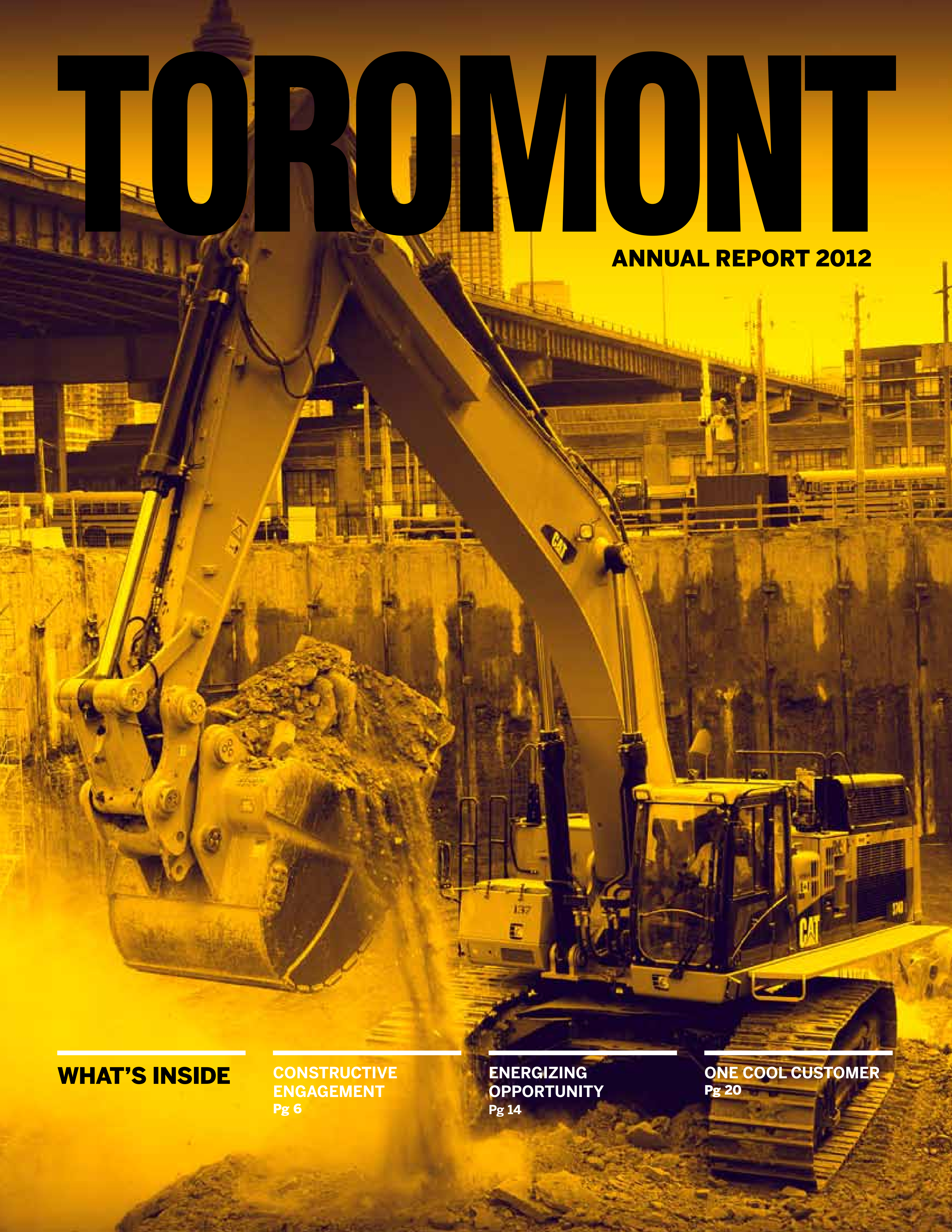
TOROMONT

ANNUAL REPORT 2012



WHAT'S INSIDE

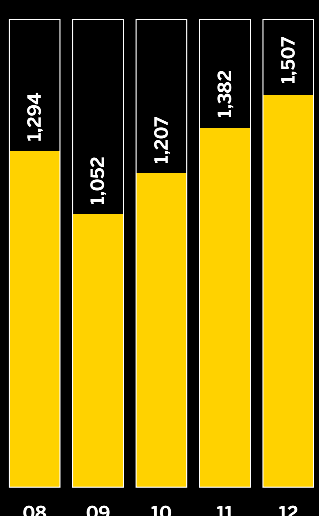
COVER: **A Toromont Cat 374D excavates the foundation of a condominium project in downtown Toronto.**

Proven Steady Growth

(in thousands, except per share amounts and ratios)	2012	2011	2010
Revenues – continuing operations	**$ 1,507,173**	$ 1,381,974	$ 1,207,028
Net earnings – continuing operations	**$ 120,553**	$ 102,678	$ 76,659
Net earnings	**$ 120,553**	$ 246,459	$ 103,912
Earnings per share – basic – continuing operations	**$ 1.57**	$ 1.33	$ 1.00
Earnings per share – basic	**$ 1.57**	$ 3.20	$ 1.36
Dividends per share	**$ .48**	$ 0.48	$ 0.62
Closing share price (TSX)	**$ 21.10**	$ 21.32	$ 30.76
Non-cash working capital	**$ 300,536**	$ 175,803	$ 136,180
Debt net of cash to total capitalization	25%	13%	17%
Return on opening shareholders' equity	30%	29%	9%

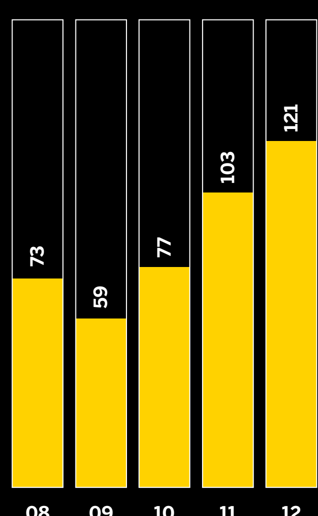
REVENUES

($ millions)



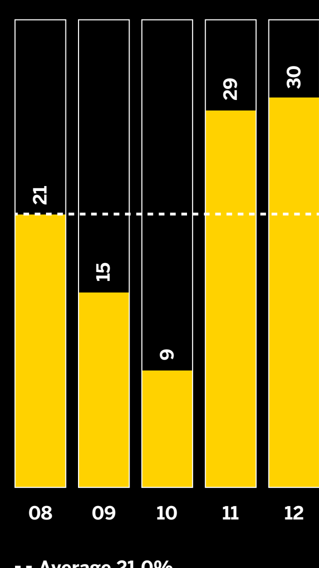
NET EARNINGS – CONTINUING OPERATIONS

($ millions)

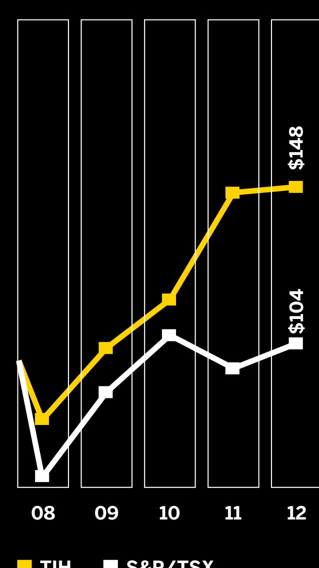


RETURN ON SHAREHOLDERS' EQUITY

(%)



TOTAL RETURN ON A $100 INVESTMENT



CONTENTS

WWW.TOROMONT.COM

TOROMONT INDUSTRIES LTD. AND OUR DEDICATED TEAM OF MORE THAN 3,200 DELIVER SPECIALIZED EQUIPMENT AND MUCH MORE FROM 102 LOCATIONS IN CANADA AND THE UNITED STATES. OUR COMMON SHARES ARE LISTED ON THE TORONTO STOCK EXCHANGE (SYMBOL TIH).

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.

FELLOW SHAREHOLDERS,

TOROMONT DELIVERED RECORD PERFORMANCE IN 2012 FOR SHAREHOLDERS AND MET MAJOR CUSTOMER COMMITMENTS WHILE REALIGNING OPERATIONS WITH END MARKETS AND GROWING OUR SKILLED WORKFORCE.

"STRONG EARNINGS PERFORMANCE FUNDED A DIVIDEND INCREASE IN 2013...FOR THE 24TH CONSECUTIVE YEAR."

Robert M. Ogilvie
Executive Chairman of the Board

Scott J. Medhurst
President and Chief Executive Officer

The past year represented significant change at Toromont as we became more aligned to Caterpillar and restructured our business to meet new market trends and growth opportunities. Our teams again proved that even in a slow-growth economy featuring intensively competitive markets, Toromont continued to perform well.

Revenue increased 9% year over year to a record $1.5 billion as we achieved growth in new equipment sales, rentals and product support. Operating income was ahead of last year by 15% due to an increased contribution from product support and good expense discipline.

Net earnings from continuing operations increased 17% to $120.6 million and earnings per share of $1.57 were 18% above 2011. Return on opening shareholders' equity was 30.1%.

Continued strong earnings performance funded a dividend increase in early 2012 and once again in 2013 – our 24th consecutive year of increasing dividends.

Despite funding higher dividend payments, buying back over 660,000 shares and reinvesting a net $90 million in growing and sustaining our business, we maintained a strong financial position with a year-end net debt to total capitalization ratio of 25%.

Beyond the financial highlights of the year, we also successfully completed our planned senior leadership succession in the spring of 2012, as described in last year's annual report. With Scott Medhurst assuming the role of President and CEO of the Company and Robert Ogilvie continuing as Executive Chairman, we took several actions to prepare Toromont for the next phase of development.

Customer Alignment

One of these actions was to reshape our Equipment Group into three market-driven divisions to compete more effectively in key growth areas.

Compared to the past when operations were managed geographically, our new structure enables a much deeper level of customer intimacy and industry specialization and provides an opportunity to capitalize on shifting market segments. In short, it improves our connection with, and value to, customers.

Reshaping activities placed significant demands on our employees through much of the year. Now that the realignment is complete and roles and responsibilities reset, we are ready to move forward with the necessary customer focus to succeed.

For the Construction Division, this means sharpening our focus on customers, including site developers, commercial construction contractors, road builders, aggregate quarries and landscapers – each a hard-core user of our specialized equipment and support services. We estimate that more than 80% of our installed machine base is deployed in construction activities, making the

30.1%

Return on opening shareholders' equity

Construction Division a service provider to our largest markets.

For the Resource Industries Division, the primary focus is on mining, where we have made significant inroads in the past five years, growing our customer relationships and installed base. Our 2012 acquisition of the Bucyrus distribution network from Caterpillar and the addition of Bucyrus products, now rebranded Cat, broaden our opportunity and make Toromont more of a one-stop provider.

The Power Systems Division is responsible for industrial engines, electrical power, power generation and marine. Customers in these markets depend on specialized engineering capabilities, dedicated project management and specialized product support skills. We are better able to meet these demands, in part through the 2012 creation of eight Power Systems centres of excellence. These designated service teams will provide a higher level of expertise and efficiency.

Untouched in our reshaping efforts was CIMCO, by virtue of the fact that it was already well aligned with its two primary markets: industrial and recreational refrigeration. The emphasis remains on growing CIMCO's market-leading positions in new equipment sales and product support. Strategically, much attention has been placed on innovation, technology, automation and on creating new customer relationships.

Customer and Operating Highlights

There were many highlights of 2012, including the supply of 33 machines to Detour Gold to fulfill our largest mining contract to date. It took a concerted effort, involving teams from Toromont and Caterpillar working hand-in-hand with Detour Gold, to secure, ship, assemble and commission Detour's production fleet. We are proud to note that despite a demanding schedule, this project was delivered ahead of time and on budget (see page 12). In an industry under constant pressure to perform, we are proud that we could contribute to our customer's success.

Toromont met many customer commitments for on-time equipment delivery and product uptime. In the case of the latter, the recruitment of 926 technicians over the past five years, including 222 in 2012, significantly strengthened our ability to meet the ever-increasing demand for product support across our growing installed base – and contributed to record 2012 product support revenue.

Organizationally, there was one important highlight of which we are particularly proud: our employees experienced fewer lost-time injuries. We made gains against our number-one objective of sending everyone home safely at night.

Additional highlights within the Equipment Group included:

- Assumption of territorial rights to sell and service Caterpillar's CG series natural gas generators (recently acquired with MWM), which improved our competitiveness in industrial, commercial, utility, mine and agriculture markets and assisted with a new project for Markham District Energy (see page 14)
- Growth in heavy equipment rental revenues year over year: a positive outcome that justified additional investments in the fleet in 2012 and demonstrated the synergies between Toromont Cat and Battlefield – The Cat Rental Store
- Record Battlefield performance delivered through growth in same-store sales and solid contributions from our recently opened location in Bracebridge and our Jobsite branch in Sudbury
- An increase in revenues for our technology dealership, SITECH Mid-Canada Ltd. which represents both Caterpillar's machine control guidance and Trimble's grade control, site positioning and construction software products. This company also provides support to Toromont Cat and Battlefield
- A 16% increase in product support revenue, highlighting our ability to capitalize on the existing machine and engine population

“IN 2013, TORONTONT CELEBRATES ITS 20TH ANNIVERSARY AS A CATERPILLAR DEALER, 45TH YEAR AS A PUBLIC COMPANY AND CIMCO MARKS ITS 100TH ANNIVERSARY.”

- Great strides with our broader product offering, including Metso crushing and screening equipment, which delivered 55% growth in parts revenue

CIMCO's 2012 highlights included:

- Bookings of $162 million, an annual record, and closing backlogs of $99 million, a record for a year-end
- Designing, building and installing our first refrigeration systems using CO_2 technology (see page 22), an advancement that broadens opportunity in industrial markets
- Completing projects for Maple Leaf Foods' Brampton, Lagimodiere (Winnipeg), Saskatoon and Lethbridge facilities and starting work on our largest-ever industrial refrigeration project: Maple Leaf's 402,000-square-foot prepared meats plant in Hamilton (see page 20)
- Growing in the United States where we recently signed an agreement to supply parts and service to 20 facilities owned by a major US supply chain services company
- Expanding our ECO CHILL recreational ice rink installed base with installations in Lunenburg, Latuque, Victoriaville, Westmount (Montreal), the University of Guelph, Port Arthur and Edmonton, among others

The Way Ahead

In 2013, Toromont will celebrate its 45th year as a public company, Toromont Cat will attain 20 years as a Caterpillar dealer and CIMCO marks its 100th anniversary. These are important milestones that speak to the staying power of our business. Going forward, our desire is not just to celebrate these past accomplishments, but to create new ones.

While current economic forecasts call for modest growth in Canada in 2013, there are numerous bright spots. CIMCO enters the year with record backlogs and momentum in booking activity. Caterpillar continues to innovate and expand its market-leading products in segments that are important to us. We are tracking a number of large construction projects (see pages 6–11) that should keep our customers busy. Our prospects in mining remain strong, although project timing may favour the latter years of our current business plan. The current engine and machine population represents significant parts and service opportunities.

While we will seek to grow in new ways, using a mix of organic and acquisition strategies, we will most assuredly do so while abiding by our core principles, chief among these: selling specialized equipment and supporting our customers as they use it, driving down their hourly operating costs and sustaining high uptimes. In doing so, continued focus on our key operating disciplines remains important to our long-term success.

Customers will expect more from us in 2013. We are ready with an experienced Board, a sharply focused management team, the industry's best workforce and a great partner in Caterpillar.

We thank all of our customers, shareholders, employees and directors for their support and contribution to Toromont's results.

Yours sincerely,

Robert M. Ogilvie
Executive Chairman of the Board

Scott J. Medhurst
President and Chief Executive Officer

Earthmoving on a residential construction site, one of many projects that rely on our customers and our equipment.

CONSTRUCTIVE ENGAGEMENT

Our Construction Division marshals the combined resources of Toromont Cat and Battlefield to increase our engagement with our largest customer markets.

Scanning the horizon in front of the typical Toromont Cat branch or Battlefield store drives home the reason why construction markets purchased the majority of all new equipment we sold in 2012, consumed 53% of all product support we provided and accounted for approximately 80% of our rental fleet utilization.

Our locations, such as the sister facilities that straddle Fruitland Road in Stoney Creek, Ontario, serve some of the most dynamic construction-related markets in Canada. Within a 60-kilometre radius of our Stoney Creek facilities alone sit eight aggregate quarries, the country's largest steel mills, the province's three busiest highways, a major automotive manufacturer, several landfills and scrap yards, countless commercial and industrial sites, and multiple power plants. There's even stage two of a new housing project nearing completion within 100 metres of these two Toromont sites. All use specialized equipment; many rely on Toromont.

"CONSTRUCTION MARKETS ACCOUNTED FOR MORE THAN HALF OF OUR 2012 PRODUCT SUPPORT REVENUE."

Indeed, the companies behind constructing, maintaining and operating Canada's infrastructure are key Toromont customers and their activities shape what we do, how we do it and where.

In 2012, we made a major commitment to furthering our engagement with these customer markets by consolidating the Toromont Cat and Battlefield businesses that serve them under a dedicated Construction Division. The division's mandate is to provide customer-driven solutions to selected market segments as a means of increasing our share of new equipment sales, rental markets and product support.

"Central to our strategy is customer focus," says Randall Casson, President of Toromont's Construction Division. "While we have long served infrastructure-related industries, and they are hard-core users of our solutions, we believe that intensifying our level of engagement across all construction markets will allow us to do more for our customers."

In short, we think there is considerable value to be gained by engaging more deeply in the five key opportunity areas that comprise our construction markets.

Transportation Infrastructure

The demand for new roads to serve growing urban populations is increasing, as is the cost on business and the environment from gridlock. Recent surveys have pegged Toronto's average 66-minute daily commute as the worst in the country and fifth worst in North America. Coupled with the facts that the average bridge is built to last 50 years and many of the province's bridges and overpasses have ticked past the half-century mark (including the Gardiner Expressway), governments could be spending more.

Where governments are spending, Toromont and Battlefield are there with equipment and product support. One of Ontario's biggest transportation projects is The Rt. Hon. Herb Gray Parkway in Windsor, Ontario, the new highway that will provide border-bound traffic with direct freeway access to a new international bridge to Detroit. In 2012, we provided 287 rental units to contractors serving this project, which the provincial government has labelled one of the most significant highway investments made in Ontario history. Construction of the 6-lane below-grade roadway and its 11 tunnels began in 2011 and is scheduled to wrap up in 2013. Along with the parkway, some 300 acres of green space, including 20 km of new recreational trails, will be landscaped and a separate roadway to serve local traffic will be constructed. Our equipment will be ready to do its part here and to help construct the planned $4 billion Detroit–Windsor bridge crossing. Bridge planning and construction are expected to take the better part of this decade and will create significant business for our customers.

Another significant road-building project with our equipment on site is the extension of Highway 407 through Pickering to Highway 35/115 in Clarington, Ontario, with two north-south connections to Highway 401.


1


2


3

1. **A Toromont Cat tractor moves debris at a solid waste landfill. This is only one way we serve landfills. Another is providing landfill gas-to-energy equipment and operational support.**
2. **A Metso mobile crusher, one of many we have delivered in our territories, at work in Toronto.**
3. **Toromont Cat machines working on a customer's pipeline project in Ontario.**

Battlefield rental equipment and a Toromont Cat 420 assist in tunnel construction for the Toronto–York Spadina subway extension in 2012.

This project started in June 2012 and is expected to take 43 months to complete. Counting design, construction, lifecycle repair and renewal of the highway for the next 30 years, this is a $1 billion initiative.

For every major project like these, there are many hundreds of mid-sized and smaller road maintenance and improvement activities underway in our territories every day. On a good number of them, Toromont Cat and Battlefield equipment is in heavy use.

Our Toromont Cat branch in Concord is also part of the action – literally – as a new 8.6-km Toronto–York Spadina subway extension line is being carved through our property. This project will excavate about 1.75 million cubic metres of material for tunnels and stations – enough to fill the Rogers Centre and plenty to keep the average Toromont Cat excavator, like the Cat 336E, which can move 375 cubic metres of dirt per hour, busy for some time.

Power Generation

There are several major power generation projects in the offing in our territories, each requiring massive earthworks. The recently completed Wuskwatim hydroelectric project in northern Manitoba provides insight into the value of these projects for Toromont.

Between 2006 and 2012, 2.2 million cubic metres of earth were excavated and placed along a 48-km all-season access road that runs from a provincial road southward to the station site on the Burntwood River, southwest of Thompson. Excavation of the principal structures moved another 1.2 million cubic metres of overlying soil and bedrock. Over 120,000 cubic metres of concrete were poured for the infrastructure, including spillway and powerhouse. Adding to the total was development of a construction camp with bunkhouses for 400 workers, gymnasium, commissary, fire hall, water treatment plant and sewage lagoon.

At various times, our customers purchased and used over 110 Toromont Cat machines, including 30, 40, 50 and 60-tonne trucks, 30, 45 and 65-tonne excavators, and one Cat 55110 110-tonne mass excavator. As its name suggests, the mass excavator is massive. Weighing in at 125,000 kilograms, it is 4.8 metres in height and 5.5 metres wide. Product support also featured prominently due to heavy equipment usage and the harsh Arctic-like conditions work crews faced. This area of Manitoba is used by several global aircraft engine manufacturers for cold temperature trials. Contractors relied on our technicians for over 1,600 service hours in the last two years alone.

The last of Wuskwatim's three turbine runners was lowered into place in November 2012, and power production is expected to begin in the spring of 2013. While a huge project, Wuskwatim's 200-megawatt (MW) generating capacity will be dwarfed by new hydroelectric projects in our territories.

One is the Keeyask Project in northern Manitoba, 725 km northeast of Winnipeg on the Lower Nelson River. Preliminary work on a 26-km access road began in 2012, which will provide for timely and efficient construction of the 695-MW generating station, should it receive regulatory approval. Eleven Toromont Cat machines, including 631D and 637G scrappers, D8T, D9L, DM5 and D6N track-type tractors, and a 50-tonne model 769C rigid frame truck are currently on site. In this case, the contractor required full-time support. During a five-month period in 2012, we provided 1,300 hours of service. Keeyask would serve as Manitoba's fourth largest generating station.

Projects like this also require transmission line construction, which involves Toromont customers. Over the next three years, Manitoba Hydro will construct Bipole III, a 500-kilovolt transmission line linking Lower Nelson River power generation with southern Manitoba's conversion and delivery system along a 1,364-km route. Over 2,500 towers will be constructed.

Longer term, with the earliest possible in-service date of 2025, is the largest hydroelectric project in the province's history:

a mammoth plan known as Conawapa. It would generate 1,485 MWs of power from the same Lower Nelson River.

Larger still is the Lower Churchill project, in Labrador, that will eventually produce 3,000 MWs of power. Stage one, at Muskrat Falls, received the green light from the province in 2012. To provide site access, Newfoundland and Labrador's Crown energy corporation, Nalcor, authorized construction of access roads to the site outside Happy Valley-Goose Bay last summer. In November 2012, excavation began on two dams on the Lower Churchill River.

Major site excavation involves a large fleet of Cat machines, including a mix of trucks, bulldozers and excavators, some equipped with our automated machine control and guidance systems (see The Perfect Grades, page 10). Site contractors are long-time Toromont customers and, while they will supply some of these machines from their own existing inventories, they will look to us for product support. In anticipation, we added to our Goose Bay, Newfoundland parts team to sustain 24-hour coverage, increased parts inventory by some 4,000 line items and invested in heavy-duty, crane-equipped service trucks. Our Goose Bay branch is perfectly situated for this project as it is only 30 km from the site.

It will take several years to dam Muskrat Falls, build a 60-km reservoir and construct an 824-MW generating station. We will be there to assist our customers with all of their heavy lifting.

In future, we will look to serve customers working on phase two: construction of the Gull Island generation facility, which will begin at least three years after Muskrat Falls and is expected to take about eight years to complete.

Our equipment is also on task at Ontario Power Generation's $2.6 billion Lower Mattagami Project, which will increase Ontario's supply of clean energy by 440 MWs when completed in 2015.

Multiple wind and solar farm projects are on the books in Ontario. The Independent Electricity System Operator (IESO) for the province reports that 390 MWs of wind power will come on line in 2013. Getting them running presents new opportunities for our customers and, by extension, Toromont Cat and Battlefield.

Battlefield Bracebridge Rental Coordinator Matt Read preparing to deliver a Gorman-Rupp diesel trash pump to a customer.

The Construction Market's Go-To Rental Houses

By its nature, construction activity ebbs and flows. To manage these peaks and valleys, contractors rely on rental equipment. We support their needs through 38 Battlefield – The Cat Rental Store locations where we supply more than 29,500 different items from over 250 brand name manufacturers.

When it comes to mobile equipment, Battlefield focuses its efforts on the smaller-product line. To service demand for larger equipment, Toromont Cat has been investing in its heavy equipment rental fleet as part of the Construction Division's customer-driven solutions strategy.

We doubled the fleet's size in 2012 and were rewarded with strong utilization rates. This is no surprise given rental's growing popularity: approximately 40% of all new equipment enters the market through rental channels today compared to less than 10% a decade ago.

Our fleet consists of a variety of Cat machines across four product groups: wheel loaders, articulated trucks, bulldozers and excavators.

Typical rental periods on this heavy equipment are 1½ to two months.

Increasing our investment in heavy rent means that we have also expanded our market opportunity. We estimate the total addressable market in our territories to be $1 billion annually ($800 million for Battlefield, $200 million for Toromont Cat). Our combined strategy has also allowed us to leverage synergies between the business units, with Toromont Cat handling fleet maintenance and Battlefield using its distribution network to get equipment to customers quickly and efficiently.

To better serve heavy rental customers going forward, we plan to continue to expand the fleet, add new work tools to enhance fleet mix, and streamline the rental process by leveraging Battlefield's experience.

Battlefield is stepping up the pace to serve its part of the rental market with plans to expand its aerial reach fleet – a key tool for commercial construction – invest in process improvement, including route optimization software for its delivery vehicles, and strengthen product support. Geographic expansion also remains an ongoing part of the Battlefield plan.

These activities and others are designed to entrench us as the construction market's go-to rental business.

The Perfect Grades

The equipment we rent and sell is technology rich because our partners are committed to constant innovation. One of the best examples of this is in the area of automated machine control and guidance (MC&G).

These systems are beginning to transform the way contractors plan and execute projects. Using powerful software, as well as GPS, wireless and internet-based communications, this technology set shrinks the time it takes to complete site measurement and surveying tasks. Site engineers then use this information to remotely control machine blades so they dig only as much dirt as is necessary and achieve perfect grades in fewer passes than traditional methods.

To bring the best innovations to a market that we currently size at approximately $45 million annually, we created a technology dealership, SITECH Mid-Canada Ltd. to represent both Caterpillar MC&G and the Trimble portfolio of grade control, site positioning and construction software products. One of the unique features of our toolkit is that we represent the only manufacturers that offer a complete technology solution for asphalt and concrete paving. This differentiates us from other suppliers whose technologies serve only earthmoving. As a result, we are able to help our customers across their entire equipment fleets.

"We think there is a big runway for these products over the next few years as contractors experience new levels of productivity from using them," says Ron Petry, General Manager of SITECH Mid-Canada. "We want to help our customers win each and every bid and profit on every project. MC&G is a great way for them to enhance their competitive edge."

Other benefits of technology adoption include lower fuel costs, achieved because machines do not need to make multiple passes to achieve site specifications, and reduced pressure on customers to find skilled operators. MC&G systems make average operators good by automatically holding the grade and make good operators great by allowing them to focus on material management.

Less than 2% of machines we sold in 2012 had the full range of MC&G systems on board. To accelerate penetration, we will add to our resources in 2013 and use our rental fleet to showcase these new tools with customers.

Water and Sewer

Water and sewer mains in many large cities are decaying. In declaring its rehabilitation backlog bigger than any other Canadian urban market, Toronto Water announced plans in late 2012 to increase utility rates by 9% in each of the next two years to help defray an estimated $1.6 billion price tag. Toromont Cat and Battlefield customers will be asked to dig, trench, lay pipe, cover, grade and pave many kilometres of city streets associated with this effort.

This new flow of water projects is not limited to Toronto. Many cities are confronting the same problem and there is only one solution: refurbishment through investment.

Site Development, Housing and ICI

Another opportunity is site development and construction of housing, as well as industrial, commercial and institutional (ICI) buildings. Together, these are large markets. According to CanaData Forecaster, ICI starts in Ontario in 2011 amounted to 24.9 million square feet. While its research is not segmented for Manitoba or Newfoundland and Labrador, we estimate that contractors in these markets added several million square feet more.

Special projects are also catching our attention, including development of several Toronto 2015 Pan Am/Parapan Am Games sites, including the Athletes' Village, Aquatics Centre and Field House, Caledon Equestrian Park, the Welland Pan Am Flatwater Centre, the Hamilton Soccer Stadium, Pan Am Field Hockey Centre, and Milton Velodrome. Approximately $674 million of a $1.4 billion budget will be spent on building new venues

A Toromont Cat loader and one of our new Caterpillar on-highway trucks serving an aggregate quarry.

and renovating existing facilities in time for the games to begin.

We also serve a number of manufacturers whose products are used in various forms of ICI construction. For our Toromont Cat branch in Stoney Creek, this includes Hamilton's two large steel mills, which have long used our equipment in what they refer to as "the merge" – the offloading of raw materials from Great Lakes freighters. Skid steer loaders are popular tools in steel plants and steel service centres, as is our suite of product support solutions.

Aggregates

Some of our largest road, site construction and water-main-building customers are vertically integrated owners of aggregate quarries, making quarry production a natural market for us and an opportunity for further growth.

We have set a five-year goal of more than doubling our aggregate business. Supporting this plan is a product line-up that features a variety of Caterpillar ground-engaging tools, including tractors with rear-mounted rippers, hammers, excavators and wheel loaders.

Cat trucks, such as the three Cat 777s, eight Cat 980s, a Cat 990 and a Cat 992 that we delivered to one Ontario quarry in 2012 are also key parts of an aggregate toolkit that features big machines. To outfit a single quarry might require six to seven units and a capital outlay of $5-6 million.

"OUR 5-YEAR GOAL: MORE THAN DOUBLE OUR AGGREGATE BUSINESS."

A Caterpillar wheel loader in the final stages of assembly at a customer site.

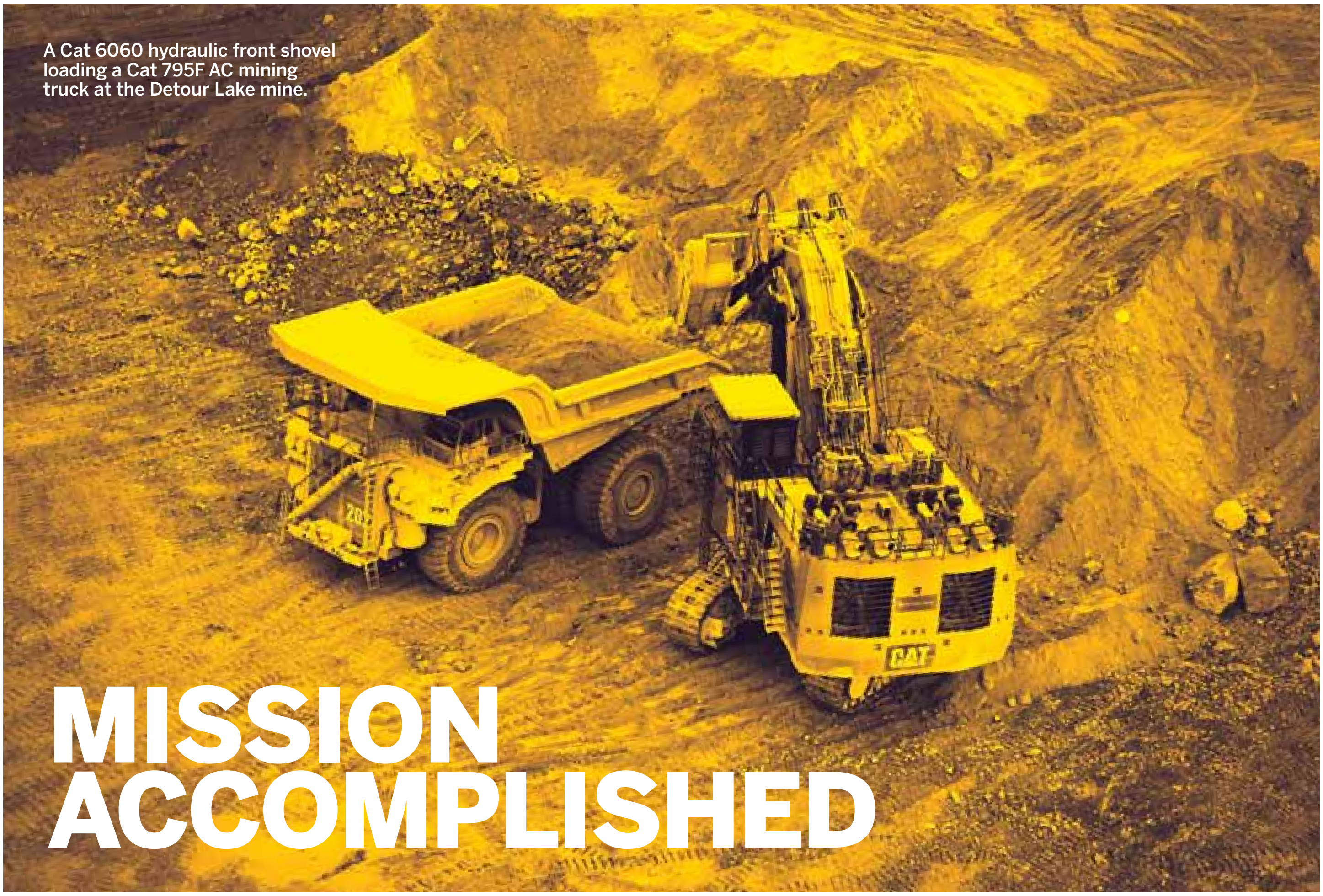
Our market presence in aggregates also includes Metso Canada's market-leading mobile and stationary equipment. We have been a dedicated Metso dealer since 2008 and have experienced steady and growing demand for these specialized machines. In 2012, Metso product sales grew 7% over 2011 and parts sales increased 55% on higher customer activity. Durability and functionality distinguish the Metso line, which includes specialized machines such as high-capacity impactor plants used for in-pit rock crushing and screening equipment for precise processing of extracted materials. We size the market for crushing and screening equipment in our territories at approximately $100 million annually.

Recognizing that products alone will not power our growth, we are adding industry-expert resources to our team and creating a major winter overhaul campaign that will keep customer equipment in peak condition without the need for downtime during heavy production periods. We've also made sure every major Toromont Cat branch has at least one factory-trained technician designated as its Metso service champion and we're always striving to achieve 100% parts fill rates. Like other forms of mining, sand and gravel production take their toll on equipment, and we are there to service what we sell. According to Jordan Markoff, our manager of crushing and paving: "The aggregate industry uses a term called spares and wears and the metric they assign is that it's normal to spend 6 cents for spare parts per tonne of material moved, and 10 cents per tonne on machine wear."

Annual aggregate production in Ontario of approximately 170 million tonnes is projected to increase steadily over the next two decades. Manitoba and Newfoundland and Labrador are also vibrant aggregate producers and key components of our growth plan.

Building the Future

Our customers are building Canada's future, road by road, project by project, community by community. Toromont is committed to keeping them fully stocked with the specialized equipment and 24/7 product support they need to do every job efficiently and profitably. By increasing our level of constructive engagement with these important customers, we believe we can build a bright future for Toromont as well. TIH



A Cat 6060 hydraulic front shovel loading a Cat 795F AC mining truck at the Detour Lake mine.

MISSION ACCOMPLISHED

Toromont completed its single-largest mining supply project in 2012 for Detour Gold. Now the focus shifts to product support.

February 2013 was an important month for Canada's natural resources industry: it marked the start of production at the country's largest open pit gold mine at Detour Lake in northeastern Ontario. For Detour Gold Corporation, the company behind the project, the first gold pour of 2,000 ounces on February 18 also signalled its successful transition from young exploration company to full-fledged producer.

Toromont played a formative role in this important mine development, sourcing Detour Lake's entire production fleet, bringing that fleet to the site along with an extensive toolkit of parts and consumables, and marshalling the talents of a dedicated technical staff to assemble, test and commission the machines.

Over the past two years, Toromont delivered 52 machines to this site, 120 km south of James Bay. Continuously operating outdoors through harsh conditions with temperatures dropping to 40º below in winter, Toromont technicians assembled the largest equipment our company has had the opportunity to deliver.

Each of the 20 795F, 320-tonne trucks now operating were transported on 11 flatbed trucks, while each of the two hydraulic shovels came in on 22 flatbeds. In all, 35,000 labour hours were invested in bringing these behemoths to life. In addition, our technicians assisted in the assembly of two rope shovels and in supporting the more than 30 other pieces of Cat gear on site. Battlefield also pitched in with a large fleet of rental units.

This was by far the largest mining supply project in our history. Despite some tough challenges, Toromont delivered: ahead of time and on budget.

One of the biggest challenges was to keep our team safe and secure in a hostile environment where temperatures quickly plummet to frostbite range in the late fall, blizzards make visibility tough, and almost all of the work involves extremely heavy equipment. Despite these obstacles, the Toromont team experienced zero lost-time injuries in 2011 and 2012. In fact, our branch at Detour scored second-highest in our 2012 Toromont Cat safety audit.

"We made sure every one of our people took the traditional safety courses in using fork lifts, reach booms and rigging, along with confined space training, but this situation required an additional course: bear awareness," said Terry Dyczkowsky, our Operations Manager at Detour. "Remember, this is wild territory and so everyone here needs to know how to use bear bangers (noise makers to scare the animals away) and pepper spray. We're really proud of our safety record – it's one of our biggest accomplishments."

Toromont adhered to and benefited from Detour Gold's rigorous safety practices and provided training to more than 100 Detour Gold operators on safe and effective use of Cat equipment. The deployment of a $1 million portable machine simulator made the training experience more meaningful and significantly less risky to the people and machines involved.

Now our role shifts to product support, which we will deliver for the truck fleet under a long-term Maintenance and Repair Agreement. We expect to be busy. A single large truck working for 7,000 hours (the expected amount of production time per year in an open pit mine of this nature) will require 14 oil changes annually. Toromont service planners schedule these appointments weeks in advance and ensure all parts and consumables are pre-packaged for quick access. They also review onboard computer diagnostics and oil samples in a formalized machine audit to plan future preventative maintenance appointments, including major component rebuilds.

Providing the resources to scale up for 24/7 product support was another significant challenge met and overcome in 2012. Rather than deplete the technical resources of our other branches, we recruited about two-thirds of our 70 person Detour Lake product support team from outside Toromont. This involved dozens of interviews to find the right people and then intensive training and development.

Seven technicians studied how to diagnose and repair the sophisticated new C175 engines used in the 795 model trucks at Cat's facility in the US – and all passed a course that has a notoriously high failure rate, the first time out. Eight others were trained to maintain the shovels at a Cat facility in Germany.

Product support must go like clockwork to sustain maximum fleet uptime. We are therefore approaching service with the same level of diligence as product supply. Rotating teams of technical staff are now operating from a purpose-built on-site workshop 24/7. The workshop can hold four 795 trucks, plus support equipment. There is also a separate parts warehouse with an extensive inventory, a separate tire bay and a wash station. The site's infrastructure is quite different from when Carl Hamlyn, our Detour construction manager and Mr. Dyczkowsky first arrived in the summer of 2011 and fashioned a work space using two sawhorses and a sheet of plywood.

"We're incredibly proud of our employees and proud to serve as part of the broader Detour construction group that included hundreds of dedicated people," said Vic Casaletto, Vice President, Toromont Cat Resource Industries Division. "This is a great example of the value of teamwork in achieving common goals, which for Toromont included proving out our ability to fully outfit one of the largest new mine projects in Canada quickly and efficiently for the benefit of our customer."

Buoyed by successful project execution at Detour Lake, we are ready for more opportunities in the mining sector, both in the supply of differentiated machines and support. We look forward to many more missions – and accomplishments – in the future.

1. **A Cat 7495 rope shovel under assembly at Detour Gold, one of dozens of machines our team installed at the site.**
2. **Toromont Cat Remote Site Technician Tim Carlson with the wheel of a Cat 795F AC truck in the background.**

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A Toromont Cat C15 generator set is readied for a specialized customer application. From data mining to hard rock mining, our Power Systems Division supports many of the key industries driving today's economy.

ENERGIZING OPPORTUNITY

As demand for distributed power grows, our ability to provide a total power generation solution energizes our market potential.

As Ontario and other jurisdictions around North America look to the future of power generation, there are many options to consider beyond opening large-scale generating plants, stringing miles of transmission lines or relying on green energy. Many jurisdictions and energy users are turning to what is known as distributed power as a cost-effective alternative.

Our Toromont Cat Power Systems Division is at the forefront of designing, equipping, servicing and operating distributed generation plants. Recently, our market position became even stronger due to Caterpillar's acquisition of MWM Holding GmbH, a German-based manufacturer of natural gas generator sets.

The addition of MWM's generators (now called the Cat CG series) to our product set significantly broadens our product range and competitiveness as well as our market opportunity.

Featuring power generation capacity running from 400 kilowatts to 4.3 MWs and the highest electrical efficiency in its power class, the CG product line is designed for extended-duty distributed generation and cogeneration, as well as in industrial, commercial and institutional facilities. This includes utilities, wastewater treatment plants, landfills, hospitals, universities, district energy plants, mines, greenhouses and farms, to name a few. It also complements the existing Caterpillar gas product that, today, is used successfully in many applications, including petroleum, power generation and gas compression.

Due to the demonstrated capabilities of Toromont Cat Power Systems and the potential for growth in Ontario's energy market, Caterpillar chose Toromont as a phase one dealer in its global roll out of the new product family. Their timing was impeccable: it allowed us to win out over competitive products in a bid to serve Markham District Energy's (MDE) two cogeneration plants outside of Toronto – and in the process sell the first CG units in the Americas.

The CG generator sets and ancillary electrical and mechanical equipment we are installing in early 2013 at MDE's Birchmount Energy Centre and Bur Oak Energy Centre will provide a combined seven MWs of electricity and seven MWs of thermal energy. These latest installations build on a relationship we have enjoyed with MDE for over a decade. Across MDE's three plants, our Cat generators will now produce 20 MWs of power from natural gas to serve some six million square feet of mixed-use properties, including the Markham-Stouffville Hospital.

Our Power of Choice

What especially excites us is that CG products are engineered and designed specifically for electric power generation, making them distinctive in the marketplace and well aligned with Toromont's mandate of delivering highly specialized equipment supported by our skilled technicians.

While CG products broaden our opportunity, power users need more than just the generator. Toromont is well-situated to meet market needs for a total power generation solution. While our portfolio includes Cat switchgear, uninterrupted power supply (UPS) and automatic transfer switches (ATS), switchgear is the most essential in distributed power generation applications.

Switchgear controls, protects and isolates electrical equipment, allowing systems to be "de-energized" to allow work to be done and/or to clear faults downstream. This type of equipment is important because it is directly linked to the reliability of the electricity supply. In the case of Toromont Cat switchgear, it is specially designed as a single-source package, integrating all elements of monitoring and control of the generator set in single- or multi-unit utility installations. Depending on its capacity, a distributed power plant may require several million dollars' worth of switchgear.

"CATERPILLAR CHOSE TOROMONT AS A PHASE ONE DEALER IN ITS GLOBAL ROLLOUT OF THE NEW PRODUCT FAMILY."

Total Solutions

This equipment portfolio is impressive, but it is the value that we add to it that makes us a total solutions provider. Beyond auditing a customer's power needs, sizing equipment based on site assessments and designing turn-key systems to specification, our project managers take full responsibility for installation and commissioning. In the case of new CG units, construction is made somewhat easier because they were developed for high-power output in a footprint that is up to 50% smaller than similar products. This reduces installation costs and enables a perfect fit in containerized power plants.

Once operational, distributed power generation equipment is expected to deliver uninterrupted power every minute of the day. This requires ongoing maintenance by skilled technicians, which we deliver either on an as-needed basis or as part of a full-service customer support agreement. Toromont Cat also goes beyond our competitors, not only by offering turn-key construction services but also by entering long-term operations contracts, where our staff manage the power plant hour by hour.

"Caterpillar designed CG for the lowest lifecycle cost of ownership by, in part, using extended maintenance intervals and features like low oil consumption," explains Glenn Keenan, Vice President of Toromont Cat Power Systems. "On some models, savings can amount to 750 litres a year compared to competitive products."

As part of our customer-focused strategy, Toromont Cat Power Systems recently organized itself into eight centres of excellence, each manned by dedicated product support leaders and technicians whose sole purpose is to serve the power systems needs of customers. In all, approximately 100 technicians are specifically trained and tasked for Power Systems' assignments across our industrial, marine, rental and electric power installation markets. Intensive training in CG products in 2012 helped our product support workforce add to its knowledge base.

Worldwide today, some 5,800 CG units deliver more than 7,000 MWs of power. While CG is just one Cat product line among the many we represent, it complements our traditional offerings and will energize opportunity in the distributed power generation segment of our business for years to come. TIH

Battlefield's Soo Wah serves on the front line of one of the industry's most capable product support teams.

THE FUTURE OF PRODUCT SUPPORT

New technology combined with proven training and targeted investments open new horizons for our product support business.

2012 was our biggest year yet for product support. On steady growth in our installed base and a strong level of customer machine utilization, we generated record product support revenues of $490 million.

While we are pleased with this performance, we know we can do better, and are planning for the future of product support across our businesses.

One of the people responsible for making the future happen is Larry Moffatt, Vice President of Product Support, Toromont Cat. Mr. Moffatt is tasked with developing Toromont Cat's annual product support plan. The 2013 edition is replete with efficiency and effectiveness strategies designed to improve customer satisfaction, differentiate the Company in competitive markets and drive profitability through better asset and resource utilization.

One of the focus areas is to increase the use of technology to improve service delivery. In recent years, we have made a point of growing not just our installed base, but also the number of machines we monitor using VisionLink™ technologies. This cellular- and satellite-enabled telemetry system allows remote tracking of the health, productivity and location of equipment. For Toromont Cat customers, there are two main advantages of VisionLink: we know exactly when to perform preventative maintenance because we get real-time read outs of service hours; and we know exactly where the machine is at any given time so we can marshal our field-service resources directly to its location.

Today, this telemetry system is enabled on about 4,000 units; about 80% of those units are employed by construction customers. Our plan is to add a thousand more units every year.

Behind this technology is an IT system that also features prominently in the future of product support. It contains the serial number, stock number and warranty information of every machine we sell, as well as details of each service agreement and complete service history. This system notifies us of service letters from Caterpillar that pertain to the equipment, interfaces with VisionLink and includes a service scheduler application that populates the preventative maintenance to-do-calendars of our service technicians well in advance. The high degree of system functionality brings the future of product support into clearer focus by taking the guesswork out of a service appointment. It also gives us a rich data history that helps us to sell new products when our customers are ready.

Virtual technician, a system designed to assist complex problem solving in the field, is another way we use technology to improve efficiency. It allows field-service technicians to pipe real-time video of their service call to a subject matter expert at our Toromont Cat customer service centre in Concord, Ontario, one of our Power Systems centres of excellence, or to Caterpillar, to seek advice on the proper course of action. In 2012, virtual technician was used 25 times, a 50% year-over-year increase.

Parts to Go

Whether we maintain our customers' equipment or they do, it is an absolute necessity to get their machines back in service quickly. For that reason, the future of product support is also about standardizing service protocols around specific types of maintenance appointments (250 hours, 500 hours, 1,000 and 2,000 hours) and improving parts fill rates. Recent efforts in this regard are already paying dividends.

"OUR IT SYSTEM FEATURES PROMINENTLY IN PRODUCT SUPPORT."

What used to take us 30 minutes to do in terms of opening and generating a parts list for a standard maintenance job now takes 90 seconds. We also package preventative maintenance kits with the exact parts required for each type of service, meaning our technicians arrive ready to work. And when they get to a job, they deliver service by the book, or rather by a checklist of specified service procedures.

Recognizing that parts sales account for 70% of Toromont Cat's product support revenue and that service utilizes the largest amount of capital in the product support equation – and both represent areas for growth and improvement – these are important initiatives. They are not the only ones. We are also engaging our parts counter staff in the sales process, a move we hope will drive our share of the parts market.

When we have parts ready to go, the biggest benefit is to customers. This can be seen clearly at the branch level. At Toromont Cat's Hamilton branch, Denny Putigna, Field Service Supervisor says: "On a day when we may get 20 or 30 of what I could call reactive calls for support, it's important to be able to answer each one quickly so we can redeploy to the next job. These recent advancements help us to do a better job."

Service for All

About 25% of all Toromont Cat customers are DIY or do-it-yourself accounts, another 70% are work-with-me accounts and the balance outsource full support to Toromont. We are there for all customers in all markets, a message the Company will continue to drive home through another initiative: ongoing training.

1. **Battlefield, like all Toromont businesses, uses information technology in both customer marketing and product support.**
2. **Leo Samarelli, a member of Toromont Hamilton's parts warehouse team.**

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By the end of the first quarter of 2013, about 110 service supervisors and managers will have taken level one of our new Service Leadership PRO program, which we devised based on real-life business examples. Eleven modules discuss everything from how to enhance customer service consistency to the benefits of different forms of preventative maintenance contracts. Special modules also equip our customer-facing employees with professional project management theories that can be used to better plan the various aspects of customer service. A financial module covers the impact of employee actions on profitability.

Thousands of hours of technical training will also be provided to technicians in 2013. In 2012, a healthy part of Toromont Cat's 95,000 hours of training was devoted to Caterpillar's new mining equipment added from its Bucyrus International acquisition. We allocated approximately 120 hours per technician to learn the intricacies of the hydraulic shovels and 80 more on drills and rope shovels.

Spreading Support Continent-Wide

The future of product support also looks strong at CIMCO, where keeping customers' refrigeration systems in peak working order has been a way of life for decades.

Like Toromont Cat, CIMCO continues to deploy technology to speed service delivery. Today, its cellular-enabled monitoring capabilities are installed in some 800 facilities in North America, providing remote line of sight for its automation engineers to review process temperatures, room temperatures, pressures, run-times of motors, operator set points, and trend logs in real time.

Due to the use of technology in refrigeration control systems – a single recreational ice rink package may operate with 15,000 lines of code – these capabilities enable troubleshooting in advance, and potentially in place of, a service call. A remote system reboot may be all that is necessary to bring a refrigeration package and its compressors, pumps and fans back into a proper operating cycle. More of these systems will be installed in the future.

To advance its product support capabilities, CIMCO added to its toolkit in another way in 2012: with vibration testing systems. Vibration increases because of misaligned or worn gears or bearings, and with this precise instrumentation, we can detect movements and sounds that are imperceptible to the human eye or ear, measure them and compare them to factory-acceptable levels – and in the process predict future service issues or take immediate action.

"PRODUCT SUPPORT IS MORE THAN A STRATEGY; IT IS FOUNDATIONAL TO OUR BUSINESS MODEL."

Whether CIMCO serves recreational or industrial refrigeration installations, and whether those are in Canada or the United States, there is no getting around the need for dedicated service technicians in addition to technology.

We have an industry-leading team of 1,375 technicians Company-wide, including more than 370 at CIMCO, and one of our greatest successes to date – and biggest challenges going forward – is technician recruitment. On a consolidated basis over the past five years, we have grown this part of our workforce by 28%. Even so, our growth means we can always use more.

Paul Mercier, CIMCO's Service Manager, British Columbia region, at a Sobeys facility in Victoria.

What we do have, however, is impressive and the size of our service workforce is an important consideration for customers with mission-critical operations, particularly cold storage, where hundreds of thousands of dollars of inventory is at stake every day.

The ability to guarantee a precise number of annual service hours was instrumental in CIMCO winning its largest-ever US refrigeration service agreement in 2012, covering some 20 customer facilities.

US service and parts represented 20% of CIMCO's 2012 product support revenue and in sheer dollar terms should grow in future years as a result of this opportunity, as well as those uncovered by the new sales and service offices we recently opened in Dallas and San Francisco. An expanded compressor rebuild centre is under construction in Alabama, with throughput for more than 150 units a year. It will add to our capacity for growth and customer service.

First Principles

Product support is more than a strategy for us; it is deeply entrenched in our culture and a foundational feature of our business model. For that reason, no matter where or how we grow, or what technologies or tactics we employ to deliver service, the future of product support is the future of Toromont. TIH

Members of Toromont Cat's service operation of the year, Dan Dent, *Hamilton Branch Product Support Manager,* Dan Topa, *Service Supervisor,* Terry Goossen, *Service Supervisor,* Domenic Vella, *Field Service Supervisor,* Chris McAvoy, *Parts Supervisor,* Randy Dake, *Service Manager* and Stu Rodger, *Truck Supervisor.*

On the roof of Maple Leaf Foods' new mega plant in Hamilton, Ontario.

ONE COOL CUSTOMER

The largest industrial refrigeration project in CIMCO's history also happens to be for its largest customer.

Maple Leaf Foods is one of Canada's largest consumer packaged food companies with operations across the country and in the United States and the United Kingdom.

It also happens to be one of CIMCO's largest and most innovative customers, a position recently reinforced when Maple Leaf announced it had chosen us to be the engineered refrigeration systems supplier for its new $395-million prepared meats facility in Hamilton.

Designed to be competitive with best-in-class facilities in North America, the 402,000-square-foot Hamilton plant will be the largest industrial refrigeration project in CIMCO's 100-year history. So large that it will take 10,000 manhours to engineer and design the thermal system and another 100,000 manhours (the equivalent of one person working full-time for 50 years) to build the equipment, weld the 25 kilometres of piping necessary to deliver the required environmentally friendly ammonia, and install, test and commission the project.

"To put it in perspective, we will generate 6,500 tons of refrigeration power for Maple Leaf Hamilton," says Dave Malinauskas, CIMCO's Director of Engineering. "This is equivalent to the refrigeration that seven blocks of ice – each the size of a 747 jumbo jet – would provide each hour, or the combined capacity used to cool 80 ice rinks or air condition 4,200 homes."

In industrial facilities, CIMCO takes into account variables such as room size, ambient heat from machines and workers, and amount and type of product (raw or ready to eat) to determine the exact cooling power necessary to achieve desired temperatures. In this setting, additional calculations are required because there are 110 rooms. Some require temperatures of 4˚C, others require minus 17.8˚C, and the distance between the central utility plant (CUP) and the chilling rooms results in pressure drops that raise the coolant temperature as it travels through the building. To achieve desired temperatures of minus 17.8˚C in one section of the facility means pushing coolant out at minus 20.5˚C from the CUP.

Installing refrigeration equipment inside Maple Leaf Foods' prepared meats facility in Hamilton.

Complete control of the indoor climate is absolutely mission-critical in this and all Maple Leaf facilities and will be achieved through the integration of CIMCO's building management and Maple Leaf's master control systems.

To deliver a high degree of efficiency, an important consideration for Maple Leaf, CIMCO designed the automation to match the massive size of the plant. Our control system will analyze 22,000 data points every second, ensure that every degree Celsius is accounted for, and automatically control more than 750 pumps, fans, compressors and valves. With over 300 custom control screens, four widescreen touch displays, a central operator workstation, and a SCADA interface, all stakeholders from operators to management will have full visibility of plant operations.

The CIMCO team of 46 has been at the Hamilton site full-time since June 2012. From two trailers packed with blueprints, the CIMCO mechanics and engineers have already overseen the rooftop installation of 32 hygienic air handling systems and roughed in a considerable amount of piping. Their efforts are assisted by computer engineering software capable of showing construction drawings in three dimensions. This greatly improves line of sight compared to traditional isometric and two-dimensional drawings, helping the CIMCO team harmonize the configuration of coolant pipes with the utility installations of other contractors.

Harold Cooper, CIMCO's Project Director on site, has worked on dozens of other refrigeration assignments during his 26 years in the business, but this project has special meaning as Hamilton is his home town and "this plant has already created jobs and will remain a solid employer for the city for years to come. We're doing our part to make sure that's the case by building equipment to last."

The CIMCO team will remain on site throughout 2013 to complete the project. The new facility will also receive continuing support from CIMCO's new Hamilton branch, which is expected to open in early 2013.

While this is our single-largest project with Maple Leaf Foods, it is not the first, nor is it the only one on our books for this valued customer. CIMCO's relationship with Maple Leaf and its predecessor companies dates back to the origins of CIMCO itself and in 2012, we delivered equipment to their Brampton, Lagimodiere (Winnipeg), Saskatoon, Brandon, Thamesford and Lethbridge facilities.

For many years, we have also helped Maple Leaf keep their refrigeration systems operating in peak condition and today, over 40 Maple Leaf plants enjoy integrated access to CIMCO's online parts ordering system.

Although CIMCO serves nearly 3,000 facilities every year, Maple Leaf Foods is truly one cool customer. TIH

CARBON DIOXIDE FUELS CIMCO'S NEWEST MARKET

Inside the mechanical room at Canadawide in Montreal, our first CO_2/ammonia refrigeration plant.

Combining CO_2 and ammonia provides a breakthrough for CIMCO in serving light industrial refrigeration applications.

CIMCO's engineers were keenly aware of the merits of using carbon dioxide (CO_2) in refrigeration. As part of a market-leading team, they understood the favourable volumetric cooling capacity of CO_2 at low temperatures and its environmentally friendly properties as a naturally occurring substance.

They also knew that CO_2 was becoming widely used in Europe and felt it could have application in CIMCO's industrial markets. The challenge was to amass the technical knowledge necessary to engineer such a system for large-scale industrial formats.

Working together under the leadership of Benoit Rodier, CIMCO's Director of Business Development, the CIMCO team set out on a learning quest in 2011 to create market-expanding technology.

The payoff was the development of a new system concept that capitalizes on the combined strengths of CO_2 and ammonia. This new offering represents a markedly different approach to industrial refrigeration and a breakthrough for us in serving light industrial applications that traditionally rely on Freon-based technology.

Our first customer for this technology was Canadawide, the Montreal-based distributor of fruits and vegetables. Our Montreal sales team met with Canadawide officials in April 2011. At the time, the customer was in the early stages of planning a facility expansion featuring seven coolers, three process rooms, eight banana rooms (where bananas are ripened at special temperatures) and dry storage.

The customer's five must haves: lowest annual operating cost; lowest maintenance cost; high degree of efficiency from heat reclamation; employee comfort; and short time to build. Canadawide was also committed to using innovative technologies.

Competition for Canadawide's business was intense. Competitive bids were received from four contenders, including a two-part entry from CIMCO submitted by Hugo Barabé, CIMCO's sales manager: one featuring a traditional ammonia-glycol mix, and one where CO_2 replaced glycol in a system of special piping that would loop through the 57,600 square feet of cold storage space to chill the cold rooms to temperatures ranging from 10˚C to minus 2˚C.

Several innovations, including our ECO CHILL approach to reclaiming heat from the compressors to offset energy costs, helped our technology win the day and meet the customer's five requirements. The energy savings alone versus a Freon-based system are in the range of 30% and there is no ozone-depleting environmental by-product.

Our system also capitalizes on carbon dioxide's properties at low temperatures, which allow for the use of smaller, lighter-weight piping that facilitates faster and easier installation – a key customer demand – and a reduced need for thermal insulation.

To meet the special requirements of banana ripening, we provided a custom plate-and-frame ammonia-glycol cooler so the cold rooms can operate at a higher temperature than the rest of the facility. This temperature-sensitive product now ripens under perfect control.

Credit for developing the system goes to many people, from CIMCO Montreal's engineering staff led by Patrice Morel, and our construction team-directed by Dave Smith, to a number of CIMCO suppliers who provided much-needed support and insight.

Although Canadawide represented CIMCO's first CO_2 project, with the combined efforts of our internal and external teams it was completed in just four months – on time, on budget and to rave reviews. During start-up in April 2012, Patrick Ianniciello, project manager at Divco, the general contractor, said: "In my entire career, I have never seen room temperatures going down so fast.... I would recommend this system over any other I've seen."

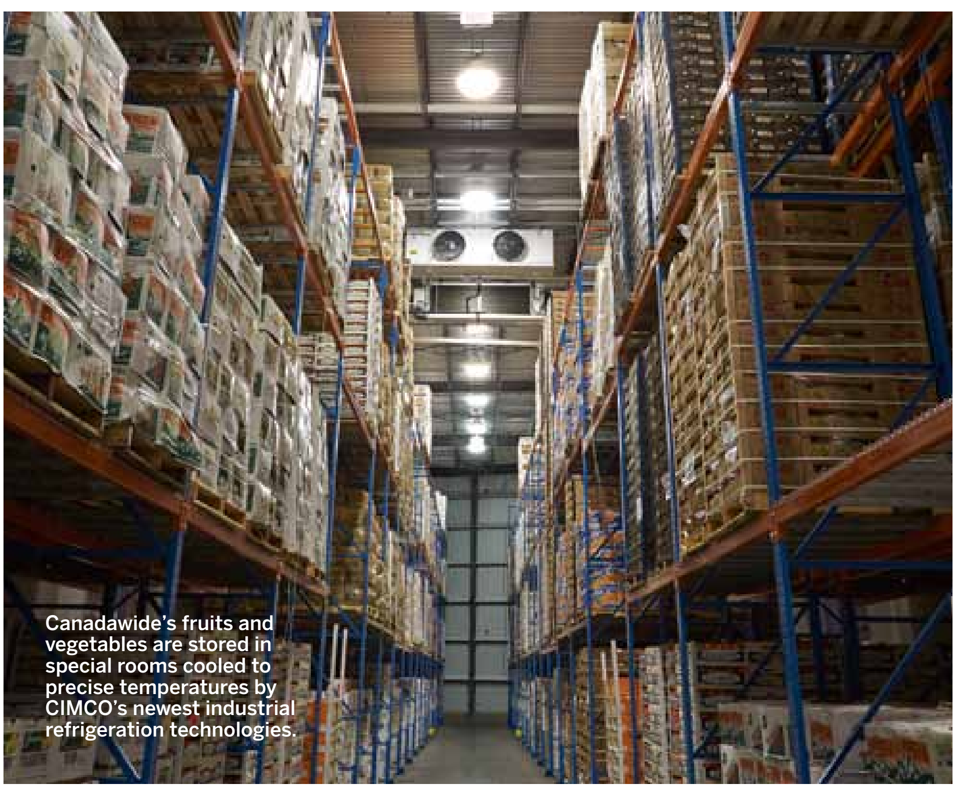
Canadawide was satisfied enough to award CIMCO another CO_2 assignment for their planned 92,000-square-foot cold storage expansion in 2013.

The customer's endorsement and willingness to showcase the technology helped us to win a third CO_2 project, this one for Metro Inc., slated for completion in early 2013. Metro's Laval cold storage facility is larger, at 227,000 square feet, and will feature two high-pressure CO_2 pumping units providing pressures between 550 PSI and 680 PSI and temperatures between minus 2˚C and 4˚C. In this facility, CIMCO has designed a new approach to defrosting the evaporators using some of our ECO CHILL knowledge and master design, and we are working to patent this method.

"IN MY ENTIRE CAREER, I HAVE NEVER SEEN ROOM TEMPERATURES GOING DOWN SO FAST."

"Two years ago, we decided to expand our capabilities for building these systems," says Mr. Rodier, "and now we have a new core competency at CIMCO. Initial energy consumption data at Canadawide are highly encouraging and our own monitoring shows the system is operating as planned. This gives us confidence in our ability to recommend it as an effective alternative to Freon refrigerants."

Today, when fresh products arrive at Canadawide's reception docks, they are checked for quality, taste, identification and weight. They are quickly moved into designated cold rooms, stored according to characteristics – onions always on their own – and monitored closely so they can be harvested at precisely the right point in the green-to-ripe cycle. CIMCO is proud to play an ongoing support role in bringing nature's bounty to kitchen tables everywhere. TIH



Canadawide's fruits and vegetables are stored in special rooms cooled to precise temperatures by CIMCO's newest industrial refrigeration technologies.

SUSTAINABILITY REPORT

By demonstrating leadership in employee health, safety and training, and acting as a responsible member of the communities where we live and work, we believe Toromont can deliver good results today and sustainability for the long term.

Making Safety A Way of Life

The most fundamental of all Toromont goals is to send every employee home safely. Only when this objective is met, can we effectively achieve results for customers and shareholders.

Our health and safety strategies continued to evolve in 2012 to meet this goal, with emphasis squarely on injury avoidance. In addition to strict enforcement, we conduct formal safety audits and mandate the completion of job hazard assessment checklists by employees before every job begins. In addition, every Toromont workplace holds daily safety talks, we regularly promote health and safety on our corporate intranet, and we employ business-unit-specific strategies.

At Toromont Cat, our branches compete for the annual "Safety Bucket" to enhance safety awareness and performance. Points are awarded to each branch for performance across 14 categories, ranging from safety training completion to near-hazard identification reporting. The 2012 award will be presented to Cambridge, but all employees are winners as safety awareness increases. New in 2012, Toromont Cat launched a Safety Roadmap competition for individual employees to incent safe behaviours. Over 400 employees participated and 15 employees were awarded for their efforts, including Becky Mitchell, Product Support Coordinator, who won for introducing an office safety inspection at our Rankin Inlet branch in Iqaluit.

A "wellness @ work" program was also introduced to bring focus to three priorities: prevention of musculoskeletal injuries – the strains and sprains that result in lost productivity – cardiovascular health and mental wellness. Diabetes, ulcer and cardio clinics, "no sweat" lunchtime workouts, and a Company-wide stretching program concurrent with our daily safety talks proved to be popular with our employees.

At CIMCO, we completed a two-year plan to enhance our health and safety policies and procedures, launched online safety training, and revamped the branch audit program to ensure compliance with leading safety indicators. Safety scorecards are now used by each CIMCO branch to track and improve results with emphasis on leading indicators, including emergency preparedness.

At Battlefield, as in our other business units, we use medical aid and near-miss reporting to determine the root cause of problems and take action to avoid problems in the future. As one example, we changed the type and size of delivery vehicles we purchase after noting that our drivers were incurring muscular strains while offloading equipment.

These and many other activities designed to prevent even the smallest injury continue to have the desired impact: since 2010, we have reduced our total recordable injury frequency rate by 44%, and our lost-time injuries by 48%.

With the type of work we do and the value we place on our employees, the importance of safety training and injury avoidance will never be understated at Toromont.

Diversity at Work

We use a variety of strategies to attract diverse talent within our business, including our employment equity plan, initiatives with Canada's First Nations, outreach to high school students, a technician referral program, and our THINK Big scholarships, which were awarded to three promising young Canadians in 2012.

"SINCE 2010, OUR TOTAL RECORDABLE INJURY FREQUENCY RATE IS DOWN 44%."

Laura Foss, Level 2 apprentice, at Toromont Cat, Brandon, Manitoba.

One of our recent recruits is Laura Foss, a Level 2 apprentice at Toromont Cat in Brandon, Manitoba. Laura decided that Assiniboine Community College's Heavy Duty Equipment Technician Program was the best way to start her career and says, "When I applied to Toromont for the summer co-op portion of the program, I was welcomed with great support." When asked about being a woman in the trades, Laura says, "To be honest, the being a woman part is not challenging. I am fortunate to work in an environment where my co-workers judge me based on my performance as a mechanic, my attitude, my work ethic – not my gender."

Significant effort is also placed on recruiting in Canada's north and partnering with First Nations communities to encourage skills development and careers at Toromont. In 2012, we participated in career fairs in Cochrane, Timmins and Moosonee and recruited from the Ojibways of the Pic River, Moose Cree and Attawapiskat First Nations.

Once hired, we work to develop our employees' skills. In the past five years, with our assistance, some 120 Toromont Cat personnel achieved technical trade certifications and 20 graduated from our special Toromont Cat management trainee program.

In 2012, 30 high-potential employees chosen from CIMCO, Toromont Cat and Battlefield attended our first Company-wide leadership development conference where they shared experiences and studied topics including innovation and human analytics. In addition, over 200 leaders received Situational Leadership II training where they learned techniques for goal setting, coaching, performance evaluation and more. All in, 421 Toromont Cat employees attended leadership training in 2012 and all of our young engineers and technicians at CIMCO enrolled in a special mentorship program. We also rolled out our Service Leadership Pro (see The Future of Product Support, page 16).

Retaining top talent is also a priority and in addition to skills development and opportunities for advancement, we help our employees to share in the rewards of their hard work through our employee share ownership program. It provides a $1,000 Company match annually to buy Toromont shares. At year end, some 49% of our employees were shareholders. We also offer a comprehensive benefits plan.

Award-Winning Benefits

By helping our employees to become better healthcare consumers, Toromont was recognized with a Benefits Canada Magazine Award in 2012. The magazine cited us for maintaining a "gold standard level of coverage while managing costs and rewarding wellness behaviour." The award stemmed from our efforts to improve the buying power of employees' prescription drug benefits primarily through the establishment of relationships with two preferred pharmacies, and creating an incentive to use therapeutic alternatives including generic drugs where appropriate. These efforts helped sustain the viability of the drug benefit plan and allowed us to reinvest some of the savings in proactive wellness initiatives, implement the Best Doctors program and launch a relationship with the Cleveland Clinic Canada.

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1. Jeff Van der Vinne, James Hilborn, Ihar Patuhalau, Eli Lieberman at a Toromont Cat technical training seminar.

2. Toromont Cat's Sean Shier, Corporate Parts Manager and Terry Harkness, Corporate Service Operations Manager serve pancakes as part of United Way fundraising activities.

3. Toromont Cat employees take part in a friendly jousting match in support of the United Way of York Region.

2

23%

Carbon footprint reduction

Community Participation

We believe we have a duty to the communities where we live and work to help those who are less fortunate. Over the past decade, we have turned that duty into an opportunity to build teamwork, develop organizational skills and partner with like-minded businesses and organizations.

Our key outlet for giving is the United Way. In 2012, we raised $183,296 through an employee-Company match, bringing our total contribution since 2003 to $1.7 million. In York Region, we participated for the fifth time as title sponsors of the United Way Dragon Boat Festival, which in 2012 alone raised $150,000 from 40 corporate teams – including five from Toromont Cat and CIMCO.

Our employees also donated their time and skills in support of community projects in Manitoba (Macdonald Youth Centre, Siloam Mission), Iqaluit (Habitat for Humanity), Ontario (Spruce Hill Lodge in South Porcupine, Carleton Place Municipal Child Care Services, Kawartha Food Share) and Newfoundland and Labrador (Youth Centre 2000 in Grand Falls and the Salvation Army Red Shield campaign). CIMCO staff supported the Yonge Street Mission, Kid's Help Phone and the University of Southern Alabama Mitchell Cancer Institute.

3

Environmental Performance

We seek to continuously improve our environmental performance, branch by branch, activity by activity. We do this in a number of ways.

For several years, we have imposed an anti-idling policy on our service vehicles. With 989 such vehicles, this move reduces carbon emissions and saves thousands of dollars in fuel costs annually. Also within our fleet, we introduced service trucks with auxiliary power units that supply electricity to hydraulic and electrical tools, removing the need to idle engines while making equipment maintenance calls. At Toromont Cat, we mandated that all employee-owned vehicles covered by gas allowances must achieve 10.8 litres of gas per 100 km and will move the needle in 2013 to 9.6 litres.

Much effort has been placed on benchmarking our energy consumption by branch within Toromont Cat and using the resulting data to measure greenhouse gas (GHG) per square foot and per dollar of revenue. Benchmarking makes it possible for branch staff to identify and correct inefficiencies and find ways to reduce utility usage and cost.

While our environmental footprint is not large measured on the basis of GHG emissions, we are making progress. Between 2010 and 2012, we reduced Toromont Cat's carbon footprint by 23%, putting us well on track to achieve our three-year goal of a 10% reduction by the end of 2013.

After introducing Power Systems' Brampton facility as our first zero-waste site in 2011, our Concord, Ontario facility made the transition to the use of biodegradable materials and composting. Through a partnership program, we recycle absorbent pads used during equipment servicing. In 2012, our supplier diverted 10,553 kilograms of spent pads from landfill and 8,218 litres of liquid from those pads.

Investments in special wash bays in our Battlefield facilities – including our Cambridge store in 2012 – allow us to capture and recycle used water and reduce overall water consumption. In recent years we've added seven up-to-date wash bays and plan to add three more in 2013.

Product innovations also continue to help our customers reduce their environmental footprint. CIMCO's ECO CHILL environmental management systems now offset 86,000 tonnes of greenhouse gas compared to traditional refrigeration systems and save 38 million kilowatt hours of electricity in both industrial and recreational customer applications. Our Power Systems landfill gas-to-energy business captured and reused 26,548,109 million cubic metres of methane gas in 2012 across its installed base. As well, Cat's new Tier-IV-compliant engines, introduced in 2012, cut greenhouse gas emissions by up to 95%, a benefit to the broader environment and the environment within our work bays, and reduce fuel consumption by 6%.

Although sustainability requires upfront investments and sometimes creative thinking, the payback is real and meaningful. TIH

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.

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 Bank 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.

Scott J. Medhurst Director since 2012
Mr. Medhurst is President and CEO of Toromont Industries Ltd.

Robert M. Ogilvie Director since 1986
Mr. Ogilvie is Chairman of the Board. Mr. Ogilvie joined Toromont in 1985 and has been Chairman since 1987. He was also the Company's CEO from 1987 to 2012, 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
Scott J. Medhurst

EXECUTIVE OPERATING TEAM

Randall B. Casson
President, Toromont Construction Division/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. He was appointed to his current position in 2012.

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 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 Labrador, and Ontario. Mr. Jewer is also a Director of The Country Day School, an independent school in King City, Ontario.

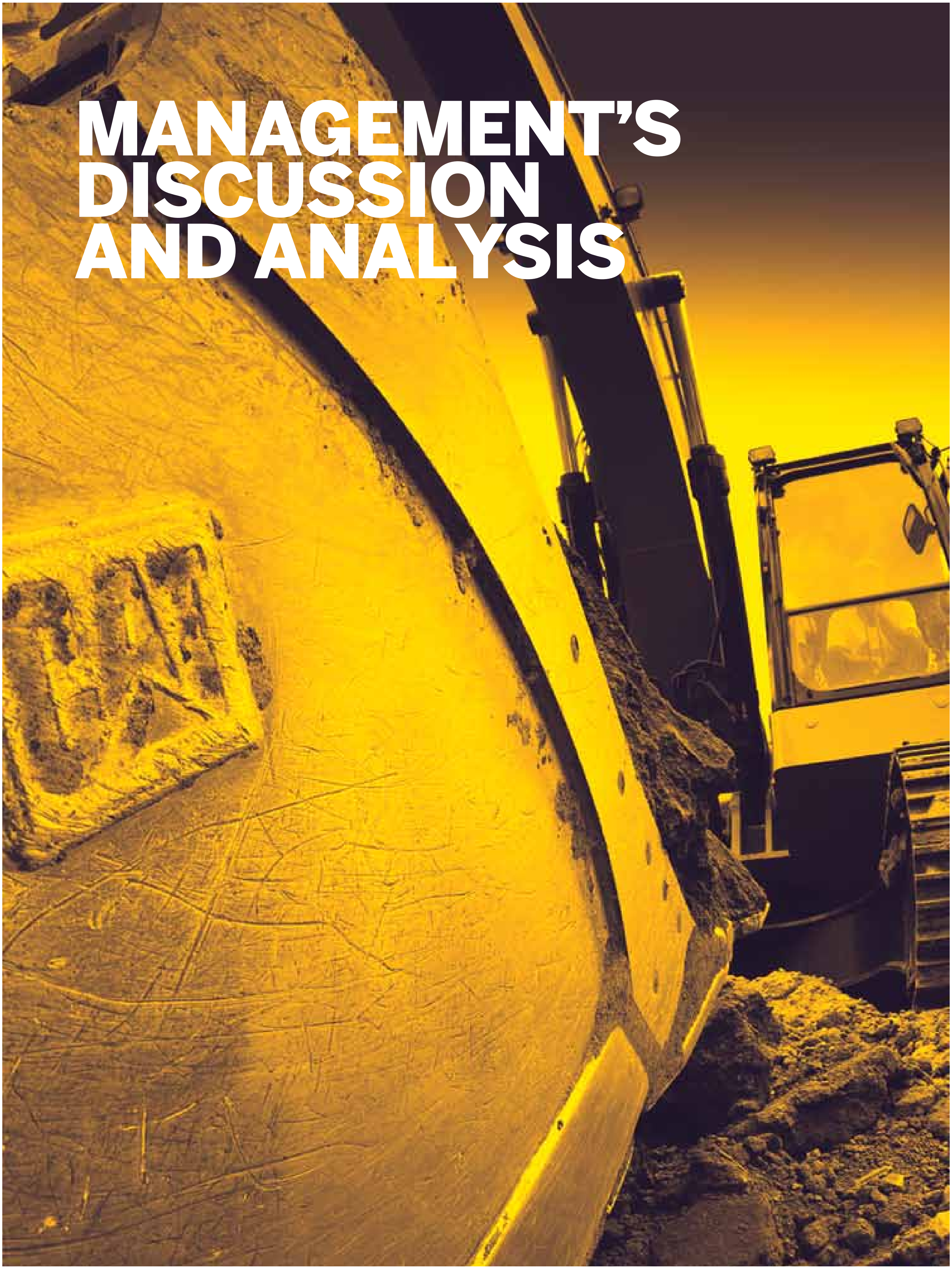
Steve D. McLeod
President, CIMCO Refrigeration
Mr. McLeod joined the Company in 1971 and has held a variety of increasingly senior management positions, culminating with his appointment as CIMCO President in 1985. Mr. McLeod is a graduate of the University of Toronto.

Scott J. Medhurst
President and Chief Exectutive Officer
Mr. Medhurst joined Toromont in 1988. He was appointed President of Toromont Cat in 2004 and became President and CEO of Toromont Industries Ltd. in 2012. Mr. Medhurst is a graduate of Toromont's management training program. He is currently an active member of the World Presidents' 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.

From left to right:
Scott J. Medhurst
David C. Wetherald
Paul R. Jewer
Randall B. Casson
Steve D. McLeod
Michael P. Cuddy

MANAGEMENT'S DISCUSSION AND ANALYSIS



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, 2012, 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, 2012,

The 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 11, 2013.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2012 Annual Report and 2013 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 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.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2012, Toromont employed approximately 3,200 people in 102 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange 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.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

A primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. 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 by 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.

BASIS OF PRESENTATION

On June 1, 2011, Toromont completed the spinoff of its natural gas compression business, Enerflex Ltd. (Enerflex). The information presented herein reflects the spinoff, with Enerflex presented as discontinued operations in all periods. Results of discontinued operations 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.

CONSOLIDATED RESULTS OF OPERATIONS

($ thousands, except per share amounts)	2012	2011	$ change	% change
REVENUES	**$1,507,173**	$1,381,974	$ 125,199	9%
Cost of goods sold	**1,122,765**	1,032,599	90,166	9%
Gross profit	**384,408**	349,375	35,033	10%
Selling and administrative expenses	**214,130**	201,190	12,940	6%
OPERATING INCOME	**170,278**	148,185	22,093	15%
Interest expense	**9,714**	9,012	702	8%
Interest and investment income	**(3,974)**	(3,214)	(760)	24%
Income before income taxes	**164,538**	142,387	22,151	16%
Income taxes	**43,985**	39,709	4,276	11%
EARNINGS FROM CONTINUING OPERATIONS	**120,553**	102,678	17,875	17%
Earnings from discontinued operations	**–**	143,781	(143,781)	n/m
NET EARNINGS	**$ 120,553**	$ 246,459	$ (125,906)	(51%)
EARNINGS PER SHARE (BASIC)				
Continuing operations	**$ 1.57**	$ 1.33	$ 0.24	18%
Discontinued operations	**–**	1.87	(1.87)	n/m
	$ 1.57	$ 3.20	$ (1.63)	(51%)
KEY RATIOS:				
Gross profit as a % of revenues	**25.5%**	25.3%		
Selling and administrative expenses as a % of revenues	**14.2%**	14.6%		
Operating income as a % of revenues	**11.3%**	10.7%		
Income taxes as a % of income before income taxes	**26.7%**	27.9%		

Revenues increased on higher revenues in both operating groups. Equipment Group revenues were up 9% with record new equipment sales, rental and product support activities. CIMCO revenues were up 6% on higher industrial package sales and product support activities.

Gross profit margin was 25.5% in 2012 compared with 25.3% in 2011. Gross profit margins in the Equipment Group were up largely due to sales mix, with a higher proportion of product support in the current year offset somewhat by competitive market conditions and additional project costs incurred in Power Systems. Product support gross margins improved with volumes and better execution in many operations. CIMCO gross profit margins were down from 2011 on lower average quoted margins while project execution remained very positive.

Selling and administrative expenses increased 6% from 2011, in part reflecting the 9% increase in revenues. Compensation was $7.1 million (5%) higher in 2012 compared to 2011 on increased headcount, annual salary increases and higher annual performance incentives expense. The remaining increase related largely to higher freight, training and travel costs, reflecting increased business levels.

Operating income increased on higher revenues, reduced expense levels and improved gross margins due to mix.

Interest expense increased on higher average debt balances carried to support increased inventories and rental fleet. Interest income increased reflecting higher levels of interest on conversion of rental equipment.

The reduced effective income tax rate for 2012 reflects lower statutory rates.

Net earnings in 2012 were $120.6 million and basic earnings per share (EPS) were $1.57 per share. This was 17% and 18% higher, respectively, than 2011 on a continuing operations basis.

Earnings from discontinued operations in 2011 included $10.6 million from Enerflex. In addition, a net gain of $133.2 million, ($1.73 EPS basic), was recorded on the spinoff. Including these elements, net earnings in 2011 were $246.5 million, or $3.20 basic EPS.

Comprehensive income in 2012 was $115.7 million, comprising net earnings of $120.6 million and other comprehensive loss of $4.8 million. Other comprehensive loss included actuarial loss on employee pension plans of $4.2 million after 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)	**2012**	2011	$ change	% change
Equipment sales and rentals				
New	**$ 564,435**	$ 515,046	$ 49,389	10%
Used	**144,367**	153,326	(8,959)	(6%)
Rental	**183,777**	164,953	18,824	11%
Total equipment sales and rentals	**892,579**	833,325	59,254	7%
Power generation	**11,435**	12,085	(650)	(5%)
Product support	**405,880**	350,977	54,903	16%
Total revenues	**$1,309,894**	$1,196,387	$ 113,507	9%
Operating income	**$ 156,021**	$ 134,314	$ 21,707	16%
Capital expenditures	**$ 99,871**	$ 82,287	$ 17,584	21%
KEY RATIOS:				
Product support revenues as a % of total revenues	**31.0%**	29.3%		
Group total revenues as a % of consolidated revenues	**86.9%**	86.6%		
Operating income as a % of revenues	**11.9%**	11.2%		

Despite continued global economic uncertainly, demand for the Company's products and services remained strong.

New equipment sales increased largely due to increased sales of larger, higher value units. Mobile equipment sales to mining customers increased 50% year over year on significant deliveries from the order backlog. Revenues from power systems applications were 9% lower. Road construction was strong, although down 5% from records set last year. A broader product offering including new Caterpillar vocational truck and SITECH products increased revenues over $10 million.

Used equipment sales include sales of used equipment purchased for resale, equipment received on trade-in and dispositions from the Company's rental fleet. Used tractor equipment sales were lower year over year mainly due to reduced sales from the Company's rental fleet. Tractor used purchased sales were flat to prior year. Used equipment sales vary on factors such as product availability (both new and used), customer demands and the general pricing environment.

Rental revenues were higher on increased investment and improved utilization. The Company invested $55 million net of disposals in its rental fleet in 2012, compared to $35 million in the prior year. Utilization of both light and heavy equipment was good. Light equipment rentals increased 9% year over year while heavy equipment rental increased 28%. Equipment on rent with a purchase option increased 25%. Power rentals were 26% lower year over year. Generally, rental rates were fairly consistent in both years with continuing competitive market conditions. Same store sales were the significant contributor, with the new location in Bracebridge, Ontario, representing less than 10% of the year over year increase.

Power generation revenues from Toromont-owned plants were lower, largely reflecting decreased operating hours at the Waterloo facility, due to a reduced availability of landfill gas.

Product support revenues were a record in 2012, 16% higher than the previous record set in 2011. Product support revenues in 2012 benefited from an increased installed base of equipment in our territory coupled with higher utilization of equipment. Most markets saw higher product support activity year over year. The Equipment Group added a net 88 technicians in 2012. Both service and parts revenues set new records in 2012.

Operating income was up, in part reflecting the 9% increase in revenues. Gross margin as a percentage of revenues increased 40 basis points compared to 2011 on sales mix, with a larger proportion of product support revenues to total revenues in the current year. Equipment gross margin was lower in the year on competitive market conditions, offset by improved product support gross margins. Selling and administrative expenses increased 7% on the 9% increase in revenues. Higher costs were reported across a number of areas including compensation, freight, training and occupancy. Operating income as a percentage of revenues was 11.9% in 2012 versus 11.2% in 2011.

Capital expenditures in the Equipment Group totalled $99.9 million in 2012. Replacement and expansion of the rental fleet accounted for $77.6 million of total investment in 2012. Expenditures of $3.7 million related to new and expanded facilities to meet current and future growth requirements. Other capital expenditures included $13.8 million on service and delivery vehicles.

Toromont secured the coterminous Bucyrus distribution network from Caterpillar for $13.7 million. The addition of the former Bucyrus products, now rebranded Cat, strengthens Toromont's mining offering with a much broader product line addressing surface and underground mining requirements. Total revenues associated with former Bucyrus products totalled $24.6 million for the year, of which $8.8 million was recognized after the acquisition.

($ millions)	2012	2011	$ change	% change
Bookings – year ended December 31	**$ 614**	$ 635	$ (21)	(3%)
Backlogs – as at December 31	**$ 128**	$ 224	$ (96)	(43%)

Bookings in 2012 totalled $614 million, down 3% from 2011. Lower prime and back-up power systems bookings accounted for approximately half of the decrease year over year.

Backlogs were higher in 2011 due to a significant mining order that was delivered as scheduled prior to the end of 2012. At December 31, 2012 approximately 30% of the backlog comprised mining orders (60% at December 31, 2011) while 34% were power systems projects. Substantially all backlog is expected to be delivered in 2013. Shortened delivery windows due to process improvements and increased capacity at Caterpillar have also contributed to reduced backlogs.

CIMCO

($ thousands)	2012	2011	$ change	% change
Package sales	**$ 113,586**	$ 103,925	$ 9,661	9%
Product support	**83,693**	81,662	2,031	2%
Total revenues	**$ 197,279**	$ 185,587	$ 11,692	6%
Operating income	**$ 14,257**	$ 13,871	$ 386	3%
Capital expenditures	**$ 1,440**	$ 590	$ 850	144%
KEY RATIOS:				
Product support revenues as a % of total revenues	**42.4%**	44.0%		
Group total revenues as a % of consolidated revenues	**13.1%**	13.4%		
Operating income as a % of revenues	**7.2%**	7.5%		

CIMCO reported record results for the year on growth in industrial activity.

Package revenues were up as increased industrial revenues more than compensated for declines in recreational activities. Industrial revenues in Canada were strong, up 62%, with a number of jobs progressing, including the previously announced Maple Leaf Foods transformation projects. Recreational revenues in Canada were down 45% from last year, as anticipated, due to the wind-up of a Canadian federal stimulus program. US package activities in both recreational and industrial were lower year over year by 20%. US bookings in the fourth quarter and backlog at year-end were strong.

Product support revenues were up as activity in the US increased 12% while Canadian markets were steady year over year.

Operating income increased, reflecting higher revenues and lower expense levels, partially offset by lower margins. Gross margins were down 80 basis points on lower average quoted margins, while execution remained favourable. Selling and administrative expenses increased 3%.

Capital expenditures totalled $1.4 million in 2012. Capital investment was directed largely at service vehicles to support higher volumes, information technology assets and branch renovations.

($ millions)	2012	2011	$ change	% change
Bookings – year ended December 31	**$ 162**	$ 91	$ 71	78%
Backlogs – as at December 31	**$ 99**	$ 51	$ 48	94%

Bookings increased substantially year over year. Bookings in 2012 included $49.8 million in previously announced orders from Maple Leaf Foods, $23.6 million of which was revenued in 2012. Excluding these record orders for CIMCO, bookings were $112 million, still up 25% compared to 2011, reflecting improved market activity. Recreational bookings were up 34% year over year with increases in both Canada and the US.

Backlogs were higher in all areas – recreational and industrial; Canada and the US. This is the highest year-end backlog ever, and bodes well for CIMCO entering 2013. Approximately 92% of the backlog is expected to revenue in 2013.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position for many years. At December 31, 2012, the ratio of total debt net of cash to total capitalization was 25%.

Working Capital

The Company's investment in non-cash working capital was $300 million at December 31, 2012. The major components, along with the changes from December 31, 2011, are identified in the following table.

($ thousands)	2012	2011	$ change	% change
Accounts receivable	**$ 231,518**	$ 209,243	$ 22,275	11%
Inventories	**327,785**	301,937	25,848	9%
Other current assets	**4,086**	4,718	(632)	(13%)
Accounts payable, accrued liabilities and provisions	**(194,303)**	(272,302)	77,999	(29%)
Income taxes payable	**(3,130)**	(8,352)	5,222	n/m
Derivative financial instruments	**(219)**	(628)	409	n/m
Dividends payable	**(9,165)**	(8,433)	(732)	9%
Deferred revenue	**(54,664)**	(49,100)	(5,564)	11%
Current portion of long-term debt	**(1,372)**	(1,280)	(92)	7%
Total non-cash working capital	**$ 300,536**	$ 175,803	$ 124,733	71%

Accounts receivable increased, largely reflecting higher revenues and higher days sales outstanding (DSO). CIMCO accounts receivable increased $17 million or 66% on significant customer billings at the end of 2012. Equipment Group accounts receivable increased $5 million or 3%. DSO was 45 at December 31, 2012 compared to 40 at the same time last year.

Inventories at December 31, 2012 increased year over year, however decreased $54.3 million in the fourth quarter of 2012. Equipment Group inventories were $19 million or 7% higher than this time last year. Higher inventory on rent with a purchase option (RPO) accounted for 54% of the increase. Higher inventory levels of certain models of new equipment and higher parts inventories ($2.6 million) held to support increased demand accounted for the remaining increase. CIMCO inventories were $7 million or 65% higher than this time last year on higher work-in-process.

Accounts payable and accrued liabilities at December 31, 2012, were down $78 million or 29% from year-end 2011. There was a reduction in order inflow from a key supplier in the last half of 2012 leading to a reduced outstanding payable. Payment terms from the key supplier were tightened in 2012, further reducing the balance.

Income taxes payable reflects amounts owing for current corporate income taxes less installments made to date.

Higher dividends payable year over year reflect the higher dividend rate. In 2012, the quarterly dividend rate was increased from $0.11 per share to $0.12 per share, a 9% increase.

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 long-term customer support agreements, as well as on progress billings on long-term construction contracts. Equipment Group deferred revenues were 2% higher than at year-end 2011. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues increased 52% on advance payments from customers related to increased industrial projects.

The current portion of long-term debt reflects scheduled principal repayments due in 2013.

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles 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, 2012.

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, 2012, 2.6 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 Toromont 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 $0.9 million in 2012 (2011 – $1.1 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 bonus 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, DSUs outstanding were 211,872 at a total value of $4.3 million (2011 – 193,728 units at a value of $4.1 million). 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 130 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 $20.2 million as at December 31, 2012. 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 2012. The return on plan assets was $4.3 million or 8%, improved from $1.7 million or 3% in 2011, and compared favourably to the expected long-term average return of 7%. The present value of pension obligations increased $4.4 million in 2012, partly due to a decline in long-term interest rates. As a result, the funded status of the plans declined slightly from a deficit of $26.2 million at December 31, 2011 to a deficit of $26.8 million at December 31, 2012. These deficits included $19.6 million and $20.3 million respectively relating to the Executive Plan, which as described above is essentially an unfunded arrangement. The Company expects pension expense and cash pension contributions for 2013 to be similar to 2012 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. 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 2012. This issuer bid allows the Company to purchase up to approximately 6.4 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2013. 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 2012, the Company purchased and cancelled 666,039 shares for $14.1 million (average cost of $21.23 per share). In 2011, the Company purchased and cancelled 720,004 shares for $12.2 million (average cost of $16.96 per share).

Outstanding Share Data
As at the date of this MD&A, the Company had 76,453,008 common shares and 2,519,005 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 2012, the Company declared dividends of $0.48 per common share or $0.12 per quarter. In 2011, the Company also declared dividends of $0.41 per common share, adjusting for the allocation of dividends for the spinoff of Enerflex.

Considering the success achieved in 2012, solid financial position and positive long-term outlook, the Board of Directors increased the quarterly dividend to 13 cents per share effective with the dividend payable April 1, 2013 to shareholders of record at the close of business on March, 13, 2013. This represents an 8% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and has announced dividend increases in each of the past 24 years.

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 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 coincident with the spinoff with no penalty. The Canadian facility was further amended in September 2012 to extend the term of the facility to September 2017 at improved rates.

As at December 31, 2012, $26.5 million was drawn on the $200 million Canadian facility. Letters of credit utilized an additional $24.1 million of the facility.

Cash at December 31, 2012 was $2.4 million, compared to $75.3 million at December 31, 2011. Cash balances were drawn down in 2012 on a number of factors, including higher investments in rental assets and working capital.

The Company expects that continued cash flows from operations in 2013 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)	**2012**	2011
Cash, beginning of year	**$ 75,319**	$ 174,089
Cash, provided by (used in):		
Operating activities		
Operations – continuing operations	**161,830**	136,546
Change in non-cash working capital and other	**(124,475)**	(39,731)
Discontinued operations	**–**	57,433
	37,355	154,248
Investing activities		
Continuing operations	**(91,205)**	(55,941)
Discontinued operations	**–**	140,115
	(91,205)	84,174
Financing activities	**(19,033)**	(337,311)
Effect of foreign exchange on cash balances	**(53)**	119
Decrease in cash in the year	**(72,936)**	(98,770)
Cash, end of year	**$ 2,383**	$ 75,319

Cash Flows from Operating Activities

Operating activities provided $37.4 million in 2012 compared to $96.8 million in 2011 on a continuing operations basis. Net earnings adjusted for items not requiring cash were 19% higher than last year on higher revenues and improved operating margins. Non-cash working capital and other used $124.5 million compared to $39.7 million in 2011. Discontinued operations provided $57.4 million in cash flow in 2011.

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 $91 million in 2012 compared to $56 million in 2011.

Net rental fleet additions (purchases less proceeds of disposition) totalled $55 million in 2012 compared to $34.8 million in 2011. Additional investments in the rental fleet were made in 2012 in light of stronger demand on improved market conditions, the existing fleet age profile and the expansion of our heavy rental operations.

Investments in property, plant and equipment in 2012 totalled $23.7 million compared to $25.0 million in 2011. Additions in 2012 were largely made within the Equipment Group. Capital additions included $4.1 million for land and buildings for new and expanded branches, $14.3 million for service vehicles, and $3.2 million for machinery and equipment. Additions in 2011 included $10.4 million for land and buildings acquired for new branch locations, $7.8 million for service vehicles and $2.8 million for information technology assets.

In 2012, Toromont acquired from Caterpillar the assets associated with the former coterminous Bucyrus distribution network for US$13.5 million ($13.7 million).

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.

Cash Flows from Financing Activities
Financing activities used $19.0 million in 2012 and $337.3 million in 2011.

Significant sources and uses of cash in 2012 included:

- Drawings on the credit facility of $26.5 million;
- Dividends paid to common shareholders of $36 million or $0.47 cents per share;
- Normal course purchase and cancellation of common shares of $14.1 million (666,039 shares at an average cost of $21.23); and
- Cash received on exercise of share options of $6.2 million.

Significant sources and uses of cash in 2011 included:

- Decrease in long-term debt of $286.9 million. The acquisition financing from the purchase of Enerflex Systems Income Fund ("ESIF") 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;
- Dividends paid to common shareholders of $40.9 million or $0.53 cents per share;
- Normal course purchase and cancellation of common shares of $12.2 million (720,004 shares at an average cost of $16.96); and
- Proceeds received on the exercise of stock options of $3.2 million.

OUTLOOK

The substantial growth in product support, fuelled by the increased installed base in the Equipment Group, bodes well for the Company's continued success.

Within the Equipment Group, although market conditions are increasingly competitive, we are cautiously optimistic that construction markets will be reasonably robust, driven by large construction projects. Future prospects are linked to general economic conditions and governmental investment levels. Management continues to track a number of large construction projects, which are expected to contribute to future results. Improved performance in the Power Systems Division is also expected to further contribute to 2013 results. In addition, we have invested in the rental business and believe that this will continue to contribute to growth.

Although market signals are mixed, engagement levels remain high with respect to mining projects in Toromont's territories. The product support contribution and opportunity is expected to continue to grow, however it is not anticipated that 2013 will see a replication of the record 2012 equipment sales into mining projects. The opportunity is high for a resumption of significant deliveries into 2014 and beyond, dependent on projects advancing and Toromont's success in winning the business. The timing of mining projects is expected to have an impact on the earnings pattern.

The parts and service business has seen significant growth and provides a measure of stability, driven by the larger installed base of equipment in the field. The number of technicians has increased, service shops are very active and work-in-process levels remain strong.

Toromont's expanded product offering contributes to growth on multiple fronts. Firstly, the Equipment Group benefits from Caterpillar's expanding product line-up including the former Bucyrus and MWM products, which the Company now represents. In addition, the Equipment Group represents complementary product lines with recent and expanding opportunities including SITECH and Metso. CIMCO has also expanded its product offering to include CO_2-based solutions, which are expected to contribute to its growth.

At CIMCO, strong industrial bookings in Canada are an encouraging sign with respect to future prospects. Canadian recreational bookings continue, albeit at lower levels due to recent significant spending. This is expected to ramp back up over time, due in part to a recently introduced Quebec provincial program to replace CFC and HFC refrigerants in recreational facilities. The product support business remains a focus for growth with encouraging results in the United States.

The Company has historically demonstrated its success in delivering good profitability through changing market conditions. We expect to continue to do so.

CONTRACTUAL OBLIGATIONS

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

Payments due by period	2013	2014	2015	2016	2017	Thereafter	Total
Long-term debt							
Principal	$ 1,372	$ 1,471	$ 126,576	$ 1,690	$ 28,358	$ 2,963	$ 162,430
Interest	7,619	7,521	6,067	1,152	849	1,480	24,688
Accounts payable	203,468	–	–	–	–	–	203,468
Operating leases	2,606	2,017	1,482	1,329	227	1,726	9,387
	$ 215,065	$ 11,009	$ 134,125	$ 4,171	$ 29,434	$ 6,169	$ 399,973

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,	**2012**	2011	2010	2009 (3)	2008
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth (1)	**9.1%**	14.5%	14.8%	(18.7%)	0.7%
Revenue per employee (thousands) (1)	**$ 481**	$ 465	$ 423	$ 364	$ 430
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth (1)	**13.2%**	12.6%	7.4%	(3.0%)	4.2%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions) (1)	**$ 12.6**	$ 12.1	$ 10.1	$ 10.6	$ 10.9
Return on capital employed (2)	**28.7%**	32.4%	10.8%	21.1%	26.4%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) (1)	**$ 301**	$ 176	$ 136	$ 172	$ 197
Total debt, net of cash to total capitalization	**25%**	13%	17%	(6%)	4%
Book value (shareholders' equity) per share	**$ 6.24**	$ 5.27	$ 15.50	$ 13.17	$ 12.06
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth (1)	**18.1%**	32.5%	9.6%	(18.3%)	(12.7%)
Dividends per share growth (4)	**17.0%**	16.1%	3.3%	7.1%	16.7%
Return on equity (5)	**30.1%**	28.9%	9.1%	15.5%	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 in 2011 reflects 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 2008, revenues increased at an average annual rate of 4.1%. Product support revenue growth has averaged 6.9% 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 rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Governmental funding programs such as the RinC program which provided support for recreational spending; 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 negatively impacted revenues from 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 25%, well within targeted levels.

Toromont has a history of progressive earnings per share growth. This trend was interrupted 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. In 2012, EPS increased 18% on a continuing operations basis.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 23 years. In 2012, the regular quarterly dividend rate was increased 9% from $0.11 to $0.12 per share. 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 in 2011, Toromont increased the quarterly dividend rate 10%.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2012

Three months ended December 31 ($ thousands, except per share amounts)	**2012**	2011	$ change	% change
REVENUES	**$ 431,068**	$ 408,432	$ 22,636	6%
Cost of goods sold	**312,109**	304,665	7,444	2%
Gross profit	**118,959**	103,767	15,192	15%
Selling and administrative expenses	**57,149**	55,549	1,600	3%
OPERATING INCOME	**61,810**	48,218	13,592	28%
Interest expense	**2,747**	2,124	623	29%
Interest and investment income	**(1,887)**	(1,364)	(523)	38%
Income before income taxes	**60,950**	47,458	13,492	28%
Income taxes	**16,023**	13,235	2,788	21%
NET EARNINGS	**$ 44,927**	$ 34,223	$ 10,704	31%
EARNINGS PER SHARE (BASIC)	**$ 0.59**	$ 0.44	$ 0.15	34%
KEY RATIOS:				
Gross profit as a % of revenues	**27.6%**	25.4%		
Selling and administrative expenses as a % of revenues	**13.3%**	13.6%		
Operating income as a % of revenues	**14.3%**	11.8%		
Income taxes as a % of income before income taxes	**26.3%**	27.9%		

Results in the fourth quarter of 2012 were a record for revenues and earnings on a continuing operations basis.

Revenues were 6% higher in the fourth quarter of 2012 compared to the same period last year on a 70% increase in revenues at CIMCO, partially offset by a 1% decline in Equipment Group revenues.

Gross profit increased 15% in the fourth quarter over last year on higher sales volumes and an improved sales mix. Gross profit margin was 27.6% in 2012 compared to 25.4% in 2011. Equipment Group margins improved on sales mix, with a higher proportion of product support revenues to total revenues, as well as improved rental margins on higher utilization. Lower margins were reported at CIMCO on sales mix, with a lower proportion of product support revenues to total.

Selling and administrative expenses increased $1.6 million or 3% versus the comparable period of the prior year. Compensation was higher by $2.3 million on annual increases, higher staffing levels and higher profit sharing accruals on the higher income. Bad debt expense was $2.4 million higher in the fourth quarter of 2012 compared to last year on higher allowance for doubtful accounts. Expenses in 2012 included a $0.3 million insurance recovery related to a fire at CIMCO's Mobile, Alabama office. Certain marketing-related costs, including non-charge rentals and allowances, were lower in the fourth quarter of 2012 compared to 2011. Selling and administrative expenses as a percentage of revenues were 13.3% versus 13.6% in the comparable period last year.

Interest expense was $2.7 million in the fourth quarter of 2012, up $0.6 million from the similar period last year on higher debt balances required to support increased inventory levels and rental fleet investments.

Interest income was $1.9 million in the fourth quarter of 2012, up $0.5 million from last year on higher interest on conversions of rental equipment with purchase options.

The effective income tax rate in the quarter was 26.3% compared to 27.9% in the same period last year. The lower tax rate reflects lower statutory rates.

Net earnings in the quarter were $44.9 million, up 31% from 2011. Basic earnings per share were $0.59, up 34% from the fourth quarter of 2011.

Fourth Quarter Results of Operations in the Equipment Group
Three months ended December 31

($ thousands)	2012	2011	$ change	% change
Equipment sales and rentals				
New	**$ 151,436**	$ 187,677	$ (36,241)	(19%)
Used	**41,539**	46,763	(5,224)	(11%)
Rental	**57,234**	45,259	11,975	26%
Total equipment sales and rentals	**250,209**	279,699	(29,490)	(11%)
Power generation	**2,816**	2,720	96	4%
Product support	**114,377**	88,627	25,750	29%
Total revenues	**$ 367,402**	$ 371,046	$ (3,644)	(1%)
Operating income	**$ 57,449**	$ 46,690	$ 10,759	23%
Bookings ($ millions)	**$ 156**	$ 157	$ (1)	(1%)
KEY RATIOS:				
Product support revenues as a % of total revenues	**31.1%**	23.9%		
Group total revenues as a % of consolidated revenues	**85.2%**	90.8%		
Operating income as a % of revenues	**15.6%**	12.6%		

New and used equipment sales decreased as significant deliveries to mining customers in the fourth quarter of 2011 were not matched in 2012. This accounted for approximately 75% of the decline, with no one market being a significant component of the balance.

Rental revenues increased sizeably on a larger rental fleet and higher fleet utilization. All categories of rentals were higher including light equipment, heavy equipment, equipment on rent with purchase options and power. Rental rates were largely consistent with the prior year, with continuing competitive market conditions.

Product support revenues achieved record levels due to double-digit growth in both parts and service. Improved market conditions and a larger installed base of equipment in territory, combined with marketing initiatives, drove higher activity levels.

Operating income increased on improved gross margins. Gross margins were up 340 basis points in the quarter on sales mix, with a higher proportion of product support and rentals to total. Rental margins improved on higher utilization. Selling and administrative expenses were 2% higher than the comparable quarter last year, on higher compensation and bad debt expense, offset by lower marketing expenses. Operating income as a percentage of revenues was 15.6% compared to 12.6% in the fourth quarter of 2011.

Bookings in the fourth quarter of 2012 were $156 million, down 1% from the similar period last year.

Fourth Quarter Results of Operations in CIMCO
Three months ended December 31

($ thousands)	2012	2011	$ change	% change
Package sales	**$ 41,786**	$ 18,261	$ 23,525	129%
Product support	**21,880**	19,125	2,755	14%
Total revenues	**$ 63,666**	$ 37,386	$ 26,280	70%
Operating income	**$ 4,361**	$ 1,528	$ 2,833	185%
Bookings ($ millions)	**$ 23**	$ 27	$ (4)	(15%)
KEY RATIOS:				
Product support revenues as a % of total revenues	**34.4%**	51.2%		
Group total revenues as a % of consolidated revenues	**14.8%**	9.2%		
Operating income as a % of revenues	**6.8%**	4.1%		

Package revenues in the quarter were more than double those seen in 2011.

Industrial revenues in Canada were a substantial contributor, with a number of projects progressing, including those previously announced for Maple Leaf Foods. Recreational revenues in Canada were down 14% from last year, as anticipated, as a federal stimulus program ended in 2011. US package activity in both recreational and industrial were lower year over year reflecting continued lower market activity on economic conditions.

Product support revenues rose on increased activity in both Canada and the US.

Increased operating income largely reflects the increase in revenues. Gross margins were down 410 basis points on sales mix, with a significantly higher proportion of package revenues to total revenues. Selling and administrative expenses increased 11% year over year.

Bookings in the quarter totalled $23 million, down 15% from the same quarter last year. Canadian bookings were lower while US bookings were very good.

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 2012 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2012	Q2 2012	Q3 2012	Q4 2012
REVENUES				
Equipment Group	**$ 245,799**	**$ 334,300**	**$ 362,393**	**$ 367,402**
CIMCO	**35,660**	**45,307**	**52,646**	**63,666**
Total revenues	**$ 281,459**	**$ 379,607**	**$ 415,039**	**$ 431,068**
NET EARNINGS	**$ 17,240**	**$ 25,653**	**$ 32,733**	**$ 44,927**
PER SHARE INFORMATION:				
Earnings per share – basic	**$ 0.22**	**$ 0.34**	**$ 0.43**	**$ 0.59**
Earnings per share – diluted	**$ 0.22**	**$ 0.33**	**$ 0.43**	**$ 0.59**
Dividends paid per share	**$ 0.11**	**$ 0.12**	**$ 0.12**	**$ 0.12**
Weighted average common shares outstanding – basic (in thousands)	**76,786**	**76,761**	**76,289**	**76,352**

($ 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

Interim period revenues and earnings historically reflect significant variability from quarter to quarter.

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 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, fluctuations 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. Prior to the increase in activities associated with the recent Federal stimulus program (now discontinued), CIMCO had traditionally posted a loss in the first quarter. Profitability increased in subsequent quarters as activity levels and resultant revenues increased.

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

(in thousands, except per share amounts)	**2012**	2011	2010
Revenues	**$1,507,173**	$1,381,974	$1,207,028
Net earnings – continuing operations	**$ 120,553**	$ 102,678	$ 76,659
Net earnings	**$ 120,553**	$ 246,459	$ 103,912
Earnings per share – continuing operations			
Basic	**$ 1.57**	$ 1.33	$ 1.00
Diluted	**$ 1.56**	$ 1.32	$ 0.99
Earnings per share			
Basic	**$ 1.57**	$ 3.20	$ 1.36
Diluted	**$ 1.56**	$ 3.18	$ 1.35
Dividends declared per share	**$ 0.48**	$ 0.48	$ 0.62
Total assets	**$ 936,170**	$ 913,331	$2,271,763
Total long-term debt	**$ 159,767**	$ 134,095	$ 419,929
Weighted average common shares outstanding, basic (millions)	**76.5**	77.0	76.2

Revenues grew 9% in 2012 and 14% in 2011 on improved market conditions and significant mining activity within the Equipment Group.

Net earnings from continuing operations improved 18% in 2012 and 34% in 2011 on the higher revenues, generally improving margins and relatively slower growth in selling and administrative expenses.

Net earnings in 2010 and 2011 include results from discontinued operations (Enerflex). Toromont completed the acquisition of ESIF in 2010. 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.

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 dividend rate was increased again in 2012 by 9% to $0.12 per share. The Company has announced dividend increases in each of the past 23 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 25% at December 31, 2012, 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 began in 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 two decades 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; the ability to meet sophisticated customer requirements; distribution capabilities including number and proximity of locations; the 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 tradespeople 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.

When the Company has cash on hand it may be invested in short-term instruments, 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

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged on par with the US dollar in 2012 compared to US$0.99 in 2011, a 1.0% decrease. As nearly all of the equipment and parts sold in the Equipment Group are sourced in US 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 US 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, 2012, 84% of the Company's debt portfolio was comprised of 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 the Company's consolidated financial statements in conformity with IFRS 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. Management reviews its estimates and judgments on an ongoing basis.

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. 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.

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 revenues and cost of goods sold recognized in a given period.

Income Taxes
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.

Estimates and judgments 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. 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 five 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.

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' 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.

Share-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.

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, 2012, 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 – 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 these new standards and amendments on its financial statements.

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 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, 2012, 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, 2012, 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, 2012, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There were no changes in the design of the Company's internal controls over financial reporting during 2012 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, 2012 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.

Scott J. Medhurst
President and
Chief Executive Officer

Paul R. Jewer
Executive Vice President and
Chief Financial Officer

February 11, 2013
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, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

February 11, 2013
Toronto, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 ($ thousands)	Note	2012	2011
ASSETS			
Current assets			
Cash		**$ 2,383**	$ 75,319
Accounts receivable	3	**231,518**	209,243
Inventories	4	**327,785**	301,937
Derivative financial instruments		**43**	12
Other current assets		**4,086**	4,718
Total current assets		**565,815**	591,229
Property, plant and equipment	5	**157,993**	151,928
Rental equipment	5	**158,932**	135,362
Derivative financial instruments		**–**	418
Other assets	6	**12,614**	8,195
Deferred tax assets	15	**13,697**	12,749
Goodwill and intangible assets	7	**27,119**	13,450
Total assets		**$ 936,170**	$ 913,331
LIABILITIES			
Current liabilities			
Accounts payable, accrued liabilities and provisions	8	**$ 203,468**	$ 280,735
Deferred revenues		**54,664**	49,100
Current portion of long-term debt	9	**1,372**	1,280
Derivative financial instruments		**262**	640
Income taxes payable		**3,130**	8,352
Total current liabilities		**262,896**	340,107
Deferred revenues		**11,337**	10,387
Long-term debt	9	**158,395**	132,815
Accrued pension liability	19	**26,840**	26,161
Derivative financial instruments		**127**	–
SHAREHOLDERS' EQUITY			
Share capital	10	**270,900**	265,436
Contributed surplus	11	**5,957**	5,890
Retained earnings		**199,486**	131,643
Accumulated other comprehensive income		**232**	892
Shareholders' equity		**476,575**	403,861
Total liabilities and shareholders' equity		**$ 936,170**	$ 913,331

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)	Note	2012	2011
REVENUES		**$1,507,173**	$1,381,974
Cost of goods sold		**1,122,765**	1,032,599
Gross profit		**384,408**	349,375
Selling and administrative expenses		**214,130**	201,190
OPERATING INCOME		**170,278**	148,185
Interest expense	14	**9,714**	9,012
Interest and investment income	14	**(3,974)**	(3,214)
Income before income taxes		**164,538**	142,387
Income taxes	15	**43,985**	39,709
Net earnings from continuing operations		**120,553**	102,678
Net gain on spinoff of Enerflex	25	**–**	133,164
Earnings from discontinued operations	25	**–**	10,617
Net earnings		**$ 120,553**	$ 246,459
EARNINGS (LOSSES) ATTRIBUTABLE TO:			
Common shareholders		**$ 120,553**	$ 247,082
Non-controlling interests		**$ –**	$ (623)
BASIC EARNINGS PER SHARE			
Continuing operations	16	**$ 1.57**	$ 1.33
Discontinued operations	16	**–**	1.87
		$ 1.57	$ 3.20
DILUTED EARNINGS PER SHARE			
Continuing operations	16	**$ 1.56**	$ 1.32
Discontinued operations	16	**–**	1.86
		$ 1.56	$ 3.18
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING			
Basic		**76,549,792**	77,013,509
Diluted		**77,086,929**	77,393,253

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 ($ thousands)	2012	2011
Net earnings	**$ 120,553**	$ 246,459
Other comprehensive income (loss):		
Unrealized loss on translation of financial statements of foreign operations	**(121)**	(6,250)
Change in fair value of derivatives designated as cash flow hedges, net of income tax (recovery) (2012 – ($650); 2011 – $2,245)	**(1,619)**	4,552
Loss (gain) on derivatives designated as cash flow hedges transferred to net earnings, net of income tax (recovery) (2012 – $435; 2011 – ($719))	**1,080**	(1,662)
Loss on translation of financial statements of foreign operations transferred to net earnings on spinoff of Enerflex	**–**	18,015
Actuarial losses on pension plans, net of income tax recovery (2012 – $1,505; 2011 – $2,411)	**(4,176)**	(7,234)
Other comprehensive (loss) income	**(4,836)**	7,421
Comprehensive income	**$ 115,717**	$ 253,880
Comprehensive loss attributable to non-controlling interests	**$ –**	$ (623)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	Note	2012	2011
OPERATING ACTIVITIES			
Net earnings from continuing operations		**$ 120,553**	$ 102,678
Items not requiring cash and cash equivalents			
Depreciation and amortization		**52,818**	45,863
Stock-based compensation	11	**1,659**	1,001
Accrued pension liability		**(5,002)**	(3,335)
Deferred income taxes		**769**	(1,450)
Gain on sale of rental equipment and property, plant and equipment		**(8,967)**	(8,211)
Cash flow from discontinued operations		**–**	26,028
		161,830	162,574
Net change in non-cash working capital and other from continuing operations	21	**(124,475)**	(39,731)
Net change in non-cash working capital and other from discontinued operations	25	**–**	31,405
Cash provided by operating activities		**37,355**	154,248
INVESTING ACTIVITIES			
Additions to:			
Rental equipment		**(77,611)**	(57,860)
Property, plant and equipment		**(23,700)**	(25,017)
Proceeds on disposal of:			
Rental equipment		**22,562**	23,040
Property, plant and equipment		**1,504**	4,080
Increase in other assets		**(291)**	(184)
Increase in intangible assets		**(13,669)**	–
Discontinued operations	25	**–**	140,115
Cash (used in) provided by investing activities		**(91,205)**	84,174
FINANCING ACTIVITIES			
Increase in term credit facility debt		**26,547**	–
Repayment of long-term debt		**(1,280)**	(286,888)
Financing costs		**(369)**	(575)
Dividends	10	**(35,996)**	(40,877)
Shares purchased for cancellation		**(14,137)**	(12,213)
Cash received on exercise of stock options		**6,202**	3,242
Cash used in financing activities		**(19,033)**	(337,311)
Effect of exchange rate changes on cash denominated in foreign currency		**(53)**	119
Decrease in cash and cash equivalents		**(72,936)**	(98,770)
Cash and cash equivalents at beginning of year		**75,319**	174,089
Cash and cash equivalents at end of year		**$ 2,383**	$ 75,319

Supplemental cash flow information (note 21).

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

					Accumulated other comprehensive income				
($ thousands)	Note	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Non-controlling interest	Total
At January 1, 2012		**$ 265,436**	**$ 5,890**	**$ 131,643**	**$ 545**	**$ 347**	**$ 892**	**$ –**	**$ 403,861**
Net earnings		–	–	120,553	–	–	–	–	120,553
Other comprehensive loss		–	–	(4,176)	(121)	(539)	(660)	–	(4,836)
Shares purchased for cancellation	10	(2,330)	–	(11,806)	–	–	–	–	(14,136)
Effect of stock compensation plans		7,794	67	–	–	–	–	–	7,861
Dividends	10	–	–	(36,728)	–	–	–	–	(36,728)
At December 31, 2012		**$ 270,900**	**$ 5,957**	**$ 199,486**	**$ 424**	**$ (192)**	**$ 232**	**$ –**	**$ 476,575**

					Accumulated other comprehensive income				
($ thousands)	Note	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Non-controlling interest	Total
As at January 1, 2011		**$ 469,080**	**$ 10,882**	**$ 729,694**	**$ (11,220)**	**$ (2,543)**	**$ (13,763)**	**$ 945**	**$ 1,196,838**
Net earnings		–	–	246,459	–	–	–	(623)	245,836
Enerflex spinoff	25	(205,332)	(5,081)	(790,560)	–	(4,950)	(4,950)	(322)	(1,006,245)
Other comprehensive (loss) income		–	–	(7,234)	(6,250)	7,840	1,590	–	(5,644)
Translation losses recognized on Enerflex spinoff	25	–	–	–	18,015	–	18,015	–	18,015
Shares purchased for cancellation	10	(2,467)	–	(9,748)	–	–	–	–	(12,215)
Effect of stock compensation plans		4,155	89	–	–	–	–	–	4,244
Dividends	10	–	–	(36,968)	–	–	–	–	(36,968)
At December 31, 2011		**$ 265,436**	**$ 5,890**	**$ 131,643**	**$ 545**	**$ 347**	**$ 892**	**$ –**	**$ 403,861**

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012
($ thousands except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information
Toromont Industries Ltd. (the "Company" or "Toromont") 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 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 approximately 3,200 people in 102 locations.

Statement of Compliance
These consolidated audited financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated audited financial statements were authorized for issue by the Audit Committee of the Board of the Directors on February 11, 2013.

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 thousands, 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 statements and within equity in the consolidated statements 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 consolidated income statements.

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 ("CGUs") 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 CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU 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 consolidated income statements.

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 are 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, three 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 one to 10 years.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairments losses. The useful lives of intangible assets are assessed as either finite or indefinite. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually.

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 borrowings, 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 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. Discounts, 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 or losses arising from changes in the fair value of derivatives are taken directly to the income statement, 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 or 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 earnings (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 (CGUs). 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 income statement.

The Company bases its impairment calculation on detailed budgets which are prepared for each of the CGUs 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 stock-based 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 income statement in selling and administrative expenses.

Employee Future Benefits

For defined contribution plans, the pension expense recorded in the income statement 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 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 income statement 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 risks 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 income statement 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 asset. All other borrowing costs are expensed in the period they occur.

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, 2012, and accordingly, have not been applied in preparing these consolidated financial statements.

Consolidated Financial Statements – On May 12, 2011, the 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, as 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 the 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 – 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 consolidated financial statements.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS 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. Management reviews its estimates and judgments on an ongoing basis.

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.

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 revenues and cost of goods sold 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 experience 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 plan assets; salary escalation and life expectancy; and a current market discount rate. All assumptions are reviewed at each reporting date.

Share-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.

Income Taxes – Estimates and judgments 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.

3. ACCOUNTS RECEIVABLE

	2012	2011
Trade receivables	**$ 221,999**	$ 200,009
Less: allowance for doubtful accounts	**(5,496)**	(5,574)
Trade receivables – net	**216,503**	194,435
Other receivables	**15,015**	14,808
Trade and other receivables	**$ 231,518**	$ 209,243

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

	2012	2011
Current to 90 days	**$ 211,750**	$ 189,069
Over 90 days	**10,249**	10,940
	$ 221,999	$ 200,009

The following table presents the movement in the Company's allowance for doubtful accounts:

	2012	2011
Balance, beginning of year	**$ 5,574**	$ 5,096
Provisions and revisions, net	**(78)**	478
Balance, end of year	**$ 5,496**	$ 5,574

4. INVENTORIES

	2012	2011
Equipment	**$ 219,549**	$ 204,936
Repair and distribution parts	**76,783**	73,725
Direct materials	**2,598**	2,606
Work-in-process	**28,855**	20,670
	$ 327,785	$ 301,937

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 2012 was $885 million (2011 – $844 million). The cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. A net reversal of write-downs of $0.2 million was recorded in 2012. The amounts charged to the consolidated income statement and included in cost of goods sold on a net basis for inventory valuation issues during 2011 was $1.7 million.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Power Generation	**Total**	**Rental Equipment**
Cost						
December 31, 2011	$ 45,635	$ 110,297	$ 107,380	$ 37,992	**$ 301,304**	**$ 262,468**
Additions	385	3,750	18,823	301	**23,259**	**73,531**
Disposals	–	(835)	(7,755)	(2)	**(8,592)**	**(36,587)**
Currency translation effects	(3)	(12)	(8)	–	**(23)**	**–**
December 31, 2012	$ 46,017	$ 113,200	$ 118,440	$ 38,291	**$ 315,948**	**$ 299,412**
Accumulated depreciation						
December 31, 2011	$ –	$ 49,576	$ 79,554	$ 20,246	**$ 149,376**	**$ 127,106**
Depreciation charge	–	4,715	10,375	1,515	**16,605**	**35,440**
Depreciation of disposals	–	(454)	(7,558)	(2)	**(8,014)**	**(22,066)**
Currency translation effects	–	(2)	(10)	–	**(12)**	**–**
December 31, 2012	$ –	$ 53,835	$ 82,361	$ 21,759	**$ 157,955**	**$ 140,480**
Net book value – December 31, 2012	$ 46,017	$ 59,365	$ 36,079	$ 16,532	**$ 157,993**	**$ 158,932**

	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	–
December 31, 2011	$ 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

During 2012, depreciation expense of $47,255 was charged in cost of goods sold (2011 – $39,578) and $4,790 was charged to selling and administrative expenses (2011 – $4,655).

Operating income from rental operations for the year ended December 31, 2012 was $26.8 million (2011 – $23.5 million).

6. OTHER ASSETS

	2012	2011
Equipment sold with guaranteed residual values	**$ 11,456**	$ 7,263
Other	**1,158**	932
	$ 12,614	$ 8,195

7. GOODWILL AND INTANGIBLE ASSETS

	2012	2011
Goodwill	**$ 13,450**	$ 13,450
Intangible assets	**13,669**	–
	$ 27,119	$ 13,450

Toromont acquired from Caterpillar the assets associated with the former coterminous Bucyrus distribution network. Under this agreement, Toromont paid US$13.5 million ($13.7 million). This acquisition was accounted for as a purchase of an identifiable intangible asset. Accordingly, the purchase price was allocated to the intangible asset – distribution network.

The intangible asset – distribution network is considered to have an indefinite useful life as the agreement does not have a termination date. Intangible assets with an indefinite useful life are not amortized but are tested for impairment annually, or when conditions suggest that there may be an impairment.

Goodwill and intangible assets have been allocated to two 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 and intangible assets allocated to each of the CGUs

	2012	2011
Toromont Cat – Goodwill	**$ 13,000**	$ 13,000
CIMCO – Goodwill	**450**	450
Total Goodwill	**13,450**	13,450
Toromont Cat – Intangible assets	**13,669**	–
Total Goodwill and Intangible assets	**$ 27,119**	$ 13,450

The Company performed the annual impairment test of goodwill and intangible assets allocated to Toromont Cat as at December 31, 2012. 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 was 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 10.8%. As a result of the analysis, management did not identify impairment for this CGU.

The Company performed the annual impairment test of goodwill allocated to CIMCO as at December 31, 2012. 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 was 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 12.7%. 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 assumptions:

- 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 CGU's 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 were 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.

8. PAYABLES, ACCRUALS AND PROVISIONS

	2012	2011
Accounts payable and accrued liabilities	**$ 183,361**	$ 263,544
Dividends payable	**9,165**	8,433
Provisions	**10,942**	8,758
	$ 203,468	$ 280,735

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at December 31, 2011	**$ 5,132**	**$ 3,626**	**$ 8,758**
New provisions	**6,728**	**1,036**	**7,764**
Charges/credits against provisions	**(5,283)**	**(297)**	**(5,580)**
Balance as at December 31, 2012	**$ 6,577**	**$ 4,365**	**$ 10,942**

	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

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 and onerous contracts. No one claim is significant.

9. LONG-TERM DEBT

	2012	2011
Bank credit facility	**$ 26,547**	$ –
Senior debentures	**135,883**	137,163
Debt issuance costs, net of amortization	**(2,663)**	(3,068)
Total long-term debt	**159,767**	134,095
Less current portion	**1,372**	1,280
	$ 158,395	$ 132,815

All debt is unsecured.

The Company maintains a $200 million committed credit facility. The facility matures in September 2017. Debt incurred under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. The facility was amended in September 2012 to extend the term at improved rates. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility. Debt issuance costs of $369 were adjusted against the carrying value of the long-term debt.

At December 31, 2012, standby letters of credit issued utilized $24.1 million of the credit lines (December 31, 2011 – $24.8 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
- $10,883, 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
2013	$ 1,372	$ 7,619
2014	1,471	7,521
2015	126,576	6,067
2016	1,690	1,152
2017	28,358	849
2018 to 2019	2,963	1,480
	$ 162,430	$ 24,688

Interest expense includes interest on debt initially incurred for a term greater than one year of $8,425 (2011 – $8,436).

10. 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 year were as follows:

	2012		2011	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	**76,629,777**	**$ 265,436**	77,149,626	$ 469,080
Exercise of stock options	**443,920**	**7,794**	200,155	4,141
Purchase of shares for cancellation	**(666,039)**	**(2,330)**	(720,004)	(2,467)
Enerflex spinoff	**–**	**–**	–	(205,318)
Balance, end of year	**76,407,658**	**$ 270,900**	76,629,777	$ 265,436

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 2015.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2012. The current issuer bid allows the Company to purchase up to approximately 6.4 million of its common shares in the 12-month period ending August 30, 2013, 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, 2012, the Company purchased and cancelled 666,039 common shares for $14,137 (average cost of $21.23 per share) under its NCIB program. In the year ended December 31, 2011, the Company purchased and cancelled 720,004 common shares for $12,213 (average cost of $16.96 per share) under its NCIB program.

Dividends

The Company paid dividends of $36.0 million ($0.47 per share) for the year ended December 31, 2012 and $40.9 million ($0.53 per share) for the year ended December 31, 2011.

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 Ltd. 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 and on February 24, 2012, the quarterly dividend was raised to $0.12 per share.

11. 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:

	2012	2011
Contributed surplus, beginning of year	**$ 5,890**	$ 10,882
Stock-based compensation, net of forfeitures	**1,659**	1,001
Value of compensation cost associated with exercised options	**(1,592)**	(912)
Enerflex spinoff	**–**	(5,081)
Contributed surplus, end of year	**$ 5,957**	$ 5,890

12. 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, 2012	Cash, loans and receivables	Derivatives used for hedging	Other financial liabilities	Total
Cash	**$ 2,383**	**$ –**	**$ –**	**$ 2,383**
Accounts receivable	**231,518**	**–**	**–**	**231,518**
Accounts payable and accrued liabilities	**–**	**–**	**(203,468)**	**(203,468)**
Current portion of long-term debt	**–**	**–**	**(1,372)**	**(1,372)**
Derivative financial instruments	**–**	**(346)**	**–**	**(346)**
Long-term debt	**–**	**–**	**(158,395)**	**(158,395)**
Total	**$ 233,901**	**$ (346)**	**$ (363,235)**	**$ (129,680)**

As at December 31, 2011	Cash, loans and receivables	Derivatives used for hedging	Other financial liabilities	Total
Cash	$ 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)

Fair Value of Financial Instruments

The estimated fair values of cash, 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 the asset or liability.

The fair value of senior debentures as at December 31, 2012 was $144,078 (carrying value of $135,883). 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 based on Toromont's credit risk. 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 the asset or liability.

During the year ended December 31, 2012, 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, 2012:

	Notional Amount	Average Exchange Rate*	Maturity
Purchase contracts	USD 138,973	$ 1.0000	January 2013 to January 2014
Sell contracts	GBP 440	$ 1.5935	June 2013 to March 2014

* CDN $ required to purchase one denominated unit.

Management estimates that a loss of $349 would be realized if the contracts were terminated on December 31, 2012. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized loss of $260 has been included in OCI. These losses are not expected to affect net earnings as the losses will be reclassified to net earnings within the next 12 months and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable. A loss of $89 on forward contracts not designated as hedges is included in net earnings which offsets a gain 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.

13. 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, accounts receivable, accounts payable and derivative financial instruments. This sensitivity analysis relates to the position as at December 31, 2012 and for the year then ended. The following table shows Toromont's sensitivity to a 5% weakening of the Canadian dollar against the US dollar 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.

Cdn dollar weakens by 5%	USD	GBP
Financial instruments held in foreign operations:		
Other comprehensive Income	$ 191	$ –
Financial instruments held in Canadian operations:		
Net earnings	$ 390	$ 5
Other comprehensive Income	$ 3,592	$ (26)

The movement in OCI in foreign operations reflects the change in the fair value of financial instruments. Gains or losses on translation of foreign subsidiaries are deferred in OCI. 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 OCI 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 earnings 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, accounts receivable and derivative financial instruments. The carrying amount of assets included on the consolidated statement of financial position represents the maximum credit exposure.

The Company has deposited cash 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, 2012 or December 31, 2011.

The Company had a floating rate debt of $26.5 million as at December 31, 2012.

Liquidity Risk
Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2012, the Company had unutilized lines of credit of $149.4 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 2012, together with 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 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

14. INTEREST INCOME AND EXPENSE

The components of interest expense are as follows:

	2012	2011
Term loan facility	**$ 2,807**	$ 1,941
Senior debentures	**6,907**	7,071
	$ 9,714	$ 9,012

The components of interest and investment income are as follows:

	2012	2011
Interest income on rental conversions	**$ 3,529**	$ 2,981
Other	**445**	233
	$ 3,974	$ 3,214

15. INCOME TAXES

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

	2012	2011
Current income tax expense	**$ 43,212**	$ 41,159
Deferred income tax expense (recovery)	**773**	(1,450)
Total income tax expense	**$ 43,985**	$ 39,709

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

	2012	2011
Statutory Canadian federal and provincial income tax rates	**26.50%**	28.25%
Expected taxes on income	**$ 43,603**	$ 40,224
Increase (decrease) in income taxes resulting from:		
Higher (lower) effective tax rates in other jurisdictions	**110**	(383)
Manufacturing and processing rate reduction	**(218)**	(198)
Expenses not deductible (income not taxable) for tax purposes	**902**	(919)
Non-taxable gains	**(83)**	(61)
Effect of future income tax rate reductions	**(320)**	(28)
Other	**(9)**	1,074
Provision for income taxes	**$ 43,985**	$ 39,709
Effective income tax rate	**26.7%**	27.9%

The statutory income tax rate represents the combined Canadian 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 from 16.5% in 2011 to 15.0% in 2012.

The source of deferred income taxes was as follows:

	2012	2011
Accrued liabilities	**$ 9,681**	$ 8,964
Deferred revenue	**1,193**	1,021
Accounts receivable	**1,273**	1,231
Inventories	**2,866**	2,927
Capital assets	**(9,147)**	(8,454)
Pension	**7,144**	6,705
Other	**620**	503
Cash flow hedges in other comprehensive income	**67**	(148)
Deferred tax assets	**$ 13,697**	$ 12,749

The movement in net deferred tax assets was as follows:

	2012	2011
Balance, January 1	**$ 12,749**	$ 10,435
Tax (expense) recovery recognized in income	**(773)**	1,450
Tax recovery recognized in other comprehensive income	**1,721**	864
Balance, December 31	**$ 13,697**	$ 12,749

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax assets have not been recognized as at December 31, 2012 was $39,512 (December 31, 2011 – $31,270).

16. 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 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.

	2012	2011
Net earnings available to common shareholders	**$ 120,553**	$ 246,459
Net earnings from discontinued operations	**–**	143,781
Net earnings from continuing operations	**$ 120,553**	$ 102,678
Weighted average common shares outstanding	**76,549,792**	77,013,509
Dilutive effect of stock option conversion	**537,137**	379,744
Diluted weighted average common shares outstanding	**77,086,929**	77,393,253
Basic earnings per share		
Continuing operations	**$ 1.57**	$ 1.33
Discontinued operations	**–**	1.87
	$ 1.57	$ 3.20
Diluted earnings per share		
Continuing operations	**$ 1.56**	$ 1.32
Discontinued operations	**–**	1.86
	$ 1.56	$ 3.18

There were no anti-dilutive options for the year ended December 31, 2012 and 2011.

17. EMPLOYEE BENEFITS EXPENSE

	2012	2011
Wages and salaries	**$ 264,360**	$ 251,693
Other employment benefit expenses	**43,013**	38,945
Share options granted to directors and employees	**1,659**	1,001
Pension costs	**9,627**	8,768
	$ 318,659	$ 300,407

18. 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's policy that no more than 1% of outstanding shares or 766,298 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. Toromont accrues compensation cost over the vesting period based on fair value.

A reconciliation of the outstanding options for the year ended December 31, 2012 was as follows:

	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,419,060**	**$ 15.41**
Granted	**610,100**	**20.76**
Exercised [(1)]	**(443,920)**	**13.97**
Forfeited	**(20,885)**	**16.61**
Options outstanding, end of year	**2,564,355**	**$ 16.92**
Options exercisable, end of year	**972,990**	**$ 15.24**

(1) The weighted average share price at date of exercise was $21.95.

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.

Stock options outstanding at the time of the Enerflex spinoff 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.

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, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
$12.42 – $14.19	401,730	2.5	$ 12.72	250,810	$ 12.90
$14.20 – $16.93	985,800	3.0	$ 16.18	612,160	$ 15.86
$16.94 – $20.76	1,176,825	6.1	$ 18.98	110,020	$ 17.10
Total	2,564,355	4.3	$ 16.92	972,990	$ 15.24

The fair value of the stock options granted during 2012 and 2011 were determined at the time of grant using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Weighted average fair value price per option	**$ 3.91**	$ 3.19
Expected life of options (years)	**5.81**	5.81
Expected stock price volatility	**25.0%**	25.0%
Expected dividend yield	**2.31%**	2.57%
Risk-free interest rate	**1.34%**	1.67%

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 bonus or fees, respectively, in DSUs. In addition, the Board may grant discretionary DSUs.

The following table summarizes information related to DSU activity:

	2012		2011	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, beginning of year	**193,728**	**$ 4,093**	87,969	$ 2,747
Units taken in lieu of performance incentive awards, director fees and dividends	**33,671**	**778**	25,900	690
Redemptions	**(15,527)**	**(314)**	–	–
Adjustment to reflect spinoff	**–**	**–**	58,888	–
DSUs granted	**–**	**–**	20,971	362
Fair market value adjustment	**–**	**(260)**	–	294
Outstanding, end of year	**211,872**	**$ 4,297**	193,728	$ 4,093

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 liability for DSUs is recorded in accounts payable and accrued liabilities.

Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan (the "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 contributed by the employee. Company contributions vest to the employee immediately. Company contributions amounting to $0.9 million in 2012 (2011 – $1.1 million) were charged to selling and administrative expenses when paid. The Plan is administered by a third party.

19. 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 the 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.

Approximately 130 employees are included in defined benefit plans.

a) Powell Plan – This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The plan is a contributory plan that provides pension benefits based on length of service and career average earnings. The last actuarial valuation of the plan was completed as at December 31, 2011. The next valuation is scheduled as at December 31, 2012.
b) Executive Plan – This is a non-contributory pension arrangement for certain senior executives that provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. The most recent actuarial valuation of the plan was completed as at December 31, 2012. The next valuation is scheduled as at December 31, 2013.
c) Other plan assets and obligations – This provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan that, in accordance with the plan provisions, have elected to receive a pension directly from the plan. The most recent actuarial valuation of the plan was completed as at January 1, 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:

	2012	2011
Accrued benefit obligations:		
Balance, beginning of year	**$ 79,373**	$ 72,164
Service cost	**1,209**	998
Interest cost	**3,392**	3,614
Net actuarial loss	**6,309**	7,666
Benefits paid	**(6,983)**	(5,502)
Voluntary contributions	**433**	433
Balance, end of year	**83,733**	79,373
Plan assets:		
Fair value, beginning of year	**53,212**	52,313
Expected return on plan assets	**3,742**	3,640
Net actuarial gain (loss)	**516**	(1,990)
Company contributions	**5,961**	4,306
Participant contributions	**433**	433
Benefits paid	**(6,983)**	(5,502)
Other adjustments	**12**	12
Fair value, end of year	**56,893**	53,212
Accrued pension liability	**$ 26,840**	$ 26,161

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

			2012			2011
	Accrued benefit obligation	Plan assets	Accrued pension asset (liability)	Accrued benefit obligation	Plan assets	Accrued pension asset (liability)
Powell Plan	**$ 53,844**	**$ 46,634**	**$ (7,210)**	$ 49,228	$ 42,018	$ (7,210)
Executive Plan	**21,843**	**1,527**	**(20,316)**	21,791	2,230	(19,561)
Other plan assets and obligations	**8,046**	**8,732**	**686**	8,354	8,964	610
Accrued pension asset (liability)	**$ 83,733**	**$ 56,893**	**$ (26,840)**	$ 79,373	$ 53,212	$ (26,161)

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 $20.2 million to secure the obligations under this plan.

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

	2012	2011
Discount rate	**3.90%**	4.25%
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 were as follows:

	2012	2011
Equity securities	**44.6%**	39.5%
Debt securities	**37.8%**	44.2%
Real estate	**16.8%**	15.2%
Cash and cash equivalents	**0.8%**	1.1%

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

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

	2012	2011
Defined benefit plans		
Service cost	**$ 1,209**	$ 998
Interest cost	**3,392**	3,614
Expected return on plan assets	**(3,742)**	(3,640)
	859	972
Defined contribution plans	**8,648**	7,692
401(k) matched savings plan	**120**	104
Net pension expense	**$ 9,627**	$ 8,768

The total cash amount paid or payable for employee future benefits in 2012, including defined benefit and defined contribution plans, was $14,269 (2011 – $11,929).

The Company expects to contribute $5.6 million to its defined benefit pension plans in 2013. These contributions may be reduced to the extent the Company provides a letter of credit.

The cumulative actuarial losses recognized in OCI as at December 31, 2012 were $20,610 (2011 – $14,840).

20. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of shareholders' equity and long-term debt less cash.

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:

	2012	2011
Shareholders' equity	**$ 476,575**	$ 403,861
Long-term debt	**159,767**	134,095
Less cash	**(2,383)**	(75,319)
Total capitalization	**$ 633,959**	$ 462,637
Net debt as a % of total capitalization	**25%**	13%
Net debt to equity ratio	**0.33:1**	0.15:1

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.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2012	2011
Net change in non-cash working capital and other		
Accounts receivable	**$ (22,275)**	$ (623)
Inventories	**(25,848)**	(77,521)
Accounts payable, accrued liabilities and provisions	**(73,486)**	35,490
Deferred revenues	**6,514**	4,031
Other	**(9,380)**	(1,108)
	$ (124,475)	$ (39,731)
Cash paid during the year for:		
Interest	**$ 9,097**	$ 8,788
Income taxes	**$ 47,578**	$ 31,412
Cash received during the year for:		
Interest	**$ 3,776**	$ 3,214
Income taxes	**$ 308**	$ 740

22. 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 three and five years with no renewal options. The building leases have a maximum lease term of 20 years including renewal options. Some of the contracts include a lease escalation clause, which is usually based on the Consumer Price Index.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2012 were as follows:

2013	$ 2,606
2014	2,017
2015	1,482
2016	1,329
2017	227
2018 and thereafter	1,726
	$ 9,387

23. 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 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.

	Equipment Group		CIMCO		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
Equipment/package sales	**$ 708,802**	$ 668,372	**$ 113,586**	$ 103,925	**$ 822,388**	$ 772,297
Rentals	**183,777**	164,953	**–**	–	**183,777**	164,953
Product support	**405,880**	350,977	**83,693**	81,662	**489,573**	432,639
Power generation	**11,435**	12,085	**–**	–	**11,435**	12,085
Total revenues	**$1,309,894**	$1,196,387	**$ 197,279**	$ 185,587	**$1,507,173**	$1,381,974
Operating Income	**$ 156,021**	$ 134,314	**$ 14,257**	$ 13,871	**$ 170,278**	$ 148,185
Interest expense					**9,714**	9,012
Interest and investment income					**(3,974)**	(3,214)
Income taxes					**43,985**	39,709
Net earnings from continuing operations					**$ 120,553**	$ 102,678

Selected balance sheet information:

As at December 31, 2012	Equipment Group	CIMCO	Consolidated
Identifiable assets	**$ 835,649**	**$ 65,530**	**$ 901,179**
Corporate assets			**34,991**
Total assets			**$ 936,170**
Identifiable liabilities	**$ 214,239**	**$ 38,845**	**$ 253,084**
Corporate liabilities			**206,511**
Total liabilities			**$ 459,595**
Capital expenditures	**$ 99,871**	**$ 1,440**	**$ 101,311**
Depreciation	**$ 51,247**	**$ 798**	**$ 52,045**
Goodwill	**$ 13,000**	**$ 450**	**$ 13,450**

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

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:

	2012	2011
Revenues		
Canada	**$1,470,686**	$1,337,230
United States	**31,375**	39,638
International	**5,112**	5,106
	$1,507,173	$1,381,974

	2012	2011
Capital Assets and Goodwill		
Canada	**$ 329,346**	$ 299,669
United States	**1,029**	1,071
	$ 330,375	$ 300,740

24. RELATED PARTY DISCLOSURES

Key management personnel and director compensation from continuing operations comprised:

	2012	2011
Salaries	**$ 3,128**	$ 2,759
Option based awards	**1,337**	798
Annual non-equity incentive based plan compensation	**3,665**	2,865
Pension	**451**	205
All other compensation	**195**	141
	$ 8,776	$ 6,768

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.

Compensation to key management personnel increased as a result of succession planning activities undertaken in 2012.

25. 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.

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 common shares in proportion to the relative fair value at the time of the arrangement (the "butterfly proportion"), which was determined to be 56.4% Toromont and 43.6% Enerflex.

The Toromont consolidated balance sheet reflects the transfer of various assets, liabilities and equity accounts to Enerflex 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

Results from discontinued operations for 2011 were as follows:

	2011
Revenues	$ 492,937
Net earnings before tax	$ 20,783
Income taxes	$ 10,166
Net earnings after tax	$ 10,617
Earnings (losses) attributable to:	
Common shareholders	$ 11,240
Non-controlling interests	$ (623)

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 was recorded at the time of spinoff, based on the fair value of the distribution. The difference between the fair value of the dividend and the carrying value of the assets and liabilities of Enerflex ($151,179) was recognized as a gain in the consolidated income statement for the year ended December 31, 2011, less $18,015 related to historical currency translations of Enerflex's foreign operations.

26. 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)	2012	2011	2010	2009
OPERATING RESULTS				
Revenues [2]	**1,507,173**	1,381,974	1,207,028	1,824,592
Net earnings	**120,553**	246,459	103,912	120,516
Net interest expense (income) [2]	**5,740**	5,798	8,826	2,460
Capital expenditures [2]	**101,311**	82,877	71,143	61,041
Dividends declared	**36,728**	36,968	47,716	38,848
FINANCIAL POSITION				
Working capital	**302,919**	251,122	478,289	539,264
Capital assets	**316,925**	287,290	556,991	369,666
Total assets	**936,170**	913,331	2,271,763	1,364,667
Long-term debt	**158,395**	132,815	413,040	144,051
Shareholders' equity	**476,575**	403,861	1,196,838	854,063
FINANCIAL RATIOS				
Working capital	**2.2:1**	1.7:1	1.8:1	2.6:1
Return on opening shareholders' equity [3]	**30.1**	28.9	9.1	15.5
Total debt net of cash to shareholders' equity	**0.33:1**	0.15:1	0.21:1	(.06):1
PER SHARE DATA ($)				
Net earnings – basic	**1.57**	3.20	1.36	1.86
Net earnings – diluted	**1.56**	3.18	1.35	1.86
Dividends declared	**0.48**	0.48	0.62	0.60
Book value (shareholders' equity)	**6.24**	5.27	15.50	13.17
Shares outstanding at year end	**76,407,658**	76,629,777	77,149,626	64,867,467
Price range [4]				
High	**25.00**	33.25	32.40	27.80
Low	**18.61**	15.39	22.86	19.26
Close	**21.10**	21.32	30.76	27.79

(1) 2012, 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 2012, 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.

2008	2007	2006	2005	2004	2003
2,121,209	1,886,761	1,746,162	1,584,911	1,434,756	1,299,389
140,524	122,280	99,421	78,962	70,518	58,693
(3,246)	9,331	11,110	10,192	10,202	10,608
96,475	97,108	102,444	72,813	65,608	72,922
36,391	31,061	25,594	20,280	16,486	13,319
509,276	466,859	469,638	410,990	263,294	203,577
402,647	341,159	323,504	283,407	297,645	293,211
1,533,450	1,356,861	1,299,992	1,143,972	962,437	856,176
158,112	203,425	238,468	241,265	166,508	159,694
779,103	654,730	565,556	481,812	415,855	376,837
1.9:1	2.0:1	2.1:1	2.1:1	1.8:1	1.7:1
21.5	21.6	20.6	18.9	18.7	17.5
.05:1	.2:1	.4:1	.4:1	.4:1	.5:1
2.16	1.89	1.56	1.25	1.11	0.93
2.15	1.88	1.54	1.23	1.09	0.91
0.56	0.48	0.40	0.32	0.26	0.21
12.06	10.08	8.79	7.57	6.59	5.93
64,620,677	64,943,497	64,310,377	63,624,936	63,082,586	63,563,246
32.90	30.00	27.15	25.68	20.85	16.73
19.03	22.30	20.08	20.05	15.88	9.88
22.99	28.26	24.50	25.40	20.72	16.53

CORPORATE INFORMATION

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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 25, 2013 in the Imperial Room at the Fairmont Royal York Hotel, 100 Front Street West, Toronto, Ontario.

OFFICERS

Robert M. Ogilvie, Executive Chairman of the Board
Scott J. Medhurst, President and Chief Executive Officer
Paul R. Jewer, Executive Vice President and Chief Financial Officer
Randall B. Casson, President, Construction Industries Division/Battlefield – The Cat Rental Store
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, Human Resources and Legal

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HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR

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

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COMMON SHARES

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