TOROMONT

Sharpening Our Focus

2010 Annual Report

TOROMONT INDUSTRIES LTD. **employs over 5,600 people in 167 locations, predominantly in Canada, the United States and Australia. Our common shares are 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.

Compression Group

We design, engineer, fabricate, install and service natural gas compression units and hydrocarbon and petrochemical process systems through Enerflex and industrial and recreational refrigeration systems through CIMCO Refrigeration.

Financial Highlights

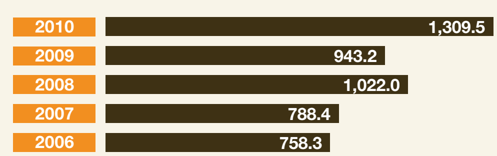
(in thousands except per share amounts and ratios)	2010	2009	2008
Revenues	**$ 2,332,247**	$ 1,824,592	$ 2,121,209
Operating income	**153,719**	182,352	207,854
Net earnings	**98,650**	120,516	140,524
Working capital	**519,772**	539,264	509,276
Total assets	**2,269,238**	1,364,667	1,533,450
Debt net of cash to equity	**0.20:1**	(0.06:1)	0.05:1
Shareholders' equity	**1,206,637**	854,063	779,103
– per share	**$ 15.63**	$ 13.17	$ 12.06
Earnings per share – basic	**1.30**	1.86	2.16
Dividends per share	**0.62**	0.60	0.56
Closing share price – TSX	**30.76**	27.79	22.99
Return on opening shareholders' equity	**8.5%**	15.5%	21.5%

Equipment Group Revenue

($ MILLIONS)

Compression Group Revenue

($ MILLIONS)

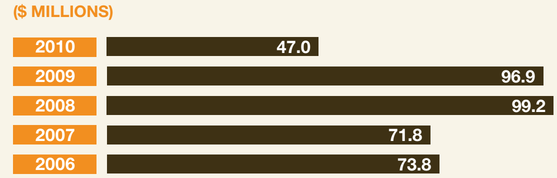


Equipment Group Operating Income

($ MILLIONS)

Compression Group Operating Income

($ MILLIONS)



In 2010, we sharpened our focus on what matters: strengthening our business so we can deliver greater value to our customers and shareholders.

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Dear Fellow Shareholders

In 2010, Toromont set the stage for profitable growth in the next business cycle by completing the acquisition of Enerflex Systems Income Fund, the largest acquisition in our history, valued at $700 million. With the strength of more than 40 years of profitable operations behind us, and substantial opportunities ahead, the time is right to sharpen our focus and increase our value creation potential by creating two market-leading public companies.

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

We are pleased with Toromont's accomplishments in 2010. Since completing the acquisition of Enerflex in January, we have repaid $170 million in acquisition financing and set the stage to realize $30 million in annualized synergies for the newly combined business. Our operations were profitable, despite order backlog depleted during the economic recession and the costs associated with the acquisition and integration of Enerflex.

Revenues increased 28% year over year, reflecting the addition of Enerflex together with increasing activity levels in each of Toromont CAT, Battlefield – The CAT Rental Store and CIMCO Refrigeration. Net income was $98.7 million or $1.30 per share. Return on opening shareholders' equity was 8.5% compared to our 10-year average of 17.3%, reflecting lower profits and the shares issued as part of the acquisition. Strong cash flow allowed us to repay $170 million in debt to bring our debt net of cash to equity ratio to 0.2:1 at year end – well within our targets, while still funding a 7% dividend increase – the 21st consecutive annual increase.

The economic challenges presented over the past two years were unprecedented to this generation of business leaders. We are proud of what Toromont achieved and what those accomplishments say about the resiliency of our business, the strength of our market leadership positions, the effectiveness of our performance-driven strategies and the extraordinary efforts of our employees. It is these qualities that have made Toromont a leader in shareholder value creation for more than two decades. We believe the same attributes will serve us well going forward.

Creating Two Market Leading Public Companies

One of these steps is the proposed spinoff of Enerflex, our market-leading supplier of natural gas production and processing equipment, as unanimously approved in principle by your Board of Directors. This move will see Enerflex become a separate public company with its own Toronto Stock Exchange listing. As part of the transaction, Toromont shareholders will receive one share in Enerflex for each Toromont share held. We expect that shareholders will be invited to vote on the plan at a special meeting to be held in the spring or early summer of 2011. Completion will be subject to the approval of two-thirds of votes cast at the meeting as well as court approval and the fulfillment of certain other conditions, including the receipt of certain rulings from Canada Revenue Agency.

This spinoff is designed to enhance long-term value for our shareholders by giving Toromont and Enerflex several important advantages, including:

- Improved access to growth capital as each company will have independent public currencies and balance sheets,
- Enhanced market understanding and valuation due to the fact that investors can more easily evaluate each business on a standalone basis relative to competitors, benchmarks and performance criteria specific to their respective industries – which in turn improves alignment to direct public company comparables and facilitates sector-specific analyst coverage,
- Sharpened strategic focus that best addresses the different business cycles, markets, customers, competitive forces and incremental growth opportunities of each company,
- Greater ability to attract, retain and motivate key employees through business-specific incentives and compensation arrangements that can more closely align the role of employees with the performance of the business that employs them.

Board and management continuity will assist in the future success of both enterprises. The Enerflex Board of Directors will include four current members of Toromont's Board: Stephen J. Savidant as Chairman Designate; Robert S. Boswell, Wayne S. Hill and H. Stanley Marshall. J. Blair Goertzen will also join the Enerflex Board and continue to provide skilled leadership as President and CEO. Each of these Directors has strong energy-industry and public company experience.

Upon completion of the spinoff the Toromont Board of Directors will include Robert M. Franklin, Ronald G. Gage, David A. Galloway, Mr. Hill, John S. McCallum and myself, serving as Chairman and CEO.

After the spinoff, Toromont will consist of Toromont CAT, one of the world's larger Caterpillar dealerships by revenue and geographic territory; Battlefield – The CAT Rental Store, an industry leading rental operation; and CIMCO Refrigeration, Canada's largest supplier of industrial and recreational refrigeration equipment.

Enerflex will have operations around the world and market-leadership positions in Western Canada, Australia, the United States, the Middle East and Europe.

Once the transaction is complete, each company intends to pay initial quarterly dividends that will, in aggregate, amount to the total current annual rate of $0.64 per share paid by Toromont.

We propose this move now knowing that both Toromont and Enerflex have the market leadership, critical mass, management strength and momentum to succeed as standalone businesses.

Toromont Achievements

Revenues for the continuing Toromont operations increased across the board in 2010. Progress was made against our strategies of expanding markets, strengthening product support, broadening product offerings and investing in our resources.

Our work in Canada's mining sector was, again, a highlight. In 2010, the mining sector contributed 13% to revenues, up from 6% five years ago. This substantial growth reflects our long-term focus, which was sharpened in 2010 with the creation of a mining division within Toromont CAT, the fact that a significant portion of all Canadian mining exploration and a substantial part of development take place in our territories, and most fundamentally, our ability to serve customers with Caterpillar mining equipment and support. We are proud of our business partnership with Caterpillar, a relationship that has continued to strengthen since formation in 1993. Caterpillar's planned acquisition of Bucyrus International, Inc., a world leader in the design and manufacture of high-productivity mining machines, will give us even more to offer customers in this sector.

During the year, additions were made to existing fleets at several mines, including a project in Nunavut where we also delivered power generation equipment for the customer's 25 megawatt power plant. We also continued to add new customers.

Adding to our growth potential, Detour Gold Corporation placed the single largest order in our history for the supply of mining trucks and support equipment for their project in Northern Ontario. Deliveries under this order will begin in the fourth quarter of 2011 and continue to late 2012.

Our power systems business also enjoyed a strong year. In the marine market, highlights included repowering the largest ship on the Great Lakes, the Paul R. Tregurtha, and orders for two more sizeable marine engine installations to be completed in the spring of 2011. For the electric power market, we now offer a more complete package that includes automatic transfer switches and uninterrupted power supply modules and controls, and are benefitting from demand within Canada's growing data centre sector and other mission critical applications. For the on-highway truck market, we made preparations for the launch of Caterpillar's new vocational truck in 2011.

Product support had a record year in 2010 reflecting the substantial size of our Toromont CAT installed base.

CIMCO Refrigeration delivered record results including best ever return on capital employed as it benefitted from significant municipal spending on new ice rinks under the Recreational Infrastructure Canada program. Many projects included ECO CHILL, CIMCO's technologically advanced system which reduces greenhouse gas and energy consumption. CIMCO also maintained its strong share of industrial refrigeration assignments, with orders from Walmart, Nova Chemicals, BHP Billiton, Loblaws and Hoffman-La Roche, to name a few. While US markets remained weak, CIMCO made additional inroads with high-profile assignments including designing and building an ice rink package for the new Barclay's Center in Brooklyn, New York, home of the New York Nets, and the supply of an industrial package for Costco in Tracy, California.

Battlefield – The CAT Rental Store enjoyed a 9.6% increase in same store sales and at year end, opened its 37th store, this one to serve York Region, one of Canada's fastest-growing communities. Battlefield also increased its share of the compact construction market by more than 18% by strengthening its sales approach for Caterpillar's CCE line.

Enerflex Achievements

Enerflex took decisive action in 2010 to realize strategic market opportunities and achieve the synergies and advantages we identified when we acquired Enerflex Systems Income Fund and merged operations with Toromont Energy Systems.

Enerflex aligned its operations to better and more efficiently serve its global markets. Among many other initiatives, it created a centre of excellence for design and engineering in Calgary, expanded its capacity in Australia by investing in a new reassembly facility, established a branch in Texas to serve the Eagle Ford Shale Play and began to share best practices across all operations and processes.

After several quarters of depressed order bookings due to weak natural gas prices in North America and capital investment deferrals in international markets, Enerflex also began to showcase its potential by securing large customer assignments that add to momentum and market leadership, for example:

“We began 2011 with a much stronger backlog than a year ago, and consequently a more favourable outlook.”

- QGC PTY Limited, a leading Australian coal seam gas explorer and producer, placed US$193 million in orders for multiple Enerflex gas compression units and process equipment that will be used in natural gas gathering in support of the Queensland Curtis liquefied natural gas project. Equipment will begin to ship in mid 2011 continuing until early 2013.
- A Canadian customer placed orders valued at $65 million to be delivered into the Horn River Basin of British Columbia over the next two years, inclusive of amine processing, compression and power equipment.
- A pipeline project in the southern U.S. acquired nine compressor units with a contract value that exceeded $50 million.

These orders contributed to a significant year-over-year increase in order backlog at December 31, 2010.

The Way Forward

We began 2011 with a much stronger backlog than a year ago, and consequently a more favourable outlook. That outlook anticipates modest economic growth in North America, better shop utilization and an unwavering commitment to the value creation strategies that have made Toromont a performance leader for many years.

Enerflex is ready to step out on its own with cost-effective manufacturing and service platforms, broadly diversified market prospects, exciting new orders and energized employees. Prospects for Toromont are also strong with the momentum of sizeable orders, increased market shares, new product introductions and broader market coverage providing reasons for confidence.

Thank you to customers, business partners, employees, shareholders and Directors for supporting Toromont this past year and for the long term. With your continuing engagement and support we have the strength to succeed at home and abroad.

Yours sincerely,

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

Supporting Customers

Every Step of the Way

Toromont does not just sell advanced equipment. An equally important part of the business is product support. Over the past five years, an average of 32% of Toromont CAT revenues have been generated from product maintenance and the sale of components, parts and consumables.

The contribution is large, but support activities have a much bigger impact. Product support is the engine that drives ongoing customer satisfaction. Delivered effectively, it creates value for customers, helps us distinguish Toromont in its markets and paves the way to future new equipment sales.

To sustain and enhance our product support capabilities, we invest each year to continuously develop new and improved methods of supporting customers as they use equipment.

One form of investment is in people. In 2010, Toromont CAT technicians and apprentices received over 75,000 hours of instruction. This training gave them the expertise to work on the many new machine models and electric power systems that have been added to the product roster. Training also covered the fundamentals apprentices need to become fully licensed. Due to the dealership's growth and preference for home-grown talent, we recruit about 150 apprentices annually. Training for each represents an average investment of $150,000.

We also invest in our in-field service infrastructure, which encompasses 275 service trucks, a network of branches – including a new facility in Kingston opened in 2010 – and the technologies that enable a sophisticated e-commerce system. This system allows customers to order parts online, track equipment, check diagnostic reports filed by Toromont technicians and the service records of their fleets. This system scales to address the particular needs of each customer.

Customer Support Agreements ("CSAs") are a preferred route for many Toromont CAT customers looking for certainty and cost control. CSAs are designed specifically for each customer's unique needs and are popular because they guarantee proactive maintenance, at a pre-established rate. The benefit is a lower total cost of ownership, higher equipment uptime, greater potential resale value and predictable expenditure levels.

At large and remote mines, MARCs or Maintenance And Repair Contracts, are often satisfied by technicians who reside at the mine to care for production and support equipment as well as power generation systems. Toromont mine site "branches," such as those at Goldcorp Inc.'s Musselwhite mine, keep parts and consumables at the ready. The advantage is the elimination of costly production downtime.

Virtual Technician Becomes a Cost-saving Reality

To improve our remote product support offering, we launched the Toromont Virtual Technician technology in 2010. It equips field service personnel with cameras and the means to wirelessly connect video feeds of a machine they work on to subject matter experts resident in the dealership's branches, or at Caterpillar.

Virtual Technician has already proved its worth. On one of its first test runs, Kevin Brown, overseeing a repair at the Sudbury Landfill, beamed a video of a landfill-gas-to-energy generator set to Denis Gosselin at Toromont Power Systems' headquarters in Toronto. Remote monitoring showed the engine was knocking, possibly signalling the need for a rebuild. Generators that burn landfill gas take a beating due to the presence of siloxane, which forms abrasive deposits on pistons and cylinder heads. Kevin fed the camera into the engine using a boroscope. Viewing the video, Denis, who is a power systems subject expert, determined the engine only needed an adjustment and that cryogenic cleaning of the cylinder heads – a process that would lead to a shut down – could wait another 8,000 hours. This expert diagnosis saved time and money.

LEFT
Toromont CAT's product support infrastructure includes more than 700 technicians and 275 field service vehicles.

ABOVE
Chris Lomanno, Toromont CAT Product Support Sales Representative measures an undercarriage on a track-type tractor.

Customer Care

Sometimes product support is not just about infrastructure, new technology or capital investments: it is about sharing information. Toromont CAT holds customer care meetings to help product users understand the maintenance, operation and systems upkeep necessary to reduce their costs of ownership and increase productivity. Says Toromont CAT's Larry Moffatt, Vice President, "Using various communication methods, including the "My Toromont" webpage, and active personal engagement by our Product Support and Machine Sales Reps, we provide customers with ongoing advice in all areas of machine health and ownership and share our knowledge and experience so that they get the most from their investments."

Toromont CAT also places emphasis on "work with me" and "do it myself" customers. To better serve these markets, we recently introduced "blocks of labour" to give customers an extra helping hand when their own mechanics are preoccupied. Recently, a diversified infrastructure provider used a block of labour provided by four Toromont technicians who worked over the course of two months to rebuild paving machines.

Fluids and filters, drive trains and hydraulics are each $50 million market opportunities annually in the dealership's territories and receive significant attention as well, with a constant flow of new sales and marketing programs.

Due to the comprehensive nature of its product support business, the dealership has achieved a good balance in revenue contribution from its various industrial markets. Today, no single industry represents more than 20% of annual product support revenue. But the return is more than just financial. By helping customers every step of the way as they use equipment, Toromont CAT creates a virtuous cycle that leads to new equipment sales.

Mining Becomes a

Bedrock Market

Mining is a strong contributor to economic prosperity in Toromont CAT's territories. According to spending intention estimates provided by Natural Resources Canada, an estimated 45% of all exploration and deposit appraisal dollars in Canada in 2010 were earmarked for Ontario, Newfoundland and Labrador, Manitoba and Nunavut. In dollar terms, that represents spending of $1.3 billion.

Some 800 mining companies are active in the Toromont CAT territories, and 45 major mining projects are thought to be in advanced exploration or feasibility stages.

Toromont is working hard to capture the opportunity presented by this level of activity and these efforts are being rewarded. In 2010, Toromont CAT generated 17% of its revenues from mining equipment sales and support, compared with 6.5% in 2000.

Mining's ascendency to core market status at Toromont CAT is the result of a long-term commitment the dealership made to grow its sales and service capabilities, especially in the northern reaches of its territory.

Geographic reach is important because mines in Toromont CAT's territories do not nestle conveniently along Canada's southern borders. "Hot spots" for mining are very often in northern, remote areas, accessible by ship or ice road only at certain times of the year. The dealership's northern product support capabilities are often the key differentiator in bidding for work with producers in Labrador, Nunavut and remote areas of northern Ontario and Manitoba.

A good example is an assignment completed in 2010. Toromont delivered power systems for a 25 megawatt power plant and added large mining machines to the customer's existing fleet. There was nothing extraordinary about the order itself. The difference was in support. The equipment was needed at a mine in Nunavut, 3,000 kilometres north-west of Toronto.

Over the years, the dealership's Arctic mine support capabilities have been further enhanced through partnerships with Kitikmeot, Qikiqtaaluk and Sakku Inuit Nations to bring the economic benefits of development to their communities.

There are more than 22 different substances mined in Toromont CAT's territory, from cobalt and copper to tellurium and zinc. However, gold mining has been the driver of over 40% of Toromont's mining revenues over the past three years and the dealership continues to gain share with existing and new customers.

No matter what metal or mineral is extracted, mining is notoriously tough on production equipment. For this reason, the dealership has placed great emphasis on developing mining-specific product support capabilities over the decades.

continued on next page

LEFT Mining in Canada's far north with a Caterpillar 785 truck and an O&K 120 H shovel provided by Toromont CAT.

ABOVE Toromont has the infrastructure and the equipment to support both underground (shown here featuring a Caterpillar R1600G LHD) and surface mines.

CIMCO's Contribution to Canada's Mining Industry

While Toromont CAT and Battlefield are the Company's most recognized mining equipment providers, they are not the only ones. CIMCO has long provided specialized ground-freezing systems that allow mining shafts to be shorn up in poor soil conditions.

In 2010, CIMCO entered an agreement to provide just such a system for BHP Billiton's Jansen, Saskatchewan potash mine. With this system, the customer can freeze up to 128,000 cubic metres of soil (roughly equivalent to 900 swimming pools worth of dirt), 700 metres deep.

The ground will be frozen for 18 months before drilling of the main shaft begins, allowing the main shafts to pass through the Blairmore Formation where water-saturated sand and silt make unassisted drilling next to impossible. The CIMCO refrigeration plant sits between the two shafts, cools a calcium chloride solution to minus 26 degrees Celsius and pumps it at a flow rate of about 7,000 US gallons per minute. The plant features six custom-built 800 horsepower screw compressors/chiller packages and includes a state-of-the-art control system. The eight pumps supply the calcium chloride solution through an intricate 112 kilometre piping system.

ABOVE
One of Porcupine Gold Mine's 785B trucks on the job and producing even after 100,000 hours of service.

Gold Standard for Endurance

It is not unusual for machines, especially mining trucks, to be retired after 70,000 hours of service in a surface mine. Yet at Goldcorp's Porcupine Gold Mines in Timmins, Ontario, ten separate heavy duty trucks are still going strong despite surpassing 100,000 hours of service each – and one more than 112,000 hours. This feat of stamina is all the more remarkable considering that these trucks – as well as two others that are approaching the century mark of hourly service – have been operating for the better part of 17 years, during which they have moved about 273,000 ounces of gold each. Using today's gold prices, that is the equivalent of about $368 million per truck.

This is a proud accomplishment for Goldcorp and the supplier of these 785B trucks – Toromont CAT. Toromont was new to the large off-highway truck mining business when it sold this fleet to the original owners of the Porcupine Gold Mines, Placer Dome. At the time, Placer Dome selected this rugged 1,348 horsepower truck, with hauling capacity of 136 tonnes, to serve at the Dome Super Pit, as it was known. In 2004, as the original Dome gold ore deposit was exhausted, the fleet was reoriented to the Pamour open pit some 13 kilometers away where it continues to haul ore every day of the week, summer and winter.

The longevity enjoyed by these machines is testament both to the high-quality workmanship that went into building them at the Caterpillar factory in Decatur, Illinois as well as the care they receive from Goldcorp and Toromont CAT personnel.

Over the years, each machine has been carefully monitored, proactively serviced and, from time to time, refitted with rebuilt components from Toromont CAT's remanufacturing operations. In fact, several trucks are now operating on their fourth or fifth rebuilt engine and collectively, they have consumed more than 1,000 off-road tires and had more than 4,000 oil changes.

In the mining industry, a standard rule of thumb is that over the life of a machine, the cost of parts, consumables and service amounts to more than three times the original sticker price of the equipment. Service records indicate that the fleet has consumed some $80 million of parts.

Much has changed at the Porcupine Gold Mines since this fleet was commissioned, just as much has changed at Toromont CAT. For one, the dealership has used its experience at the Timmins sites to become a more effective and knowledgeable mining equipment supplier.

One of the proudest accomplishments for this fleet of trucks is that over the past 17 years, they have achieved 87% uptime availability.

It seems fitting that the Toromont CAT fleet should enjoy a long service history at Porcupine sites since these are North America's longest continually operating gold mines.

In addition to these mines and a 12,000 tonne per day milling facility, Goldcorp holds a large and highly prospective land package in the area. These assets position Goldcorp as a long term, profitable gold producer.

After all of these years, the Toromont CAT fleet – of equipment and people – is ready to do its part in contributing to the next phases of Goldcorp's developments in the Timmins area.

While endurance records are not kept for mining equipment, if there was a hall of fame, this mature yet going-strong fleet would certainly warrant strong consideration.

Whether it is gold, diamonds or salt in surface or underground mines north, south, east or west, Toromont has the equipment and product support expertise to help miners meet their cost per tonne goals every hour of the day, and night.

For these and many other reasons, mining is a bedrock market now and for the future.

Building Roads Builds Opportunity

Road building is big business in Toromont CAT's territories. To ensure it stays on top of its game in this large sector, the dealership is adding sales and product support managers, investing in product support infrastructure and heavy tractor rental fleet, and along with Battlefield, engaging in industry organizations such as the Ontario Road Builders Association ("ORBA").

These investments are designed to position Toromont as the first choice in a market that is active day and night keeping pace with the transportation infrastructure needs of regions with growing populations and aging roads and bridges.

The Ontario Government's 2010–2014 Northern and Southern Highway Plans outline a significant number of lane widening, bridge building and interchange projects involving a laundry list of the province's major highways: 401, 417, 404, 402, QEW, 69 and 17, to name a few. A summary produced by ORBA projects that between 2010 and 2013, 991 kilometres of new or expanded lanes will be built, along with 112 new bridges, while 539 bridges and 3,125 kilometres of highways will be repaired.

This activity is good for Toromont as it spurs sales of new machines, used equipment, parts, consumables and equipment rebuilds.

For aggregate producers, road building is the most important market measured by aggregates consumed per construction dollar spent. In this market, Toromont sells and services a wide and growing range of products. In 2010, Metso Mineral Canada authorized Toromont to carry Metso stationary crushers to complement Metso mobile crushers the dealership already represents.

Toromont maintains the expertise to match the right Metso crusher with the right CAT truck, excavator and wheel loader and the parts and service necessary to keep all equipment functioning at peak efficiency. In preparation to serve a broader line of Metso equipment, the dealership recently formed a joint venture with Automatic Welding of Cambridge to offer specialized rebuilds.

With the number of roads under construction in Toromont CAT's territories, and the need for 25,000 to 50,000 tons of aggregate to build just one kilometre of an asphalt highway, maximum equipment uptime is essential. TIH

Award-Winning Customers

On an annual basis, the Ontario Ministry of Transportation recognizes excellence in provincial paving with its Paver of the Year award. In 2010, the winner was Dufferin Construction Company for its work on Highway 403. Runners up were Coco Paving, Pioneer Paving and Gazzola Paving. This is the first time that every company recognized by the Ministry employed Toromont CAT paving equipment. Congratulations to all the winners!

THIS PAGE Three separate paving crews using Toromont CAT AP1055 machines.

Canadian Power Plays

What do an anaerobic digester in Leamington, Ontario and the largest ships plying the waters of the Great Lakes have in common? Toromont CAT and its Power Systems business.

Power Systems has impressive reach, with active engagement in marine, mining, renewable energy, industrial and commercial markets. Strong bookings in 2009 and 2010 prove the merits of diversification and a broad equipment portfolio, as well as the engineering and technical capabilities needed to package, service and maintain engines and generators for a world of sophisticated applications.

The Seacliff anaerobic digester is a good example. Located in the heart of Canada's tomato country, this on-farm facility converts vegetable, plant and animal waste into electricity for the Ontario power grid; heat for Pelee Hydroponics, a six-acre local greenhouse; and a nutrient rich-slew of organic matter for natural fertilizer.

Toromont CAT's involvement in the development of this unique facility, which opened in early 2011, began four years ago when the project owners began to think about their equipment needs. Project consultants introduced the owners to Toromont and explained the special requirements of the proposed digester.

"Seacliff needed a solution that works from gas to grid, and this is our specialty," notes Joe VanSchaick, Toromont CAT Power Systems, Electric Power Market Manager.

During 2010, Toromont CAT designed, installed and commissioned a system featuring a low-emission CAT G3520 generator needed to burn the biogas created by the digester, electrical switch gear to connect the generator to the grid, gas conditioning equipment and environmental enclosures. Toromont CAT commissioned the equipment, trained Seacliff staff and now maintains the facility. Caterpillar was also involved in providing project financing.

While anaerobic digesters are common in other parts of the world (there are some 4,000 in Germany), they are relatively new in Canada with about 20 systems operating in Ontario. The Ontario Government supports digesters through the Ontario Biogas Systems Financial Assistance Program and the recently announced Feed in Tariff (FIT) program under the Green Energy Act.

In addition to creating renewable energy, Seacliff produces high-quality fertilizer, offsets 5,200 tonnes of CO_2 per year, and reduces demand for landfill capacity due to waste recovery.

Phase two of site development, underway in 2011, will see Toromont provide another CAT G3520-powered system to double current capacity to 3.2 megawatts. When complete, Seacliff will become the largest anaerobic digester in North America.

BELOW The final enclosure for Seacliff's power plant, featuring a Caterpillar 3520 generator, is lowered into place.

Marine

As Caterpillar's MaK marine engine dealer for Ontario and eight US states, Toromont supplies marine engines, electronic controls, monitoring and alarm systems for the freighters and ships that call the Great Lakes home.

In 2010, Toromont repowered the largest freighter on the Great Lakes, the Paul R. Tregurtha, with two 8,000 horsepower MaK engines, each two stories tall, 27 feet long, 10 feet wide and weighing 92 tons. In addition to providing a detailed technical report with a full business and environmental proposal to model investment returns, Power Systems assigned its engineers to handle the Tregurtha's power plant integration.

This type of support is unusual in marine repower projects where buyers are often left to assemble the power plant or purchase integration services from the shipyard. For the Tregurtha, the advantage was the on-time installation of a power plant that delivers a 55% reduction in greenhouse gas emissions, consumes far less fuel than the old system and is automated to reduce the time required of a watch-keeping sailor.

In the first quarter of 2011, Power Systems is applying its engineering expertise and MaK propulsion packages to repower the 1,000-foot super-carrier Edwin M. Gott and the 626-foot Michipicoten.

Despite recent economic conditions, the pipeline of potential orders is positive and, over time, will be assisted by the Government of Canada's National Ship Procurement Strategy. Announced in June 2010, this program aims to invest $35 billion to revitalize Canada's shipping industry over the next 30 years.

Trucks

In mid-2011, Power Systems will embark on an exciting new assignment: bringing Caterpillar's new CT660 vocational truck to its territories. This class 8 vehicle line, scheduled to make its global debut at ConExpo in Las Vegas in the spring, is built to serve the special needs of heavy construction including rock and log carriage and cement mixing. The launch means Toromont's on-highway truck business will move beyond supporting engines and components to the sales and support of the entire truck.

THIS PAGE The newly repowered Paul R. Tregurtha sets sail for the Great Lakes.

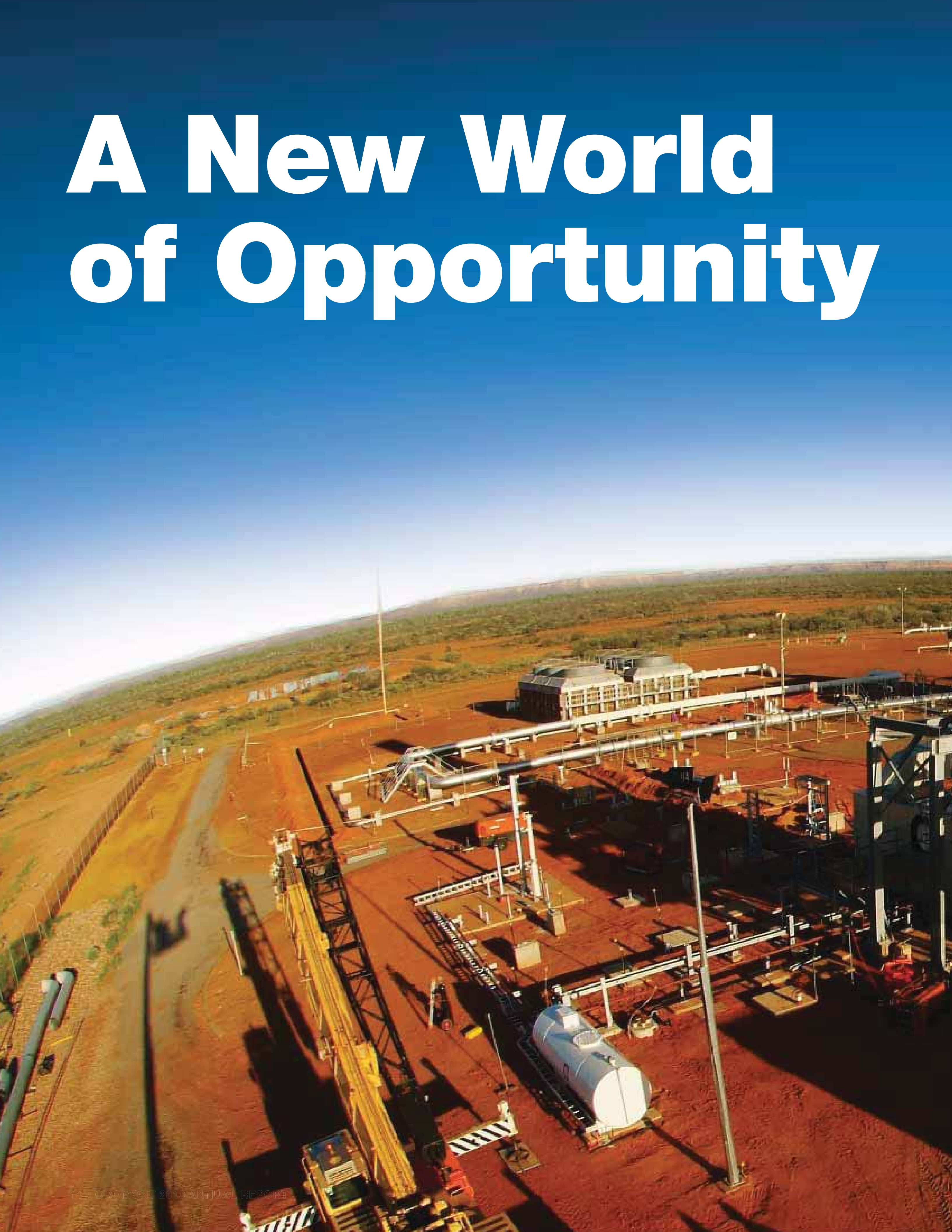
Electric Power

Toromont CAT has traditionally supplied and supported electric generator sets. Today, we are a provider of fully integrated electric power distribution solutions including uninterruptible power systems ("UPS"), paralleling switchgear and automatic transfer switches ("ATS"). This means broader revenue opportunities in the growing market for prime and standby power.

Here is an example. In 2010, Toromont CAT was awarded a contract to provide backup power to the headquarters of a luxury hotel chain. Included in the scope of supply is a Caterpillar 400 kilowatt standby generator set, a Caterpillar 80kVA UPS, two Caterpillar ATS, the rooftop installation of the equipment through electrical and mechanical sub-trades and most of the permitting required to complete the project. In other words, says Toromont's Adam Miller, Business Unit Manager – Electric Power and Rental "a complete system that will enable the customer to maintain the high level of customer service it is renowned for, even if its main source of power is lost."

Toromont CAT is ready to connect to more customers with the mission-critical capabilities they need to cope with even the slightest power interruption.

A New World of Opportunity



A year after bringing together two leading companies, Enerflex establishes itself as a global market leader, finding growth potential far and wide as the go-to source of natural gas compression, processing and power generation solutions for the world's energy players.

It was welcome news to those in the natural gas industry. Based on its recent research findings, the Massachusetts Institute of Technology's (MIT) Energy Initiative project issued a current mean projection of the total remaining recoverable natural gas resource at 16,200 trillion cubic feet globally. That is 150 times the amount the world consumed in 2009. Moreover, they believe that more than half of the recoverable resource could be economically developed below US$4 per mmBtu.

This research is supported on the ground by producers who, despite a lengthy period of low commodity prices, are building their natural gas assets and tapping into a resource that is expected to play an increasingly important role in meeting the world's energy needs in the future.

Enerflex is there to help. With single-source, high-specification engineering and construction capabilities, more than 70 regional locations and in-field service, Enerflex fabricates compressors in a hundred different horsepower configurations and process modules that ensure production never stops.

While the long-term opportunity is great, Enerflex takes nothing for granted and is pursuing growth region by region, play by play, with a focus on building on core strengths including a balanced and diversified market presence, which reduces risk and the impact of commodity price-driven variations in production activity.

Australasia

Australia's energy industry has attracted multi-billion dollar investments over the last few years, earmarked for the development of coal seam gas (CSG) into liquefied natural gas (LNG). The size of the investment over such a short timeframe is an indication of the degree of confidence investors have in LNG's potential in the global energy market. Much of this attention is focused on Queensland, in northeast Australia, which is the most abundant region for coal seam gas in the Pacific basin. Four massive projects are at various stages of development to convert CSG to LNG, namely: the QGC Queensland Curtis LNG project; the Gladstone LNG project; the Australia Pacific LNG project; and, the Arrow Energy LNG project.

Enerflex and its predecessors have operated in Australia since 1988. Today, we have seven Australian locations, 370 employees and market leadership in screw and reciprocating natural gas compression packaging and services and compression facility construction and installation. Our leadership in this market was confirmed in 2010 when QGC placed approximately US$193 million in orders for multiple gas compressor units and process equipment that will be used in natural gas gathering in support of the Queensland Curtis LNG (QCLNG) project.

QCLNG is one of Australia's largest capital infrastructure initiatives and involves expanding exploration and development in southern and central Queensland and transporting gas via a 540 kilometre underground pipeline to Curtis Island near Gladstone, where it will be liquefied for transport to China, Chile, Singapore and other international markets.

ABOVE
This natural gas processing facility in Australia includes twelve 1,500 horsepower gas engine rotary screw compressors.

PREVIOUS
This natural gas turbine compression facility in Australia is one of a growing number of Enerflex installations in that region.

The project's first stage will comprise two processing trains where natural gas is purified, refrigerated to cryogenic temperatures of approximately minus 160 Celsius and liquefied into LNG – where the gas reduces to 1/600th of its original volume – to facilitate transport via ship. These trains will produce 8.5 million tonnes of LNG a year. This project was officially sanctioned with the Final Investment Decision (FID) in 2010. Delivery of equipment will begin in mid 2011, continuing through the first quarter of 2013.

Supplying compressor packages to meet high-level industry specifications and Australian standard compliance requires significant experience and engineering expertise. Value engineering will be employed through all facets of the project scope of supply including containerized transportation to minimize shipping costs. The Australian material and labour content for this build is the highest for any project in our history, while the rotary screw packages to be supplied are some of the largest and the most innovative ever built by Enerflex.

Once installed, the next step will be supporting the ongoing service and maintenance of the units. Our

Roma service facility, recently opened and located in the heart of the upstream LNG facilities, is ideally suited to support this market.

This is just one example of many Australian opportunities. We expect potential to increase substantially over time as the country expands its already sizeable presence as an exporter of LNG to Asia. To address this demand, a packaging and service facility in Brisbane was recently opened, adding 60,000 square feet of capacity to our Australian footprint. This facility will be used to reassemble equipment built at our Casper, Wyoming facility that is in turn designed by our highly experienced international engineering team in Calgary, Alberta. With a significant increase in horsepower going into Australia, greater potential for customer support and maintenance over the next decade is expected.

Our work in Australia and other international markets demonstrates that we have the global resources to deliver both partial and full turnkey services for any field condition, anywhere in the world, and the ability to follow through with 24/7 technical, operational and maintenance support services. With Enerflex operating in so many countries globally, there is always an open office no matter what time, day or night.

Our Australasia region includes the Asia Pacific countries and, while we have delivered more than 24 projects in Indonesia (where we are the sole distributor for Waukesha Engines), we are still in the early stages of realizing our potential for this burgeoning region.

Americas

One of the biggest natural gas success stories is taking place in the United States. To lessen its dependency on foreign sources, the US is aggressively developing a number of major unconventional natural gas basins and, along with them, the pipeline and storage infrastructure to handle new production. Shale development has resulted in a substantial shift in natural gas proven reserves and US energy fundamentals – and requires a significant amount of compression as shale wells tend to have a steeper depletion curve than typical conventional plays.

Enerflex participates broadly in the US as a market leader, providing equipment and services for natural gas compression and process applications from fabrication facilities in Houston, Texas and Casper, Wyoming and 13 service facilities in high-activity areas.

These areas include: the Marcellus Shale play straddling Pennsylvania, Ohio, New York and West Virginia, where producers purchased a significant amount of property in 2010; the Haynesville play in northwestern Louisiana, southwestern Arkansas and eastern Texas; the Eagle Ford play in south Texas; Woodford in southeastern Oklahoma; Antrim in Michigan, Ohio and Indiana; and Fayetteville in Arkansas. In 2010, Enerflex received numerous multi-compressor orders for a variety of shale gas plays.

To advance our leadership and better serve our customers, investments have been made in our US service infrastructure, most recently establishing a centralized parts distribution network based in Denver, Colorado and a new, well-equipped overhaul facility in Gillette, Wyoming. Enerflex has also established a branch in Fort Worth, Texas to better serve the Barnett Shale play in Central Texas.

Pipeline and storage markets are also high-potential areas. There are over 200 pipeline systems in the US today and, with the development of natural gas plays, more will be required. Enerflex delivers a variety of products and services to pipelines, often featuring CAT GCM34 engines to drive large compression systems. For one pipeline project executed in 2010, which is located in the southern US, Enerflex supplied nine compressor units for a total of 72,000 horsepower.

Enerflex also sees solid potential for process applications, including dew point plants (where processes are used to remove water from natural gas for transportation) and amine plants. Amine gas treating, also called gas sweetening and acid gas removal, requires a combination of processes to remove hydrogen sulfide and CO_2. Enerflex specializes in designing, building and maintaining plants used in refining, petrochemical and natural gas industries. For one gas processing project located in the Eagle Ford Shale play (south Texas), Enerflex supplied three 15 Million Standard Cubic Feet Per Day (MMSCFD) dew point gas processing plants complete

BELOW This pipeline project, located in the southern US, features nine compressors with CAT GCM34 engines for a total of 72,000 horsepower.

with all required dehydration, fractionation, refrigeration and gas compression systems.

Latin American natural gas markets are also on the horizon. The state-owned oil company PDVSA purchased Enerflex compression systems in 2010 for use in numerous locations across Venezuela. We conduct business in the Venezuelan market through resellers.

Moving north, Canada is a significant producer of natural gas, and one of our major markets. Some 90% of Canadian production is considered conventional, but that statistic masks the fact that unconventional reserves are rapidly gaining ground due to advanced drilling and completion methods.

As in the US, shale plays have gained prominence. One of the largest is the Horn River play, which is located in the Horn River Basin (northeast British Columbia). It is thought to cover about one million acres and may contain as much as 500 trillion cubic feet of natural gas in-place, ranking it among the largest natural gas finds in North America. In 2010, Enerflex established a strong foothold with many of the significant players in Horn River by supplying multiple large horsepower, engine and electric motor driven compressor packages, vapour recovery units (VRUs), acid gas compression and large-scale (400 MMSCFD) amine and dewpoint processing plants. The compression and process equipment provided to producers in Horn River is for the gathering and production of natural gas from shale formations, which include CO_2 removal. In total, Enerflex has supplied in excess of 70,000 horsepower in compression equipment to the Horn River and Montney regions to date.

The Montney tight gas play straddles the border between British Columbia and Alberta and has been an area of significant land acquisition by producers in the past year. Development in this play has already presented solid business for us. In 2010, a customer placed an order for equipment that will be used in its new 200 million cubic feet per day natural gas processing plant. The plant will be built in two phases with the final phase expected to come on line in early 2013. Serving this order is a group effort between two Enerflex operations, Nisku, Alberta, which specializes in large vessel fabrication, line heaters and complementary process equipment, and Calgary, Alberta which focuses on hydrocarbon dewpoint plants, large gas dehydration units, process refrigeration and CO_2 plants.

Canada's natural gas market has suffered in recent years from lower commodity prices and the development of US shale gas plays that reduced demand for Canadian product. This reinforced our global expansion strategy and is leading us to develop oil sands applications. Growth in contract maintenance is also on our agenda as we look to leverage our Canadian assets, which include 25 service locations and a new central parts distribution and remanufacturing facility in Leduc, Alberta. As the market leader in engineered retrofits in Canada, we also see potential ahead as depleting natural gas field conditions will require optimization and redeployment of equipment.

THIS PAGE Enerflex supplied equipment for this CO_2 facility for a customer in Canada.

Middle East and North Africa (MENA)

The Middle East and North Africa region is expected to lead the world in natural gas production over the next 20 years. It currently holds approximately 44% of the world's proven natural gas reserves and 60% of oil reserves. Industrial demand for natural gas in MENA and, in particular, in Gulf Corporation Council (GCC) countries, has grown in recent years due to factors including power shortages, the use of natural gas for enhanced oil recovery, export and the development of the petrochemical sector. Iraq, in particular, is expanding heavily in oil production capacity and plans to process all gas associated with this production. Looking ahead, massive capital expenditures in gas production and processing are necessary in the region. There will be a greater focus on previously ignored sour gas and LPG recovery, which will require significant investments in gas processing plants, providing Enerflex opportunities to serve these projects.

Enerflex has a strong foothold in the MENA region measured by our installations, sales and engineering presence, customer relationships and physical presence. Today, we have offices in Abu Dhabi and Dubai, UAE, Muscat, Oman and Cairo, Egypt.

In 2010, Enerflex was awarded a sizeable compression facility by Tatweer Petroleum in the Kingdom of Bahrain. Tatweer is an oil and gas joint venture of Occidental USA, Mubadala UAE and the National Oil and Gas Authority of Bahrain (NOGA). Enerflex also completed and successfully supported the installation and commissioning of two high-specification amine sweetening packages for Petroleum Development Oman (PDO) in the Sultanate of Oman.

In 2011, Enerflex will generate revenue from an onshore early well test facility for BP Oman. Enerflex is in the process of commissioning the gas compression plant and will continue operation and maintenance of this facility through to early 2013. This facility includes five gas compressor packages, with a throughput of 75 MMSFCD, inlet separation, gas metering and flare. During the construction phase of the project, Enerflex managed over 200 engineering, construction and service technicians onsite.

During 2010, we completed the extensive pre-qualification required by major regional producers, enabling us to compete for upcoming projects for the supply of equipment and services. Pre-qualification is required by end users to substantiate the quality of our systems, experience, service infrastructure, engineering capabilities, fabrication facilities and employee health and safety record.

Europe/Commonwealth of Independent States (CIS)

Our traditional market in Europe is combined heat and power (CHP). CHP captures and recycles the heat emitted from power generation and is a growing technology in many parts of Europe. It provides a highly efficient, cost-effective method of heating buildings, and European policymakers see it as an important part of their "green" distributed energy generation model.

Enerflex is a leader in this market with solutions used in the agriculture industry – where our plants can be equipped with flue-gas technologies that capture CO_2 from engine exhaust and reuse it as fertilizer to promote crop growth – and a variety of other institutional and industrial applications. Geographically, focus areas for Enerflex include Benelux, Italy, Turkey, Germany, Russia, Kazakhstan and Poland.

Our CHP engineering team has more than 20 years of experience in designing plants fuelled by natural gas or alternative sources (landfill, bio and vapour gases) with capacities ranging from 0.2 megawatts to 30 megawatts. Our strengths also include the ability to provide full maintenance, parts and ongoing optimization services to maximize a plant's lifespan and efficiency.

The natural gas processing and compression market in Europe, for the most part, is a mature market. Greater opportunities exist in the significant and growing gas market in Russia. Our cold weather package capabilities, developed in Canada, are ideal for harsh Russian winters. During 2010, Enerflex completed contracts for over 60,000 horsepower of compression packages into Russia. We also completed the successful re-commissioning of gas compression equipment for a customer in the Netherlands. Our plan is to leverage our existing infrastructure to increase the oil and natural gas footprint in the region, not only by selling Enerflex compression and process equipment, but by delivering maintenance services to support the other Enerflex regions with knowledge and expertise on power generation. ■

ABOVE Enerflex's single-source delivery model, streamlines engineering and procurement, providing for faster equipment delivery.

Right Tools, Right Time

In the energy industry, time is money. The faster hydrocarbons are recovered, processed and transported, the faster producers achieve their return on investment.

LEFT
Enerflex combines years of experience and resources to rapidly deploy factory-trained mechanics, spare parts and exchange program engines and components worldwide.

Enerflex understands the economic realities of energy production. We built our business to be a single-source provider of natural gas compression, processing and power generation equipment – and service – as a means of enhancing value, reducing risk and accelerating payback time for customers. From concept to commissioning and after-installation service, we have the global resources to execute projects with industry leading efficiency.

While no two projects are exactly the same, the anatomy of the Enerflex approach looks like this. First, we assist customers with evaluations and assessments to determine the equipment necessary to achieve optimum performance. Next, we support customers through their conceptual design and feasibility studies and through budget analysis.

Once baseline production information is available, our engineering design team takes charge, creating concepts and detailed plans to address specific operating requirements and environments. This team works with dedicated Enerflex project managers to configure systems that meet an array of complex and unique specifications that may include harsh environmental conditions, high H2S content, high-pressure compression and condensate recovery.

The Enerflex design teams support manufacturing and reassembly operations located in Canada, the Unites States, Australia, the Middle East/North Africa (MENA) and Europe/CIS and puts into play more than three decades of design experience in creating innovative solutions.

Well Supported

Enerflex adds value on all customer projects with after-installation product support once systems are operational. Our support is designed to meet each customer's needs – from basic service to life cycle maintenance, and from parts supply and exchange programs to full operating agreements. Offering customized service not only makes for satisfied customers, it enables Enerflex to build relationships that last well beyond the customer's initial capital expenditure. In fact, a good percentage of our customers have purchased equipment and service from Enerflex for more than 15 years, and some for more than 40.

While Enerflex delivers on a range of new projects, it also maintains a global team of factory-trained technicians. Our technicians can remotely monitor the performance of customer packages to proactively identify the need for maintenance or opportunities for efficiency improvement. Factory-certified components remanufactured by Enerflex also feed our exchange program, where customers can replace an existing engine or compressor with an as-new system, avoiding an overhaul and downtime.

The reason Enerflex operates a world-leading customer support infrastructure with the capabilities to deliver 24/7 in North America, Australasia, MENA and Europe/CIS is simple: time is money. Even a few hours of downtime can represent millions of dollars of lost production to a customer.

Sometimes, providing customer support leads to bigger opportunities. In 2010, Enerflex was awarded a maintenance program contract for a customer's gas compression package in Edson, Alberta. By mobilizing our service technicians, we demonstrated the value of our optimization services and increased the customer's uptime. As a result, the customer increased the number of gas compression packages we service from one to nine.

In our role as an international service provider, Enerflex seeks to build long-lasting relationships. Optimizing customers' older assets by retrofitting, rebuilding or reconditioning systems is also an everyday part of the support offered and adds to our revenue sources.

In the energy industry, equipment rental is important because assumptions about drilling success rates and decline curves are not always accurate. To help customers avoid over- or under-built field infrastructures, Enerflex has a ready-to-go rental fleet, comprising screw, reciprocating, and hydrovane compressors and portable compressor trailers, that gives customers the ability to bring production on line quickly, with limited cash outlays, before permanent systems are built. On average, the duration of most rental agreements is 6 to 12 months.

The world's energy market is big and demanding. Enerflex is considered the industry's go-to provider on six continents, which is testament to our ability to deliver from the wellhead to the pipeline and beyond as a single-source provider.

Battlefield Strategies for Growth

By all accounts, the rental markets Battlefield – The CAT Rental Store serves are crowded, both with competitors and opportunities. According to its own analysis, there are some 400+ individual stores serving a market valued at more than $800 million for the product lines Battlefield represents.

LEFT
Battlefield – The CAT Rental Store serves 13,600 customers from 37 storefronts in its territories, including this one in Stoney Creek, Ontario.

Standing out from this crowd is not easy, particularly since competitors range from multinationals to locally known owner-managed rental stores. But Battlefield has succeeded – and done so profitably with long-term compounded annual revenue growth of 8.8% since 2000 – through a combination of product and store expansions, efficiency improvements and a contractor-focused sales and marketing effort that puts the division on the doorstep of opportunities.

In the 11 regions in which Battlefield competes, tracking new construction projects and the primary and secondary contractors involved is more than a full-time job, due to the diversified nature of the projects and contractors the division serves. For example, Battlefield expects to find opportunities to rent equipment to the contractors working on the many bridge and road construction and refurbishment projects underway in the territories shared with Toromont CAT as well as to contractors working on hospital expansions in London, Hamilton, Oakville and the new 27-acre CAMH campus in Toronto.

Then there are contractors who serve multi-family residential and single-family subdivision projects, contractors who work on mine site development, and contractors who work on construction projects like the facilities to be built for the 2015 Pan/Parapan American Games. And then there are the mega projects with long-term horizons such as:

- The refurbishment of 10,000 megawatts of existing nuclear capacity and the expansion of renewable energy capacity (by 10,700 megawatts by 2018) as part of the Ontario Government's $87 billion energy plan announced in November 2010.
- The $6.2 billion Lower Churchill hydroelectric project that moved a step closer to reality in late 2010 on the strength of a term sheet signed by the Newfoundland and Labrador and Nova Scotia governments.

Although unscientific, a rule of thumb is that rental represents an average of half of 1% of the total cost of most construction projects, although in certain circumstances can go as high as 3 or 4%.

Says Randy Casson, President of Battlefield: "While small in percentage terms, the vast number of projects underway in our territories at any given time adds up to profitable revenue potential and sound diversification." Some 79% of Battlefield's 13,600

customers spend under $10,000 on rental equipment annually.

Market Expansion Strategies

Building on Battlefield's recent success in penetrating the compact construction equipment (CCE) market is an important objective. In 2010, its share of this market increased as customers embraced Caterpillar's CCE line. Further refinements in how the CCE line is marketed and sold, including the creation of a dedicated inside sales force are intended to maximize this opportunity.

Battlefield is also serving a new market following the December 2010 opening of a 6,000 square foot store in Bradford, Ontario in York Region. Statistics provided by the Workforce Planning Board of York Region & Bradford West Gwillimbury show that York Region's population has grown by 108,000 since 2006, making it the sixth largest municipality in Canada and the fourth largest in terms of construction values at over $2.5 billion. The Region's population is expected to double over the next 20 years. Battlefield's market research suggests this store, with its three heavy equipment bays, will be a solid contributor for years to come.

Product expansions also feature prominently in our long-term plans. By steadily adding brand name products for the contractor – such as Hydra Platform aerial access systems in 2010 – and keeping its equipment inventory modern and reliable, it better serves contractors and increases its share of wallet.

Preferred supplier agreements continue to remain a focal point as growth strategies are developed throughout the year.

Efficiency Strategies

In 2011, Battlefield will activate its new Delivery Management System (DMS) in more regions. Developed internally to replace paper-based dispatch and first launched in 2010, DMS has so far shown to significantly reduce redundant travel to and from customer construction sites. Battlefield expects a 5% reduction in delivery costs in 2011 and a five-month payback. This system will complement Battlefield's long-standing spoke and hub distribution model that enables effective market coverage at low cost.

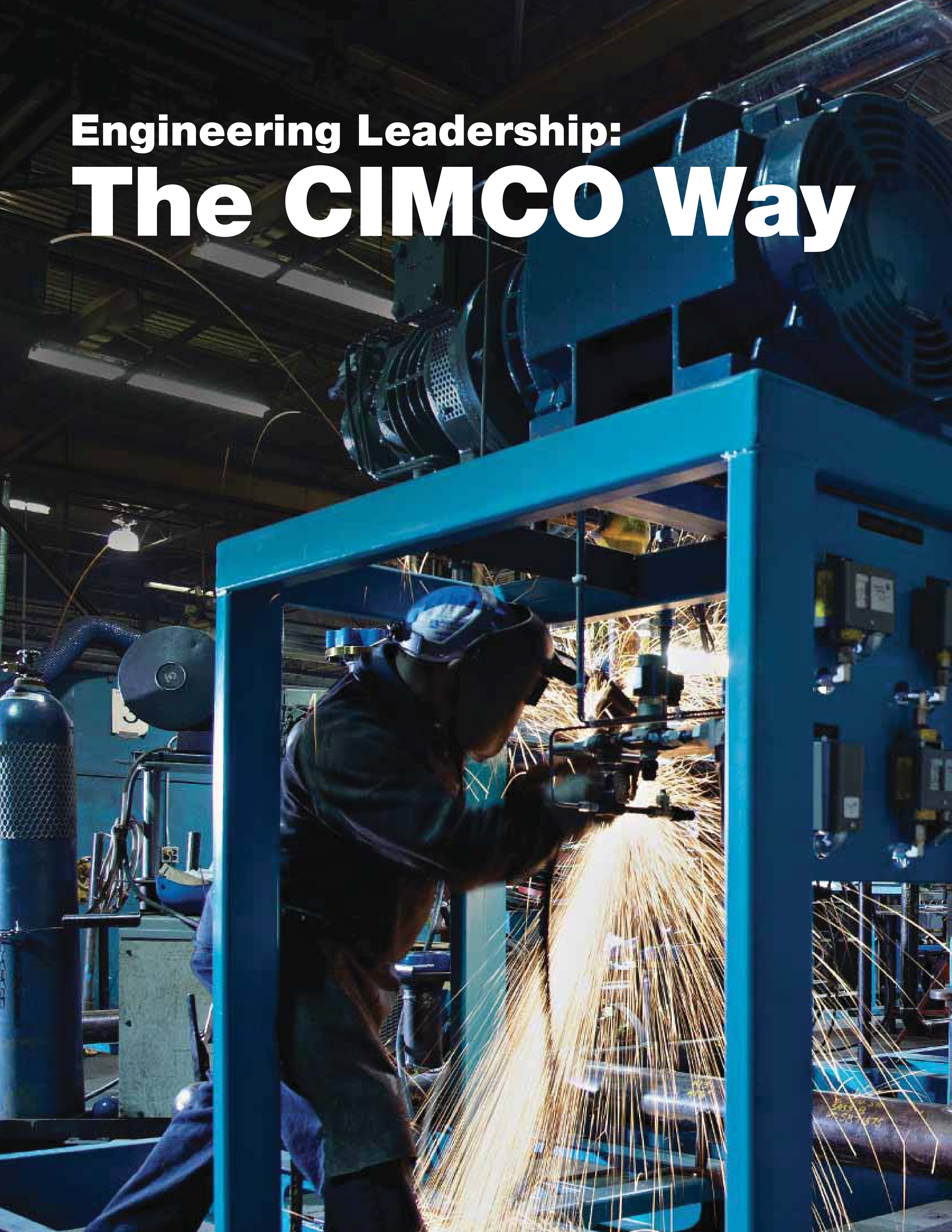
Competition will always be a fact of life for all Toromont businesses and serves to validate the strength of the market opportunity. And as Battlefield proves, even highly competitive markets can be lucrative ones with the right strategies.

ABOVE
With distinctive branding and well-stocked showrooms, Battlefield is the go-to rental provider in Ontario, Manitoba, Newfoundland and Labrador.

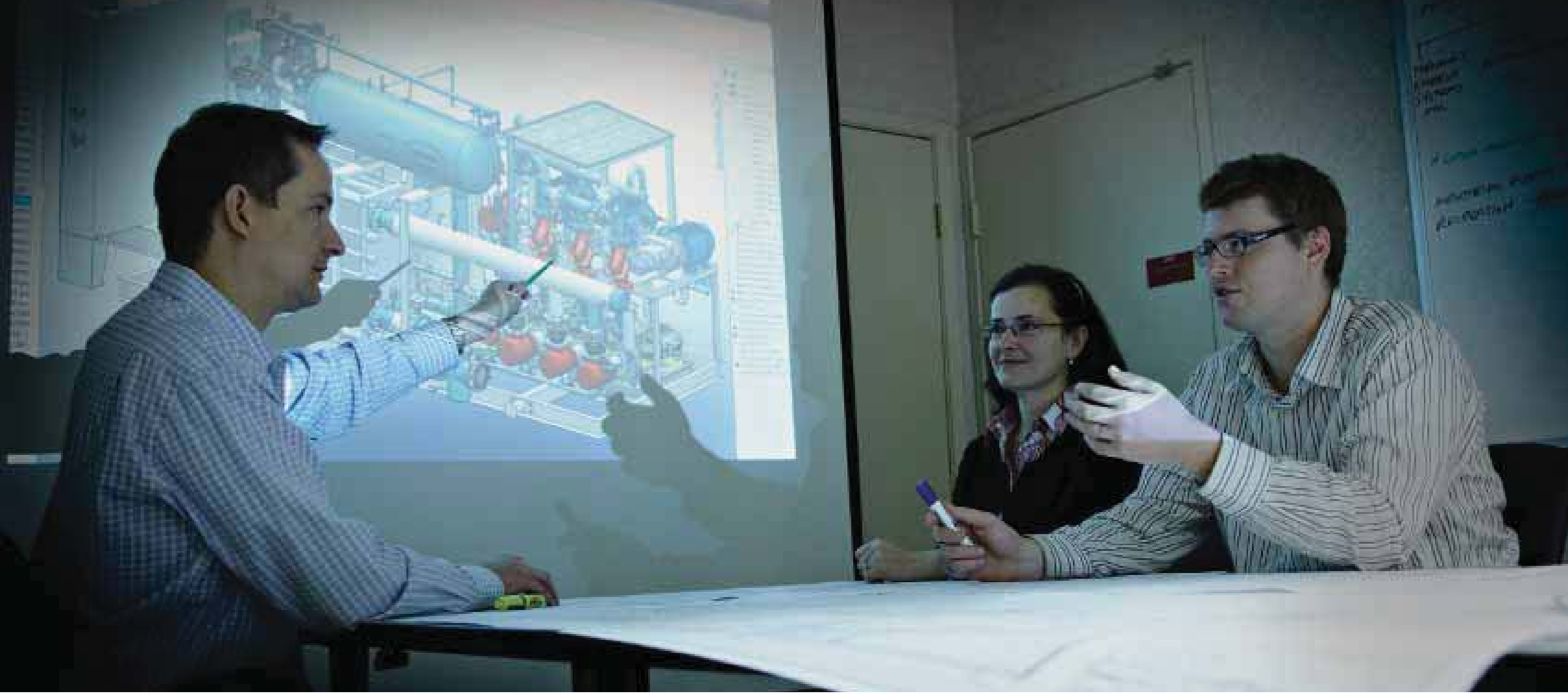
TOP RIGHT
A Caterpillar Mini Excavator, one of Battlefield's rental fleet of CAT CCE machines, is readied for transport to a customer site.

BOTTOM RIGHT
A Genie Articulating Boom is one of many Battlefield rental machines available to assist on construction projects, large and small.

Engineering Leadership:
The CIMCO Way



When recreational and industrial customers in Canada need refrigeration equipment, they turn to CIMCO Refrigeration. A market leader for many reasons, but engineering capability tops the list.



ABOVE
CIMCO's Director of Engineering Dave Malinauskas reviewing Glacier Arena refrigeration equipment design with fellow engineers Bozena Leszczynska and Dimitry Shyrnin.

PREVIOUS
Zaheed Harper welds components on an ECO CHILL package destined for the new Pat Burns Arena in Stanstead, Quebec.

Each project that CIMCO tackles is custom, whether it is an ice rink package for Ancaster, Ontario's Morgan Firestone Arena twinning or a CIMCO ECO CHILL® thermal heat pump for Maple Leaf Foods in Brandon, Manitoba.

The custom nature of each assignment means CIMCO needs to deliver more than just a superior equipment portfolio. Engineering expertise to bring a customer's vision to life is essential, as are the skills to maintain the refrigeration system long after it leaves the CIMCO factory.

Glacier Arena and Pearlgate Recreation Multiplex in Mount Pearl, Newfoundland is a good example. When finished, it will be one of the largest community recreational complexes in Atlantic Canada.

BAE Newplan Group Limited, a leader in engineering consulting, awarded CIMCO the ice rink project in the spring of 2010 – including the supply of a complete ECO CHILL package featuring the proprietary Ice Battery (to store and recycle heat) and a building automation system called ECO SENSE®.

Designed in-house by CIMCO engineers, ECO SENSE integrates total control of refrigeration, heating, cooling and dehumidification within the building complex, allowing automatic temperature monitoring and refinement as well as energy consumption data collection.

Although CIMCO has designed, built and installed thousands of refrigeration packages worldwide, this project is unique. The Multiplex will house a 24,000 square foot aquatics centre with an eight-lap pool, 350-seat theatre, fitness centre and youth centre. The 38,800 square foot Glacier Arena Complex expansion accommodates a new ice rink, four dressing rooms, canteen, training room and referees' room. In future, another addition to the building is planned along with a geothermal field to provide supplemental heat. The ECO CHILL plant will mesh seamlessly with the geothermal component to ensure energy usage is minimized.

On this project, 20 CIMCO people were engaged through the various design-build-install stages, including our construction management team.

Dave Malinauskas, CIMCO's Director of Engineering says, "One of our objectives is to reclaim every last BTU of heat, and use it to provide heat for the various applications within the facilities, including heat for radiant floors, bleachers, showers and pool. We designed the system to reclaim and recycle 650 kilowatts of heat."

The Glacier Arena expansion opened in January 2011. The new ice rink is now generating and reclaiming heat for the building and will eventually do the same for the Multiplex when it opens next year. The financial payback to the community is five years, but the environmental return was instantaneous due to ECO CHILL's use of safe, environmentally friendly refrigerants and economical use of energy. Estimates indicate this facility will offset 208 tonnes of greenhouse gas per year. The addition of special energy meters, co-designed by CIMCO and Toromont CAT, will provide the arena with the ability to monitor energy usage and savings on a daily basis, all over the Internet. CIMCO will be on site again in 2011 and 2012 as the Multiplex is connected to the ECO SENSE "grid", and long after as a supplier of product support and parts.

Industrial Strength Engineering

Engineering industrial refrigeration systems is a much different undertaking. An industrial plant may require 20 to 30 times the amount of refrigeration needed for an ice rink, and much lower temperatures.

CIMCO is a leader in serving the industrial market. Some 58 engineers, technologists and technicians work at CIMCO and it is the only service provider in its industry to have in-house automation capabilities. With 12 automation engineers, CIMCO designs sophisticated system controllers to ensure the refrigeration system performs its important function in the most energy-efficient method possible.

In 2010, we put our resources to the test in constructing a refrigeration system for the Walmart Canada grocery distribution centre in Balzac, Alberta. It is one of the largest refrigerated buildings in Canada, with 363,000 square feet of refrigerated space and five temperature zones. Reflecting Walmart's commitment to environmental responsibility, the centre is equipped with solar panels, wind turbines, LED lighting to eliminate the heat that would be given off by incandescent lights, a hydrogen-powered material handling fleet – and CIMCO refrigeration technology.

The CIMCO team spent 1,500 hours in the engineering design and execution phases and created a plan, focused on energy recovery, that would encompass the installation of refrigeration systems requiring over 2,000 horsepower, and including 31 evaporators (by comparison, Glacier Arena uses one) to meet the different temperature and humidity requirements of the various chilling rooms inside the building. CIMCO designed the system to use ammonia as the coolant – which offers the dual advantage of safe operation and 33% greater energy efficiency than multiple "rooftop" packaged units – and included "demand-response" capabilities so the system could shift electrical loads to off-peak hours.

The CIMCO construction team spent 16,000 hours on site, assembling, installing and testing the system. The system was designed to operate much more efficiently than a typical industrial refrigeration installation – the energy savings will exceed 2 million KwH annually.

The distribution centre was commissioned in November 2010 and Walmart expects to avoid $4.8 million in energy expenses over the next five years due to the special features built by dozens of suppliers, including CIMCO. With energy savings, the CIMCO energy initiatives alone will offset 400 tonnes of greenhouse gas emissions.

While new facilities like these grab headlines, CIMCO has engineered market leadership in another way: by providing the technical resources to keep its equipment running long after the customer presses the on switch for the first time.

Using the motto, "We will be here tomorrow for you," CIMCO maintains an extensive service infrastructure – featuring 24 service branches, 200 specially trained service technicians and a national parts inventory – that supports customers in operating their equipment 24/7.

Overall, there are many reasons for CIMCO's leadership, but perhaps the most important is its reputation. Says Steve McLeod, CIMCO's President, "With 98 years of customer relationships behind us, we have a reputation for excellence – and living up to that every day, on every project, is the CIMCO way."

TOP RIGHT
CIMCO Package Engineering Manager Mike Cerps and Elnaz Darian optimizing the ECO CHILL system design for the new North Dumfries Community Complex.

TOP RIGHT
Ron Morash, CIMCO Calgary service technician.

BOTTOM
One of CIMCO's more than 200 service vehicles at Walmart's new state-of-the-art Alberta grocery distribution centre.

Employee Health, Safety and Engagement

ABOVE Prominently displayed, eye-catching posters are just one of the ways Toromont creates a safety first culture.

Our first priority is employee health and safety. We demonstrate that priority by employing a comprehensive stem-to-stern approach that engages everyone at Toromont. Our emphasis is on prevention and that begins with education and awareness.

Each morning, service technicians participate in “tool box” meetings to discuss safe practices and, before any job begins, employees must complete a hazard assessment form. In all, more than 100,000 assessments were completed in 2010. Unfortunately, this alone does not stop unsafe behaviours, which is why we seek to learn from any incident, even near misses. In the event of a near miss, we investigate to discover what went wrong and this information is shared broadly, often as part of safety talks held in every facility to ensure it does not happen again.

These efforts are complemented by regular emails, newsletters and posters promoting safety first, employee training and investments in safety gear and tools such as monitoring devices to help us respond to the needs of our people in the field. We believe we have effective programs in place to guide our behaviour and, judging from the 50% reduction in lost time injuries over the three-year period ending in 2010, our collective efforts are working in helping us to live up to our first priority.

A safe workplace is the minimally accepted standard. Our employees receive much more, including competitive compensation, access to Toromont’s Employee Share Ownership Program with a company match of up to $1,000 annually, career development opportunities and health benefits that include employee and family assistance and counselling. To reflect the special needs of Enerflex employees who work around the world, we recruited International SOS, a leading international medical assistance company. These steps help us to recruit, retain and motivate the best and brightest. As measures of engagement, 10% of our employees have been with us for more than 20 years, across our total employment base the average tenure is eight years and 41% of our workforce owns Toromont shares.

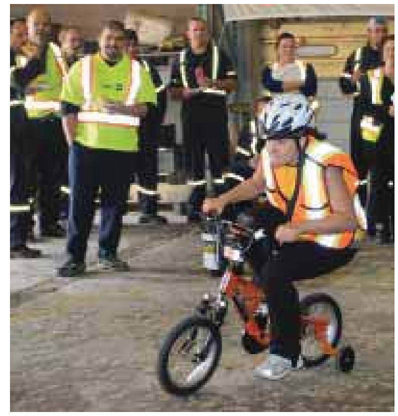
Community

In its own way, each Toromont business invests in developing healthy communities. Our support reflects the close engagement we have with local and regional stakeholder groups. In Alberta, Enerflex's signature campaign is in support of multiple sclerosis. Enerflex became the official sponsor of the Calgary MS Walk in 1998, and in 2009, expanded its participation to become the title sponsor for all MS walks in Alberta. Through individual fundraising – 168 Enerflex employees participated in 10 walks in 2010 – and corporate donations, Enerflex has contributed more than $840,500 to the search for a cure to MS. Company-wide, Enerflex focuses its community investment programs on health and wellness, training and enrichment and community development.

Toromont CAT contributes in a variety of ways across its regions with the largest annual campaign held in support of the United Way. Employee engagement in United Way events in 2010 was at an all-time high – reflected in the fact that Toromont CAT was presented with the United Way of York Region's Employee Campaign Spirit Award. This is proof positive of the caring nature of all employees. As some measures of engagement, 33 employees were leaders with contributions of more than $1,000 each to the campaign in 2010; the employee participation rate in payroll donations exceeded 23% for the first time; and, since 2003, Toromont and our employees together have contributed over $861,000 – $761,000 of that amount in the past four years.

Working in concert with the Canadian Autoworkers Union, we also hosted the United Way of York Region's official fundraising kick-off, which went a long way toward increasing awareness within our company, as did our annual sponsorship of the United Way Toromont CAT Dragon Boat Festival in August. In addition to fundraising, 70 employees participated in United Way Days of Caring® and other events in 2010 – up from 22 in 2009. This resulted in another York Region United Way Award for Toromont CAT: the 2010 Day of Caring Volunteer Spirit Award.

Our support of educational initiatives also continued at a variety of postsecondary institutions, including our Reach Your Destination scholarships for the motive power techniques/heavy equipment programs at Sir Sandford Fleming and Centennial colleges, and bursaries at Thunder Bay's Lakehead University, St. John's Memorial University and at Toronto's Ryerson University Department of Civil Engineering. We are particularly pleased that Toromont Arctic was able to sponsor a young Inuit student to attend the motive power techniques course at Sir Sandford Fleming. Virgil Williams, a resident of Iqaluit and a member of our Toromont Arctic team, is the first of what we hope to be a steady-stream of Inuit students to participate in the program. For more than a decade, Toromont has operated a partnership with Kitikmeot, Qikiqtaaluk and Sakku Inuit Nations to bring the economic benefits of development to their communities, including employment and skills development.



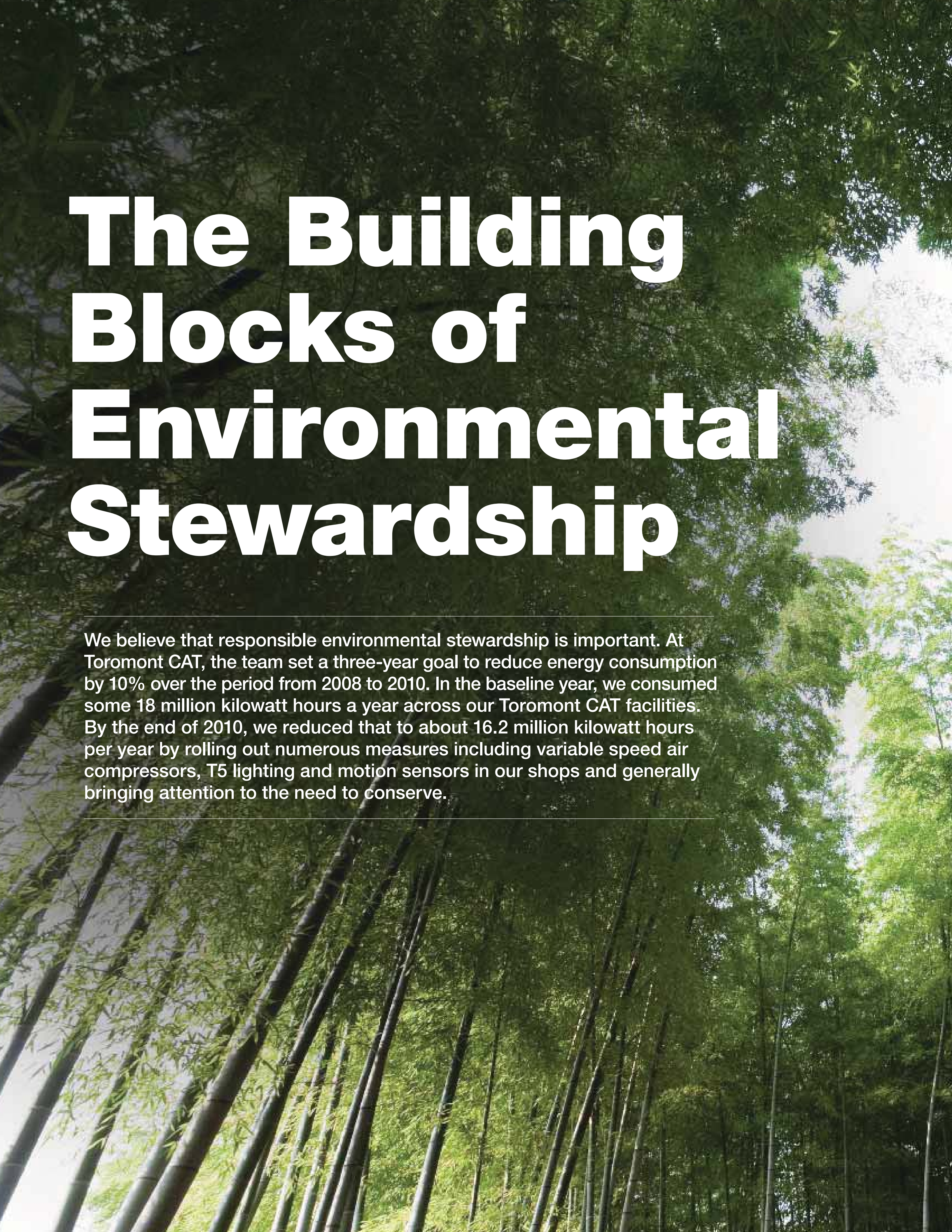
RIGHT 01 The annual United Way of York Region charity bike race featured many Toromont CAT participants including Cathy Grozdanovski.

RIGHT 02 Toromont CAT's Scott Medhurst (left) and Glenn Keenan (right) present a donation to Daniele Zanotti, United Way of York Region CEO.

RIGHT 03 Hayley Coito, from Toromont CAT's Power Systems business, was one of many participants in the annual Toromont CAT-sponsored United Way Dragon Boat Race held every August.

RIGHT 04 The Enerflex Calgary team prepares to walk to raise money to fight Multiple Sclerosis.

BELOW LEFT Members of the CIMCO Refrigeration teams celebrate their participation in the annual Toromont CAT Dragon Boat Festival in support of the United Way.



The Building Blocks of Environmental Stewardship

We believe that responsible environmental stewardship is important. At Toromont CAT, the team set a three-year goal to reduce energy consumption by 10% over the period from 2008 to 2010. In the baseline year, we consumed some 18 million kilowatt hours a year across our Toromont CAT facilities. By the end of 2010, we reduced that to about 16.2 million kilowatt hours per year by rolling out numerous measures including variable speed air compressors, T5 lighting and motion sensors in our shops and generally bringing attention to the need to conserve.

There is more to sustainability than energy use. For that reason, Toromont CAT tracks its carbon footprint – including the output of its delivery vehicles through special monitoring systems installed in 2010 – and is developing plans for a comprehensive long-term approach to balance economic prosperity, human resource management and environmental stewardship. Battlefield – The CAT Rental Store continues to do its part through steps such as anti-idling policies for its delivery fleet, upgraded lighting systems now installed in seven stores, and investments in special wash bays – three more will be installed in 2011 – that conserve up to 1,245 cubic metres of water per location per year while removing oil and fuel residue for safe disposal.

We also help our customers reduce their environmental impact. Customers continue to demand CIMCO's ECO CHILL technology, which is now offsetting some 70,000 tonnes of greenhouse gas ("GHG") per year across its installed base that would have been produced using old refrigeration technology – the equivalent of taking 15,000 cars, each travelling 20,000 kilometres per year, off the road. Beyond ECO CHILL, CIMCO is spreading the benefits of its environmental solutions to the industrial sector. Recently, it helped Hoffman-La Roche, a world leader in pharmaceuticals and diagnostics, to phase out the HCFC/HFC air conditioning units at its Mississauga, Ontario facility. The units were replaced with a central refrigeration plant that produces cold, non-toxic propylene glycol that is pumped to 47 air handlers and cooling units. The system has ozone depleting and global warming potential of exactly zero. Toromont CAT applies its knowledge to engineer landfill-gas-to-energy plants, thereby harnessing methane to create electricity. Methane gas is 21 times more harmful to the environment than carbon dioxide.

Within the oil and natural gas industry worldwide, it is becoming increasingly important not only to reduce CO_2 and minimize vented and fugitive emissions, but to measure the reduction. Enerflex has developed technologies and processes to do both. Enerflex's GHG technologies capture and re-insert waste or vent gases (predominantly methane) into the fuel stream used by the engines in its packages. In some cases, captured vent gas can provide up to 5% of an engine's fuel consumption. Capturing and re-inserting exhaust gas also generates significant "static" carbon-offset credits, which are more valued than dynamic credits because they are generated regardless of the load on the engine or compressor. In 2010, Enerflex implemented GHG solutions on select units within its rental fleet to demonstrate the full-cycle economic benefits customers can expect to realize.

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 in response to evolving 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 assessed at least annually, as are the terms of reference for each of the committees of the Board, the Chairs of the committees, the Lead Director and the Chairman, 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 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 and the Internal Audit department.

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 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 II, 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 and Canadian Tire Corporation.

Ronald G. Gage, FCA ■ ● Director since 2000
Chairman, Nominating and Corporate Governance Committee
Mr. Gage is a Fellow of The Institute of Chartered Accountants of Ontario. He is a director of Invesco Canada Fund Inc. and Invesco Corporate Class Inc.

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.

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

Wayne S. Hill Director since 1988
Mr. Hill is a former 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 2002. He retired from the Company in May 2008.

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.

Robert M. Ogilvie Director since 1986
Mr. Ogilvie is Chairman of the Board and Chief Executive Officer of the Company. Mr. Ogilvie joined Toromont in 1985 and has been Chairman since 1987. He has also been the Company's CEO since 1987, excluding the period from 2002 to 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.

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, 2010

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, 2010, 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, 2010.

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 23, 2011.

For periods prior to January 20, 2010, the consolidated financial statements reported herein do not include the financial position and results of operations for the natural gas compression and processing equipment business acquired by Toromont in connection with its acquisition of Enerflex Systems Income Fund ("ESIF"). For further details, see "Corporate Developments – Acquisition of Enerflex Systems Income Fund" and Note 3 of the Notes to the Consolidated Financial Statements.

The Board of Directors of Toromont has unanimously approved in principle a spinoff of Enerflex Ltd. ("Enerflex") to Toromont's shareholders as a separate, publicly traded company called "Enerflex Ltd." At the time of the spinoff, Enerflex would hold Toromont's natural gas production and processing equipment business, including the business acquired as part of Toromont's acquisition of ESIF. Completion of the spinoff is subject to the receipt of required court and shareholder approval and the satisfaction of certain other conditions. The information presented herein does not give effect to the proposed spinoff. For further details, see "Corporate Developments – Proposed Spinoff of Enerflex". If the proposed spinoff proceeds, there will be a significant and material effect on the operations and results of Toromont. Detailed information as to the proposed spinoff and its effects will be included in a management information circular to be filed in advance of the meeting of Toromont shareholders to vote on the spinoff.

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

ADVISORY

Statements and information herein that are not historical facts are "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify forward-looking information and statements. With respect to the forward-looking information contained herein, we have made certain assumptions with respect to general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

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. By their nature, forward-looking information and statements are subject to risks and uncertainties which may be beyond Toromont's ability to control or predict. Actual results or events could differ materially from those expressed or implied by forward-looking information and statements. Factors that could cause actual results or events to differ from current expectations include, among others: business cycle risk, including general economic conditions in the countries in which Toromont operates; risk of commodity price changes including precious and base metals and natural gas; risk of changes in foreign exchange rates, including the Cdn$/US$ exchange rate; risk of the termination of distribution or original equipment manufacturer agreements; risk of equipment product acceptance and availability of supply; risk of increased competition; credit risk related to financial instruments; risk of additional costs associated with warranties and maintenance contracts; interest rate risk on financing arrangements; risk of availability of financing; risk of environmental regulation; and new or amended IFRS or interpretations that become effective prior to the inclusion of the Company's financial statement of position in its first annual audited IFRS financial statements. Forward-looking statements in respect of the spinoff of Enerflex as a separate, publicly traded company also entail various risks and uncertainties, including among others, the potential benefit of the spinoff, the potential for a lower combined trading price of common shares of Toromont and Enerflex after the spinoff, the lack of an established market for common shares of Enerflex, the possibility of a negative effect on trading prices if current shareholders of Toromont are unwilling or unable to hold common shares of Toromont or Enerflex after the spinoff, increased exposure to substantial tax liabilities if tax-deferred spinoff requirements are not met, delays or amendments to the spinoff if certain consents and approvals are not obtained on a timely basis, future factors that may arise making it inadvisable to proceed with, or advisable to delay, all or part of the spinoff, potentially significant indemnification obligations on Toromont and Enerflex following the spinoff and less diverse businesses of the separate companies resulting from the spinoff.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in or incorporated into this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and the "Outlook" sections of this MD&A. A description of certain risks and uncertainties in respect of the spinoff of Enerflex as a separate, publicly traded company will be included in a management information circular to be filed in advance of the meeting of Toromont shareholders to vote on the spinoff. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by forward-looking information and statements.

Forward-looking information and statements contained herein about prospective results of operations, financial position or cash flows that are based on assumptions about future economic conditions and courses of action are presented for the purpose of assisting Toromont's shareholders in understanding management's current view regarding those future outcomes and may not be appropriate for other purposes. Readers are cautioned not to place undue reliance on the forward-looking information and statements contained herein, which are given as of the date of this document, and not to use such information and statements for anything other than their intended purpose. Toromont disclaims any obligation or intention to update publicly or revise any forward-looking information or statement, whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2010, Toromont employed approximately 5,600 people in 167 locations, predominantly in Canada and the United States. Toromont is listed on the Toronto Stock Exchange (the "TSX") under the symbol TIH. The Company serves its customers through two business groups.

The Equipment Group sells, rents and services a broad range of specialized construction equipment and industrial engines. These activities generated 44% of the Company's revenues in 2010 (2009 – 48%). The Equipment Group is comprised of Toromont CAT, one of the world's larger Caterpillar dealerships by revenue and geographic territory, and Battlefield – The CAT Rental Store, an industry-leading rental operation. Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; residential and commercial construction; mining; aggregates; waste management; steel; forestry; and agriculture. Other significant activities include sales and product support activities for Caterpillar engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation.

The Compression Group is a leading global business specializing in the design, engineering, fabrication, installation and after-sale support of compression, process and refrigeration systems. These activities generated 56% of the Company's revenues in 2010 (2009 – 52%). The Compression Group is comprised of Enerflex Ltd., a leader in supplying and servicing compression and process systems used in natural gas, fuel gas and carbon dioxide applications and CIMCO Refrigeration, a leader in industrial and recreational markets. Results in the Compression Group are influenced by conditions in the primary market segments served: natural gas production and transportation; chemical, petrochemical, food and beverage processing; cold storage; food distribution; and ice rink construction.

CORPORATE DEVELOPMENTS

Acquisition of Enerflex System Income Fund ("ESIF")

On January 20, 2010, Toromont completed its offer for ESIF. ESIF was a supplier of products and services to the global oil and gas production industry, and had operations in Canada, Australia, the Netherlands, Germany, Pakistan, the United Arab Emirates, Indonesia and Malaysia.

This important transaction brought together ESIF and Toromont Energy Systems, to create a stronger organization named Enerflex Ltd., better able to serve customers and compete in both North American and international markets. The new Enerflex benefits from more comprehensive global market coverage and a broader suite of products as well as a more robust capital structure. Attractive synergies and cost savings are already being realized through the elimination of excess fabrication capacity, overlapping service facilities, and duplicate general and administration expenses.

For further information on the accounting for the acquisition, refer to Note 3 of the Notes to the Consolidated Financial Statements.

Sale of Syntech Enerflex

Syntech Enerflex was an electrical, instrumentation and controls business which was acquired as part of the acquisition of ESIF. This business was not considered to be core to the future growth of the Company and was sold effective September 1, 2010. The financial results from Syntech, previously reported in the Compression Group, have been reflected as results from discontinued operations.

For further information on the accounting for the disposition, refer to Note 4 of the Notes to the Consolidated Financial Statements.

Proposed Spinoff of Enerflex

On November 8, 2010, the Board of Directors of Toromont unanimously approved in principle all actions to prepare for and implement a spinoff of Enerflex, Toromont's natural gas compression and processing equipment business, to Toromont's shareholders as a separate, publicly traded company. This business comprises the majority of Toromont's operations within the Compression Group. The spinoff is designed to enhance long term value for the shareholders of Toromont by separating its businesses into two distinct public companies better able to pursue independent strategies and opportunities for growth.

If the transaction is completed, Toromont shareholders will exchange their current Toromont shares for new shares in both Toromont and in Enerflex Ltd.

The spinoff is expected to provide a number of benefits to the existing shareholders of Toromont, including the following.

- Creates distinct market leaders with critical mass and momentum – The spinoff will create two market leaders in their respective industries with the scale and operational strength to compete effectively in their distinct markets.
- Sharper business and strategic focus – The proposed successor companies have different business cycles, serve different markets, sell to different customers, are subject to different competitive forces and require different short term and long term strategies. Their separation into two independent companies, each with its own board of directors, will provide management of each company with a sharper business focus. This will permit them to pursue independent business strategies best suited to their business plans, and allow them to pursue opportunities in their respective markets.
- Independent growth opportunities – Each of the two businesses has attractive opportunities for both organic expansion and external growth through acquisitions, capital investments and geographic expansion. Separating Toromont and Enerflex will enable each to pursue independent growth strategies that may not be available to them as part of a consolidated Toromont.
- Enhanced access to growth capital – As separate companies, Toromont and Enerflex will have separately traded shares and independent balance sheets, which will provide them with enhanced access to the capital necessary to finance their respective growth strategies.
- Improved market understanding and valuation – By establishing two separate public companies with independent public reporting and a simplified corporate structure, investors and analysts will be able to more easily evaluate each one on a stand-alone basis relative to competitors, benchmarks and performance criteria specific to their respective industries. This should improve alignment of the two companies with their direct public company comparables and facilitate sector-specific analyst coverage for each.
- Better ability to attract, retain and motivate key employees – The separation of Toromont into two independent public companies will also enable each to provide business-specific incentives to key employees. Compensation arrangements can more closely align the role of each employee with the performance of the business that employs them, enhancing each company's ability to better attract, retain and motivate key people.

Toromont plans to structure the proposed transaction as a tax-deferred divestiture for Canadian tax purposes. Completion of the spinoff will be subject to Toromont's receipt of confirmation from Canada Revenue Agency (CRA) that the transaction may be implemented on a tax-deferred basis for Toromont, Enerflex and Canadian resident shareholders who hold their Toromont shares as capital property. The related application was submitted CRA on November 30, 2010.

The transaction will be implemented by way of a plan of arrangement, which is subject to court approval, prior approval of the TSX and fulfillment of certain other conditions.

The transaction also requires the approval of the Company's shareholders. In order to proceed with the arrangement it must be approved by two-thirds of the Toromont shares that are voted at the meeting to consider it. If the necessary conditions are met and required approvals are obtained, Toromont anticipates that the spinoff would be completed shortly after receipt of the final court approval. However, notwithstanding the receipt and satisfaction of such approvals and conditions, whether the spinoff is effected, and the timing for effecting the spinoff, will remain in the sole and absolute discretion of Toromont.

Further information on Enerflex and this proposed transaction will be provided in a management information circular to be filed in advance of the meeting of shareholders to vote on the spinoff.

The financial results from Enerflex are reported in the Compression Group. Enerflex will not be considered a discontinued operation until all necessary approvals are received and the spinoff is completed.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

A primary objective of Toromont Industries Ltd. is to build shareholder value through sustainable and profitable growth, founded on a strong financial position. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading "Key Performance Measures" in this MD&A) and each of its operating groups consistently employs the following broad strategies:

Expand Markets

Toromont serves a diverse number of markets that offer significant long-term potential for profitable expansion. Each operating group strives to achieve or maintain leading positions in markets served. 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)

Strengthen Product Support

Toromont's 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 the Company's 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.

Broaden Product Offerings

Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, thousands of different parts are offered through the Company's 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 and often best-in-class from suppliers and business partners who continually expand and develop their offerings. Strong relationships with suppliers and business partners are critical in achieving growth objectives.

Invest 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 of employee and shareholder interests. By investing in employee training and development, the capabilities and productivity of employees continually improve to better serve shareholders, customers and business partners.

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 shareholders.

Maintain a Strong Financial Position

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

CONSOLIDATED RESULTS OF OPERATIONS

Years ended December 31 ($ thousands, except per share amounts)	2010	2009	% change
REVENUES	**$ 2,332,247**	$ 1,824,592	28%
Cost of goods sold	**1,843,540**	1,415,476	30%
Gross profit	**488,707**	409,116	19%
Selling and administrative expenses	**334,988**	226,764	48%
OPERATING INCOME	**153,719**	182,352	(16%)
Interest expense	**27,076**	8,815	207%
Interest and investment income	**(2,803)**	(6,355)	(56%)
Gain on available-for-sale financial assets	**(18,627)**	–	n/m
Equity earnings from affiliates	**(468)**	–	n/m
Income before income taxes	**148,541**	179,892	(17%)
Income taxes	**48,393**	59,376	(18%)
EARNINGS FROM CONTINUING OPERATIONS	**100,148**	120,516	(17%)
Losses on discontinued operations	**(1,498)**	–	n/m
Net earnings	**$ 98,650**	$ 120,516	(18%)
Earnings per share (basic)	**$ 1.30**	$ 1.86	(30%)
KEY RATIOS:			
Gross profit as a % of revenues	**21.0%**	22.4%	
Selling and administrative expenses as a % of revenues	**14.4%**	12.4%	
Operating income as a % of revenues	**6.6%**	10.0%	
Income taxes as a % of income before income taxes	**32.6%**	33.0%	

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.
n/m = not meaningful

Revenues increased 28% in 2010 compared to 2009 on higher revenues in both operating groups. Equipment Group revenues were up 16% on higher new and used equipment sales and product support activities. Compression Group revenues were up 39% as continued growth in Canadian recreational refrigeration, together with revenues from the acquired business more than offset declines in certain Canadian and international markets. Economic conditions generally and natural gas compression markets specifically, have shown improvement from the lows seen in 2009 and the early part of 2010.

Significant volatility in the rate of exchange between the Canadian and U.S. dollar has also had a meaningful impact on revenue trends. The Canadian dollar averaged $0.97 in 2010 compared to $0.88 in 2009, a 10% increase. Impacts of this trend include:

- The Canadian/U.S. dollar exchange rate impacts reported revenues on the translation of the financial statements of foreign subsidiaries. Simple translation of the U.S. dollar reduced reported revenues by $54 million versus 2009. Net income was also reduced by $3.8 million due to translation.
- Nearly all of the equipment and parts sold in the Equipment Group are sourced in U.S. dollars. The Canadian dollar sales prices generally reflect changes in the rate of exchange. The impact on equipment revenues is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates.
- In the Compression Group, revenues from foreign subsidiaries are impacted by the translation of results, noted above. Sales in Canada are largely impacted by the same factors as those impacting the Equipment Group.

Gross profit margin was 21.0% in 2010 compared with 22.4% in 2009. Within the Compression Group, lower shop utilization contributed to reduced gross profit margins in the current year. Gross profit margins in the Equipment Group in 2010 were down slightly from 2009 on an unfavourable change in mix, with a higher proportion of equipment sales compared to product support revenues.

Selling and administrative expenses increased $108.2 million from 2009. Most of the increase was due to the recurring costs assumed with the acquisition. Selling and administrative expenses in 2010 also included costs related to the acquisition and integration of ESIF of $9.2 million. Amortization of identifiable intangible assets recorded on acquisition added $11.0 million in expense in 2010. Selling and administrative expenses as a percentage of revenues were 14.4% in 2010 versus 12.4% in 2009.

Operating income decreased 16% in 2010 compared to the prior year as higher expense levels and lower gross margins more than offset higher revenues.

Interest expense was $18.3 million higher in 2010. The increase in expense resulted primarily from financing the acquisition of ESIF. Interest expense on debt related to the acquisition was $18.1 million.

Earnings in 2010 included a gain of $18.6 million ($16.3 million after tax and $0.21 per share) related to units of ESIF purchased by Toromont during 2009. These assets were previously designated as available for sale and unrealized gains were included in Other Comprehensive Income ("OCI") in 2009. The amount of the gain represents the difference in value between actual cash cost of the units and the fair market value of the units on the acquisition date of January 20, 2010. Under Canadian accounting standards, the gain in OCI is required to be reclassified out of OCI and into net earnings on acquisition of the related business.

The effective income tax rate in 2010 is 32.6% compared to 33% in 2009. The lower rate in 2010 reflects the favourable capital gains tax rate used for the unrealized gain on units reclassified out of OCI and into income on acquisition. Excluding this, the effective income tax rate would be 35.5% in 2010, due to a higher proportion of income coming from higher tax jurisdictions.

The losses on discontinued operations relates to the aforementioned disposition of Syntech.

Net earnings were down 18% in 2010 compared to 2009. Basic earnings per share ("EPS") were $1.30 for the year, down 30% from 2009, reflecting lower earnings and a higher number of shares outstanding. The weighted average of shares outstanding in 2010 was 18% higher than 2009 reflecting the issuance of approximately 11.9 million shares in connection with the acquisition of ESIF.

Comprehensive income was $69.6 million, comprised of net earnings of $98.7 million and other comprehensive loss of $29.1 million. The other comprehensive loss arose from the reclassification to earnings of unrealized gains on available-for-sale financial assets in the period of $15.6 million and a loss on translation of self-sustaining foreign operations of $11.2 million.

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 revenue. Previously, corporate overheads were allocated to the business segments based on operating income. The change in allocation method has been applied prospectively from January 1, 2010. Prior periods have not been restated as the impact is insignificant. Interest expense and interest and investment income are not allocated.

Equipment Group Revenue
($ MILLIONS)

Equipment Group Operating Income
($ MILLIONS)

Equipment Group

Years ended December 31 ($ thousands)	2010	2009	% change
Equipment sales and rentals			
New	**$ 416,922**	$ 336,907	24%
Used	**144,296**	118,273	22%
Rental	**143,398**	137,536	4%
Total equipment sales and rentals	**704,616**	592,716	19%
Power generation	**11,450**	9,692	18%
Product support	**306,634**	278,938	10%
Total revenues	**$1,022,700**	$ 881,346	16%
Operating income	**$ 106,748**	$ 85,441	25%
Capital expenditures	**$ 72,415**	$ 37,706	92%
KEY RATIOS:			
Product support revenues as a % of total revenues	**30.0%**	31.6%	
Group total revenues as a % of consolidated revenues	**43.9%**	48.3%	
Operating income as a % of revenues	**10.4%**	9.7%	

An extended period of weaker market conditions dampened results through 2009 and into the first quarter of 2010. Market conditions began to improve in the second quarter of 2010 and the positive trend continued through the end of 2010, resulting in a strong finish to the year.

New and used equipment sales were 24% and 22% higher in 2010 respectively. Sales increases resulted largely from higher unit sales. Many market segments, notably heavy construction, mining and industrial, were higher.

Rental revenues were 4% higher than 2009. Rental rates were consistently lower in 2010 due to very competitive market conditions; however equipment utilization improved through the latter part of 2010 leading to the increased rental revenues.

Power generation revenues from Toromont-owned plants increased 18% compared to the similar periods of the prior year, reflecting increased operating hours and higher average prices for electricity.

Product support revenues were a record $307 million in 2010, 10% higher than 2009. On a constant dollar basis (adjusted for all pricing adjustments including those for foreign exchange), product support revenues were up 14%. Product support revenues in 2010 also benefited from a higher installed base of equipment in our territory coupled with higher utilization of equipment in 2010 compared to the prior year which was dampened by market conditions.

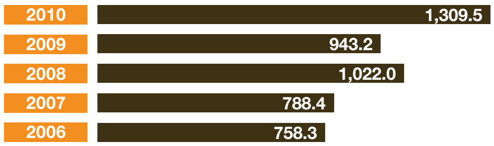
Operating income was up 25% in 2010 compared to 2009 reflecting the 16% increase in revenues. Expense ratios were improved from 2009.

Capital expenditures in the Equipment Group totalled $72.4 million in 2010. Expenditures related to replacement and expansion of the rental fleet accounted for $39.7 million of total expenditures in 2010. Expenditures of $25.9 million were made for new and/or expanded facilities to meet current and future growth requirements. Other capital expenditures included $1.9 million on information technology and $3.4 million on service and delivery vehicles.

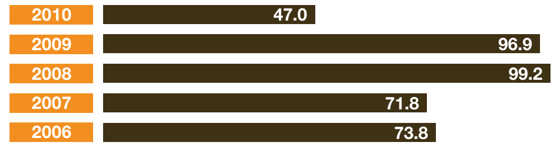
($ millions)	2010	2009	% change
Bookings – years ended December 31	**$ 708**	$ 421	68%
Backlogs – as at December 31	**$ 256**	$ 110	133%

Equipment bookings and backlog benefited from a significant order of $125 million received from Detour Gold Corporation for a fleet of mining trucks and support equipment, to be delivered in 2011 and 2012. Bookings also reflect increased activity in mining, power systems and construction.

Compression Group Revenue
($ MILLIONS)



Compression Group Operating Income
($ MILLIONS)



Compression Group

Years ended December 31 ($ thousands)	2010	2009	% change
Package sales and rentals			
Natural gas compression	**$ 503,418**	$ 526,412	(4%)
Process and fuel gas compression	**263,506**	128,553	105%
Refrigeration systems	**106,890**	91,776	16%
Compression rentals	**32,443**	15,238	113%
Other	**45,603**	–	n/m
Total package sales and rentals	**951,860**	761,979	25%
Product support	**357,687**	181,267	97%
Total revenues	**$ 1,309,547**	$ 943,246	39%
Operating income	**$ 46,971**	$ 96,911	(52%)
Capital expenditures	**$ 57,709**	$ 23,335	147%
KEY RATIOS:			
Product support revenues as a % of total revenues	**27.3%**	19.2%	
Group total revenues as a % of consolidated revenues	**56.1%**	51.7%	
Operating income as a % of revenues	**3.6%**	10.3%	

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

The integration of the Company's legacy natural gas compression and processing equipment business with the acquired ESIF business to create the new Enerflex was a key focus during the year and has substantially been completed. Significant efforts were focused on integrating the Canadian operations including sales, engineering, fabrication, product support and administration functions. Operations in the U.S. and international locations were largely unaffected.

Actions taken through to the end of 2010 have reduced 310 employee positions and eliminated 320,000 sq. ft. of excess capacity. Cost savings achieved through these actions is estimated at $30 million on an annualized basis. This forward-looking information is based on salary and other historical cost data and reflects only actions taken to date. Continued focus is being placed on facilities requirements, surplus real estate and excess inventory and these efforts are expected to reduce capital employed and lead to additional cost savings.

Due to the integration of the Canadian operations, it is not possible to clearly associate trends to either of the two predecessor organizations. Generally, weak fundamentals in the global natural gas compression and related markets have translated to reduced revenues in 2010 on a pro forma basis. Reductions in revenues in each of the predecessors to Enerflex have been more than offset in total by the increased revenues derived from the acquired business.

Natural gas package revenues were down 4% in 2010 from the prior year. The stronger Canadian dollar resulted in a decrease of $33 million on translation of revenues derived at foreign operations. Sales of natural gas compression packages from U.S. operations were down 23% on a U.S. dollar basis due to lower market activity in the first half of 2010. U.S. natural gas compression package sales strengthened in the second half of the year and exceeded 2009 levels during the fourth quarter of 2010. Sales from Canadian operations were significantly higher on revenues added by the acquisition, largely offsetting the declines in the legacy businesses.

Process and fuel gas compression systems revenues were up 105% in 2010 on revenues added by the acquisition.

Refrigeration systems revenues were up 16% in 2010 compared to 2009. Recreational refrigeration in Canada has seen good growth due to the Recreational Infrastructure Canada program, while the markets for industrial refrigeration in Canada and refrigeration generally in the U.S. have remained challenging.

Rental revenues increased in 2010 due to the addition of the rental operation of the acquired ESIF business.

Other revenues include revenues from businesses acquired in the acquisition of ESIF, including combined heat and power and project engineering. Revenues in 2010 include $40 million related to construction of a natural gas processing facility which was determined to be a sales-type lease.

Product support revenues increased 97% in 2010 compared to 2009 as the acquisition of ESIF resulted in significantly expanded operations. Refrigeration product support revenues were relatively unchanged from the prior year.

The Compression Group reported operating income of $47.0 million in 2010 compared to $97.0 million in 2009. The decrease reflects the higher fixed overheads and excess capacity in fabrication facilities which continued to be under absorbed on lower activity levels on a combined pro forma basis. Transaction related costs and restructuring activities resulted in $9.2 million expense in 2010. Amortization related to identifiable intangible assets recorded on acquisition totalled $11.0 million.

Capital expenditures totalled $57.7 million in 2010. Approximately $30 million of capital expenditures related to completion of a gas processing rental facility for an international customer under a Build-Own-Operate-Maintain agreement. Approximately $10 million in capital expenditures were related to new sales and service branch locations in the United States required in support of growth of the business.

($ millions)	2010	2009	% change
Bookings – years ended December 31	**$ 1,147**	$ 459	150%
Backlogs – as at December 31	**$ 713**	$ 301	137%

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Compression bookings were up significantly year-over-year, reflecting the larger integrated Enerflex business and success in certain key markets. Notable successes include orders from QGC PTY Ltd. totalling a record US$193 million for natural gas compression and process equipment for use in Australia. Recreational refrigeration bookings were up 26% in 2010 with strong order activity in Canadian recreational markets due to the Recreational Infrastructure Canada program. Industrial refrigeration bookings were down 24% through the same time frame on weaker economic conditions.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position for many years. At December 31, 2010, the ratio of total debt net of cash to equity was 0.2:1. Total assets were $2.3 billion at December 31, 2010, compared with $1.4 billion at December 31, 2009. Total assets purchased in the acquisition of ESIF were approximately $1 billion.

Working Capital

The Company's investment in non-cash working capital increased 4% to $345.7 million at December 31, 2010. The major components, along with the changes from December 31, 2009, are identified in the following table. Generally, the increased December 31, 2010 balances reflect the acquisition of working capital of ESIF.

As at December 31 ($ thousands)	2010	2009	$ change	% change
Accounts receivable	**$ 451,858**	$ 244,759	$ 207,099	85%
Inventories	**447,271**	373,110	74,161	20%
Income taxes, net	**(4,962)**	16,967	(21,929)	(129%)
Future income tax assets	**41,483**	34,326	7,157	21%
Derivative financial instruments	**(3,379)**	(874)	(2,505)	287%
Other current assets	**25,356**	6,037	19,319	320%
Accounts payable and accrued liabilities	**(397,362)**	(228,436)	(168,926)	74%
Dividends payable	**(12,305)**	(9,728)	(2,577)	26%
Deferred revenue	**(195,388)**	(89,810)	(105,578)	118%
Current portion of long-term debt	**(6,889)**	(14,044)	7,155	(51%)
Total non-cash working capital	**$ 345,683**	$ 332,307	$ 13,376	4%

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Accounts receivable as at December 31, 2010 reflect higher trailing activity levels. Revenues in both operating groups were higher in the fourth quarter of 2010 than in the fourth quarter of 2009. Higher revenues will generally result in higher accounts receivable balances.

Inventories increased $74.2 million or 20% from 2009. Equipment Group inventories are 8% higher to support higher sales volumes and the increased service business. Compression Group inventories are 33% higher. The ESIF acquisition completed in early 2010 included inventories of approximately $136 million. Reductions in inventories of parts and direct materials were realized as part of the integration of the two legacy businesses.

Income taxes (payable) receivable reflect amounts owing for current corporate income taxes less installments made to date as well as refunds to be received for prior taxation years' corporate income tax.

Future income tax assets reflect differences between income tax and accounting.

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net loss of $3.4 million as at December 31, 2010. This is not expected to affect net income, as the unrealized losses will offset future gains on the related hedged items.

Accounts payable and accrued liabilities at December 31, 2010 were higher than at December 31, 2009 on higher activity levels, including purchases of inventories. Extended terms of payment have been offered by certain suppliers. Accruals for profit-sharing payments increased year-over-year on the expanded operations and special bonuses related to transition efforts.

Dividends payable were 26% higher at December 31, 2010 compared to last year reflecting the higher number of shares outstanding after the acquisition. Approximately 11.9 million shares were issued as partial consideration in the acquisition of ESIF, representing an increase in the number of shares outstanding from December 31, 2009 of 18%. The quarterly dividend rate was increased by the Board of Directors in 2010 to $0.16 per share, compared to $0.15 per share dividend in 2009, an increase of 7%.

Deferred revenues represent billings to customers in excess of revenue recognized. In the Compression Group, deferred revenues arise on progress billings in advance of revenue recognition which increased year-over-year on increased activity levels. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty and other customer support agreements as well as on progress billings on long-term construction contracts.

The current portion of long-term debt reflects scheduled principal repayments due in 2011. This amount is lower as a result of the maturity of certain senior debentures in 2010.

Goodwill

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, 2010.

Employee Share Ownership

The Company employs a variety of stock-based compensation plans to align employees' interests with corporate objectives.

The Company maintains an Executive Stock Option Plan for certain employees and directors. 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. At December 31, 2010, 2.1 million options to purchase common shares were outstanding, of which 0.8 million were exercisable.

The Company offers an Employee Share Ownership Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 dollars contributed, to a maximum of $1,000 per annum per employee. Company contributions vest to the employee immediately. Company contributions amounting to $1.0 million in 2010 (2009 – $0.9 million) were charged to selling and administrative expense when paid. A third party administers the Plan.

The Company also offers a deferred share unit (DSU) plan for certain employees 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. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs will be redeemed on termination of employment or resignation from the Board, as the case may be. DSUs have dividend equivalent rights, which are expensed as earned. The Company records the cost of the DSU Plan as compensation expense.

As at December 31, 2010, 87,969 DSUs were outstanding at a value of $2,747 (2009 – 68,723 units at a value of $1,882). During 2010, 864 DSUs were redeemed for $25 (2009 – 47,086 DSUs were redeemed for $1,098). The liability for DSUs is included in Accounts Payable and Accrued Liabilities.

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. Future expense for these plans will vary based on future participation rates.

Approximately 150 employees participate in one of two defined benefit plans:

- Powell Plan – Consists of personnel of Powell Equipment (acquired by Toromont in 2001); and
- Other plan assets and obligations – 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 who, in accordance with the plan provisions, have elected to receive a pension directly from the plan.

Financial markets continued to be volatile in 2010. This resulted in a gain on plan assets of $4.7 million or 10%. The funded status of the plans has declined from a deficit of $0.4 million to a deficit of $1.8 million. The unrecognized actuarial loss at December 31, 2010, was $15.3 million, compared to an unrecognized actuarial loss of $12.4 million at December 31, 2009. Pension plan accounting requires gains and losses to be effectively smoothed over future periods, beginning in the following period. The Company expects pension expense and cash pension contributions to be similar to 2010 levels, before consideration of the spinoff of Enerflex.

The Company also has a defined benefit pension arrangement for certain senior executives that provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. This "Executive Plan" is a non-contributory pension arrangement 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 to secure the obligations under this plan, which were $19.8 million as at December 31, 2010. As there are only nominal plan assets, the impact of volatility in financial markets on pension expense and contributions for this plan are insignificant.

The Company estimates a long-term return on plan assets of 7%. While there is no assurance that the plan will be able to generate this assumed rate of return each year, management believes that it is a reasonable longer-term estimate.

A key assumption in pension accounting is the discount rate. The standard requires that this rate is set with regard to the yield on high-quality corporate bonds of similar average duration to the cash flow liabilities of the Plans. Yields are volatile and can deviate significantly from period to period.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

Legal and Other Contingencies

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. 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.

Normal Course Issuer Bid

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. As such, the normal course issuer bid with the TSX was renewed in 2010. This issuer bid allows the Company to purchase up to approximately 5.6 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2011. 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.

No shares were purchased under the NCIB in 2010 and in light of the proposed spinoff, the Company has suspended the repurchase of its common shares pursuant to its NCIB. In 2009, the Company purchased and cancelled 43,400 shares for $0.9 million (average cost of $19.77 per share).

Outstanding Share Data

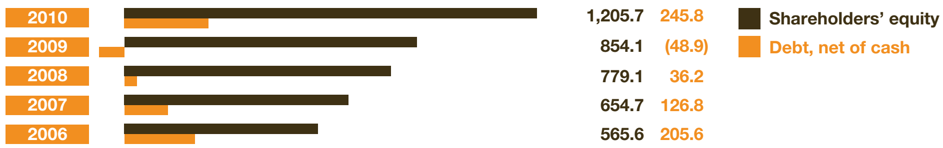
As at the date of this MD&A, the Company had 77,158,736 common shares and 2,121,750 share options outstanding.

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. It is intended that the initial dividends paid by Toromont and Enerflex to their respective shareholders after the spinoff will, in the aggregate, equal the dividend that Toromont would have otherwise paid had the spinoff not occurred. After this initial dividend, the boards of directors of each of Toromont and Enerflex will re-examine whether this dividend policy is appropriate for their respective companies in future periods.

During 2010, the Company declared dividends of $0.62 per common share ($0.60 per common share in 2009).

Capital Structure
($ MILLIONS)



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.

Toromont arranged a $450 million term loan facility in January 2010 in connection with the acquisition of ESIF. In addition to two required quarterly repayments of $16.875 million, the Company made a voluntary repayment, without penalty, of $83.125 million during the third quarter of 2010.

Effective November 5, 2010, the Company completed a refinancing of its Canadian committed credit facility. The new committed credit facility, with a maturity date of June 30, 2012, provides $600 million in available financing and includes covenants, restrictions and events of default that are substantially the same as the corresponding provisions in Toromont's previous facilities. In conjunction with the new financing, the $333.125 million outstanding under the term loan facility was repaid in full and cancelled using proceeds of the new financing together with cash-on-hand. Debt incurred under the new facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Toromont intends to utilize this facility primarily through the issuance of bankers' acceptances with acceptance fees ranging from 150 to 275 basis points, determined based on Toromont's leverage ratio.

At December 31, 2010, $144 million or 34% 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 5.5%. The remaining $280 million or 66% of long-term debt carried interest at a variable rate of approximately 3.2% at December 31, 2010.

Combined unsecured credit facilities amounted to $620 million at year-end comprised of $600 million in Canada and US$20 million in the United States ($20 million Canadian equivalent). Of these combined credit facilities, US$20 million matures in 2011 and the balance matures in 2012. At December 31, 2010, there were no drawings against the U.S. credit facility and $280 million was drawn against the Canadian facility. Letters of credit in the amount of $64 million were issued against the credit facilities.

The Company expects that continued cash flows from operations in 2011, cash and cash equivalents on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

It is expected that subsequent to the spinoff, Enerflex will repay outstanding intercompany debt owed to Toromont. Toromont will apply the funds it receives to repay amounts outstanding under Toromont's credit facilities and expects to amend the credit agreement governing these credit facilities to reduce the available amount.

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:

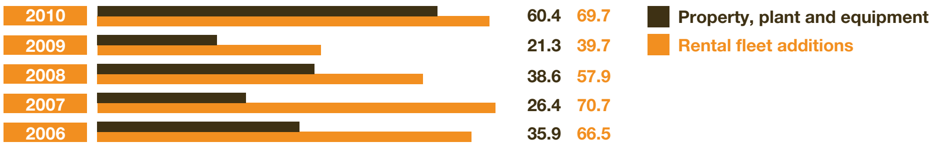
Years ended December 31 ($ thousands)	2010	2009
Cash, beginning of year	**$ 206,957**	$ 137,274
Cash, provided by (used in):		
Operations	**151,917**	176,945
Change in non-cash working capital and other	**103,736**	19,308
Operating activities	**255,653**	196,253
Investing activities	**(340,909)**	(73,904)
Financing activities	**54,453**	(51,014)
(Decrease) increase in cash in the year	**(30,803)**	71,335
Effect of foreign exchange on cash balances	**(2,065)**	(1,652)
Cash, end of year	**$ 174,089**	$ 206,957

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Cash Flows from Operating Activities

Operating activities provided $255.7 million in the year compared to $196.3 million in 2009. Net earnings adjusted for items not requiring cash were down 14% on lower operating margins including expenses related to the acquisition of ESIF. Non-cash working capital and other provided $103.7 million in 2010 compared to $19.3 million in 2009. 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 in 2010 used $340.9 million and comprised the following items:

- Cash purchase price for the acquisition of ESIF was $292.5 million;
- Proceeds on sale of discontinued operations, Syntech, of $3.5 million cash and $3.5 million note receivable;
- Rental fleet additions included $30.0 million for a natural gas processing plant which was accounted for as a sales-type lease,
- The balance of rental fleet additions of $39.7 million was directed largely at the Equipment Group; and
- Additions to property, plant and equipment of $60.4 million.

Investments in property, plant and equipment in 2010 were related largely to additional land and buildings acquired for new branch locations ($36.2 million).

Investing activities in 2009 used $73.9 million and comprised the following items:

- Cash used for purchase of units of ESIF;
- Net additions to the rental fleet (additions less proceeds on disposal) of $9.6 million;
- Gross investment in property, plant and equipment was $21.3 million.

Cash Flows from Financing Activities
Financing activities provided $54.5 million in 2010 and used $51.0 million in 2009.

Net increase in long-term debt totalled $92.8 million in 2010. Borrowings of $450 million were drawn during the year in order to finance the acquisition of ESIF, including repayments on ESIF senior secured notes payable and bank facilities. Strong cash flow during 2010 and substantial cash on hand entering the year allowed the Company to make total net repayments on this and other long-term debt of $348 million. In 2009, total debt decreased by $15.4 million.

Dividends paid to common shareholders totalled $45.1 million and were 18% higher than that paid in the prior year. The number of shares outstanding increased 11.9 million (18% based on December 31, 2009 number of shares) as a result of common shares issued to acquire ESIF. The regular quarterly dividend rate was increased 7% from $0.15 per share to $0.16 per share effective with the October 2010 dividend payment.

There were no shares purchased under the normal course issuer bid (NCIB) during 2010 and, in light of the proposed spinoff, the Company has suspended the repurchase of its common shares pursuant to its NCIB. During 2009, 43,400 shares were purchased and cancelled under the Company's NCIB at a cost of $858 thousand.

Cash received on the exercise of share options totalled $6.7 million compared to $3.4 million in the prior year. The increase reflects a higher number of stock options exercised and a higher weighted average exercise price.

OUTLOOK

Toromont has a history of performance at a high level for all stakeholders, resulting from consistent application of long-term strategies, a proven business model and a focus on asset management and progressive, profitable improvement. Toromont is well positioned in each of its diverse markets and both business segments have good growth prospects over the longer term.

The new Enerflex is a well capitalized global leader in the compression market, built on the complementary strengths of its predecessor organizations, with a strong leadership team in place. Toromont believes that the prospects for this business are excellent.

The global economy appears to be recovering from the recent recession. We entered 2011 with significantly stronger backlog than we had entering 2010.

Our Equipment Group is experiencing improved bookings in many markets, including mining, road building and power systems. While the government stimulus spending for Canadian infrastructure is winding down, we believe that investment levels will continue to remain high in the infrastructure markets we serve, significantly road building. The parts and service business has seen a recent resumption of growth and provides a measure of stability, driven by the larger installed base of equipment in the field.

Our Compression Group has seen quarter-over-quarter increase in bookings. Toromont believes that the long term market fundamentals for natural gas in Canada and the U.S. are positive. Process and international markets also provide opportunity. Recreational refridgeration markets in Canada have been buoyed by governmental infrastrucutre programs which will carry over into 2011. Industrial markets remain weak.

Our management teams have been successful in adjusting to changing market conditions. Our focus on staffing, asset management, discretionary spending and capital investment have left us in good position to capitalize on opportunities going forward.

We believe that the proposed spinoff of Enerflex will increase long-term value for shareholders.

CONTRACTUAL OBLIGATIONS

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

Payments due by Period	2011	2012	2013	2014	2015	Thereafter	Total
Long-term Debt							
– principal	$ 6,889	$ 281,280	$ 1,372	$ 1,471	$ 126,576	$ 6,463	$ 424,051
– interest	16,226	11,466	6,895	6,796	5,342	944	47,669
Operating Leases	17,136	13,626	10,395	7,430	4,931	14,182	67,700
	$ 40,251	$ 306,372	$ 18,662	$ 15,697	$ 136,849	$ 21,589	$ 539,420

It is expected that concurrent with the spinoff, Enerflex will repay all outstanding intercompany debt owed to Toromont. Toromont will apply the funds it receives to repay amounts outstanding under Toromont's credit facilities and expects to amend the credit agreement governing these credit facilities to reduce the available credit.

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, customer and employee satisfaction and employee health and safety.

Years ended December 31	2010	2009	2008	2007	2006
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**27.8%**	(14.0%)	12.4%	8.1%	10.2%
Revenue generated outside North America (millions)	**$ 312.1**	$ 87.9	$ 69.0	$ 75.6	$ 80.8
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**44.4%**	(7.7%)	5.5%	6.3%	9.2%
INVESTING IN OUR RESOURCES					
Revenue per employee (thousands)	**$ 421**	$ 422	$ 463	$ 431	$ 407
Investment in information technology (millions)	**$ 19.4**	$ 15.3	$ 14.9	$ 13.6	$ 12.7
Return on capital employed	**10.3%**	21.1%	26.4%	24.7%	22.7%
STRONG FINANCIAL POSITION					
Working capital (millions)	**$ 520**	$ 539	$ 509	$ 467	$ 470
Total debt, net of cash to equity ratio	**.20:1**	n/m	.05:1	.19:1	.36:1
Book value (shareholders' equity) per share	**$ 15.63**	$ 13.17	$ 12.06	$ 10.08	$ 8.79
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**(30.1%)**	(13.9%)	14.3%	21.2%	24.8%
Dividends per share growth	**3.3%**	7.1%	16.7%	20.0%	25.0%
Return on equity	**8.5%**	15.5%	21.5%	21.6%	20.6%

While the global recession interrupted the steady string of growth across key performance measures, profitability endured and the balance sheet continued to strengthen. This has been discussed at length throughout this MD&A.

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has made significant progress.

Since 2006, revenues increased at an average annual rate of 8.9%. Product support revenue growth has averaged 11.5% annually. Revenue growth in continuing operations has been a result of:

- Acquisition of ESIF in 2010;
- Significant expansion of compression operations in the United States;
- Additional product offerings over the years from Caterpillar and other suppliers;
- Organic growth through increased fleet size and additional branches;
- Increased customer demand for formal product support agreements; and
- Other acquisitions, primarily within the Equipment Group's rental operations.

Over the same five-year period, revenue growth has been constrained at times by a number of factors including:

- General economic weakness, which has negatively impacted revenues since the latter part of 2008;
- Declines in underlying market conditions such as depressed natural gas prices in Canada;
- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
- Lack of skilled workers such as mechanics and journeymen resulting in service revenue and efficiency impacts.

Changes in the Canadian/U.S. exchange rate impacts reported revenues in two ways. First the exchange rate impacts on the translation of results from foreign subsidiaries. Second the exchange rate impacts on the purchase price of equipment that in turn is reflected in selling prices.

Revenues generated outside North America have increased substantially as a result of the acquisition of ESIF.

Toromont has generated significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels.

Toromont continues to maintain a strong balance sheet. In 2010, book value (shareholders' equity) per share increased 19% over the prior year on the ESIF acquisition and strong earnings. Leverage, as represented by the ratio of total debt, net of cash, to shareholders' equity, is within targeted levels.

Toromont has a history of progressive earnings per share growth. This trend was not continued in 2009 due to the weak economic environment, which reduced revenues. In 2010, earnings per share were negatively impacted by the acquisition, with higher overheads and expenses during the transition year. EPS in 2010 was also negatively impacted by shares issued for the acquisition of ESIF.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 21 years.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2010

Three months ended December 31 ($ thousands, except per share amounts)	2010	2009	% change
REVENUES	**$ 709,710**	$ 452,838	57%
Cost of goods sold	**554,662**	352,485	57%
Gross profit	**155,048**	100,353	55%
Selling and administrative expenses	**95,071**	54,532	74%
OPERATING INCOME	**59,977**	45,821	31%
Interest expense	**5,076**	2,450	107%
Interest and investment income	**(1,210)**	(2,913)	(58%)
Equity earnings from affiliates	**(138)**	–	n/m
Income before income taxes	**56,249**	46,284	22%
Income taxes	**20,895**	14,934	40%
NET EARNINGS	**$ 35,354**	$ 31,350	13%
EARNINGS PER SHARE (BASIC)	**$ 0.47**	$ 0.48	(2%)
KEY RATIOS:			
Gross profit as a % of revenues	**21.8%**	22.2%	
Selling and administrative expenses as a % of revenues	**13.4%**	12.0%	
Operating income as a % of revenues	**8.5%**	10.1%	
Income taxes as a % of income before income taxes	**37.1%**	32.3%	

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Results in the fourth quarter were good and represented the first year-over-year increase in operating income and net income since early 2008. The improved results in the quarter largely reflect improved economic conditions in Canada which has driven by higher activity in the Equipment Group.

The Canadian dollar was 4% stronger on average for the fourth quarter of 2010 compared to the similar period last year. The impact on revenues and net income on translation of foreign subsidiaries, all reported in the Compression Group, were decreases of $4 million and $0.4 million, respectively.

Revenues were 57% higher in the fourth quarter of 2010 compared to the same period last year. Increases were reported in both Compression and Equipment.

Gross profit increased 55% in the fourth quarter over last year on the higher sales volumes. Gross profit margin was 21.8% in 2010 compared to 22.2% in 2009. Higher margins were reported in the Equipment Group on improved price realization. The Compression Group reported lower margins on lower shop efficiencies related to the expanded operations.

Selling and administrative expenses increased $40.5 million or 74% versus the comparable period of the prior year. Most of the increase was due to the recurring costs assumed with the acquisition including amortization of identifiable intangible assets. Selling and administrative expenses as a percentage of revenues were 13.4% compared to 12% in the comparable period last year.

Interest expense was $2.6 million higher in the quarter compared to the similar period last year on interest on financing for the acquisition of ESIF.

Interest income in the fourth quarter of 2009 included distributions received on investment in ESIF trust units held prior to the acquisition of the entire business.

The effective income tax rate was 37.1% compared to 32.3% in the fourth quarter of 2009. The tax rate has been skewed higher due to profits generated in higher tax jurisdictions while losses were generated in certain lower tax international markets.

Net earnings in the quarter were $35.4 million, up 13% from 2009. Basic earnings per share were $0.47, down just one cent from the fourth quarter of 2009, despite a 19% increase in the number of shares outstanding.

Comprehensive income was $24.7 million, comprised of net earnings of $35.4 million and other comprehensive loss of $10.7 million. Other comprehensive loss arose primarily on unrealized exchange loss on translation of the Company's foreign operations.

Fourth Quarter Results of Operations in the Equipment Group

Three months ended December 31 ($ thousands)	2010	2009	% change
Equipment sales and rentals			
New	**$ 130,633**	$ 99,632	31%
Used	**38,584**	32,492	19%
Rental	**43,553**	38,065	14%
Total equipment sales and rentals	**212,770**	170,189	25%
Power generation	**3,758**	2,482	51%
Product support	**81,410**	66,338	23%
Total revenues	**$ 297,938**	$ 239,009	25%
Operating income	**$ 34,534**	$ 19,558	77%
Bookings ($ millions)	**$ 207**	$ 131	58%
KEY RATIOS:			
Product support revenues as a % of total revenues	**27.3%**	27.8%	
Group total revenues as a % of consolidated revenues	**42.0%**	52.8%	
Operating income as a % of revenues	**11.6%**	8.2%	

New and used equipment sales increased 31% and 19% respectively compared to the fourth quarter of 2009. Market conditions were much stronger in the fourth quarter of 2010 versus the generally weaker economy seen in 2009.

Rental revenues were up 14% in the quarter compared to the prior year on higher fleet utilization. Rental rates have been consistently lower this year due to very competitive market conditions.

Power generation revenues from Toromont-owned plants increased 51% in the quarter. Higher revenues reflect certain 'catch up' payments with respect to revised operating contracts with certain customers which were recently finalized. Excluding these remedial payments, revenues would have still increased 3%.

Product support revenues were up 23% compared to the prior year and represented a new record level for any quarter. Improved market conditions and a growing installed base of equipment in territory have driven higher activity levels.

Operating income was up 77% over last year on higher revenues and improved gross margins. Selling and administrative expenses increased 19% on the higher volumes. Profit sharing accruals were higher in 2010 on the higher operating income. Operating income as a percentage of revenues was 11.6% compared to 8.2% in the fourth quarter of 2009.

Fourth Quarter Results of Operations in the Compression Group

Three months ended December 31 ($ thousands)	2010	2009	% change
Package sales and rentals			
Natural gas compression	**$ 150,549**	$ 123,554	22%
Process and fuel gas compression	**111,527**	16,172	590%
Refrigeration systems	**25,976**	26,474	(2%)
Compression rentals	**8,441**	3,322	154%
Other	**10,275**	–	n/m
Total package sales and rentals	**306,768**	169,522	81%
Product support	**105,004**	44,307	137%
Total revenues	**$ 411,772**	$ 213,829	93%
Operating income	**$ 25,443**	$ 26,263	(3%)
Bookings ($ millions)	**$ 397**	$ 181	119%
KEY RATIOS:			
Product support revenues as a % of total revenues	**25.5%**	20.7%	
Group total revenues as a % of consolidated revenues	**58.0%**	47.2%	
Operating income as a % of revenues	**6.2%**	12.3%	

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Revenues in the Compression Group for the fourth quarter of 2010 were up 93% from the similar period last year, benefiting from increased revenues from the acquired operations. Revenues generated in the U.S. were relatively strong in the quarter while international markets declined year-over-year.

Natural gas package revenues were up 22% in the quarter, benefiting from increased revenues from the acquired operations.

Process compression systems were significantly higher in the quarter. Process system sales depend on timing of customer orders and requirements.

Refrigeration revenues for the quarter were 2% lower on timing of construction work. Recreational refrigeration in Canada has seen good growth due to the Recreational Infrastructure Canada program, which has driven record results for the year for CIMCO. As the deadline for completion of projects under this program was extended in the fourth quarter, construction schedules have slowed somewhat leading to the year-over-year decline.

Product support revenues increased 137% in the quarter as the acquisition of ESIF significantly expanded operations. Canadian refrigeration product support revenues were 6% lower than the prior year as customers focused on new construction, while U.S. product support revenues were significantly higher.

Operating income was 3% lower in the fourth quarter of 2010 compared to the similar period last year on lower margins, partially offset by higher volumes. Gross margins were lower in 2010 compared to 2009 on lower shop utilization from the expanded operations. Selling and administrative expenses were up significantly from the prior year due to the acquisition, integration costs and amortization of intangibles.

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 2010 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1	Q2	Q3	Q4
2010				
Revenues				
Equipment Group	**$ 176,635**	**$ 264,538**	**$ 283,588**	**$ 297,938**
Compression Group	**249,838**	**312,086**	**335,852**	**411,772**
Total revenues	**$ 426,473**	**$ 576,624**	**$ 619,440**	**$ 709,710**
Net earnings – continuing operations	**$ 16,227**	**$ 22,369**	**$ 26,198**	**$ 35,354**
Net earnings	**$ 15,365**	**$ 21,832**	**$ 26,099**	**$ 35,354**
Per share information:				
Earnings per share – continuing operations				
Basic	**$ 0.22**	**$ 0.29**	**$ 0.34**	**$ 0.47**
Diluted	**$ 0.22**	**$ 0.29**	**$ 0.34**	**$ 0.46**
Earnings per share				
Basic	**$ 0.21**	**$ 0.28**	**$ 0.34**	**$ 0.47**
Diluted	**$ 0.21**	**$ 0.28**	**$ 0.34**	**$ 0.46**
Dividends per share	**$ 0.15**	**$ 0.15**	**$ 0.16**	**$ 0.16**
Weighted average common shares outstanding – Basic (in thousands)	**73,866**	**76,881**	**76,896**	**76,962**

($ thousands, except per share amounts)	Q1	Q2	Q3	Q4
2009				
Revenues				
Equipment Group	$ 191,693	$ 217,015	$ 233,629	$ 239,009
Compression Group	265,966	267,158	196,293	213,829
Total revenues	$ 457,659	$ 484,173	$ 429,922	$ 452,838
Net earnings	$ 23,718	$ 33,525	$ 31,923	$ 31,350
Per share information:				
Basic earnings per share	$ 0.37	$ 0.51	$ 0.50	$ 0.48
Diluted earnings per share	$ 0.37	$ 0.51	$ 0.50	$ 0.48
Dividends per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15
Weighted average common shares outstanding – Basic (in thousands)	64,678	64,698	64,718	64,771

Note – 2009 amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

Interim period revenues and earnings historically reflect some seasonality.

The Equipment Group has historically had 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 typically 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. This pattern has been altered somewhat in recent years given changes in economic conditions, product availability and other market specific factors. Management expects the seasonality trend to resume as market conditions improve.

The Compression Group also has historically had a distinct seasonal trend in activity levels due to well-site access and drilling patterns, which reflect weather conditions. Generally, higher revenues are reported in the fourth quarter of each year. This trend has not been evident in the last two years due to deteriorating natural gas markets, general economic conditions and the acquisition of ESIF. Geographic and product mix diversification has also served to mitigate this seasonality. Management expects the seasonality trend to resume as natural gas market fundamentals improve.

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)	2010	2009	2008
Revenues	**$ 2,332,247**	$ 1,824,592	$ 2,121,209
Net earnings – continuing operations	**$ 100,148**	$ 120,516	$ 140,853
Net earnings	**$ 98,650**	$ 120,516	$ 140,524
Earnings per share – continuing operations			
Basic	**$ 1.32**	$ 1.86	$ 2.17
Diluted	**$ 1.31**	$ 1.86	$ 2.16
Earnings per share			
Basic	**$ 1.30**	$ 1.86	$ 2.16
Diluted	**$ 1.29**	$ 1.86	$ 2.15
Dividends declared per share	**$ 0.62**	$ 0.60	$ 0.56
Total assets	**$ 2,269,238**	$ 1,364,667	$ 1,533,450
Total long-term debt	**$ 419,929**	$ 158,095	$ 173,475
Weighted average common shares outstanding, basic (millions)	**76.2**	64.7	65.0

Note – 2009 and previous amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

The global economic crisis of late 2008 and 2009 served to reduce revenues in 2009 as activity levels in end markets slowed. Revenues grew 28% in 2010 on the acquisition of ESIF and improved market conditions within the Equipment Group.

Net earnings declined 14% in 2009 on lower revenues. Net earnings in 2010 declined 18% on lower profitability within the Compression Group due to the significant acquisition, transition and integration of ESIF.

Earnings per share have generally followed earnings. This was impacted in 2010 as the number of common shares outstanding increased 19% due to shares issued in connection with the acquisition of ESIF.

Dividends have generally increased in proportion to trailing earnings growth.

Total assets increased in 2010 on the acquisition of ESIF. Total assets acquired were approximately $1 billion.

Long-term debt increased in 2010 and represented 20% of total shareholders' equity (net of cash) at year end, within the Company's target levels.

RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial 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 capital to finance purchases. Toromont's customers are typically affected, to varying degrees, by these factors and trends in the general business cycle within their respective markets. As a result, Toromont's financial performance is affected by the impact of such business cycles on the Company's customer base.

Commodity prices, and, in particular, changes in the view on long-term trends, affect demand for the Company's products and services in both operating segments. Commodity price movements in the natural gas and base metals sectors in particular can have an impact on customers' demands for equipment and customer service. With lower commodity prices, demand is reduced as development of new projects is often stopped and existing projects can be curtailed, both leading to less demand for heavy equipment and compression packages.

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 the Company's customer base, broadening product offerings and geographic diversification are designed to 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 the mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is typically subject to less volatility than equipment supply activities.

Product and Supply

Equipment Group

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 17 years 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 as well as leading market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

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.

Compression Group

Some of the components used in the products of the Compression Group are obtained from a single source or a limited group of suppliers. The Compression Group's reliance on these suppliers involves several risks, including price increases, inferior component quality and a potential inability to obtain an adequate supply of required components in a timely manner. The partial or complete loss of certain of these sources could have a negative impact on Toromont's results of operations and could damage its customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on Toromont's results of operations.

One of the Compression Group's strategic assets is its distribution and OEM agreements with leading manufacturers, notably the Waukesha Engine division of Dresser Inc. for engines, Finning (Caterpillar) for engines and parts, Ariel Corporation for compressors and parts, and The Frick Company (Johnson Controls Inc.) for compressors and parts. In the event that one or more of these agreements were to be terminated, Toromont would lose a competitive advantage.

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; financing offered by Caterpillar Finance; e-commerce solutions; reputation and financial strength. Increased competitive pressures or the inability of the Company to maintain the factors that have enhanced its competitive position to date could adversely affect the Company's business, results of operations or financial condition.

The Compression Group requires skilled engineering and design professionals in order to maintain customer satisfaction and engage in product innovation. Toromont competes for these professionals, not only with other companies in the same industry, but also with oil and gas producers and other industries. In periods of high energy activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Toromont also relies on the skills and availability of trained and experienced tradesmen and technicians in both the Equipment and Compression Groups in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which could make attracting and retaining skilled individuals more difficult.

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

Cash equivalents consist mainly of short-term investments, such as money market deposits. No asset-backed commercial paper products were held. The Company manages its credit exposure associated with cash equivalents by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer, industry or geographic area. The Company has accounts receivable from customers engaged in various industries including oil and gas production construction, mining, food and beverage, and governmental agencies. These customers are based across North America with a smaller percentage of accounts receivable held with international clients. Management does not believe that any single industry or geographic region represents significant credit risk.

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 the 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, the Euro and the Australian dollar. 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, the euro and the Australian dollar, and enters into foreign currency contracts to reduce these exchange rate risks. Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing 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.

As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Translation Exposure
At December 31, 2010 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 2010 was to reduce revenues by $54 million and net income by approximately $3.8 million. Exchange rate fluctuations may be more significant in future periods as a result of expected growth in Enerflex's Australian operations.

Interest Rate
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.

At December 31, 2010, the Company's debt portfolio is comprised of 34% fixed rate and 66% floating rate debt. Fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Floating rate debt exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

The Company's fixed rate debt matures between 2011 and 2019, with 87% maturing in 2015.

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 does not intend to settle or refinance any existing debt before maturity.

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 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.

Spinoff Transaction Risk
On November 8, 2010, the Company announced a proposal to spinoff Enerflex, Toromont's natural gas compression and processing equipment business, to Toromont's shareholders as a separate, publicly traded company. This business comprises the majority of Toromont's operations within the Compression Group.

The proposed spinoff of Enerflex as a separate, publicly traded company entails various risks and uncertainties, including the following:

- The combined trading prices of common shares of Toromont and Enerflex after the spinoff may be less than the trading price of Toromont's common shares immediately prior to the spinoff.
- There is currently no established market for the common shares of Enerflex to be issued as part of the spinoff and even if a market does develop current shareholders of Toromont may be unwilling or unable to hold common shares of Toromont and/or Enerflex after the spinoff, which could have a negative effect on their trading prices.
- Toromont and Enerflex could be exposed to substantial tax liabilities if the tax-deferred spinoff requirements are not met.
- Toromont may delay or amend the implementation of all or part of the spinoff or may proceed with the spinoff even if certain consents and approvals are not obtained on a timely basis.
- Toromont and Enerflex will have indemnification obligations to each other following the spinoff that could be significant.
- As separate companies, the respective businesses of Toromont and Enerflex will be less diversified.

Further information on Enerflex Ltd. and this proposed transaction will be provided in the management information circular to be filed in advance of the meeting of shareholders to vote on the spinoff.

Environmental Regulation
Toromont's customers, particularly in North America, Europe and Australia, are subject to significant and ever-increasing environmental legislation and regulation. This legislation can impact Toromont in two ways. First, it may increase the technical difficulty in meeting environmental requirements in product design, which could increase the cost of these businesses' products. Second, it may result in a reduction in activity by Toromont's customers in environmentally sensitive areas, in turn reducing the sales opportunities available to Toromont.

Toromont is also subject to a broad range of environmental laws and regulations. These may, in certain circumstances, impose strict liability for environmental contamination, which may render Toromont liable for remediation costs, natural resource damages and other damages as a result of conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners, operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighbouring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact Toromont's business, results of operations or financial condition.

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. The critical accounting policies and estimates described below affect both the Equipment Group and Compression Group similarly and therefore are not discussed on a segmented basis.

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 that 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 require 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 18 to the accompanying audited consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Business Combinations

Effective January 1, 2010, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements, and Section 1602 – Non-controlling Interests. Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards are harmonized with International Financial Reporting Standards (IFRS). The new standards will become effective in 2011, however early adoption is permitted. The Company has early adopted Section 1582, Section 1601 and Section 1602 effective from January 1, 2010.

The Company had reported deferred transaction costs of $9,035 as at December 31, 2009. These costs were charged to opening retained earnings, net of tax of $1,129, as a result of the change in accounting policy.

FUTURE ACCOUNTING STANDARDS

Financial Instruments Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 – Financial Instruments – Recognition and Measurement ("Section 3855") to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Earlier adoption is permitted. At December 31, 2010, the Company had no debt instruments to which the Section 3855 amendments would be applicable.

Multiple Deliverable Revenue Arrangements

On December 24, 2009, the CICA issued EIC Abstract 175 – *Multiple deliverable revenue arrangements* ("EIC-175"). EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC-175 is applicable to revenue arrangements with multiple deliverables entered into or materially modified on or after January 1, 2011. Earlier adoption is permitted. The Company does not anticipate early adopting EIC-175. The Company plans to adopt revenue recognition principles in accordance with IFRS effective January 1, 2011 and does not anticipate that this adoption will have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. The first financial statements to be presented on an IFRS basis will be for the quarter ended March 31, 2011. At that time, current and comparative data will be presented on an IFRS basis, including an opening balance sheet as at January 1, 2010.

Project Management

The Company's conversion project commenced in 2008 and consisted of four phases:

1. Diagnostic – Prepare an in-depth identification and analysis of differences between Canadian GAAP and IFRS.
2. Design and planning – Prepare an implementation plan including identifying process, system and financial reporting controls changes required for the conversion to IFRS.
3. Solution development – Address identified GAAP differences to confirm nature and impact of differences and to select accounting policies and transition choices.
4. Implementation – Develop process for dual reporting in 2010 and full convergence in 2011, including consideration of information systems, internal controls over financial reporting and disclosure controls and procedures.

Investments in training and resources have been made throughout the transition period to facilitate a timely conversion.

The Company's IFRS transition project is on schedule and largely complete. Quarterly updates are provided to the Audit Committee. The following table indicates the key elements of the Company's plan for transitioning to IFRS and the progress made against each activity.

KEY ACTIVITY	STATUS
Accounting Policies and Procedures	
Identify differences between IFRS and the Company's existing policies and procedures	Completed.
Analyze and determine which IFRS 1 exemptions will be taken on transition to IFRS	Transitional exemptions analyzed and decisions preliminarily approved by senior management and the Audit Committee.
Analyze and select ongoing policies where alternatives are permitted	Initial accounting policy selections preliminarily approved by senior management and the Audit Committee.
Revise accounting policy and procedures manuals	Revisions to accounting manuals are in process.
Financial Statement Preparation	
Preparation of Opening Balance Sheet on transition to IFRS as at January 1, 2010 including required reconciliations	Management has completed the opening balance sheet and the Company's external auditors have substantially completed their procedures.
Prepare 2010 comparative interim financial statements and note disclosures in compliance with IFRS	Preparation of 2010 comparative financials is well underway. External auditor review procedures have commenced on 2010 comparative financials. Management anticipates that the 2010 quarterly comparative preparation and review process will be finalized in early 2011.
Training and Communication	
Design and implement IFRS training to affected personnel and to our external stakeholders	Key employees involved with implementation have completed in-depth training and attend update courses each year. High level 'overview' training provided to financial personnel in all business units. Communication to external stakeholders has been ongoing through our MD&A disclosures. Further refinement of expected impacts of the IFRS conversion will occur in each period up to adoption of IFRS.
Systems	
Identify changes required to IT systems for dual reporting and additional data gathering, and implement solutions	Required changes to IT systems have been identified and implemented. Testing is ongoing. Additional data required for IFRS has been implemented within the Company's financial information system and will continue to be tested and refined through to early 2011.
Control Environment	
For all changes to policies and procedures identified, assess effectiveness of internal controls over financial reporting and disclosure controls and procedures and implement any necessary changes	Relevant controls are being assessed as each work stream progresses.
Other Business Impacts	
Identify other potential impacts of conversion to IFRS	Identification of impacts of transition to IFRS is ongoing. Adoption of IFRS is not expected to have any material impact on the Company's contracts.

Transitional Impacts

IFRS 1 – First-Time Adoption of International Financial Reporting Standards provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. Most adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented which will be January 1, 2010.

The following are the key transitional provisions which are expected to be adopted on January 1, 2010 and which will have an impact on the Company's financial position on transition. It is not an exhaustive list; certain other optional exemptions are allowed, however such exemptions will not be significant to the Company's adoption of IFRS.

AREA OF IFRS	SUMMARY OF EXEMPTION AVAILABLE
Business Combinations	**Choices:** The Company may elect on transition to IFRS to either restate all past business combinations in accordance with IFRS 3 "Business Combinations" or to apply an elective exemption from applying IFRS to past business combinations. **Policy selection:** The Company will elect, on transition to IFRS, to apply the elective exemption such that transactions entered into prior to the transition date will not be restated. In addition, the Company adopted CICA Handbook Section 1582, 1601 and 1602 effective January 1, 2010. These new standards are considered to be IFRS compliant. **Expected transition impact:** None
Property, Plant and Equipment	**Choices:** The Company may elect to report items of property, plant and equipment in its opening balance sheet on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS. The deemed cost of an item may be either its fair value at the date of transition to IFRS or an amount determined by a previous revaluation under Canadian GAAP (as long as that amount was close to either its fair value, cost or adjusted cost). The exemption can be applied on an asset-by-asset basis. **Policy selection:** The Company will not elect to report any items of property, plant and equipment in its opening balance sheet on the transition date, at a deemed cost instead of the actual cost that would be determined under IFRS. The Company will instead report the items at cost. **Expected transition impact:** None
Share-Based Payments	**Choices:** The Company may elect not to apply IFRS 2 "Share-Based Payments" to equity instruments granted on or before November 7, 2002 or which vested before the Company's date of transition to IFRS. **Policy selection:** The Company will elect to apply IFRS 2 to equity instruments granted on or before November 7, 2002 or which vested before the Company's date of transition to IFRS. **Expected transition impact:** Not significant
Employee Benefits	**Choices:** The Company may elect to recognize all cumulative gains and losses through opening retained earnings at the date of transition to IFRS. Actuarial gains and losses would have to be recalculated under IFRS from the inception of the defined benefit plan if the exemption is not taken. **Policy selection:** The Company will elect to recognize all cumulative actuarial gains and losses at the date of transition. **Expected transition impact:** Increase total liabilities, increase future income tax assets and decrease retained earnings
Foreign Exchange	**Choices:** On transition, cumulative translation gains or losses in accumulated other comprehensive income (OCI) can be reclassified to retained earnings. If not elected, all cumulative translation differences must be recalculated under IFRS from inception. **Policy selection:** The Company will elect to reclassify all cumulative translation gains and losses at the date of transition to retained earnings. **Expected transition impact:** Reclassification of all cumulative translation gains and losses in OCI results in a charge to retained earnings of $16 million.
Borrowing Costs	**Choices:** On transition, the Company must select a commencement date for capitalization of borrowing costs related to all qualifying assets which is on or before January 1, 2010. **Policy selection:** The Company will elect to capitalize borrowing costs on all qualifying assets commencing on January 1, 2010.

Accounting Policy Changes

In addition to the one time transitional impacts described above, there are several accounting policy differences which may impact the Company on a go-forward basis. The significant accounting policy differences are presented below. This is not an exhaustive list.

ACCOUNTING AREA	KEY DIFFERENCE FROM GAAP	STATUS
Employee Benefits	Under Canadian GAAP, the Company applies the 'corridor' method of accounting, whereby actuarial gains and losses are deferred and amortized over time. Under IFRS, a Company may elect to recognize actuarial gains and losses: a) In full, as they arise, in the income statement b) Over a longer period, using the 'corridor' method, or c) In full as they arise, outside profit or loss, in OCI	The Company has elected to record actuarial gains and losses arising from its defined benefit pension plans in OCI. This will impact the Company's income statement expense associated with the defined benefit pension plans as actuarial gains/losses are no longer amortized. Variability in OCI will increase as actuarial gains/losses are recorded.
Stock-Based Compensation	The valuation of stock options under IFRS requires individual 'tranche based' valuations for those option plans with graded vesting, while Canadian GAAP allows a single valuation for all tranches.	The impact of these changes is not significant.
Impairment of Assets	IFRS requires impairment testing to be done at the smallest identifiable group of assets that generate cash inflows that are largely independent of cash inflows from other groups of assets ('cash generating unit'), rather than the reporting unit level considered by Canadian GAAP. IFRS requires the assessment of asset impairment to be based on discounted future cash-flows. IFRS allows the reversal of impairment losses, other than for goodwill and indefinite life intangible assets, while GAAP does not.	The Company has identified more cash generating units than the reporting units currently used to assess for impairment under Canadian GAAP. Whether the Company will be materially impacted by this change will depend upon the facts at the time of each impairment test. Impairment reversal calculations have been prepared and the Company's external auditors have substantially completed their procedures.
Borrowing Costs	Under IFRS, borrowing costs will be capitalized to assets which take a substantial time to develop or construct using a capitalization rate based on all of the company's outstanding third-party debt.	The impact of this policy change will be dependent on the magnitude of capital spend on qualifying assets in the future. Generally, this will reduce finance costs and increase property, plant and equipment balances and associated depreciation for those assets.
Financial Statement Presentation and Disclosure	IFRS requires significantly more disclosure than GAAP for certain standards.	Financial statement formats have been drafted for both interim and annual reporting purposes. Formats and disclosures will be revised through to early 2011.

The International Accounting Standards Board (IASB) work plan anticipates the completion of several projects in calendar years 2010 and 2011. The projects on financial instruments, post-employment benefits, financial statement presentation, revenue recognition and leases are most relevant to the Company's IFRS transition plans. Management will be monitoring any changes to these standards closely.

Impact of Adoption – Reconciliation from Canadian GAAP to IFRS

The following table provides a summary of the Canadian GAAP to IFRS transitional impact to opening shareholders' equity as at January 1, 2010, the data of transition, and as at December 31, 2010. The amounts presented were prepared using the above-noted transitional exemptions and accounting policy choices. The ultimate opening shareholders' equity impact as presented in the financial statements for the year ending December 31, 2011, may differ from the figures presented in the foregoing tables if there are any changes to the underlying IFRS.

($ thousands)	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Canadian GAAP – January 1, 2010	$ 132,261	$ 10,012	$ 704,512	$ (628)	$ 846,157
IFRS adjustments					
a) Employee future benefits			(11,174)		(11,174)
b) Currency translation account			(15,954)	15,954	–
	–	–	(27,128)	15,954	(11,174)
IFRS – January 1, 2010	$ 132,261	$ 10,012	$ 677,384	$ 15,326	$ 834,983
Canadian GAAP – December 31, 2010	$ 469,080	$ 10,882	$ 755,447	$ (29,717)	$ 1,205,692
IFRS adjustments					
a) Employee future benefits			(10,724)	(3,887)	(14,611)
b) Currency translation account			(15,954)	15,954	–
c) Reversal of asset impairment			4,812		4,812
	–	–	(21,866)	12,067	(9,799)
IFRS – December 31, 2010	$ 469,080	$ 10,882	$ 733,581	$ (17,650)	$ 1,195,893

a) Employee Future Benefits

- Unfunded Pension Obligation – Under Canadian GAAP, accrued pension benefit obligation in excess of plan assets for defined benefit pension plans was only required to be disclosed in the notes to the consolidated financial statements. Under IFRS, the obligation in excess of plan assets is required to be recorded as a liability on the balance sheet.
- Actuarial Gains and Losses – Under Canadian GAAP, actuarial gains and losses were recognized on a systematic and consistent basis, subject to a minimum required amortization based on a "corridor" approach. Unrecognized actuarial gains and losses below the corridor were deferred. Under IFRS, in accordance with the Company's IFRS I election, any deferred actuarial gains and losses are immediately recognized in shareholders' equity. Post adoption, the Company elected to immediately recognize all actuarial gains and losses in shareholders' equity.

b) Cumulative Translation Account

- Upon transition to IFRS, the Company elected to reset all cumulative translation differences to zero.

c) Reversal of Asset Impairment

- Under Canadian GAAP, asset impairments are not reversed. Under IFRS, asset impairments are required to be reversed when there has been a change in estimates used to determine the recoverable amount.

In 2010, revised pricing under certain electricity supply contracts triggered an assessment of the recoverable amount of certain power generation assets. The value in use was based on cash flow forecast in real terms and discounted at a pre-tax rate of 3.3 per cent. This led to a reversal of $6.7 million of asset impairment provision previously recorded in 2005.

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. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures and internal control over financial reporting.

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 and internal controls over financial reporting as at December 31, 2010, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 at December 31, 2010, to provide reasonable assurance that a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2010, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no changes in the design of the Company's internal controls over financial reporting during the fourth quarter of 2010 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 and internal control over financial reporting as at December 31, 2010 and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and 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 Canadian 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 internal and external 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.

Robert M. Ogilvie
Chairman and
Chief Executive Officer

Paul R. Jewer
Vice President Finance and
Chief Financial Officer

Toronto, Ontario, Canada
February 24, 2011

Independent Auditors' Report

To the Shareholders of Toromont Industries Ltd.:

We have audited the accompanying consolidated financial statements of Toromont Industries Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toromont Industries Ltd. as at December 31, 2010 and 2009, 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

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario, Canada
February 24, 2011

Consolidated Balance Sheets

As at December 31 ($ thousands)	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents (note 22)	**$ 174,089**	$ 206,957
Accounts receivable	**451,858**	244,759
Inventories (note 5)	**447,271**	373,110
Income taxes receivable	**2,656**	16,967
Future income taxes (note 18)	**41,483**	34,326
Derivative financial instruments	**1,272**	–
Other current assets	**25,356**	6,037
Total current assets	**1,143,985**	882,156
Property, plant and equipment (note 6)	**314,201**	186,491
Rental equipment (note 7)	**236,106**	183,175
Future income taxes (note 18)	**22,895**	–
Other assets (note 8)	**22,818**	78,045
Intangible assets (note 9)	**33,127**	–
Goodwill	**496,106**	34,800
Total assets	**$ 2,269,238**	$ 1,364,667
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	**$ 409,667**	$ 238,164
Deferred revenues	**195,388**	89,810
Current portion of long-term debt (note 11)	**6,889**	14,044
Income taxes payable	**7,618**	–
Derivative financial instruments	**4,651**	874
Total current liabilities	**624,213**	342,892
Deferred revenues	**14,137**	13,386
Derivative financial instruments	**1,839**	–
Long-term debt (note 11)	**413,040**	144,051
Accrued pension liability (note 17)	**358**	2,351
Future income taxes (note 18)	**9,014**	7,924
SHAREHOLDERS' EQUITY		
Share capital (note 12)	**469,080**	132,261
Contributed surplus (note 13)	**10,882**	10,012
Retained earnings	**755,447**	712,418
Accumulated other comprehensive loss (note 14)	**(29,717)**	(628)
Total shareholders' equity	**1,205,692**	854,063
Non-controlling interest	**945**	–
Shareholders' equity	**1,206,637**	854,063
Total liabilities and shareholders' equity	**$ 2,269,238**	$ 1,364,667

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)	2010	2009
REVENUES	$ 2,332,247	$ 1,824,592
Cost of goods sold	1,843,540	1,415,476
Gross profit	488,707	409,116
Selling and administrative expenses	334,988	226,764
OPERATING INCOME	153,719	182,352
Interest expense	27,076	8,815
Interest and investment income	(2,803)	(6,355)
Gain on available-for-sale financial assets on business acquisition	(18,627)	–
Equity earnings from affiliates	(468)	–
Income before income taxes	148,541	179,892
Income taxes	48,393	59,376
Earnings from continuing operations	100,148	120,516
Losses from discontinued operations (note 4)	(1,498)	–
Net earnings	$ 98,650	$ 120,516
Net earnings attributable to non-controlling interests	$ 462	$ –
BASIC EARNINGS PER SHARE (note 19)		
Continuing operations	$ 1.32	$ 1.86
Discontinued operations	(0.02)	–
	$ 1.30	$ 1.86
DILUTED EARNINGS PER SHARE (note 19)		
Continuing operations	$ 1.31	$ 1.86
Discontinued operations	(0.02)	–
	$ 1.29	$ 1.86
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	76,170,972	64,716,775
Diluted	76,361,949	64,830,866

See accompanying notes

Consolidated Statements of Retained Earnings

Years ended December 31 ($ thousands)	2010	2009
Retained earnings, beginning of year	$ 712,418	$ 631,522
Change in accounting policy (note 2)	(7,906)	–
	$ 704,512	$ 631,522
Net earnings	98,650	120,516
Dividends	(47,715)	(38,848)
Shares purchased for cancellation (note 12)	–	(772)
Retained earnings, end of year	$ 755,447	$ 712,418

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2010	2009
Net earnings	**$ 98,650**	$ 120,516
Other comprehensive income (loss):		
Unrealized loss on translation of financial statements of self-sustaining foreign operations	**(11,220)**	(23,308)
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery (2010 – $1,848; 2009 – $2,181)	**(3,380)**	(4,063)
Loss on derivatives designated as cash flow hedges transferred to net income in the current period, net of income tax (2010 – $621; 2009 – $122)	**1,126**	229
Unrealized gain on financial assets designated as available-for-sale, net of income taxes of $3,090	**–**	15,615
Reclassification to net income of gain on available-for-sale financial assets as a result of business acquisition, net of income taxes of $3,090	**(15,615)**	–
Other comprehensive loss	**(29,089)**	(11,527)
Comprehensive income	**$ 69,561**	$ 108,989
Comprehensive income attributable to non-controlling interests	**$ 462**	$ –

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	2010	2009
OPERATING ACTIVITIES		
Net earnings	**$ 98,650**	$ 120,516
Items not requiring cash and cash equivalents		
Depreciation and amortization	**85,496**	58,165
Equity earnings from affiliates	**(468)**	–
Stock-based compensation	**3,005**	2,289
Accrued pension liability	**(1,993)**	29
Future income taxes	**(8,022)**	3,093
Gain on sale of rental equipment, property, plant, and equipment	**(6,124)**	(7,147)
Gain on available-for-sale financial instruments on business acquisition	**(18,627)**	–
	151,917	176,945
Net change in non-cash working capital and other (note 22)	**103,736**	19,308
Cash provided by operating activities	**255,653**	196,253
INVESTING ACTIVITIES		
Additions to:		
Rental equipment	**(69,690)**	(39,712)
Property, plant and equipment	**(60,434)**	(21,329)
Investments	**–**	(37,797)
Proceeds on disposal of:		
Rental equipment	**79,238**	30,078
Property, plant and equipment	**5,290**	5,128
Disposal of discontinued operations (note 4)	**3,500**	–
Increase in other assets	**(6,280)**	(10,272)
Business acquisitions (note 3)	**(292,533)**	–
Cash used in investing activities	**(340,909)**	(73,904)
FINANCING ACTIVITIES		
Increase in term credit facility debt	**280,000**	–
Increase in term loan facility	**450,000**	–
Repayment of term loan facility	**(450,000)**	–
Repayment of long-term debt	**(178,854)**	(15,380)
Financing costs	**(8,330)**	–
Dividends	**(45,099)**	(38,165)
Shares purchased for cancellation	**–**	(858)
Cash received on exercise of options	**6,736**	3,389
Cash provided by (used in) financing activities	**54,453**	(51,014)
Effect of exchange rate changes on cash denominated in foreign currency	**(2,065)**	(1,652)
(Decrease) increase in cash and cash equivalents	**(32,868)**	69,683
Cash and cash equivalents at beginning of year	**206,957**	137,274
Cash and cash equivalents at end of year	**$ 174,089**	$ 206,957

SUPPLEMENTAL CASH FLOW INFORMATION (note 22)

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2010

($ 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 larger Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations. The Compression Group is a global leader specializing in the design, engineering, fabrication, and installation of natural gas compression units and hydrocarbon and petrochemical process systems and industrial and recreational refrigeration systems. Both groups offer comprehensive product support capabilities. Toromont is listed on the Toronto Stock Exchange (the "TSX") 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, wholly owned subsidiaries, majority owned subsidiaries and the proportionate share of the accounts of joint ventures. Non-controlling interests exist in less than wholly owned subsidiaries of the Company and represent the outside interest's share of the carrying value for the subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Equity Investments
Investments in entities where the Company exercises significant influence, generally defined as greater than 20% interest, are accounted for using the equity method. These investments are recorded at cost plus the Company's share of income or loss to date less dividends received.

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 determined using the percentage-of-completion method, based on total costs incurred as a proportion of 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 the equipment at predetermined residual values and dates are accounted for as operating leases wherein revenue is recognized over the period extending to the date of the residual guarantee.

If an arrangement involves the provision of multiple elements, the total arrangement value is allocated to each element as a separate unit of accounting based on their fair values if:

1) The delivered item has value to the client on a stand-alone basis;

2) There is objective and reliable evidence of the fair value of the undelivered item; and,

3) The arrangement includes a general right of return relative to the delivered item and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company.

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.

The assets and liabilities of foreign subsidiaries which are considered to be financially and operationally self-sustaining are translated into Canadian funds at the exchange rate in effect at the balance sheet dates. Revenue and expense items are translated using the average exchange rates for the year. The foreign exchange impact of these translations is included in accumulated other comprehensive income in shareholders' equity.

The monetary assets and liabilities of foreign subsidiaries which are not considered to be financially and operationally self-sustaining are translated into Canadian funds at the exchange rate in effect at the balance sheet dates. Non-monetary assets and liabilities are translated into Canadian dollars using the exchange rates at the date of the transactions. Revenue and expense items are translated using the average exchange rates for the year. The foreign exchange impact of these translations is included in net income of the period.

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 loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – observable inputs other than Level 1 prices that are observable or can be corroborated by observable market data for substantially the full term of asset or liability
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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 and net investment in sales-type leases are classified as loans and receivables and 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. No investments were held at December 31, 2010.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale are added to the value of the instrument at acquisition. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into net income 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. 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 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.

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, 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, 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 or on the average remaining lifetime in the case of retirees.

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 consist of cash on hand, bank balances and money market instruments including bankers' acceptances and term deposits with an original term of three months or less at date of purchase. Cash and equivalents are recorded at cost, which approximates market value.

Allowance for Doubtful Accounts

Trade receivables carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review. When the recovery of any recognized impairment is considered unlikely, the amount of the impairment is removed from the consolidated balance sheet, without prejudice to any actions that the Company may initiate to seek collection of the amount receivable.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost of equipment, repair and distribution parts and direct materials include purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a specific item basis. Non-serialized inventory is determined based on a weighted average actual cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Cost of inventories include the transfer from accumulated other comprehensive income (loss) of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

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.

Lease Receivables

Equipment under terms which transfer substantially all of the benefits and risks of ownership to customers are accounted for as sales-type leases and the amounts due to these leases are presented in Other Assets. The receivable will be accreted to the nominal amount over the remaining term of the lease.

Intangible Assets

Intangible assets represent the fair value of assets assigned to contractual or other legal rights at the date of acquisition, including customer relationships, long-term contracts, distribution agreements and order backlog. Intangible assets are amortized on a straight-line basis over their estimated economic lives, ranging from 1 to 5 years.

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 2009 and 2010, annual goodwill assessments were performed establishing that there were no impairments in either year.

Discontinued Operations

The results of discontinued operations are presented net of tax on a one-line basis in the consolidated statements of earnings. Direct corporate overheads and income taxes are allocated to discontinued operations. Interest expense (income) and general corporate overheads are not allocated to discontinued operations.

Comparative Amounts

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

2. CHANGES IN ACCOUNTING POLICIES

Business Combinations

Effective January 1, 2010, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1582 *Business Combinations*, Section 1601 *Consolidated Financial Statements*, and Section 1602 *Non-controlling Interests*. Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards are harmonized with International Financial Reporting Standards (IFRS). The new standards will become effective in 2011, however early adoption is permitted. The Company has early adopted these standards effective from January 1, 2010. These standards shall be applied prospectively to business combinations whose acquisition date is on or after the date of adoption.

The Company had deferred transaction costs of $9,035 as at December 31, 2009. These costs were charged to opening retained earnings in 2010, net of tax of $1,129, as a result of the change in accounting policy.

Future Accounting Changes

Financial Instruments – Recognition and Measurement

In June 2009, the CICA amended Handbook Section 3855 Financial Instruments – Recognition and Measurement to clarify the application of the effective interest method after a debt instrument has been impaired and when an embedded prepayment option is separated from its host debt instrument at initial recognition for accounting purposes. The amendments are applicable for the Company's interim and annual financial statements for its fiscal year beginning January 1, 2011. Earlier adoption is permitted. At December 31, 2010, the Company had no debt instruments to which the Section 3855 amendments would be applicable.

Multiple Deliverable Revenue Arrangements

On December 24, 2009, the CICA issued EIC Abstract 175 – *Multiple Deliverable Revenue Arrangements*. EIC-175 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EIC-175 is applicable to revenue arrangements with multiple deliverables entered into or materially modified on or after January 1, 2011. Earlier adoption is permitted. The Company did not early adopt EIC-175. The Company does not anticipate that this adoption will have a material impact on the Company's consolidated financial statements.

International Financial Reporting Standards

Canadian GAAP will be converged with IFRS effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

3. BUSINESS ACQUISITIONS

On January 20, 2010, the Company completed its offer for the units of Enerflex Systems Income Fund ("ESIF"). ESIF was a supplier of products and services to the global oil and gas production industry, and had operations in Canada, Australia, the Netherlands, the United States, Germany, Pakistan, the United Arab Emirates, Indonesia and Malaysia. ESIF has been integrated with the Company's existing natural gas and process compression business, Toromont Energy Systems, and is continuing under the name Enerflex Ltd. ("Enerflex"). This acquisition creates a stronger organization, better able to serve customers and compete globally. The financial results of Enerflex are included in the Compression Group.

Toromont purchased ESIF pursuant to a take-over bid (the "Offer") to acquire all of the outstanding trust units (the "Trust Units") of ESIF and all of the issued and outstanding class B limited partnership units (the "Exchangeable LP Units") and, together with the Trust Units, (the "Units") of Enerflex Holdings Limited Partnership ("Enerflex LP").

Pursuant to the Offer, Toromont acquired 39,583,074 Trust Units and 2,640,692 Exchangeable LP Units on January 20, 2010. Toromont acquired an additional 1,907,500 Trust Units in the Tax Efficient Subsequent Acquisition on February 26, 2010. In both the Offer and the Tax Efficient Subsequent Acquisition (collectively referred to as the "Acquisition"), Toromont offered the holders of Units the opportunity to elect to receive as consideration either $14.25 in cash or 0.5382 of a common share of Toromont plus $0.05 in cash per Unit, in each case subject to pro ration.

In total, Toromont paid approximately $315.5 million in cash and issued approximately 11.9 million Toromont common shares for the Units acquired in the Acquisition. The cost to Toromont to purchase all of the Units of ESIF is noted below. For accounting purposes, the cost of Toromont's common shares issued in the Acquisition was calculated based on the average share price traded on the TSX on the respective dates of acquisition.

Prior to the Acquisition, Toromont owned 3,902,100 Trust Units which were purchased with a cash cost of $37.8 million ($9.69 per unit). Prior to the date of acquisition, Toromont designated its investment in ESIF as available-for-sale and as a result the units were measured at fair value with the changes in fair value recorded in Other Comprehensive Income ("OCI"). On acquisition, the cumulative gain on this investment was reclassified out of OCI and into the statement of earnings. The fair value of this investment was included in the cost of purchase outlined below. The fair value of these units at January 20, 2010 was $56.4 million.

Purchase price	
Units owned by Toromont prior to Offer	$ 56,424
Cash consideration	315,539
Issuance of Toromont common shares	328,105
Total	$ 700,068

The Acquisition is accounted for as a business combination with Toromont as the acquirer of ESIF. The Acquisition has been accounted for using the purchase method of accounting. Results from ESIF have been consolidated from the acquisition date, January 20, 2010. Given the advanced stage of integration of the operations it is impracticable to determine the amount of revenue and net income of the acquired company since acquisition date.

Cash used in the investment is determined as follows:

Cash consideration	$ 315,539
Less cash acquired	(23,006)
	$ 292,533

The purchase cost was allocated to the underlying assets acquired and liabilities assumed based upon their fair value at the date of acquisition. The Company determined the fair values based on discounted cash flows, market information, independent valuations and management's estimates.

The final allocation of the purchase price is as follows:

Purchase price allocation	
Cash	$ 23,006
Non-cash working capital	125,742
Property, plant and equipment	135,400
Rental equipment	67,587
Other long-term assets	24,315
Intangible assets with a finite life	
Customer relationships	38,400
Other	5,700
Long-term liabilities	(181,388)
Net identifable assets	238,762
Residual purchase price allocated to goodwill	461,306
	$ 700,068

Non-cash working capital includes accounts receivable of $109 million, representing gross contractual amounts receivable of $115 million less management's best estimate of the contractual cash flows not expected to be collected of $6 million.

Factors that contributed to a purchase price that resulted in the recognition of goodwill include: the existing ESIF business; the acquired workforce; time-to-market benefits of acquiring an established manufacturing and service organization in key international markets such as Australia, Europe and the Middle East; and the combined strategic value to the Company's growth plan. The amount assigned to goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs, primarily for advisory services, were incurred during the year ended December 31, 2009 and 2010. Costs totaling $9,035 ($7,906 net of tax) were incurred and deferred at December 31, 2009 and have been charged to opening retained earnings on adoption of CICA Section 1582 (see note 2). Costs totaling $2,559 have been incurred during the year ended December 31, 2010 and were included in selling and administrative expenses.

The consolidated revenues and pre-tax earnings for the year ended December 31, 2010 as though the acquisition date had been January 1, 2010, excluding purchase accounting adjustments and one-time costs related to change of control, are estimated at $2,361 million and $150 million, respectively. These are unaudited pro forma figures and are not necessarily indicative of the combined results that would have been attained had the acquisition taken place at January 1, 2010, nor is it necessarily indicative of future results.

4. DISCONTINUED OPERATIONS

Effective September 1, 2010, the Company sold certain assets and the operations of Syntech Enerflex, an electrical, instrumentation and controls business. Syntech was a component of the January 20, 2010 acquisition of ESIF; however, it was considered not to be core to the future growth of the Company.

Total consideration received was $7.0 million comprised of $3.5 million in cash and $3.5 million in a note receivable due in twelve equal monthly installments, plus interest, commencing January 2011. Net assets disposed, including transactions costs, also totalled $7.0 million, comprised of $6.0 million of non-cash working capital and $1.0 million of capital assets. Revenues and loss before income taxes from discontinued operations in 2010 were $41,887 and $2,003 respectively.

5. INVENTORIES

	2010	2009
Equipment	**$ 173,988**	$ 164,744
Repair and distribution parts	**101,142**	74,809
Direct materials	**56,294**	75,740
Work-in-process	**115,847**	57,817
	$ 447,271	$ 373,110

The amount of inventory recognized as an expense and included in cost of goods sold accounted for other than by the percentage-of-completion method during 2010 was $987 million (2009: $705 million). The cost of goods sold includes inventory write-down pertaining to obsolescence and aging together with recoveries of past write-down upon disposition. A reversal write-down of $3.7 million was recorded in 2010. The amount charged to the income statement and included in cost of goods sold for the write-down of inventory for valuation issues during 2009 was $10.5 million.

6. PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 93,651**	**$ –**	**$ 93,651**	$ 41,269	$ –	$ 41,269
Buildings	**209,997**	**64,087**	**145,910**	157,830	58,679	99,151
Equipment	**151,789**	**105,029**	**46,760**	129,987	97,774	32,213
Power generation	**37,737**	**25,468**	**12,269**	37,714	24,353	13,361
Assets under construction	**15,611**	**–**	**15,611**	497	–	497
	$ 508,785	**$ 194,584**	**$ 314,201**	$ 367,297	$ 180,806	$ 186,491

Depreciation expense for the year ended December 31, 2010 was $29,148 (2009 – $22,668).

7. RENTAL EQUIPMENT

	2010	2009
Cost	**$ 367,885**	$ 301,489
Less: Accumulated depreciation	**131,779**	118,314
	$ 236,106	$ 183,175

Depreciation expense for the year ended December 31, 2010 was $41,167 (2009 – $35,497). Operating income from rental operations for the year ended December 31, 2010 was $27.0 million (2009 – $17.2 million).

8. OTHER ASSETS

	2010	2009
Equipment sold with guaranteed residual values	**$ 8,451**	$ 10,940
Investment in affiliate	**3,146**	–
Net investment in sales-type lease	**10,651**	–
Investment in Enerflex units	**–**	56,502
Deferred transaction costs	**–**	10,160
Other	**570**	443
	$ 22,818	$ 78,045

The Company owns a 40% interest in Total Production Services Inc.

The Company entered into a contract to build, own, maintain and operate a natural gas compression facility. This contract contained multiple deliverables, one of which was considered a sales-type lease for accounting purposes. The contract terminates in 2013.

The value of the net investment is comprised of the following:

Net investment in sales-type lease	
Minimum future lease payments	$ 23,202
Unearned finance income	(1,900)
	21,302
Less current portion	(10,651)
	$ 10,651

Finance lease income included in interest income in 2010 was $0.3 million (2009 – nil) based on a 9% interest rate implicit in the lease.

9. INTANGIBLE ASSETS

as at December 31, 2010	Acquired value	Accumulated amortization	Net book value
Customer relationships	$ 38,400	$ 7,658	$ 30,742
Other	5,700	3,315	2,385
	$ 44,100	$ 10,973	$ 33,127

Amortization expense for the year ended December 31, 2010 was $10,973 (2009 – $Nil).

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Accounts payable and accrued liabilities	**$ 397,325**	$ 228,436
Dividends payable	**12,342**	9,728
Total accounts payable and accrued liabilities	**$ 409,667**	$ 238,164

11. LONG-TERM DEBT

	2010	2009
Bank Credit Facility (a)	**$ 280,000**	$ –
Senior debentures (b)	**144,051**	155,999
Notes payable	**–**	2,096
Debt issuance costs, net of amortization	**(4,122)**	–
Total long-term debt	**419,929**	158,095
Less current portion	**6,889**	14,044
	$ 413,040	$ 144,051

All debt is unsecured.

(a) Effective November 5, 2010, the Company completed a refinancing of its Canadian committed credit facility. The new committed credit facility, with a maturity date of June 30, 2012, provides $600 million in available financing. Debt incurred under the new facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Outstanding loans under the facility bear interest at a rate equal to the Canadian prime rate plus a specified margin ranging from 50 to 175 basis points. Toromont intends to utilize this facility primarily through the issuance of bankers' acceptances with acceptance fees ranging from 150 to 275 basis points. The applicable margin or acceptance fee will, in each case, be determined based on Toromont's leverage ratio.

The Company also maintains a US $20 million committed credit facility in the United States which matures in 2011. The facility bears interest at prime which was 3.25% at December 31, 2010.

Standby letters of credit issued utilized $64,221 of the credit facilities at December 31, 2010 (2009 – $33,248).

(b) Terms of the senior debentures are:

- $5,694, 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
- $13,357, 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.

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

In January 2010, Toromont established a term loan facility in connection with the acquisition of ESIF. Borrowings of $450 million were drawn down under this facility, with principal repayments of $16.875 million due quarterly beginning June 30, 2010, and a lump sum final repayment due in July 2011 (eighteen month term). Debt issuance costs of $6.9 million were adjusted against the carrying value of the debt. In conjunction with the refinancing of the Canadian credit facility noted above, amounts outstanding under the term loan facility were repaid in full on November 5, 2010.

Senior secured notes payable assumed in the acquisition of ESIF in the amount of $100.6 million were required to be repaid under the terms of the term loan facility. These notes were repaid subsequent to completing the acquisition. A premium of $11.3 million was paid in connection with the repayment of these notes, and was included in the fair value of liabilities assumed for purposes of the purchase price allocation. Borrowings under ESIF's bank facility were also repaid following completion of the acquisition.

Scheduled principal repayments and interest payments on long-term debt are as follows:

	Principal	Interest
2011	$ 6,889	$ 16,226
2012	281,280	11,466
2013	1,372	6,895
2014	1,471	6,796
2015	126,576	5,342
2016 to 2019	6,463	944
	$ 424,051	$ 47,669

Interest expense included interest on debt initially incurred for a term greater than one year of $25,968 (2009 – $8,636).

12. 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:

	2010		2009	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Balance, beginning of year	**64,867,467**	**$ 132,261**	64,620,677	$ 127,704
Exercise of stock options	**406,909**	**8,872**	290,190	4,643
Shares issued for Enerflex acquisition	**11,875,250**	**327,947**	–	–
Purchase of shares for cancellation	**–**	**–**	(43,400)	(86)
Balance, end of year	**77,149,626**	**$ 469,080**	64,867,467	$ 132,261

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 Shareholder Rights Plan was continued and amended in 2009. Amendments were largely administrative in nature. The plan expires in April 2012.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2010. The current issuer bid allows the Company to purchase up to approximately 5.6 million of its common shares in the twelve-month period ending August 30, 2011, representing 10% of common shares in the public float, as estimated at the time of renewal. 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.

The Company did not purchase any shares under the normal course issuer bid in 2010. In 2009, the Company purchased and cancelled 43,400 shares under its NCIB program for $858 (average cost of $19.77 per share).

13. 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:

	2010	2009
Balance, beginning of year	**$ 10,012**	$ 8,978
Stock-based compensation expense, net of forfeitures	**3,005**	2,289
Value of compensation cost associated with exercised options	**(2,135)**	(1,255)
Balance, end of year	**$ 10,882**	$ 10,012

14. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2010	2009
Balance, beginning of year	**$ (628)**	$ 10,899
Other comprehensive loss	**(29,089)**	(11,527)
Balance, end of year	**$ (29,717)**	$ (628)

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

	2010	2009
Unrealized losses on translation of financial statements of self-sustaining foreign operations	**$ (27,173)**	$ (15,954)
Losses on foreign exchange derivatives designated as cash flow hedges, net of income taxes (2010 – $1,378; 2009 – $150)	**(2,544)**	(289)
Unrealized gain on financial assets designated as available-for-sale (income taxes – $3,090)	**–**	15,615
Balance, end of year	**$ (29,717)**	$ (628)

The gains and losses on derivative contracts are intended to offset the transaction losses and gains. The losses of $2,544 will be reclassified to net income within the next twelve months. These losses will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable. Management intends to hold these foreign currency contracts to maturity.

15. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities

The carrying values of the Company's financial instruments are classified into the following categories:

	2010	2009
Held for trading(1)	**$ 174,089**	$ 206,957
Loans and receivables(2)	**$ 473,160**	$ 244,759
Available for sale assets(3)	**$ –**	$ 56,502
Other financial liabilities(4)	**$ 829,596**	$ 396,259
Derivatives designated as effective hedges(5)	**$ (3,922)**	$ (440)
Derivatives designated as held for trading(6)	**$ (1,296)**	$ (434)

(1) Comprised of cash and cash equivalents. All held for trading assets were designated as such upon initial recognition.

(2) Comprised of accounts receivable and net investment in sales-type lease.

(3) Comprised of investment in marketable securities, which are reported in other assets.

(4) Comprised of accounts payable and accrued liabilities and long-term debt.

(5) Comprised of the Company's foreign exchange forward contracts designated as hedges.

(6) Comprised of the Company's foreign exchange forward contracts that are not designated as hedges for accounting purposes.

Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as at December 31, 2010 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value.

	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
LIABILITIES					
Derivative financial instruments	$ 5,218	$ –	$ 5,218	$ –	$ 5,218
Senior debentures	$ 144,051	$ –	$ 151,181	$ –	$ 151,181

The estimated fair values of cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities, borrowings under the bank term facility and notes payable approximate their respective carrying values given their short term maturities.

The estimated fair value of net investment in sales-type lease is measured using the discounted value of the minimum future lease payments discounted at the rate implicit in the lease. There has been no change since recognition of the net investment and as such the fair value approximates the carrying value.

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on the comparable foreign exchange rate at December 31, 2010 under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value. Fair value measurement of derivative financial instruments is classified as Level 2 in the hierarchy of fair value measurements.

The fair value of senior debentures is measured using the discounted cash flow method, a generally accepted valuation technique. The discount factor is based on market rates for debt with similar terms and remaining maturities and that has been adjusted for our credit quality. The Company has no plans to prepay these instruments prior to maturity. Fair value measurement of the senior debentures is classified as Level 2 in the hierarchy of fair value measurements.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2010.

		Notional Amount	Average Exchange Rate	Maturity
Canadian dollar denominated contracts:				
Purchase contracts	USD	214,813	$ 1.0288	January 2011 to October 2012
	EUR	11,191	$ 1.3318	January 2011 to January 2012
Sales contracts	USD	44,178	$ 1.0240	January 2011 to November 2011
	EUR	1,568	$ 1.3910	January 2011 to May 2011
Australian dollar denominated contracts:				
Purchase contracts	USD	3,461	$ 1.1303	January 2011 to December 2011
	CDN	2,000	$ 0.9980	January 2011

Management estimates that a loss of $5,218 would be realized if the contracts were terminated on December 31, 2010. Certain of these forward contracts are designated as cash flow hedges, and accordingly, a loss of $3,922 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 and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable. A loss of $1,296 on forward contracts not designated as hedges is included in net income which offsets gains recorded on the foreign-denominated items, namely accounts payable and accounts receivable.

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.

Risks Arising from Financial Instruments and Risk Management

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

Currency risk

The Company's currency exposure has increased from December 31, 2009 with the acquisition of ESIF. Enerflex has significant international exposure through export from its Canadian operations as well as a number of foreign subsidiaries, the most significant of which are located in Australia, the Netherlands and the United Arab Emirates.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

Transaction exposure

The Canadian operations of the Company source 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 enters into foreign currency contracts to reduce these exchange rate risks.

The Company maintains a conservative hedging policy whereby all significant transactional currency risks are identified and hedged.

Translation exposure

The Company's earnings from and net investment in, self-sustaining foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar and the euro.

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.

Earnings at foreign operations are translated into Canadian dollars each period at current exchange rates for the 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 following table shows the effect on net income before tax for the year ended December 31, 2010 of a 5% weakening of the Canadian dollar against the U.S. dollar, euro and Australian dollar, everything else being equal. A 5% strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as reasonably possible change in currency in a volatile environment.

Cdn dollar weakens by 5%	USD	Euro	AUD
Net income before tax	$ 2,788	$ (95)	$ (551)

Sensitivity analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable and derivative financial instruments. This sensitivity analysis relates to the position as at December 31, 2010 and for the year then ended. The following table shows Toromont's sensitivity to a 5% weakening of the Canadian dollar against the U.S. dollar, Euro and Australian dollar. A 5% strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as reasonably possible change in currency in a volatile environment.

Cdn dollar weakens by 5%	USD	Euro	AUD	Total
Financial instruments held in foreign operations:				
Other comprehensive income	$ 3,312	$ 678	$ 1,660	$ 5,650
Financial instruments held in Canadian operations:				
Net earnings	$ 1,942	$ 21	$ 1	$ 1,964
Other comprehensive income (loss)	$ 4,512	$ 441	$ (69)	$ 4,884

The movement in other comprehensive income in foreign operations reflects the change in the fair value of financial instruments. Gains or losses on translation of self-sustaining subsidiaries are deferred in other comprehensive income. Accumulated currency translation adjustments are recognized in income when there is a reduction in the net investment in the foreign operation.

The movement in net earnings in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

The movement in other comprehensive income in Canadian operations reflects the change in the fair value of derivative financial instruments that are designated as cash flow hedges. The gains or losses on these instruments are not expected to affect net income as the gains or losses will offset losses or gains on the underlying hedged items.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, net investment in sales-type lease and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

Cash equivalents consist mainly of short-term investments, such as money market deposits. 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 customers engaged in various industries including mining, construction, natural gas production and transportation, chemical and petrochemicals, 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 particular geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

As at December 31, 2010, $29.5 million or 6.4% of accounts receivable were outstanding for more than 90 days (2009 – $14.3 million or 5.7%). The movement in the Company's allowance for doubtful accounts was as follows:

	2010	2009
Balance, beginning of year	**$ 7,096**	$ 9,774
Change in foreign exchange rates	**(69)**	(437)
Provisions and revisions, net	**4,285**	(2,241)
Balance, end of year	**$ 11,312**	$ 7,096

The credit risk associated with net investment in sales-type lease arises from the possibility that the counterparty may default on their obligations. In order to minimize this risk, the Company enters into sales-type lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

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.

Interest rate risk

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. As at December 31, 2010, $280 million or 66% of the Company's total debt portfolio was subject to movements in floating interest rates. A 1.0% increase in interest rates, all things being equal, would reduce income before taxes by $2.8 million on an annualized basis. A 1.0% decrease in interest rates, all things being equal, would have an equal but opposite effect. This sensitivity analysis is provided as reasonably possible change in interest rates.

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 may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2010.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2010, the Company was holding cash and cash equivalents of $174 million and had unutilized lines of credit of $276 million.

Accounts payable are primarily due within 90 days and will be satisfied from current working capital.

The Company expects that continued cash flows from operations in 2011, 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 through the next twelve months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

16. STOCK-BASED COMPENSATION

The Company maintains a stock option program for certain employees. Under the plan, up to 6,096,000 options may be granted for subsequent exercise in exchange for common shares. It is Company policy that no more than 1% of outstanding shares or approximately 770,000 share options may be granted in any one year. Stock options have a seven-year term, vest 20% per year 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:

Years ended December 31	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**1,961,809**	**$ 22.91**	1,917,599	$ 21.62
Granted	**610,050**	**29.71**	508,000	22.05
Exercised	**(406,909)**	**16.37**	(290,190)	11.53
Forfeited	**(20,090)**	**21.25**	(173,600)	25.14
Options outstanding, end of year	**2,144,860**	**$ 26.04**	1,961,809	$ 22.91
Options exercisable, end of year	**811,824**	**$ 24.51**	900,607	$ 20.85

The following table summarizes stock options outstanding and exercisable at December 31, 2010:

	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
$16.59 – $23.34	672,140	3.8	$ 21.97	312,620	$ 21.87
$24.58 – $29.71	1,472,720	4.4	27.90	499,204	26.16
Total	2,144,860	4.2	$ 26.04	811,824	$ 24.51

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:

Years ended December 31	2010	2009
Weighted average fair value price per option	**$ 6.59**	$ 4.13
Expected life of options (years)	**5.84**	5.80
Expected stock price volatility	**25.0%**	25.0%
Expected dividend yield	**2.0%**	2.7%
Risk-free interest rate	**2.6%**	2.0%

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 resignation from 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. As at December 31, 2010, 87,969 units were outstanding at a value of $2,747 (2009 – 68,723 units at a value of $1,882). The Company records the cost of the DSU Plan as compensation expense. During 2010, 864 units (2009 – 47,086 units) were redeemed for $25 (2009 – $1,098).

Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to $1,000 per employee per annum based on contributions by the Company of $1 for every $3 dollars contributed by the employee. Company contributions vest to the employee immediately. Company contributions amounting to $1.0 million in 2010 (2009 – $0.9 million), were charged to selling and administrative expense when paid. The Plan is administered by a third party.

17. 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 retirement programs in accordance with respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan document. The cost of pension benefits for defined contribution plans are expensed as the contributions are paid.

Approximately 150 employees are included in defined benefit plans.

(a) Powell Plan – This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The plan is a contributory plan that 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, 2009. The next valuation is scheduled as at December 31, 2012.

(b) Executive Plan – This is a non-contributory pension arrangement for certain senior executives that 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, 2010. The next valuation is scheduled as at December 31, 2011.

(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, 2009. The next valuation is scheduled as at January 1, 2012.

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

	2010	2009
ACCRUED BENEFIT OBLIGATIONS		
Balance, beginning of year	**$ 65,649**	$ 61,517
Service cost	**1,262**	1,412
Interest cost	**3,732**	3,685
Actuarial loss	**6,658**	4,538
Benefits paid	**(5,137)**	(5,503)
Balance, end of year	**$ 72,164**	$ 65,649
PLAN ASSETS		
Fair value, beginning of year	**$ 48,400**	$ 45,364
Transfers	**4**	15
Actual return on plan assets	**4,865**	5,867
Company contributions	**3,773**	2,235
Participant contributions	**408**	422
Benefits paid	**(5,137)**	(5,503)
Fair value, end of year	**$ 52,313**	$ 48,400
FUNDED STATUS OF THE PLANS	**$ (19,851)**	$ (17,249)
Unrecognized actuarial loss	**20,084**	15,785
Unrecognized past service benefit	**(591)**	(887)
ACCRUED PENSION LIABILITY	**$ (358)**	$ (2,351)

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

	2010			2009		
	Accrued benefit obligation	Plan assets	Funded status – surplus (deficit)	Accrued benefit obligation	Plan assets	Funded status – surplus (deficit)
Powell Plan	**$ 43,525**	**$ 40,364**	**$ (3,161)**	$ 38,392	$ 36,583	$ (1,809)
Executive Plan	**20,342**	**2,252**	**(18,090)**	18,923	2,071	(16,852)
Other plan assets and obligations	**8,297**	**9,697**	**1,400**	8,334	9,746	1,412
Funded status of the plans	**$ 72,164**	**$ 52,313**	**$ (19,851)**	$ 65,649	$ 48,400	$ (17,249)

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 $19.8 million to secure the obligations under this plan.

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

	2010	2009
Discount rate	**5.00%**	5.75%
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:

	2010	2009
Equity securities	**45.3%**	44.2%
Debt securities	**43.1%**	43.9%
Real estate	**11.5%**	11.9%
Cash and cash equivalents	**0.1%**	0.0%

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:

	2010	2009
DEFINED BENEFIT PLANS		
Service cost	**$ 854**	$ 990
Interest cost	**3,732**	3,685
Actual return on plan assets	**(4,865)**	(5,867)
Actuarial loss	**6,658**	4,538
Difference between actual and expected return on assets	**1,468**	2,877
Difference between actual and recognized actuarial loss	**(5,773)**	(3,663)
Difference between actual and recognized past service benefits	**(296)**	(296)
	1,778	2,264
DEFINED CONTRIBUTION PLANS	**14,580**	8,788
401(k) MATCHED SAVINGS PLAN	**690**	787
Net pension expense	**$ 17,048**	$ 11,839

The total cash amount paid or payable for employee future benefits in 2010, including defined benefit and defined contribution plans, was $19,066 (2009 – $12,116).

Defined contribution pension expense increased in 2010 due to an increase in the number of employees resulting from the acquisition of ESIF (see note 2).

18. INCOME TAXES

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

	2010	2009
Current income tax expense	**$ 50,281**	$ 56,283
Future income tax (recovery) expense	**(1,888)**	3,093
Total income tax expense	**$ 48,393**	$ 59,376

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

	2010	2009
Statutory Canadian federal and provincial income tax rates	**31.0%**	33.0%
Expected taxes on income	**$ 46,048**	$ 59,364
Increase (decrease) in income taxes resulting from:		
Higher (lower) effective tax rates in other jurisdictions	**1,702**	(102)
Manufacturing and processing rate reduction	**(198)**	(147)
(Income) expenses not (taxable) deductible for tax purposes	**(1,769)**	1,138
Non-taxable gains	**(2,552)**	(93)
Effect of future income tax rate reductions	**2,471**	814
Other	**2,691**	(1,598)
Provision for income taxes	**$ 48,393**	$ 59,376
Effective income tax rate	**32.6%**	33.0%

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:

	2010	2009
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	**$ 15,462**	$ 12,761
Deferred revenue	**2,753**	2,358
Accounts receivable	**3,844**	2,490
Inventories	**14,480**	16,554
Other	**4,188**	–
Cash flow hedges in other comprehensive income	**756**	163
	$ 41,483	$ 34,326
NON-CURRENT FUTURE INCOME TAX ASSETS		
Loss carryforwards	**$ 33,343**	$ –
Capital assets	**(14,571)**	
Other	**3,394**	–
Cash flow hedges in other comprehensive income	**729**	
	$ 22,895	$ –
NON-CURRENT FUTURE INCOME TAX LIABILITIES		
Capital assets	**$ 10,325**	$ 9,047
Other	**(1,311)**	(4,213)
Available for sale financial assets in other comprehensive income	**–**	3,090
	$ 9,014	$ 7,924

As at December 31, 2010, the Company had the following income tax losses available to reduce future year's income for income tax purposes noted by tax jurisdiction and year of expiry:

YEAR OF EXPIRY

(in $millions)	Canada	US	Foreign
2015	$ 1.6	$ 1.9	
2017			$ 5.1
2018			$ 6.5
2019			$ 5.8
2023		$ 1.6	
2024	$ 10.0	$ 2.8	
2025	$ 48.5		
2026	$ 41.4	$ 0.8	
2027	$ 3.4		
Indefinite			$ 21.9

19. EARNINGS PER SHARE

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

	2010	2009
Net earnings available to common shareholders	**$ 98,650**	$ 120,516
Weighted average common shares outstanding	**76,170,972**	64,716,775
Dilutive effect of stock option conversion	**190,977**	114,091
Diluted weighted average common shares outstanding	**76,361,949**	64,830,866
Basic earnings per share		
Continuing operations	**$ 1.32**	$ 1.86
Discontinued operations	**(0.02)**	–
	$ 1.30	$ 1.86
Diluted earnings per share		
Continuing operations	**$ 1.31**	$ 1.86
Discontinued operations	**(0.02)**	–
	$ 1.29	$ 1.86

In 2010, 936,920 outstanding stock options with an exercise price range of $28.84 to $29.71 were excluded from the calculation of diluted earnings per share as these options were anti-dilutive. In 2009, 884,240 outstanding stock options were excluded from the calculation.

20. COMMITMENTS

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

2011	$ 17,136
2012	13,626
2013	10,395
2014	7,430
2015	4,931
2016 and thereafter	14,182
	$ 67,700

21. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of shareholders' equity (excluding accumulated other comprehensive income) and long-term debt less cash and cash equivalents.

The Company's capital management framework is designed to maintain a flexible capital structure that allows for optimization of the cost of capital at acceptable risk while balancing the interests of both equity and debt holders.

The Company generally targets a net debt to equity ratio of 0.5:1, although there is a degree of variability associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

The above capital management criteria can be illustrated as follows:

As at December 31	2010	2009
Shareholder's equity excluding accumulated OCI	**$ 1,235,409**	$ 854,691
Long-term debt	**419,929**	158,095
Cash and cash equivalents	**(174,089)**	(206,957)
Capital under management	**$ 1,481,249**	$ 805,829
Net debt as a % of capital under management	**17%**	n/m
Net debt to equity ratio	**0.20:1**	n/m

n/m – not meaningful, cash exceeds long-term debt at December 31, 2009

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has comfortably met these minimum requirements during the year.

There were no changes in the Company's approach to capital management during the year.

22. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Net change in non-cash working capital and other		
Accounts receivable	**$ (97,875)**	$ 130,300
Inventories	**57,006**	126,250
Accounts payable and accrued liabilities	**77,941**	(101,028)
Deferred revenues	**53,320**	(104,451)
Other	**13,344**	(31,763)
	$ 103,736	$ 19,308
Cash paid during the year for:		
Interest	**$ 23,208**	$ 9,818
Income taxes	**$ 23,462**	$ 77,204
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued liabilities	**$ 2,657**	$ 467
Cash	**$ 174,089**	$ 90,357
Cash equivalents	**–**	116,600
Cash and cash equivalents	**$ 174,089**	$ 206,957

23. INTEREST IN JOINT VENTURE

The following summarized the Company's share of assets, liabilities, revenues and expenses of its joint venture as at and for the year ended December 31, 2010. The Company purchased the joint venture as part of the acquisition of ESIF (see note 3).

As at December 31, 2010	2010
Current assets	**$ 2,477**
Long-term assets	**518**
Total assets	**$ 2,995**
Current liabilities	**$ 894**
Long-term liabilities and equity	**2,101**
Total liabilites and equity	**$ 2,995**

Year ended December 31, 2010	
Revenue	**$ 2,192**
Expenses	**$ 2,938**
Net loss	**$ (747)**
Cash flow from operating activities	**$ (1,738)**
Cash flow from investing activities	**$ (501)**
Cash flow from financing activities	**$ (12)**

24. SEGMENTED INFORMATION

The Company has two reportable operating segments, each supported by the corporate office. The Equipment Group includes one of the world's larger Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations. The Compression group of segments, collectively, is a global 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 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 revenue. Previously, corporate overheads were allocated to the business segments based on operating income. Due to the operating loss reported by the Compression Group in the first quarter of 2010, management determined that it would be appropriate to reconsider this allocation approach. The change in allocation method has been applied prospectively from January 1, 2010. Prior periods have not been restated as the impact is insignificant.

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.

Segmented information excludes results from discontinued operations.

	Equipment Group		Compression Group		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
Equipment/package sales	**$ 561,218**	$ 455,180	**$ 873,814**	$ 746,741	**$ 1,435,032**	$ 1,201,921
Rentals	**143,398**	137,536	**32,443**	15,238	**175,841**	152,774
Product support	**306,634**	278,938	**357,687**	181,267	**664,321**	460,205
Power generation	**11,450**	9,692	**–**	–	**11,450**	9,692
Other	**–**	–	**45,603**	–	**45,603**	–
Total revenues	**$ 1,022,700**	$ 881,346	**$ 1,309,547**	$ 943,246	**$ 2,332,247**	$ 1,824,592
Operating income	**$ 106,748**	$ 85,441	**$ 46,971**	$ 96,911	**$ 153,719**	$ 182,352
Interest expense					**27,076**	8,815
Interest and investment income					**(2,803)**	(6,355)
Gain on available-for-sale financial assets on business acquisition					**(18,627)**	–
Equity earnings from affiliates					**(468)**	–
Income taxes					**48,393**	59,376
Net earnings from continuing operations					**$ 100,148**	$ 120,516

Selected Balance Sheet Information

	Equipment Group		Compression Group		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
Identifiable assets	**$ 655,338**	$ 599,358	**$ 1,461,658**	$ 459,572	**$ 2,116,996**	$ 1,058,930
Corporate assets					**$ 152,242**	$ 305,737
Total assets					**$ 2,269,238**	$ 1,364,667
Capital expenditures	**$ 72,415**	$ 37,706	**$ 57,709**	$ 23,335	**$ 130,124**	$ 61,041
Depreciation	**$ 41,345**	$ 43,104	**$ 28,970**	$ 15,061	**$ 70,315**	$ 58,165
Amortization of Intangible assets	**$ –**	$ –	**$ 10,973**	$ –	**$ 10,973**	$ –
Goodwill	**$ 13,000**	$ 13,000	**$ 483,106**	$ 21,800	**$ 496,106**	$ 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.

	2010	2009
Revenues		
Canada	**$1,550,922**	$ 1,127,929
United States	**469,272**	608,798
International	**312,053**	87,865
	$2,332,247	$ 1,824,592
Capital assets and goodwill		
Canada	**$ 749,315**	$ 350,596
United States	**106,272**	53,870
International	**190,826**	–
	$1,046,413	$ 404,466

25. 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.

26. ENERFLEX SPINOFF

On November 8, 2010, Toromont announced its intention to spin off Enerflex Ltd., its natural gas compression and processing equipment supply subsidiary, to existing shareholders by means of a tax-deferred divestiture for Canadian tax purposes. After the spinoff, Toromont's remaining operations will include the business of Toromont CAT, Battlefield – The CAT Rental Store and CIMCO. The proposed corporate reorganization would be implemented through a court approved plan of arrangement, which is subject to court and shareholder approval. Completion of the spinoff will also be subject to prior approval of the TSX and fulfillment of certain other conditions. If the necessary conditions are met and required approvals are obtained, the Company anticipates that the spinoff would be completed shortly after receipt of the final court approval. However, notwithstanding the receipt and satisfaction of such approvals and conditions, whether the spinoff is effected, and the timing for effecting the spinoff, will remain in the sole and absolute discretion of the Company. It is not practicable to estimate the impact of this transaction at this time.

Ten-Year Financial Review

For the years ended December 31 ($ thousands except where otherwise indicated)	2010	2009[2]	2008	2007
OPERATING RESULTS				
Revenues	**2,332,247**	1,824,592	2,121,209	1,886,761
Net earnings	**98,6540**	120,516	140,524	122,280
Net interest expense (income)	**24,273**	2,460	(3,246)	9,331
Capital expenditures	**130,124**	61,041	96,475	97,108
Dividends declared	**47,715**	38,848	36,391	31,061
FINANCIAL POSITION				
Working capital	**519,772**	539,264	509,276	466,859
Capital assets	**550,307**	369,666	402,647	341,159
Total assets	**2,269,238**	1,364,667	1,533,450	1,356,861
Long-term debt	**413,040**	144,051	158,112	203,425
Shareholders' equity	**1,206,637**	854,063	779,103	654,730
FINANCIAL RATIOS				
Working capital	**1.8:1**	2.6:1	1.9:1	2.0:1
Return on opening shareholders' equity (%)	**8.5**	15.5	21.5	21.6
Total debt net of cash to shareholders' equity	**0.2:1**	(.06):1	.05:1	.2:1
PER SHARE DATA ($)				
Net earnings – basic	**1.30**	1.86	2.16	1.89
Net earnings – diluted	**1.29**	1.86	2.15	1.88
Dividends declared	**0.62**	0.60	0.56	0.48
Book value (shareholders' equity)	**15.63**	13.17	12.06	10.08
Shares outstanding at year end	**77,149626**	64,867,467	64,620,677	64,943,497
Price range				
High	**32.40**	27.80	32.90	30.00
Low	**22.86**	19.26	19.03	22.30
Close	**30.76**	27.79	22.99	28.26

Notes

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

(2) 2009 and prior amounts do not include the financial results of ESIF, which have been included in the consolidated financial statements from date of acquisition, January 20, 2010.

	2006	2005	2004[1]	2003	2002	2001
	1,746,162	1,584,911	1,434,756	1,299,389	1,076,930	911,005
	99,421	78,962	70,518	58,693	40,457	43,700
	11,110	10,192	10,202	10,608	7,136	(6,913)
	102,444	72,813	65,608	72,922	53,042	77,394
	25,594	20,280	16,486	13,319	11,541	10,646
	469,638	410,990	263,294	203,577	213,222	218,132
	323,504	283,407	297,645	293,211	258,764	252,104
	1,299,992	1,143,972	962,437	856,176	771,902	720,702
	238,468	241,265	166,508	159,694	156,479	171,970
	565,556	481,812	415,855	376,837	335,316	314,248
	2.1:1	2.1:1	1.8:1	1.7:1	1.8:1	2.0:1
	20.6	18.9	18.7	17.5	12.9	17.1
	.4:1	.4:1	.4:1	.5:1	.4:1	.5:1
	1.56	1.25	1.11	0.93	0.63	0.71
	1.54	1.23	1.09	0.91	0.62	0.70
	0.40	0.32	0.26	0.21	0.18	0.17
	8.79	7.57	6.59	5.93	5.28	4.90
	64,310,377	63,624,936	63,082,586	63,563,246	63,455,146	64,194,946
	27.15	25.68	20.85	16.73	13.25	13.10
	20.08	20.05	15.88	9.88	9.25	7.63
	24.50	25.40	20.72	16.53	10.33	10.24

Corporate Information

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ANNUAL MEETING

The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am on Thursday, April 21, 2011 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
Paul R. Jewer, Vice President, Finance and Chief Financial Officer
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, Human Resources and Legal

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HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR

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

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COMMON SHARES

Listed on the Toronto Stock Exchange
Stock Symbol – TIH

This annual report was printed in Canada on stock manufactured totally chlorine-free with 10% postconsumer fibre.

Design and Coordination: Ove Design & Communications www.ovedesign.com
Editorial: Fundamental Creative Inc.

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