TOROMONT

PROVEN STEADY GROWTH | 2007 ANNUAL REPORT

TOROMONT INDUSTRIES LTD. 2007 ANNUAL REPORT

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’07

TOROMONT INDUSTRIES LTD.

EMPLOYS APPROXIMATELY 4,500 PEOPLE IN OVER 130 LOCATIONS, PREDOMINANTLY IN CANADA AND THE UNITED STATES. OUR COMMON STOCK IS LISTED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL TIH. WE SERVE OUR CUSTOMERS THROUGH TWO BUSINESS GROUPS: EQUIPMENT AND COMPRESSION.

EQUIPMENT GROUP

We sell, rent and service a broad range of mobile equipment and industrial engines through our Caterpillar dealership and Battlefield – The CAT Rental Store in Ontario, Manitoba, Newfoundland, and most of Labrador and Nunavut.

Estimated Market: $5 billion
Drivers: GDP in our markets, interest rates, global demand for commodities, commodity prices, infrastructure and other development spending, demand for electric power.
Opportunities: Product support growth, increased penetration of markets, new product offerings, new territories.
Strengths: Strong product offering with brand name recognition, proximity to market through extensive branch locations, value-added services for product support and maintenance (including in-field), and a highly skilled workforce.

COMPRESSION GROUP

Our core business is to design, engineer, fabricate, install and service natural gas compression units and hydrocarbon and petrochemical process compression systems through Toromont Energy Systems, and industrial and recreational refrigeration compression systems through CIMCO Refrigeration.

Estimated Market: $11 billion
Drivers: Natural gas prices, global GDP, capital spending in gas wells, gathering and processing and pipelines, and recreational and industrial facilities and installations in Canada and the U.S.
Opportunities: U.S. market penetration, product support growth, unconventional gas development, international markets.
Strengths: Value-added engineering, strategic fabrication capabilities in the U.S. and Canada, branch coverage, international project management, strong alliances, decades of experience and product representation.

Equipment Group Revenue ($ millions)

2007	1,098.3
2006	987.9
2005	913.9
2004	821.0
2003	784.2

Equipment Group Operating Income ($ millions)

2007	108.3
2006	91.5
2005	80.6
2004	65.8
2003	58.9

Compression Group Revenue ($ millions)

2007	804.6
2006	777.0
2005	685.8
2004	613.7
2003	464.1

Compression Group Operating Income ($ millions)

2007	72.5
2006	74.9
2005	56.6
2004	53.5
2003	41.5

FROM SALES TO SERVICE, MINES DEEP UNDERGROUND TO SKI JUMPS ON SNOWY PEAKS, AN ARCTIC WINTER TO THE TEXAS HEAT, TOROMONT'S HIGHLY DIVERSIFIED MARKETS AND INDUSTRIES PROVIDE GREAT OPPORTUNITIES FOR THE FUTURE. THROUGH VARIED ECONOMIC AND GEOGRAPHIC LANDSCAPES, TOROMONT'S PROVEN BUSINESS MODEL, STRONG CAPITAL STRUCTURE, AND STEADY, DISCIPLINED APPROACH ENABLE THE PROFITABLE REALIZATION OF THESE GROWTH OPPORTUNITIES.

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Dear Fellow Shareholders

WITH A PROVEN RECORD OF FINANCIAL PERFORMANCE AND A CONSISTENT AND FOCUSED STRATEGY, TOROMONT HAS DELIVERED GROWTH TO ITS OWNERS FOR MORE THAN 20 YEARS.

Robert M. Ogilvie
Chairman and Chief Executive Officer

After eclipsing records achieved in 2006, we are pleased to report that 2007 was another year of significant achievement and excellent results.

Consolidated revenues increased 8% over 2006 to $1.9 billion, the 15th consecutive year of revenue growth from continuing operations.

Equipment Group revenues surpassed $1 billion for the first time on the strength of an 11% year-over-year increase. This performance was fueled by sales of new machines and engines, higher rental revenues and product support growth.

Revenues in the Compression Group were up 4% to $805 million. This more modest pace of growth relative to recent years was due to the significant slowdown in Canadian markets for natural gas compression equipment. More than offsetting this challenge was exceptional growth in U.S. compression and in the industrial and recreational refrigeration sectors.

Net earnings were $122.3 million, or $1.89 basic per share, up 23% and 21% respectively compared to 2006. This represents the 13th year of higher earnings in the last 15.

FOCUS ON THE LONG TERM

To meet our long-term goals of providing profitable, consistent growth, increasing dividends and maintaining a strong balance sheet, we have set high annual standards for performance: 18% return on equity and 10% income growth over the business cycle.

With the strength of purpose that these goals engender, Toromont has achieved excellent results for the long-term owner:

- Return on opening shareholders' equity has averaged 17.9% over the past 10 years, and was 21.6% in 2007.
- Earnings have increased at an average of 16% annually for 10 years, excluding one-time gains.
- Total return to shareholders with dividends reinvested was 14.9% over 10 years compared to 9.5% for the S&P/TSX.
- Dividends have increased for 19 consecutive years, inclusive of the 16.7% increase recently authorized by your Board. The annual payout is $0.56 per share, effective with the dividend payable on April 1, 2008. Toromont has now paid a dividend for 40 years – every year since going public in 1968.
- Period end net debt to shareholders' equity was 0.19:1, a healthy ratio well within the confines of the conservative leverage we have maintained for the past two decades.

This record is attributable to many factors: a decentralized management approach; focused and disciplined culture; the outstanding efforts of our eight dedicated Presidents; compensation structures that focus on performance, including long-term management share ownership; prudent asset management and selective investing; and our 4,500 employees whose efforts in serving our valued customers have made the difference in intensely competitive markets.

STEADY REINVESTMENT YIELDS LONG-TERM GROWTH

Since 1998, Toromont has reinvested $850 million to improve our market positions, better serve customers and achieve profitable, efficient growth. This included $100 million deployed in 2007, a sum that signals confidence in the future.

A recent key investment is our infrastructure to serve mining customers. Toromont has taken a leadership role in some of Canada's most active mining territories, with steady capital deployments in our branch, sales, service, and remanufacturing operations.

Our installed base of underground mining equipment, already the largest in North America, grew handsomely in 2007 as did our surface mining machine population. Both should see continued growth in 2008, as we work in partnership with Caterpillar, the leader in global mining equipment.

Recent wins in the mining sector include:

- A $62 million order to supply mobile equipment and power modules over two years to Nunavut's newest gold mine operated by Agnico-Eagle Mines Limited, the largest order ever secured by Toromont CAT.

- A $39 million order from Goldcorp Canada Limited to supply and service a new fleet of 24 Caterpillar underground mining loaders and trucks now in use at two Ontario mines.

In the growing equipment rental market, long-term investment in stores and rental fleet at Battlefield – The CAT Rental Store have extended our reach. In 2007, we acquired a rental business in Timmins and opened a new store in Concord, Ontario, bringing the total store count to 35.

To improve service to our U.S. customers and to minimize the impact of currency fluctuations, we have made a long-term commitment to expand the presence of Toromont Energy Systems in the U.S. Following a significant addition to our Houston, Texas facilities in 2006, important 2007 investments included a 40,000 sq. ft. expansion of fabrication operations in Casper, Wyoming, the addition of a sales office in Denver, Colorado and an extension of U.S. service infrastructure.

The payoff was record 2007 U.S. revenue and year-end backlogs.

CIMCO Refrigeration was also a strong contributor, winning assignments from Maple Leaf Foods, Target, Molson Coors and Wal-Mart to name a few. CIMCO is now completing the last of seven Vancouver 2010 Winter Olympic projects, which have included a sliding centre, speed skating oval, ski jump and hockey, figure skating and curling venues.

All of this success is a direct result of long-term investment that has provided us with the experience and expertise to meet our customers' high standards and expectations.

BUILDING STRENGTHS, ADDRESSING CHALLENGES

In 2008, Toromont will continue to build on our strengths while we address challenges. We believe our core strengths are meaningful:

- Leading positions in most markets in which we compete.
- Well-established business model built on leading brands of specialized equipment and after-market revenues.
- Extensive customer support capabilities backstopped by a leading technology backbone that enhances value and efficiency.
- A people-powered, entrepreneurial culture that innovates with purpose.
- Diversified markets with varying growth drivers.
- Strong balance sheet providing financial flexibility.
- Large base of loyal customers whose contributions to Toromont's steady growth cannot be understated.

Our challenges are equally meaningful:

- Competitors who are relentless in their pursuit of market gains.
- Demand for talent, which makes it harder to recruit and retain skilled technicians to serve product support growth.
- Volatile currency rates, which alter the economics of selling equipment and have hurt the Canadian manufacturing sector.
- Low Canadian natural gas prices and uncertainty caused by government royalty and taxation schemes.
- Equipment availability for certain product lines.

Challenges are not new – we have faced these and others over the years. We are committed to following through with our disciplined and proven approach and are confident that our management team has the ability and experience to address our need for increasing value creation.

WELCOME

During 2007, Garry Mihaichuk was appointed as President and Chief Executive Officer of Toromont Energy Systems Inc. Garry has more than 30 years of experience in building energy businesses. His appointment reflects our continued commitment to the rapid growth of this important business on a global basis.

We were also fortunate to add two seasoned energy industry executives to our Board of Directors: Robert S. Boswell and Stephen J. Savidant. Mr. Boswell is Chairman and CEO of Denver-based Laramie Energy LLC, a natural gas exploration and development company. Mr. Savidant is Chairman of Calgary-based ProspEx Resources Limited, an oil and gas company. We are grateful for their contributions and the wise counsel provided by all of our Directors.

LOOKING FORWARD

Toromont's priority is to increase shareholder value by driving consistent and profitable earnings growth over the long term.

Looking to 2008, we remain committed to this objective. We have good momentum and record orders on hand in the Equipment Group, in U.S. Compression and North American refrigeration. This provides an early foundation to driving growth.

As we stated last year, we believe that our existing businesses can increase revenues at an average annual rate of 10% over the longer term. We have not changed our thinking. Acquisitions, when appropriate, can compound this growth as they have in years past.

THANKS

Delivering profitable growth on a steady basis is a team endeavour. Our team includes our shareholders, customers, employees and business partners, all of whom deserve and receive my utmost thanks and respect.

As another year begins, we are confident in Toromont's future and very pleased with our past.

On behalf of the Board of Directors,

Robert M. Ogilvie
Chairman of the Board
and Chief Executive Officer

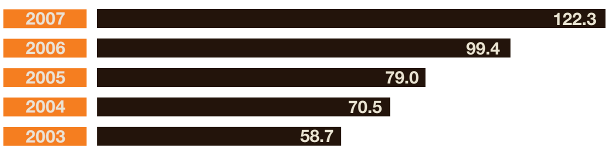
GOING STRONG

Delivering steady results over the long term

FINANCIAL HIGHLIGHTS

Revenue ($ millions)

Net Earnings ($ millions)



Total Assets ($ millions)

In 2007, Toromont once again reached new heights, with record top- and bottom-line performance. We take pride in these results, but it is consistent long-term performance that ranks our Company among the leaders in corporate Canada.

By long term, we think in periods of no less than five years – a traditional operating cycle – and by performance, we mean revenue and earnings growth, return on equity, dividends paid and total return.

To the long-term shareholder, all are important measures and Toromont is performance-proven on all fronts, as the graphs illustrate.

One of our proudest achievements is that Toromont has now paid a dividend for 40 years straight and has increased its dividend for 19 consecutive years. We understand dividends are an important and attractive feature of share ownership. Historically Toromont has targeted a dividend rate that approximates 30% of trailing earnings from continuing operations.

Total annualized return to shareholders with dividends reinvested was 24.2%, 14.9% and 25.5% over the past five-, ten- and 20-year periods respectively – and in each period, Toromont's total annualized return outperformed the S&P/TSX by 5.9%, 5.5% and 15.3% respectively.

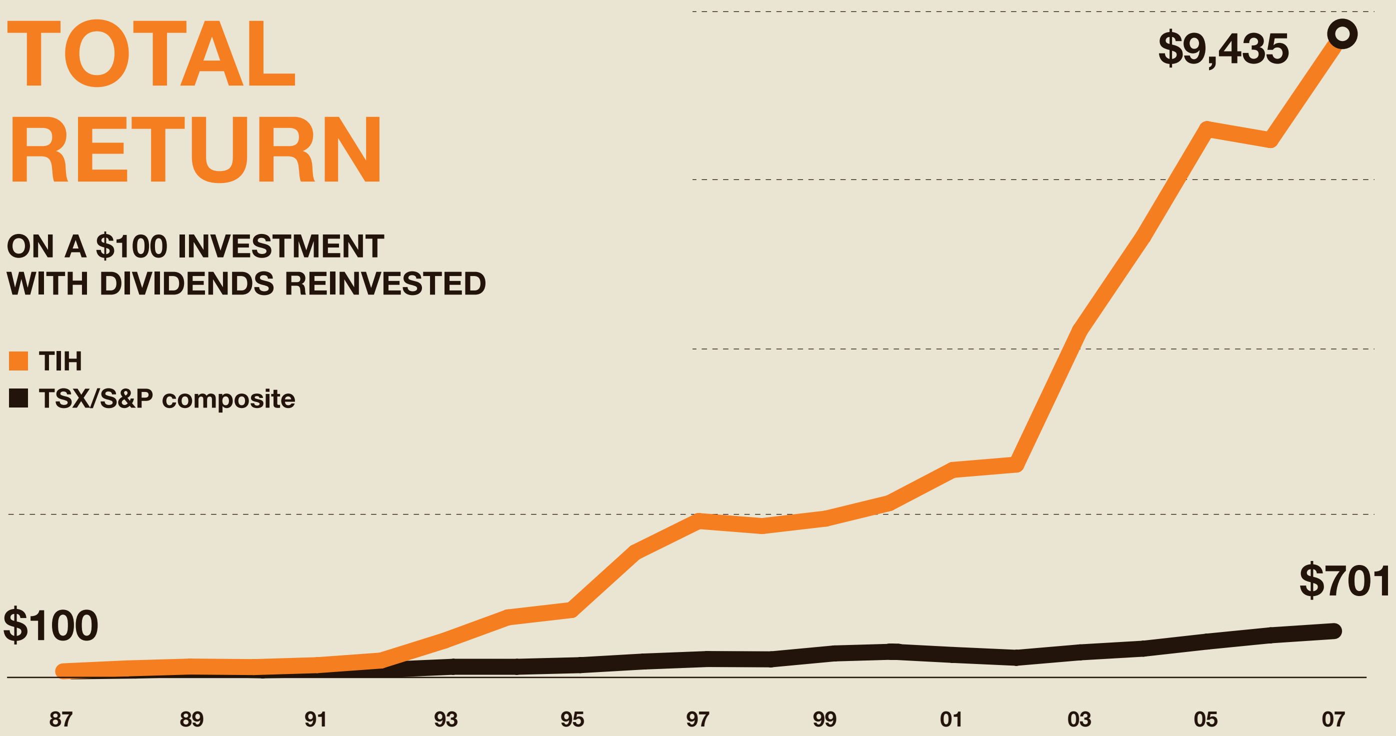
Driving value creation is 15 consecutive years of revenue growth and earnings growth in 13 of the past 15 years. Revenue expansion and diversification between new sales and product support revenue, Compression and Equipment, and increasingly between Canada and the U.S., have also strengthened our business for the long term.

Of equal importance, a strong balance sheet has been maintained. Debt net of cash was at its lowest level since 1997 and yet at the same time, we have reinvested handsomely in our businesses. Over the past five years, a $485 million reinvestment has allowed us to expand our revenue-generating assets with an emphasis on rental equipment, service shops, fabrication facilities and customer support infrastructure. We have also made significant investments in technology to improve customer service and the efficiency and productivity of our workforce. Seven accretive acquisitions have also been funded over the same five-year period to improve our market coverage and enter new territories.

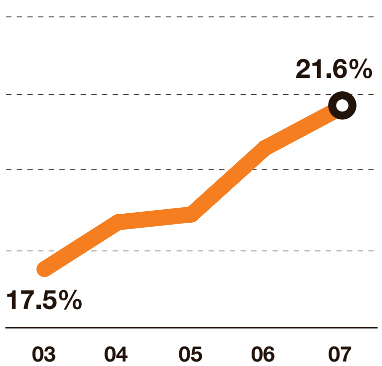
With this proven past, Toromont looks to the future with a commitment to steadily extending this record. ■

TOTAL RETURN

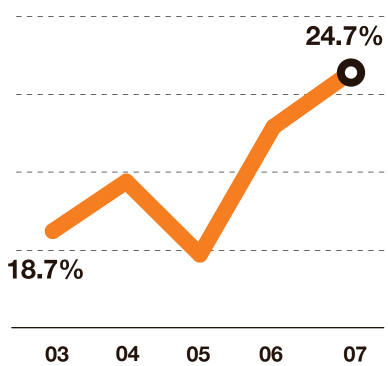
ON A $100 INVESTMENT WITH DIVIDENDS REINVESTED



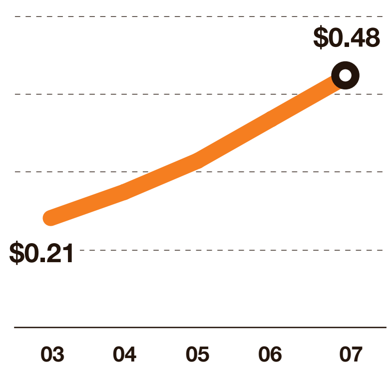
Return on Opening Shareholders' Equity



Pre-tax Return on Average Capital Employed



Dividends Per Share



Garry P. Mihaichuk
President and CEO,
Toromont Energy Systems

Ivan Heidecker
President,
Canadian Operations,
Toromont Energy Systems

Jerry A. Fraelic
President,
U.S. Operations,
Toromont Energy
Systems

John P. Pauk
President,
Toromont Energy
Services

How Performance is Fueled

To deliver strong performance on a steady basis, Toromont focused on a decentralized approach to management 20 years ago. It is a key to our success.

Delegation of responsibility and authority to our business unit leaders, whose photos appear here, has provided three main advantages.

First, it causes our people to be fully invested in decisions that are made, because they are making them. Our divisional Presidents run their businesses and this is empowering both to them and to their team. Bottom-line responsibility has also helped our Presidents to grow their leadership talents.

Second, it pushes the decision-making process closest to the action – in our markets. Operating decisions made by executives who fundamentally understand customers and competitors are better decisions than those made by a remote “head office.” Decision-making is also faster and speed is imperative in competitive markets.

Third, it helps to create substantial depth and strength in our management team. Stability comes not just in the form of a strong corporate office, but from the leadership of eight Presidents who have, on average, 28 years of business experience each, 19 years with Toromont.

This decentralized approach is founded on performance-based compensation strategies and significant share ownership. The management team has a very real, and personal, stake in the success of their operations.

This approach is also supported by a commitment each of our leaders makes to specific performance metrics, including Return on Capital Employed or ROCE. Depending on the nature of business, we expect to earn threshold pre-tax returns ranging from 17% to 25% ROCE. This will in turn fuel our corporate target of 18% after-tax return on opening equity over a business cycle.

These return targets are a key touch point between our corporate office, which allocates the Company’s capital, and our Presidents who request it, deploy it and manage it for sustained performance advantage.

Annually, each business leader produces a detailed strategic plan in support of performance targets. These plans assess opportunities and threats and provide extensive forward-looking forecasts of working capital, capital expenditures and cash flow. All of this is scrutinized by our corporate office.

Once approved, these plans become a commitment of performance for each of our leaders whose authority is well earned and whose performance is well documented. ■

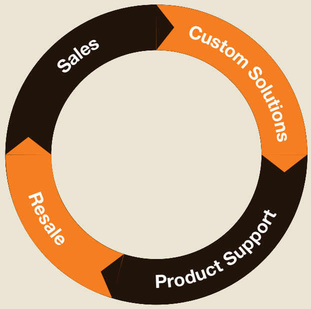
Randy B. Casson
President,
Battlefield – The
CAT Rental Store

Scott J. Medhurst
President,
Toromont CAT

Steve D. McLeod
President,
CIMCO Refrigeration

Tim J. Riley
President,
Aero Tech Manufacturing

A MODEL OF SUCCESS



Toromont's business model is universal in every market served by our Equipment and Compression Groups and has been in place for some 20 years.

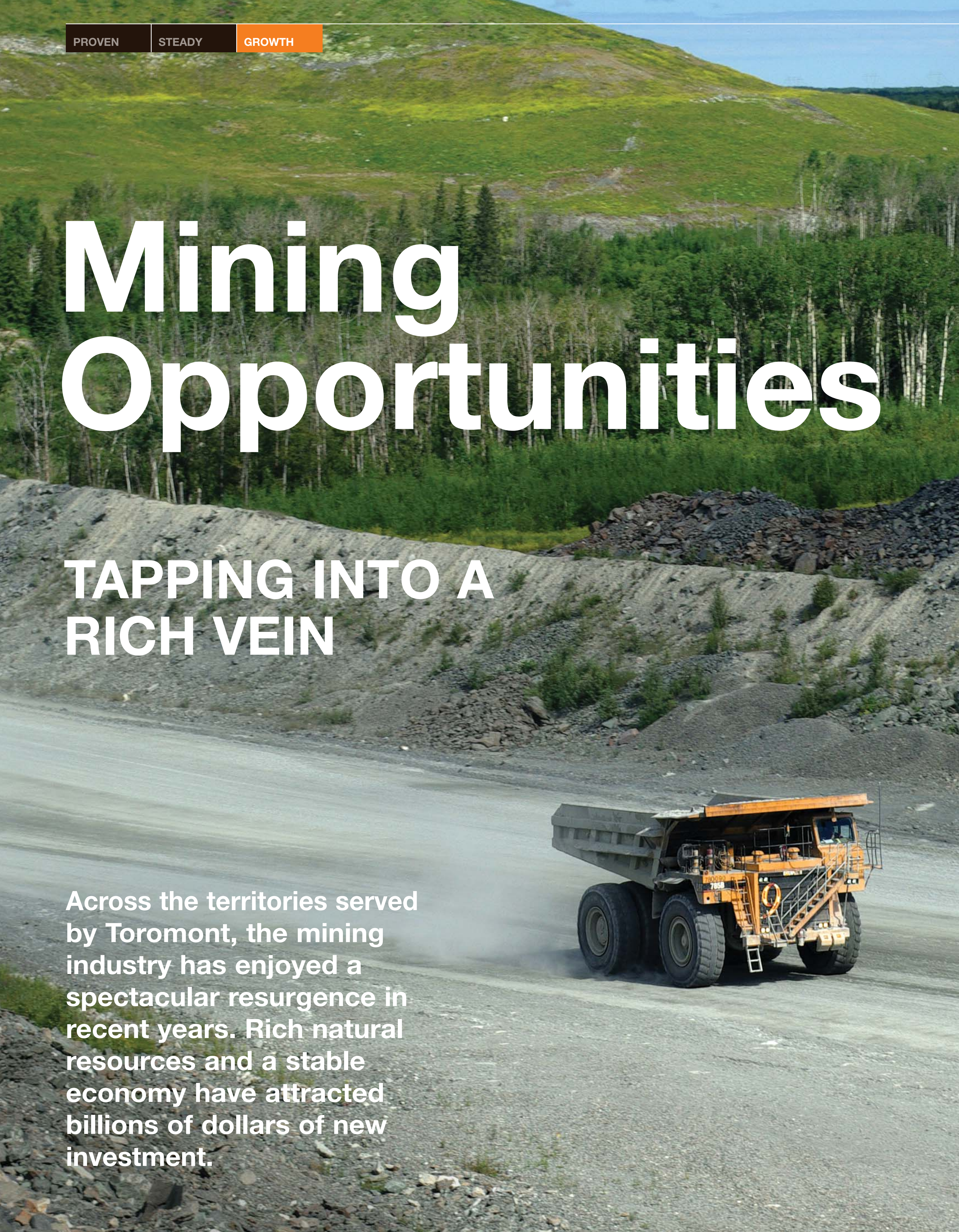
It works because it addresses customer and shareholder needs and is the strategic tie that binds our decentralized business structure.

Wayne S. Hill
Executive Vice President

For customers, we supply specialized capital equipment, with a degree of highly engineered content, and we support that equipment for the long term. The advantage to customers? Intimate product knowledge and extensive product support capabilities allow Toromont to provide customers with exactly the right equipment for the job, keep that equipment in peak working condition for maximum utilization and resale value, and in so doing, improve their return on invested capital.

For shareholders, our model means revenue is generated from equipment sales and, on an ongoing basis, through product support. This provides a steadying effect through economic cycles. As well, it allows us to stay in regular contact with customers throughout the many years that they use our equipment. This proves to be an advantage when the customer looks to make future equipment purchases. The specialized nature of the equipment we provide and support also makes us competitively stronger because it differentiates Toromont in the marketplace. By investing in an extensive support infrastructure and forging long-term relationships with customers and leading equipment brands such as Caterpillar, we build sustainable competitive advantage.

One of the architects of this model is Wayne Hill, Toromont's Executive Vice President. Said Mr. Hill: "Our sales and service approach is not unique. What is different is the unwavering commitment we have made to it, the quality and type of equipment we represent and the innovative way we use technology to interact and serve customers. Shareholder and customer value is created in the delivery of our model, not the model itself." ■



Mining Opportunities

TAPPING INTO A RICH VEIN

Across the territories served by Toromont, the mining industry has enjoyed a spectacular resurgence in recent years. Rich natural resources and a stable economy have attracted billions of dollars of new investment.

A CAT 785 haul truck (150T class) at Porcupine Gold Mines – Timmins area, Ontario.

According to the Mining Association of Canada, using statistics from Metals Economics Group, our country was the "leading destination for global exploration spending in 2006" with a 19% share – well ahead of second place Australia.

Digging deeper into these statistics reveals an interesting trend. Much of this investment is pouring into Ontario, Nunavut, Manitoba and Newfoundland and Labrador, all areas served by Toromont CAT. Together, these territories attracted 37% of all Canadian exploration and deposit appraisal expenditures in 2006, according to Natural Resources Canada, with Ontario leading the nation since 2000.

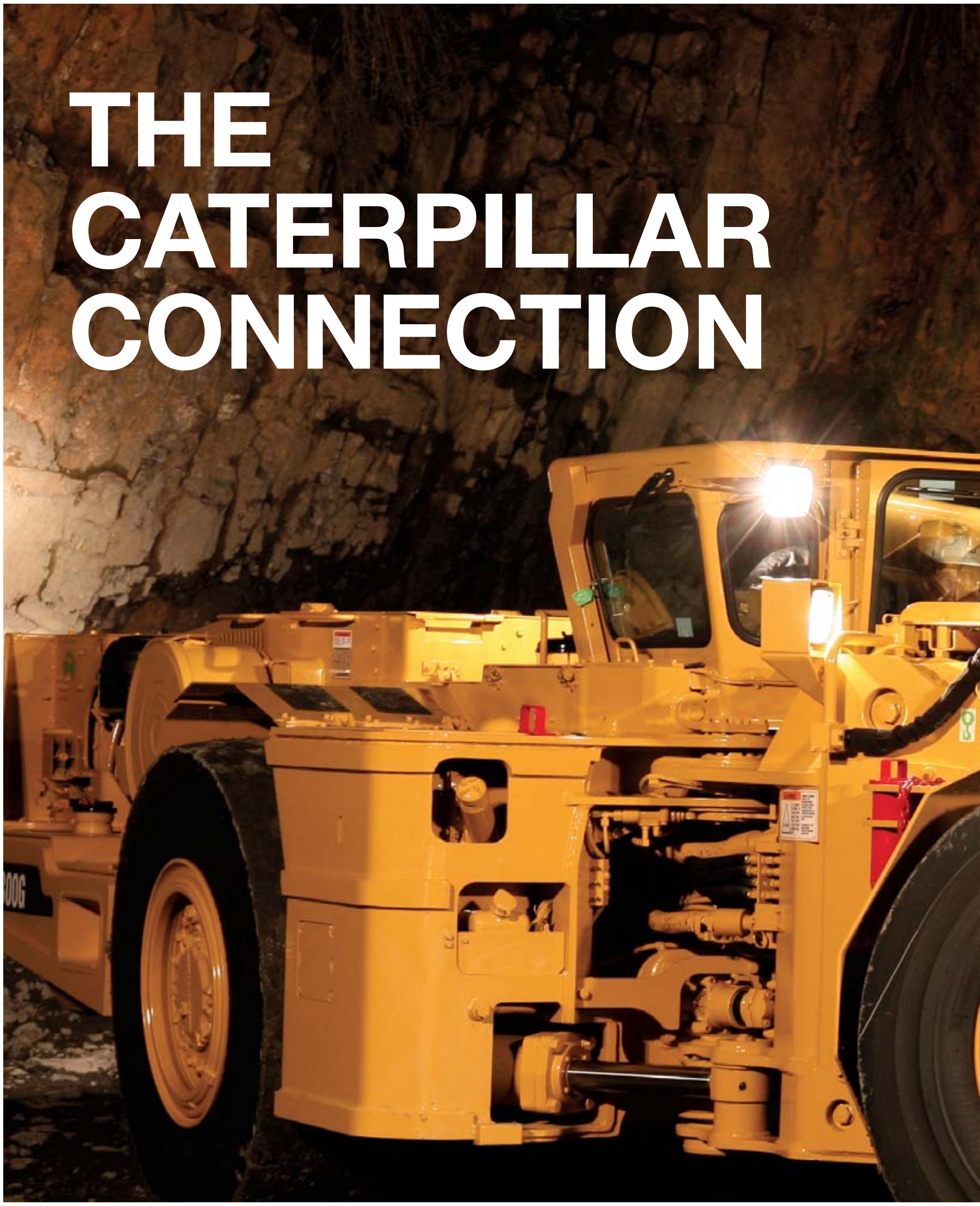
Dollars spent on exploration are essentially seed money for future mine construction, so the magnitude of investment is of significant interest to us. Spending intention estimates from 2007 indicate miners planned to deploy well in excess of $500 million on exploration and deposit appraisal in Ontario, more than double that in 2003. The estimated spend of $266 million in Nunavut in 2007 put it fifth on the list of Canadian regions. Manitoba and Newfoundland and Labrador have also seen sizeable increases.

It is not only the future that holds exciting promise. Our territories are leaders in mining production today. In Ontario, mineral production was valued at $9.4 billion in 2006. The Mining Association of Canada, using Natural Resources Canada and Statistics Canada research, reported that this represented 28% of Canada's total output, well ahead of second place British Columbia at 17%. Newfoundland and Labrador's mineral production value is an estimated $3.1 billion and the total value of nickel output from Manitoba exceeds the combined total value of wheat and canola production in the province, according to the Mining Association of Manitoba.

All of this is great news for Toromont, which has experienced a more than three-fold increase in equipment sales and parts and service revenue to the sector in the past five years. In 2007, Toromont's revenue from the mining sector surpassed $100 million for the first time – and approached $165 million by year end.

To put this in context, mining was Toromont CAT's second largest vertical market in 2007 – representing approximately 19% of revenue compared to 12% in 2006. Mining also ranks as one of Battlefield – The CAT Rental Store's top 10 rental market opportunities. Continued on next page.

THE CATERPILLAR CONNECTION



SIZING UP THE OPPORTUNITY

By our own estimates, Toromont CAT territories are home to more than 70 producing mines, with another 60 projects in various stages of development.

Geology is one driver of this activity. Our territories support many different kinds of mining – nickel, copper, gold, zinc, cobalt, tantalite, cesium, lime, iron ore, phosphates… even diamonds. Canada is now the world's third-ranked diamond producer. Until now, Canadian production came from the Northwest Territories and Nunavut. In 2008, Ontario is expected to join the diamond club when the De Beers Canada Victor Mine opens near the James Bay coast. Victor's diamond processing plant will treat 3.0 million tonnes of kimberlite per year (about 8,000 tonnes per day). Toromont CAT will be on site to support this production goal with equipment and service technicians.

Recently, the discovery of precious metals has driven substantial activity. Precious metals exploration accounted for more than half of 2006 exploration expenditures in both Ontario and Nunavut. Gold is a particular focus area and equipping new or expanding gold mines is keeping us busy.

Based on geology, Toromont's opportunity is diverse. Unquestionably, metal prices are the trigger for mining activity. The drivers of those prices are varied. Gold has gained ground as investors seek a safe haven during a period of volatility in financial markets, and prices respond to limited supply. Despite a surge in gold prices between 1999 and early 2008, global gold production fell marginally during the period. For base metals, demand from China and India has been a major driver of activity, while on the supply side, underinvestment in the 1990s continued to drive prices higher well into 2007.

WHERE TOROMONT FITS

Commodity prices are volatile and are outside the control of mining companies. What they can influence is the cost of extraction, which is measured by the tonne for base metals and by the ounce for precious metals. As a provider of specialized equipment, Toromont plays a supporting role in achieving favourable economics for mining customers.

We, in concert with Caterpillar, do this in part by assisting with feasibility and productivity studies – helping customers decide what kind of equipment should be used, how much equipment is necessary to efficiently extract the ore and even how much fuel will be necessary to support the equipment on site. This last factor is critical in our territories because much of the mining activity – and a significant percentage of expected future development – is in northern, remote communities without easy or year-round access to sources of fuel and other consumables.

Toromont's participation in feasibility studies is considered an advantage, particularly to the growing number of junior project operators whose expertise is often more focused on exploration than on mine development. Over 600 "juniors" are thought to be active in Canada and getting to know them has been part of our strategy for several years.

With consolidation and globalization of the mining sector intensifying, having a truly global partner that is trusted by multinational mining companies is integral to our success.

Caterpillar's intense focus on the mining sector, the breadth of their equipment lineup and CAT Financial Services are all key advantages for Toromont customers.

One of the many important technological advancements from Caterpillar in recent years is MineStar, an integrated mine management system for production and maintenance. With MineStar, miners can monitor material movement, track and record production stats – all in real time. MineStar increases machine productivity (by 30% in some cases), decreases material re-handle, eliminates survey stakes and reduces survey costs.

MineStar is an important tool for an industry that embraces technology like few others. Some 85% of the mining workforce in Ontario use advanced technology, helping to push average annual output per employee to $500,000, according to the Ontario Mining Association. ■

A Caterpillar R1700G underground mining loader at work.

By understanding the size of the deposit, waste to ore strip ratios – how much rock must be extracted per tonne of ore produced – and the projected life of the mine, we can, working with our suppliers, recommend the right equipment for the job.

While there is no such thing as a typical mine in our territories, the largest, a surface mine, processes about 15,000 tonnes of ore per day. More common output for surface mines in our territories is 7,000 tonnes per day and 2,000 tonnes for underground mines. The amount of rock moved is a magnitude bigger than this.

While not large by global standards (some produce 120,000 tonnes per day), mines in our territories require large equipment – and often lots of it to meet productivity targets. The equipment needed begins at the exploration stage (generators for mining camps – starting small and ultimately leading to prime power solutions) and continues through construction, production and eventually into the decommissioning phase.

The opportunity for Toromont is therefore an extended one because it is often ten years or more before mining companies commit to a project, two or more years for construction and then ten plus years for mine production. Equipment and support are needed in escalating quantities as the mine takes shape.

Continued on next page.

A GOLDEN TOUCH

In 2007, the expansion of our mining business took us 70 kilometers beyond the hamlet of Baker Lake in the Kivalliq region of Nunavut, where we are now actively equipping the Territory's newest open pit gold mine, the Meadowbank Project.

Owned by Agnico-Eagle Mines Limited, Meadowbank is Toromont's largest mining project to date, representing some $62 million of mobile fleet and power generation equipment sales.

To meet its mine construction schedule, Agnico-Eagle required a sizeable first installment of Caterpillar equipment in 2007. This included 777F trucks, 966H wheel loaders, IT14G integrated tool carriers, a 992G wheel loader, a 345CL excavator, a 160H motor grader, a 420E backhoe loader, a D9T track type tractor, a D8T track type tractor and a Terex O&K RH40E excavator.

Although the balance of the equipment order will be larger still, the first installment was a significant logistical challenge. All models had to be sourced, prepared, packed and loaded onto a barge for shipment in under three months.

There was no room for error as the last date for shipping cargo through the Port of Montreal to arrive in Hudson's Bay before the onset of winter was the end of September. A missed shipment would have meant a six-month delay in construction activities.

With more mines active and contemplated in northern communities, mastering logistics challenges like this is becoming an important capability for Toromont. So is the ability to support our equipment directly at the mine site. To meet this challenge, we often operate on-site branches, fully stocked and staffed to deliver service 24/7. These remote branches are backstopped by an extensive network of operations in mining hot spots such as Timmins, Sault Ste. Marie and Sudbury in Ontario, Cambridge Bay, Iqualuit and Rankin Inlet in Nunavut and Happy Valley-Goose Bay in Labrador.

While Meadowbank was a headline win for Toromont CAT in 2007, it was not the only one. Also secured was a $39 million order from Goldcorp Canada Limited for a new fleet of Caterpillar underground mining loaders and trucks. Twenty-four units were commissioned at two Goldcorp mines in Ontario before year end: Musselwhite near Pickle Lake and Red Lake north of Dryden. Goldcorp's forecast 2008 gold production at Red Lake is 740,000 ounces (compared to actual production of 701,000 in 2007) but is expected to increase in the second half after completion of an expansion project.

In early 2006, we became the official dealer for Terex O&K products. These are large, specialized products that complement our CAT offering by allowing us to address an incrementally larger part of the mining opportunity. We secured sales of our first O&K excavators in 2007 as part of the Meadowbank Project. We will continue to pursue opportunities to broaden our reach. ■

The CAT 994D, a large size front end loader, in action.

ONE SIZE DOES NOT FIT ALL

In our territories, mining often happens thousands of feet below ground and at other times, on the surface in minus 50 degree weather.

For this reason, mining equipment is not only specialized, it often must be customized to suit its environment.

Toromont is one of the only industry players to specialize in mining equipment customization. For northern mines, we make site-specific changes that include the addition of auxiliary heaters for cabs and oil pans and the replacement of normal lubricants with heavy-duty fluids that function at Arctic temperatures.

For underground applications, we take surface machines and add fire suppression systems and guarding for windows, lights and cabs. We modify the emissions and braking systems and turn cabs into low profile work spaces that fit in confined spaces.

In 2007, we customized more than 40 mining machines and while this adds cost (up to 30% of the value of the unit), the value in terms of safety, durability and productivity is much greater. ■

Toromont modified M135H low profile mining motor grader.

EXPLORING MINING'S SERVICE OPPORTUNITY

Revenue generated from product support on an individual mining machine over its lifetime can be worth up to 2.5 times the revenue generated on its original sale.

Mining equipment typically operates 24/7 in harsh conditions, making oil changes, component replacements and rebuilds far more frequent than for equipment in other markets.

Using this equation, and knowing that Toromont has a growing installed base of more than 800 pieces of heavy mining equipment, it is easy to see why investment in mining product support infrastructure is a must.

Over the past five years, we have deployed more technicians, and added capacity to our remanufacturing operations to support the mining opportunity. We have also incorporated operator training capabilities – a popular offering due to the value and size of the equipment used and the complexity of operating it in an active mine.

Support activity varies by mine as does the life expectancy of the equipment. To reduce the long-term operating cost of our customers' equipment, we apply the latest condition monitoring techniques. With advanced oil kidney-loop filtration systems we extend the life of major components, reduce lubricant use and micro-analyze the oil to detect the type and amount of particles found. These activities help us predict the optimum point to replace a final drive, transmission or the complete unit when it nears the end of its economic usefulness. By tracking utilization by the hour – as we do for many customers – we help customers anticipate future equipment purchases and step in with preventative maintenance at precisely the right time. ■

TOROMONT IS COMMITTED TO A LONG-TERM EXPANSION STRATEGY WITHIN ITS COMPRESSION BUSINESS.

COMPRESSION EXPANSION

STAKING A CLAIM IN U.S. MARKETS

Like all expansion strategies, this has core objectives: achieve profitable, long-term growth with superior investment returns; seize and sustain market leadership; and, offset risk through market diversification.

To meet these objectives, we have dramatically grown our presence in the United States over the last two years – opening new territories through two acquisitions and developing our capabilities through investments totalling $26 million in our sales, service and manufacturing operations.

The rewards from this expansion strategy so far are significant – and yet we have only started to capture the opportunity in what we estimate is a US$1.5 billion to $2 billion direct-sale compression equipment market.

In 2007, U.S. Compression Group revenues reached a record $362 million, 45% higher than in 2006, and period end U.S. backlogs were at record levels. With Toromont Energy Systems Inc. (TESI) hitting stride in the U.S., Toromont now has more meaningful compression market diversification than ever before. This is good for our business long term and, with the current weakness in Canadian natural gas markets, is even more important for near-term prospects.

A Standard 1340HP package installed in the Texas panhandle for field gas gathering.

GOING WITH THE FLOW

Regionally, many U.S. energy producers are looking to increase activities in traditional areas of the Rockies and in new territories. In 2006, Toromont recognized this trend and acquired production facilities in Casper, Wyoming to support the burgeoning Powder-River basin and other nearby coal-bed methane plays.

In 2007, we completed the expansion of the Casper facility, doubling capacity and providing employment for nearly 200 local residents. Approximately $60 million of compression equipment was produced in Casper's shops in the year.

Also in 2007, we opened a sales office in Denver, Colorado and our sales staff there booked over $70 million in compression orders in the first ten months of operation.

We have also pursued opportunities to branch into new market segments. An example is pipeline-related business. In 2007, TESI won a $33 million order to supply booster compression equipment and services to the Midcontinent Express Pipeline, a 500-mile natural gas pipeline connecting Bennington, Oklahoma, with Butler, Alabama. Product deliveries are scheduled for 2008.

This follows a $100 million order secured in 2006 – the largest in our history – to build compression equipment for the Rockies Express Pipeline LLC, which connects natural gas producing regions in Colorado to Ohio. This project was partially delivered in 2007 and will be completed through 2008.

The market for leased equipment is also vast. We are selectively investing in this area in response to our customers' needs.

Strong equipment utilization levels combined with the advancing age of installed systems suggests good future U.S. service demand for TESI as well. Over the past two years, Toromont has added service locations in the U.S. to meet this demand.

Toromont Energy Systems is steadily becoming a recognized name in this land of opportunity, with proven cold weather packaging expertise and a product line that includes screw and reciprocating compression systems ranging from 50 to 6,000 horsepower. Market leadership is some way off, but is a clear goal, as is continuing to generate new efficiencies. "Kaizen events" and other lean manufacturing practices allowed TESI's Houston-based operations to increase equipment throughput in 2007 so that a system that would have taken over four weeks to build is now ready in just over three.

CIMCO Refrigeration is also contributing to U.S. revenue and cash-flow streams. In 2007, it secured orders from such leaders as Target Corporation (providing industrial refrigeration to a 500,000 sq. ft. distribution centre in Lake City, Florida); DOT Foods, America's largest food redistributor, which ordered systems for cold storage facilities in Illinois and Indiana; and SYSCO Corporation, North America's leading supplier to "meals-prepared-away-from-home" operations. For SYSCO, we provided industrial refrigeration to their distribution centres in New Mexico, Tennessee and Georgia. We estimate that the Canadian industrial refrigeration market – one we lead – purchases $350 million of equipment annually. The U.S. market is estimated to be at least eight to ten times that size.

LOOKING NORTH

In Canada, we lead in a natural gas compression market that has been challenged over the last two years by high natural gas inventory levels, the strong Canadian dollar which dampened export sales, wage inflation in Alberta and industry concerns over royalty tax rates.

These factors dampened new product sales and rental fleet utilization in 2007, leaving the best Canadian growth rates to our product support business, where revenue increased at a healthy 10% over 2006. We expect the Western Canadian Sedimentary Basin ("WCSB") to be a land of opportunity for Toromont longer term because it is a declining basin that needs compression to be productive.

Canadian customer support is a business line we take seriously – and with good reason. We estimate that customers in the WCSB purchase more than $600 million of parts, service and retrofitting annually, making it a substantial market opportunity. While growth in this segment depends on equipment utilization and installed base, Toromont is positioned to serve that opportunity with a well-established branch network, experienced service technicians, mobile oil and fluid vehicles and a dedicated retrofit facility. CIMCO Refrigeration expects to continue adding to its Canadian revenue streams as well with sales of both new equipment and service to their growing industrial and recreational customers. ■

GROWTH ENGINES

WHAT DO GREAT LAKES FREIGHTERS, MINES, NORTHERN COMMUNITIES AND FINANCIAL DATA CENTRES HAVE IN COMMON?

The need for efficient and reliable power.

Demand for power has grown rapidly as customers in a wide variety of sectors seek out power generation equipment, custom engines for prime propulsion and specialized product support tailored to each application.

As a result, our power systems business experienced excellent growth in 2007 and its long-term prospects look promising in many sectors. Mining is one. Most recently, as part of a broader machine order, Agnico-Eagle purchased some $20 million of power generation equipment that will produce 26 megawatts of electricity once fully installed in 2009 at its Meadowbank mine. With more mines in development, the need for power generation is expected to grow.

Toromont's Power Systems group has been a leader in providing electric power generation products for remote northern communities. The combination of industry leading technology and focused product support have allowed Toromont to provide solutions to many of the communities across Northern Manitoba and Ontario, Nunavut and Labrador. Federal investments in the infrastructure upgrades in the coming years should provide additional opportunities in this market.

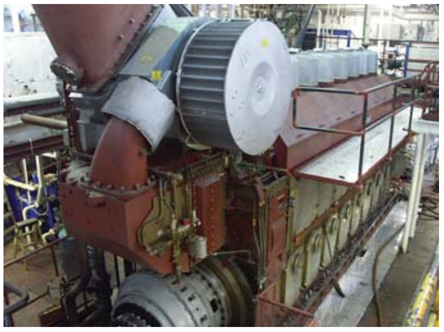
At sea, Toromont is also the beneficiary of higher demand for engines. We are able to serve that demand as the official supplier of MaK marine engines. We were awarded the MaK dealership by Caterpillar for the entire Great Lakes region (encompassing eight states as well as Ontario) in 2006. The timing of this opportunity could not have been better in that it coincided with a dramatic increase in marine equipment spending. Perhaps not since the 1970s have Great Lakes shipping companies invested in new or repowered vessels at the pace we are currently seeing. The drivers of this spend include the inability to source replacement parts for engines that are decades old, the operating cost advantage available from today's fuel-efficient, low-emission engines and the need to comply with International Maritime Organization nvironmental regulations.

By adding the MaK dealership, Toromont not only expanded its geographic reach, but also increased the range of applications it can serve. Previously, our marine engine product line stopped at 7,200 horsepower – a top end not suitable for large bulk loaders and self unloaders. MaK offers propulsion engines in power ranges up to 21,000 horsepower. These "medium speed" engines run at lower RPMs and, based on the type of fuel consumed (heavy instead of distillate), are more durable than high-speed engines. The result of this win is a much larger potential market encompassing in excess of 100 vessels registered on the Great Lakes today that could benefit from MaK power.

We reported approximately $14 million in revenue in 2007 from the marine market, and have our largest backlog ever for the MaK product with current orders being quoted for 2010 delivery. A highlight in 2007 was repowering the 730 foot long Algoville, one of the largest bulk carriers on the Great Lakes. Algoville required the largest marine propulsion engine ever supplied by Toromont – a 10,750 horsepower MaK 8M43C – along with a heavy fuel system, shaft-driven alternator, exhaust heat recovery system and other important components.

Data centres that feed the banking and telecommunications sectors have also fed demand due to the need for uninterrupted power supplies.

Together, these opportunities suggest that Toromont's power systems business will be one of our long-term growth engines. ■



The 8M43C engine provides exceptional economic return for the vessel owners while substantially improving the ship's environmental performance.

ANSWERING A GROWING NEED

TO EVALUATE THE POTENTIAL OF ANY BUSINESS, IT IS NECESSARY TO DETERMINE WHETHER IT FILLS A BASIC CUSTOMER NEED.

Toromont conducted just such a review when the Equipment Group acquired its rental operation in 1996. At that time, analysis showed that customers needed a dedicated rental store where they could find specialized equipment brands available by the hour, day, week or longer. We estimate that the need for rental equipment in our territories has grown steadily at about 3% annually in recent years. Our addressable market is now valued at more than $620 million and has excellent prospects driven off greater activity by a growing number of contractors and special trades who want to avail themselves of the convenience and cash-flow advantages of renting. More than 80% of our rental transactions are for periods of less than one month.

Today, Toromont serves this need through Battlefield – The CAT Rental Store with 35 locations focused on continuing to outpace market growth while meeting its targets for financial utilization.

To do this, our rental operations use targeted marketing to address high-value customer segments (mining, for example) and have committed to store expansion through acquisitions and start-ups. Since 2003, seven new stores were either acquired or opened – including an acquisition in Timmins and a new greenfield location in Concord, Ontario in 2007. In 2008, we expect to expand further, while we work hard to again increase same-store sales.

To drive financial utilization, we perform thorough assessments before committing to either branch or rental fleet expansion. We also employ a hub and spoke model of distribution to increase inventory efficiency and ensure equipment delivery within two hours of customer request – a key to success. A sophisticated technology system called TRAC also enables us to better manage fleet utilization and transaction costs through real time tracking of rental equipment.

This combined course of action has paid off. Despite strong competition from more than 400 other rental stores, our rental operations set new performance standards in 2007.

Of equal importance, a recent survey showed that 92% of rental customers contacted described Battlefield – The CAT Rental Store as their preferred supplier – up 10% from 2006. We are proud of this achievement and our ability to answer a growing need. ■

CONSTRUCTION AHEAD

ONE OF THE MOST COMPELLING OF TOROMONT'S LONG-TERM GROWTH OPPORTUNITIES IS RIGHT AT ITS DOORSTEP – AND UNDERNEATH AS WELL.

A 330DL excavator and a CS563E soil compactor (on rent from Battlefield) working on the expansion of Highway 407 ETR near Milton, Ontario.

It is called public infrastructure and includes roads, sewers, bridges, trestles, power generating plants, waterways, water treatment facilities, hospitals, schools, arenas and transit systems.

By all accounts, government spending on these public assets must increase significantly in the years ahead to stop what has been called a "looming crisis" brought on by years of underinvestment. By some estimates, as much as 70% of Canada's civil infrastructure is more than 40 years old. As many structures reach their "best before" dates, spending must occur for safety reasons.

To quantify the need for future infrastructure spending, the Federation of Canadian Municipalities commissioned Dr. Saeed Mirza, Professor of Civil Engineering and Applied Mechanics at McGill University to survey municipal governments during the fall of 2007.

In a report entitled "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure", the Federation, with Dr. Mirza's analysis, concluded that the cost to fix the municipal infrastructure deficit had reached $123 billion and continues to grow annually.

The report states that underfunding has affected all parts of Canada "from major cities to rural, remote and northern communities."

In a paper called "Building Canada: Modern Infrastructure for a Strong Canada" published in the fall of 2007, the Government of Canada echoed this need for infrastructure spending and quoted various sources including Statistics Canada which, in 2006, stated that Canada's "roads and highway network already had over 50 percent of its useful life behind it."

Regardless of the source, the conclusion is the same: there is a substantial and growing backlog of infrastructure project needs.

In response, governments at all levels have increased spending.

In 2007, the federal government launched its "Building Canada" campaign. Announced in the Speech from the Throne, it commits the federal government to invest $33 billion in public infrastructure over the next seven years to 2014.

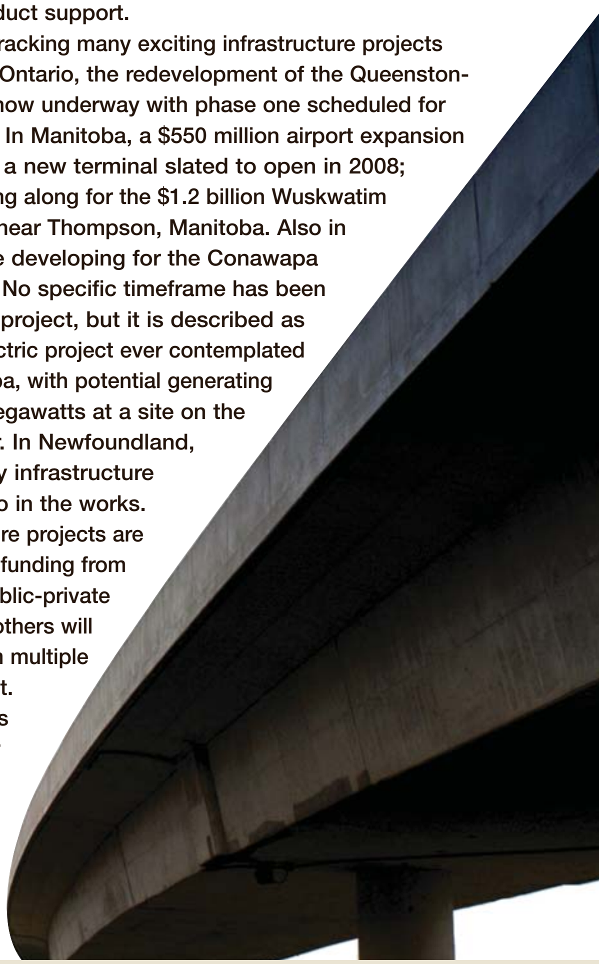
All of this planned activity is good, but will it be enough? Irrespective of the answer, it is clear that our customers – building contractors, demolition companies, specialty trades, quarry and aggregate producers, road builders and sewer and water contractors – will be central players in this long-term effort.

This means the potential for heavy utilization of Toromont equipment and product support.

Today, we are tracking many exciting infrastructure projects in our territories. In Ontario, the redevelopment of the Queenston-Lewiston Bridge is now underway with phase one scheduled for completion in 2009. In Manitoba, a $550 million airport expansion began in 2007 with a new terminal slated to open in 2008; plans are also moving along for the $1.2 billion Wuskwatim Generating Station near Thompson, Manitoba. Also in Manitoba, plans are developing for the Conawapa Generating Station. No specific timeframe has been announced for this project, but it is described as the largest hydroelectric project ever contemplated for northern Manitoba, with potential generating capacity of 1380 megawatts at a site on the Lower Nelson River. In Newfoundland, smelter and refinery infrastructure investments are also in the works.

Many large future projects are expected to receive funding from so-called "P3" or public-private partnerships, while others will receive support from multiple layers of government.

All of this bodes well for Canada, our customers and, by association, Toromont. ■



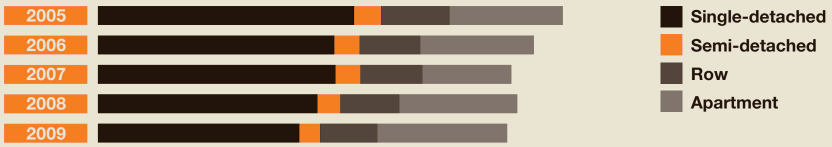
SIZING UP HOUSING STARTS

For many casual observers, forecasts of residential housing starts are a leading indicator of prospects for heavy equipment utilization. At Toromont CAT, it is an important factor, but only one of many affecting the diverse portfolio of markets served. We estimate that residential construction directly represents about 7% of Toromont CAT's market, although activity spills over somewhat into other market segments.

In an early 2008 report, Canada Mortgage and Housing Corporation (CMHC) forecasted housing starts for the territories represented by Toromont to total 77,600 units in 2008. This compares to 76,512 in 2007, good stable performance, although there is a mix shift towards more apartment units in 2008 than 2007.

Beyond new housing starts, home renovation activity is another trend we watch. Although the final figures from 2007 are not in, CMHC was predicting a 9.8% year-over-year increase in renovation spending – and another 6.8% increase in 2008. Renovation spending is driven by resale housing activity as well as general economic conditions. At close to $50 billion annually on a national basis, it too is a growth driver, particularly for our rental operations. ■

CMHC Housing Starts – Toromont CAT Territories



TOROMONT AT THE OLYMPICS

In the months ahead, CIMCO Refrigeration will work with other local construction partners to complete the final Olympic facility to break ground: the 6,000 seat Hillcrest/Nat Bailey Stadium Park. This facility will host men's and women's curling and the wheelchair curling tournament for the Paralympic Games. Post-games, the curling venue will become a community recreation centre that will include an ice hockey rink, gymnasium, library and eight sheets of curling ice.

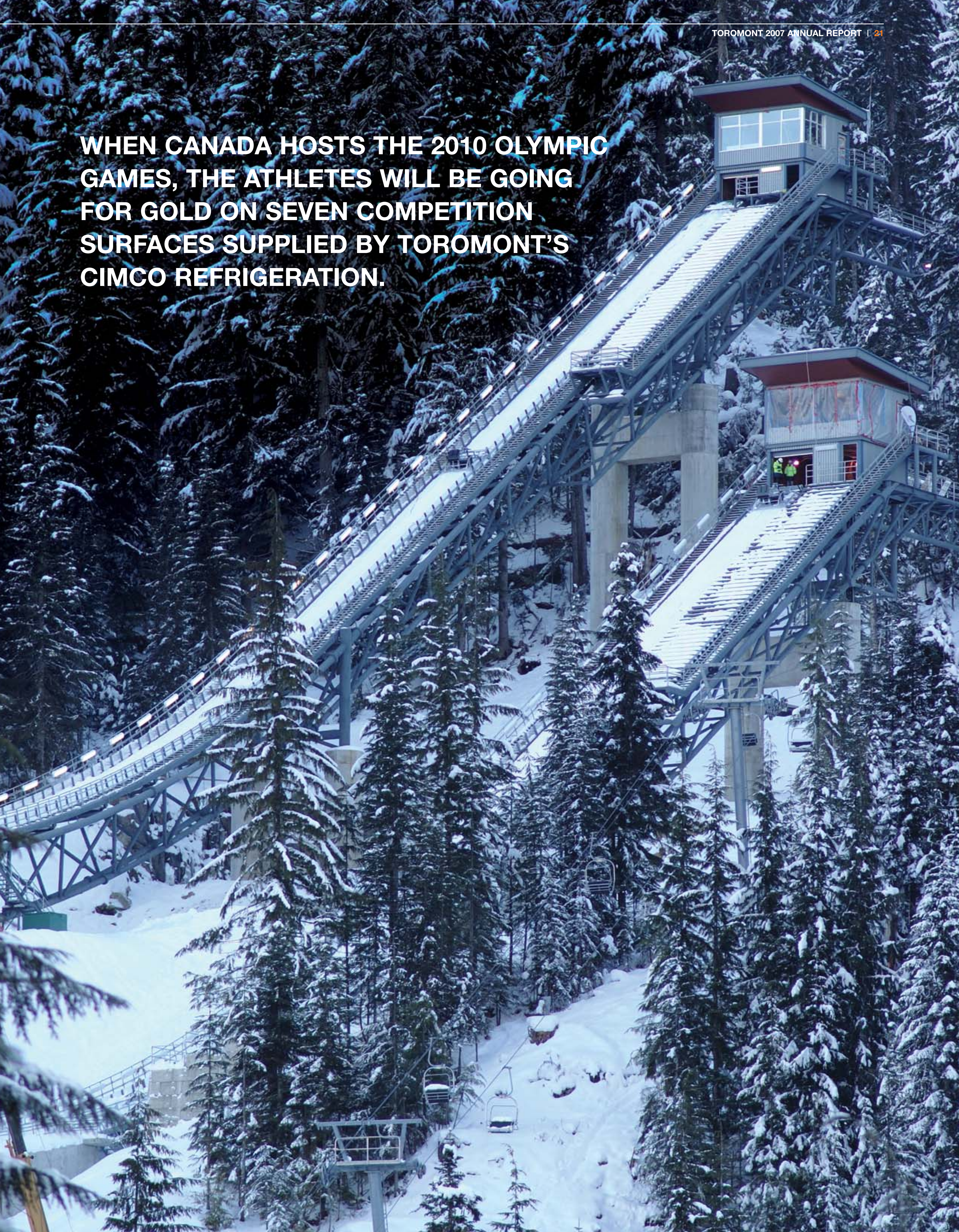
Under the stewardship of the Vancouver Olympic Organizing Committee, the 2010 Winter Olympics will have an environmental focus. To that end, the Richmond Oval Speed Skating facility, along with three other venues, have been designed using leading environmental practices, including CIMCO's patented ECO CHILL technology that transfers waste heat from the refrigeration plant to heat other building spaces. In the case of the Richmond Oval – scheduled to open in the fall of 2008 – this includes heating an adjacent aquatics centre as well as the venue site.

Other recently completed Winter Olympic projects for CIMCO include refrigeration systems for hockey rinks at the University of British Columbia, the Pacific Coliseum Arena (host venue for figure skating and short track speed skating), two ski jumps at Callaghan Valley Nordic Centre, and the Whistler Sliding Centre at Blackcomb Mountain – the venue for bobsleigh, luge and skeleton races. Toromont is proud of its extensive Vancouver Olympic involvement.

These assignments reflect CIMCO's proven and growing reputation in recreational refrigeration markets. Over the past decade, CIMCO has successfully engineered and installed refrigeration systems for more than 500 new arenas including, in 2007, systems built for ice rinks at Canada's Wonderland and Casino Rama in Ontario, the Sprint Center in Kansas City and the multi-purpose Prudential Center in Newark, New Jersey, home of the NHL's New Jersey Devils.

As a result of this activity, Toromont entered 2008 with a higher backlog of refrigeration work than in any year in our history. ■

TOP – The CIMCO mechanical room which powers the new Whistler Olympic Sliding Centre at Blackcomb Mountain.
RIGHT – The new Olympic K125 and K95 ski jumps at Callaghan Valley Nordic Centre.



WHEN CANADA HOSTS THE 2010 OLYMPIC GAMES, THE ATHLETES WILL BE GOING FOR GOLD ON SEVEN COMPETITION SURFACES SUPPLIED BY TOROMONT'S CIMCO REFRIGERATION.

TOROMONT AND THE ENVIRONMENT

Like many companies today, Toromont is increasingly embracing the 3Rs of reduce, reuse and recycle as a matter of good business practice.

Conservation and recycling of scarce or non-renewable resources makes sense because it lowers the cost of doing business.

As one demonstration, Battlefield – The CAT Rental Store recently launched an anti-idling policy for its service vehicles, following an assessment of the economic and environmental costs of engine idling.

We estimate that one hour of idling one of our service vehicles wastes 3.5 litres of fuel. Estimates of idling across Battlefield's fleet of 300 trucks led our managers to conclude that idling was costing over $300,000 a year. Needless idling can also represent millions of pounds of carbon gases emitted per annum. Sometimes doing the right thing for the environment is also the right economic decision.

And sometimes good ideas catch on. Our other businesses saw a good thing at Battlefield and are rolling out the policy to their combined fleet of 1,000 trucks.

THE BUSINESS CASE FOR RECYCLING ENERGY

Through an innovation called ECO CHILL, Toromont has made a business out of helping our customers recycle energy and reduce greenhouse gas.

ECO CHILL is an ammonia-based, non-ozone depleting refrigeration technology developed by CIMCO. The premise is simple. Compressors used to create ice produce heat. Rather than letting that heat escape, ECO CHILL captures it, redirects it into Ice Battery storage tanks and makes it available to heat the ice rink facility (dressing rooms, bleachers, offices, water and if attached, community centres), to melt snow and to protect the ice pad from heaving due to frost, and to provide air-conditioning where needed. Because ECO CHILL is an ammonia-based refrigeration system, it does not destroy atmospheric ozone or contribute to greenhouse gas.

For Toromont, ECO CHILL is an important differentiator that has captured a growing number of sales. Thirteen new ECO CHILL-powered arenas were commissioned in 2007, bringing our installed base to 46. Through this current installed base, ECO CHILL reduces potential greenhouse gas (CO_2) emissions by more than 26,000 metric tonnes annually.

ECO CHILL also offers economic advantages. Official monitoring by CANMET Energy Technology Centre, which is part of Natural Resources Canada, found that it reduced energy use by 40.6% at an arena in La Peche, Quebec – a savings of $72,900 per year for our customer.

With a proven track record in recreational refrigeration markets, CIMCO plans to introduce ECO CHILL to the industrial refrigeration market in 2008 – and remains committed to using ammonia as its refrigerant of choice in all systems.

Another strong business case for recycling lies in the waste management industry. In this market, electrical power can be generated from methane gas, an otherwise destructive pollutant that is 21 times more harmful to the environment than carbon dioxide on a volume basis.

Rather than flare this gas, Toromont can provide customers with the power generation equipment and know-how to convert it to electricity and sell it back into the electrical grid. We have applied this knowledge in an organized fashion for a decade. One of Toromont's flagship installations is the landfill gas power plant at the Waterloo Landfill in Ontario. Waterloo's regional municipality began collecting methane at the site in 1995 and 14 additional collection wells were added in the summer of 2007 to increase power efficiency.

The Toromont-owned Waterloo Landfill Gas Power Plant uses five Caterpillar G3516 engines with a combined capacity of 4.625 megawatts. This facility produces 3.2 million kWh of electricity per month. This reduces equivalent CO_2 emissions by 202,415 tonnes annually by utilizing methane gas. Moreover, it directly displaces 876,160 litres of fossil fuels per month, while providing electricity to 3,200 homes.

Using equipment supplied by Toromont, the Sudbury Landfill also employs a methane fuelled electric generator. Commissioned in the summer of 2007, it produces enough electricity to serve 1,800 homes.

In total, Toromont's landfill and digester gas-to-energy systems are now at work in 13 facilities with a combined capacity of 37 megawatts. These facilities are capable of reducing harmful global warming-equivalent CO_2 emissions by 145,106 tonnes per month.

CIMCO's proprietary ECO CHILL system installed at the Dow Centennial Centre, located in Fort Saskatchewan, Alberta.

RECYCLING WATER

Although often taken for granted in North America, fresh water comprises less than 3% of the world's supply of water. Conservation methods are therefore very important, which is why we have installed special wash bay systems at three Battlefield – The CAT Rental Store locations. These systems use recycled water to clean rental equipment prior to its next customer assignment. We estimate each system conserves up to 1,254 cubic metres of water per annum, depending on the size of our facility. At an average cost of $2.27 per cubic metre, this saves up to $2,800 per year per installed location. The conservation of water will be part of the plan for future Toromont facilities and the retrofit of older facilities.

RECYCLING BATTERIES & COMPUTERS

Batteries, either rechargeable or single use, must be disposed of properly or they will expose the environment to toxic lead and acid. With this in mind, Toromont CAT's information technology department launched a rechargeable battery recycling program in late 2007. The goal of the program is to properly dispose of all recycled batteries used in cordless power tools, laptop computers and cell phones. This complements another ongoing initiative of the IT department: to ensure that all computer equipment, from server components to batteries, is disposed of through a recycling company. These recycling initiatives join our other traditional recycling programs for paper, cardboard, cans, bottles and other materials.

CLEANING UP, ONE PARTICULATE AT A TIME

Toromont has invested in 49 kidney loop systems across its Compression and Equipment groups. In a kidney loop filtration system, oil is removed from the equipment, cleansed of contaminants as small as one micron and then reinserted to provide lubrication. The process takes time but it is less costly to the environment than an oil change. Kidney loop oil also meets factory standards and is an important capability, especially in challenging environments such as remote construction and mine sites where new oil is not readily available. ■

TOROMONT IN THE COMMUNITY

Toromont believes it has a responsibility to support those who are less fortunate and to contribute in a positive way to the communities in which it does business.

Over the years, our business units and employees have led the way in social responsibility by participating in many important charities.

For the past 11 years, Toromont Energy Systems has supported the Kids Cancer Foundation of Alberta with aggregate donations of more than $500,000. Operating with the vision "a cure for every child, care for every family," the Foundation helps children and their families in Alberta by providing funding and programs in three areas: camp and community outreach, pediatric oncology research and clinical support.

Supporting young people is also a theme for other business units. CIMCO Refrigeration has chosen, among other vital causes, the Kids Help Phone. Staffed by professional counsellors trained in social work, psychology, sociology and child and youth services, Kids Help Phone helped Canadian kids in need more than 1.5 million times on the phone and online in 2006.

David C. Wetherald
Vice President, General Counsel and Secretary

In 2007, Battlefield – The CAT Rental Store was among several organizations and a number of community volunteers to support Make-A-Wish Canada® in developing Hayden's Magical Wish Garden. This special garden was built to allow 7-year-old Hayden McIntyre of Port Perry, Ontario to play outdoors with friends and family. Hayden has spinal muscular atrophy. In his new garden, Hayden can maneuver his wheelchair safely through an accessible playground complete with waterfall, gazebo and two dinosaur sculptures.

Many times our support goes beyond money. On behalf of Habitat for Humanity Canada, Toromont CAT provided the equipment and know-how in the summer of 2007 to move a 310 tonne house half a kilometre to a new location just outside Toronto. The house, circa 1890, is now being readied to house two families in need. Across Toromont, our branches have numerous examples of the same kind of community support.

These efforts, small and large, make a difference and will continue. However, in the interests of concentrating our efforts so they can have the largest possible impact, Toromont has recently named United Way as its official corporate charity.

Toromont began its support of United Way in 2003 through Toromont CAT. In that first year, Toromont and our employees contributed $19,100. Our collective donations have increased annually, reaching $125,000 in 2007. In 2008, we expect our contribution to climb once again as we expand our corporate contribution through a matching program.

David Wetherald, Vice President, General Counsel and Secretary took a leadership role in formalizing our corporate giving program.

Said Mr. Wetherald: "We believe that supporting United Way is a great way to give back to our communities because, as a cause, it reaches so many different people and cuts across a broad spectrum of society. In addition, it encourages teamwork and has fostered an excellent team spirit here at Toromont. For that reason, we are discussing additional programs with United Way to further engage our employees, whether it be participating in Dragon Boat races, assisting our people in finding volunteer opportunities or other means."

As an example of team spirit, 30 Toromont employees participated in United Way-organized *Day of Caring®* events in 2007. During these events, Toromont representatives are given paid time off and use it to volunteer for local causes. In 2007, this included painting the Leader Place Family Shelter – an emergency shelter – outside Toronto.

United Way is a logical choice for Toromont. It is a growing movement with a steady approach and a proven past. Founded in 1887 in Denver, United Way came to Canada in the 1930s. Today, there are 122 United Ways in Canada, 1,400 United Ways in the U.S. and United Way International has more than 250 affiliate fundraising organizations.

DIVERSITY IN THE WORKFORCE

We compete for new assignments in every market we serve. As a growing business with expanding resource needs, we also compete fiercely for new talent.

To attract skilled people to our company, we are working to make Toromont a more welcoming environment where respect for the diverse qualities and backgrounds that our employees bring to our organization is a fundamental commitment.

There are many ways we demonstrate this commitment. One is by listening. As part of an update to our Employment Equity policy and action plans, we recently asked all employees to offer their suggestions on how Toromont's employment policies and practices could be enhanced. We received many thoughtful responses, including ideas to increase locker facilities for women to support their participation in our shops. Simple, yet useful.

Traditionally, our industry has been male-dominated and this has led to under-representation by women in our workforce. But we are making strides. For example, approximately 18% of the employees in our professional engineering and technologists group at CIMCO are women. At the end of 2007, 12% of our employees are women, an improvement from the previous year.

Embracing cultural and religious diversity is also important and we strive to do this in different ways. At CIMCO, we have been hosting special Chinese New Years events for employees for three years. CIMCO has a number of Chinese Canadians on staff. These events are a good way of building understanding and respect for the cultural heritage of the world's fastest-growing economy.

Recruitment of Canadians with disabilities has also helped us to grow and improve our company. As the Canadian Foundation for Physically Disabled Persons points out, "disabled people in our society…number in the millions." Finding ways to enable people to join our workforce makes good business sense.

Encouraging Aboriginal peoples to join Toromont has also benefitted us generally and in particular, helped us to deliver service in remote communities. In Canada's north, we have enjoyed a 10-year business relationship, called Toromont Arctic, with Kitikmeot, Qikiqtalluk and Sakku Inuit partners in which our mutual objective is to bring the economic benefits of development to the local communities in Nunavut. This includes employment and skills development. Most recently, we successfully recruited and trained three local technicians who are now serving in Rankin Inlet and Iqaluit. We have many more opportunities available.

In the years ahead, we expect our workforce to become more diverse – and we expect to profit from the experience. ■

TOP – A Toromont team at a United Way Day of Caring.
MIDDLE – Toromont power moves the Habitat for Humanity house.
BOTTOM – A Toromont team participates in a Dragon Boat race to raise funds for United Way.

A VISIBLE EDGE

We look for competitive advantage in everything we do. Many years ago this search landed on the doorstep of our information technology experts. This team set out to build a portfolio of technologies that could serve our business strategies and model.

Says Michael Cuddy, Vice President and Chief Information Officer, "We see IT as a competitive edge. We build custom systems which specifically enable our business unit priorities. This approach makes us very responsive to market needs, giving us control over the key components directly related to our most critical business decisions."

Technology adds value to Toromont in three ways. It increases management "visibility" into key issues and allows the right information to get to the right people quickly so they can make informed decisions; it improves efficiencies by reducing expenses and allowing our employees to focus on higher-value work; and, it brings value to customers by making it easier for them to work with us.

Many of our systems are invisible to the outside world. Examples include iMacs, our compression manufacturing system introduced in 2006, and our new TRAC inventory system installed at Battlefield – The CAT Rental Store in 2007. The former was developed specifically for Toromont Energy Systems to automate the preparation of estimates, track inventory and costs through to delivery; the latter enables better fleet utilization management across our 35 stores.

Similarly, Toromont CAT's Customer Relationship Management (CRM) system was created to help us manage market coverage, sales performance, customer call history and satisfaction levels. As an endorsement of the value of this software, 30 other Caterpillar dealers worldwide now use this Toromont-authored CRM software. The sale of this software has generated revenue and strengthened our relationship with the Caterpillar family.

Other systems are highly visible to customers. For example, our Toromont e-commerce system includes dedicated, private web portals our customers can use to view maintenance and billing records, track their fleet utilization (through GPS-enabled sensors placed on units in the field) and order parts on-line.

Our web applications are inter-connected. Using this information, we can accurately estimate the costs of long-term Customer Support Agreements down to the operating hour. More than 550 customers now actively use some form of Toromont e-commerce, and on-line parts ordering within our Caterpillar dealership grew 38% between 2006 and 2007.

Michael P. Cuddy
Vice President and
Chief Information Officer

Like all investments, technology spending is expected to provide a payback. The payback depends on the system and, in the case of our "e-business" initiatives, may be tracked against a number of specific metrics.

Technology is a core focus that will continue to provide advantage. Mobile and location-based technologies, equipment management systems that enable advanced maintenance techniques and market-related information systems will all be future performance drivers. ■

Q&A WITH TOROMONT'S CFO

Paul R. Jewer
Vice President, Finance and
Chief Financial Officer

Q Your balance sheet is conservatively leveraged. How will you deploy capital in the future to maximize returns?

A We like the flexibility and reduced risk profile supported by a conservative leverage structure. Having said that, the 0.19 to 1 net debt-to-equity ratio we enjoyed at the end of 2007 is more conservative than we believe necessary. We are generally comfortable at levels between 0.4 and 0.5 to 1. We will continue to monitor opportunities to deploy our balance sheet in the pursuit of quality acquisitions. If the right opportunity is identified, we would feel comfortable temporarily increasing debt-to-equity to as high as 1.2 to 1, with a view to bringing it back down to traditional levels. We will also continue to review other opportunities to deploy our cash, including consistent dividend growth and repurchasing shares.

Q Although it has been an important part of the Toromont growth model, why in recent years has the Company been quiet on the acquisition front and will this continue?

A We have not been totally quiet; we have just been selective. We are constantly looking. It is just that we are also patient. In 2006, we invested $5.5 million to acquire a business in Casper, Wyoming. This was a strategic move – meant to expand our capability to deliver natural gas compression to the important coal-bed methane areas of the U.S. Rockies. This business manufactured over $60 million in equipment in 2007. In 2007, we acquired an equipment rental business in Timmins, Ontario for $3.1 million. Although a relatively small acquisition, it was important strategically to our initiative of supporting growth in Northern Ontario mining.

In many of our markets, recent years have been characterized by overheated acquisition activities, first fueled by income trusts and then supported by private equity. We think that a market pause due to the current liquidity contraction supports more reasonable valuations and may lead to opportunities for Toromont.

Q How can the company sustain revenue growth given the territorial restrictions within your Equipment Group? What are the opportunities for territorial expansion?

A We have been very successful in achieving steady top and bottom-line growth in our Equipment Group. This has come through a focus on market share performance – ensuring that we have the best infrastructure and solutions to address our customers' requirements. As we sell more product into the marketplace, we generate the opportunity for continued growth in product support.

We have also benefitted from expansion in product offerings. Two recent examples include MaK engines for marine applications and Terex O&K mining shovels. We were appointed the MaK dealer by Caterpillar for the Great Lakes Region in 2006. In 2007, total sales of these products were $8 million, with significantly more orders in backlog. We began representing O&K in 2006 and sold our first product in 2007 – a $6 million order for several units going into a mine in Nunavut.

We will continue to move in step with Caterpillar's expansion of its product offerings. Another example of how this has benefitted Toromont is in our sales of CAT's line of compact construction equipment. Together with Caterpillar, we entered into this market in 1999 and in 2007, these products contributed over $30 million to our sales.

As for territory expansion, our focus is on being a high-performing Caterpillar dealer. We have been rewarded with three territorial assignments since 1993 and hope that there are more opportunities to come. That, however, will be entirely up to Caterpillar and I believe they know that we are ready to serve.

Q What are your plans for international expansion? Have you backed off the 10% target mentioned a few years back?

A Markets outside North America continue to be an important source of business for our Compression operations and represented 4% of total revenues in 2007. Although there was a large push three years ago to expand, we simply decided it was more lucrative in the short-term to focus our attention on developing our presence in the U.S. In that market, our revenue has grown 56% on average annually since 2005 and now represents 19% of total sales versus 9% in 2005. As we move forward now with a stronger base in the U.S., we will once again turn our attention to developing our presence in international markets. We will be more selective in identifying opportunities and ensuring that appropriate resources are dedicated to penetrate targeted markets, versus our previous approach which focussed on limited sales presence in many markets. ■

Corporate Governance Overview

A strong and effective corporate governance program continues to be a principal priority for Toromont. The Nominating and Corporate Governance Committee, on behalf of the Board, establishes and monitors the governance program and its effectiveness. The Company's corporate governance structure and procedures are founded on our Code of Business Conduct that applies to all directors, officers and employees. Our governance program includes the activities of the Board of Directors, who are elected by and are accountable to the shareholders, and the activities of management who are appointed by the Board and are charged with the day-to-day management of the Company.

Toromont regularly reviews and enhances its governance practices, monitoring and, where appropriate, responding to regulatory developments and other applicable legislation.

The Company's corporate governance program is in compliance with National Policy 58-201 – *Corporate Governance Guidelines* and Multilateral Instrument 52-110 – *Audit Committees*.

BOARD OF DIRECTORS

The role of the Board of Directors, its activities and responsibilities are documented and are regularly, and at least annually, assessed, as are the terms of reference for each of the committees of the Board, for the Chairs of the committees, for the Lead Director, for the Chairman and for the President and Chief Executive Officer, inclusive of scope and limits of authority of management. The Board acts in a supervisory role and any responsibilities not delegated to management remain with the Board. The Board's supervisory role includes such matters as strategic planning, identification and management of risks, succession planning, communication policy, internal controls and governance.

The Lead Director is an independent director appointed annually by the independent directors of the Board to facilitate the Board's functioning autonomously from management. The Lead Director serves as a non-partisan contact for other directors on matters not deemed appropriate to be discussed initially with the Chairman or in situations where the Chairman is not available. The Lead Director is available to counsel the Chairman on matters appropriate for review in advance of discussion with the full Board of Directors. The Lead Director chairs a session at each Board meeting during which only independent directors are present.

COMMITTEE STRUCTURE AND MANDATES

Committees of the Board are an integral part of the Company's governance structure. Three committees have been established with a view to allocating expertise and resources to particular areas, and to enhance the quality of discussion at Board meetings. The committees facilitate Board decision-making by providing recommendations to the Board on matters within their respective responsibilities.

All committees are comprised solely of directors who are independent of management. A summary of the responsibilities and the membership of the committees follow.

The Nominating and Corporate Governance Committee: Principal responsibilities are reviewing and making recommendations as to all matters relating to effective corporate governance. The committee is responsible for assessing effectiveness of the Board, its size and composition, its committees, director compensation, the Board's relationship to management and individual performance and contribution of its directors. The committee is responsible for identification and recruitment of new directors and new director orientation.

The Audit Committee: Principal duties include oversight responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, legal compliance on ethics programs established by management, the approval of all audit and non-audit services provided by the independent auditors and consultation with the auditors independent of management and overseeing the work of the auditors.

The Human Resources and Compensation Committee: Principal responsibilities are compensation of executive officers and other senior management, short- and long-term incentive programs, pension and other benefit plans, executive officer appointments, evaluation of performance of the President and Chief Executive Officer, succession planning and executive development. The committee also oversees compliance with the Company's Code of Business Conduct and the health, safety and environment program.

Board of Directors

Robert S. Boswell Director since 2007
Mr. Boswell is Chairman and Chief Executive Officer of Laramie Energy LLC., a Denver-based company primarily focused on finding and developing natural gas reserves from unconventional gas reservoirs within the Western Sedimentary Basin of North America. He is also a director of Complete Production Services, Inc., an oil and gas service provider based in Houston, Texas.

Robert M. Franklin ● ▲ Director since 1994
Chairman, Human Resources and Compensation Committee
Mr. Franklin is President of Signalta Capital Corporation, a private investment company. He is also a director of Barrick Gold Corporation, First Uranium Corporation, Canadian Tire Corporation and Resolve Business Outsourcing Income Fund. He is also the Trustee of Stratos Global Corporation.

Ronald G. Gage, FCA ■ ● Director since 2000
Chairman, Nominating and Corporate Governance Committee
Mr. Gage, a Fellow of The Institute of Chartered Accountants of Ontario, was Chairman and Chief Executive Officer of Ernst & Young LLP, Canada from 1993 to 1999. He is a director of AIM Trimark Canada Fund Inc., AIM Trimark Corporate Class Inc., easyhome Ltd., and the Canadian Public Accountability Board.

David A. Galloway ■ ▲ Director since 2002
Mr. Galloway is Chairman of the Board of Directors of Bank of Montreal. He also serves on the Board of Directors of E.W. Scripps Company.

Wayne S. Hill Director since 1988
Mr. Hill is Executive Vice President of the Company. Mr. Hill joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President in February 2002. He is also a director of First Uranium Corporation.

H. Stanley Marshall ▲ Director since 1998
Mr. Marshall is President and Chief Executive Officer and a director of Fortis Inc. and several of its subsidiaries (an international electric utility holding company).

John S. McCallum ■ ● Director since 1985
Lead Director and Chairman, Audit Committee
Mr. McCallum is a Professor of Finance in the I.H. Asper School of Business at the University of Manitoba. He is also a director of IGM Financial Inc., Wawanesa Mutual Insurance Company, Wawanesa General Insurance Company, Wawanesa Life Insurance Company and Fortis Inc. (including subsidiaries in British Columbia and Alberta).

Robert M. Ogilvie Director since 1986
Mr. Ogilvie is Chairman of the Board and Chief Executive Officer of the Company. Mr. Ogilvie joined Toromont as President in 1985 and was Chairman, President and Chief Executive Officer of the Company from 1987 to 1997. He was Chairman and Chief Executive Officer of the Company from 1997 to 2002, at which time he became Executive Chairman of the Board. He was reappointed Chief Executive Officer in 2006. Mr. Ogilvie is also on the Board of Regents of Mount Allison University.

Stephen J. Savidant Director since 2007
Mr. Savidant is an independent businessman and Chairman of ProspEx Resources Ltd., a Calgary-based oil and gas company focused on exploration for natural gas in the Western Canadian Sedimentary Basin. He is also a director of Empire Company Limited.

■ Member of Nominating and Corporate Governance Committee
● Member of Audit Committee
▲ Member of Human Resources and Compensation Committee

Back row left to right:
H. Stanley Marshall
Ronald G. Gage
Stephen J. Savidant
David A. Galloway
Robert M. Franklin
Front row left to right:
Robert M. Ogilvie
Robert S. Boswell
Wayne S. Hill
John S. McCallum

Management's Discussion and Analysis

of Financial Results for the year ended December 31, 2007

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2007, compared to the preceding year. This MD&A should be read in conjunction with the attached audited consolidated financial statements and related notes for the year ended December 31, 2007.

The consolidated financial statements reported herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. The information in this MD&A is current to February 1, 2008.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's Annual Information Form. These are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

ADVISORY

Certain statements contained herein constitute "forward-looking statements". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "should" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and are influenced by management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. These statements entail various risks and uncertainties as more fully described in the "Risks and Risk Management" and the "Outlook" sections of this MD&A. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether the result of new information, future events or otherwise.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

Toromont employs approximately 4,500 people in more than 130 locations, predominately in Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH. The Company serves its customers through two business groups.

The Equipment Group sells, rents and services a broad range of construction equipment and industrial engines. These activities generated 58% of the Company's revenues in 2007. The Equipment Group is comprised of Toromont CAT, one of the world's largest Caterpillar dealerships by revenue and geographic territory, and Battlefield – The CAT Rental Store, an industry-leading rental operation. Performance in this business segment is driven by activity in several industries including: infrastructure projects, residential and commercial construction, mining, aggregates, waste management, steel, forestry and agriculture. Other significant activities of the Equipment Group include sales and product support activities for Caterpillar engines used in a variety of applications including on highway trucks, industrial, commercial, marine and power generation applications.

The Compression Group is a leading North American business specializing in the design, engineering, fabrication and installation of compression systems for natural gas, fuel gas and carbon dioxide as well as process systems, and industrial and recreational refrigeration systems. These activities generated 42% of the Company's revenues in 2007. Results in the Compression Group are influenced by conditions in the primary market segments served, gas production and transportation, chemical, petrochemical, food and beverage processing, cold storage, food distribution and ice rink construction.

The majority of revenues are derived in Canada, representing 77% of revenues in 2007. The Company has a solid and growing presence in the United States, generating 19% of revenues in 2007, up from 13% in 2006. Offshore markets represented 4% of revenues in 2007.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

A primary objective is to build shareholder value through sustainable and profitable growth, founded on a strong financial position. Toromont's operating groups employ the following broad strategies in pursuit of this objective:

Expanding Markets

Toromont serves a diverse and increasing number of markets that offer significant potential for profitable expansion. Each operating group strives to achieve or maintain leading positions in served markets. Incremental revenues are derived from improved coverage, market share gains and geographic expansion. Expansion of the installed base of equipment provides the foundation for future product support growth and leverages the fixed costs associated with the Company's infrastructure.

Revenue
($ MILLIONS)

Operating Income
($ MILLIONS)

Strengthening Product Support
The parts and service business is a significant contributor to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent opportunities to develop closer relationships with customers and differentiate our product and service offering. The ability to consistently meet or exceed customers' expectations for service efficiency and quality is critical, as after-market support is an integral part of the customer's decision-making process when purchasing equipment.

Broadening Product Offerings
Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, thousands of different parts are offered through our distribution channels. The Company expands its customer base through selectively extending product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading, if not best in class, offerings from suppliers that are continually expanding and complementing their products. Strong relationships with suppliers are critical in achieving growth objectives.

Investing in Resources
The combined knowledge and experience of Toromont's people is a key competitive advantage. Growth is dependent on attracting, retaining and developing employees with values that are consistent with Toromont's. Incentive programs, a strong share ownership and highly principled culture result in a close alignment with Company and shareholder interests. By investing in employee training and development, the capabilities and productivity of employees continually improve to better serve customers, business partners and shareholders.

Toromont's information technology represents another competitive differentiator in the marketplace. The Company's selective investments in technology, inclusive of e-commerce initiatives, strengthen customer service capabilities, generate new opportunities for growth, drive efficiency and increase returns to our shareholders.

Strong Financial Position
A strong, well-capitalized balance sheet creates financial flexibility, has contributed to the Company's long-term track record of profitable growth and is fundamental to the Company's future success.

CONSOLIDATED RESULTS OF OPERATIONS

Years ended December 31 ($ thousands, except per share amounts)	2007	2006	% change
REVENUES	**$1,902,980**	$ 1,764,833	8%
Cost of goods sold	**1,486,775**	1,376,492	8%
Gross profit	**416,205**	388,341	7%
Selling and administrative expenses	**235,453**	221,968	6%
OPERATING INCOME	**180,752**	166,373	9%
Interest expense	**13,589**	14,899	(9%)
Interest and investment income	**(4,258)**	(3,789)	12%
Gain on sale of property	**15,990**	–	–
Income before income taxes	**187,411**	155,263	21%
Income taxes	**65,131**	55,842	17%
NET EARNINGS	**$ 122,280**	$ 99,421	23%
EARNINGS PER SHARE – BASIC	**$ 1.89**	$ 1.56	21%
KEY RATIOS:			
Gross profit as a % of revenues	**21.9%**	22.0%	
Selling and administrative expenses as a % of revenues	**12.4%**	12.6%	
Operating income as a % of revenues	**9.5%**	9.4%	
Income taxes as a % of income before income taxes	**34.8%**	36.0%	

Contributions from both operating groups led to year-over-year revenue growth of 8%, representing the fifteenth consecutive year of revenue growth from continuing operations. Equipment Group revenues were 11% higher on increased machine and engine sales and strong rental activity. Compression revenues were 4% higher on a 29% increase in revenues from refrigeration packages. Natural gas compression package revenues were down 5% as strong growth in U.S. markets was more than offset by lower activity in Canada. Product support continued to expand, with increases in both Groups.

The stronger Canadian dollar has had a dampening impact on revenues as pricing to customers typically reflects movements in the exchange rate on U.S. sourced equipment, components and spare parts. As well, the stronger Canadian dollar negatively impacts reported revenues on the translation of the Compression Group's growing U.S. operations. The Canadian dollar was 6% stronger on average in 2007 compared to the prior year. The estimated impact of the stronger Canadian dollar was a decrease in reported revenues of $73 million, $41 million in Equipment and $32 million in Compression. The impact in Compression included a $20 million decrease in revenues due to the translation of foreign subsidiaries, which also reduced net income in the Group by $1.5 million.

Gross profit increased 7% on the 8% increase in revenues, partially offset by a 0.1 percentage point decrease in gross profit margins. Gross profit margin in 2007 was 21.9%, compared to 22.0% reported in 2006. Gross profit margins in the Compression Group were slightly lower in 2007. This was due to lower margins in Canadian natural gas compression operations on lower revenues, partially offset by stronger margins in the U.S. natural gas operations on improved job execution and higher volumes. Equipment Group gross profit margins were at similar levels as in the prior year.

Selling and administrative expenses increased $13.5 million or 6% in 2007 versus the prior year. Compensation costs were $9.7 million higher due to increased profit sharing related to earnings growth and scheduled annual salary increases. Sales related expenses such as freight, service costs and marketing were up approximately $1.5 million on the increased volumes. Selling and administrative expenses as a percentage of revenues were 12.4% for 2007 compared to 12.6% in 2006.

Operating income in 2007 was up 9% over the prior year on higher revenues and a lower relative expense level. Operating income as a percentage of revenue improved to 9.5% in 2007 from 9.4% in 2006.

Interest expense was 9% lower in 2007 than in the prior year. Average debt balances in 2007 were lower than those reported in 2006 as cash flow from operating and other activities was strong.

Interest income was 12% higher in 2007 than in the prior year. Interest income varies with the level of short-term investing of daily cash flows from operations. The Company had higher cash balances in 2007 as a result of improved cash flow from operations. In addition, interest rates were marginally higher in 2007 than 2006.

During the second quarter of 2007, a 60-acre parcel of land in the Region of Halton was sold for net proceeds of $17.6 million. The resulting gain was $16.0 million, $12.9 million after tax, or $0.20 basic earnings per share.

The effective income tax rate for the year was 34.8% compared to 36.0% for 2006. The 2007 rate was lower due to the lower rate on the capital gain from the sale of property in the second quarter. Excluding this item, the effective income tax rate for 2007 was 36.2%, marginally higher than in 2006 due to the impact of lower future tax rates on future income tax assets.

Net earnings in 2007 were $122.3 million, up 23% from 2006. Basic earnings per share for 2007 were $1.89 compared with $1.56 in 2006, an increase of 21%. Excluding the gain on sale of property in 2007, net earnings in 2007 were $109.3 million or $1.69 per share, up 10% and 8% respectively.

Comprehensive income for the year was $110.8 million, comprised of net earnings of $122.3 million and other comprehensive loss of $11.5 million. The other comprehensive loss arose primarily on translation of self-sustaining foreign operations and a decline in fair value of cash flow hedges. Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establish a level of price stability for high volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency transactions when they occur.

Equipment Group Revenue
($ MILLIONS)

Equipment Group Operating Income
($ MILLIONS)

BUSINESS SEGMENT OPERATING RESULTS

The accounting policies of the segments are the same as those of the consolidated entity. Management evaluates overall business segment performance based on revenue growth and operating income relative to revenues. Corporate expenses are allocated based on each segment's operating income. Interest expense and interest and investment income are not allocated.

Results of Operations in the Equipment Group

Years ended December 31 ($ thousands)	2007	2006	% change
Equipment sales and rentals			
New	**$ 528,406**	$ 441,398	20%
Used	**129,989**	125,352	4%
Rental	**147,427**	133,610	10%
Total equipment sales and rentals	**805,822**	700,360	15%
Power generation	**11,328**	15,473	(27%)
Product support	**281,186**	272,036	3%
Total revenues	**$1,098,336**	$ 987,869	11%
Operating income	**$ 108,267**	$ 91,485	18%
Capital expenditures	**$ 77,658**	$ 79,695	(3%)
KEY RATIOS:			
Product support revenues as a % of total revenues	**25.6%**	27.5%	
Group total revenues as a % of consolidated revenues	**57.7%**	56.0%	
Operating income as a % of revenues	**9.9%**	9.3%	

The Equipment Group delivered record revenues and operating income on excellent growth across many markets.

New machine sales were up 20% in the year on higher unit sales, modestly higher prices and improved mix of larger units. The markets contributing to this growth included mining and heavy construction industries, prime and back-up electrical power systems, and engines for marine applications.

Used equipment sales were up 4% in the year. Sales of used equipment vary depending on customer buying preferences, exchange rate considerations and product availability.

Rental revenues were up 10% over 2006, largely due to modest market share gains and an expanded rental fleet. Revenues generated by stores open for more than one year were 8.1% higher this year versus the prior year on improved utilization. Two new locations, in Timmins and Concord, Ontario also contributed to increased rental revenues.

Power generation revenues from Toromont-owned plants declined 27% in the year over the prior year, reflecting the disposition of power generation assets located near Trenton, Ontario in mid 2007. On a comparable basis, power generation revenues were up 18% over 2006, reflecting increased operating hours and higher average prices for electricity.

Product support revenues were 3% higher than the prior year on increases in both parts and service. Product support revenues benefited from higher parts sales for construction and mining customers, particularly during the last quarter of the year. Partially offsetting this has been lower service work in on-highway truck engines due to softness in the transportation sector. A continuing strike by hourly staff in Newfoundland commencing in August 2007 has also negatively impacted revenues by approximately $2 million. Service work in process at December 31, 2007 was approximately 15% higher than at the end of 2006.

Operating income increased 18% over the prior year, on the 11% increase in revenues. Selling and administrative expenses as a percentage of revenues were lower in 2007 than in the prior year. Gross margins were at similar levels to 2006 as improved price realization offset the impact of a lower proportion of product support activities. Operating income increased to 9.9% of revenues compared with 9.3% in the prior year – a record level of profitability for the Equipment Group.

Compression Group Revenue
($ MILLIONS)

Compression Group Operating Income
($ MILLIONS)

Booking activity in 2007 was comparable to the record activity reported in 2006. Demand continued to be strong for new equipment, particularly for the larger models used in mining and infrastructure markets and for marine and power applications.

Backlogs at December 31, 2007 were comparable to the records set last year on significant orders received from customers in the mining and marine industries.

Capital expenditures in the Equipment Group totalled $77.7 million in 2007, of which approximately 78% were for replacement and expansion of the rental fleet. Other capital expenditures included investments for both new and existing branches as well as service and delivery vehicles.

Results of Operations in the Compression Group

Years ended December 31 ($ thousands)	2007	2006	% change
Package sales and rentals			
Package sales	**$ 594,029**	$ 584,297	2%
Rentals	**19,236**	20,158	(5%)
Total package sales and rentals	**613,265**	604,455	1%
Product support	**191,379**	172,509	11%
Total revenues	**$ 804,644**	$ 776,964	4%
Operating income	**$ 72,485**	$ 74,888	(3%)
Capital expenditures	**$ 19,450**	$ 22,749	(15%)
KEY RATIOS:			
Product support revenues as a % of total revenues	**23.8%**	22.2%	
Group total revenues as a % of consolidated revenues	**42.3%**	44.0%	
Operating income as a % of revenues	**9.0%**	9.6%	

Revenue growth within the Compression Group reflects varied market conditions. The net impact of these conditions has been marginally positive in 2007.

- The Canadian natural gas industry slowed significantly from the very active market conditions seen through 2005. High levels of gas in storage have kept prices low. A higher cost structure in Canada together with the strengthening Canadian dollar has resulted in cost disadvantages for Canadian natural gas producers. As a result, drilling in Canada has declined and the demand for compression equipment is down substantially from the peak seen in 2005.
- Conditions within the U.S. natural gas compression market have been favourable and the Company's participation in this market has increased through investment in facilities and people. More than $25 million has been invested in U.S. compression facilities and the workforce has more than doubled since the end of 2005.
- Activity within the U.S. and international refrigeration markets, both industrial and recreational, was higher in 2007.

Package sales revenues were up 2% from the prior year on a 29% increase in recreational and industrial refrigeration revenues. Revenues from natural gas compression packages were down 5% as higher revenues generated from the U.S. natural gas compression operations were more than offset by declines in the Canadian natural gas market.

Rental revenues were $0.9 million or 5% lower in 2007 than in 2006. The marginal decrease was due to lower fleet utilization in Canada.

Product support revenues were up 11% in the year, with a 14% increase in the natural gas sector and a 6% increase in industrial refrigeration. New service branches and the growing installed base continue to strengthen Compression product support activities. Gains were reported in both Canadian and U.S. service businesses.

Operating income for the Compression Group decreased 3% in the year on a 4% increase in revenues. Substantial growth in U.S. natural gas operations and improved performance in industrial and recreational refrigeration were more than offset by declines in Canadian natural gas compression. Gross margins were down slightly over the prior year on lower margins in Canadian natural gas product support, which were dampened due to continuing soft market conditions. Gross margins on natural gas compression equipment were relatively consistent with the prior year as lower margins in Canada on reduced volumes were largely offset by gains in the U.S. on higher volumes, better project execution and project mix. General and administrative expenses were held at the same relative level as in 2006, as higher spending to expand the U.S. operations was largely offset by lower spending in Canada. Operating income in the Industrial and Recreational sector substantially improved year over year on higher revenues and lower relative selling and administrative expenses. Operating income decreased to 9.0% of revenues for the year compared with 9.6% in the prior year.

Compression booking activity for the year was up 10%. The U.S. natural gas and process markets were up 38%, while the corresponding Canadian markets were down 28%. Industrial and recreational bookings were up 26%, led by gains in the industrial sector. End-of-year backlogs were 32% higher than last year.

Capital expenditures in the Compression Group totalled $19.4 million in 2007. Approximately 50% of capital expenditures were for natural gas compression package rental fleet in Canada in response to specific demand. Investments to the Company's rental fleet are made only when demand exists for rental units. Other capital expenditures included investments for the expansion of manufacturing facilities in Casper, Wyoming. Investments in 2006 were directed at expansion in Houston, Texas.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position. At December 31, 2007, the ratio of total debt, net of cash, to equity was 0.19:1 compared to 0.36:1 in the prior year. Total assets were $1.4 billion at December 31, 2007, compared with $1.3 billion at the end of 2006.

Working Capital

The Company's investment in non-cash working capital was $363.3 million at December 31, 2007. The major components, along with the changes from December 31, 2006 are identified in the following table.

Years ended December 31 ($ thousands)	2007	2006	Change
Accounts receivable	**$ 339,381**	$ 341,470	$ (2,089)
Inventories	**444,858**	461,672	(16,814)
Other current assets	**27,607**	7,753	19,854
Accounts payable and accrued liabilities	**(267,999)**	(301,131)	33,132
Deferred revenue	**(160,678)**	(90,596)	(70,082)
Dividends payable	**(7,792)**	(6,431)	(1,361)
Derivative financial instruments	**(3,575)**	–	(3,575)
Other	**(8,457)**	(1,113)	(7,344)
Total non-cash working capital	**$ 363,345**	$ 411,624	$ (48,279)

Accounts receivable were 1% lower than last year. Accounts receivable in the Equipment Group were up 13% on higher revenues in the fourth quarter. Accounts receivable in the Compression Group were down 12% on higher advance deposits received and improved collections.

Inventories were 4% lower than at December 2006. Equipment Group inventory was down 12% over that reported at this time last year on strong new machine sales in the fourth quarter. Compression Group inventory was up 7% on a 9% decrease in inventories in Canada and a 75% increase in the expanded U.S. compression operations.

Other current assets increased on deposits made for equipment ordered relating to a significant project and scheduled for delivery through 2008.

Accounts payable and accrued liabilities were 11% lower than December 2006 due to reduced key supplier payables.

Deferred revenues have increased $70.1 million or 77% from December 2006. The Compression Group uses progress billings as a method of funding working capital requirements on long-term contracts. Progress billings collected in 2006 on certain long-term contracts scheduled for delivery in 2008 are now classified as current.

Derivative financial instruments, namely foreign exchange contracts and an interest rate swap, are recorded on the balance sheet beginning January 1, 2007. Given the recent volatility in the Canadian/U.S. dollar exchange rate, the Company's hedging practices have led to a cumulative opportunity cost of approximately $3.6 million as at December 31, 2007. This is not expected to affect net income, as the unrealized losses will offset future gains on hedged items.

Other Balance Sheet Items

The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. The assessment of goodwill entails estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows. This assessment affirmed goodwill values as at December 31, 2007.

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Capital Structure
($ MILLIONS)

Normal Course Issuer Bid

The normal course issuer bid with the Toronto Stock Exchange was renewed in 2007. The issuer bid allows the Company to purchase up to approximately 3.2 million of its common shares, representing approximately 5% of shares issued and outstanding, in the year ending August 30, 2008. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled. Toromont believes that from time to time the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. The Company did not purchase any shares under the normal course issuer bid in either 2006 or 2007.

Outstanding Share Data

As at the date of this MD&A, the Company had 64,949,897 common shares and 1,836,959 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30% of trailing earnings from continuing operations. This practice is reviewed from time to time, based upon and subject to the Company's earnings, financial requirements and general economic circumstances. During 2007, the Company declared dividends of $0.48 per common share.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Toromont's liquidity requirements can be met through a variety of sources, including cash generated from operations, long and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

At December 31, 2007, $214.3 million or 93% of long-term debt carried interest at fixed rates. This debt matures at various dates through to 2019 with a current weighted average interest rate of 5.6%. The remaining $16.0 million or 7% of long-term debt carried interest at variable rates, ranging from 1.36% – 7.75%, with maturities through 2010.

Combined unsecured credit facilities amounted to $245 million at year-end, with $20 million maturing in 2009 and the balance maturing in 2011. At December 31, 2007, $182.8 million of the credit facilities were unutilized.

The Company expects that continued cash flows from operations in 2008, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments.

Principal Components of Cash Flow

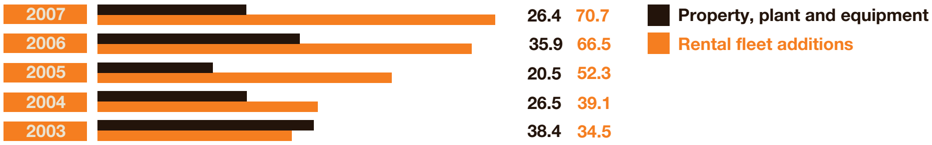
Cash from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

Years ended December 31 ($ thousands)	2007	2006	Change
Cash provided by operating activities	**$ 176,811**	$ 95,477	$ 81,334
Cash used in investing activities	**(74,615)**	(81,171)	6,556
Cash used in financing activities	**(56,696)**	(7,008)	(49,688)
Change in cash and cash equivalents	**$ 45,500**	$ 7,298	$ 38,202

Cash Flows from Operating Activities

Operating activities provided a record $176.8 million in the year compared to $95.5 million in 2006. Net earnings, adjusted for items not requiring cash, were up $14.6 million or 10.6%, reflecting higher revenues, improved operating margins and lower net interest expense. Non-cash working capital and other provided $24.6 million in 2007 compared to using $42.1 million in 2006. The components and changes in working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition".

Capital Expenditures
($ MILLIONS)



Cash Flows from Investing Activities

Investing activities used $74.6 million in the year compared to $81.2 million in 2006. Investing activities for 2007 included net proceeds of $17.6 million on the sale of property.

Net additions to the rental fleet (additions less proceeds on disposal) in 2007 were $42.7 million, up 5% from the prior year. Approximately 80% of the investments in 2007 were attributable to the Equipment Group.

Gross investment in property, plant and equipment was $26.4 million, $9.5 million lower than in the prior year. Significant investments in 2007 included the following:

- $5.5 million to complete the expansion of the compression facilities in Casper, Wyoming;
- $6.8 million for additions to the service vehicle fleet, primarily for the Equipment Group;
- $6.5 million for facilities renovations and expansion in the Equipment Group; and
- $3.0 million for computer technology upgrades.

During 2007, a rental operation in Timmins, Ontario was purchased for net cash of $3.1 million.

Cash Flows from Financing Activities

Financing activities used $56.7 million in 2007. The significant financing activities were as follows:

- Dividends paid to common shareholders in 2007 totalled $29.7 million, an increase of 22% over 2006 reflecting the higher dividend rate and more common shares outstanding.
- Scheduled principal payments on senior debentures and notes payable totalling $25.5 million.
- Cash received on exercise of share options totalled $6.4 million.

OUTLOOK

Financially, Toromont has a strong foundation. Net debt to shareholders' equity is at the lowest level since 1997. Toromont is well positioned in each of its markets and each business segment has good growth prospects. Over the longer term, it is expected that the existing businesses can achieve average annual revenue growth of 10%, with increasing profitability.

The Equipment Group has an excellent order backlog entering 2008. Continued growth in the parts and service business is expected, driven by the larger installed base of equipment in the field. Growth in other important core markets, including mining and infrastructure and in power systems applications is expected to continue and will counter prospects of weaker residential construction and forestry activity. We also expect to benefit from broader market participation as Caterpillar introduces additional lines in coming years.

Market fundamentals for natural gas for the longer term continue to be positive given declining reservoir pressures and future supply needs. Backlogs entering 2008 are at record levels, driven by increased natural gas activity in the U.S., largely from pipeline business. The U.S. gas market is expected to continue to be strong and our participation will increase in light of the Company's expanded presence. It is expected that the Canadian natural gas compression market will continue to be weak in the near term.

While the U.S. economy is weak and Canadian GDP growth has slowed, solid backlogs and industry and market diversification provide management with reasonable optimism for continued success for Toromont Industries Ltd. in 2008.

CONTRACTUAL OBLIGATIONS

Contractual obligations are set out in the following table. Management believes that these obligations will be met comfortably through cash generated from operations and existing short- and long-term financing facilities.

Payments due by period ($ thousands)	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long-term debt	$ 230,299	$ 26,874	$ 29,373	$ 38,169	$ 135,883
Operating leases	19,468	4,871	7,330	2,942	4,325
Total	$ 249,767	$ 31,745	$ 36,703	$ 41,111	$ 140,208

KEY PERFORMANCE MEASURES

Management reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the key financial performance measures are summarized in the following table. Others include, but are not limited to, measures such as market share, fleet utilization, and customer and employee satisfaction.

Years ended December 31	2007	2006	2005	2004	2003
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**7.8%**	10.3%	11.5%	14.9%	20.6%
Revenue generated outside North America (millions)	**$ 75.6**	$ 80.8	$ 70.0	$ 79.0	$ 55.4
Revenues, Equipment Group to Compression Group	**58:42**	56:44	57:43	57:43	63:37
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**6.3%**	9.2%	15.8%	10.7%	12.1%
INVESTING IN RESOURCES					
Revenue per employee (thousands)	**$ 422**	$ 399	$ 384	$ 381	$ 373
Investment in information technology (millions)	**$ 13.6**	$ 12.7	$ 13.2	$ 11.7	$ 11.2
Return on capital employed	**24.7%**	22.7%	17.8%	20.6%	18.7%
STRONG FINANCIAL POSITION					
Working capital (millions)	**$ 467**	$ 470	$ 411	$ 263	$ 204
Total debt, net of cash to equity ratio	**0.19:1**	0.36:1	0.42:1	0.45:1	0.47:1
Book value (shareholders' equity) per share	**$ 10.08**	$ 8.79	$ 7.57	$ 6.59	$ 5.93
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**21.2%**	24.8%	12.6%	19.4%	47.6%
Dividends per share growth	**20.0%**	25.0%	23.1%	23.8%	16.7%
Return on equity	**21.6%**	20.6%	18.9%	18.7%	17.5%

The performance measures indicate successful execution of strategies. Revenues have increased at an average annual rate of 13.0% since 2003. Product support revenues have increased at an average annual growth rate of 10.8% over the same period. Several factors have had an impact on revenue growth:

- In the last two years, revenue growth in Canadian operations has been dampened by the strengthening Canadian dollar relative to the U.S. currency, which has resulted in lower selling prices. Generally foreign exchange rate movements on underlying equipment and parts costs flow through to final pricing. Margins have not been negatively affected, as there is a corresponding impact on cost of goods sold.
- The stronger Canadian dollar has also negatively impacted reported revenues from U.S. operations on translation of financial results for reporting purposes. The impact in 2007 was to reduce revenues by $20 million compared to 2006.
- Since mid-2006, Canadian natural gas compression markets have been significantly slower than in 2005 and early 2006. High natural gas inventories in Canada, combined with a strong Canadian dollar, uncertainty around the Alberta Royalty Review and the change in taxation rules for income trust corporations have all served to weaken fundamental in the Western Canadian Sedimentary Basin.
- Additionally, revenue growth between 2004 and 2006 was affected by supply constraints on certain equipment, resulting in some delays in deliveries to customers and lost opportunities.

Significant expenditures have been made in the area of information technology over the past five years. These investments have provided a competitive advantage in the marketplace and increase productivity levels. Revenue per employee has increased 13% since 2003.

Toromont continues to maintain a strong balance sheet. In 2007, book value (shareholders' equity) per share increased 14.7% over the prior year on strong earnings in the year. Leverage, as represented by the ratio of total debt, net of cash, to shareholders' equity, also improved over the prior year.

Toromont has a history of progressive earnings per share growth. Earnings per share have increased in nine of the past ten years and since 2003 have increased at an average annual rate of 25.1%.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 18 years.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2007

Three months ended December 31 ($ thousands, except per share amounts)	2007	2006	% change
REVENUES	**$ 540,659**	$ 495,843	9%
Cost of goods sold	**416,027**	381,256	9%
Gross profit	**124,632**	114,587	9%
Selling and administrative expenses	**62,525**	54,901	14%
OPERATING INCOME	**62,107**	59,686	4%
Interest expense	**2,952**	4,027	(27%)
Interest and investment income	**(1,499)**	(1,436)	4%
Income before income taxes	**60,654**	57,095	6%
Income taxes	**21,356**	20,204	6%
NET EARNINGS	**$ 39,298**	$ 36,891	7%
EARNINGS PER SHARE – BASIC	**$ 0.61**	$ 0.58	5%
KEY RATIOS:			
Gross profit as a % of revenues	**23.1%**	23.1%	
Selling and administrative expenses as a % of revenues	**11.6%**	11.1%	
Operating income as a % of revenues	**11.5%**	12.0%	
Income taxes as a % of income before income taxes	**35.2%**	35.4%	

Revenues were 9% higher in the fourth quarter of 2007 compared to the same period last year on similar increases in both operating segments.

Gross profit increased 9% in the quarter over last year on higher sales volumes. Gross profit margin was even with the prior year as higher margins in the Equipment Group arising from improved price realization and a higher proportion of product support revenues were offset by lower margins in the Compression Group on reduced utilization of natural gas compression facilities in Canada.

Selling and administrative expenses increased $7.6 million or 14% versus the comparable period of the prior year. Salaries and benefits increased $4.6 million in the quarter versus the comparable period last year on general salary increases. Other expenses have increased in line with the growth in the business, such as sales and marketing-related expenses, up $1.7 million and occupancy up $0.9 million.

Interest expense was $1.1 million or 27% lower than the prior fourth quarter. Average debt balances in 2007 were lower than in 2006, and these balances carried slightly lower interest rates.

Interest income was up 4% on higher interest earned on higher cash balances partially offset by lower interest recognized on reduced conversions of equipment on rent with purchase options during the quarter.

The effective income tax rate was 35.2% compared to 35.4% in the similar period of 2006.

Net earnings in the quarter were $39.3 million, up 7% from 2006. Basic earnings per share were $0.61 compared with $0.58 in 2006, an increase of 5%.

Comprehensive income for the quarter was $42.1 million, comprised of net earnings of $39.3 million and other comprehensive income of $2.8 million. The other comprehensive income arose primarily on increases in fair value of cash flow hedges.

Fourth Quarter Results of Operations in the Equipment Group

Three months ended December 31 ($ thousands)	2007	2006	% change
Equipment sales and rentals			
New	**$ 171,476**	$ 146,149	17%
Used	**27,602**	38,085	(28%)
Rental	**41,758**	36,474	14%
Total equipment sales and rentals	**240,836**	220,708	9%
Power generation	**2,385**	3,999	(40%)
Product support	**73,449**	66,019	11%
Total revenues	**$ 316,670**	$ 290,726	9%
Operating income	**$ 35,324**	$ 30,038	18%
KEY RATIOS:			
Product support revenues as a % of total revenues	**23.2%**	22.7%	
Group total revenues as a % of consolidated revenues	**58.6%**	58.6%	
Operating income as a % of revenues	**11.2%**	10.3%	

Higher revenues in the fourth quarter compared to 2006 were driven by a 17% increase in new machine sales, benefiting from end of year purchasing decisions by customers and timing of delivery from suppliers on customer-specific orders. Used equipment sales were down 28% versus the comparable period of 2006. Used equipment sales are dependent on a variety of factors and will fluctuate from quarter to quarter. Used equipment revenues were up 4% for the full year, however were down in the fourth quarter after a strong third quarter, which was 48% higher than 2006. Rental revenues were up 14% compared to the prior year on market share gains, an expanded rental fleet and two new locations. Product support revenues were up 11% compared to the prior year, on stronger activity after a slower first nine months of the year.

Operating income was up 18% in the fourth quarter over last year on improved gross margins. Gross margins improved due a favourable mix in the quarter with a higher proportion of product support and rental activity, which both carry relatively higher margins. Gross margin improvements were partially offset by higher selling and administrative expenses, largely compensation and sales volume related. Operating income as a percentage of revenues was 11.2% compared to 10.3% in the fourth quarter of 2006.

Bookings in the fourth quarter were down 25% from the prior year, due to the timing of large orders for the mining industry booked in 2006.

Fourth Quarter Results of Operations in the Compression Group

Three months ended December 31 ($ thousands)	2007	2006	% change
Package sales and rentals			
Package sales	**$ 168,664**	$ 154,907	9%
Rentals	**5,034**	5,045	–
Total package sales and rentals	**173,698**	159,952	9%
Product support	**50,291**	45,165	11%
Total revenues	**$ 223,989**	$ 205,117	9%
Operating income	**$ 26,783**	$ 29,648	(10%)
KEY RATIOS:			
Product support revenues as a % of total revenues	**22.5%**	22.0%	
Group total revenues as a % of consolidated revenues	**41.4%**	41.4%	
Operating income as a % of revenues	**12.0%**	14.5%	

Revenues in the Compression Group for the fourth quarter of 2007 were up 9% from the similar period last year on growth in package sales and product support activity. Natural gas package sales were up 3% as higher revenues in U.S. compression offset continued weakness in Canada. Revenues in industrial and recreational refrigeration for the quarter exceeded those recorded in the same period of last year by 37% on higher activity levels in the industrial sector. Product support business in both natural gas and refrigeration markets reported higher revenues.

Operating income was 10% lower compared to last year on lower gross margins. In Canada, margins were lower on reduced facilities utilization and increased competition in product support. In the comparable U.S. operations, strong project execution and increased volumes produced higher margins.

Bookings in the fourth quarter were 81% higher than 2006 driven by both favourable market conditions in U.S. natural gas and increased investment in that region, together with excellent bookings in the Canadian industrial refrigeration sector.

QUARTERLY RESULTS

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2007 annual audited consolidated financial statements.

Thousands of dollars, except per share amounts	Q1	Q2	Q3	Q4	Year
2007					
Revenues					
Equipment Group	**$ 228,306**	**$ 268,432**	**$ 284,928**	**$ 316,670**	**$1,098,336**
Compression Group	**161,849**	**200,956**	**217,850**	**223,989**	**804,644**
Total revenues	**390,155**	**469,388**	**502,778**	**540,659**	**1,902,980**
Net earnings	**14,251**	**38,070**	**30,661**	**39,298**	**122,280**
Earnings per share					
Basic	**0.22**	**0.59**	**0.47**	**0.61**	**1.89**
Diluted	**0.22**	**0.58**	**0.47**	**0.61**	**1.88**
Dividends per share	**0.12**	**0.12**	**0.12**	**0.12**	**0.48**
2006					
Revenues					
Equipment Group	$ 187,188	$ 262,057	$ 247,898	$ 290,726	$ 987,869
Compression Group	182,240	181,546	208,061	205,117	776,964
Total revenues	369,428	443,603	455,959	495,843	1,764,833
Net earnings	11,722	24,910	25,898	36,891	99,421
Earnings per share					
Basic	0.18	0.39	0.41	0.58	1.56
Diluted	0.18	0.38	0.40	0.58	1.54
Dividends per share	0.10	0.10	0.10	0.10	0.40

Interim period revenues and earnings historically reflect some seasonality.

The Equipment Group has a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter has consistently been the strongest quarter due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option.

The Compression Group also has a distinct seasonal trend in activity levels due to well-site access and drilling patterns, which are adjusted to take advantage of weather conditions. Generally, higher revenues are reported in the fourth quarter of each year. Variations from this trend usually occur when natural gas market fundamentals are either improving or deteriorating.

Management anticipates that the seasonality historically experienced will continue in the future, although it may be somewhat mitigated by continued product and geographic diversification.

As a result of the historical seasonal sales trends, inventories increase through the year in order to meet the expected demand for delivery in the fourth quarter of the fiscal year, while accounts receivable are highest at year end.

SELECTED ANNUAL INFORMATION

($ thousands, except per share amounts)	2007	2006	2005
Revenues	**$1,902,980**	$ 1,764,833	$ 1,599,792
Net earnings – continuing operations	**$ 122,280**	$ 99,421	$ 78,392
Net earnings	**$ 122,280**	$ 99,421	$ 78,962
Earnings per share – continuing operations			
Basic	**$ 1.89**	$ 1.56	$ 1.24
Diluted	**$ 1.88**	$ 1.54	$ 1.22
Earnings per share			
Basic	**$ 1.89**	$ 1.56	$ 1.25
Diluted	**$ 1.88**	$ 1.54	$ 1.23
Dividends declared per share	**$ 0.48**	$ 0.40	$ 0.32
Total assets	**$1,356,861**	$ 1,299,992	$ 1,143,972
Total long-term debt	**$ 230,299**	$ 263,662	$ 254,093

Revenue growth in continuing operations has been strong with year-over-year increases of 12%, 10% and 8% in 2005, 2006 and 2007 respectively. Strong organic growth was achieved in both operating segments on increases in machine and package sales, rental revenues and product support activities. Organic revenue growth has also been complemented by acquisitions.

Growth in net earnings, on a continuing operations basis, has also been strong, with year-over-year increases of 12%, 27% and 23% in 2005, 2006 and 2007 respectively. Improvements in all years have been the result of higher sales volumes in both operating segments.

Earnings per share have grown in line with earnings growth, dampened somewhat by an increase in number of shares outstanding due to the exercise of stock options.

Dividends have generally increased in proportion to earnings growth.

Total assets have increased over the three-year period on higher inventories held in light of strong customer demand and short supply of product. Accounts receivable have also increased due to higher reported revenues. The Company has also invested in rental assets and other property, plant and equipment in targeted markets.

Long-term debt decreased in 2007 and represents 35% of total shareholders' equity. In 2005, long-term debt represented 53% of shareholders' equity. The ratio of total debt, net of cash, to shareholders' equity has improved to 19% at December 31, 2007, compared to 42% at the end of 2005.

RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to operating and financial risks that may potentially impact its operating results in either or both of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks on a cost-effective basis.

Business Cycle

Expenditures on capital goods have historically been cyclical, reflecting a variety of factors including interest rates, foreign exchange rates, consumer and business confidence, commodity prices, corporate profits, credit conditions and the availability of equity capital. Toromont's customers are typically affected, to varying degrees, by trends in the general business cycle within their respective markets. As a result, financial performance is affected by the impact of such business cycles on our customer base.

Sales are also indirectly affected by fluctuations in commodity prices. Commodity price movements in the natural gas, base metals and forestry sectors can have an impact on customers' demands for equipment and customer service.

Toromont's business is diversified across a wide range of industry market segments and geographic territories, serving to temper the effects of business cycles on consolidated results. Continued diversification strategies such as expanding our customer base, broadening our product offering and geographic diversification will further moderate business cycle impacts. Across both operating segments, the Company has focused on the sale of specialized equipment and ongoing support through parts distribution and skilled service. Product support growth has been, and will continue to be, fundamental to mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is subject to less volatility than equipment supply activities.

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for over a decade and management expects this will continue going forward.

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a high-quality manufacturer, with excellent brand recognition and customer support and high market share in many of the markets it serves.

Toromont is also dependent on Caterpillar for timely supply of equipment and parts. From time to time during periods of intense demand, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment in the conduct of business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by customers.

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including: the range and quality of products and services; ability to meet sophisticated customer requirements; distribution capabilities including number and proximity of locations; in certain cases, financial services offered by Caterpillar Finance; e-commerce solutions; reputation and financial strength.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable, investments and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset-backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from clients engaged in various industries including mining, construction, natural gas producers, food and beverage, and governmental agencies that are not concentrated in any specific geographic area. These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large client base.

The Company minimizes the credit risk of investments by investing in securities that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Warranties and Maintenance Contracts

Toromont provides warranties for most of the equipment it sells, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

The Company also enters into long-term maintenance and repair contracts, whereby it is obligated to maintain equipment for its customers. The length of these contracts varies generally from two to five years. The contracts are typically fixed price with provisions for inflationary adjustments. Due to the long-term nature of these contracts, there is a risk that maintenance costs may exceed estimate, thereby resulting in a loss on the contract. These contracts are closely monitored for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold.

Foreign Exchange

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar and the Euro. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The types of foreign exchange risk can be categorized as follows:

Transaction Exposure

The Company sources the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate. In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Company also sells compression packages in foreign currencies, primarily the U.S. dollar and Euro, and enters into foreign currency contracts to reduce these exchange rate risks.

Translation Exposure

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the foreign operations.

Foreign currency based earnings are translated into Canadian dollars each period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year-over-year relative to the overall earnings or financial position of the Company. The impact in 2007 was to reduce revenues by $20 million and net income by $1.5 million.

Interest Rate

In relation to its debt financing, the Company is exposed to changes in interest rates, which may impact on the Company's borrowing costs. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon the debt's maturity. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing.

The Company minimizes its interest rate risk by managing its portfolio of floating and fixed rate debt, as well as managing the term to maturity. The Company will also use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates.

Financing Arrangements

The Company requires capital to finance its growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. The Company maintains a very conservative leverage structure and although it does not anticipate difficulties, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 1 to the audited consolidated financial statements. The preparation of financial statements in conformity with Canadian GAAP requires estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. Management reviews its estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. These critical accounting policies and estimates are described below.

Revenue Recognition

The Company reflects revenues generated from the assembly and manufacture of projects using the percentage-of-completion approach of accounting for performance of production-type contracts. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period. However, there are many of these projects in process at any given point, the majority of which are in actual construction for a period of three months or less.

Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation, including asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of fixed assets are reviewed on a regular basis. Assessing the reasonableness of the estimated useful lives of fixed assets requires judgment and is based on currently available information.

Fixed assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset or asset group exceeds its fair value, as determined by the discounted future cash flows of the asset or asset group. In estimating future cash flows, the company uses its best estimates based on internal plans, which incorporate management's judgments as to the remaining service potential of the fixed assets.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of fixed assets or future cash flows constitute a change in accounting estimate and are applied prospectively.

Income Taxes

The liability method of accounting for income taxes is used. Future income tax assets and liabilities, measured at substantively enacted tax rates, are recognized for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the audited consolidated financial statements.

Income tax rules and regulations in the countries in which the Company operates and income tax treaties between these countries are subject to interpretation and required estimates and assumptions in determining the Company's consolidated income tax provision that may be challenged by the taxation authorities.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in Note 14 to the accompanying audited consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 *Comprehensive Income*, Section 3855 *Financial Instruments – Recognition and Measurement*, Section 3861 *Financial Instruments – Disclosure and Presentation*, and Section 3865 *Hedges*. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges, as well as the recognition of certain transition adjustments. As provided under the standards, the comparative consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. The impact on the consolidated balance sheet of measuring derivatives at fair value is described in Note 2 to the audited consolidated financial statements.

The effect of these changes in accounting policies on net income for year ending December 31, 2007 is not significant.

Effective January 1, 2007, the Company adopted the revised Section 1506 *Accounting Changes*, relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ending December 31, 2007.

The reader is referred to Note 2 in the accompanying audited consolidated financial statements for further details regarding the adoption of these standards.

FUTURE ACCOUNTING STANDARDS

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*; Handbook Section 3862 *Financial Instruments – Disclosures*; and Handbook Section 3863 *Financial Instruments – Presentation*. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Handbook Section 3031 *Inventories*, which replaces the existing Section 3030 *Inventories*. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is in the process of assessing the impact of these new accounting standards.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2007. Based on that evaluation, they have concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as of December 31, 2007 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities.

Additionally, the Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP. There has been no change in the design of the Company's internal controls over financial reporting during the fourth quarter of 2007 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures for the year ended December 31, 2007 and have concluded that they are being maintained as designed, they expect that the disclosure controls and procedures or internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

NON-GAAP FINANCIAL MEASURES

The success of the Company and business unit strategies is measured using a number of key performance indicators, which are outlined below. These measures are also used by management in its assessment of relative investments in operations. These key performance indicators are not measurements in accordance with Canadian GAAP. It is possible that these measures will not be comparable to similar measures prescribed by other companies. They should not be considered as an alternative to net income or any other measure of performance under Canadian GAAP.

Operating Income and Operating Margin

Each business segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest income and interest expense. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments. Consolidated and segmented operating income is reconciled to net earnings in tables where used in this MD&A.

Operating income margin is calculated by dividing operating income by total revenue.

Return on Equity (ROE) and Return on Capital Employed (ROCE)

Return on equity is monitored to assess the profitability of the consolidated Company. ROE is calculated by dividing net earnings by opening shareholders' equity.

ROCE is a key performance indicator that is utilized to assess both current operating performance and prospective investments. The numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is the monthly average capital employed, which is defined as net debt plus shareholders' equity.

Working Capital and Non-Cash Working Capital

Working capital is defined as current assets less current liabilities. Non-cash working capital is defined as working capital less cash and equivalents.

Management's Report

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates, which are based on management's best judgments. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Accountants, were appointed by the shareholders as external auditors to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of independent directors, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets regularly with financial management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors have unrestricted access to the Audit Committee. The consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in this Annual Report, based on the review and recommendation of the Audit Committee.

We, as the Company's Chief Executive Officer and Chief Financial Officer, will certify Toromont's annual filings with the Ontario Securities Commission as required by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings).

Robert M. Ogilvie
Chairman and
Chief Executive Officer

Paul R. Jewer
Vice President Finance and
Chief Financial Officer

Toronto, Ontario
January 28, 2008

Auditors' Report

To the Shareholders of Toromont Industries Ltd.:

We have audited the consolidated balance sheets of Toromont Industries Ltd. as at December 31, 2007 and 2006 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Licensed Public Accountants

Toronto, Canada
January 28, 2008

Consolidated Balance Sheets

As at December 31 ($ thousands)	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 103,514**	$ 58,014
Accounts receivable	**339,381**	341,470
Inventories (note 4)	**444,858**	461,672
Future income taxes (note 14)	**24,362**	24,305
Other current assets	**27,607**	7,753
Total current assets	**939,722**	893,214
Property, plant and equipment (note 5)	**181,531**	185,290
Rental equipment (note 6)	**159,628**	138,214
Goodwill	**34,800**	34,800
Other assets	**41,180**	48,474
Total assets	**$ 1,356,861**	$ 1,299,992
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	**$ 275,791**	$ 307,562
Deferred revenues	**160,678**	90,596
Current portion of long-term debt (note 7)	**26,874**	25,194
Income taxes payable	**5,945**	224
Derivative financial instruments	**3,575**	–
Total current liabilities	**472,863**	423,576
Deferred revenues	**22,062**	66,419
Long-term debt (note 7)	**203,425**	238,468
Accrued pension liability (note 13)	**3,583**	5,483
Future income taxes (note 14)	**198**	490
SHAREHOLDERS' EQUITY		
Share capital (note 8)	**124,124**	116,848
Contributed surplus (note 9)	**7,707**	6,543
Retained earnings	**539,039**	447,820
Accumulated other comprehensive income (note 10)	**(16,140)**	(5,655)
Total shareholders' equity	**654,730**	565,556
Total liabilities and shareholders' equity	**$ 1,356,861**	$ 1,299,992

See accompanying notes

On behalf of the Board:

Robert M. Ogilvie
Director

John S. McCallum
Director

Consolidated Statements of Earnings

Years ended December 31 ($ thousands, except share amounts)	2007	2006
REVENUES	$ 1,902,980	$ 1,764,833
Cost of goods sold	1,486,775	1,376,492
Gross profit	416,205	388,341
Selling and administrative expenses	235,453	221,968
OPERATING INCOME	180,752	166,373
Interest expense (note 7)	13,589	14,899
Interest and investment income	(4,258)	(3,789)
Gain on sale of property	15,990	–
Income before income taxes	187,411	155,263
Income taxes (note 14)	65,131	55,842
NET EARNINGS	$ 122,280	$ 99,421
EARNINGS PER SHARE (note 15)		
Basic	$ 1.89	$ 1.56
Diluted	$ 1.88	$ 1.54
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	64,631,140	63,889,036
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	65,067,027	64,693,466

See accompanying notes

Consolidated Statements of Retained Earnings

Years ended December 31 ($ thousands)	2007	2006
Retained earnings, beginning of year	$ 447,820	$ 373,993
Net earnings	122,280	99,421
Dividends	(31,061)	(25,594)
Retained earnings, end of year	$ 539,039	$ 447,820

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2007	2006
Net earnings	**$ 122,280**	$ 99,421
Other comprehensive (loss) income:		
Change in fair value of derivatives designated as cash flow hedges, net of income taxes ($3,153)	**(5,920)**	–
Losses on derivatives designated as cash flow hedges transferred to net income in the current period, net of income taxes ($1,869)	**3,529**	–
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	**(9,152)**	566
Unrealized gain on financial assets designated as available-for-sale, net of income taxes ($24)	**44**	
Other comprehensive (loss) income	**(11,499)**	566
Comprehensive income	**$ 110,781**	$ 99,987

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	2007	2006
OPERATING ACTIVITIES		
Net earnings	**$ 122,280**	$ 99,421
Items not requiring cash and cash equivalents		
Depreciation	**52,702**	48,498
Stock-based compensation	**2,073**	1,674
Accrued pension liability	**(1,900)**	(534)
Future income taxes	**365**	(4,188)
Gain on sale of rental equipment and property, plant and equipment	**(23,329)**	(7,301)
	152,191	137,570
Net change in non-cash working capital and other (note 18)	**24,620**	(42,093)
Cash provided by operating activities	**176,811**	95,477
INVESTING ACTIVITIES		
Additions to:		
Rental equipment	**(70,697)**	(66,528)
Property, plant and equipment	**(26,411)**	(35,916)
Proceeds on disposal of:		
Rental equipment	**27,985**	25,855
Property, plant and equipment	**18,540**	814
(Increase) decrease in other assets	**(20,908)**	85
Business acquisitions (note 3)	**(3,124)**	(5,481)
Cash used in investing activities	**(74,615)**	(81,171)
FINANCING ACTIVITIES		
(Decrease) increase in term credit facility debt	**(13,686)**	13,686
Issue of other long-term debt	**5,836**	9,801
Repayment of other long-term debt	**(25,513)**	(13,918)
Dividends	**(29,700)**	(24,254)
Cash received on exercise of stock options	**6,367**	7,677
Cash used in financing activities	**(56,696)**	(7,008)
Increase in cash and cash equivalents	**45,500**	7,298
Cash and cash equivalents at beginning of year	**58,014**	50,716
Cash and cash equivalents at end of year	**$ 103,514**	$ 58,014

SUPPLEMENTAL CASH FLOW INFORMATION (note 18)

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2007
($ thousands except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Toromont Industries Ltd. and its subsidiaries (the "Company") operate through two business segments: The Equipment Group and the Compression Group. The Equipment Group includes one of the world's largest Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a North American leader specializing in the design, engineering, fabrication, and installation of compression systems for natural gas, coal-bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both Groups offer comprehensive product support capabilities. Toromont employs over 4,500 people in more than 130 locations and is listed on the Toronto Stock Exchange under the symbol TIH.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Estimates are used in accounting for items and matters such as long-term contracts, allowance for uncollectible accounts receivable, allowance for inventory obsolescence, product warranty, estimated useful lives of assets for depreciation, asset and goodwill impairment assessments, employee benefits and income taxes.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, performance requirements are achieved and ultimate collection is reasonably assured. In addition to this general policy, the following describes the specific revenue recognition policies for each major category of revenue.

(a) Revenues from the sale of equipment are recorded when goods are shipped to the customer, at which time title to the equipment and significant risks of ownership have passed.

(b) Revenues from the supply of equipment systems involving design, manufacture, installation and start-up are recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total costs of the project. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any foreseeable losses on such projects are charged to operations when determined.

(c) Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer, generally on a straight-line basis over the term of the agreement.

(d) Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized when the part is shipped to the customer. For servicing of equipment, revenues are recognized as the service work is completed and billed.

(e) Revenues on extended warranty and long-term maintenance contracts are recognized either on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour service provided, or on a straight-line basis over the life of the warranty. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

(f) Revenues on equipment sold directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase at a predetermined residual value and dates are accounted for as operating leases wherein revenue is recognized over the period extending to the date of the residual guarantee. The value of such equipment at December 31, 2007 is $19.7 million (2006 – $25.5 million) and is included in other long-term assets.

Translation of Foreign Currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the time of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary items are translated at historical rates. All exchange gains and losses are included in earnings.

Foreign subsidiaries are financially and operationally self-sustaining. Accordingly, their assets and liabilities are translated into Canadian funds at the year-end exchange rate. Revenue and expense items are translated at the average exchange rate for the year. The foreign exchange impact of these translations is included in accumulated other comprehensive income in shareholders' equity.

Financial Instruments
Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative Financial Instruments and Hedge Accounting
Derivative financial agreements are used to manage exposure to fluctuations in exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for its interest rate swap and it is designated as a cash flow hedge. The Company also elected to apply hedge accounting for foreign exchange forward contracts for firm commitments and anticipated transactions. These are also designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in net income. Amounts charged to accumulated other comprehensive income are reclassified to the income statement when the hedged transaction affects the income statement.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

In 2006 and prior, the Company applied hedge accounting as allowed under Accounting Guideline 13 – *Hedging Relationships* for all of its derivative financial instruments. Accordingly, unrealized gains and losses on derivatives were not recognized.

Income Taxes
The liability method of accounting for income taxes is used. Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in net earnings in the period that includes the date of substantive enactment.

Stock-Based Compensation
The fair value method of accounting for stock options is used. The fair value of option grants are calculated using the Black-Scholes option pricing model and is recognized as compensation expense over the vesting period of those grants with a corresponding adjustment to contributed surplus. On the exercise of stock options, the consideration paid by the employee and the related amounts in contributed surplus are credited to common share capital.

Employee Future Benefits
For defined contribution plans, which cover the majority of employees, the pension expense recorded in earnings is the amount of the contributions the Company is required to pay in accordance with the terms of the plan.

For defined benefit plans, which cover approximately 6% of employees, the Company accrues its obligations and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit plans:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on length of service and management's best estimate assumptions to value its pensions using a measurement date of December 31;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of the active employees.

Earnings per Share ("EPS")

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock option grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Cash and Cash Equivalents

Cash and cash equivalents, including cash on account, demand deposits and short-term investments with original maturities of three months or less, are recorded at cost, which approximates market value.

Inventories

Equipment inventories, repair and distribution parts, and work-in-process are recorded at the lower of cost and net realizable value. Cost for serialized inventory is determined on a specific item basis. Cost for non-serialized inventory is determined based on weighted average actual cost. Direct materials are recorded at the lower of cost and replacement cost.

Rental Equipment

Rental equipment is recorded at cost. Rental equipment is depreciated over its estimated useful life on a straight-line basis. Estimated useful lives range from 1 to 15 years.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is recognized principally on a straight-line basis to depreciate the cost of these assets over their estimated useful lives. Estimated useful lives range from 20 to 30 years for buildings, 3 to 10 years for equipment and 20 years for power generation assets.

Leasehold improvements and lease inducements are amortized on a straight-line basis over the term of the lease.

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value, as determined by the discounted future cash flows of the asset group.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. In the fourth quarter of 2006 and 2007, the annual goodwill assessment was performed and determined that there was no impairment.

Comparative Amounts

Certain comparative figures have been restated to conform with the current year's presentation.

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 *Comprehensive Income*, Section 3855 *Financial Instruments – Recognition and Measurement*, Section 3861 *Financial Instruments – Disclosure and Presentation*, and Section 3865 *Hedges*. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges, as well as the recognition of certain transition adjustments. As provided under the standards, the comparative interim consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of measuring derivatives at fair value was an increase in: accounts receivable $27, derivative financial instrument assets $6,143, current future income tax assets $300, accounts payable and accrued liabilities $3,753, long-term future income tax liabilities $846, derivative financial instrument liabilities $857 and opening accumulated other comprehensive income $1,014.

The effect of these changes in accounting policies on net income for the year ending December 31, 2007 is not significant.

Accounting Changes

Effective January 1, 2007, the Company adopted the revised Section 1506 *Accounting Changes*, relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ending December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (refer to Future Accounting Standards below).

Future Accounting Standards

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 *Capital Disclosures*; Handbook Section 3862 *Financial Instruments – Disclosures*; and Handbook Section 3863 *Financial Instruments – Presentation*. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Handbook Section 3031 *Inventories*, which replaces the existing Section 3030 *Inventories*. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is in the process of assessing the impact of these new accounting standards.

3. BUSINESS ACQUISITIONS

Effective March 6, 2007, the Company purchased certain assets of a privately owned rental operation in Timmins, Ontario. In 2006, land, plant and equipment in Casper, Wyoming were purchased.

The acquisitions were recorded using the purchase method. The fair values of net assets acquired were as follows:

	2007	2006
Non-cash working capital	**$ 1,048**	$ 135
Property, plant and equipment	**188**	5,346
Rental equipment	**1,888**	–
Purchase price	**$ 3,124**	$ 5,481

4. INVENTORIES

	2007	2006
Equipment	**$ 249,399**	$ 280,528
Repair and distribution parts	**79,630**	73,923
Direct materials	**60,673**	52,138
Work-in-process	**55,156**	55,083
	$ 444,858	$ 461,672

5. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 38,657**	**$ –**	**$ 38,657**	$ 38,272	$ –	$ 38,272
Buildings	**133,585**	**44,830**	**88,755**	124,768	39,071	85,697
Equipment	**144,434**	**103,043**	**41,391**	137,401	92,403	44,998
Power generation	**34,514**	**22,326**	**12,188**	42,974	29,192	13,782
Assets under construction	**540**	**–**	**540**	2,541	–	2,541
	$ 351,730	**$ 170,199**	**$ 181,531**	$ 345,956	$ 160,666	$ 185,290

Depreciation expense for the year ended December 31, 2007 was $24,645 (2006 – $23,236).

6. RENTAL EQUIPMENT

	2007	2006
Cost	**$ 255,263**	$ 221,469
Less: Accumulated depreciation	**95,635**	83,255
	$ 159,628	$ 138,214

Depreciation expense for the year ended December 31, 2007 was $28,057 (2006 – $25,262). Operating income from rental operations for the year ended December 31, 2007 was $30.0 million (2006 – $25.7 million).

7. LONG-TERM DEBT

	2007	2006
Drawn on bank term facility (a)	**$ 30,000**	$ 43,686
Senior debentures (b)	**183,766**	199,673
Notes payable (c)	**16,533**	20,303
Total long-term debt	**230,299**	263,662
Less current portion	**26,874**	25,194
	$ 203,425	$ 238,468

All debt is unsecured.

(a) The Company maintains $245,000 (2006 – $248,000) in bank credit, provided through committed credit facilities, with $20 million maturing in 2009 and the balance of $225 million maturing in 2011. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. At December 31, 2007, the Canadian prime rate was 6.0% and the 30-day bankers acceptance rate was 4.56%. Standby letters of credit issued utilized $32,240 of the credit lines at December 31, 2007 (2006 – $21,800).

(b) Terms of the senior debentures are:

- $7,630, 8.17% senior debentures due September 18, 2008, blended principal and interest payments semi-annually from September 18, 2004 through to maturity;
- $36,136, 6.80% senior debentures due March 29, 2011, interest payable semi-annually through March 29, 2007; thereafter, blended principal and interest payments through to maturity;
- $125,000, 4.92% senior debentures due October 13, 2015, interest payable semi-annually, principal due on maturity; and
- $15,000, 7.06% senior debentures due March 29, 2019, interest payable semi-annually through September 29, 2009; thereafter, blended principal and interest payments through to maturity.

(c) Notes payable mature from 2008 to 2010 and bear interest at rates ranging from 1.36% to 7.75%.

The above credit arrangements include covenants, restrictions and events of default usual in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances.

Scheduled principal repayments of long-term debt are as follows:

2008	$ 26,874
2009	15,322
2010	14,051
2011	36,889
2012	1,280
2013 to 2019	135,883
	$ 230,299

Interest expense included interest on debt initially incurred for a term greater than one year of $13,271 (2006 – $14,047).

8. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares and preferred shares. No preferred shares have been issued.

Issued

The changes in the common shares issued and outstanding during the year were as follows:

	2007		2006	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	**64,310,577**	**$ 116,848**	63,624,936	$ 107,348
Exercise of stock options	**632,920**	**7,276**	685,641	9,500
Balance, end of year	**64,943,497**	**$ 124,124**	64,310,577	$ 116,848

Shareholder Rights Plan

The Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person, and any related parties, acquires or commences a take-over bid to acquire 20% or more of the Company's outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company's Board of Directors. Should such an acquisition occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The plan expires in April 2009.

9. CONTRIBUTED SURPLUS

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Changes in contributed surplus were as follows:

	2007	2006
Balance, beginning of year	**$ 6,543**	$ 6,692
Stock-based compensation expense, net of forfeitures	**2,073**	1,674
Value of compensation cost associated with exercised options	**(909)**	(1,823)
Balance, end of year	**$ 7,707**	$ 6,543

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2007	2006
Balance, beginning of year, as previously reported	**$ (5,655)**	$ –
Unrealized losses on translation of financial statements of self-sustaining operations	**–**	(6,221)
Cumulative impact of accounting changes relating to financial instruments (note 2)	**1,014**	–
Restated balance, beginning of year	**(4,641)**	(6,221)
Other comprehensive (loss) income	**(11,499)**	566
Balance, end of year	**$ (16,140)**	$ (5,655)

As at December 31, 2007, accumulated other comprehensive income is comprised of the following amounts:

	2007	2006
Unrealized losses on translation of financial statements of self-sustaining foreign operations	**$ (14,807)**	$ (5,655)
Unrealized gain on financial assets designated as available-for-sale, net of taxes ($24)	**44**	
Losses on foreign exchange derivatives designated as cash flow hedges, net of taxes ($627)	**(1,168)**	–
Loss on interest rate derivative designated as a cash flow hedge, net of taxes ($111)	**(209)**	–
	$ (16,140)	$ (5,655)

The Company does not enter into derivative financial agreements for speculative purposes. The gains and losses on these contracts are intended to offset the transaction losses and gains. These losses will be reclassified to net income within the next twelve months and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable in the case of foreign exchange derivatives and interest expense in the case of the interest rate derivative. Management intends to hold these foreign currency contracts to maturity.

11. FINANCIAL INSTRUMENTS

Interest Rate Risk

The Company is exposed to interest rate risk on the portion of its long-term debt that bears interest at variable rates, which at December 31, 2007 was $46 million or 20% of total long-term debt. The Company holds an interest rate swap with a Canadian chartered bank that mitigates variability on $30 million of this debt. The swap, which matures September 1, 2008, converts floating rate debt into fixed rate debt at 5.88%. Management estimates that a loss of $320 would be realized if the contract was terminated on December 31, 2007. This contract is designated as a hedge, in accordance with the new standards, and therefore this loss has been included in other comprehensive income. This loss is not expected to affect net income as management intends to hold the interest rate swap contract to maturity.

Interest rate risk related to the Company's fixed-interest long-term debt relates to the resetting of interest rates upon maturity and refinancing of the debt. Management does not believe that the impact of interest rate fluctuations will be significant.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable, investments and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset-backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from clients engaged in various industries including mining, construction, natural gas producers, food and beverage, and governmental agencies that are not concentrated in any specific geographic area. These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is limited due to the Company's large client base.

The Company minimizes the credit risk of investments by investing in securities that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Currency Risk

The Company is exposed to currency risks arising from fluctuations in foreign exchange rates on purchases of inventory and sale of products. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on short-term foreign currency transactions, firm commitments and anticipated transactions. Hedge accounting is applied to foreign currency forward contracts for firm commitments and anticipated transactions. A natural hedge occurs for foreign currency forward contracts for goods already received.

The Company is also exposed to currency risk on its net investment in self-sustaining foreign subsidiaries, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2007.

		Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	USD	160,896	$ 1.0113	January 2008 to November 2008
	EUR	4,443	$ 1.4870	June 2008 to August 2008
	GBP	10	$ 2.2200	January 2008
Sales contracts	USD	15,078	$ 1.0018	January 2008 to December 2008

Management estimates that a loss of $3,255 would be realized if the contracts were terminated on December 31, 2007. Certain of these forward contracts are designated as hedges, in accordance with the new standards, and accordingly, a loss of $1,795 has been included in other comprehensive income. These losses are not expected to affect net income as the losses will be reclassified to net income within the next twelve months and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable. A loss of $1,460 on forward contracts not designated as hedges is included in net income which offsets gains recorded on the underlying hedged item, namely foreign denominated accounts payable and accounts receivable.

Fair Value

At December 31, 2007 and 2006, the estimated fair values of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, borrowings under the bank term facility and notes payable approximate their respective carrying values. Derivative financial instruments are carried at fair value at December 31, 2007.

The fair values of the senior debentures are based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the senior debentures as at December 31 were $179,726 and $183,766, respectively (2006 – $203,775 and $199,673 respectively).

12. STOCK-BASED COMPENSATION PLAN

The Company maintains an Executive Stock Option Plan for certain employees and directors. Under the plan, options may be granted for up to 6,096,000 common shares. Stock options have a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

A reconciliation of the outstanding options is as follows:

	2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,091,379**	**$ 14.67**	2,689,795	$ 12.72
Granted	**393,900**	**25.95**	370,380	24.58
Exercised	**(632,920)**	**9.57**	(685,641)	11.02
Forfeited	**(9,000)**	**25.19**	(283,155)	17.98
Options outstanding, end of year	**1,843,359**	**$ 18.78**	2,091,379	$ 14.67
Options exercisable, end of year	**842,365**	**$ 14.42**	1,001,823	$ 10.67

The following table summarizes stock options outstanding and exercisable at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$10.28 – $10.71	554,120	1.6	$ 10.66	481,556	$ 10.66
$16.59 – $22.78	640,479	3.6	19.10	310,693	18.60
$24.58 – $27.70	648,760	5.8	25.40	50,116	24.58
Total	1,843,359	3.8	$ 18.78	842,365	$ 14.42

The fair value of each stock option granted is estimated on the date of grant. The fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions:

	2007	2006
Weighted average fair value price per option	**$ 6.66**	$ 6.51
Expected life of options (years)	**5.82**	5.78
Expected stock price volatility	**25.0%**	25.0%
Expected dividend yield	**1.9%**	1.6%
Risk-free interest rate	**4.1%**	4.1%

Deferred Share Unit Plan

The Company offers a deferred share unit (“DSU”) plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their management incentive award or fees, respectively in deferred share units. In addition, the Board may grant discretionary DSUs to executives. A DSU is a notional unit that reflects the market value of a single common share of Toromont and generally vests immediately. The DSUs will be redeemed on termination of employment or leaving the board, as the case may be. The redemption amount will be based upon the average of the high and low trading prices of the common shares on the TSX for the five trading days preceding the redemption date. The program commenced in 2006 and as at December 31, 2007, 21,405 units were outstanding at a value of $600.0 (2006 – 4,307 units at a value of $105.3). The Company records the cost of the DSU Plan as compensation expense. No units were redeemed or cancelled in either fiscal year.

13. EMPLOYEE FUTURE BENEFITS

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to these union-sponsored plans in accordance with respective collective bargaining agreements. In the case of the defined contribution plans, regular contributions are made to the employees’ individual accounts, which are administered by a plan trustee, in accordance with the plan document.

Approximately 6% of participating employees are included in defined benefit plans.

(a) Powell Plan – Consists of personnel of Powell Equipment (acquired by Toromont in 2001). The plan is a contributory plan which provides pension benefits based on length of service and career average earnings. The last actuarial valuation of the plan was completed as at December 31, 2006. The next valuation is scheduled as at December 31, 2009.

(b) Executive Plan – This is a non-contributory pension arrangement for certain senior executives which provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. The most recent actuarial valuation of the plan was completed as at December 31, 2007. The next valuation is scheduled as at December 31, 2008.

(c) Other plan assets and obligations – This provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan that, in accordance with the plan provisions, have elected to receive a pension directly from the plan. The most recent actuarial valuation of the plan was completed as at January 1, 2006. The next valuation is scheduled as at January 1, 2009.

The changes in the fair value of assets and the pension obligations and the funded status of the defined benefit plans were as follows:

	2007	2006
ACCRUED BENEFIT OBLIGATIONS		
Balance, beginning of year	**$ 74,196**	$ 70,503
Transfers	**–**	899
Service cost	**1,529**	2,061
Interest cost	**3,590**	3,539
Actuarial (gain) loss	**(841)**	2,331
Benefits paid	**(6,945)**	(5,137)
Balance, end of year	**$ 71,529**	$ 74,196
PLAN ASSETS		
Fair value, beginning of year	**$ 59,594**	$ 55,100
Transfers	**21**	899
Actual return on plan assets	**2,439**	5,556
Company contributions	**2,525**	2,642
Participant contributions	**525**	534
Benefits paid	**(6,945)**	(5,137)
Fair value, end of year	**$ 58,159**	$ 59,594
FUNDED STATUS OF THE PLANS	**$ (13,370)**	$ (14,602)
Unrecognized actuarial loss	**11,265**	10,892
Unrecognized past service benefit	**(1,478)**	(1,773)
Accrued pension liability	**$ (3,583)**	$ (5,483)

The funded status of the Company's defined benefit pension plans at year end are as follows:

	2007			2006		
	Accrued benefit obligation	Plan assets	Funded status – surplus (deficit)	Accrued benefit obligation	Plan assets	Funded status – surplus (deficit)
Powell Plan	**$ 42,920**	**$ 44,260**	**$ 1,340**	$ 44,584	$ 44,264	$ (320)
Executive Plan	**19,745**	**2,020**	**(17,725)**	20,021	2,373	(17,648)
Other plan assets and obligations	**8,864**	**11,879**	**3,015**	9,591	12,957	3,366
Funded status of the plans	**$ 71,529**	**$ 58,159**	**$ (13,370)**	$ 74,196	$ 59,594	$ (14,602)

The Executive Plan is a supplemental pension plan and is solely the obligation of the Company. The Company is not obligated to fund this plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit in the amount of $23.0 million to secure the obligations under this plan.

The significant annual actuarial assumptions adopted in measuring the accrued benefit obligations were as follows:

	2007	2006
Discount rate	**5.25%**	5.00%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
Rate of compensation increase	**4.00%**	4.00%

The allocations of plan assets are as follows:

	2007	2006
Equity securities	**44.4%**	45.0%
Debt securities	**38.2%**	37.4%
Real estate	**15.8%**	15.5%
Cash and cash equivalents	**1.6%**	2.1%

No plan assets are directly invested in the Company's securities.

The net pension expense for the years ended December 31 included the following components:

	2007	2006
DEFINED BENEFIT PLANS		
Service cost	**$ 1,004**	$ 1,527
Interest cost	**3,590**	3,539
Actual return on plan assets	**(2,439)**	(5,556)
Actuarial (gain) loss	**(841)**	2,331
Difference between actual and expected return on assets	**(1,570)**	1,706
Difference between actual and recognized actuarial (gain) loss	**1,177**	(1,142)
Difference between actual and recognized past service benefits	**(296)**	(296)
	625	2,109
DEFINED CONTRIBUTION PLANS	**8,546**	8,424
401(k) MATCHED SAVINGS PLAN	**837**	569
Net pension expense	**$ 10,008**	$ 11,102

The total cash amount paid or payable for employee future benefits, including both defined benefits and defined contribution plans, in 2007 was $11,909 (2006 – $11,636).

14. INCOME TAXES

Significant components of the provision for income tax expense were as follows:

	2007	2006
Current income tax expense	**$ 64,766**	$ 60,030
Future income tax expense (recovery)	**365**	(4,188)
Total income tax expense	**$ 65,131**	$ 55,842

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes was as follows:

	2007	2006
Statutory Canadian federal and provincial income tax rates	**36.12%**	36.12%
Expected taxes on income	**$ 67,693**	$ 56,081
Increase (decrease) in income taxes resulting from:		
Lower effective tax rates in other jurisdictions	**(2,458)**	(2,607)
Manufacturing and processing rate reduction	**(203)**	(147)
Expenses not deductible for tax purposes	**1,211**	1,562
Non-taxable gains	**(2,817)**	(144)
Effect of future income tax rate reductions	**1,925**	427
Other	**(220)**	670
Provision for income taxes	**$ 65,131**	$ 55,842
Effective income tax rate	**34.75%**	35.97%

The income tax effects of temporary differences that gave rise to significant portions of the future income tax assets and future income tax liabilities were as follows:

	2007	2006
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	**$ 10,746**	$ 11,963
Deferred revenue	**2,648**	2,791
Accounts receivable	**1,767**	2,724
Inventories	**8,463**	6,827
Cash flow hedges in other comprehensive income	**738**	–
	$ 24,362	$ 24,305
NON-CURRENT FUTURE INCOME TAX LIABILITIES		
Capital assets	**$ (7,807)**	$ (7,512)
Other	**7,633**	7,022
Available for sale financial assets in other comprehensive income	**(24)**	–
	$ (198)	$ (490)

15. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share.

	2007	2006
Net earnings available to common shareholders	**$ 122,280**	$ 99,421
Weighted average common shares outstanding	**64,631,140**	63,889,036
Dilutive effect of stock option conversion	**435,887**	804,430
Diluted weighted average common shares outstanding	**65,067,027**	64,693,466
Basic earnings per share	**$ 1.89**	$ 1.56
Dilutive effect of stock option conversion	**(0.01)**	(0.02)
Diluted earnings per share	**$ 1.88**	$ 1.54

16. COMMITMENTS

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

2008	$ 4,871
2009	4,274
2010	3,056
2011	1,808
2012	1,134
2013 and thereafter	4,325
	$ 19,468

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	**$ 267,999**	$ 301,131
Dividends payable	**7,792**	6,431
Total accounts payable and accrued liabilities	**$ 275,791**	$ 307,562

18. SUPPLEMENTAL CASH FLOW INFORMATION

	2007	2006
Net change in non-cash working capital and other		
Accounts receivable	**$ 2,967**	$ (4,089)
Inventories	**16,984**	(81,695)
Accounts payable and accrued liabilities	**(29,416)**	28,309
Deferred revenues	**70,082**	10,599
Other	**(35,997)**	4,783
	$ 24,620	$ (42,093)
Cash paid during the year for:		
Interest	**$ 14,507**	$ 15,213
Income taxes	**$ 61,894**	$ 72,881
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued liabilities	**$ 447**	$ 2,704

19. SEGMENTED INFORMATION

The Company has two reportable operating segments, each supported by the corporate office. The business segments are strategic business units that offer different products and services, and each is managed separately. The corporate office provides finance, treasury, legal, human resources and other administrative support to the business segments. Corporate overheads are allocated to the business segments based on operating income.

The Equipment Group includes one of the world's largest Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a North American leader specializing in the design, engineering, fabrication, and installation of compression systems for natural gas, coal-bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both groups offer comprehensive product support capabilities.

The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies. Each reportable operating segment's performance is measured based on operating income. No reportable operating segment is reliant on any single external customer.

	Equipment Group		Compression Group		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
Equipment/package sales	**$ 658,395**	$ 566,750	**$ 594,029**	$ 584,297	**$1,252,424**	$ 1,151,047
Rentals	**147,427**	133,610	**19,236**	20,158	**166,663**	153,768
Product support	**281,186**	272,036	**191,379**	172,509	**472,565**	444,545
Power generation	**11,328**	15,473	**–**	–	**11,328**	15,473
Total revenues	**$1,098,336**	$ 987,869	**$ 804,644**	$ 776,964	**$1,902,980**	$ 1,764,833
Operating income	**$ 108,267**	$ 91,485	**$ 72,485**	$ 74,888	**$ 180,752**	$ 166,373
Interest expense					**13,589**	14,899
Interest and investment income					**(4,258)**	(3,789)
Gain on sale of property					**(15,990)**	–
Income taxes					**65,131**	55,842
Net earnings from continuing operations					**$ 122,280**	$ 99,421

Selected Balance Sheet information

	Equipment Group		Compression Group		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
Identifiable assets	**$ 700,050**	$ 702,455	**$ 513,701**	$ 519,144	**$ 1,213,751**	$ 1,221,599
Corporate assets					**143,110**	78,393
Total assets					**$ 1,356,861**	$ 1,299,992
Capital expenditures	**$ 77,658**	$ 79,695	**$ 19,450**	$ 22,749	**$ 97,108**	$ 102,444
Depreciation	**$ 42,172**	$ 39,200	**$ 10,530**	$ 9,298	**$ 52,702**	$ 48,498
Goodwill	**$ 13,000**	$ 13,000	**$ 21,800**	$ 21,800	**$ 34,800**	$ 34,800

Operations are based primarily in Canada and the United States. The following summarizes the final destination of revenues to customers and the assets held in each geographic segment.

	2007	2006
Revenues		
Canada	**$ 1,466,553**	$ 1,450,099
United States	**360,848**	233,971
International	**75,579**	80,763
	$ 1,902,980	$ 1,764,833
Capital assets and goodwill		
Canada	**$ 348,707**	$ 332,127
United States	**26,940**	25,768
International	**312**	409
	$ 375,959	$ 358,304

20. ECONOMIC RELATIONSHIP

The Company, through its Equipment Group, sells and services heavy equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. The distribution and servicing of Caterpillar products account for the major portion of the Equipment Group's operations. Toromont has had a strong relationship with Caterpillar since 1993.

Ten-Year Financial Review

For the years ended December 31 ($ thousands except where otherwise indicated)	2007	2006	2005	2004[1]
OPERATING RESULTS				
Revenues	**1,902,980**	1,764,833	1,599,792	1,434,756
Net earnings	**122,280**	99,421	78,962	70,518
Net interest (income) expense	**9,331**	11,110	10,192	10,202
Capital expenditures	**97,108**	102,444	72,813	65,608
Dividends declared	**31,061**	25,594	20,280	16,486
FINANCIAL POSITION				
Working capital	**466,859**	469,638	410,990	263,294
Capital assets	**341,159**	323,504	283,407	297,645
Total assets	**1,356,861**	1,299,992	1,143,972	962,437
Long-term debt	**203,425**	238,468	241,265	166,508
Shareholders' equity	**654,730**	565,556	481,812	415,855
FINANCIAL RATIOS				
Working capital	**2.0:1**	2.1:1	2.1:1	1.8:1
Return on opening shareholders' equity (%)	**21.6**	20.6	18.9	18.7
Total debt net of cash to shareholders' equity	**.2:1**	.4:1	.4:1	.4:1
PER SHARE DATA ($)				
Net earnings	**1.89**	1.56	1.25	1.11
Dividends declared	**0.48**	0.40	0.32	0.26
Book value (shareholders' equity)	**10.08**	8.79	7.57	6.59
Shares outstanding at year end	**64,943,497**	64,310,377	63,624,936	63,082,586
Price range				
High	**30.00**	27.15	25.68	20.85
Low	**22.30**	20.08	20.05	15.88
Close	**28.26**	24.50	25.40	20.72

Notes

(1) Results in 2004 and prior have not been restated to conform with the current year's presentation.

2003	2002	2001	2000	1999	1998
1,299,389	1,076,930	911,005	800,464	723,937	683,482
58,693	40,457	43,700	32,345	32,057	38,188
10,608	7,136	(6,913)	3,797	(1,774)	1,910
72,922	53,042	77,394	57,968	52,146	36,307
13,319	11,541	10,646	9,257	8,213	7,650
203,577	213,222	218,132	165,098	183,922	144,109
293,211	258,764	252,104	206,526	138,499	106,628
856,176	771,902	720,702	613,787	531,201	442,972
159,694	156,479	171,970	157,187	120,000	60,000
376,837	335,316	314,248	218,213	203,062	183,596
1.7:1	1.8:1	2.0:1	1.7:1	1.9:1	1.8:1
17.5	12.9	17.1	15.9	17.5	24.5
.5:1	.4:1	.5:1	.7:1	.6:1	.3:1
0.93	0.63	0.71	0.56	0.55	0.65
0.21	0.18	0.17	0.16	0.14	0.13
5.93	5.28	4.90	3.77	3.47	3.12
63,563,246	63,455,146	64,194,946	57,951,396	58,576,196	58,916,420
16.73	13.25	13.10	10.38	9.95	11.50
9.88	9.25	7.63	6.90	6.88	7.13
16.53	10.33	10.24	8.75	8.13	7.88

Corporate Information

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ANNUAL MEETING

The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 a.m. on Thursday, April 24, 2008 in the Imperial Room at the Fairmont Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Officers

Robert M. Ogilvie, Chairman and Chief Executive Officer
Wayne S. Hill, Executive Vice President
Paul R. Jewer, Vice President, Finance and Chief Financial Officer
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, General Counsel & Secretary

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HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR

Investors are encouraged to contact CIBC Mellon Trust for information regarding their security holdings.

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