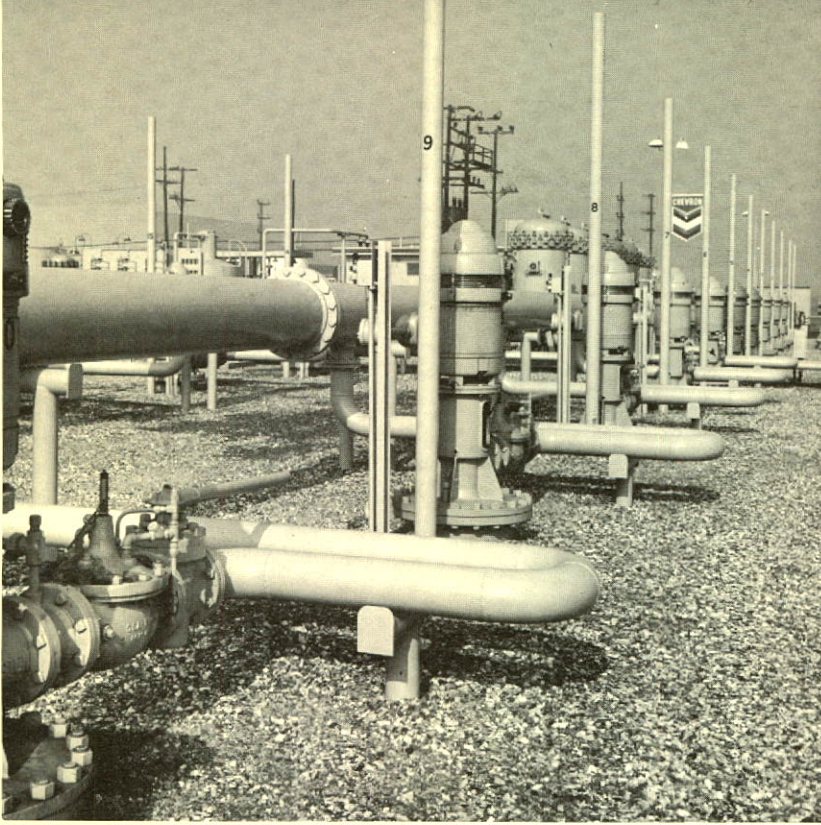
This large Johnston pump serves the City of Lauzon, P.Q. Installed in 1962 at the filtration plant on the shore of the St. Lawrence River, it pumps clear water through the distribution system into a high level tank. Capacity, 2,400 gal. per minute. A new 3-million gallon underground reservoir is now under construction and two more Johnston vertical pumps will be installed on top of this reservoir for domestic water and fire pump service.



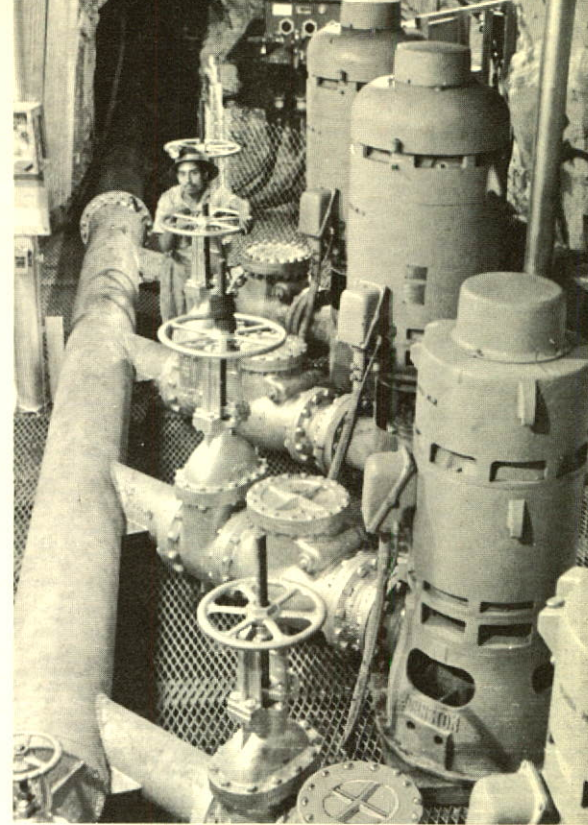
Schmieg self-contained sewage treatment plant being lowered into pit at St. François, P.Q. This unit (one of two) will serve a housing development and is designed to handle 20,000 gallons of domestic sewage per day. These units, and also prefabricated underground pumping stations, are manufactured in Canada. The Company is also distributor for Infilco Inc. one of the world's largest manufacturers of water and waste treatment equipment; and is completely organized to supply engineering services to municipalities and industrial concerns where water and waste problems are encountered.



10 cylinder F.M. Opposed Piston Diesel Engine Generator used for emergency standby service at International Mineral & Chemical Co., Esterhazy, Sask.

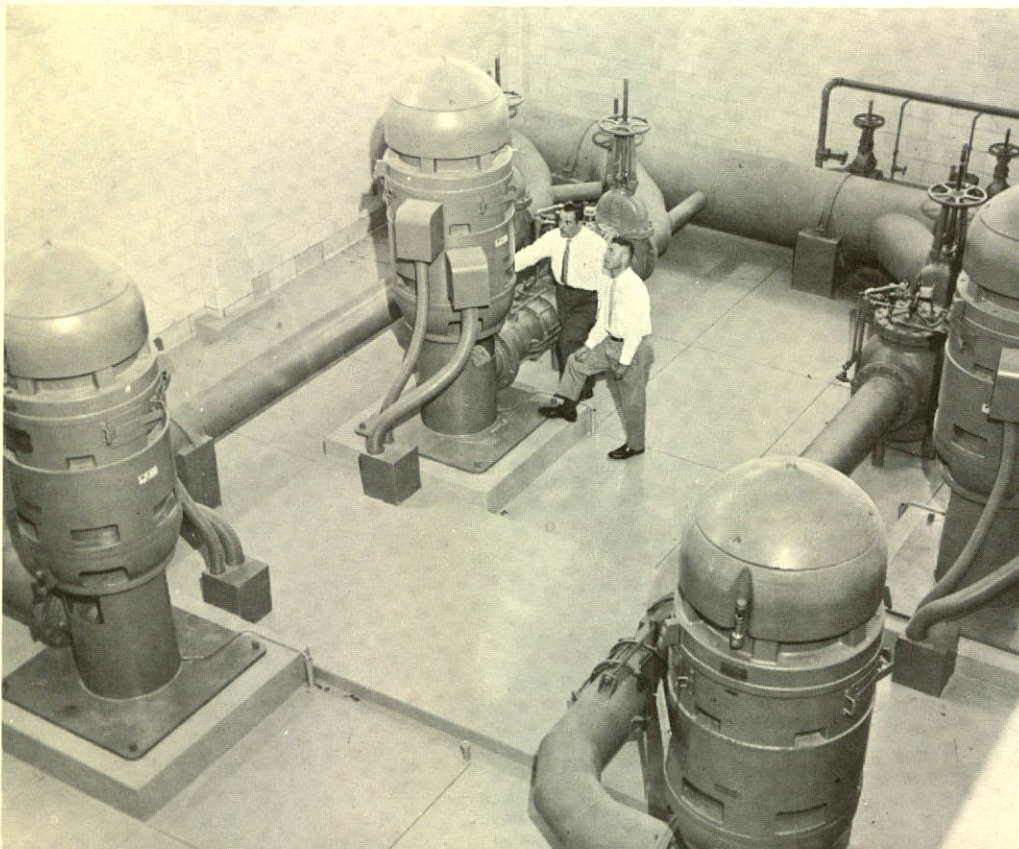


There are over 60 Johnston pumps in fuel service at the magnificent new Los Angeles International Airport. Most of them are used in the Airport's unique underground fueling system which provides speedy plane-side service from sub-surface hydrants, eliminating tank trucks and greatly reducing surface congestion. Pumps chosen for this vital task are all Johnston Liquid-Seal units, sealed hydraulically and designed specifically to handle volatile fluids safely and efficiently.



Johnston vertical pumps have advantages that are making them increasingly popular in mine dewatering service. A new installation in the El Mochito mine in Honduras, is a good example. Here there are four Johnston pumps working almost a quarter of a mile underground, lifting water 325 feet from a sump at the 975-foot level, into an 11,000-foot long tunnel that drains outside the mine. The combined capacity of the four pumps is 5,500 GPM.

Johnston Pumps



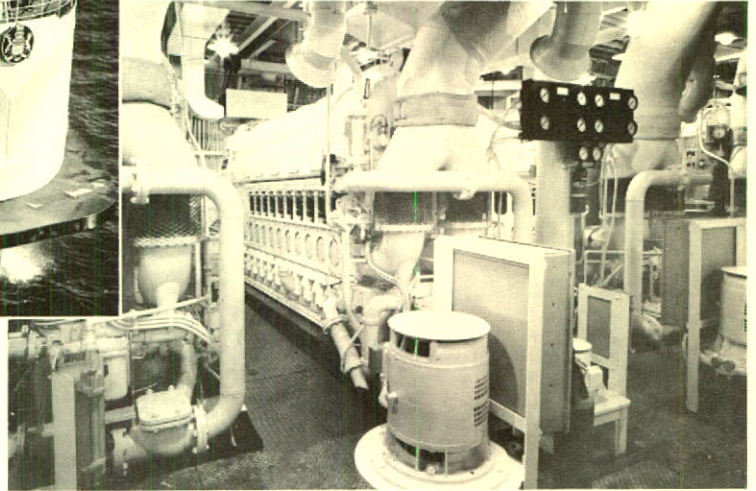
Four Johnston one-stage, mixed flow pumps, each rated at 4,200 GPM are installed in the river water intake pumping station on the west side of Grand Island, between the cities of Niagara Falls and Buffalo, New York. These four units take suction from the Niagara River and force the water through the new reinforced concrete line across Grand Island and under the east branch of the river, to the main treatment plant of the Niagara County Water Authority. At the main treatment plant, four 4-stage, Johnston 20 DC high lift pumps (illustrated) take suction from the clear well located below the floor and pump it into the large force main.

Contract Sales Division

Marine



QUEEN OF SAANICH — This vessel and her sister ship MV Queen of Esquimalt were built by Victoria Machinery Depot Co., Victoria, B.C., for the B.C. Government ferry service between Swartz Bay and Tsawwassen and Horsehoe Bay and Nanaimo. Both vessels are built to same specifications and are powered by four Canadian-built FM O.P. diesel engines capable of developing 6,000 BHP, and a fully loaded speed of 18 knots. Length overall 342 ft., breadth 78½ ft., load draft 13 ft., displacement 3,000 tons. Capacity, automobiles 106, passengers 1,000.



JOHN A. MACDONALD — This powerful Canadian icebreaker established three records during the Transport Department's 1962 Arctic supply operation. The ship sailed farther north than any other vessel in the waters of the Canadian Archipelago, made the first passage through sections of Norwegian Bay and Belcher Channel, and became the only ship to circumnavigate Prince of Wales Island. Propulsion power consists of nine Canadian-built FM 12-cylinder opposed piston diesels, each developing 2,000 BHP at 750 R.P.M. Designed by Gilmore, German & Milne, naval architects, Montreal, and built by Davie Shipbuilding Limited, Lauzon, Quebec.



Propulsion

FOUR NEW HARBOUR TUGS for Foundation Maritime Limited, Halifax, N.S., just before launching in October 1962 at Davie Shipbuilding Limited, Lauzon, P.Q. These are identical sister ships and are part of an order of seven built for Foundation Maritime at Davie yards. Of all-welded construction the tugs are 330 tons loaded displacement and have a speed of $10\frac{1}{2}$ knots. The main propulsion machinery in each tug consists of a Canadian-built six-cylinder FM opposed piston diesel engine, developing 1,000 BHP at 750 rpm. The vessels will be used for ship handling and general tug duties in the Gulf of St. Lawrence and Eastern Canadian Ports.

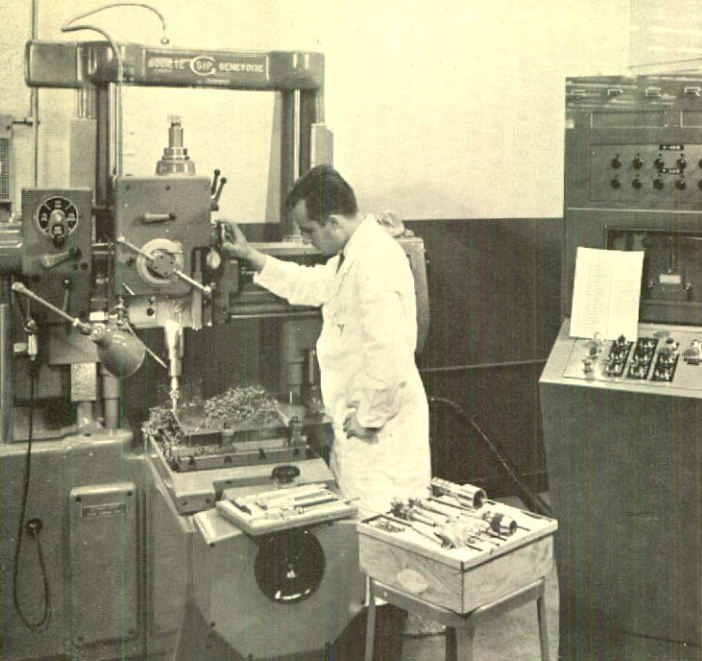


NEW CANADIAN OIL TANKER—The ultra-modern \$2.5 million, 51,000 barrel Canadian Oil Companies tanker, M/V W. Harold Rea, speeds across Georgian Bay, Lake Huron, during her shakedown trials. Built at Collingwood, Ont. by Canadian Shipbuilding & Engineering Co. Ltd., the 6,000 ton

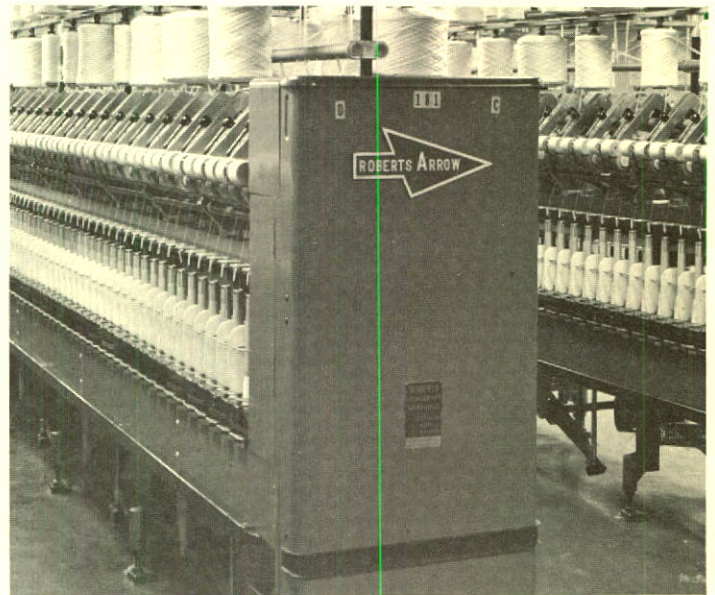
Great Lakes and ocean-going tanker was christened and commissioned in August 1962. Propulsion power is supplied by two Canadian-built 10-cylinder FM opposed piston diesels, each driving a propeller through a Hindmarch reverse reduction gear.



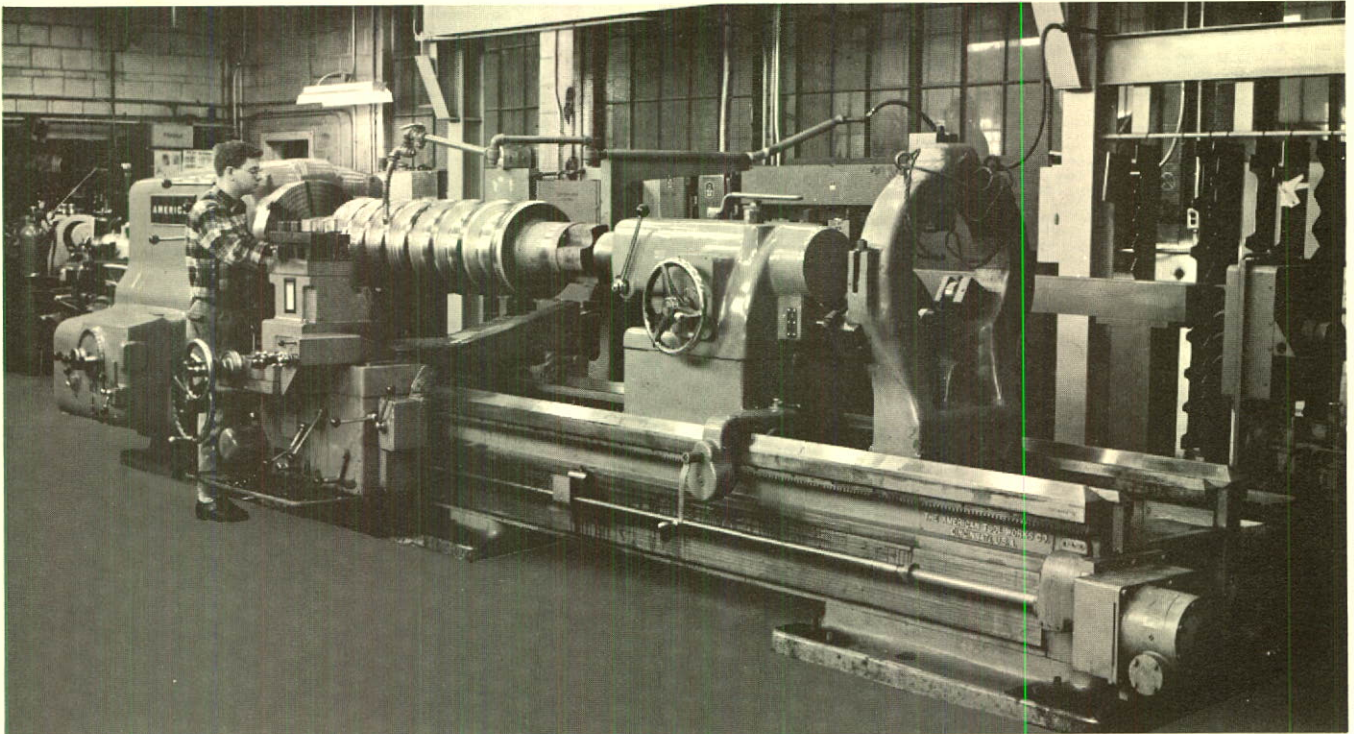
Rudel Industrial



SIP Tape controlled Jig Borer installed at Aviation Electric Limited, Montreal, proved its worth in the production of close tolerance navigation gear. With a multiplicity of design changes and small quantities, the SIP numerically controlled machine gives high accuracy in small batch production. In the first five months of operation substantial savings were made on tool design and tool build. There was also a large reduction in scrap and inspection costs.



Installation of Roberts Spinning Frames at Mohawk Mills, Hamilton, Ontario. Roberts manufactures yarn making machinery for cotton, worsted or long fibre systems. Rudel Industrial Division represents many of the world's leading manufacturers of textile machinery and this installation is typical of many that have been made in Canadian textile mills in recent years.

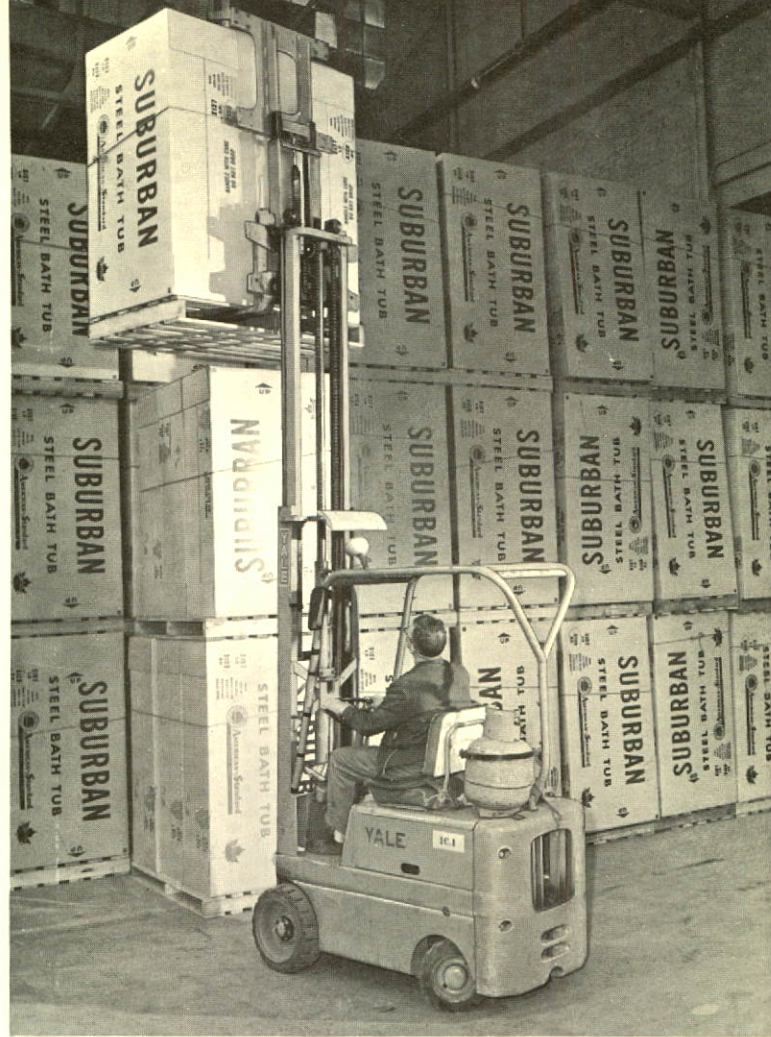
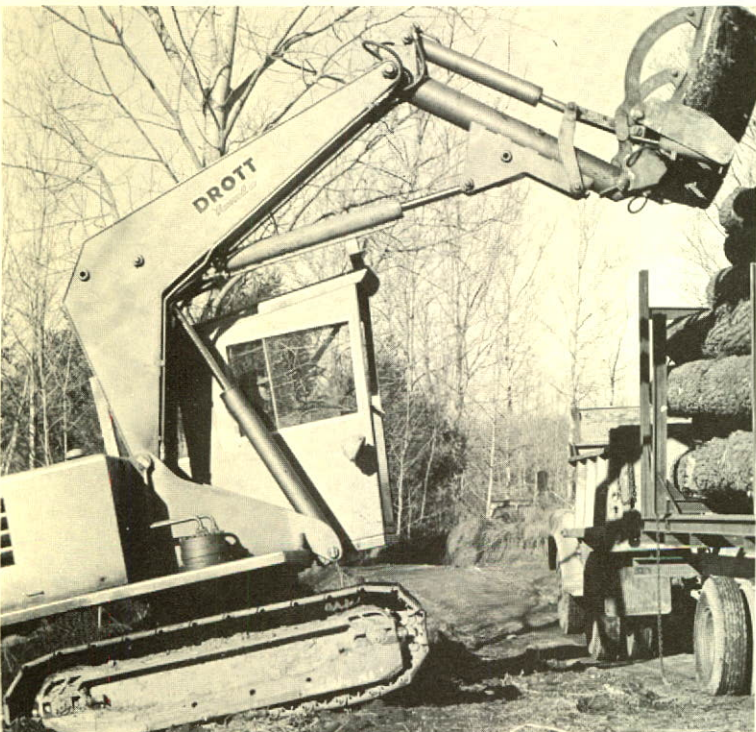


American Tool Works Hydraulic Tracing Lathe installed at the Welland Plant of Atlas Steels Limited.

Division



TREE FARMER



Yale Lift Trucks and Hoists are world famous for strength, modern design and high efficiency. As exclusive distributors for Yale equipment in Canada the Company has made thousands of installations over the years. This Yale G52 at American-Standard Products (Canada) Ltd. is typical. A hard but gentle worker, this gas truck is used for high stacking bathtubs in the Toronto plant. A special attachment stabilizes the load, providing faster and safer handling. Besides fingertip control of direction and lift, this Yale truck also offers a choice of straight clutch or fluid coupling operation. Made in Canada at St. Catharines, Ontario.

In February 1962 the Industrial Division formed a Logging and Construction Equipment Department to sell and service in Eastern Canada a broad line of equipment for the logging and construction industries. Two of the major lines handled are the well known Garrett Tree Farmer and the Drott Yumbo, a versatile loader. Illustrations show these rugged, dependable machines in action.

Statement of Consolidated Income and Retained Earnings

For the year ended December 31 1962

	<u>1962</u>	<u>1961</u> comparison
Net sales	\$48,047,150	\$40,559,490
Income from operations for the year, before the undernoted items	\$ 1,126,903	\$ 79,218
Gain on disposal of properties	162,429	214,430
Depreciation	1,289,332	293,648
Loss on exchange	485,406	489,971
Executive officers' remuneration	9,875	104,000
Legal fees	122,035	162,200
Directors' fees	43,166	29,405
Interest expense	2,700	26,600
Income before interest and income taxes	626,150	(518,528)
Interest expense	684,433	535,266
Income taxes recoverable, net, through loss carry-back	(58,283)	(1,053,794)
Net income for the year	121,318	(84,000)
Consolidated retained earnings at beginning of year	63,035	(1,137,794)
Dividends on Class A shares	5,015,664	6,652,728
Dividends on Class B shares	5,078,699	5,514,934
Consolidated retained earnings at end of year	237,153	349,489
	37,446	149,781
	\$ 4,804,100	\$ 5,015,664

THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Financial Position

December 31 1962

	<u>1962</u>	<u>1961</u>
CURRENT ASSETS:		Pro Forma (Note 1)
Cash	\$ 697,157	\$ 797,117
Trade accounts and notes receivable	10,118,437	9,079,742
Other accounts and notes receivable	988,658	427,273
Income taxes recoverable	188,508	102,037
Inventories (Note 2)	9,089,784	9,742,015
Prepaid expenses	310,113	183,672
	<u>21,392,657</u>	<u>20,331,856</u>
CURRENT LIABILITIES:		
Notes payable (Note 3)	9,127,360	9,789,033
Trade and other accounts payable	5,124,164	4,536,832
Income and other taxes	114,434	209,346
Instalments on long-term debt (Note 4)	356,970	160,638
Customers' deposits on contracts	253,385	272,720
	<u>14,976,313</u>	<u>14,968,569</u>
Working Capital	<u>6,416,344</u>	<u>5,363,287</u>
FIXED ASSETS, at cost:		
Land	145,543	594,436
Buildings	661,538	1,501,382
Plant and equipment	4,239,999	3,860,361
	<u>5,047,080</u>	<u>5,956,179</u>
Less: Accumulated depreciation	2,002,322	2,119,709
	<u>3,044,758</u>	<u>3,836,470</u>
OTHER ASSETS:		
Shares in partly-owned subsidiary not consolidated, at cost	102,220	100,001
Premium on shares of subsidiaries	590,526	556,888
	<u>692,746</u>	<u>656,889</u>
	<u>10,153,848</u>	<u>9,856,646</u>
LONG-TERM DEBT (Note 4)	<u>3,539,339</u>	<u>3,030,573</u>
Shareholders' Equity	<u>\$ 6,614,509</u>	<u>\$ 6,826,073</u>
REPRESENTED BY:		
Capital stock (Note 5)	\$ 1,810,409	\$ 1,810,409
Retained earnings (statement attached)	4,804,100	5,015,664
	<u>\$ 6,614,509</u>	<u>\$ 6,826,073</u>

Signed on behalf of the Board:
R. H. MORSE III, *Director*
J. E. McQUILKIN, *Director*

(The accompanying Notes to Financial Statements are an integral part hereof)

THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements
December 31 1962

1 The 1961 comparative figures shown in the accompanying statement of financial position give effect to the acquisition in January 1962 of assets amounting to US\$3,040,571 from another company, the assumption of US\$859,552 of current liabilities of the vendors, the issue to them of long-term debentures and notes amounting to US\$2,181,019 and a warrant to purchase shares of the parent company as referred to in Note 5.

The accounts of subsidiary companies expressed in currencies other than Canadian have been translated to Canadian dollars in the accompanying financial statements at rates of exchange current at December 31 1962 except (a) fixed assets, long-term liabilities and depreciation provision, at rates prevailing at dates of acquisition or issue and (b) income and expenses (other than depreciation), at average exchange rates in effect during the year.

2 INVENTORIES:

The inventories are priced at the lower of cost or market determined on the companies' usual basis. These stocks are based on physical count and comprise:

	1962	1961 Pro Forma
Finished products, manufactured or purchased	\$5,653,317	\$6,291,842
Work-in-process	1,993,325	2,640,106
Raw materials and supplies	1,443,142	810,067
	<u>\$9,089,784</u>	<u>\$9,742,015</u>

3 NOTES PAYABLE:

	1962	1961 Pro Forma
To banks (in 1962, \$2,456,000 secured)	\$8,575,292	\$8,694,009
To vendor (secured)	—	1,074,150
To others (unsecured)	552,068	20,874
	<u>\$9,127,360</u>	<u>\$9,789,033</u>

4 LONG-TERM DEBT:

	Current	Long-term
Subsidiaries —		
6% Subordinated Debentures* US\$1,500,000 due in 1971	\$ —	\$1,570,305
6% Subordinated Serial Notes* payable US\$68,893 annually to 1972	74,204	576,974
6% Notes* payable US\$14,069 annually to 1972	15,153	136,395
6% Notes* payable US\$100,000 annually to 1965	107,730	489,215
6% Bank loan* payable monthly	75,366	570,949
Non-interest bearing notes (unsecured) due in 1964	25,850	58,705
Equipment purchase contract (secured) payable monthly	16,167	76,796
Parent —		
Purchase obligations (unsecured) payable \$20,000 annually 1964 to 1966	42,500	60,000
	<u>\$ 356,970</u>	<u>\$3,539,339</u>

The foregoing* debentures and interest bearing notes are secured by collateral mortgages or trust deed against the fixed assets.

5 CAPITAL STOCK:	Class A shares	Class B shares
Shares without nominal or par value —		
Shares authorized	4,000,000	2,000,000
Shares issued	499,270	249,635
Amount at which issued	<u>\$1,810,409</u>	

The Class A shares are entitled to a cumulative annual dividend of 70¢ per share and to participate equally in further amounts per share after payment of a non-cumulative annual dividend of 60¢ per share on Class B shares. Dividends in arrears at December 31 1962 on Class A shares amount to \$112,336, payable before the declaration of further dividends on Class B shares.

Shares have been reserved with respect to a warrant issued in January 1962, as part consideration for the purchase of certain net assets, and exercisable to December 31 1971 for the purchase of up to 150,000 Class A shares of stock of the company at a price of US\$10 per share. The shares may be paid for in cash or by the surrender of an equivalent amount of 6% subordinated debentures outstanding.

Options to purchase capital stock of the Company have been granted (a) to a director and officer for 4,500 units at \$30 per unit (each unit comprising two Class A shares and one Class B share) exercisable to August 31 1964 and (b) to two officers of a subsidiary each for 5,000 Class A shares at US\$10 per share exercisable to April 30 1967.

6 COMMITMENTS AND CONTINGENCIES:

- (a) As guarantor of bank loans of \$185,000 made to affiliated companies.
- (b) For lease rentals aggregating \$404,000 annually, with respect to real estate and automotive equipment, for periods extending from three to twenty-five years.
- (c) Pursuant to the agreement for the acquisition of assets, referred to in Note 1, for purchases (completed in 1963 or in course of completion) aggregating \$760,000 (\$265,000 in term securities of the company, \$495,000 in cash) of shares representing controlling interests in five companies whose operations are outside Canada. The company is also committed to purchase the remaining 25% minority interest in one of the companies within the next five years.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED:**

We have examined the consolidated statement of financial position of The Canadian Fairbanks-Morse Company Limited and subsidiaries as at December 31 1962 and the statement of consolidated income and retained earnings for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated statement of financial position and statement of consolidated income and retained earnings, together with the notes thereto, present

fairly the consolidated financial position of the company as at December 31 1962 and the consolidated results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with the provisions of Section 118 of the Companies Act, we report that the operations for the year of the partly-owned subsidiary not consolidated resulted in a loss. The company's unrecorded share is \$89,000 of the accumulated losses of that subsidiary.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Montreal, February 19 1963

THE CANADIAN FAIRBANKS-MORSE COMPANY LIMITED

Executive Offices — 1155 Dorchester Boulevard West, Montreal 2

CANADIAN DIVISIONS

RUDEL INDUSTRIAL - SCALE - CONTRACT SALES

Sales Offices and Warehouses

St. John's Nfld.
Halifax, N.S.
Saint John, N.B.
Quebec, P.Q.
Montreal, P.Q.

Ottawa, Ont.
Toronto, Ont.
Windsor, Ont.
Hamilton, Ont.
St. Catharines, Ont.
Fort William, Ont.

Winnipeg, Man.
Calgary, Alta.
Edmonton, Alta.
Vancouver, B.C.
Victoria, B.C.

Factories — Sherbrooke, P.Q. and Vancouver, B.C.

HOWE RICHARDSON SCALE COMPANY

General Offices — Clifton, N.J.

Sales Offices

Albany, N.Y.
Atlanta, Ga.
Baltimore, Md.
Birmingham, Ala.
Boston, Mass.
Buffalo, N.Y.
Chicago, Ill.
Cincinnati, Ohio

Cleveland, Ohio
Denver, Col.
Detroit, Mich.
Hartford, Conn.
Houston, Texas
Jackson, Miss.
Jacksonville, Fla.
Kansas City, Mo.

Los Angeles, Cal.
Memphis, Tenn.
Milwaukee, Wis.
Minneapolis, Minn.
Newark, N.J.
New Orleans, La.
New York, N.Y.
Omaha, Neb.

Philadelphia, Pa.
Pittsburgh, Pa.
Portland, Ore.
St. Louis, Mo.
San Francisco, Cal.
Seattle, Wash.
Wichita, Kan.
Export Dept.,
Clifton, N.J.

Factories — Clifton, N.J., Rutland, Vt., Minneapolis, Minn., Southgate, Cal.

JOHNSTON PUMP COMPANY

General Offices and Factory — 3272 East Foothill Blvd. — Pasadena, California

Sales Offices and Warehouses

Atlanta, Ga.
Chicago, Ill.

Fresno, Cal.
Idaho Falls, Idaho
New York, N.Y.

Roswell, N.M.
San Francisco, Cal.

JOHNSTON PUMP COMPANY DE MEXICO S.A. DE C.V.

General Offices and Factory — Naucalpan de Juarez, Mexico

RICHARDSON SCALE COMPANY LIMITED

General Offices and Factory — Nottingham, England

RICHARDSON SCALE COMPANY (FRANCE) S.A.

General Offices, Paris — Factories, Sèvres and Chaville, France

RICHARDSON SCALE CO. (AUST.) PTY. LTD.

General Offices and Factory, Broadmeadow, N.S.W., Australia

DYNAMIC ENGINEERING LTD.

General Offices — 1155 Dorchester Boulevard W., Montreal 2