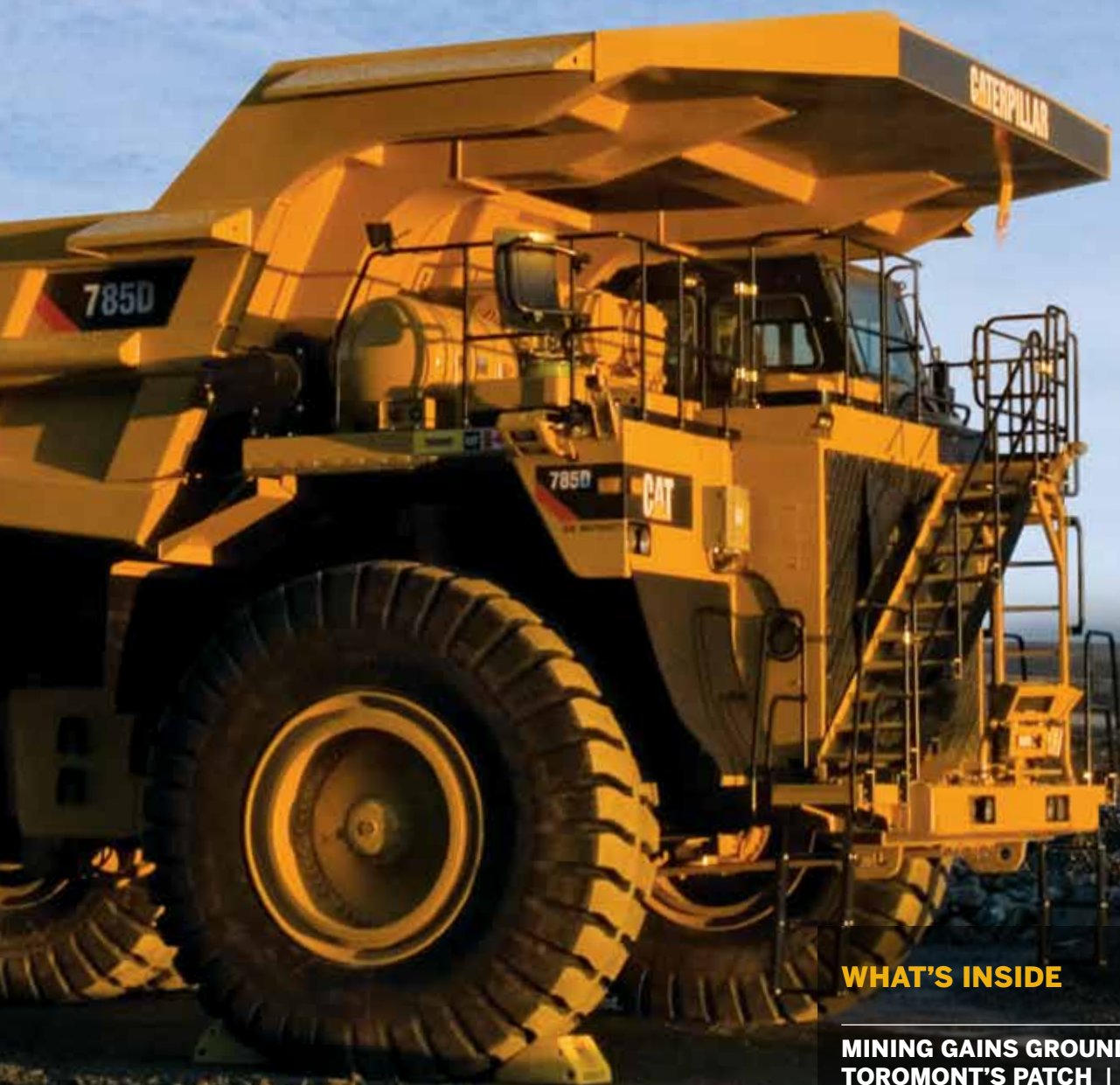


TOROMONT

2011 ANNUAL REPORT



WHAT'S INSIDE

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YEAR | Pg 17**

ON THE COVER Specialized equipment, such as the Toromont CAT 785D, coupled with our extensive product support infrastructure and skilled technicians make Toromont the leader in serving remote mine sites, such as this mine in Nunavut.

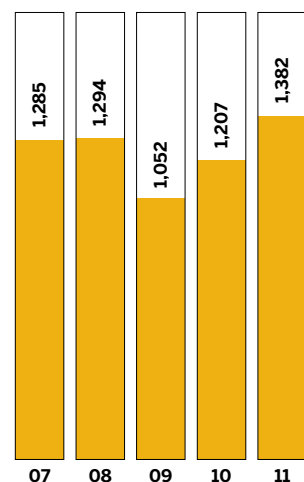
FINANCIAL HIGHLIGHTS

(in thousands, except per share amounts and ratios)

	2011	2010	2009
Revenues – continuing operations	\$ 1,381,974	\$ 1,207,028	\$ 1,051,653
Net earnings – continuing operations	\$ 102,678	\$ 76,659	\$ 58,869
Net earnings	\$ 246,459	\$ 103,912	\$ 120,516
Earnings per share – basic – continuing operations	\$ 1.33	\$ 1.00	\$ 0.91
Earnings per share – basic	\$ 3.20	\$ 1.36	\$ 1.86
Dividends per share	\$ 0.48	\$ 0.62	\$ 0.60
Closing share price (TSX)	\$ 21.32	\$ 30.76	\$ 27.79
Non-cash working capital	\$ 175,803	\$ 136,180	\$ 172,425
Debt net of cash to total capitalization	13%	17%	-6%
Return on opening shareholders' equity	29%	9%	15%

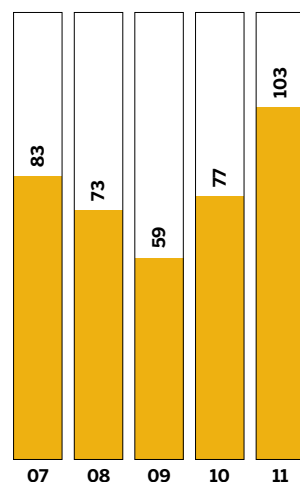
REVENUES

(\$ millions)



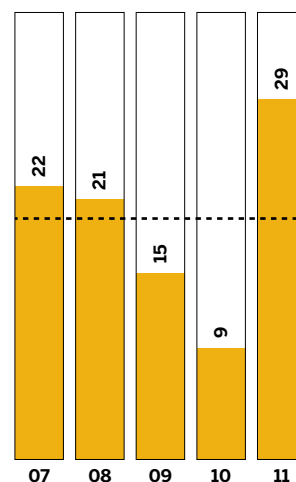
NET EARNINGS – CONTINUING OPERATIONS

(\$ millions)

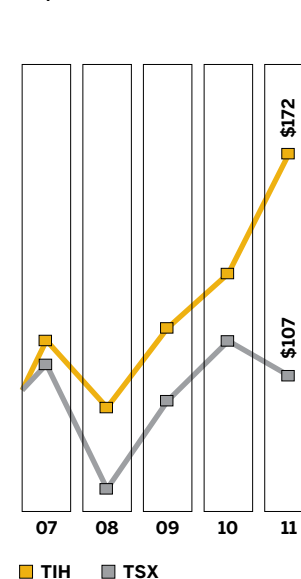


RETURN ON SHAREHOLDERS' EQUITY

(%)



TOTAL RETURN ON A \$100 INVESTMENT



TOROMONT INDUSTRIES LTD. employs approximately 3,000 people in almost 100 locations across Canada and the United States. Our common shares are listed on the Toronto Stock Exchange under the symbol TIH. We serve our customers through two business groups: Equipment and CIMCO.

EQUIPMENT GROUP

We are a market leader in the supply of specialized mobile equipment and industrial engines. We provide sales and rental solutions as well as comprehensive product support through Toromont CAT and Battlefield – The CAT Rental Store in Ontario, Newfoundland, Manitoba and most of Labrador and Nunavut.

CIMCO

We are a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. We also offer comprehensive product support capabilities.

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FELLOW SHAREHOLDERS,

WE BEGAN A NEW ERA OF VALUE CREATION IN 2011 WITH A SINGULAR FOCUS ON GROWING TOROMONT CAT, BATTLEFIELD AND CIMCO – EACH A MARKET-LEADING BUSINESS WITH COMPELLING MARKET PROSPECTS AND WELL-ESTABLISHED COMPETITIVE STRENGTHS. IMMEDIATE RESULTS WERE EXCELLENT. OUR LONG-TERM POTENTIAL IS EVEN BETTER.

“REVENUE INCREASED 14% YEAR OVER YEAR TO \$1.4 BILLION ON GROWTH IN EQUIPMENT SALES, RENTAL AND PRODUCT SUPPORT.”

2011 was an exciting, eventful and very successful year.

Effective June 1, 2011, Enerflex (the natural gas compression and processing equipment business we created through a prior-year acquisition and merger with our Toromont Energy Systems subsidiary) became a stand-alone public company and, for accounting purposes, a Toromont “discontinued operation.” Our shareholders received shares in Enerflex. The realization of this spinoff fulfilled the strategic objective of allowing both successor organizations to each pursue its own distinct opportunities as a separate public company with a sharpened focus.

With the divestiture of Enerflex we are now able to focus all of our attention on our core Caterpillar dealership and Refrigeration businesses. We are already seeing the benefits of this focus in accelerated process improvement that is enhancing operating results.

It also appears that the market looked favourably on the transaction, as the combined value of the shares has been up 20% since the spinoff and we believe that the long-term impact will be more significantly accretive for our shareholders.

Unfortunately, the separation meant that Toromont lost some excellent people – a loss to Toromont, but a gain to Enerflex. We thank the managers and employees of Enerflex for contributing so much to our overall success and wish them well as they set out on their new journey. We thank Stephen Savidant, Robert Boswell and Stanley Marshall for the tremendous contribution that they each made to our Board. We know that they, along with Wayne Hill, who also remains a Toromont Director, will diligently look after shareholder interests as Directors of Enerflex.

The continuing business of Toromont performed very well in 2011.

Revenue increased 14% year over year to \$1.4 billion on growth in equipment sales, rental and product support. Gross margins improved by 1.0% and expenses as percentage of revenue dropped by 0.4%. This yielded a 24% increase in operating income at an industry-leading rate of 10.7%, up from 9.9% in 2010. These excellent results are a tribute to our operating management teams and everyone in their organizations.

Net earnings from continuing operations were \$103 million, up 34% from 2010, while earnings per share increased 33% year over year to \$1.33. Return on adjusted shareholders’ equity was 28.9%.

Reflecting a positive outlook and our strong balance sheet, your Board of Directors increased the quarterly dividend 10% to \$0.11 per common share, commensurate with the third quarter 2011 payment, and in February 2012 announced another 9% increase, bringing the total payout to \$0.12 per quarter effective with the April 2012 payment, a 20% increase since completing the spinoff.

During market weakness in the fall of 2011, we repurchased and cancelled 720,004 shares under our normal course issuer bid at a total cost of \$12.2 million (average cost of \$16.96 per share).

After funding the share purchase, the dividend increase and investing \$56 million to grow and maintain our businesses, our year-end net debt to equity ratio was still reduced to 0.15:1. We had \$75 million in cash on hand and no short-term borrowings. We have no significant long-term debt repayment obligations until 2015.

20%

DIVIDEND INCREASE POST SPINOFF

2011 Highlights

Some of the notable highlights and developments for our Equipment Group:

- We began delivering Caterpillar mining equipment, including the new 795F 345-ton electric drive truck, to the Detour Gold project. This was the largest order in our history and it keeps growing. Deliveries will continue through 2012.
- Our rapidly growing population of mining equipment passed 1,200 units at 70 customer sites. Related growth in product support activities helped to bump mining revenues to 17% of Equipment Group totals in 2011.
- We launched Caterpillar's new CT660 vocational truck in our territories. While supply remains very limited, customers are anxious to try it out. This truck represents a new foray by Caterpillar and its dealers into the business of supplying and servicing vocational trucks.
- We achieved record sales and profitability at Battlefield – The CAT Rental store.
- Battlefield opened a branch in Bradford and began construction on a new branch in Bracebridge, Ontario. Battlefield also opened a Jobsite location in Sudbury to serve the growing needs of mining and industrial customers in the region, and added to our rental tool product offerings.
- We brought greater focus to the estimated \$200 million rental market for heavy equipment in our territories through a Battlefield–Toromont CAT shared growth initiative that saw us increase our fleet by 30% late in the year to improve availability in 2012.
- We are pleased to note that our partners at Caterpillar continued to make significant investments to grow in core markets of importance to us, particularly mining. Caterpillar's 2011 acquisition of Bucyrus International significantly

expanded Caterpillar's market leadership in mining. We proudly delivered the world's first Bucyrus shovel, featuring CAT colours, to the Detour Lake site. We are currently in discussions with Caterpillar to secure the Bucyrus line of equipment and product support opportunity for our dealership territory.

Among CIMCO Refrigeration's 2011 highlights:

- We increased our worldwide base of recreational ice rink packages to more than 4,500 installations, with record sales in 2011 driven by the final year of the Canadian government's Recreational Infrastructure Canada program.
- CIMCO completed high-profile rink projects for the MTS Centre in Winnipeg, home of the new Winnipeg Jets, and Ryerson University's Athletic Centre (previously known as Maple Leaf Gardens) in Toronto, and built an ice rink package for The Barclays Center in Brooklyn, New York, the future home of the New Jersey Nets NBA team.
- We commercialized our first ECO CHILL® industrial heat pump with installations at Maple Leaf Foods and Lilydale Inc. (see page 18).
- CIMCO completed large industrial refrigeration systems for Tim Hortons, Canfisco (part of The Jim Pattison Group), Kraft Foods, XL Foods, the Kerry Group, BHJ Pet Food and many other market-leading customers, including several in the automotive industry, such as Martinrea International and Vextek Systems in the United States.

In the spring of 2011 you elected Jeffrey Chisholm to our Board of Directors. I welcome Jeffrey and appreciate the valuable contribution that he is already making.

“TOROMONT’S ONGOING OPERATIONS HAVE SIGNIFICANT POTENTIAL FOR PROFITABLE ORGANIC GROWTH.”

CEO Succession

One of the strengths of our organization is the depth of our talent pool. This core strength was very much evident in our Board’s decision to name Scott Medhurst to the position of President and Chief Executive Officer of Toromont Industries Ltd., effective March 1, 2012. Scott will also join our Board at the same time.

Scott’s career began with the Ontario Caterpillar dealership in 1988 and, over the past two decades, he steadily progressed through equipment sales positions into branch and regional management roles to his appointment as President, Toromont CAT in September 2004. Since his appointment as divisional President in 2004, he has been instrumental in dramatically improving the operating performance of the dealership so that it has repeatedly been awarded “top ten” dealer excellence recognition from Caterpillar.

Our Board is delighted to promote from within Toromont and to achieve an orderly, phased succession. Scott has a strong commitment to our business strategy and we look forward to his leadership.

I will remain Executive Chairman of the Board and an active participant in Toromont’s growth and development.

New Era, New Possibilities

Looking ahead, Toromont’s ongoing operations have significant potential for profitable organic growth due to the continuous development of new products to serve an ever-widening scope of customer applications. Simply integrating Caterpillar’s recent acquisitions into our business will generate substantial growth for the next few years.

We are excited by the possibilities before us. We currently have many large project opportunities in our territories. The mining opportunity alone is exceptional, with more than 40

prospective mine projects or expansions on the visible horizon, many in Canada’s far north. Product support and rental are expected to continue to have good growth rates.

We expect to see growth in our industrial refrigeration business and expect it to offset the temporary decline in the recreational business.

We continue to be ready and eager to grow through acquisition.

Toromont stakeholders should be confident that our Company’s management team, vision, values, core strengths and conservatism will guide us successfully in the years ahead.

A special thank you is in order to Ronald Gage, who has reached the mandatory retirement age for Toromont Directors. Ron has served with distinction as a Director since 2000. He has made many contributions to Toromont as a member of the Audit Committee and as Chairman of the Nominating and Corporate Governance Committee.

Finally, I offer my sincere thanks to all customers, shareholders, Board members and employees for contributing to this year of great progress at Toromont.

Yours sincerely,



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



A CAT R1700G Load Haul Dump (LHD) working in a northern Ontario underground nickel mine.

A large yellow CAT R1700G Load Haul Dump (LHD) is shown in a dark, underground nickel mine. The vehicle is loaded with a large pile of dark, rocky material. The mine walls are dark and textured, and the floor is covered in loose rock. The vehicle's headlights are on, illuminating the scene. The CAT logo is visible on the side of the vehicle.

MINING GAINS GROUND IN TOROMONT'S PATCH

Over the past five years, mining has grown to become one of our core equipment and product support markets. While metal and mineral prices are cyclical, and will lead to variations in activity levels year to year, we believe several factors support the continued advancement of this important opportunity over the long term.



1. Our Equipment Group territories command a significant share of Canada's total hard rock mining exploration and deposit appraisal expenditures. According to Natural Resources Canada, in excess of \$1.3 billion was invested in the search for, and appraisal of, deposits in 2010 in our available markets, or about 45% of all expenditures nationally. Why is this amount significant? It is a leading indicator of future mining activity, and this indicator has been on an upward trend over the past five years with expected growth of 15% in 2011 alone. Exploration itself also creates demand for many of our products, from Caterpillar forestry machines used in tree clearing to motor graders used to prepare access roads.

2. Our customer base and prospects are diverse, as are our deposits. Today, we serve approximately 70 mines and, with

the price of gold reaching new highs in recent periods, much attention is focused on the sizeable gold deposits in our territories. Our opportunity is even broader. Natural Resources Canada estimates that, in 2010, our territories produced more than 200,000 tonnes of copper, 80,000 tonnes of nickel, 750 carats of diamonds, 155,000 tonnes of zinc, 7,000 kilograms of platinum, along with 50,000 kilograms of gold and substantial quantities of other metals and minerals from silver to salt.

3. Substantial mining activity occurs in Canada's north, and often in isolated locations. A significant portion of our total mining machine sales to date have been delivered to northern mine sites. Remote mine development requires specialized logistical support, from on-site machine assembly and maintenance to the delivery of parts

and consumables. Often, one of the first investments made by northern mine sites is power generation equipment – a necessity because most locations are well off the grid. We are well positioned to meet these needs through our dedicated Toromont CAT Power Systems business. We are also able to devote significant human resources for mine sites, without affecting the capacity of our branch system, because of the size, flexibility and competency of our workforce of technicians. Approximately 100 Toromont CAT technicians worked on-site at mines in 2011 and this number is supplemented by special logistics teams when large, new machine deliveries are made. These teams take responsibility for machine assembly and site preparation, before a regular workforce is assigned to provide on-site product support.



TOP: Many mining sites are well off the power grid. For that reason, the Toromont CAT Power Systems team is often the first on site to provide power used for heating, cooling, ventilation, lighting and the operation of computers and other tools.

BOTTOM: Toromont provides equipment to some of Canada's remotest mines, including this one located 300 kilometres west of Hudson Bay. The mine depends on annual, warm-weather sealifts by barge for transportation of bulk supplies and heavy equipment.

4. Underground mining in our territories creates unique opportunities for our product support business. Surface and underground mines have varied equipment and product support needs and, because of the presence of both mine types, we have the opportunity to supply a broad range of machines and services. Underground mining, however, is especially hard on equipment due to punishingly tight workspaces. This can reduce machine longevity and increase the frequency of rebuilds – outcomes that have a positive impact on our product support business volumes. Customization of mining equipment, one of our specialties, is an activity that also arises more frequently in underground projects. Over the past five years, we have customized numerous surface and underground machines to adapt

them to low-profile workspaces. We are equally adept at serving underground and surface mines of all types and, in fact, Toromont is the largest CAT underground dealer in North America.

5. We now represent the world's largest mining equipment manufacturer. Caterpillar's 2011 US\$8.8 billion acquisition of Bucyrus International and decision to invest aggressively in new product development and manufacturing capacity are groundbreaking advances for Toromont. Together, they mean we will have more highly specified product available, not only to support new mines but for the mines we already serve. The addition of specialized production equipment will enhance our competitiveness and ability to provide one-stop solutions to customers.

6. We are investing to build mining leadership. We expect mining activity to contribute strongly to near-term results. However, we are committed to more than short-term growth. In 2012, we will create a much stronger and more dedicated Toromont CAT mining group, complete with dedicated key account managers, to drive our long-term opportunity and marshal the efforts of approximately 150 Toromont CAT people engaged in serving this sector. We also recently opened a Sudbury branch for Jobsite Equipment Rentals to serve the sector (see page 15). The combination of market activity, product and resource expansions and the investment we have made in our mining resources over the past five years is expected to serve us well in building our share going forward. ■

Growing Our Mining Machine Rebuild Program

Load Haul Dumps (LHDs) are used extensively in underground/surface mines to move ore and overburden. Customer demand for these units is strong. To meet market need, we have grown our LHD rebuild program. We search worldwide to acquire these cores (in 2011, this included procurement from as far away as Peru) and then rebuild them to as-new condition. Even the serial numbers are new as required by the strict conditions set by the CAT Certified Rebuild program.

BELOW: This underground mining loader, referred to as Toromont CAT LHD machine, is used extensively by customers to dig, lift and transport overburden and is outfitted with high volume pumps, large cylinders and optimal loading-capacity buckets to provide fast cycle times. While their heavy duty frames absorb twisting, impact and high loading forces, constant use means there is a large market for machine rebuilds – a Toromont specialty.



TOROMONT DELIVERS THE YELLOW GEAR SO A NEW CUSTOMER CAN DELIVER THE GOLD

With proven and probable open pit reserves of 15.6 million ounces, the Detour Lake deposit is Canada's largest undeveloped pure gold reserve, and among the largest in the world.



Toromont CAT's 6060 front shovel makes its debut at Detour Gold's property in northeastern Ontario following 1,100 manhours of assembly by our technicians.

Soon the word “undeveloped” will be removed from this description, thanks to the vision of Detour Gold Corporation (“DGC”), owner of what will be the country’s newest (and largest) gold mine when production begins in early 2013.

Infrastructure construction is well underway on this property in northeastern Ontario, and Toromont is there, supplying mining machines, support vehicles, technicians and much more as part of a long-term partnership.

This is our mining division’s largest supply agreement to date, incorporating an initial fleet of 18 CAT 795F AC mining trucks, two CAT 6060 shovels (one diesel, one electric) and more than 20 other machines, including mine excavators, bulldozers, wheel dozers and loaders. Machine deliveries began in the fall of 2011 and will continue through 2012. A Maintenance and Repair arrangement is also in place for the truck fleet.

Much work has already gone into making this a successful, productive and cost-effective project for our customer. Before the initial order was placed, Detour Gold and Toromont CAT representatives met more than 30 times to review all aspects of this large, open pit mining operation – from its mine plan to its processing plant.

When it came time to address Detour Gold’s detailed request for proposal, we were ready, having run more than a thousand computer simulations to measure the productivity of combinations and permutations of CAT machines working at the Detour Lake site. Data gathered from site visits allowed us to evaluate, on a cost-per-hour basis, the impact of such variables as expected rolling resistance, maneuvering time, road grade from mine to mill, number of gear changes necessary to traverse the route, and even weather patterns in the area.

With the order in hand, we began following through on our commitments to Detour Gold in 2011. DGC readied a temporary 15-acre assembly site, we erected and stocked a welding shop, and worked with Detour Gold as they constructed an on-site maintenance facility that we will use. When it opens in the spring of 2012, the truck shop will feature five truck bays, where DGC and Toromont technicians will maintain equipment in the years ahead, a wash bay that will be operated by DGC, and extensive parts and consumables inventories. At full operation, a team of 75 Toromont people will serve on site.

“THIS IS OUR MINING DIVISION’S LARGEST SUPPLY AGREEMENT TO DATE.”

The centerpieces of this mine fleet are the CAT 795F AC and the CAT 6060 FS shovels. Both are imposing machines. The shovel weighs 560 tonnes, is as tall as a three-storey building and is capable of lifting 60 tonnes of overburden. The truck is 8.2 metres tall (27 feet), 10.4 metres wide, and almost 15 metres long, has a payload of 313 tonnes and produces 2,535 kilowatts of gross power (3,400 horsepower). The truck model purchased by Detour Gold also has another unique feature: an AC electric drive system. At the Detour Lake site, this system will improve braking control compared to mechanical drive machines. Each machine was carefully specified for the mine to deliver the lowest possible cost per tonne.

More Than Some Assembly Required

Due to the size of these machines – the 795F’s rear axle alone weighs 45 tonnes – shipping them fully assembled is impossible. To get the equipment to the project north of Cochrane, Ontario (near the Québec border), machine chassis and attachments are shipped from various locations (the United States, Mexico and Germany) and brought in on flatbed trucks. In fact, each 795F requires 11 flatbeds. Between the first deliveries at the end of May through year-end, a Toromont CAT team of 14 technicians and two supervisors took delivery of 200 truckloads of supplies.

To assemble one 795F truck takes 800 man-hours (the equivalent of one technician working 12 hours a day for almost 67 days) and another 1,100 man-hours for each shovel. All assembly is done outdoors because of the size of the



TOP: A dedicated staging area at the Detour Lake property where we assemble machines including the CAT 795F.

MIDDLE: At full production a team of 75 Toromont people will provide full-time service at the Detour Lake site.

BOTTOM: Toromont stayed ahead of schedule in 2011 in assembling the fleet at Detour Gold, in part by ensuring the on-time arrival of components such as this stick for a CAT 6060 front shovel.

equipment – a challenging task because of summer rain and below-freezing winter temperatures.

“This is the largest fleet and the biggest equipment we’ve ever assembled,” said Carl Hamlyn, Toromont CAT’s Construction Project Manager for the Detour Lake site. “Two cranes are used to move pieces together, beginning with the chassis. In the case of our 795Fs, we then connect the rear axle and struts, the front struts and wheel hubs, fenders, cab, inverter cabinet, grid, braking, hydraulic, and electrical systems. Each truck also has 13 onboard computers and all systems have to be tested. It’s a massive job, and that doesn’t include commissioning.”

Commissioning involves starting and stopping each machine over a 40 to 50 hour time period to evaluate how the unit performs as it is brought up to running temperature. Before this is done, all fluids are added and checked. In the case of the 6060 diesel shovel, that means adding

13,000 litres of fuel, enough to power the machine for 20 hours, and 12,000 litres of hydraulic oil.

Specialized tools are also needed to do the job right. A single hydraulic wrench, used to torque the counterweight on the 6060, costs \$13,000.

All-In-The-Family Supply

Toromont’s other businesses are also active suppliers to the project. Battlefield has its own technician on site, and at any given time in 2011, site contractors employed some 700 pieces of rental equipment, including ground heaters employed in the construction of the mine mill, light towers and aerial lifts for machine assembly.

Tom Difrancesco, Battlefield Timmins Rental Manager, estimates that more than 400 truckloads of Battlefield supplies were brought into the site during the year, including consumables, such as construction water hose. “We sold more water hose in 2011 on this site than I’ve

sold in total in my 30 years in the rental industry. We made full use of pretty much our entire range of rental products, and it took the broad resources of Battlefield and Toromont together to source and supply equipment.”

Portable generators provided by Toromont CAT Power Systems were used in the start-up of the first electric shovel, which operates at 7,200 volts.

Staying Ahead of Schedule

As of the end of February 2012, Detour Gold reported that the project was 52% complete, and delivery and assembly of mining equipment were ahead of schedule. We are working to keep it that way.

Our mining opportunity has expanded exponentially in recent times, supported by a doubling of exploration expenditures in our territories between 2005 and 2010, Caterpillar’s aggressive push to equip us with the broadest product line in our industry, and our own strategies to add customer value. ■



Toromont CAT’s 795F and 6060 FS at work at the Detour Lake site in northeastern Ontario.

FIRST MOVER ADVANTAGE



JF Kitching and Son of Queensville, Ontario and Toromont CAT shared an important first in 2011: Together, we introduced Caterpillar's new CT660 vocational truck to Canada.

Caterpillar selected our team as one of just five in North America to take delivery of a "field follow" truck to test the real-world performance of this innovative and eye-catching vehicle prior to full production. CAT used the results of our testing to supplement thousands of hours of pre-production customer research it did in designing and building the CT660.

Kitching's Ken Robinson rose to the opportunity by taking the truck out on its maiden run and, over the summer of 2011, drove more than 100,000 km to sites across the Greater Toronto Area, pulling a brand-new 40-foot, live bottom aggregate trailer.

As the "first movers" into this new product line, the Kitching team's involvement with the CT660 began well before the field test and before the truck was unveiled to the 120,000 attendees of CONEXPO in Las Vegas, in March 2011.

Mike Kitching and mechanic Bruce Daily served as customer advisors to Caterpillar, suggesting design refinements based on JF Kitching and Son's 60 years of all-weather experience in hauling aggregate, rock and landscaping materials.

The CT660 features an industry-leading turning radius, aluminum alloy cab construction to reduce weight and maximize payloads, a distinctive sloped hood to increase visibility and decrease drag for improved fuel efficiency, modular design for quick, cost-effective replacement of damaged components, and the latest ergonomic techniques to reduce driver fatigue.

Big Dealer, Bigger Opportunity

Toromont CAT has long been one of the largest Caterpillar dealers in the North American on-highway market, having serviced thousands of CAT on-highway

truck engines built for a variety of OEMs. The CT660 expands our opportunity from the engine to the entire truck and in the process, keeps our on-highway truck business model aligned with Toromont's overall approach: selling a differentiated prime product and providing industry-leading product support.

Our first focus is establishing the CT660 as the market leader. As full production began at the Caterpillar factory in the second half of 2011, we staged special customer introductions in each of our territories, prepared Toromont CAT branches and added an experienced industry manager, account managers and inside sales resources. We have also invested in training our service and parts technicians.

Today, other customers are joining JF Kitching and Son in becoming the first to own this innovative new truck. ■



SIGNIFICANT PROJECTS CREATE OPPORTUNITY FOR BATTLEFIELD

One of Battlefield – The CAT Rental Store’s strengths is its ability to serve contractors engaged in all manner of construction activity, from multi-million dollar bridge reconstructions to backyard landscaping projects.



“BATTLEFIELD SERVES 13,600 CUSTOMERS FROM 37 STOREFRONTS ACROSS CANADA.”

Diversified demand will always be a hallmark for our rental business, but last year and through the next several, megaprojects are adding materially to our opportunity, none more so than projects underway in Newfoundland and Labrador and in Ontario, where we are serving some of the largest industrial developments in Canada. From new mines to offshore oil wells, mineral processing facilities and large-scale hydroelectric projects, Battlefield takes the lead in meeting demand for specified rental tools. These tools include surveying equipment, generators, welders, aerial reach and material handling systems, pumps for dewatering, portable heaters, power tools, mini-excavators and compactors, compressors, light towers, excavators, aerial lifts, skid steer loaders, ground heaters and large generators – and much more – for mechanical, piping, electrical and instrumentation work.

Renewable Energy

In Ontario, the province's Green Energy Act and accompanying feed-in tariff system have spurred substantial solar and wind farm project activity and demand for our products and services. “We're tracking some 30 renewable energy projects in Ontario, representing about 1,500 megawatts of power, that are past the engineering phase and may be constructed in the foreseeable future,” says Rob Arnsby, Battlefield's Southwest Regional Manager in describing the opportunity. “That would be enough power to supply 350,000 homes.”

Wind farms require considerable site preparation because of the size and

number of towers. A single 1.5 megawatt wind turbine has a tower 80 metres high, its rotor assembly and nacelle together weigh 74,000 kilograms and its concrete base is constructed using 26,000 kilograms of reinforcing steel and 190 cubic metres of concrete. A wind project capable of generating 100 megawatts of power may require the installation of 45 to 65 such towers, each 15 metres in diameter and 2.4 metres thick.

For the recent construction of one wind farm in southwestern Ontario, we provided short-term or “spot” rentals, plus 14 pieces of heavy equipment, for six months to assist with everything from unloading towers and blades to excavating concrete footings and trenching lines for power cables.

Solar construction contractors use our rental equipment to level the land, lay out the grid, drill holes, place and set the posts that support the panels, excavate trenches and lay cable. One recently completed solar project involved a general contractor, three sub-contractors and 10 smaller contractors and, to varying degrees, each used Battlefield equipment, with some rentals lasting 18 months.

New Location, New Tools

Battlefield tools are used extensively in mining projects. In Ontario alone, more than 30 mines required Battlefield rentals in 2011.

To better serve mine customers in central Ontario, we recently opened a Sudbury location for Jobsite, our industrial equipment rental business. We also added MEC Titan 40-S brand booms to our fleet. These units lift workers and materials



TOP LEFT: A Battlefield technician prepares a CAT mini excavator for shipment to a customer site. Battlefield's rapid response delivery system ensures customers receive the right equipment at the right time.

TOP: One of over 300 service vehicles that Battlefield operates in its territories. Battlefield supports its rental fleet 24/7 to ensure that its equipment operates flawlessly, whether the machines are on a one-day or one-year rental cycle.

BOTTOM: Battlefield's rental inventory, including the dozer (in the foreground) and excavators (background) is carefully managed to ensure it is readily available to serve customers and meets high utilization targets.

Battlefield supplies contractors with some 2,800 rental items, across 37 retail outlets.



onboard a 6.7 metre by 2.28 metre rotating platform, allowing safe and ready access to projects 14 metres in height. In Ontario, we will soon open a new store in Bracebridge. And as part of our commitment to better serve customers in the province of Newfoundland and Labrador, we are expanding our Mount Pearl and Come By Chance stores.

Heavy civil construction, particularly bridge reconstruction, is also a substantial driver of Battlefield's business. According to a 2007 report by the Residential and Civil Construction Alliance of Ontario, most provincial bridges were built between 1950 and 1980, and structures made prior to the 1970s did not use air-entrained concrete or coated steel reinforcing bars to protect from the effects of freeze-thaw cycles and winter salt. Since the best bridges are built to last 50 years, the province is expected to allocate significant infrastructure dollars for bridge replacement in the coming years. We see this work collectively representing another mega opportunity.

A single bridge project can utilize more than 40 different rental tools, some for more than four months at a time. To enhance our offering, Battlefield recently became the exclusive distributor of Terex

hydra platforms in Ontario. Self-erecting in five minutes, with a load capacity of 680 kilograms, these mobile machines are designed to allow crews to safely access under-bridge areas during construction, maintenance or inspection.

Not all construction projects are large, nor do they need to be to use Battlefield. For everyday projects, our 37 Battlefield stores carry 28,000 items from 250 brand names, including CAT Compact Construction Equipment ("CCE"), which is a first choice among a growing number of customers because of its versatility. We reach contractors engaged in smaller jobs through our storefronts, inside sales activities and, most recently, by means of social media sites, such as www.facebook.com/BattlefieldEquipment and twitter.com/catused, which has more than 800 followers. Digital advertising provides us with detailed customer and visitor metrics and advanced targeting options.

Heavy Rental Fleet Expansion

Battlefield has added to its estimated \$800 million annual market opportunity by engaging with Toromont CAT in growing our heavy rent business. We estimate that this move increased our overall market opportunity by about 25%.

Our expanding fleet now encompasses dozens of machines across four core product groups: wheel loaders, articulated trucks, bulldozers and excavators. Typical rental periods are one to three months. As part of this shared growth initiative, Battlefield's distribution system is leveraged to cost-effectively deliver the rental units to customers, while Toromont CAT maintains the machines.

In 2011, we provided heavy rental units to almost 250 customers, including contractors at megaprojects, as well as those engaged in all manner of general construction and renewable energy projects. With greater machine availability and many construction projects underway in our territories, 2012 looks promising for heavy rents.

Activity alone, whether it is a mega project or work on a backyard swimming pool, is not a guarantee of success. Battlefield continues to apply market segment and customer-focused strategies, backstopped by a sophisticated technology system that tracks usage trends and much more.

Busy is best when it comes to rental markets, and by delivering what the market needs, when and where it needs it, Battlefield intends to stay busy in 2012. ■



CIMCO'S EXTRAORDINARY YEAR

While steady, profitable growth has been the hallmark of CIMCO Refrigeration for many years, annual performance metrics were extraordinary in 2011 as Canadian communities turned to us in record numbers to construct new ice rink packages with the support of Canada's \$500 million two-year Recreational Infrastructure Canada ("RinC") program, launched in the spring of 2009.

“CREATING A LEGACY FOR CANADIAN COMMUNITIES.”

Over the past two years, CIMCO was called upon to deliver across the country, adding to the more than 4,500 rinks that we have installed globally during our long history.

What is exciting about this extraordinary level of public infrastructure investment is that it creates a legacy for Canadian communities – and for CIMCO as we use our product support capabilities, including more than 300 service and construction vehicles and 23 locations,

to keep these new rinks operating flawlessly for years to come.

Looking forward, CIMCO intends to continue to grow, not only in the recreational market but across the much larger industrial refrigeration market, by capitalizing on its leading engineering capabilities.

Extraordinary Engineering

Engineering plays a role in all custom assignments, but is also harnessed internally to build proprietary technology, such as ECO CHILL®. Since its introduction in 2005, ECO CHILL's ability to displace conventional competitive refrigeration systems has grown, along with the capabilities and features of this eco-friendly, energy conservation technology.

In 2011, the recreational ice rink version of ECO CHILL was installed broadly at community rinks, such as Clareview Arena in Edmonton,


the University of Guelph, Goulbourn Recreation Complex in Ottawa, Morgan Firestone Arena in Hamilton, and the Pat Burns Arena in Stanstead, Quebec, to name just a few.

To maintain ECO CHILL's competitive advantage, CIMCO continues to innovate. Most recently, our engineers reduced the footprint and size of the ECO CHILL packages by 40% – a move that significantly reduces costs for customers – while also replacing third-party heat exchangers with our own engineered product.

Our engineers did not stop there. To expand our leadership in industrial markets, we introduced ECO CHILL Large Scale Ammonia Heat Pumps.

ECO-CHILL Thermal Heat Pumps

What makes ECO CHILL thermal heat pumps special is that we have adapted a technology that has been around for decades and, through engineering, given



CIMCO technician Joel Forcier stands with an innovative ground-freezing system at BHP Billiton's Jansen, Saskatchewan potash mine project east of Saskatoon. The CIMCO-engineered refrigeration plant freezes up to 128,000 cubic metres of soil to enable drilling.

it the capacity to serve the custom temperature and pressure requirements of large-scale food processing.

"Our innovation provides customers with a high level of energy efficiency, low emissions and a financial return that is attractive in both new construction and retrofit applications," says Wayne Dilk, CIMCO Vice President. "Most important, our heat pumps meet the specifications required by the Canadian Food Inspection Agency for hot water sanitation in food processing."

A critical aspect of the ECO CHILL industrial heat pump is command and control. CIMCO's automation group designed a control system that enables precise water flow rates and temperature settings in accordance with the output of the customer's process.

An early adaptor of the technology is Maple Leaf Foods' Brandon, Manitoba plant, which handles some 18,000 hogs per day and relies on a constant supply of precisely heated water. In this installation, we designed a 1,000 horsepower ECO CHILL heat pump to capture discharged heat from the unit's compressors. We use that heat, rather than natural gas, as the energy source to boost water temperature to more than 65 degrees Celsius on the condensing side, at a rate of 500 gallons per minute. The water is then piped to process rooms within the facility for sanitation.

Based on this flow rate, Maple Leaf Foods saves 2.9 million cubic metres of natural gas per annum – enough to heat 500 homes for a year – and more than \$700,000 in its process. Greenhouse gas is also reduced by more than 8,000 metric tonnes compared to natural gas-powered water heating.

We are applying a similar engineered solution for Lilydale Inc., one of Canada's leading poultry providers, at its Edmonton processing plant. At Lilydale, we capture waste heat from an ammonia cooling system and preheat water to between seven and 29 degrees Celsius at a rate of 300 gallons per minute. The investment payback is 1.3 years and the plant reduces its greenhouse gas emissions by about 1,000 tonnes.

Industrial applications are growing for ECO CHILL, and we are now designing heat pumps with 50 to 1,500 horsepower that will further expand our opportunities and lead to other assignments from our extraordinary customer base. ■

Extraordinary Assignments

CIMCO worked on many extraordinary projects in 2011. The repurposing of Maple Leaf Gardens is one of the highlights.

To fans of the game, the Gardens is a hockey shrine, home to the Toronto Maple Leafs for six decades before the Air Canada Centre opened in 1999. For over a decade, the Gardens sat empty until Loblaw Companies and Toronto's Ryerson University joined forces to renovate it to include a recently opened grocery store and a university athletic centre, coming in 2012.

CIMCO's connection to the building dates back decades and includes both product support and – in 1983 – the addition of new refrigeration equipment as part of a significant upgrade.

Our long history with the Gardens made us the natural choice to participate in this important and complex renewal. To accommodate the grocery store on site, it was necessary to remove the ground-level ice rink and construct a new ice surface on the third floor.

This decision, and the fact that the Gardens is a National Historic Site, created several engineering challenges. One was to keep the underside of the concrete ice pad from creating moisture on the ceiling of the building's

second floor. We solved this by using a portion of the refrigeration's waste heat to keep the under slab of the third-floor warm enough to prevent condensation below.

Another challenge involved getting the refrigeration package in place. All 13.6 tonnes of it had to be lowered by crane through the building's membrane roof, and then pushed on special rollers to a new third-floor mechanical room. This was accomplished in just one day in July 2011.

The outcome is a package that will refrigerate the 85 by 200 foot rink (the same dimensions as the original), recycle heat for the snow melting pit – and do so while remaining true to the building's heritage.

Not many ice rinks in the world sit as high above ground as this one, but the project managers at Buttcon Limited, the primary contractor, and CIMCO engineers and construction specialists are proving that anything is possible with the right skills and tools.



CIMCO's refrigeration package is hoisted to the top of Maple Leaf Gardens during the summer of 2011. This special project continued a decades' long relationship between CIMCO and Canada's original hockey shrine.



THE FACTS, FIGURES AND FABRIC OF PRODUCT SUPPORT

The facts are these: Product support generated over \$433 million in revenue across our ongoing operations in 2011 and has grown at an average annual rate of 5% over the past five years. Our technicians logged more than two million hours last year performing preventative maintenance, repair and machine rebuilds. Our operator-trainers delivered more than 1,800 hours of instruction to customers upon receipt of new equipment. We provided customers with more than two million litres of oil, 816,466 kilograms of tracks and rollers and 600,000 filters.

These numbers are impressive, but supporting customers as they use our equipment is not just about dollars or litres of oil. Product support is an integral part of what makes Toromont a market leader and a differentiator that builds lifetime relationships with our customers.

Another fact about product support: It takes considerable expertise to deliver it. Technicians require more than 6,000 hours of practical experience to qualify for their journeyman licence. In comparison, the minimum flying time necessary to qualify with a commercial airline transport pilot licence is 1,500 hours.

Proficiency standards are high and necessary skill sets are diverse. At Toromont CAT, technicians must be able to: diagnose and repair electrical, transmission, fuel, engine management, emission control, heating, ventilation, hydraulic and braking systems; identify potential workplace safety hazards; and know how to handle, store and safely dispose of hazardous materials.

Then there is the challenge of staying abreast of technological changes and new product developments. Today's technician spends as much time with a laptop computer as he or she does with a wrench. Recognizing the ongoing need for skills development, we provided more than 87,000 hours of technician training in 2011 across our Company.

"With such a variety of equipment coming through our doors, from 20-year-old pipe layers with part numbers worn off, to excavators just months out of the factory, it takes a decade before you become really proficient," says Colin Seaman, a technician at Toromont CAT's Concord, Ontario shop and a health and safety representative. This is a second career for Colin, who originally worked as a photographer in Ottawa and joined our Ottawa branch as an apprentice in 2004. He is living proof that it does not require growing up in a garage to learn and enjoy working with heavy equipment.

Opportunity in Outsourcing

Due to the cost and complexity of maintaining equipment and the value of doing so measured in productive "uptime" and resale value, customers often outsource some or all of their product support needs. We have responded with turn-key maintenance agreements and, for customers wishing to supplement their internal resources, hybrid "work with us" arrangements.

The outsourcing trend and the growth in

our installed base put ongoing pressure on us to recruit new technicians. We use a variety of strategies to do this, including international recruitment, but we also increase our pool of potential talent by sponsoring technical training at a number of colleges and providing interest-free loans to apprentices to help them acquire their own tool kits.

Shane Riley, a Toromont CAT technician, joined us in 2008 after hearing about our apprenticeship program while attending Toronto's Central Technical School. Shane has worked in our remanufacturing operations, Concord branch and in northern Canada. His first northern assignment involved fixing a D6 bulldozer under a tarp, on the tundra, six hours northwest of Iqaluit. "It took three different planes and a helicopter to get there. Resources were limited because this was an exploration site rather than a working mine, but I did have 400 pounds of tools and spare parts, so I built a come-along and did an in-frame rebuild. It was my first solo effort and I'm proud to say that that dozer is still working today."

Shane's passion for the north led him to volunteer over the 2011 Christmas holidays in the service of Agnico-Eagle's fleet at Baker Lake. "It's a great opportunity to work closely with a customer and service different machines in a unique environment."

Experiences like this, the widely held belief that working on the type of customer equipment we provide represents the pinnacle of the profession, and opportunities to serve at branches in more than 100 communities or as an operator of one of our approximately 900 field service trucks have helped us to attract technicians. Companywide, we recruited 147 technicians and apprentices in 2011. We will need many more in 2012.

Lifetime Career

By offering opportunities to progress, we also keep technicians for the long term. Bryan Sambrook is a good example. He joined Battlefield in 2000, doing small engine repair. After proving himself there, he began training for his heavy equipment licence and today serves as a road service technician in one of our busiest territories: the York-Durham Region of the Greater Toronto Area.

"There is no typical shift for me," says Bryan. "Some days I do 10 customer calls, some days it's four and when I serve on-call, I may be repairing a hydraulic system on a snowplow at 2 am, or a 40 kilowatt

generator for a construction site dewatering system in the middle of the day. The great part of my job is that customers are always happy to see me because they have an expectation that I can make a difference."

Bryan's truck is outfitted with air guns, a 200 amp welder, air compressors to inflate tires and clean parts, hose crimpers, an adaptor that allows him to plug into a machine's onboard computers, a laptop and an impressive collection of his own tools. When every second counts, Bryan has the knowledge and the equipment to meet customer expectations.

A final fact is also important to note. It is not just expertise and resources that make product support a key competitive differentiator for Toromont. As Colin Seaman observes, "it's our desire to see that every piece of equipment we touch is as good as new when it leaves our shop." ■



TOP: Our technicians including CIMCO's Ryan Holding, not only serve in our branches but right at customer sites.

BOTTOM: Toromont CAT has long been a leader in electronic commerce. Through the PartStore web portal, customers order online, track the delivery of their parts, review order history and invoices and set preventative maintenance checklists.



SUSTAINABILITY REPORT

Over the past few years, we have taken important steps on our journey to enhance the sustainability of our business beyond the balance sheet. The most important of these is in the area of employee safety.

Through ongoing investments in education and training, and constant reinforcement of safety as our first priority, we have elevated our knowledge of, and compliance with, safe operating practices – in our shops, at customer locations and in our offices.

As a result, lost-time injuries declined 38% between 2010 and 2011, continuing a trend that began in 2008. While these results show progress, and are especially good in light of growth in activity levels and recruitment, they also illustrate that our journey toward an accident-free workplace must and will continue.

Understanding that hazard identification is the key to accident prevention, employees complete hazard assessment checklists before commencing jobs. We also work with customers at their sites. In 2011, Toromont CAT conducted a dozen field spot audits to ensure a safe work environment was maintained for our technicians, and participated in six customer workshops to share best practices. We also exchange best safety practices across our business units on a formal and ongoing basis, and post safety messages daily on our corporate intranet.

“Safety isn’t just a requirement on every job, it’s the right thing to do,” says Toromont CAT’s Health and Safety Specialist Maria Vomiero. “A safe environment is also crucial in helping us to create an environment where employees want to stay and prospective employees want to work.”

Employer of Choice

Workforce sustainability also involves investments in employee health and well-being. Health benefits, including a comprehensive drug plan (with up to 100% coverage), a growing number of wellness initiatives, and a new partnership with Cleveland Clinic Canada to give our employees access to specialists in the area of sports health, cardiology dermatology and gastroenterology, make Toromont a career destination, not a temporary port of call.

Employees also qualify to participate in our share ownership program, or ESOP. Almost half of our workforce is now part of the ESOP, taking advantage of an annual \$1,000 Company match to buy Toromont shares and own a stake in the long-term growth of our business.

“LOST-TIME INJURIES DECLINED 38% BETWEEN 2010 AND 2011, CONTINUING A TREND THAT BEGAN IN 2008.”

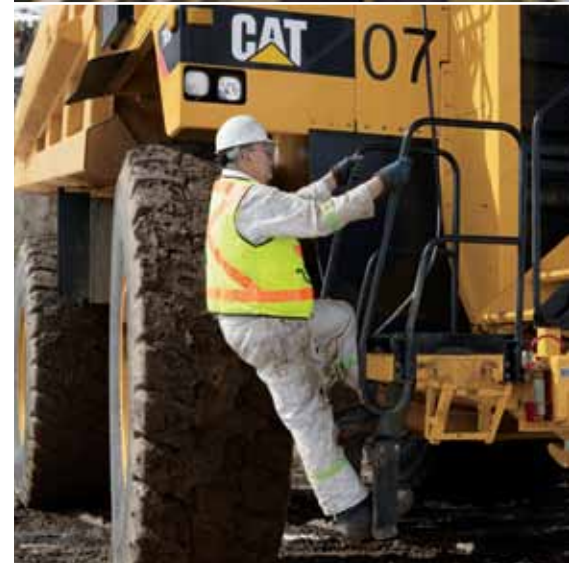
Northern Exposure Increases Workforce Diversity

As our business has expanded northward in Canada, we have taken action to promote career opportunities for Canada’s Aboriginal population, and recently joined the Aboriginal Human Resource Council, a national not-for-profit organization dedicated to achieving full labour market participation for Aboriginal Peoples. “Council membership increases Toromont’s profile with more native communities and helps us to identify effective recruitment strategies,” says Deborah Bugeja, Toromont CAT’s Talent Manager. “We look forward to tapping into the growing talent base in Aboriginal communities.”

In June 2011, we sponsored a road trip for a group of graduating high school students from Attawapiskat, Ontario. After the students toured our Sudbury branch and heard from Toromont CAT technicians Derek Montpellier and Gordon Starling Jr., we heard from Alex Storino, a guidance counsellor at Vezina Secondary School in Attawapiskat.

Based on these conversations, we awarded one of Vezina’s students, Kara Shisheesh, with a scholarship to attend Northern College in Timmins, Ontario. Kara is now enrolled in the heavy machinery certificate program and she plans to work at a Toromont CAT branch upon graduation, perhaps at one of our northern mine sites.

Over the past decade, we have presented over \$450,000 in scholarships



TOP: Toromont CAT’s Bobby Tagoona fills a part order at Meadowbank Mine in Baker Lake, Nunavut. Bobby is one of many young people in Canada’s north who are taking advantage of career opportunities at Toromont.

BOTTOM: When it comes to safety, little things mean a lot, such as wearing a reflective vest, a safety helmet and using the proper method of climbing on board. Toromont reinforces its safety-first culture at its own facilities and on customer sites, including at this mine.

to deserving young Canadians and we are committed to continuing this tradition. The recent introduction of our THINK BIG Scholarship program, which offers 10 awards annually of \$2,000 each, is one of a number of initiatives we have taken to encourage careers in our field.

Reflecting our growing presence in Canada's north, we also maintain a long-standing business relationship with Kitikmeot, Qikiqtaaluk and Sakku Inuit Nations. We are particularly pleased that Toromont Arctic was able to sponsor Virgil Williams, a resident of Iqaluit, to attend studies at Sir Sanford Fleming College. He has now completed his studies and is working for Toromont as an apprentice technician in Iqaluit. We hope that he is a trailblazer for other Inuit youth.

These initiatives help our communities and provide a payback for Toromont. While we do not implement them to win awards, we are proud that **Northern Ontario Business** magazine chose Toromont CAT as one of the five best places to work in its annual competition in 2011. We were also a finalist in the annual Minister's Awards for Apprenticeship Training in Ontario.



Virgil Williams is now serving as an apprentice technician at Toromont Arctic in Iqaluit, having received a Toromont scholarship to attend Sir Sanford Fleming College.

Community Engagement

We believe that working with, and in, our local communities is an important responsibility. For that reason, we support ongoing volunteerism among our employees.

Our biggest contribution of time and money is to the United Way. Collectively, through a company-employee match, we raised \$207,000 in 2011, and, since 2003, have contributed \$1.1 million. Employee contributions were up a healthy 15% at Toromont CAT, and some 29% of our

Toromont CAT employees participated through payroll deductions (up from 23% in 2010). One of our key United Way fundraisers is the annual Dragon Boat Festival. In 2011, six teams from Toromont CAT and CIMCO rowed together to raise money. Over and above the United Way, CIMCO also supported other charities, such as the Sick Kids Foundation, Kids Help Phone, Alzheimer's Society, Yonge Street Mission, and Juvenile Diabetes. Battlefield also did its part, raising funds for the Halton Region Hospital network, Yonge Street Mission and Ride for Cancer.

Sustained community support involves more than raising money. Toromont CAT's goal is to see 100% employee participation in a community event at least once a year. Each employee is given eight hours of paid time annually to volunteer as part of Toromont CAT community teams.

In order to develop closer ties with charities and non-profit organizations, employee community committees were formed in many locations. In 2011, this helped us to increase involvement with important causes, such as Habitat for Humanity, March of Dimes, Yonge Street



Our employees are actively engaged in the community, raising funds and volunteering on a group basis and individually in support of important causes including the United Way and its Days of Caring® program.

Mission, Canadian Blood Services, the Boys and Girls Club in Midland, Camp Oochigeas, and Greater Sudbury's *Connect the Creek* project. Approximately 400 Toromont CAT employees helped various community groups in 2011.

As Eric Rennie, a Toromont CAT United Way Campaign Chairperson puts it: "We use community volunteering as a way to build stronger communities inside and outside our branches."

Environment

Like many organizations, Toromont is focused on environmental initiatives – increasing investments and dedicating efforts to reduce its footprint. In addition, there are business opportunities available because of heightened interest in environmental best practices, and Toromont is realizing these through its business units.

At CIMCO, we benefit from customer demand for green energy solutions through the supply of ECO CHILL environmental management systems. Across a growing installed base, ECO CHILL now offsets about 76,000 tonnes of greenhouse gas ("GHG") that would have been emitted using traditional refrigeration solutions (the equivalent of 17,000 cars travelling 340 million km) and saves 332 million kilowatt hours of electricity. ECO CHILL is now powering ice rinks in more than 150 communities, and important advances were made in applying the technology in our industrial markets, including commercialization of ECO CHILL Large Scale Ammonia Heat Pumps (see page 18).

At Toromont CAT, our power systems are an integral part of a number of landfill-gas-to-energy plants. Our ability to harness methane to create electricity positions us well for the growing number of municipal and private projects that are expected to emerge in the future to create energy and eliminate harmful emissions. Across our installed base of landfill-gas-to-energy plants, we captured and used almost 65 million cubic metres of methane in 2011.

Tough new Environment Canada emission standards came into force for engines manufactured after January 16, 2012. We are prepared to help customers adjust with a full Tier IV-compliant product offering at the ready and the knowledge to service these engines, which, depending on their size, reduce GHG emissions by up to 95% and fuel consumption by 6%. Use of these CAT engines will not only

reduce GHG on our roads, they will reduce our greenhouse gas emissions during machine servicing.

Internally at Toromont, we have continued to take steps to reduce our own environmental impacts. At Toromont CAT, we established a near-term objective of reducing our carbon footprint by 10% over the three-year period ending 2013.

Recognizing that we need to look beyond the near term, Toromont CAT recruited a manager of corporate sustainability and facilities, Reeve Whitman, to help our branches find opportunities, apply leading practices, and utilize enhanced tools to assess and control energy intensity. Recently, we launched a sustainability web portal, which displays our zero waste guidelines for diversion and procurement strategies for biodegradable supplies. Toromont CAT Power Systems' new Orenda Road location is our first zero waste facility.

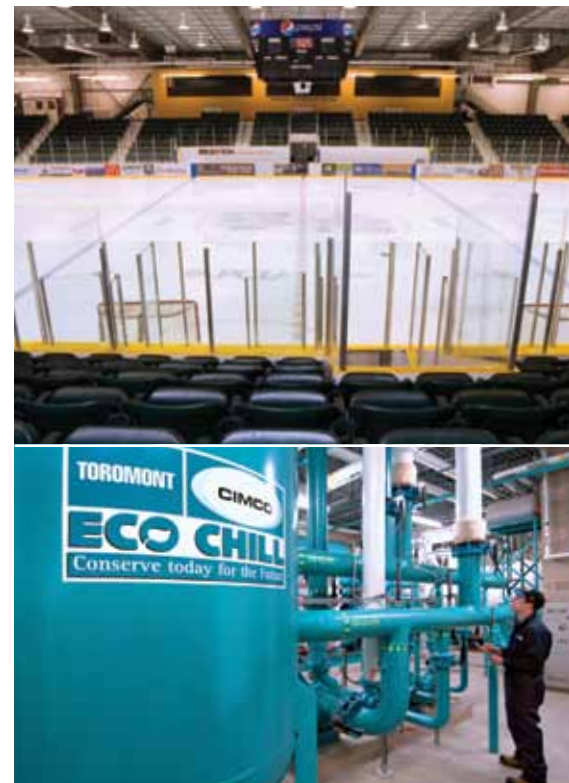
"Our plan is to continuously monitor and improve our environmental performance, branch by branch, and, while we have made significant strides over the past two years, we see opportunity to do much more," says Mr. Whitman.

Toromont's largest source of GHGs is our service fleet. In 2012, Toromont CAT will introduce service trucks with smaller engines and auxiliary power units that supply electricity to hydraulic and electrical components without running the engine. This not only positively impacts the environment, it will reduce our operating costs as well. The ongoing renewal of our fleet of vehicles across Toromont operations is also beneficial to the environment.

More enviro-friendly wash bay areas within our facilities are also planned for 2012, following recent installations at our Toromont CAT branch in Orillia and at our Battlefield store in Niagara Falls. These and other improved wash bays have reduced water usage over the past three years by recycling the "grey water" created from oil and fuel residue. We also recycle about one million litres of used oil annually.

Through Company-wide anti-idling policies, environment upgrades to our buildings and much more, Toromont's 2011 greenhouse gas emissions remained virtually flat to 2010 -- despite increased business activity. Although we are not a large GHG emitter in any event, we believe it is important to control and reduce emissions and that an investment in environmental sustainability is an investment in the future of our business. ■

"ECO CHILL NOW OFFSETS ABOUT 76,000 TONNES OF GREENHOUSE GAS AND 32 MILLION KILOWATTS OF ELECTRICITY."



TOP: More than 150 communities now employ ice rink packages that use CIMCO's breakthrough ECO CHILL environmental management systems: saving electricity and reducing greenhouse gas emissions.

BOTTOM: Through engineering innovation, CIMCO has developed Large Scale Ammonia Heat Pumps to bring the environmental and financial benefits of ECO CHILL to industrial customers.

IN CONVERSATION WITH TOROMONT'S NEW CEO

On March 1, 2012, Scott Medhurst assumes the role of President and CEO of Toromont Industries Ltd. Here, he discusses his career and his thoughts on the future.



Q Let's begin with your background.

A I grew up in Toronto and joined the management trainee program at the Ontario Caterpillar dealership in 1988, right after receiving a Bachelor of Science degree in forestry at the University of Toronto. My first assignment was in the forestry department at our Sudbury branch.

Q What happened next?

A From there, I progressed in tractor sales and, when I was 29, I was promoted to Branch Manager at our London/Windsor branch and later to the position of General Manager for the London/Windsor area. In 2001, I became Vice President for Toromont CAT's Northern Ontario region. In 2003, I was made Senior Vice President of Operations, stationed at our Concord head office, and then President of Toromont CAT in 2004.

Q So your background is diverse?

A I've been very fortunate to engage with all of Toromont CAT's operations, learn what it takes to do a variety of jobs, and get to know our customers. Hands-on experience is a great teacher, and it's why we continue to run a management trainee program and emphasize internal hires when advancement opportunities arise. We have a deep and strong talent pool of next-generation leaders because we've worked hard to make Toromont a career destination.

Q How has your experience prepared you for your new role?

A It taught me the value of following disciplined financial and operating practices, which are critical to achieve

our goal of 18% return on equity over the business cycle. My past instilled in me the importance of always selling and servicing differentiated products as a means of supporting and enhancing the competitiveness of our customers, and it underscored the need for balance. We always try to balance the needs of our customers, our shareholders, our business partners and our employees – the disparate needs of all stakeholders must be addressed if a business is to succeed over the long term.

Q When it comes to business partners, are you referring to Caterpillar?

A Most definitely; the majority of our revenues are aligned to the CAT world and Caterpillar is an important partner in our past success and future opportunity. I've had the privilege of building relationships with the folks at Caterpillar on a first-hand basis for many years and have represented Toromont on the CAT Global Mining Council since 2005. This is a group of 12 dealers, chosen by Caterpillar to advance our collective mining opportunities. It's been a great way to connect.

Q How different is the role of CEO from your previous area of responsibility?

A It's certainly a much broader mandate in that it involves working with our Board on overall corporate strategy and ensuring that each Toromont business is ready for future trends. We have to keep our finger on the pulse of our markets and our customers, and change in the right way and at the right time. This is what

Toromont has been doing for the past 20 years, and that continuous improvement philosophy is a driver of our steady and profitable growth.

Q What should we expect going forward?

A We will set bold goals, drive to meet them with the best behaviours, and produce. You should also expect Toromont to remain a highly disciplined company, operating with the same proven strategies that have made our business a performance leader: Expand our markets, strengthen product support, broaden our product offerings, invest in resources and maintain a strong financial position. Growth and returns will continue to be important considerations, driving long-term decisions.

Q Any final thoughts?

A All of the key stakeholders should take comfort in the stability represented by this evolutionary progression. Given the success Toromont has achieved under Robert Ogilvie's leadership, I'm sure there are a number of shareholders who are pleased that he will remain active in the business, and I look forward to his continued sage counsel for years to come. There is also a great deal of stability in our executive operating team. The six of us (see photo opposite) have a combined 132 years at Toromont and 185 years of career experience, and this experience only strengthens as we expand out to include our senior leadership teams in each of our businesses.

As far as I'm concerned, it's business as usual here at Toromont.

EXECUTIVE OPERATING TEAM

Randy B. Casson

President, Battlefield – The CAT Rental Store
Mr. Casson joined Toromont in 1977. He was appointed Vice President and General Manager Northern Region in 1997 and became President of Battlefield in 2001. He is a graduate of Toromont's management training program.

Michael P. Cuddy

Vice President and Chief Information Officer
Mr. Cuddy joined Toromont as General Manager, Information Technology and Chief Information Officer in 1995 and became Vice President and Chief Information Officer in 2004. He held various positions previously with Ontario Hydro, Imperial Oil and Bell Mobility, and holds a BSc and an MBA, both from the University of Toronto.

Paul R. Jewer

Executive Vice President and Chief Financial Officer

Mr. Jewer joined Toromont in 2005 as Vice President Finance and Chief Financial Officer. Prior to joining Toromont, he served for five years as Chief Financial Officer for another Canadian publicly listed company. He is a Chartered Accountant (1989) and a member of the Institutes of Chartered Accountants of Newfoundland and Ontario.

Steve D. McLeod

President, CIMCO Refrigeration

Mr. McLeod joined the Company in 1971 and has held a variety of increasingly senior management positions, culminating with his appointment as CIMCO President in 1985. Mr. McLeod is a graduate of the University of Toronto.

Scott J. Medhurst

Incoming President and CEO

Mr. Medhurst is President of Toromont CAT. He has been in the heavy equipment business for some 20 years, including Toromont and predecessor companies. Mr. Medhurst joined Toromont in 1988. He was appointed President of Toromont CAT in 2004. Mr. Medhurst is a graduate of Toromont's management training program. He is currently an active member of the Young President's Organization.

David C. Wetherald

Vice President Human Resources and Legal

Mr. Wetherald joined Toromont in 2004 as General Counsel and Corporate Secretary and became Vice President Human Resources and Legal in 2008. He was previously employed with Torstar Corporation for 11 years as General Counsel & Secretary with corporate development responsibilities, and prior to that for five years with Davies Ward Phillips & Vineberg.

From left to right:

Michael P. Cuddy
David C. Wetherald
Paul R. Jewer
Scott J. Medhurst
Steve D. McLeod
Randy B. Casson



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 toward 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 follows.

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

Jeffrey S. Chisholm ■ ● Director since 2011
Mr. Chisholm is a business and finance consultant to the financial services industry. He is also a Director of Amex Bank of Canada.

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. Mr. Gage has reached Toromont's mandatory retirement age for Directors and thus will not be standing for re-election at this year's Annual Meeting.

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

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. He is also a Director of Enerflex Ltd.

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.

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

Back row left to right:

Wayne S. Hill
David A. Galloway
Jeffrey S. Chisholm
John S. McCallum
Robert M. Franklin

Front row left to right:

Robert M. Ogilvie
Ronald G. Gage



MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011, 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, 2011.

The audited consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to February 24, 2012.

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

ADVISORY

Information in this MD&A and Annual Report that is not a historical fact is "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 statements containing forward-looking information. Forward-looking information in this MD&A and Annual Report is based on current objectives, strategies, expectations and assumptions which management considers appropriate and reasonable at the time, including, but not limited to, general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

By its nature, forward-looking information is subject to risks and uncertainties which may be beyond the ability of Toromont to control or predict. The actual results, performance or achievements of Toromont could differ materially from those expressed or implied by forward-looking information. Factors that could cause actual results, performance, achievements or events to differ from current expectations include, among others, risks and uncertainties related to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn\$/US\$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; and environmental regulation.

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 this MD&A and Annual Report. 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 "Outlook" sections of this MD&A. 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 statements containing forward-looking information.

Readers are cautioned not to place undue reliance on statements containing forward-looking information that are included in this MD&A and Annual Report, which are made as of the date of this MD&A and Annual Report, and not to use such information for anything other than their intended purpose. Toromont disclaims any obligation or intention to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

SPINOFF OF ENERFLEX

On June 1, 2011, Toromont completed the spinoff of its natural gas compression business, Enerflex Ltd. ("Enerflex"). The transaction was implemented by way of a plan of arrangement. Toromont shareholders received one share of Enerflex for each common share of Toromont. Enerflex shares began trading on a "when issued" basis on the Toronto Stock Exchange on June 3, 2011 under the symbol EFX.

The information presented herein reflects the spinoff, with Enerflex presented as discontinued operations in all periods. Results for 2011 include the results of Enerflex for the five months ended May 31, 2011, net of certain costs incurred related to the spinoff transaction, together with the gain on distribution of Enerflex.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2011, Toromont employed approximately 3,000 people in almost 100 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange (the "TSX") under the symbol TIH.

Toromont has two reportable operating segments: the Equipment Group and CIMCO.

The Equipment Group is comprised of Toromont CAT, one of the world's larger Caterpillar dealerships, 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; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications, including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service. Territories include Ontario, Manitoba, Newfoundland and most of Labrador and Nunavut.

CIMCO is a market leader in the design, engineering, fabrication, installation and after-sale support of refrigeration systems in industrial and recreational markets. Results of CIMCO are influenced by conditions in the primary market segments served: beverage and food processing; cold storage; food distribution; mining; and recreational ice surfaces. CIMCO offers systems designed to optimize energy usage through proprietary products such as ECO CHILL. CIMCO has manufacturing facilities in Canada and the United States and sells its solutions globally.

Prior to 2011, the Company reported two operating segments, the Equipment Group and the Compression Group. Enerflex was previously included in the Compression Group. With the completion of the spinoff, operating results have been restated to reflect Enerflex as a discontinued operation. The Compression Group has been renamed CIMCO.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

A primary objective of the Company 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 diverse 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 product support growth and leverages the fixed costs associated with the Company's infrastructure.

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, hundreds of 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 generally 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. A highly principled culture, share ownership and profitability-based incentive programs 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 security and 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

(\$ thousands, except per share amounts)	2011	2010	\$ change	% change
REVENUES	\$1,381,974	\$ 1,207,028	\$ 174,946	14%
Cost of goods sold	1,032,599	913,336	119,263	13%
Gross profit	349,375	293,692	55,683	19%
Selling and administrative expenses	201,190	181,175	20,015	11%
Asset impairment reversal	–	(6,683)	6,683	n/m
OPERATING INCOME	148,185	119,200	28,985	24%
Interest expense	9,012	11,629	(2,617)	(23%)
Interest and investment income	(3,214)	(2,803)	(411)	15%
Income before income taxes	142,387	110,374	32,013	29%
Income taxes	39,709	33,715	5,994	18%
EARNINGS FROM CONTINUING OPERATIONS	102,678	76,659	26,019	34%
Net gain on spinoff of Enerflex	133,164	–	133,164	n/m
Earnings from discontinued operations	10,617	27,253	(16,636)	n/m
Net earnings	\$ 246,459	\$ 103,912	\$ 142,547	n/m
EARNINGS PER SHARE (BASIC)				
Continuing operations	\$ 1.33	\$ 1.00	\$ 0.33	33%
Discontinued operations	1.87	0.36	1.51	n/m
	\$ 3.20	\$ 1.36	\$ 1.84	n/m
KEY RATIOS:				
Gross profit as a % of revenues	25.3%	24.3%		
Selling and administrative expenses as a % of revenues	14.6%	15.0%		
Operating income as a % of revenues	10.7%	9.9%		
Income taxes as a % of income before income taxes	27.9%	30.5%		

Revenues increased 14% in 2011 compared to 2010 on higher revenues in both operating groups. Equipment Group revenues were up 17% on higher new equipment sales, rental and product support activities. CIMCO revenues were up 1% on higher product support activities, largely offset by a decline in package sales following a very strong year in 2010.

Gross profit margin was 25.3% in 2011 compared with 24.3% in 2010. Gross profit margins in the Equipment Group in 2011 were up from 2010 on higher volumes. CIMCO gross profit margins were up from 2010 on improved project execution.

Selling and administrative expenses increased \$20.0 million (11%) from 2010. Selling and administrative expense increases are largely tracking the increase in revenues. Compensation was \$10.6 million (10%) higher in 2011 compared to 2010 on increased headcount, annual salary increases and higher annual performance incentives expense. Increased warranty and freight costs in both periods reflect increased business levels. Information technology costs increased 14% on development projects on current systems and infrastructure upgrades. Selling and administrative expenses as a percentage of revenues for 2011 were 14.6% in 2011 versus 15.0% in 2010.

In 2010, revised pricing under certain electricity supply contracts triggered an assessment of the recoverable amount of certain power generation assets held in the Equipment Group. This assessment led to a gain of \$6,683 (\$4,812 after tax) resulting from the reversal of an asset impairment provision recorded in 2005.

Operating income increased 24% in 2011 compared to the prior year, 32% higher excluding the asset impairment reversal in the prior year. The increase is a result of higher revenues and gross margins and improved expense levels. Operating income as a percentage of revenues was 10.7% for 2011 compared to 9.9% in 2010 (9.3% in 2010 excluding asset impairment reversal).

Interest expense was \$9.0 million in 2011 compared to \$11.6 million in 2010. Interest expense was lower on lower debt balances.

The effective income tax rate for 2011 was 27.9% compared to 30.5% in 2010. The reduction in rates reflects lower statutory rates.

Net earnings from continuing operations in 2011 were \$102.7 million, 34% higher than 2010. Basic earnings per share ("EPS") from continuing operations were \$1.33, 33% higher than the 2010, reflecting the higher earnings and a 1% increase in the weighted-average number of common shares outstanding.

Earnings from discontinued operations in 2011 included results from the Enerflex operations for the five months ended May 31, 2011, net of transaction related expenses. In addition, a net gain of \$133.2 million, \$1.73 per share basic, was recorded in the second quarter of 2011 on the spinoff of Enerflex. Earnings from discontinued operations in 2010 included results from Enerflex for the full year.

Net earnings in 2011 were \$246.5 million, or \$3.20 basic EPS.

Comprehensive income in 2011 was \$253.9 million, comprised of net earnings of \$246.5 million and other comprehensive income of \$7.4 million. Other comprehensive income included \$18.0 million for cumulative translation losses of Enerflex foreign operations which were transferred to income on spinoff. The actuarial loss on employee pension plans charged to other comprehensive income in 2011 was \$7.2 million net of tax.

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. Interest expense and interest and investment income are not allocated.

Equipment Group (\$ thousands)	2011	2010	\$ change	% change
Equipment sales and rentals				
New	\$ 515,046	\$ 416,922	\$ 98,124	24%
Used	153,326	144,296	9,030	6%
Rental	164,953	143,398	21,555	15%
Total equipment sales and rentals	833,325	704,616	128,709	18%
Power generation	12,085	11,450	635	6%
Product support	350,977	306,634	44,343	14%
Total revenues	\$1,196,387	\$1,022,700	\$ 173,687	17%
Operating income	\$ 134,314	\$ 108,166	\$ 26,148	24%
Capital expenditures	\$ 82,287	\$ 70,225	\$ 12,062	17%
KEY RATIOS:				
Product support revenues as a % of total revenues	29.3%	30.0%		
Group total revenues as a % of consolidated revenues	86.6%	84.7%		
Operating income as a % of revenues	11.2%	10.6%		

Despite global economic uncertainty in 2010 and 2011, demand for the Company's products and services was strong.

New and used equipment sales were 24% and 6% higher in 2011, respectively. Sales increases resulted largely from higher unit sales. Many market segments, notably mining, heavy construction and agriculture, were higher.

Rental revenues were 15% higher than 2010. Equipment utilization improved through 2011, leading to the increased rental revenues. Rental rates were fairly consistent in both years with continuing competitive market conditions. One new store in Bradford, Ontario opened in January 2011, which contributed to the year-over-year increase.

Power generation revenues from Toromont-owned plants increased 6% 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 \$351 million in 2011, 14% higher than the previous record set in 2010. On a constant dollar basis (adjusted for all pricing adjustments, including those for foreign exchange), product support revenues were up 16%. Product support revenues in 2011 benefited from a growing installed base of equipment in our territory coupled with higher utilization of equipment in 2011 compared to the prior year, which was dampened by general market conditions.

Operating income in 2010 included \$6,683, representing a reversal of an asset impairment originally taken in 2005. This reversal, required under IFRS, was generated due to a new, improved contract for the supply of electricity from Toromont-owned power plants. Excluding this in the prior year, operating income was up 32% in 2011 compared to 2010 in part reflecting the 17% increase in revenues. Gross margin as a percentage of revenues increased 70 basis points compared to 2010, on higher activity levels. Selling and administrative expenses increased 12% on the 17% increase in revenues. Higher costs were repeated across a number of areas, including compensation, warranty, and freight and information technology. Operating income as a percentage of revenues was 11.2% in 2011, compared to 10.6% in 2010 (9.9% in 2010 excluding the asset impairment reversal).

Capital expenditures in the Equipment Group totalled \$82.3 million in 2011. Expenditures related to replacement and expansion of the rental fleet accounted for \$57.9 million of total expenditures in 2011. Expenditures of \$9.4 million related to new and expanded facilities to meet current and future growth requirements. Other capital expenditures included \$2.2 million on information technology and \$7.7 million on service and delivery vehicles.

(\$ millions)	2011	2010	% change
Bookings – years ended December 31	\$ 635	\$ 708	(10%)
Backlogs – as at December 31	\$ 224	\$ 256	(13%)

Equipment bookings and backlogs in 2010 benefited from a significant order of \$125 million received from Detour Gold Corporation for a fleet of mining trucks and support equipment. Deliveries of this equipment began in the fourth quarter of 2011 and are expected to be completed in 2012. Approximately 60% of backlogs at December 31, 2011 represents mining orders with deliveries scheduled over the next four quarters. The remaining 40% largely represents orders for equipment to be delivered from inventory, the majority of which will be delivered within the following quarter. Excluding the Detour order in 2010, bookings were up 9% in 2011 reflecting increased activity in mining, power systems and construction.

CIMCO

(\$ thousands)	2011	2010	\$ change	% change
Package sales	\$ 103,925	\$ 106,890	\$ (2,965)	(3%)
Product support	81,662	77,438	4,224	5%
Total revenues	\$ 185,587	\$ 184,328	\$ 1,259	1%
Operating income	\$ 13,871	\$ 11,034	\$ 2,837	26%
Capital expenditures	\$ 590	\$ 918	\$ (328)	(36%)
KEY RATIOS:				
Product support revenues as a % of total revenues	44.0%	42.0%		
Group total revenues as a % of consolidated revenues	13.4%	15.3%		
Operating income as a % of revenues	7.5%	6.0%		

CIMCO reported record results for the year despite the windup of the federal Recreational Infrastructure Canada program.

Package revenues were down 3% in 2011 compared to 2010. Recreational revenues in Canada were healthy, although down 10% year-over-year as the federal Recreational Infrastructure Canada program was wound up in 2011. Offsetting this decline was a strengthening in US activity, in both recreational and industrial, with revenues up 37% in the year.

Product support revenues increased 5% in 2011 compared to the prior year on increased activity in Canada, most notably Ontario.

CIMCO reported operating income of \$13.9 million in 2011, up 26% from \$11.0 million reported in 2010. The increase reflects higher margins, up 200 basis points, on improved execution and a higher proportion of product support revenues to total. Selling and administrative expenses increased 4% year-over-year.

Capital expenditures totalled \$0.6 million in 2011. Capital investment was directed largely at information technology assets and branch updates.

(\$ millions)	2011	2010	% change
Bookings – years ended December 31	\$ 91	\$ 109	(17%)
Backlogs – as at December 31	\$ 51	\$ 67	(23%)

Bookings were down 17% compared to 2010. Canadian recreational bookings were down 62% as expected as the stimulus spending program drove significant bookings in 2010. Somewhat offsetting this decrease was a strengthening in Canadian industrial bookings, which were up 46% in the year. US bookings were also improved, with double-digit increases in both industrial and recreational projects.

Backlogs ended the year at \$51 million, down from that reported at this time last year. Backlogs at December 31, 2010 benefited from significant projects carried forward under the federal stimulus program.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position for many years. At December 31, 2011, the ratio of total debt net of cash to total capitalization was 13%. Total assets were \$913 million at December 31, 2011, compared with \$907 million at December 31, 2010, excluding assets at discontinued operations.

Working Capital

The Company's investment in non-cash working capital was \$175.8 million at December 31, 2011. The major components, along with the changes from December 31, 2010, are identified in the following table.

As at December 31 (\$ thousands)	2011	2010	\$ change	% change
Accounts receivable	\$ 209,243	\$ 208,620	\$ 623	–
Inventories	301,937	224,416	77,521	35%
Other current assets	4,718	3,342	1,376	41%
Accounts payable, accrued liabilities and provisions	(272,302)	(232,903)	(39,399)	17%
Income taxes, net	(8,352)	229	(8,581)	n/m
Derivative financial instruments	(628)	(3,224)	2,596	(81%)
Dividends payable	(8,433)	(12,342)	3,909	(32%)
Deferred revenue	(49,100)	(45,069)	(4,031)	9%
Current portion of long-term debt	(1,280)	(6,889)	5,609	(81%)
Continuing operations	175,803	136,180	39,623	29%
Discontinued operations	–	168,020	(168,020)	n/m
Total non-cash working capital	\$ 175,803	\$ 304,200	\$ (128,397)	(42%)

Accounts receivable were \$209 million as at December 31, 2011, unchanged from the same time last year, reflecting higher sales offset by improved collections. Revenues for the fourth quarter of 2011 in the Equipment Group were 25% higher than in the fourth quarter of 2010. Higher revenues will generally result in higher accounts receivable balances.

Inventories at December 31, 2011 were \$302 million, \$77.5 million or 35% higher compared to the same time last year. Equipment Group inventories were 39% higher to support higher sales volumes and the increased service business. CIMCO inventories were down 28% on lower work in process.

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

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 \$0.6 million as at December 31, 2011. 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, 2011 were higher than at December 31, 2010 on higher activity levels, including purchases of inventories. Extended terms of payment have been offered by certain suppliers. Accruals for performance incentive bonuses increased year-over-year on improved earnings. The liability for deferred share units (DSUs) increased on the higher market value of Toromont shares.

Lower dividends payable year-over-year reflect the apportionment of the previous \$0.16 dividend between continuing Toromont (\$0.10 per share) and Enerflex (\$0.06 per share). Toromont's dividend rate was subsequently increased by the Board of Directors to \$0.11 per share, effective with the dividend paid on October 3, 2011.

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

The current portion of long-term debt reflects scheduled principal repayments due in 2012. This amount is lower as a result of the maturity of certain senior debentures in 2011.

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, 2011.

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, 2011, 2.4 million options to purchase common shares were outstanding, of which 1.0 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 \$1.1 million in 2011 (2010 – \$1.0 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 performance incentive bonuses 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 cessation of employment or directorship. 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, 2011, 193,728 DSUs were outstanding at a value of \$4,093 (2010 – 87,968 units at a value of \$2,747). 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 140 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.

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 \$21.0 million as at December 31, 2011. As there are only nominal plan assets, the impact of volatility in financial markets on pension expense and contributions for this plan are insignificant.

Financial markets continued to be volatile in 2011. This resulted in a gain on plan assets of \$1,650 or 3.2%. Long-term interest rates declined in 2011, driving an increase in the present value of pension obligations, up \$7,209. As a result, the funded status of the plans has declined from a deficit of \$19,851 at December 31, 2010 to a deficit of \$26,161 at December 31, 2011. These deficits included \$18,090 and \$19,561 respectively relating to the Executive Plan, which as described above is essentially an unfunded arrangement. The Company expects pension expense and cash pension contributions to be similar to 2011 levels.

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. IFRS 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 2011. This issuer bid allows the Company to purchase up to approximately 5.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2012. 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.

In 2011, the Company purchased and cancelled 720,004 shares for \$12.2 million (average cost of \$16.96 per share). No shares were purchased under the NCIB in 2010.

Outstanding Share Data

As at the date of this MD&A, the Company had 76,809,332 common shares and 2,239,505 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.

During 2011, the Company declared dividends of \$0.48 per common share (\$0.62 per common share in 2010), reflecting the lower dividend rate subsequent to spinoff of Enerflex.

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.

The Company amended its Canadian credit facility in conjunction with the spinoff of Enerflex and commensurate with anticipated future requirements. Outstanding borrowings under the previous facility were repaid in part from funds received from Enerflex relating to inter-company borrowings on spinoff. The committed amount was reduced from \$600 million to \$200 million while the maturity date was extended from June 2012 to June 2015. The US credit facility of US\$20 million was terminated during the quarter with no penalty.

As at December 31, 2011, there were no drawings on the Canadian facility. Letters of credit utilized \$24.8 million of the facility.

Cash and cash equivalents at December 31, 2011 were \$75.3 million, compared to \$174.1 million at December 31, 2010. Excess cash was held by the Company during 2010 in light of the acquisition/spinoff of Enerflex and the uncertain economic environment.

Cash balances were drawn down in 2011 on a number of factors, most notably the repayment of acquisition-related financing, net of amounts received from Enerflex on spinoff, and investments in working capital, primarily inventories in light of specific orders, generally higher volumes and tightened supply.

The Company expects that continued cash flows from operations in 2012, 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.

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:

(\$ thousands)	2011	2010
Cash, beginning of year	\$ 174,089	\$ 206,957
Cash, provided by (used in):		
Operating activities		
Operations – continuing operations	136,546	108,842
Change in non-cash working capital and other	(39,731)	48,437
Discontinued operations	57,433	98,507
	154,248	255,786
Investing activities		
Continuing operations	(55,941)	(48,155)
Discontinued operations	140,115	(292,887)
	84,174	(341,042)
Financing activities	(337,311)	54,453
Decrease in cash in the year	(98,889)	(30,803)
Effect of foreign exchange on cash balances	119	(2,065)
Cash, end of year	\$ 75,319	\$ 174,089

Cash Flows from Operating Activities

Operating activities from continuing operations provided \$96.8 million in 2011 compared to \$157.3 million in 2010. Net earnings adjusted for items not requiring cash were 25% higher than that reported last year on higher revenues and improved operating margins. Non-cash working capital and other used \$39.7 million compared to generating \$48.4 million in 2010. In 2011, the Equipment Group invested \$82 million in inventory in light of stronger market conditions and specific customer orders.

Discontinued operations provided \$57.4 million in cash flow in 2011 compared to \$98.5 million in the similar period last year. Results for discontinued operations in 2011 include operations to May 1, 2011, while results for 2010 include a full year.

The components and changes in working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition."

Cash Flows from Investing Activities

Investing activities at continuing operations used \$55.9 million in 2011 compared to \$48.1 million in 2010.

Net rental fleet additions (purchases less proceeds of disposition) totalled \$34.8 million in 2011 compared to \$17.7 million in 2010. Additional investments in the rental fleet were made in the current year in light of stronger demand on improved market conditions.

Investments in property, plant and equipment in 2011 totalled \$25.0 million compared to \$32.6 million in 2010. Additions in 2011 were largely made within the Equipment Group and included \$10.4 million for land and buildings for new and expanded branches, \$7.8 million for service vehicles, and \$2.8 million for information technology assets. Additions in 2010 include \$26.1 million for land and buildings acquired for new branch locations.

Investing activities at discontinued operations in 2011 included cash received from Enerflex Ltd. in repayment of intercompany debt of \$173.3 million owing to the Company on spinoff.

Investing activities at discontinued operations in 2010 included cash used for acquisition of Enerflex Systems Income Fund of \$292.5 million.

Cash Flows from Financing Activities

Financing activities used \$337.3 million in 2011 and provided \$54.5 million in 2010.

During 2011, payments on long-term debt totalled \$286.9 million. The acquisition financing from the purchase of Enerflex Systems Income Fund was fully repaid, in conjunction with the spinoff. Repayment was funded principally with amounts received by the Company from Enerflex in repayment of its intercompany debt. Net increase in long-term debt in 2010 was \$101.1 million.

Dividends paid to common shareholders in 2011 totalled \$40.9 million compared to \$45.1 million paid in the prior year. The quarterly dividend rate prior to spinoff was \$0.16 per share. The rate was adjusted to \$0.10 per share for the post-spinoff dividend, which, together with the \$0.06 dividend subsequently declared by the Enerflex Board, kept shareholders whole with the pre-spinoff dividend amount. On August 12, 2011, the Board of Directors increased the quarterly dividend to \$0.11 per share, effective with the dividend paid on October 3, 2011.

In 2011, the Company purchased and cancelled 720,004 shares for \$12.2 million (average cost of \$16.96 per share). No shares were purchased under the NCIB in 2010.

Cash received on the exercise of share options totalled \$3.2 million compared to \$6.7 million in the prior year. The decrease reflects a lower number of stock options exercised.

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 constant improvement. Toromont is well positioned in each of its markets and both business segments have good growth prospects over the longer term.

Our Equipment Group is experiencing improved activity in many markets, including mining, road building and power systems. We believe that investment levels will continue to remain high in the infrastructure markets we serve. The parts and service business has seen a resumption of growth and provides a measure of stability, driven by the larger installed base of equipment in the field.

Toromont expects to benefit from Caterpillar's expanding product line-up. In 2011, Caterpillar completed the acquisition of Bucyrus, a leading manufacturer of mining equipment for the surface and underground mining industries. Toromont has entered into discussions with Caterpillar for distribution rights to these products; however, the impact of this is not determinable at this time. Also in 2011, Caterpillar completed the acquisition of MWM, a leading global supplier of natural gas and alternative-fuel engines. Toromont expects that this initiative will further expand its product offering.

CIMCO has seen a reduction in recreational activity in Canada subsequent to the end of the governmental infrastructure spending programs. Industrial markets in Canada and US markets have shown some recent strengthening; however, it is too early to determine if this will continue.

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.

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	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt							
– principal	\$ 1,280	\$ 1,372	\$ 1,471	\$ 126,576	\$ 1,690	\$ 4,774	\$ 137,163
– interest	6,986	6,895	6,796	5,342	427	517	26,963
Accounts payable	280,735	–	–	–	–	–	280,735
Operating leases	2,520	2,037	1,575	2,586	986	1,925	11,629
	\$ 291,521	\$ 10,304	\$ 9,842	\$ 134,504	\$ 3,103	\$ 7,216	\$ 456,490

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	2011	2010	2009 ⁽³⁾	2008	2007
EXPANDING MARKETS AND BROADENING					
PRODUCT OFFERINGS					
Revenue growth ⁽¹⁾	14.5%	14.8%	(18.7%)	0.7%	12.3%
Revenue per employee (thousands) ⁽¹⁾	\$ 465	\$ 423	\$ 364	\$ 430	\$ 436
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth ⁽¹⁾	12.6%	7.4%	(3.0%)	4.2%	3.9%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions) ⁽¹⁾	\$ 12.1	\$ 10.1	\$ 10.6	\$ 10.9	\$ 10.2
Return on capital employed ⁽²⁾	32.4%	10.8%	21.1%	26.4%	24.7%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) ⁽¹⁾	\$ 176	\$ 136	\$ 172	\$ 197	\$ 177
Total debt, net of cash to total capitalization	13%	17%	(6%)	4%	16%
Book value (shareholders' equity) per share	\$ 5.27	\$ 15.50	\$ 13.17	\$ 12.06	\$ 10.08
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth ⁽¹⁾	32.5%	9.6%	(18.3%)	(12.7%)	50.5%
Dividends per share growth ⁽⁴⁾	16.1%	3.3%	7.1%	16.7%	20.0%
Return on equity ⁽⁵⁾	28.9%	9.1%	15.5%	21.5%	21.5%

(1) Metric presents results on a continuing operations basis.

(2) Return on capital employed is defined in the section titled "Non-IFRS Financial Measures". 2011 ROCE was calculated excluding earnings and capital employed from discontinued operations.

(3) Financial statements for 2009 and previous reflect Canadian GAAP. These were not restated to IFRS.

(4) Dividends per share growth reflect the announced increase in dividend subsequent to apportionment of dividend to Enerflex subsequent to spinoff.

(5) Return on equity is defined in the section titled "Non-IFRS Financial Measures". 2011 ROE was calculated excluding earnings and equity from discontinued operations.

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 2007, revenues increased at an average annual rate of 4.7%. Product support revenue growth has averaged 5.0% annually. Revenue growth in continuing operations has been a result of:

- Increased customer demand in certain market segments, most notably mining;
- 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
- 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 through to early 2010;
- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
- Declines in underlying market conditions, such as depressed US industrial markets.

Changes in the Canadian/US exchange rate also impact reported revenues as the exchange rate impacts on the purchase price of equipment that in turn is reflected in selling prices.

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. Leverage, as represented by the ratio of total debt, net of cash, to total capitalization (net debt plus shareholders' equity), was 13%, well 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 issuance of shares in the year for the acquisition of ESIF. In 2011, on a continuing operations basis, earnings per share increased 32.5%, in line with earnings growth.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 22 years. In 2011, the dividend rate was apportioned between Toromont and Enerflex in conjunction with the spinoff of Enerflex, such that shareholders received the same dividend in total. Subsequent to the spinoff, Toromont increased the quarterly dividend rate 10%.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2011

Three months ended December 31

(\$ thousands, except per share amounts)

	2011	2010	\$ change	% change
REVENUES	\$ 408,432	\$ 342,873	\$ 65,559	19%
Cost of goods sold	304,665	257,147	47,518	18%
Gross profit	103,767	85,726	18,041	21%
Selling and administrative expenses	55,549	50,204	5,345	11%
Asset impairment reversal	–	(6,683)	6,683	n/m
OPERATING INCOME	48,218	42,205	6,013	14%
Interest expense	2,124	2,272	(148)	(7%)
Interest and investment income	(1,364)	(1,335)	(29)	2%
Income before income taxes	47,458	41,268	6,190	15%
Income taxes	13,235	13,313	(78)	(1%)
EARNINGS FROM CONTINUING OPERATIONS	34,223	27,955	6,268	22%
Earnings from discontinued operations	–	12,358	(12,358)	n/m
NET EARNINGS	\$ 34,223	\$ 40,313	\$ (6,090)	(15%)
EARNINGS PER SHARE (BASIC)				
Continuing operations	\$ 0.44	\$ 0.36	\$ 0.08	22%
Discontinued operations	–	0.16	(0.16)	n/m
	\$ 0.44	\$ 0.52	\$ (0.08)	(15%)
KEY RATIOS:				
Gross profit as a % of revenues	25.4%	25.0%		
Selling and administrative expenses as a % of revenues	13.6%	14.6%		
Operating income as a % of revenues	11.8%	12.3%		
Income taxes as a % of income before income taxes	27.9%	32.3%		

Results from continuing operations in the fourth quarter of 2011 were strong, with double-digit increases in revenue and earnings.

Revenues were 19% higher in the fourth quarter of 2011 compared to the same period last year on higher revenues at the Equipment Group.

Gross profit increased 21% in the fourth quarter over last year on the higher sales volumes. Gross profit margin was 25.4% in 2011 compared to 25.0% in 2010. Higher margins were reported in CIMCO on sales mix. Equipment Group margins were also slightly higher than the same period last year.

In the fourth quarter of 2010, revised pricing under certain electricity supply contracts triggered an assessment of the recoverable amount of certain power generation assets held in the Equipment Group. This assessment led to a gain of \$6,683 (\$4,812 after tax) resulting from the reversal of an asset impairment provision recorded in 2005.

Selling and administrative expenses increased \$5.3 million or 11% versus the comparable period of the prior year. Approximately 30% of the increase is related to increased compensation on annual compensation increases and higher staffing levels. Selling and administrative expenses as a percentage of revenues were 13.6% compared to 14.6% in the comparable period last year.

Interest expense was \$2.1 million in the fourth quarter of 2011, down 7% from the similar period last year on lower debt balances.

The effective income tax rate was 27.9% in the fourth quarter of 2011 compared to 32.3% in the same period last year. The lower tax rate reflects lower statutory rates.

Net earnings from continuing operations in the quarter were \$34.2 million, up 22% from 2010. Basic earnings per share were \$0.44, up 22% from the fourth quarter of 2010.

Earnings from discontinued operations in the fourth quarter of 2010 were \$12.4 million.

Net earnings in the fourth quarter of 2011 were \$34.2 million, for basic EPS of \$0.44, compared to \$40.3 million, basic EPS of \$0.52 in the prior year. The decrease results from discontinued operations.

Comprehensive income in the quarter was \$19.7 million, comprised of net earnings of \$34.2 million and other comprehensive loss of \$14.5 million. Other comprehensive loss reflects actuarial losses on employee pension plans (\$7.2 million) and net losses on derivatives designated as fair value hedges (\$7.3 million). The losses on derivatives are not expected to impact net income in the future as the losses will be offset by gains on the underlying items.

Fourth Quarter Results of Operations in the Equipment Group

Three months ended December 31

(\$ thousands)

	2011	2010	\$ change	% change
Equipment sales and rentals				
New	\$ 187,677	\$ 130,634	\$ 57,043	44%
Used	46,763	38,584	8,179	21%
Rental	45,259	43,553	1,706	4%
Total equipment sales and rentals	279,699	212,771	66,928	31%
Power generation	2,720	3,758	(1,038)	(28%)
Product support	88,627	81,410	7,217	9%
Total revenues	\$ 371,046	\$ 297,939	\$ 73,107	25%
Operating income	\$ 46,690	\$ 39,778	\$ 6,912	17%
Bookings (\$ millions)	\$ 157	\$ 207	\$ (50)	(24%)
KEY RATIOS:				
Product support revenues as a % of total revenues	23.9%	27.3%		
Group total revenues as a % of consolidated revenues	90.8%	86.9%		
Operating income as a % of revenues	12.6%	13.4%		

New and used equipment sales increased 44% and 21% respectively compared to the fourth quarter of 2010. Significant deliveries were made to mining customers in the quarter.

Rental revenues were up 4% in the quarter compared to the prior year on higher fleet utilization. Rental rates have been largely consistent with the prior year, with continuing competitive market conditions.

Power generation revenues from Toromont-owned plants decreased 28% in the quarter. Revenues in the fourth quarter of 2010 included certain 'catch up' payments with respect to revised operating contracts with certain customers. Excluding these remedial payments in the prior year, revenues would have increased 2%.

Product support revenues were up 9% compared to the prior year. Improved market conditions and a larger installed base of equipment in territory have driven higher activity levels.

Operating income was up 17% over last year on the higher revenues, 41% higher excluding the asset impairment reversal recorded in the comparable period of the prior year. Gross margins were up slightly in the quarter. Selling and administrative expenses increased 13% on the higher volumes, higher staffing levels and annual compensation increases. Operating income as a percentage of revenues was 12.6% compared to 13.4% in the fourth quarter of 2010 (11.1% in 2010 excluding the asset impairment reversal).

Bookings in the fourth quarter of 2011 were \$157 million, down 24% from the similar period last year. Bookings in the fourth quarter of 2010 benefited from increased activity coming out of a prolonged period of purchasing restraint driven by uncertain economic conditions.

Fourth Quarter Results of Operations in CIMCO

Three months ended December 31

(\$ thousands)	2011	2010	\$ change	% change
Package sales	\$ 18,261	\$ 25,976	\$ (7,715)	(30%)
Product support	19,125	18,958	167	1%
Total revenues	\$ 37,386	\$ 44,934	\$ (7,548)	(17%)
Operating income	\$ 1,528	\$ 2,427	\$ (899)	(37%)
Bookings (\$ millions)	\$ 27	\$ 19	\$ 8	39%
KEY RATIOS:				
Product support revenues as a % of total revenues	51.2%	42.2%		
Group total revenues as a % of consolidated revenues	9.2%	13.1%		
Operating income as a % of revenues	4.1%	5.4%		

Package revenues were down 30% in the quarter compared to 2010. Recreational revenues in Canada were very strong in 2010 as a result of the federal Recreational Infrastructure Canada program. As this program was wound down in early 2011, recreational revenues have dropped 64%. Offsetting this decline is a strengthening in industrial revenues, in both Canada and the US, with revenues up 85% and 64% respectively. US recreational revenues were also strong in the fourth quarter of 2011.

Product support revenues increased 1% in the fourth quarter of 2011 compared to the prior year on increased activity in the US.

CIMCO reported operating income of \$1.5 million in the quarter compared with \$2.4 million reported in 2010. The decrease reflects the decline in revenues. Gross margins were up 170 basis points, on a higher proportion of product support revenues to total. Selling and administrative expenses decreased 2% year-over-year.

Bookings in the quarter totalled \$27 million, up 39% from the similar quarter last year. Industrial bookings were more than double those recorded last year on stronger market conditions in both Canada and the US. Recreational bookings were 30% lower on the windup of the federal stimulus program.

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 2011 audited consolidated financial statements.

(\$ thousands, except per share amounts)	Q1 2011	Q2 2011	Q3 2011	Q4 2011
REVENUES				
Equipment Group	\$ 221,030	\$ 289,191	\$ 315,120	\$ 371,046
CIMCO	40,579	55,453	52,169	37,386
Total revenues	\$ 261,609	\$ 344,644	\$ 367,289	\$ 408,432
NET EARNINGS				
Continuing operations	\$ 13,803	\$ 23,722	\$ 30,930	\$ 34,223
Discontinued operations	7,821	135,960	–	–
	\$ 21,624	\$ 159,682	\$ 30,930	\$ 34,223
PER SHARE INFORMATION				
Earnings per share – basic				
Continuing operations	\$ 0.18	\$ 0.31	\$ 0.40	\$ 0.44
Discontinued operations	0.10	1.77	–	–
	\$ 0.28	\$ 2.08	\$ 0.40	\$ 0.44
Earnings per share – diluted				
Continuing operations	\$ 0.18	\$ 0.30	\$ 0.40	\$ 0.44
Discontinued operations	0.10	1.76	–	–
	\$ 0.28	\$ 2.06	\$ 0.40	\$ 0.44
Dividends paid per share	\$ 0.16	\$ 0.10	\$ 0.10	\$ 0.11
Weighted average common shares outstanding – basic (in thousands)	77,163	77,204	77,095	76,604

(\$ thousands, except per share amounts)	Q1 2010	Q2 2010	Q3 2010	Q4 2010
REVENUES				
Equipment Group	\$ 176,635	\$ 264,538	\$ 283,588	\$ 297,938
CIMCO	36,227	50,781	52,387	44,934
Total revenues	\$ 212,862	\$ 315,319	\$ 335,975	\$ 342,872
NET EARNINGS				
Continuing operations	\$ 5,980	\$ 19,989	\$ 22,736	\$ 27,954
Discontinued operations	9,497	1,933	3,465	12,358
	\$ 15,477	\$ 21,922	\$ 26,201	\$ 40,312
PER SHARE INFORMATION				
Earnings per share – basic				
Continuing operations	\$ 0.08	\$ 0.26	\$ 0.30	\$ 0.36
Discontinued operations	0.13	0.03	0.04	0.16
	\$ 0.21	\$ 0.29	\$ 0.34	\$ 0.52
Earnings per share – diluted				
Continuing operations	\$ 0.08	\$ 0.25	\$ 0.30	\$ 0.36
Discontinued operations	0.13	0.03	0.04	0.16
	\$ 0.21	\$ 0.28	\$ 0.34	\$ 0.52
Dividends paid 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

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. In the future, the increase in mining-related business may distort this trend somewhat due to the timing of significant deliveries in any given quarter.

CIMCO also has historically had a distinct seasonal trend in results due to timing of construction activity. Generally, lower revenues are reported in the first quarter of each year as weather and other factors reduce construction activity. This trend was significantly put aside in 2011 as early quarters reflected increased activities associated with RInC projects. Completion of these projects in October 2011 meant a substantial reduction in activity in the fourth quarter.

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)	2011	2010	2009 ⁽¹⁾
Revenues	\$ 1,381,974	\$ 1,207,028	\$ 1,051,653
Net earnings – continuing operations	\$ 102,678	\$ 76,659	\$ 58,869
Net earnings	\$ 246,459	\$ 103,912	\$ 120,516
Earnings per share – continuing operations			
Basic	\$ 1.33	\$ 1.00	\$ 0.91
Diluted	\$ 1.32	\$ 0.99	\$ 0.91
Earnings per share			
Basic	\$ 3.20	\$ 1.36	\$ 1.86
Diluted	\$ 3.18	\$ 1.35	\$ 1.86
Dividends declared per share	\$ 0.48	\$ 0.62	\$ 0.60
Total assets	\$ 913,331	\$ 2,271,763	\$ 1,355,867
Total long-term debt	\$ 134,095	\$ 419,929	\$ 156,970
Weighted average common shares outstanding, basic (millions)	77.0	76.2	64.7

(1) Prepared following Canadian GAAP.

The global economic crisis of late 2008 and 2009 served to reduce revenues in 2009 as activity levels in end markets slowed. Revenues grew 14% in 2011 and 15% in 2010 on improved market conditions within the Equipment Group.

Net earnings from continuing operations improved 30% in 2010 and 34% in 2011 on the higher revenues, generally improving margins and relatively slower growth in selling and administrative expenses.

Net earnings include results from discontinued operations, Enerflex. Toromont completed the acquisition of Enerflex Systems Income Fund ("ESIF") in 2010. Results at the combined Enerflex operations in 2010 were dampened by weak natural gas markets, as well as expenses related to the acquisition and subsequent integration efforts. Net earnings from discontinued operations in 2011 represent five months of results to May 31, 2011. Additionally, a net gain of \$133.2 million was recognized on spinoff.

Earnings per share have generally followed earnings. Earnings per share were 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. In 2011, in conjunction with the spinoff, the regular quarterly dividend was apportioned between Toromont and Enerflex. The previous dividend rate of \$0.16 per share was allocated \$0.10 to Toromont and \$0.06 to Enerflex, thereby keeping shareholders whole. Subsequent to the spinoff, Toromont announced a 10% increase in its dividend rate to \$0.11 per share. The Company has announced dividend increases in each of the past 22 years.

Total assets increased in 2010 on the acquisition of ESIF. Total assets acquired were approximately \$1 billion. Total assets decreased in 2011 on the spinoff of Enerflex. Total assets at Enerflex at the time of spinoff were approximately \$1.4 billion.

Long-term debt increased in 2010 on financing assumed to fund the acquisition of ESIF. In conjunction with the spinoff, certain financing was repaid. Total debt net of cash to total capitalization was 13% at December 31, 2011, well within 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 any or all 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 the Equipment Group. Commodity price movements in 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.

The business of the Company is diversified across a wide range of industry market segments, 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. 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

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 18 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.

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 Company relies on the skills and availability of trained and experienced tradesmen and technicians 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 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. 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 or industry. The Company has accounts receivable from customers engaged in various industries, including construction, mining, food and beverage, and governmental agencies. Management does not believe that any single industry represents significant credit risk. These customers are based predominately in Canada.

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 on either machine hours or cost per hour, with provisions for inflationary and exchange 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

Volatility in the rate of exchange between the Canadian and U.S. dollar has an impact on revenue trends. The Canadian dollar averaged US\$0.98 in the fourth quarter of 2011 compared to US\$0.99 in 2010, a 1.0% decrease; however, for the year the Canadian dollar was 4.2% stronger in 2011 versus 2010. As nearly all of the equipment and parts sold in the Equipment Group are sourced in U.S. dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact 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 CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar and the U.S. dollar. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies.

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. 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.

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, 2011, the Company's debt portfolio is comprised of 100% fixed 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 2015 and 2019.

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.

Environmental Regulation

Toromont's customers 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.

Spinoff Transaction Risk

Although the spinoff of Enerflex as a separate, publicly traded company is complete, the transaction exposes Toromont to certain ongoing risks. The spinoff was structured to comply with all the requirements of the public company "butterfly rules" in the Income Tax Act. However, there are certain requirements of these rules that depend on events occurring after completion of the spinoff or that may not be within the control of Toromont and/or Enerflex. If these requirements are not met, Toromont could be exposed to significant tax liabilities which could have a material effect on the financial position of Toromont. In addition, Toromont has agreed to indemnify Enerflex for certain liabilities and obligations related to its business at the time of the spinoff. These indemnification obligations could be significant. These risks are more fully described in the Management Information Circular relating to the Plan of Arrangement dated April 11, 2011, which is available at www.sedar.com.

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 IFRS 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 the operating segments similarly, and therefore are not discussed on a segmented basis.

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 an annual 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. Deferred 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 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 deferred tax balances on the consolidated statement of financial position, a charge or credit to income tax expense in the income statement and may result in cash payments or receipts.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Revenue Recognition

The Company generates a portion of its revenues from the assembly and manufacture of equipment and these revenues are recognized using the percentage-of-completion approach of accounting. 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.

FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year ending December 31, 2011, and accordingly, have not been applied in preparing these consolidated financial statements.

Consolidated Financial Statements – On May 12, 2011, IASB issued IFRS 10 – *Consolidated Financial Statements*. This IFRS replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements – On May 12, 2011, the IASB issued IFRS 11 – *Joint Ventures*. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates and Joint Ventures* has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities – On May 12, 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

Fair Value Measurement – On May 12, 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted.

Employee Benefits – On June 16, 2011, the IASB revised IAS 19 – *Employee Benefits*. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

Presentation of Financial Statements – On June 16, 2011, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements*. The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012.

Financial Instruments – Disclosures – On October 7, 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*, which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011.

Deferred Tax – On December 20, 2010, the IASB issued amendments to IAS 12 – *Income Taxes*, that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012.

Financial Instruments – In November 2009, the IASB issued IFRS 9 – *Financial Instruments*, which replaced the classification and measurement requirements in IAS 39 – *Financial Instruments: Recognition and Measurement* for financial assets. In October 2010, the IASB issued additions to IFRS 9 regarding requirements for classifying and measuring financial liabilities. The IFRS 9 requirements are currently expected to be effective for annual periods beginning on or after January 1, 2013, although this has been tentatively deferred until January 1, 2015. IFRS 9 must be applied retrospectively. Earlier adoption is permitted.

The Company is currently assessing the impact of these new standards and amendments on its financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards ("IFRS") replaced Canadian generally accepted accounting principles ("Canadian GAAP") for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. Accordingly, Toromont has adopted IFRS effective January 1, 2011 and has prepared the current financial statements using IFRS accounting policies. Prior to the adoption of IFRS, the Company's financial statements were prepared in accordance with Canadian GAAP. The Company's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS.

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.

To assist with, and in some cases, simplify, transition to IFRS, certain exemptions and elections are available for first-time adopters under IFRS 1 *First-Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The following are the key transitional provisions which were adopted on January 1, 2010 and which had an impact on the Company's financial position on transition.

Area of IFRS	Summary of Exemption Available
Business Combinations	<p>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.</p> <p>Policy selection: The Company elected to apply the exemption such that transactions entered into prior to the transition date are not restated. In addition, the Company adopted Canadian Handbook Section 1582, 1601 and 1602 effective January 1, 2010. These new standards are considered to be IFRS compliant.</p> <p>Transition impact: None.</p>
Property, Plant and Equipment	<p>Choices: The Company may elect to report items of property, plant and equipment in its opening statement of financial position 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.</p> <p>Policy selection: The Company did not elect to report any items of property, plant and equipment in its opening statement of financial position on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS.</p> <p>Transition impact: None.</p>
Share-Based Payments	<p>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.</p> <p>Policy selection: The Company elected 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.</p> <p>Transition impact: None.</p>
Employee Future Benefits	<p>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.</p> <p>Policy selection: The Company elected to recognize all cumulative actuarial gains and losses at the date of transition.</p> <p>Transition impact: Increase total liabilities, increase deferred tax assets and decrease retained earnings.</p>
Foreign Exchange	<p>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.</p> <p>Policy selection: The Company elected to reclassify all cumulative translation gains and losses at the date of transition to retained earnings.</p> <p>Transition impact: Reclassification of all cumulative translation gains and losses in OCI results in a charge to retained earnings of \$16 million.</p>
Borrowing Costs	<p>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.</p> <p>Policy selection: The Company elected to capitalize borrowing costs on all qualifying assets commencing on January 1, 2010.</p> <p>Transition impact: None.</p>

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 Future Benefits	Under Canadian GAAP, the Company applied 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. Expense associated with the defined benefit pension plans will be different under IFRS than under Canadian GAAP as actuarial gains/losses are no longer amortized. The impact in 2010 was to reduce defined benefit pension expense by \$600. Variability in OCI will increase as actuarial gains/losses are recorded.
Stock Based Compensation	The valuation of stock options under IFRS required individual 'tranche based' valuations for those option plans with graded vesting, whilst Canadian GAAP allowed 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.
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.

Comparative 2010 financial position and results of operations were required to be restated. The 2010 comparative amounts have been audited by our external auditor. Note 3 of our audited consolidated financial statements provides a complete list of our IFRS 1 elections, detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity, net earnings and comprehensive income for 2010.

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, 2011, 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, 2011, 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, 2011, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no changes in the design of the Company's internal controls over financial reporting during 2011 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, 2011 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-IFRS 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 IFRS. 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 IFRS.

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 and Return on Capital Employed

Return on equity ("ROE") is monitored to assess the profitability of the consolidated Company. ROE is calculated by dividing net earnings by opening shareholders' equity (adjusted for shares issued and redeemed during the year). Opening shareholders' equity in 2011 was also adjusted to remove both net earnings and equity associated with discontinued operations.

Return on capital employed ("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.

Net Debt to Total Capitalization

Net debt is defined as total long-term debt less cash and cash equivalents. Total capitalization is defined as net debt plus shareholders' equity. The ratio of net debt to total capitalization is determined by dividing net debt by total capitalization.

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 International Financial Reporting Standards as issued by the International Accounting Standards Board and necessarily include estimates. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management. 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
Executive Vice President and
Chief Financial Officer

February 24, 2012
Toronto, Canada

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 statements of financial position as at December 31, 2011 and 2010, and January 1, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and 2010, 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

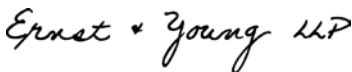
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the 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, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

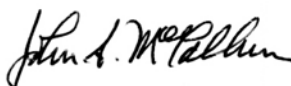
February 24, 2012
Toronto, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (\$ thousands)	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Current assets			
Cash and cash equivalents (note 6)	\$ 75,319	\$ 174,089	\$ 206,957
Accounts receivable (note 7)	209,243	208,620	166,748
Inventories (note 8)	301,937	224,416	205,835
Income taxes receivable	–	712	11,191
Derivative financial instruments	12	824	–
Other current assets	4,718	3,342	2,919
Current assets of discontinued operations (note 4)	–	490,499	254,180
Total current assets	591,229	1,102,502	847,830
Property, plant and equipment (note 9)	151,928	142,508	116,710
Rental equipment (note 9)	135,362	119,944	124,033
Derivative financial instruments	418	–	–
Other assets (note 10)	8,195	9,021	11,383
Deferred tax assets (note 19)	12,749	10,435	12,492
Goodwill (note 11)	13,450	13,450	13,450
Long-term assets of discontinued operations (note 4)	–	873,903	229,969
Total assets	\$ 913,331	\$ 2,271,763	\$ 1,355,867
LIABILITIES			
Current liabilities			
Accounts payable, accrued liabilities and provisions (note 12)	\$ 280,735	\$ 245,245	\$ 169,291
Deferred revenues	49,100	45,069	30,059
Current portion of long-term debt (note 13)	1,280	6,889	14,044
Derivative financial instruments	640	4,048	874
Income taxes payable	8,352	483	–
Current liabilities of discontinued operations (note 4)	–	322,479	128,624
Total current liabilities	340,107	624,213	342,892
Deferred revenues	10,387	14,137	13,386
Long-term debt (note 13)	132,815	413,040	142,926
Accrued pension liability (note 23)	26,161	19,851	17,249
Derivative financial instruments	–	1,839	–
Long-term liabilities of discontinued operations (note 4)	–	1,845	4,430
SHAREHOLDERS' EQUITY			
Share capital (note 14)	265,436	469,080	132,261
Contributed surplus (note 15)	5,890	10,882	10,012
Retained earnings	131,643	729,694	677,385
Accumulated other comprehensive income (loss)	892	(13,763)	15,326
Shareholders' equity before non-controlling interest	403,861	1,195,893	834,984
Non-controlling interest	–	945	–
Shareholders' equity	403,861	1,196,838	834,984
Total liabilities and shareholders' equity	\$ 913,331	\$ 2,271,763	\$ 1,355,867

See accompanying notes

Approved by the Board:


Robert M. Ogilvie
Director

John S. McCallum
Director

CONSOLIDATED INCOME STATEMENTS

Years ended December 31 (\$ thousands, except share amounts)	2011	2010
REVENUES	\$ 1,381,974	\$ 1,207,028
Cost of goods sold	1,032,599	913,336
Gross profit	349,375	293,692
Selling and administrative expenses	201,190	181,175
Asset impairment reversal (note 5)	–	(6,683)
OPERATING INCOME	148,185	119,200
Interest expense (note 18)	9,012	11,629
Interest and investment income (note 18)	(3,214)	(2,803)
Income before income taxes	142,387	110,374
Income taxes (note 19)	39,709	33,715
Net earnings from continuing operations	102,678	76,659
Net gain on spinoff of Enerflex (note 4)	133,164	–
Earnings from discontinued operations (note 4)	10,617	27,253
Net earnings	\$ 246,459	\$ 103,912
EARNINGS (LOSSES) ATTRIBUTABLE TO:		
Common shareholders	\$ 247,082	\$ 103,450
Non-controlling interests	(623)	462
BASIC EARNINGS PER SHARE		
Continuing operations (note 20)	\$ 1.33	\$ 1.00
Discontinued operations	1.87	0.36
	\$ 3.20	\$ 1.36
DILUTED EARNINGS PER SHARE		
Continuing operations (note 20)	\$ 1.32	\$ 0.99
Discontinued operations	1.86	0.36
	\$ 3.18	\$ 1.35
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	77,013,509	76,170,972
Diluted	77,393,253	76,361,949

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 (\$ thousands)	2011	2010
Net earnings	\$ 246,459	\$ 103,912
Other comprehensive income (loss):		
Unrealized loss on translation of financial statements of foreign operations	(6,250)	(11,220)
Change in fair value of derivatives designated as cash flow hedges, net of income tax (recovery) (2011 – \$2,245; 2010 – (\$1,848))	4,552	(3,380)
(Gain) loss on derivatives designated as cash flow hedges transferred to net income in the current period, net of income tax (recovery) (2011 – (\$719); 2010 – \$621)	(1,662)	1,126
Loss on translation of financial statements of foreign operations transferred to net income on spinoff of Enerflex	18,015	–
Actuarial losses on pension plans, net of income tax (2011 – \$2,411; 2010 – \$1,308)	(7,234)	(3,887)
Gain on financial assets designated as available-for-sale transferred to net income as a result of business acquisition, net of income taxes of \$3,090	–	(15,615)
Other comprehensive income (loss)	7,421	(32,976)
Comprehensive income	\$ 253,880	\$ 70,936
Comprehensive (loss) income attributable to non-controlling interests	\$ (623)	\$ 462

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (\$ thousands)	2011	2010
OPERATING ACTIVITIES		
Net earnings from continuing operations	\$ 102,678	\$ 76,659
Items not requiring cash and cash equivalents		
Depreciation and amortization	45,863	46,383
Asset impairment charge reversal (note 5)	–	(6,683)
Stock-based compensation (note 15)	1,001	3,005
Accrued pension liability	(3,335)	(7,188)
Future income taxes	(1,450)	3,293
Gain on sale of rental equipment, property, plant and equipment	(8,211)	(6,627)
Cash flow from discontinued operations	26,028	37,173
	162,574	146,015
Net change in non-cash working capital and other from discontinued operations (note 4)	31,405	61,334
Net change in non-cash working capital and other from continuing operations (note 25)	(39,731)	48,437
Cash provided by operating activities	154,248	255,786
INVESTING ACTIVITIES		
Additions to:		
Rental equipment	(57,860)	(38,579)
Property, plant and equipment	(25,017)	(32,564)
Proceeds on disposal of:		
Rental equipment	23,040	20,859
Property, plant and equipment	4,080	899
(Increase) decrease in other assets	(184)	1,230
Discontinued operations (note 4)	140,115	(292,887)
Cash provided by (used in) investing activities	84,174	(341,042)
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	(286,888)	(178,854)
Financing costs	(575)	(8,330)
Dividends (note 14)	(40,877)	(45,099)
Shares purchased for cancellation	(12,213)	–
Cash received on exercise of stock options	3,242	6,736
Cash (used in) provided by financing activities	(337,311)	54,453
Effect of exchange rate changes on cash denominated in foreign currency	119	(2,065)
Decrease in cash and cash equivalents	(98,770)	(32,868)
Cash and cash equivalents at beginning of year	174,089	206,957
Cash and cash equivalents at end of year	\$ 75,319	\$ 174,089

Supplemental cash flow information (note 25).

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$ thousands)	Share capital	Contributed surplus	Retained earnings
As at January 1, 2011	\$ 469,080	\$ 10,882	\$ 729,694
Net earnings	–	–	246,459
Enerflex spinoff (note 4)	(205,332)	(5,081)	(790,560)
Other comprehensive income	–	–	(7,234)
Translation losses recognized on Enerflex spinoff (note 4)	–	–	–
Shares purchased for cancellation (note 14)	(2,467)	–	(9,748)
Effect of stock compensation plans	4,155	89	–
Dividends (note 14)	–	–	(36,968)
At December 31, 2011	\$ 265,436	\$ 5,890	\$ 131,643

(\$ thousands)	Share capital	Contributed surplus	Retained earnings
As at January 1, 2010	\$ 132,261	\$ 10,012	\$ 677,385
Non-controlling interest on acquisition	–	–	–
Net earnings	–	–	103,912
Other comprehensive income	–	–	(3,887)
Issue of share capital on Enerflex acquisition	327,947	–	–
Effect of stock compensation plans	8,872	870	–
Dividends (note 14)	–	–	(47,716)
At December 31, 2010	\$ 469,080	\$ 10,882	\$ 729,694

See accompanying notes

Foreign currency translation adjustments	Cash flow hedges	Available-for-sale financial assets	Total accumulated other comprehensive income	Non-controlling interest	Total
\$ (11,220)	\$ (2,543)	\$ –	\$ (13,763)	\$ 945	\$ 1,196,838
–	–	–	–	(623)	245,836
–	(4,950)	–	(4,950)	(322)	(1,006,245)
(6,250)	7,840	–	1,590	–	(5,644)
18,015	–	–	18,015	–	18,015
–	–	–	–	–	(12,215)
–	–	–	–	–	4,244
–	–	–	–	–	(36,968)
\$ 545	\$ 347	\$ –	\$ 892	\$ –	\$ 403,861

Foreign currency translation adjustments	Cash flow hedges	Available-for-sale financial assets	Total accumulated other comprehensive income	Non-controlling interest	Total
\$ –	\$ (289)	\$ 15,615	\$ 15,326	\$ –	\$ 834,984
–	–	–	–	483	483
–	–	–	–	462	104,374
(11,220)	(2,254)	(15,615)	(29,089)	–	(32,976)
–	–	–	–	–	327,947
–	–	–	–	–	9,742
–	–	–	–	–	(47,716)
\$ (11,220)	\$ (2,543)	\$ –	\$ (13,763)	\$ 945	\$ 1,196,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

(\$ thousands, except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

Toromont Industries Ltd. is a limited company incorporated and domiciled in Canada whose shares are publicly traded on the Toronto Stock Exchange under the symbol TIH. The registered office is located at 3131 Highway 7 West, Concord, Ontario, Canada.

Toromont Industries Ltd. operates through two business segments: The Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 3,000 people in almost 100 locations.

Statement of Compliance

These consolidated financial represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1 – First-time Adoption of IFRS ("IFRS 1"), as discussed in Note 3.

These consolidated financial statements were authorized for issue by the Board of the Directors on February 24, 2012.

Basis of Preparation

These consolidated financial statements were prepared on a historical cost basis, except for derivative instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except where otherwise indicated.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of net earnings and net assets that is not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value. Acquisition costs are expensed as incurred.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the operation disposed is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in this circumstance is measured based on the relative fair values of the operation disposed and the portion of the cash-generating unit retained.

Cash and Cash Equivalents

Cash and cash equivalents consist of petty cash, demand deposits and short-term deposits with an original maturity of three months or less. Cash and cash equivalents are recorded at cost, which approximates market value.

Accounts Receivable

Accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Selling and administrative expenses" in the income statement.

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 includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, 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.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets. 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. Land is not depreciated.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Rental Equipment

Rental equipment is recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets, which range from 1 to 10 years.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for warranty costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience.

Financial Instruments

The Company determines the classification of its financial assets and liabilities at initial recognition. Initially, all financial assets and liabilities are recognized at fair value. Regular way trades of financial assets and liabilities are recognized on the trade date. Transaction costs are expensed as incurred, except for loans and receivables and loans and borrowing, in which case transaction costs are included in initial cost.

Financial Assets

Subsequent measurement of financial assets depends on the classification. The Company has made the following classifications:

- Cash and cash equivalents are classified as held for trading and as such are measured at fair value, with changes in fair value being included in profit or loss.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method, less provisions for doubtful accounts.
- Derivatives are classified as held for trading, and are measured at fair value with changes in fair value being included in profit or loss, unless they are designated as effective hedging instruments in which case changes in fair value are included in other comprehensive income.

The Company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial Liabilities

Subsequent measurement of financial liabilities depends on the classification. The Company has made the following classifications:

- Accounts payable and accrued liabilities are classified as financial liabilities at held for trading and as such are measured at fair value, with changes in fair value being included in profit or loss.
- Long-term debt is classified as loans and borrowings and as such is subsequently measured at amortized cost using the effective interest rate method. Discount, premiums and fees on acquisition are taken into account in determining amortized cost.
- Derivatives are classified as held for trading, and are measured at fair value with changes in fair value being included in profit or loss, unless they are designated as effective hedging instruments in which case changes in fair value are included in other comprehensive income.

Fair Value of Financial Instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 – techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Derivative Financial Instruments and Hedge Accounting

Derivative financial arrangements are used to hedge exposure to fluctuations in exchange rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains and losses arising from changes in the fair value of derivatives are taken directly to the statement of earnings, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

At inception the Company designates and documents the hedge relationship, including identification of the transaction and the risk management objectives and strategy for undertaking the hedge. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company has designated certain derivatives as cash flow hedges. These are hedges of firm commitments and highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Additionally:

- If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gains and losses that were recognized in other comprehensive income are included in the initial cost or other carrying amount of the asset;
- For cash flow hedges other than those identified above, amounts accumulated in other comprehensive income are recycled to the income statement in the period when the hedged item will affect profit and loss (for instance, when the forecast sale that is hedged takes place);
- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in the income statement; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the income statement.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value in use, the estimated further cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognized in the statement of earnings.

The Company bases its impairment calculation on detailed budgets which are prepared for each of the cash-generating units and generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year. For assets other than goodwill, an assessment is made at each reporting date, whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the

Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Goodwill is tested for impairment annually during the fourth quarter of the year and when circumstances indicate that the carrying value may be impaired.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes and duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenues from the sale of equipment are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on shipment of the goods and/or invoicing.
- Revenues from the sale of equipment for which the Company has provided a guarantee to repurchase the equipment at predetermined residual values and dates are accounted for as operating leases. Revenues are recognized over the period extending to the date of the residual value guarantee.
- Revenues from the sale of equipment systems involving design, manufacture, installation and start-up are recorded using the percentage-of-completion method. Percentage-of-completion is normally measured by reference to costs incurred to date as a percentage of total estimated cost for each contract. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- 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.
- 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 on completion of the service work.
- Revenues from long-term maintenance contracts and separately priced extended warranty contracts are recognized on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour service provided. These contracts are closely monitored for performance. Any losses estimated during the term of the contract are recognized when identified. At the completion of the contract, any remaining profit on the contract is recognized as revenue.
- Interest income is recognized using the effective interest method.

Foreign Currency Translation

The functional and presentation currency of the Company is the Canadian dollar. Each of the Company's subsidiaries determines its functional currency and items included in the financial statements of each subsidiary are measured using that functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange as at the reporting date. All differences are taken directly to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations (having a functional currency other than the Canadian dollar) are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date and the statements of earnings are translated at the average exchange rate for the period. The exchange differences arising on translation are recognized in accumulated other comprehensive income in shareholders' equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity is recognized in the income statement.

Share-based Payment Transactions

The Company operates both equity-settled and cash-settled share-based compensation plans under which the Company receives services from employees, including senior executives and directors, as consideration for equity instruments of the Company or cash payments.

For equity-settled plans, expense is based on the fair value of the awards granted determined using the Black-Scholes option pricing model and the best estimate of the number of equity instruments that will ultimately vest. For awards with graded vesting, each tranche is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of grant and is recognized as compensation expense, net of forfeiture estimate, over the term of its respective vesting period.

For cash-settled plans, the expense is determined based on the fair value of the liability incurred at each award date and at each subsequent statement of financial position date until the award is settled. The fair value of the liability is measured by applying quoted market prices. Changes in fair value are recognized in the statement of earnings in selling and administrative expenses.

Employee Benefits

For defined contribution plans, the pension expense recorded in the statement of earnings is the amount of the contributions the Company is required to pay in accordance with the terms of the plans.

For defined benefit plans, the pension expense is determined separately for each plan using the following policies:

- 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 recognized immediately in net earnings to the extent that the benefits have vested; otherwise, they are amortized on a straight-line basis over the vesting period;
- Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in retained earnings and included in the statement of comprehensive income in the period in which they occur.

Income Taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred 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 deferred tax assets and liabilities of a change in income tax rates is recognized in the statement of earnings in the period that includes the date of substantive enactment. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the company considers probable to be realized.

Current and deferred income taxes relating to items recognized directly in shareholders' equity are also recognized directly in shareholders' equity.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. Leases which transfer substantially all of the benefits and risk of ownership of the property to the lessee are classified as finance leases; all other leases are classified as operating leases. Classification is re-assessed if the terms of the lease are changed.

Toromont as Lessee

Operating lease payments are recognized as an operating expense in the statement of earnings on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are deferred and amortized on a straight-line basis over the term of the lease.

Toromont as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Company capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2010.

Standards Issued But Not Yet Effective

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year ended December 31, 2011, and accordingly, have not been applied in preparing these consolidated financial statements.

Consolidated Financial Statements – On May 12, 2011, IASB issued IFRS 10 – *Consolidated Financial Statements*. This IFRS replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* that addresses consolidation, and supersedes SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended for the issuance of IFRS 10 and retains guidance only for separate financial statements.

Joint Arrangements – On May 12, 2011, the IASB issued IFRS 11 – *Joint Ventures*. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non Monetary Contributions by Venturers*. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates and Joint Ventures* has been amended to correspond to the guidance provided in IFRS 10 and IFRS 11.

Disclosure of Interests in Other Entities – On May 12, 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. This IFRS requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This IFRS enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 are all effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, so long as IFRS 10, 11 and 12 and the amendments to IAS 27 and 28 are adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Company is currently assessing the impact of these new standards and amendments on its consolidated financial statements.

Fair Value Measurement – On May 12, 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

Employee Benefits – On June 16, 2011 the IASB revised IAS 19 – *Employee Benefits*. The revisions include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Presentation of Financial Statements – On June 16, 2011, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements*. The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is currently assessing the impact of the amendments on its consolidated financial statements.

Financial Instruments – Disclosures – On October 7, 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*, which increase the disclosure requirements for transactions involving transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company is currently assessing the impact of the amendment on its financial statement disclosures.

Deferred Tax – On December 20, 2010, the IASB issued amendments to IAS 12 – *Income Taxes*, that introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company does not hold investment properties and as such does not expect the implementation of the amendment to have an impact on its financial statements.

Financial Instruments – In November 2009, the IASB issued IFRS 9 – *Financial Instruments*, which replaced the classification and measurement requirements in IAS 39 – *Financial instruments: Recognition and Measurement* for financial assets. In October 2010, the IASB issued additions to IFRS 9 regarding requirements for classifying and measuring financial liabilities. The IFRS 9 requirements are effective for annual periods beginning on or after January 1, 2015. IFRS 9 must be applied retrospectively. Earlier adoption is permitted. The Company is currently assessing the impact of adopting IFRS 9 on its financial statements.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements.

Property, Plant and Equipment – Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values.

When determining the value in use of property, plant and equipment during impairment testing, the Company uses the following critical estimates: the timing of forecasted revenues; future selling prices and margins; maintenance and other capital expenditures; and discount rates.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives, residual values and future cash flows differing significantly from estimates. The assumptions used are reviewed on an ongoing basis to ensure they continue to be appropriate.

Income Taxes – Estimates and judgment are made for uncertainties which exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

Revenue Recognition – The Company generates revenue from the assembly and manufacture of equipment using the percentage-of-completion method. This method 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.

The Company also generates revenue from long-term maintenance and repair contracts whereby it is obligated to maintain equipment for its customers. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized using the percentage-of-completion method based on work completed. This method requires management to make a number of estimates and assumptions surrounding: machine usage; machine performance; future parts and labour pricing; manufacturers' warranty coverage; and other detailed factors. These factors are routinely reviewed as part of the contract management process; however, changes in these estimates or assumptions could lead to changes in the revenue and costs of sales recognized in a given period.

Inventories – Management is required to make an assessment of the net realizable value of inventory at each reporting period. Management incorporates estimates and judgments that take into account current market prices, current economic trends and past experiences in the measurement of net realizable value.

Employee Future Benefits Expense – The net obligations associated with the defined benefit pension plans are actuarially valued using: the projected unit credit method; management's best estimates for long-term expected rate of return on assets; salary escalation and life expectancy; and a current market discount rate. All assumptions are reviewed at each reporting date.

Stock-based Compensation – Estimating the fair value for share-based payment transactions requires determining the most appropriate inputs to the valuation model, including: the expected life of the share option; volatility; and dividend yield.

3. TRANSITION TO IFRS

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS statement of financial position as at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 1.

Initial Elections and Exemptions upon Adoption of IFRS

IFRS 1 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 were made retrospectively against opening retained earnings as of the date of the first comparative statement of financial position presented, which is January 1, 2010.

The following are the key IFRS 1 exemptions and elections utilized by the Company:

Business Combinations – The Company elected to apply the exemption such that transactions entered into prior to the transition date, January 1, 2010, were not restated. As a condition of applying this exemption, goodwill relating to business combinations that occurred prior to January 1, 2010 was tested for impairment even though no impairment indicators were identified. No impairment existed at the date of transition.

Property, Plant and Equipment – The Company has not elected to report any items of property, plant and equipment in its opening statement of financial position on the transition date at a deemed cost instead of the actual cost that would be determined under IFRS.

Employee Future Benefits – The Company has elected to recognize all cumulative actuarial gains and losses on the Company's employee benefits plans at the date of transition in opening retained earnings.

Cumulative Translation Differences – The Company has elected to set the previously accumulated translation account, \$15,954, which was included in accumulated other comprehensive income, to zero at the date of transition and charged opening retained earnings.

Share-Based Payment Transactions – The Company has elected to apply IFRS 2 to equity instruments that were granted on or after November 7, 2002 but which had not vested by the Company's date of transition to IFRS.

Borrowing Costs – IAS 23 Borrowing Costs has been applied prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the transition date.

The following are the key IFRS 1 mandatory exceptions from full retrospective application of IFRS.

Hedge accounting – Only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date were reflected as hedges in the Company's financial statements under IFRS.

Estimates – Hindsight was not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Reconciliation of Shareholders' Equity as Reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's shareholders' equity reported in accordance with Canadian GAAP to its shareholders' equity in accordance with IFRS at the transition date, January 1, 2010 and December 31, 2010.

	December 31, 2010	January 1, 2010
Total shareholders' equity under Canadian GAAP	\$ 1,206,637	\$ 846,157
IFRS adjustments ⁽¹⁾		
(i) Employee future benefits	(14,611)	(11,173)
(ii) Reversal of asset impairment	4,812	–
Total equity under IFRS	\$ 1,196,838	\$ 834,984

(1) Refer to Notes for Canadian GAAP IFRS Reconciliations

Reconciliation of Net Earnings as Reported under Canadian GAAP to IFRS

	Year Ended December 31, 2010
Net earnings under Canadian GAAP	\$ 98,650
IFRS adjustments ⁽¹⁾	
(i) Employee future benefits	450
(ii) Reversal of asset impairment	4,812
Increase in net earnings	5,262
Net earnings under IFRS	\$ 103,912
Attributable to:	
Common shareholders	\$ 103,450
Non-controlling interests	\$ 462

(1) Refer to Notes for Canadian GAAP IFRS Reconciliations

Reconciliation of Comprehensive Income as Reported under Canadian GAAP to IFRS

	Year Ended December 31, 2010
Comprehensive income under Canadian GAAP	\$ 69,561
IFRS adjustments ⁽¹⁾	
Increase in net earnings	5,262
(i) Actuarial losses on pension plans	(3,887)
Comprehensive income under IFRS	\$ 70,936

(1) Refer to Notes for Canadian GAAP IFRS Reconciliations

Reconciliation of Cash Flows as Reported Under Canadian GAAP to IFRS

There was no change to total cash flows from operating, investing or financing activities under IFRS.

Notes for Canadian GAAP to IFRS Reconciliations

- i) Employee Future Benefits – Cumulative unrecognized actuarial gains and losses that existed at the transition date were recognized in opening retained earnings (loss of \$15.8 million less tax of \$3.9 million). Cumulative unrecognized past service benefits that existed at the transition date were recognized in opening retained earnings (gain of \$0.9 million less tax of \$0.2 million). Actuarial gains and losses arising subsequent to transition to IFRS are recognized in retained earnings and included in the statement of comprehensive income in the period in which they occur (loss of \$5.2 million less tax of \$1.3 million). Pension expense in 2010 under IFRS was \$600 lower than under Canadian GAAP, less tax of \$150.

ii) Reversal of Asset Impairment – In the fourth quarter of 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 (\$4.8 million after tax) of asset impairment provision previously recorded in 2005.

Statement of Financial Position Restatements

The following adjustments and reclassifications were made as at January 1, 2010 but are not evident in the above reconciliations:

Cumulative Translation Differences – The Company has elected to set the previously accumulated translation account, which was included in accumulated other comprehensive income, to zero at the date of transition and charged opening retained earnings.

Deferred Tax Assets and Liabilities – Deferred tax assets and liabilities are not classified as current under IFRS but are shown as non-current.

4. DISCONTINUED OPERATIONS

On June 1, 2011, Toromont completed the spinoff of its natural gas compression business, Enerflex Ltd. (“Enerflex”), implemented by way of a plan of arrangement. Toromont shareholders received one share of Enerflex for each common share of Toromont. Enerflex shares began trading on the Toronto Stock Exchange on June 3, 2011 under the symbol EFX.

The book value of Toromont’s outstanding common shares immediately prior to the arrangement was attributed to continuing Toromont common shares and the new Enerflex Ltd. common shares in proportion to the relative fair value at the time the arrangement (the “butterfly proportion”), which was determined to be 56.4% Toromont and 43.6% Enerflex.

In addition to assisting with the allocation of components of equity to the two entities, the butterfly proportion is also used by previous Toromont shareholders to allocate adjusted cost base of their shares between the continuing Toromont shares and new Enerflex shares, as well as in the allocation of stock option values, as more completely described in Note 22.

Coterminous with the arrangement, Enerflex Ltd. repaid amounts owing to Toromont of \$173.3 million. Toromont used these proceeds to repay amounts outstanding related to the acquisition of Enerflex Systems Income Fund. Toromont amended its credit facility to reflect reduced requirements and extend the term, as described more fully in Note 13.

The Toromont consolidated balance sheet reflects the transfer of various assets, liabilities and equity accounts to Enerflex Ltd. as part of the arrangement. The underlying net assets representing the distribution of shares were as follows:

Assets	
Cash	\$ 44,452
Accounts receivable	222,737
Inventories	201,019
Property, plant and equipment	164,818
Rental equipment	114,180
Deferred tax assets	46,753
Intangible assets	29,208
Goodwill	482,656
Other current and non-current assets	31,329
Total assets	\$ 1,337,152
Liabilities	
Accounts payable – accrued liabilities and provisions	\$ 130,254
Deferred revenues	174,027
Other current and non-current liabilities	4,523
Notes payable to Toromont	173,300
	482,104
Net assets transferred	\$ 855,048

The assets and liabilities at discontinued operations at December 31, 2010 and January 1, 2010 were as follows:

	December 31 2010	January 1 2010
Accounts receivable	\$ 243,238	\$ 78,011
Inventories	222,855	167,275
Other current assets	24,406	8,894
Total current assets	\$ 490,499	\$ 254,180

	December 31 2010	January 1 2010
Property, plant and equipment	\$ 178,377	\$ 69,781
Rental equipment	116,162	59,142
Deferred tax assets	49,784	23,194
Intangible assets	33,127	–
Goodwill	482,656	21,350
Other assets	13,797	56,502
Total long-term assets	\$ 873,903	\$ 229,969
Accounts payable, accrued liabilities and provisions	\$ 164,422	\$ 68,873
Deferred revenues	150,319	59,751
Other current liabilities	7,738	–
Total current liabilities	\$ 322,479	\$ 128,624
Deferred tax liabilities	1,845	4,430
Total long-term liabilities	\$ 1,845	\$ 4,430

Results of discontinued operations were as follows:

	2011	2010
Revenues	\$ 492,937	\$ 1,167,107
Net earnings before tax	\$ 20,783	\$ 43,447
Income taxes	\$ 10,166	\$ 16,194
Net earnings after tax	\$ 10,617	\$ 27,253
Earnings (losses) attributable to:		
Common shareholders	\$ 11,240	\$ 26,791
Non-controlling interests	\$ (623)	\$ 462

Toromont incurred certain legal and advisory costs related to the spinoff. These totalled \$3.2 million for the year ended December 31, 2011 and have been allocated to discontinued operations. In addition, \$3.4 million in tax expense was incurred with respect to withholding taxes and other tax items related to spinoff activities. This expense was allocated to discontinued operations.

The Company followed IFRIC 17 – *Distributions of Non-cash Assets to Owners* in accounting for this transaction. In accordance with this guidance, a dividend of \$1,006.2 million (\$13.03 per share) was recorded. The dividend was based on the fair value of the distribution, determined using the trading price of the Enerflex Ltd. common shares immediately following the date of spinoff. The difference between the fair value of the dividend and the carrying value of the assets and liabilities of Enerflex Ltd. (\$151,179) was recognized as a gain in the consolidated statement of income for the year ended December 31, 2011. Deducted from this gain was an amount of \$18,015, related to historical currency translations of Enerflex's foreign operations. This amount had previously been reflected as an "Other comprehensive loss" on the Consolidated Statements of Comprehensive Income.

Cash flows from investing activities at discontinued operations included cash used for the acquisition of Enerflex Systems Income Fund in 2010. For more information on this transaction, please refer to the audited annual consolidated statements for 2010.

5. ASSET IMPAIRMENT REVERSAL

In the fourth quarter of 2010, revised pricing under certain electricity supply contracts triggered an assessment of the recoverable amount of certain power generation assets held in the Equipment Group.

The recoverable amount is its value in use, which was based on cash flow forecasts and discounted at a pre-tax rate of 3.3 per cent. This led to a reversal of \$6.7 million (\$4.8 million after tax) of an asset impairment provision previously recorded in 2005.

6. CASH AND CASH EQUIVALENTS

	December 31 2011	December 31 2010	January 1 2010
Cash	\$ 75,319	\$ 174,089	\$ 90,357
Cash equivalents	–	–	116,600
Cash and cash equivalents	\$ 75,319	\$ 174,089	\$ 206,957

Cash equivalents include Bankers' Acceptances and Term Deposits with an original maturity of three months or less and are denominated in Canadian dollars.

7. ACCOUNTS RECEIVABLES

	December 31 2011	December 31 2010	January 1 2010
Trade receivables	\$ 200,009	\$ 191,498	\$ 146,757
Less: allowance for doubtful accounts	(5,574)	(5,096)	(5,089)
Trade receivables – net	194,435	186,402	141,668
Other receivables	14,808	22,218	25,080
Trade and other receivables	\$ 209,243	\$ 208,620	\$ 166,748

The aging of gross trade receivables at each reporting date was as follows:

	December 31 2011	December 31 2010	January 1 2010
Current to 90 days	\$ 189,069	\$ 179,813	\$ 136,124
Over 90 days	10,940	11,685	10,633
	\$ 200,009	\$ 191,498	\$ 146,757

The movement in the Company's allowance for doubtful accounts is identified below:

	2011	2010
Balance, beginning of year	\$ 5,096	\$ 5,089
Provisions and revisions, net	478	7
Balance, end of year	\$ 5,574	\$ 5,096

8. INVENTORIES

	December 31 2011	December 31 2010	January 1 2010
Equipment	\$ 204,936	\$ 138,818	\$ 130,847
Repair and distribution parts	73,725	59,531	56,189
Direct materials	2,606	2,359	2,207
Work-in-process	20,670	23,708	16,592
	\$ 301,937	\$ 224,416	\$ 205,835

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 2011 were \$844 million (2010 – \$735 million). The cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The amounts charged to the income statement and included in cost of goods sold on a net basis for inventory valuation issues during 2011 was \$1.7 million. A net reversal of write-downs of \$2.4 million was recorded in 2010.

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Power Generation	Total	Rental Equipment
Cost						
December 31, 2010	\$ 46,268	\$ 102,152	\$ 99,125	\$ 37,736	\$ 285,281	\$ 235,183
Additions	1,860	8,513	15,088	278	25,739	62,205
Disposals	(2,496)	(380)	(6,843)	(22)	(9,741)	(34,920)
Currency translation effects	3	12	10	–	25	–
	\$ 45,635	\$ 110,297	\$ 107,380	\$ 37,992	\$ 301,304	\$ 262,468
Accumulated depreciation						
December 31, 2010	\$ –	\$ 45,779	\$ 78,211	\$ 18,783	\$ 142,773	\$ 115,239
Depreciation charge	–	4,175	8,091	1,485	13,751	30,482
Depreciation of disposals	–	(380)	(6,756)	(22)	(7,158)	(18,615)
Currency translation effects	–	2	8	–	10	–
December 31, 2011	–	49,576	79,554	20,246	149,376	127,106
Net book value – December 31, 2011	\$ 45,635	\$ 60,721	\$ 27,826	\$ 17,746	\$ 151,928	\$ 135,362

	Land	Buildings	Equipment	Power Generation	Total	Rental Equipment
Cost						
January 1, 2010	\$ 27,982	\$ 95,615	\$ 96,265	\$ 37,714	\$ 257,576	\$ 232,477
Additions	19,481	6,643	7,420	22	33,566	39,774
Disposals	(1,188)	(76)	(4,537)	–	(5,801)	(37,068)
Currency translation effects	(7)	(30)	(23)	–	(60)	–
	\$ 46,268	\$ 102,152	\$ 99,125	\$ 37,736	\$ 285,281	\$ 235,183
Accumulated depreciation						
January 1, 2010	\$ –	\$ 41,775	\$ 74,740	\$ 24,351	\$ 140,866	\$ 108,444
Depreciation charge	–	4,084	7,575	1,115	12,774	29,402
Depreciation of disposals	–	(76)	(4,082)	–	(4,158)	(22,607)
Impairment reversal	–	–	–	(6,683)	(6,683)	–
Currency translation effects	–	(4)	(22)	–	(26)	–
December 31, 2010	–	45,779	78,211	18,783	142,773	115,239
Net book value – December 31, 2010	\$ 46,268	\$ 56,373	\$ 20,914	\$ 18,953	\$ 142,508	\$ 119,944

During 2011, depreciation expenses of \$39,578 has been charged in cost of goods sold (2010 – \$37,819) and \$4,655 has been charged to selling and administrative expenses (2010 – \$4,356).

In the fourth quarter of 2010, revised pricing under certain electricity supply contracts triggered an assessment of the recoverable amount of certain power generation assets. This led to a reversal of \$6.7 million of asset impairment provision against cost of sales depreciation charges in 2010 (See Note 5 for additional information).

Operating income from rental operations for the year ended December 31, 2011 was \$23.5 million (2010 – \$16.4 million).

10. OTHER ASSETS

	December 31 2011	December 31 2010	January 1 2010
Equipment sold with guaranteed residual values	\$ 7,263	\$ 8,451	\$ 10,940
Other	932	570	443
	\$ 8,195	\$ 9,021	\$ 11,383

11. GOODWILL

Goodwill acquired through business combinations has been allocated to two cash-generating units (CGUs) or groups of CGUs for impairment testing as follows:

- Toromont CAT, included within the Equipment Group
- CIMCO, which is also an operating and reportable segment

Carrying amount of goodwill allocated to each of the CGUs

	December 31 2011	December 31 2010	January 1 2010
Toromont CAT	\$ 13,000	\$ 13,000	\$ 13,000
CIMCO	450	450	450
Total	\$ 13,450	\$ 13,450	\$ 13,450

The Company performed its annual impairment test of goodwill allocated to Toromont CAT as at December 31, 2011. The recoverable amount of Toromont CAT has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period are extrapolated using a 2% growth rate, which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to cash flow projects is 11.3%. As a result of the analysis, management did not identify impairment for this CGU.

The Company performed its annual impairment test of goodwill allocated to CIMCO as at December 31, 2011. The recoverable amount of CIMCO has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period are extrapolated using a 2% growth rate, which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to cash flow projects is 13.4%. As a result of the analysis, management did not identify impairment for this CGU.

Key Assumption Used in Value in Use Calculations

The calculation of value in use for Toromont CAT and CIMCO are most sensitive to the following assumption:

- Discount rates
- Growth rate to extrapolate cash flows beyond the budget period

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the CGUs weighted average cost of capital, taking into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's shareholders. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service. Segment-specific risk is incorporated by applying different debt to equity ratios.

Growth rate estimates are based on published data and is used as a conservative estimate of future growth.

Sensitivity to Changes in Assumptions

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of either unit to materially exceed its recoverable amount.

12. PAYABLES, ACCRUALS AND PROVISIONS

	December 31 2011	December 31 2010	January 1 2010
Accounts payable and accrued liabilities	\$ 263,544	\$ 226,079	\$ 153,010
Dividends payable	8,433	12,342	9,728
Provisions	8,758	6,824	6,553
	\$ 280,735	\$ 245,245	\$ 169,291

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at December 31, 2010	\$ 4,812	\$ 2,012	\$ 6,824
New provisions	5,286	1,927	7,213
Charges/credits against provisions	(4,966)	(313)	(5,279)
Balance as at December 31, 2011	\$ 5,132	\$ 3,626	\$ 8,758

	Warranty	Other	Total
Balance as at January 1, 2010	\$ 4,879	\$ 1,674	\$ 6,553
New provisions	4,701	1,154	5,855
Charges/credits against provisions	(4,768)	(816)	(5,584)
Balance as at December 31, 2010	\$ 4,812	\$ 2,012	\$ 6,824

Warranty

A provision is recognized for expected warranty claims on products and services during the last year, based on past experience and known issues. It is expected that most of these costs will be incurred in the next financial year.

Other

Other provisions relate largely to open legal and insurance claims. No one claim is significant.

13. LONG-TERM DEBT

	December 31 2011	December 31 2010	January 1 2010
Bank credit facility	\$ –	\$ 280,000	\$ –
Senior debentures	137,163	144,051	155,999
Notes payable	–	–	2,096
Debt issuance costs, net of amortization	(3,068)	(4,122)	(1,125)
Total long-term debt	134,095	419,929	156,970
Less current portion	1,280	6,889	14,044
	\$ 132,815	\$ 413,040	\$ 142,926

All debt is unsecured.

In January 2010, Toromont established a term loan facility in connection with the acquisition of Enerflex Systems Income Fund. 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). In conjunction with the refinancing of the Canadian credit facility noted below, amounts outstanding under the term loan facility were repaid in full on November 5, 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, provided \$600 million in available financing. \$280 million was drawn under this facility at December 31, 2010 and all amounts outstanding on May 31, 2011 were fully paid coincident with the spinoff of Enerflex Ltd.

Effective June 1, 2011, the Company amended its Canadian committed credit facility. The new credit facility, with a maturity date of June 1, 2015, provides \$200 million in available financing. Debt incurred under the new facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. The facility includes covenants, restrictions and events of default typical for credit facilities of this nature. Debt issuance costs of \$575 were adjusted against the carrying value of the debt. There were no drawings against this facility as at December 31, 2011 (December 31, 2010 – \$280 million; January 1, 2010 – \$Nil).

At December 31, 2011, standby letters of credit issued utilized \$24.8 million of the credit lines (December 31, 2010 – \$64.2 million; January 1, 2010 – \$33.2 million).

Terms of the senior debentures are:

- \$125,000, 4.92% senior debentures due October 13, 2015, interest payable semi-annually, principal due on maturity; and
- \$12,163, 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.

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

	Principal	Interest
2012	\$ 1,280	\$ 6,986
2013	1,372	6,895
2014	1,471	6,796
2015	126,576	5,342
2016	1,690	427
2017 to 2019	4,774	517
	\$ 137,163	\$ 26,963

Interest expense included interest on debt initially incurred for a term greater than one year of \$8,436 (2010 – \$10,521).

14. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares (no par value) and preferred shares. No preferred shares have been issued.

Issued

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

	2011		2010	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	\$ 77,149,626	\$ 469,080	\$ 64,867,467	\$ 132,261
Enerflex spinoff	–	(205,318)	–	–
Issue of shares re: Enerflex acquisition	–	–	11,875,250	327,947
Exercise of stock options	200,155	4,141	406,909	8,872
Purchase of shares for cancellation	(720,004)	(2,467)	–	–
Balance, end of year	\$ 76,629,777	\$ 265,436	\$ 77,149,626	469,080

The adjustment to share capital on the spinoff of Enerflex represents 43.6% (butterfly proportion) of the balance of share capital immediately prior to spinoff.

Shareholder Rights Plan

The Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person, and any related parties, acquires or commences a take-over bid to acquire 20% or more of the Company's outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company's Board of Directors. Should such an acquisition occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The plan expires in April 2012.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2011. The current issuer bid allows the Company to purchase up to approximately 5.7 million of its common shares in the 12-month period ending August 30, 2012, 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.

In the year ended December 31, 2011, the Company purchased and cancelled 720,004 shares for \$12,213 (average cost of \$16.96 per share) under its NCIB program. The Company did not purchase any shares under the normal course issuer bid in 2010.

Dividends

The Company paid dividends of \$40.9 million (\$0.53 per share) for the year ended December 31, 2011 and \$45.1 million (\$0.61 per share) for the year ended December 31, 2010.

The dividend was adjusted to \$0.10 per share for the post-spinoff dividend paid on July 1, 2011, which, together with the \$0.06 dividend subsequently declared by the Enerflex Board, kept shareholders whole with the pre-spinoff dividend amount.

On August 12, 2011, the Board of Directors increased the quarterly dividend to \$0.11 per share.

15. 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:

	2011	2010
Contributed surplus, beginning of year	\$ 10,882	\$ 10,012
Enerflex spinoff	(5,081)	–
Stock-based compensation, net of forfeitures	1,001	3,005
Value of compensation cost associated with exercised options	(912)	(2,135)
Contributed surplus, end of year	\$ 5,890	\$ 10,882

The adjustment to contributed surplus on the spinoff of Enerflex represents 43.6% (butterfly proportion) of the balance of contributed surplus immediately prior to spinoff.

16. FINANCIAL INSTRUMENTS

Financial Assets and Liabilities – Classification and Measurement

Financial assets and financial liabilities are measured on an ongoing basis at cost, fair value or amortized cost, depending on the classification. The following table highlights the carrying amounts and classifications of financial assets and liabilities:

As at December 31, 2011	Cash loans and receivables	Derivatives used for hedging	Available for sale	Other financial liabilities	Total
Cash and cash equivalents	\$ 75,319	\$ –	\$ –	\$ –	\$ 75,319
Accounts receivable	209,243	–	–	–	209,243
Accounts payable and accrued liabilities	–	–	–	(280,735)	(280,735)
Current portion of long-term debt	–	–	–	(1,280)	(1,280)
Derivative financial instruments	–	(210)	–	–	(210)
Long-term debt	–	–	–	(132,815)	(132,815)
Total	\$ 284,562	\$ (210)	\$ –	\$ (414,830)	\$ (130,478)

As at December 31, 2010	Cash loans and receivables	Derivatives used for hedging	Available for sale	Other financial liabilities	Total
Cash and cash equivalents	\$ 174,089	\$ –	\$ –	\$ –	\$ 174,089
Accounts receivable	208,620	–	–	–	208,620
Accounts payable and accrued liabilities	–	–	–	(245,245)	(245,245)
Current portion of long-term debt	–	–	–	(6,889)	(6,889)
Derivative financial instruments	–	(5,063)	–	–	(5,063)
Long-term debt	–	–	–	(413,040)	(413,040)
Discontinued operations	264,540	(155)	–	(164,422)	99,963
Total	\$ 647,249	\$ (5,218)	\$ –	\$ (829,596)	\$ (187,565)

As at January 1, 2010	Cash loans and receivables	Derivatives used for hedging	Available for sale	Other financial liabilities	Total
Cash and cash equivalents	\$ 206,957	\$ –	\$ –	\$ –	\$ 206,957
Accounts receivable	166,748	–	–	–	166,748
Accounts payable and accrued liabilities	–	–	–	(169,291)	(169,291)
Current portion of long-term debt	–	–	–	(14,044)	(14,044)
Derivative financial instruments	–	(874)	–	–	(874)
Long-term debt	–	–	–	(142,926)	(142,926)
Discontinued operations	78,011	–	56,502	(68,873)	65,640
Total	\$ 451,716	\$ (874)	\$ 56,502	\$ (395,134)	\$ 112,210

Certain investments at discontinued operations were classified as available for sale and were recorded at fair value based on quoted market prices. Gains and losses resulting from the periodic revaluations were recorded in other comprehensive income.

Fair Value of Financial Instruments

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

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 period end under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value. The valuation is determined using Level 2 inputs, which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of asset or liability.

The fair value of senior debentures as at December 31, 2011 was \$147,572 (carrying value of \$137,163). The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted 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. The valuation is determined using Level 2 inputs, which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of asset or liability.

During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2 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, 2011.

		Notional Amount	Average Exchange Rate*	Maturity
Purchase contracts	USD	\$ 248,453	\$ 1.0200	Jan. 2012 – Jan. 2014
	EUR	\$ 3,648	\$ 1.3540	Jan. 2012 – May 2012
	GBP	\$ 1,800	\$ 1.5611	January 2012

* CDN \$ required to purchase one denominated unit.

Management estimates that a loss of \$210 would be realized if the contracts were terminated on December 31, 2011. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of \$493 has been included in other comprehensive income. These gains are not expected to affect net income as the gains will be reclassified to net income within the next twelve months and will offset losses recorded on the underlying hedged items, namely foreign denominated accounts payable. A loss of \$703 on forward contracts not designated as hedges is included in net income, which offsets gains recorded on the foreign-denominated items, namely accounts payable.

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.

17. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

In the normal course of business, Toromont is exposed to financial risks that may potentially impact its operating results in one or all of its operating 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. The Company does not enter into derivative financial agreements for speculative purposes.

Currency Risk

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

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, 2011 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 the British Pound. 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.

	USD	Euro	GBP	Total
Financial instruments held in foreign operations:				
Other comprehensive Income	\$ 302	\$ –	\$ –	\$ 302
Financial instruments held in Canadian operations:				
Net earnings	\$ 1,497	\$ –	\$ –	\$ 1,497
Other comprehensive Income	\$ 4,195	\$ 178	\$ 105	\$ 4,478

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 foreign 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 and derivative financial instruments. The carrying amount of assets included on the statement of financial position 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, food and beverage, and governmental agencies. These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

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

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, 2011 or December 31, 2010.

The Company had no floating rate debt as at December 31, 2011.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2011, the Company had unutilized lines of credit of \$175 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.

18. INTEREST INCOME AND EXPENSE

The components of interest expense are as follows:

	2011	2010
Term loan facility	\$ 1,941	\$ 3,808
Senior debentures	7,071	7,821
	\$ 9,012	\$ 11,629

The components of interest and investment income are as follows:

	2011	2010
Interest income on rental conversions	\$ 2,981	\$ 2,503
Other	233	300
	\$ 3,214	\$ 2,803

19. INCOME TAXES

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

	2011	2010
Current income tax expense	\$ 41,159	\$ 30,422
Deferred income tax (recovery) expense	(1,450)	3,293
Total income tax expense	\$ 39,709	\$ 33,715

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

	2011	2010
Statutory Canadian federal and provincial income tax rates	28.25%	31.0%
Expected taxes on income	\$ 40,224	\$ 34,216
Increase (decrease) in income taxes resulting from:		
Lower effective tax rates in other jurisdictions	(67)	(383)
Manufacturing and processing rate reduction	(239)	(198)
Income not taxable for tax purposes	(218)	(919)
Non-taxable gains	(244)	(61)
Effect of future income tax reductions	64	(28)
Other	189	1,088
Provision for income tax	\$ 39,709	\$ 33,715
Effective income tax rate	27.9%	30.5%

The statutory income tax rate represents the combined Canada Federal and Ontario provincial income tax rates which are the relevant tax jurisdictions for the Company. The decrease is largely due to the reduction of the Federal income tax rate in 2011 from 18% to 16.5%.

The source of deferred income taxes was as follows:

	December 31 2011	December 31 2010	January 1 2010
Accrued liabilities	\$ 8,964	\$ 8,836	\$ 8,043
Deferred revenue	1,021	659	1,202
Accounts receivable	1,231	1,070	1,142
Inventories	2,927	2,949	3,814
Capital assets	(8,454)	(9,565)	(9,206)
Employee future benefits	4,294	4,975	4,349
Other	503	112	2,985
Cash flow hedges in other comprehensive income	2,263	1,399	163
Deferred tax assets	\$ 12,749	\$ 10,435	\$ 12,492

Movement in net deferred tax assets:

	2011	2010
Balance, January 1	\$ 10,435	\$ 12,492
Tax expense (recovery) recognized in income	1,450	(3,293)
Tax expense recognized in other comprehensive income	864	1,236
Balance, December 31	\$ 12,749	\$ 10,435

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax assets have not been recognized as at December 31, 2011 was \$31,270 (December 31, 2010 – \$197,432; January 1, 2010 – \$183,297).

20. EARNINGS PER SHARE

Basic earnings per share ("EPS") are calculated by dividing net earnings for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is calculated by dividing net earnings by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive stock options in to common shares.

EPS amounts for continuing and discontinued operations is calculated by dividing net earnings from continuing and discontinued operations respectively by the weighted average number of common shares for both basic and diluted amounts.

	2011	2010
Net earnings available to common shareholders	\$ 246,459	\$ 103,912
Net earnings from discontinued operations	143,781	27,253
Net earnings from continuing operations	\$ 102,678	\$ 76,659
Weighted average common shares outstanding	\$ 77,013,509	\$ 76,170,972
Dilutive effect of stock option conversion	379,744	190,977
Diluted weighted average common shares outstanding	\$ 77,393,253	\$ 76,361,949
Basic earnings per share		
Continuing operations	\$ 1.33	\$ 1.00
Discontinued operations	1.87	0.36
	\$ 3.20	\$ 1.36
Diluted earnings per share		
Continuing operations	\$ 1.32	\$ 0.99
Discontinued operations	1.86	0.36
	\$ 3.18	\$ 1.35

For the calculation of diluted earnings per share for the year ended December 31, 2010, 936,920 outstanding stock options with an exercise price range of \$16.27 to \$16.76 were considered anti-dilutive (exercise price in excess of market price) and as such were excluded from the calculation. There were no anti-dilutive options for the year ended December 31, 2011.

21. EMPLOYEE BENEFITS EXPENSE

	2011	2010
Wages and salaries	\$ 243,994	\$ 221,133
Other employment benefit expenses	46,644	42,461
Share options granted to directors and employees	1,001	3,005
Pension costs	8,768	8,423
	\$ 300,407	\$ 275,022

22. 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 the Company policy that no more than 1% of outstanding shares or 771,149 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.

With the completion of the Enerflex spinoff, previously issued stock options were split. For each Toromont stock option previously held, option holders received one option in each of Toromont and Enerflex, with the exercise price determined by applying the "butterfly proportion" to the previous exercise price. All other conditions related to these options, including term and vesting periods, remained the same and there was no acceleration of options vesting. The butterfly proportion was determined to be 56.4% to 43.6% for Toromont and Enerflex respectively.

Toromont accrues compensation cost over the vesting period based on fair value. The Enerflex options are reflected in the financial statements of Enerflex Ltd.

A reconciliation of the outstanding options for the year ended December 31, 2011 was as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,144,860	\$ 26.04
Exercised prior to spinoff ⁽¹⁾	(62,770)	22.99
Forfeited prior to spinoff	(52,060)	27.11
Options outstanding at spinoff	2,030,030	\$ 26.10
Options outstanding post spinoff	2,030,030	\$ 14.72
Granted subsequent to spinoff	601,975	17.10
Exercised subsequent to spinoff ⁽²⁾	(137,385)	12.80
Forfeited subsequent to spinoff	(75,560)	15.12
Options outstanding, end of year	2,419,060	\$ 15.41
Options exercisable, end of year	972,605	\$ 14.43

(1) The weighted average share price at date of exercise was \$31.45.

(2) The weighted average share price at date of exercise was \$20.05.

A reconciliation of the outstanding options for the year ended December 31, 2010 was as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,961,809	\$ 22.91
Granted	610,050	29.71
Exercised ⁽¹⁾	(406,909)	16.37
Forfeited	(20,090)	21.25
Options outstanding, end of year	2,144,860	\$ 26.04
Options exercisable, end of year	811,824	\$ 24.51

(1) The weighted average share price at date of exercise was \$29.64.

The number of options outstanding at June 1, 2011 was 2,030,030 and the weighted average exercise price was \$26.10. Based on the butterfly proportion, the adjusted weighted average exercise price of Toromont options was \$14.72. The adjusted weighted average exercise price of Enerflex options was \$11.39.

The following table summarizes stock options outstanding and exercisable as at December 31, 2011.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$12.32 – \$13.17	492,625	3.2	\$ 12.41	255,685	\$ 12.40
\$13.86 – \$17.10	1,926,435	4.4	16.81	716,920	15.16
Total	2,419,060	4.2	\$ 15.41	972,605	\$ 14.43

The fair value of the stock options granted during 2011 was determined at the time of grant, using the Black-Scholes option pricing model with the following assumptions: share price \$17.10; expected life of options 5.81 years; expected stock price volatility 25%; expected dividend yield 2.57%; and risk-free interest rate 1.67%. This resulted in a weighted average fair value price per option of \$3.19. Expected stock price volatility was determined at time of grant considering historic share price volatility.

The fair value of the stock options granted during 2010 was determined at the time of grant, using the Black-Scholes option pricing model with the following assumptions: share price \$29.71; expected life of options 5.84 years; expected stock price volatility 25%; expected dividend yield 2.0%; and risk-free interest rate 2.6%. This resulted in a weighted average fair value price per option of \$6.59. Based on the butterfly proportion, the value of the Toromont 2010 option grant was \$3.72 and the value of an Enerflex option was \$2.87.

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 performance incentive award or fees, respectively, in deferred share units. In addition, the Board may grant discretionary DSUs.

DSUs outstanding as at June 1, 2011 were adjusted to reflect the difference in the fair market value as a result of the spinoff of Enerflex. The adjustment was determined based on the volume-weighted average trading prices for the five trading days prior to and subsequent to the effective date of the spinoff.

The following table summarizes information related to DSU activity:

	December 31, 2011		December 31, 2010	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, beginning of year	87,969	\$ 2,747	68,357	\$ 1,872
Units taken in lieu of performance incentive awards, director fees and dividends	25,900	690	20,475	564
Redemptions	—	—	(863)	(25)
Adjustment to reflect spinoff	58,888	—	—	—
DSUs granted	20,971	362	—	—
Fair market value adjustment	—	294	—	336
Outstanding, end of year	193,728	\$ 4,093	87,969	\$ 2,747

The liability for deferred share units is recorded in accounts payable and accrued liabilities.

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 \$1.1 million in 2011 (2010 – \$1.0 million) were charged to selling and administrative expense when paid. The Plan is administered by a third party.

23. 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 140 employees are included in defined benefit plans.

- 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, 2010. The next valuation is scheduled as at December 31, 2011.
- 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, 2011. The next valuation is scheduled as at December 31, 2012.
- 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, 2011. The next valuation is scheduled as at January 1, 2014.

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

	2011	2010
Accrued benefit obligations:		
Balance, beginning of year	\$ 72,164	\$ 65,649
Service cost	998	854
Interest cost	3,614	3,732
Net actuarial loss	7,666	6,657
Benefits paid	(5,502)	(5,135)
Voluntary contributions	433	407
Balance, end of year	\$ 79,373	\$ 72,164
Plan assets:		
Fair value, beginning of year	\$ 52,313	\$ 48,400
Expected return on plan assets	3,640	3,397
Net actuarial (loss) gain	(1,990)	1,470
Company contributions	4,306	3,771
Participant contributions	433	407
Benefits paid	(5,502)	(5,135)
Other adjustments	12	3
Fair value, end of year	\$ 53,212	\$ 52,313
Accrued pension liability	\$ 26,161	\$ 19,851

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

	2011			2010		
	Accrued benefit obligation	Plan assets	Accrued pension asset (liability)	Accrued benefit obligation	Plan assets	Accrued pension asset (liability)
Powell Plan	\$ 49,228	\$ 42,018	\$ (7,210)	\$ 43,525	\$ 40,364	\$ (3,161)
Executive Plan	21,791	2,230	(19,561)	20,342	2,252	(18,090)
Other plan assets and obligations	8,354	8,964	610	8,297	9,697	1,400
Accrued pension asset (liability)	\$ 79,373	\$ 53,212	\$ (26,161)	\$ 72,164	\$ 52,313	\$ (19,851)

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 \$21.0 million to secure the obligations under this plan.

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

	2011	2010
Discount rate	4.25%	5.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

The allocations of plan assets are as follows:

	2011	2010
Equity securities	39.5%	45.3%
Debt securities	44.2%	43.1%
Real estate securities	15.2%	11.5%
Cash and cash equivalents	1.1%	0.1%

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

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

	2011	2010
Defined benefit plans		
Service cost	\$ 998	\$ 854
Interest cost	3,614	3,732
Expected return on plan assets	(3,640)	(3,397)
	972	1,189
Defined contribution plans	7,692	7,145
401 (k) matched savings plan	104	89
Net pension expense	\$ 8,768	\$ 8,423

The total cash amount paid or payable for employee future benefits in 2011, including defined benefit and defined contribution plans, was \$11,929 (2010 – \$10,883).

The Company expects to contribute \$3,593 to its defined benefit pension plans in 2012.

The cumulative actuarial losses recognized in OCI as at December 31, 2011 was \$14,840 (2010 – \$5,195).

24. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of shareholders' equity 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 total capitalization ratio of 33%, 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 Company's capital management criteria can be illustrated as follows:

	December 31 2011	December 31 2010	January 1 2010
Shareholders' equity	\$ 403,861	\$ 1,196,838	\$ 834,984
Long-term debt	134,095	419,929	156,970
Less cash and cash equivalents	(75,319)	(174,089)	(206,957)
Total capitalization	\$ 462,637	\$ 1,442,678	\$ 784,997
Net debt as a % of total capitalization	13%	17%	n/m
Net debt to equity ratio	0.15:1	0.21:1	n/m

n/m – not meaningful, cash exceeds long-term debt at January 1, 2010

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.

25. SUPPLEMENTAL CASH FLOW INFORMATION

	2011	2010
Net change in non-cash working capital and other		
Accounts receivables	\$ (623)	\$ (41,873)
Inventories	(77,521)	(18,580)
Accounts payable, accrued liabilities and provisions	35,490	75,953
Deferred revenues	4,031	15,011
Other	(1,108)	17,926
	\$ (39,731)	\$ 48,437
Cash paid during the year for:		
Interest	\$ 8,788	\$ 7,761
Income taxes	\$ 31,412	\$ 29,780
Cash received during the year for:		
Interest	\$ 3,214	\$ 2,738
Income taxes	\$ 740	\$ 11,396

26. COMMITMENTS

The Company has entered into leases on buildings, vehicles and office equipment. The vehicle and office equipment leases generally have an average life between 3 and 5 years with no renewal options. The building leases have a maximum lease term of 20 years including renewal options. Some of the contracts include lease escalation clause, which is usually based on consumer price index.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2011 are as follows:

2012	\$ 2,520
2013	2,037
2014	1,575
2015	2,586
2016	986
2017 and thereafter	1,925
	\$ 11,629

27. SEGMENTED INFORMATION

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

The Company previously reported two operating segments, Equipment Group and Compression Group. Enerflex was previously included in the Compression Group. With the completion of spinoff, operating results have been restated to reflect Enerflex as a discontinued operation. Compression Group was renamed to CIMCO.

The Equipment Group includes one of the world's larger Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations. CIMCO is an industry leader specializing in the design, engineering, fabrication, and installation of industrial and recreational refrigeration systems. Both groups offer comprehensive product support services.

The accounting policies of the reportable operating segments are the same as those described in Note 1 – 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.

Years ended December 31	Equipment Group		CIMCO		Consolidated	
	2011	2010	2011	2010	2011	2010
Equipment/package sales	\$ 668,372	\$ 561,218	\$ 103,925	\$ 106,890	\$ 772,297	\$ 668,108
Rentals	164,953	143,398	–	–	164,953	143,398
Product support	350,977	306,634	81,662	77,438	432,639	384,072
Power generation	12,085	11,450	–	–	12,085	11,450
Total revenues	\$1,196,387	\$1,022,700	\$ 185,587	\$ 184,328	\$1,381,974	\$ 1,207,028
Operating Income	\$ 134,314	\$ 108,166	\$ 13,871	\$ 11,034	\$ 148,185	\$ 119,200
Interest expense					9,012	11,629
Interest and investment income					(3,214)	(2,803)
Income taxes					39,709	33,715
Net earnings from continuing operations					\$ 102,678	\$ 76,659

Selected balance sheet information:

As at December 31, 2011	Equipment Group	CIMCO	Consolidated
Identifiable assets	\$ 780,926	\$ 43,651	\$ 824,577
Corporate assets			88,754
Total assets			\$ 913,331
Identifiable liabilities	\$ 295,994	\$ 27,600	\$ 323,594
Corporate liabilities			185,876
Total liabilities			\$ 509,470
Capital expenditures	\$ 82,287	\$ 590	\$ 82,877
Depreciation	\$ 43,642	\$ 591	\$ 44,233
Goodwill	\$ 13,000	\$ 450	\$ 13,450

As at December 31, 2010	Equipment Group	CIMCO	Consolidated
Identifiable assets	\$ 662,021	\$ 52,087	\$ 714,108
Assets of discontinued operations			1,364,402
Corporate assets			193,253
Total assets			\$ 2,271,763
Identifiable liabilities	\$ 251,800	\$ 39,418	\$ 291,218
Liabilities of discontinued operations			324,324
Corporate liabilities			459,383
Total liabilities			\$ 1,074,925
Capital expenditures	\$ 70,225	\$ 918	\$ 71,143
Depreciation	\$ 41,530	\$ 645	\$ 42,175
Goodwill	\$ 13,000	\$ 450	\$ 13,450

As at January 1, 2010	Equipment Group	CIMCO	Consolidated
Identifiable assets	\$ 599,358	\$ 47,367	\$ 646,725
Assets of discontinued operations			484,149
Corporate assets			224,993
Total assets			\$ 1,355,867
Identifiable liabilities	\$ 154,039	\$ 32,880	\$ 186,919
Liabilities of discontinued operations			133,054
Corporate liabilities			200,910
Total liabilities			\$ 520,883

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

Years ended December 31	2011	2010
Revenues		
Canada	\$ 1,337,230	\$ 1,164,518
United States	39,638	37,270
International	5,106	5,240
	\$ 1,381,974	\$ 1,207,028

As at	December 31 2011	December 31 2010	January 1 2010
Capital Assets and Goodwill			
Canada	\$ 299,669	\$ 274,841	\$ 253,042
United States	1,071	1,061	1,151
	\$ 300,740	\$ 275,902	\$ 254,193

28. RELATED PARTY DISCLOSURES

Key management personnel and director compensation from continuing operations comprised:

	2011	2010
Salaries	\$ 2,759	\$ 2,841
Option based awards	798	1,054
Annual non-equity incentive based plan compensation	2,865	2,075
Pension	205	103
All other compensation	141	143
	\$ 6,768	\$ 6,216

The remuneration of directors and key management is determined by the Human Resources Committee having regard to the performance of the individual and Company and market trends.

29. ECONOMIC RELATIONSHIP

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

TEN-YEAR FINANCIAL REVIEW⁽¹⁾

For the years ended December 31

(\$ thousands, except ratios and share amounts)

	2011	2010	2009	2008
OPERATING RESULTS				
Revenues (2)	1,381,974	1,207,028	1,824,592	2,121,209
Net earnings	246,459	103,912	120,516	140,524
Net interest expense (income) (2)	5,798	8,826	2,460	(3,246)
Capital expenditures (2)	82,877	71,143	61,041	96,475
Dividends declared	36,968	47,716	38,848	36,391
FINANCIAL POSITION				
Working capital	251,122	478,289	539,264	509,276
Capital assets	287,290	556,991	369,666	402,647
Total assets	913,331	2,271,763	1,364,667	1,533,450
Long-term debt	132,815	413,040	144,051	158,112
Shareholders' equity	403,861	1,196,838	854,063	779,103
FINANCIAL RATIOS				
Working capital	1.7:1	1.8:1	2.6:1	1.9:1
Return on opening shareholders' equity (3)	28.9	9.1	15.5	21.5
Total debt net of cash to shareholders' equity	0.15:1	0.21:1	(.06):1	.05:1
PER SHARE DATA (\$)				
Net earnings – basic	3.20	1.36	1.86	2.16
Net earnings – diluted	3.18	1.35	1.86	2.15
Dividends declared	0.48	0.62	0.60	0.56
Book value (shareholders' equity)	5.27	15.50	13.17	12.06
Shares outstanding at year end	76,629,777	77,149,626	64,867,467	64,620,677
Price range (4)				
High	33.25	32.40	27.80	32.90
Low	15.39	22.86	19.26	19.03
Close	21.32	30.76	27.79	22.99

(1) 2011 and 2010 results were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.

(2) Figures for 2011 and 2010 are presented on a continuing operations basis.

(3) 2011 ROE was calculated excluding earnings and equity from discontinued operations.

(4) On June 1, 2011, Toromont completed the spinoff of Enerflex. Toromont shareholders received one share of Enerflex for each Toromont share held.

2007	2006	2005	2004	2003	2002
1,886,761	1,746,162	1,584,911	1,434,756	1,299,389	1,076,930
122,280	99,421	78,962	70,518	58,693	40,457
9,331	11,110	10,192	10,202	10,608	7,136
97,108	102,444	72,813	65,608	72,922	53,042
31,061	25,594	20,280	16,486	13,319	11,541
466,859	469,638	410,990	263,294	203,577	213,222
341,159	323,504	283,407	297,645	293,211	258,764
1,356,861	1,299,992	1,143,972	962,437	856,176	771,902
203,425	238,468	241,265	166,508	159,694	156,479
654,730	565,556	481,812	415,855	376,837	335,316
2.0:1	2.1:1	2.1:1	1.8:1	1.7:1	1.8:1
21.6	20.6	18.9	18.7	17.5	12.9
.2:1	.4:1	.4:1	.4:1	.5:1	.4:1
1.89	1.56	1.25	1.11	0.93	0.63
1.88	1.54	1.23	1.09	0.91	0.62
0.48	0.40	0.32	0.26	0.21	0.18
10.08	8.79	7.57	6.59	5.93	5.28
64,943,497	64,310,377	63,624,936	63,082,586	63,563,246	63,455,146
30.00	27.15	25.68	20.85	16.73	13.25
22.30	20.08	20.05	15.88	9.88	9.25
28.26	24.50	25.40	20.72	16.53	10.33

CORPORATE INFORMATION

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Battlefield – The CAT Rental Store

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T: 905 577 7777
F: 905 643 6008
www.battlefieldequipment.com

CIMCO Refrigeration

65 Villiers Street
Toronto, Ontario M5A 3S1
T: 416 465 7581
F: 416 465 8815
www.cimcorefrigeration.com

ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am on Thursday, April 26, 2012 in the Imperial Room at the Fairmont Royal York Hotel, 100 Front Street West, Toronto, Ontario.

OFFICERS

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

Scott J. Medhurst, Incoming President and Chief Executive Officer

Paul R. Jewer, Executive Vice President 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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Tel: 416 667 5511

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www.toromont.com

HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR

Investors are encouraged to contact
CIBC Mellon Trust Company for informa-
tion regarding their security holdings.

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.

P.O. Box 7010

Station B

Montreal, QC

H3B 3K3

Telephone: 416 682 3860 or

1 800 387 0825

Fax: 1 888 249 6189

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COMMON SHARES

Listed on the Toronto Stock Exchange
Stock Symbol – TIH

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TOROMONT

