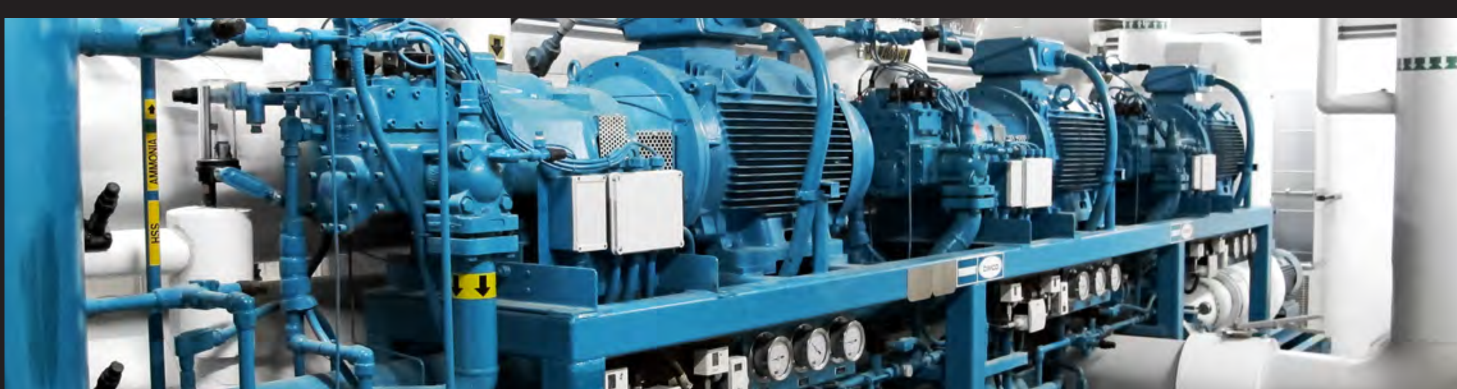
TOROMONT

2013 Annual Report



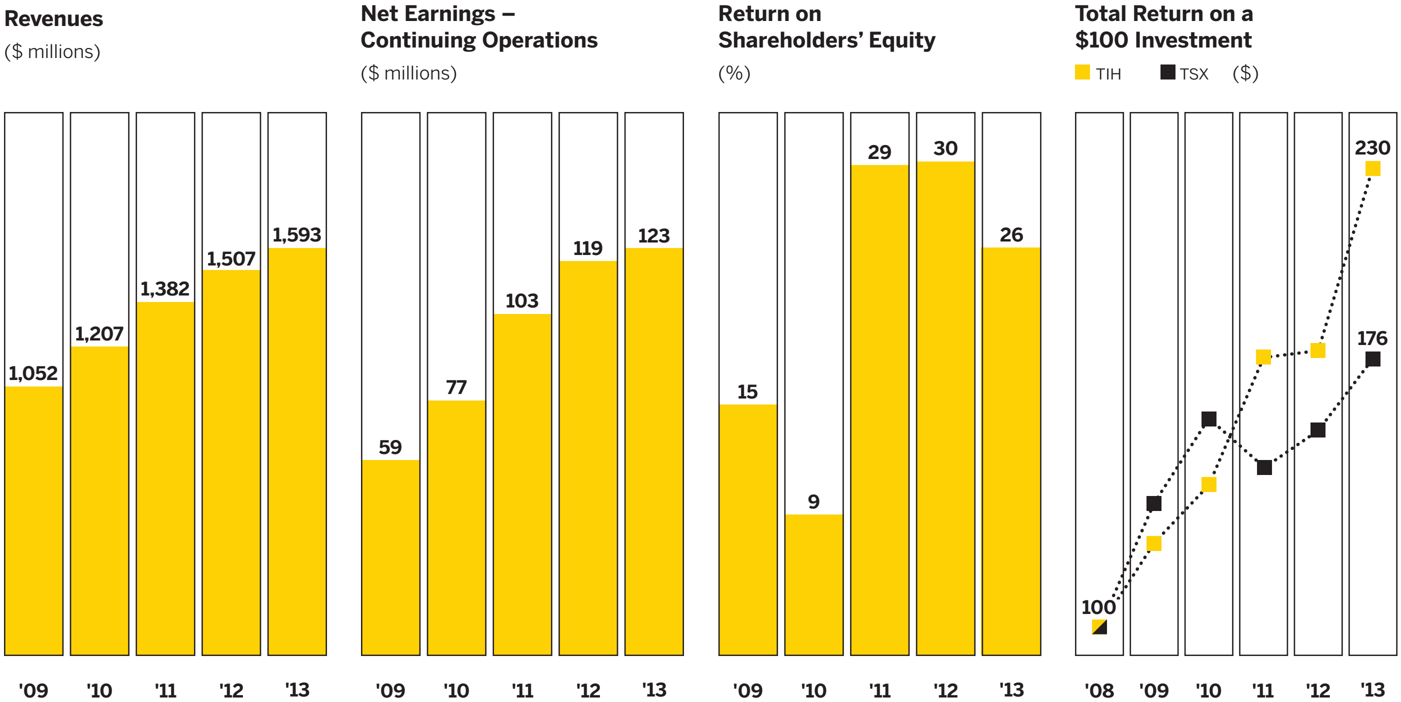
CONTENTS

Toromont Industries LTD. and our dedicated team of more than 3,200 deliver specialized equipment and much more from over 100 locations in Canada and the United States. Our common shares are listed on the Toronto Stock Exchange (symbol TIH).

Toromont.com

Proven Steady Growth

(in thousands, except per share amounts and ratios)	2013	2012	2011
Revenues – continuing operations	**$1,593,431**	$1,507,173	$1,381,974
Net earnings – continuing operations	**123,031**	119,473	102,678
Net earnings	**123,031**	119,473	246,459
Earnings per share – basic – continuing operations	**1.61**	1.56	1.33
Earnings per share – basic	**1.61**	1.56	3.20
Dividends per share	**0.52**	0.48	0.48
Closing share price (TSX)	**26.65**	21.10	21.32
Non-cash working capital	**280,894**	300,536	175,803



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,

Scott J. Medhurst
President and Chief Executive Officer

Robert M. Ogilvie
Chairman of the Board

"We are ready to respond to opportunities by welcoming new talent, embracing fresh ideas and digging deep to solve complex customer challenges."

Toromont delivered another solid performance in 2013 and marked several important milestones; as a Cat dealer, as a public company, and as a leading provider of refrigeration systems.

This past year was our 20th anniversary as a Cat dealer, 45th year as a public company and our CIMCO Refrigeration business celebrated a century of service. Toromont's financial results were also worth celebrating.

Revenues increased 6% year over year to a record $1.6 billion on strength in new equipment sales, rentals and product support. Operating income was 3% ahead of a tough comparator from 2012 on improved gross margin and as the pace of revenue expansion exceeded expense growth.

Net earnings increased 3% to $123 million and earnings per share of $1.61 were 3% higher than the previous record set in 2012.

Higher earnings funded a dividend increase in early 2013, and once again in 2014, our 24th and 25th consecutive years of increasing dividends.

Our strong financial foundation was further strengthened as total debt, net of cash, to total capitalization was 10% at year end, providing us with the flexibility to fully pursue our growth strategies and the security to sustain our competitive advantages in an uncertain world.

The 20 years since we became a Cat dealer have been a good time to be a Toromont shareholder. Annual revenue and earnings growth over the period have averaged 9% and 12% respectively, annual dividends per share have increased from $0.02 to $0.52, and average return on opening shareholders' equity was 24.7%, including 25.7% in 2013. Total return to shareholders over the period, inclusive of share price appreciation and dividends, was 20.1% compared to 8.7% for the S&P/TSX benchmark.

These results reflect our strong and valued partnerships with customers, made possible by the extraordinary efforts of generations of Toromont employees, the powerful combination of outstanding products and product support for diversified – and specialized – applications, and a set of strategic principles that guide our actions.

Expand markets, strengthen product support, broaden product offerings, invest in resources and maintain a strong financial position have long served as our strategic framework, shaping the decisions we make. Yet we are not hidebound. Toromont's business landscape is ever-changing, and we are ready to respond to opportunities by welcoming new talent, embracing fresh ideas and digging deep to solve complex customer challenges.

Evidence can be found in the pages of this annual report and in the highlights below.

Equipment Group

The Equipment Group benefitted from its first full year operating with three dedicated divisions serving Construction, Resources and Power Systems markets. This realignment, completed in the spring of 2012 as part of senior leadership succession, enables us to focus more closely, and with greater specialization and insight, on our key customer segments, while still realizing all the advantages of diversification.

In rough terms, Equipment Group derives approximately:

- 62% of its business from construction markets
- 29% from resource markets
- 9% from power systems markets

Each division also derives strength from a mix of new and used product sales, product support – inclusive of service, parts and consumables – and product rentals. These diversified channels to market allow us to present customers with a value proposition that suits their needs and appetite for capital spending while smoothing our results across investment cycles.

Results for the Group were strong, in spite of challenging market conditions. A highlight for the year was the delivery of 80 machines and related supplies to the Baffinland Iron Mines site (see page 6), an order that was significant for its size, remote destination, and logistical complexity. With this order, Toromont now counts well over a thousand machines within its installed base of mining equipment in surface and underground applications and dozens of

mining customers, including several in northern Canada.

Another highlight was the initial delivery of 18 new and used Caterpillar machines to civil contractors working on southern Ontario's Highway 407 extension. This $1 billion project commenced in 2013 and will continue for several years. During the term of the project, we expect further machine transactions as well as a notable number of machine rentals.

Other 2013 highlights included:

- Strong growth in new and used equipment sales and in heavy rental – the latter an arena that we entered recently as a means of introducing Cat products to first-time users and reaching customers with shorter-term project needs.
- A 1% increase in product support against a record year in 2012. Our growth over the longer term reflects our larger installed base across all three Equipment Group divisions, greater focus on machine maintenance enabled by additional penetration of our on-board monitoring systems, new customer support agreements, and gains made in parts sales.
- Record results at Battlefield on higher same-store sales, growth in sales of the Cat CCE line of machines, and better utilization and management of the rental fleet.

Our Metso Canada dealership, added in 2008 to bring specialized mobile and stationary crushing and screening equipment to our territories, also performed well against ambitious goals. Metso was a featured product in the Baffinland order. SITECH Mid-Canada Ltd., which we own and operate, continued to prosper in selling and servicing Caterpillar's machine control and guidance systems and Trimble's grade control equipment. These advanced technologies enable our customers to do more work, in less time and at less cost per hour.

Our Power Systems Division continued to showcase its turn-key capabilities and broad product portfolio for customers. These were on display during the December 2013 ice storm in the City of Toronto, where our team worked through the night to dispatch our fleet of rental generator sets, ranging from 60 kW to 2 MW, to support hospitals, seniors' residences and other key commercial sites, and kept our equipment operating for the duration.

CIMCO

CIMCO celebrated its 100th anniversary in business and did so by producing record financial results. Highlights included:

- Sizeable growth in both recreational ice rink project and product support revenue with assignments completed for the NHL (see page 19), the Municipality of South Huron's Exeter Community Arena – another ECO CHILL® win – the Streatham Arena in Greater London (the first rink in England to be constructed over a swimming pool) and emergency services delivered to Calgary's Saddledome following catastrophic mid-year flooding.
- Introduction of carbon dioxide technology – ECO$_2$ CHILL® – to recreational refrigeration markets, with a first installation of this environmentally responsible Freon alternative at Montreal's Concordia University (see page 20).
- Steady growth in industrial markets with projects and service for long-time customers, such as Maple Leaf Foods, Unilever, Gordon Food Services, Walmart and Conestoga Cold Storage; and new accounts, such as Sleeman's and the Ontario Food Terminal.

By leading with its product support capabilities, CIMCO also made important inroads in the United States (see page 16) in the service of industrial refrigeration customers. CIMCO's U.S. product support business can now be considered a leader in the American

market. CIMCO's team deserves special acknowledgement as it operated without a permanent U.S. headquarters through most of 2013 due to a fire the previous year that destroyed its Mobile, Alabama operation. This facility re-opened at year end as a centre of excellence for large-scale compressor rebuilds.

Welcoming New Talent

Toromont was pleased to announce the appointment of Cathryn E. Cranston and Katherine A. Rethy to our Board of Directors in July 2013. Ms. Cranston is Senior Vice President, Finance and Treasurer of BMO Financial Group, a company she has served in increasing positions of responsibility for 27 years. Ms. Rethy is President of KAR Development Corporation, a leadership development and consulting company she founded following a successful career at Noranda/Falconbridge and Dupont Canada Inc.

Attracting talent, developing it and protecting it are vital to our business at all levels. In 2013, we added new employees, including technicians and technician apprentices who are in high demand across our markets, kept our voluntary turnover rate below 9%, delivered hundreds of hours of employee training and had one of our safest years ever, measured by total recordable injury frequency rate. The result is an organization ready to embrace the future with a bright, dedicated, knowledgeable and responsible workforce.

Looking Ahead

Toromont's customers, products and operations will experience ongoing technology-driven change in the next few years. Machine and device-level processors and telematics will continue to reshape customer expectations and allow us to engage in new ways as managers of real-time analytics. Social media (see page 13) will also become an even more accepted form of commerce and recruitment. While we have already embraced many of these changes, others will require new thinking and new investments. Toromont is up to the challenge.

Heading into 2014, our business has a strong foundation. We have considerable resources and market reach that together position us well for what is shaping up to be another year of modest economic expansion in Canada and better GDP numbers in the U.S.

We are proud of our organic growth in recent years and expect that continued homegrown growth in the years to come will allow us to meet our long-range performance targets. As always, we remain ready to deploy our growing capital base to complement our shareholder value creation plan.

We thank all of our customers, shareholders, employees, Directors and business partners for your support and contributions to Toromont's continued success.

Yours sincerely,

Robert M. Ogilvie
Chairman of the Board

Scott J. Medhurst
President and Chief Executive Officer

TRUE NORTH STRONG

Loading a Cat 988H wheel loader at the Valleyfield port prior to departure to Milne Inlet, on Baffin Island.

Baffinland Iron Mines Brings Toromont North of 70˚

Winters are cold and dark at Mary River. From late November through March, a warm day is minus 30˚C and the sun is little more than a sliver on the horizon. But there are two things this remote property located in the Qikiqtani River region of Nunavut on Baffin Island does have: a world class deposit of high-grade iron ore and a dedicated team of workers preparing to mine the deposits for world markets.

Toromont has been active on this site for more than nine years, originally working side-by-side with the Mary River exploration group and in 2008, supporting a bulk sample campaign. Over this period, we participated in the design of the mine and in feasibility studies prepared by engineering consultants and the owners of the project.

When the time was right, we were ready to engage in an even bigger way, starting in May 2013 when Baffinland Iron Mines Corporation, a joint venture between ArcelorMittal and Nunavut Iron Ore, placed a significant order for mining, crushing and support equipment along with ancillary parts, consumables and rental equipment.

While this is not the first time we've gone north to serve a remote mine site, it is the fastest big order we've ever delivered and it tested our supply chains, logistics and technical capabilities. From receiving the firm commitment to seeing the last of our equipment depart aboard cargo ships in September, our team had 120 days to plan, source, assemble and prepare the equipment. The

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timeframe was dictated by Mother Nature as the shipping season to Baffin Island's Mine Inlet Port closes each year in early October with the arrival of winter ice.

Sourcing the right equipment for the various jobs to be performed on the site was a joint effort that involved the expertise of Baffinland's engineers and environmental specialists and teams from across Toromont's business units: The Toromont Cat Construction, Resource Industries and Power Systems Groups together with Battlefield – The Cat Rental Store in conjunction with Toromont Arctic Ltd., our joint venture with the Inuit of Nunavut.

The machine list for this project included production equipment, including Metso crushing equipment and Cat 777 mining trucks specified to deliver the lowest possible cost per tonne output, as well as Cat motor graders, excavators, tracked dozers and front-end loaders employed to upgrade and service an existing 100-km road that connects the Mary River mine site to the Milne Inlet port and construct support camps.

The quick turnaround meant that some of the Metso, Masaba and Cat equipment could not be factory-supplied in their entirety. Toromont's Crushing and Screening Specialist Justin Chemello and a number of his colleagues sourced Metso equipment from Finland, South Carolina, and Idaho while Toromont Cat drew on its own inventories and those of several fellow Cat dealers.

The challenge of fulfilling this order included assembling many of the machines at the port in Valleyfield, Québec, which was the jumping off point for the Baffin Island sealift, a task that at times employed as many as 12 Toromont Cat technicians led by Toromont's Project Manager Carl Hamlyn working side-by-side with our Metso-trained technicians in rotating shifts seven days per week for 60 days. Along with heavy mining and construction equipment, we also supplied forklifts, telehandlers, soil compactors, cranes, and skid steer loaders that are vital to project success.

A mine site at 71˚ north latitude also needs special support and survival gear. Included in our supply were 12 diesel-powered "frost-fighters" that deliver hot air to keep machines from freezing when not in use, military parachutes that are draped over the equipment to retain heat, 30 light towers to illuminate work areas, special pumps and three-wheel-loader-mounted large snowblowers. Equipment was outfitted with special Arctic packages which included heated oil compartments, added insulation and special rubber on hydraulic lines.

With equipment in hand, some 500 Baffinland Iron Mines' employees and contractors are now at work preparing the infrastructure needed to meet targeted production timelines. A Toromont Cat team is also on site, tending to machine commissioning, training and helping to establish the infrastructure to support the equipment for the life of the mine.

"Toromont's experience in supplying over 70 mines, including five remote mine locations over the past decade and our long-term presence in Nunavut, were instrumental in winning this assignment," said Vic Casaletto, Vice President, Toromont Cat Resource Industries Division "but it was the collective efforts of all the people involved that made the difference. They executed safely, efficiently and flawlessly without a moment's delay and in the process, showed that we have the strength to meet the biggest challenges no matter where they are located."

Baffinland is considered one of the most significant developments ever planned above the Arctic Circle. We are extremely proud to have assisted in meeting the deadline and the requirements of this important phase of the project.

1. **A Toromont Cat D9T bulldozer at work at Baffinland Iron Mines.**
2. **One of the Metso crushing/screening plants destined for the Baffinland project.**

NO STONE UNTURNED

A customer uses a Toromont-supplied Cat 289C Compact Track Loader on a construction site.

Finding New and Better Ways to Grow Our Construction Business

Toromont's construction customers are the people who put structure in the word infrastructure. Each year, our customers collectively build billions of dollars of sewers, roads, bridges, suburbs, transit lines, office towers, manufacturing plants, hospitals, schools and energy systems that support our economy.

In Ontario alone, the construction industry accounts for over 5% of provincial gross domestic product and employs more than 440,000 workers. In Manitoba, Newfoundland and Labrador, and the parts of Nunavut we serve, construction is also a vital contributor.

Despite the size of the construction market, it is also intensely competitive. The supply of equipment to it is no different. For that reason, Toromont has brought new focus to each corner of the marketplace through its Construction Division, which incorporates the resources of 31 of Toromont Cat's 36 branches, all 38 Battlefield – The Cat Rental Stores along with its JobSite operations, and the dedicated staff within the Metso Canada, Masaba, and SITECH Mid-Canada Ltd. dealerships.

Our collective aim is to grow by finding new and better ways to help hone our construction customers' competitive edge. Under the mantra "Available, Reliable and Flexible" we strive to be the company with the means to serve customers when, how and where they wish to be served.

These efforts have paid off so far. In 2013, we gained market share, and grew construction industry revenue by more than 7% year over year. This included growth in product support on our larger installed base of Cat construction equipment, more than 10% growth in same-store sales at Battlefield and higher sales at each of our other dealerships.

To extend our track record, we are taking a no-stone-unturned approach to growth, isolating on areas where we believe we have the capabilities, the products and the infrastructure to differentiate ourselves over the long run. Here are a few examples.

Aggregate Production and Recycling

Aggregate production is considered a bellwether of construction activity because it is required in just about every construction project. Each kilometre (km) of subway requires 114,000 tonnes of it; the average two-lane highway uses 18,000 tonnes per km; even a 2,000-square-foot home consumes 250 tonnes.

What does not flow straight into site preparation is used in cement production and in manufactured products such as glass and fertilizer. Even toothpaste contains aggregates, according to the Ontario Ministry of Natural Resources. Approximately 180 million tonnes of aggregates are produced annually in our territories, and when the end-use outputs of concrete production and ready-mix are factored in, the economic value of this part of the construction industry is in the billions of dollars.

Aggregate quarries, where solid bedrock is excavated, and pits, where loose clay, gravel and sand are processed, are ground zero for our efforts. We estimate that about $100 million of crushing and aggregate screening equipment and another $50 million of production equipment are purchased annually in our territories. Toromont serves this available market with three of the best brands in the business: Cat, Metso and Masaba, each taking on a specific and complementary role for customers.

With Cat, we offer 'face-to-finish' capabilities for quarry operators. In the largest quarries in our territories, fleets often include up to eight 'face' machines, such as hydraulic excavators and track-type tractors that are used to strip and rip material; eight to 10 trucks or large-wheel loaders that are used to load and haul material; and five to seven support machines such as water wagons and motorgraders.

In the centre of all of this production are Metso machines – also known as 'spreads' when they encompass jaw and cone crushers, screens and conveyors – which pulverize and separate waste from aggregates. A large quarry may employ three Metso spreads. Masaba conveyors move the finished product to inventory awaiting shipment to end users.

By aligning ourselves with these industry-leading brand names, we have created a more complete package for aggregate customers and they have responded, not only at the quarry level but downstream where demolition creates rubble that must be moved (Cat equipment) and crushed (Metso and Masaba). As aggregate is a

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“Our focus is to keep customers operating productively where they do business.”

nonrenewable resource valued for its mineral and grain content, as well as its chemical properties, recycling it is important. The Ontario Ministry of Transportation estimates that it uses 13 million tonnes of recycled aggregate each year.

While broadening our product portfolio has created significant sales opportunities, the true differentiator is our product support. Whether in a pit, a quarry or at the bottom of an old office building, aggregates are hard on equipment, making this segment among the largest construction users of our product support services.

Our 800+ technicians and 300+ service trucks make it possible for us to provide on-demand support at aggregate sites across our territories.

It is not unusual for large construction companies to be vertically integrated, meaning they own their own aggregate quarries and use the material they produce to feed their downstream building project needs, be it road or airport runway paving, subway tunnelling, or sewer replacement. By serving customers in their quarries, we showcase both our products and our

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Fleet Management Technology Reshapes Product Support

Technology is one of the ways we provide better support to our construction customers. Cat Product Link® and its secure web-based application called VisionLink, provide the technological edge we use to serve customers and differentiate Toromont. This fleet management system feeds data from the electronic control modules on board customer machines to our central monitoring station where we track machine hours and locations as well as machine health and productivity. Recent releases of this cellular and satellite-capable technology provide us with a broader perspective on fault codes and track fuel consumption and fuel levels.

Technology like this has the power to reshape product support in construction and resource industries. VisionLink data feeds from multiple machines on the same site allow customer dispatchers to monitor machine idling and redirect operators to work areas that need greater capacity. This saves fuel and improves productivity. Knowing the exact location of equipment and fuel levels means fuel trucks can be directly and proactively dispatched. Telematics also eliminate the manual collection of data that customers use to manage their operations.

For Toromont, this technology set enables more precise maintenance, which avoids catastrophic breakdowns and results in longer machine life and better resale value. Since this technology works on non-Cat equipment, we can also use it to penetrate areas of the market previously unavailable to us. There is also an opportunity to install it on older customer machines.

In 2013, we brought one of our long-time construction customers onto a preventative maintenance program, covering 165 units. We outfitted each one of these units with ProductLink, which pushed our technology-installed base to more than 4,000 units. This customer owns its own quarries and engages in all forms of construction, including roadwork and mass-transit. Recent growth in their business and our ability to monitor and maintain their equipment in the field without disrupting their daily production schedules were all factors in their decision to expand their 20-year relationship with us.

1. **A customer uses a Toromont Cat 345D Hydraulic Excavator to efficiently prepare a construction site.**
2. **Real-time remote monitoring of customer machines at Toromont Cat.**

product support capabilities at the ground-floor level of their businesses.

However, given the specialized nature of construction, even the most vertically integrated customers make separate buying decisions for each part of their operations, meaning we must address all of their equipment needs if we are to be successful.

Mass-Transit

Canada's largest cities are mass-transit challenged due to years of underfunding.

Today, four large mass-transit projects are underway in our territories, two in Toronto and one each in Ottawa and Kitchener-Waterloo. These projects require aggregate quarries to pump out tonnes of much-needed material and keep contractors busy on everything from excavation and sewer pipe realignment to road repaving and berm placement.

In Toronto, Toronto-York Spadina Subway tunnelling was completed in the fall of 2013 setting the stage for the next phase of work including excavation and construction associated with six new stations, as well as three commuter parking lots to hold a total of 2,900 cars. Contractors are permitted to work from 7 am to 7 pm six days per week to complete this project by the fall of 2016 and will remove about 1.75 million cubic metres of material once they finish their activities. For the Toronto Crosstown LRT, the largest of the three mass-transit projects underway, contractors are permitted to work even longer – from 7 am to 11 pm seven days per week – to ensure this 25-station-stop system is operational by 2020.

The Confederation Line LRT in Ottawa not only includes tunnelling and related excavation, it involves widening Highway 417. In Kitchener-Waterloo, construction begins this year on a 19-km LRT route between Conestoga Mall in the City of Waterloo and Fairview Park Mall in the City of Kitchener along with a 17-km adapted bus rapid-transit line. This $818 million project will continue into 2017 and involve the construction of 22 stations.

All of this work creates demand for heavy machines, responsive product support and rental equipment. Battlefield alone reports that contractors serving the Toronto and Ottawa projects together consumed approximately $400,000 of rental equipment in 2013.

Although not strictly mass-transit projects, multi-year road building projects in Toronto and Windsor – both with price tags over $1 billion – and the $300 million reconstruction of Iqaluit International Airport over the next three years will more efficiently move large volumes of people and cargo and create demand for equipment and product support. The same is true of the hundreds of other smaller municipal and provincial road construction and rebuilding efforts that make transit-related spending among the most reliable sources of growth for Toromont's Construction Division.

Energy

In Ontario, wind and solar farms are appearing across the landscape from Thunder Bay to South Kent in the Chatham area and everywhere in between. At last count, the Ontario Ministry of the Environment had approved 129 renewable energy projects with more under technical review.

Some projects are small; others are not. A large wind project can feature 50 or more individual turbines while a solar farm can stretch over 160 hectares with special site plans dictating environmental constraints, exact photo-voltaic panel layout, and access road locations.

Our customers prepare the sites where these large farms are located, a job that requires specialized equipment. As part of our plan to better serve this construction sector, we recently added work tools and machines to our Heavy Rent operation, including brush clearing cutters and mulchers, rock breaking hammers, and zero-tail swinging excavators, and were rewarded with strong utilization rates in 2013.

Cat H series hammers are a popular tool in construction industries generally and for solar and wind farm site preparation particularly, especially in areas where there is a layer of sedimentary rock that must be smashed to make way for posts, towers and electrical cabling. Included in our hammer inventory is the largest that Cat makes – the H-180, which is capable of breaking 1,345 cubic metres of rock over an eight-hour shift.

Construction Projects in Our Territories Worth $1 Billion or More

	Cost	Expected Completion
Rt. Hon. Herb Gray Parkway, Windsor	$1.4 billion	2014
Highway 407 East (phase one)	$1.0 billion	2015
Toronto Pan Am/Parapan Am	$2.5 billion[1]	2015
Lower Mattagami Hydroelectric Project Kapuskasing, Ontario	$2.6 billion	2015
Toronto-York Spadina Subway	$2.6 billion	2016
Lower Churchill Hydroelectric Project Phase 1 at Muskrat Falls, Labrador	$6.2 billion	2017
Confederation Line LRT, Ottawa	$2.1 billion	2018
Eglinton Crosstown LRT, Toronto	$5.3 billion	2020
Detroit River International Crossing	$3–4 billion[2]	2020

[1] Includes Athletes' Village and estimated cost of staging the games

[2] Current government estimates; cost includes construction of customs plazas, highway interchanges

By the end of 2013, we had over 750 work tools in our Heavy Rent fleet as well as more than 300 Cat machines. Approximately 18% of the more than 1,300 heavy rental agreements we signed during the year were with customers preparing alternative energy sites. Reflecting the versatility of our heavy rental fleet including work tools, the remainder of these rental agreements were with customers engaged in road building and general construction.

Site levelling is an important task for solar and wind farms, not to mention road builders and others. For that reason, we outfitted a quarter of our rental tractors in 2013 with machine control and guidance systems from our technology dealership known as SITECH Mid-Canada Inc. These systems use GPS, satellite and internet-based communications to enable data to flow directly from site measurement and surveying equipment to our machines so that blades can be automatically adjusted – on the fly – by onboard software. This reduces the number of passes necessary, and the amount of dirt that needs to be moved, to achieve the desired grade.

This advanced technology set is not yet widely used in our markets, but by introducing it to our customers through our Heavy Rent inventory we expect to give demand a boost.

Our Heavy Rent business is in its early stages of development and while we continue to fine tune it, we expect it to serve as a growth engine and door opener to new customers. Those who solely rely on heavy rentals for short-duration projects, those who wish to augment their existing fleets, and those who have never used Toromont but wish to give us a test run are all served by this part of our business.

We also showcase our product support capabilities in Heavy Rent. Full preventative maintenance is provided for every heavy machine we rent. We also help our customers install their own equipment on our rental machines, including special augers that are used in alternative-energy projects. Customers have told us that this makes Toromont's heavy rental business a reliable and differentiated partner.

Solar and wind farms also create opportunity for Battlefield and it is responding in kind. As just one of many recent examples, Battlefield became the primary supplier to a solar field in Capreol, Ontario, near Sudbury. The contractors to this site rented a fleet of telehandlers, Cat skid steer loaders, a site trailer, generators to power the trailer and keep the machines from freezing overnight and 762 metres of safety fencing. Rentals to this site began in August 2013 and will carry into 2014 as some 5,200 poles are installed to hold 47,000 solar modules.

Since industrial solar panels are typically mounted about 2.4 metres above ground and stretch upwards of 7.6 metres, lift equipment is of particular importance to site electricians while they connect the solar cells into arrays. Battlefield provides a complete line of lift devices for this purpose.

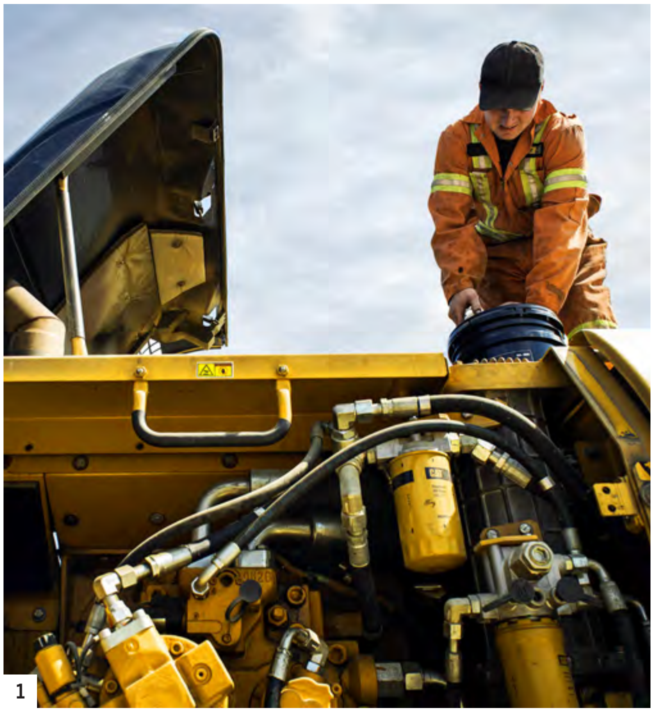
Hydro is also a big consumer of Battlefield lift devices and a variety of other Toromont construction equipment. At the Lower Mattagami Project near Kapuskasing, Ontario, we rented multiple units in 2013 to help customers construct superstructures at the Little Long, Harmon and Smoky Falls sites. This $2.6 billion, 438 MW project is the largest hydroelectric undertaking in northern Ontario in 40 years, according to the Ontario Power Authority, and work will continue through 2015.

Contractors on the Muskrat Falls hydroelectric project on the Lower Churchill River in Labrador have also taken up our offering. The Toromont Cat branch in Goose Bay reports that major contractors employed over 100 Caterpillar machines – many of them used – for heavy civil bulk excavation during 2013, which created significant demand for parts and service. The branch responded with an increase in its parts inventory, investments in its warehouse infrastructure and an expanded field-service fleet. In exchange, the branch recorded a 300% year-over-year increase in service sales and a 274% increase in parts sales. The development of Muskrat Falls represents the first phase of the Lower Churchill Project.

Whether it is a mainstream or alternative-energy project, the best way we can serve customers is to have the right equipment available, which means identifying their specific needs through in-depth discussions and site visits, and managing our inventories accordingly.

Across our territories, our customers are building and rebuilding Canada's infrastructure. We believe we have a duty to leave no stone unturned in serving them – and growing our construction division.

1. **Toromont Cat heavy equipment technician performs preventative maintenance in the field.**
2. **Our SITECH Mid-Canada dealership was recently awarded for its leadership in software sales.**
3. **Browsing the Toromont Cat Facebook page.**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Toromont in the Digital Age

One of Toromont's foundational strategies is "expand markets." When the architects of this strategy developed it, they envisioned it would be delivered through geographic expansion, and improved coverage, not through cyberspace. After all, the fax machine was advanced technology back then.

Today, we are complementing our traditional tools with something distinctly 21st century: social media. Toromont Cat recently joined Battlefield in digital engagement through interactive tools including *Facebook*, *YouTube*, *Twitter*, *LinkedIn* and *Google+*.

While some might say we are latecomers to these now-ubiquitous communications forums, we chose to take our time to develop a comprehensive plan that would ensure we had the knowledge, resources, and commitment to make our social media strategy robust and effective.

To say social media is useful is an understatement. It presents us with a powerful way to interact with prospective customers who increasingly turn online when they search for new and used equipment, stay connected with existing customers after a sale is made, and reach out to employees and those considering a career in equipment. For Toromont Cat and Battlefield, with a territory 3.8 million square kilometres in size, social media shrinks the distance between us and our markets to a mouse click.

In developing our plan, we benefitted from the extensive know-how of Caterpillar's social media team, recruited staff with special expertise in the field and committed to making the content on our channels enlightening and entertaining. Our reasoning was simple: sites with more followers are those that provide value-added content. We strive to be a quoted reference source, a place where visitors can learn, "like" us and "share" our content, whether that content is nostalgic photos of John Wayne driving a Cat D7 during the 1968 movie Hellfighters, or informative videos comparing conventional and joystick controls on a Cat motorgrader. Our social media sites also allow investors to gain a broader perspective on the industries we serve.

Our new Toromont Cat *Facebook* page already has over 33,000 likes and thanks to the analytics available from forums like this, we know a little bit about each one, including what content they value.

CIMCO is also finding success with their newly established Arena Refrigeration Group on *LinkedIn* and now has over 300 arena management personnel from across Canada and the U.S. included in the group. This growing and interactive forum brings together industry stakeholders to discuss plant maintenance, capital budgeting, new products, technical information, and interesting industry trends. A similar site addresses CIMCO's industrial sectors. CIMCO's *Facebook* page also brings focus to innovative projects, past and present, that highlight business capabilities and demonstrate CIMCO's unique expertise. The CIMCO 'followers' group is also growing and becoming more interactive with their comments.

While our social media investment delivers important intangible benefits such as raising our profile and allowing us to hear from people we might never see in person, it can also drive sales.

Northstar Aerospace will use this Cat C32 diesel generator as part of its new back-up power strategy.

TAKING FLIGHT

Northstar Aerospace Turns to Toromont for Turn-key Power

Northstar Aerospace is the leading independent manufacturer of components and assemblies for the global aerospace industry. At its Milton, Ontario facility, it uses specialized heat treatment, plating, gear grinding, precision machining and fabrication to produce dynamic components for its customers.

Like many manufacturers, Northstar is heavily reliant on high-quality, uninterrupted power. A millisecond spike in voltage will ruin thousands of dollars of components and put the timely delivery to some of the world's best known aerospace OEMs in jeopardy.

These concerns led Northstar to Toromont Power Systems in the summer of 2013 in search of a solution. What the customer received made use of our turn-key capabilities, including specialized equipment and product support.

Through discussions with Northstar, we identified two critical needs: power reliability and power quality. First, the Milton plant could not afford to be without power for an extended period of time since every one of its manufacturing processes relies on electricity. When heat treatment equipment goes down, it can take 24 hours for a restart. Second, voltage sags ruin aerospace parts, especially when they are undergoing heat treatment. Nothing less than a perfect 600-volt, 60-Hertz signal is acceptable in this ISO: 9001-2008 rated

> **"In the event of a prolonged power outage, the generator will be capable of powering Northstar's entire manufacturing process and then some."**

plant. Beyond these two must-haves, Northstar also needed equipment that would fit within its existing building and property footprint and needed it installed on a schedule that would minimize power disruption to the plant.

To address these needs, we designed a turn-key power package that included, at its heart, a 1 MW Cat C32 generator set, a Cat 1200 KVA flywheel Uninterruptible Power Supply (UPS), and Cat Automatic Transfer Switch (ATS) technology.

However, the generator alone does not entirely solve the problem of power reliability or quality as there would be a brief power interruption while the unit comes on line.

The flywheel UPS bridges this gap. Spinning constantly while the plant operates on utility power, the flywheel UPS conditions the power, ensuring clean power is delivered to critical loads and stores energy, making it available instantly whenever it is needed. Whether the plant is hit with a blackout, brownout or transient fault, Northstar will be fed with uninterrupted power that is delivered in a perfect 600-volts, 60-Hertz sine wave.

The flywheel design of this system also addressed Northstar's physical space constraints. While batteries are often used in UPS, flywheels have two to three times the generation capacity per square foot. The design of the Cat flywheel UPS allows greater flexibility in its installation, and offers lower lifecycle costs in comparison to its battery-powered counterpart.

1

"While there are other suppliers capable of providing generators," said J.P. Granger, Electric Power Industry Manager for Toromont Power Systems, "Toromont's critical competitive advantage is the ability to specify, design and integrate a complete system and then deliver white-glove product support once it is installed. These systems depend on sophisticated equipment, electronics and software and we are the experts in building and maintaining them."

Our Centre of Excellence in Brampton, Ontario, one of eight Toromont locations specializing in power systems, was the location of design and integration and will provide ongoing product support once the project is completed in 2014.

"While Northstar originally came to us because of our reputation for the supply of power generation," said Glenn Keenan, Vice President, Toromont Power Systems, "they came away with a much more comprehensive and effective way to sustain their manufacturing capabilities. In this project, we made a meaningful difference."

Northstar is unique in the field of aerospace, but there are many other manufacturers in industries such as plastic injection molding, pharmaceutical, high-tolerance manufacturing and heat-treating, photo-voltaic receptors and semi-conductors that need to take flight to a high-quality, uninterrupted power source as a supplement to utility-grade electricity. Toromont intends to be the pilot.

1. **Northstar will use an integrated Toromont Power Systems supplied Cat C32 generator, Cat 1200 KVA flywheel UPS and a Cat Automatic Transfer Switch.**

COLD FRONT PUSHES SOUTH

The doors are now open at CIMCO's new U.S. headquarters in Mobile, Alabama.

CIMCO Realizes U.S. Growth Through Product Support Strategy

Canadian industrial refrigeration markets continue to be a core focus for CIMCO and opportunities are plentiful. As we continue to address these markets, CIMCO looks to expand its opportunity in the United States where cold storage plants and food and beverage manufacturers must serve a population 10 times the size of Canada's.

The U.S. has been a market crowded with competitors, where differentiation can be difficult. This was the opportunity-challenge that CIMCO faced a decade ago when it decided to intensify its efforts south of the border.

At the time, CIMCO was generally flying under the radar with large potential U.S. customers. In 2013, America represented 15% of CIMCO's revenue, with the potential to be an even bigger source of business in the years ahead.

The steady penetration of the market is the result of a strategy that began with a small acquisition, and continues to this day with a big focus on product support.

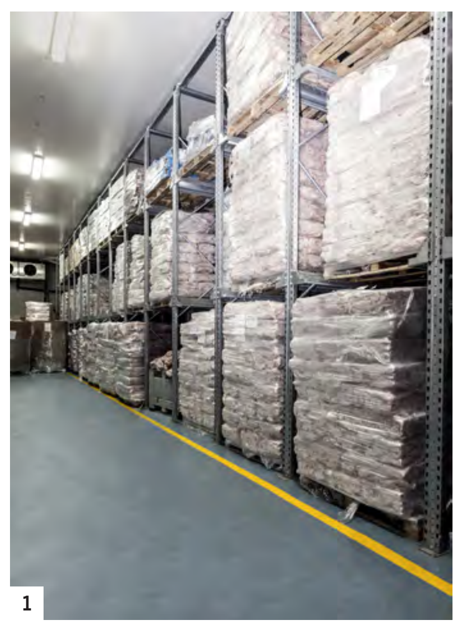
Understanding this strategy requires a brief history lesson and some context. For the past 100 years, CIMCO has made a name for itself by being a leading supplier of refrigeration equipment and ongoing product support. Like all Toromont businesses, CIMCO typically starts with the sale of specialized equipment, and the unbeatable value proposition of supporting the customer as the equipment is used.

In the United States, CIMCO turned this strategy around so that it leads with product support. The reason? There are dozens of refrigeration construction companies in the U.S. but few offer the turn-key equipment service and maintenance that is so vital to the ongoing operation of customer facilities. Product support is a differentiator and, of equal importance, not one that competitors can easily replicate. The barrier to entry is steep because of the cost and time required to establish a national service network needed to serve large, multi-state customers.

In 2004, we put capital behind this strategy with the acquisition of a privately owned industrial refrigeration company based in Mobile, Alabama, with a 50-year history in the southeastern United States.

CIMCO used this acquisition as a springboard to developing its U.S. product support capabilities. Along the way, we allocated capital to building one of America's largest industrial refrigeration service networks that today employs highly skilled mobile technicians serving customers in more than 40 states.

Our U.S. technicians are trained to be self-sufficient and carry all of the tools they need to maintain and fix the condensers, compressors, sensors, purger counters, dock coils and more found in a variety of Original Equipment Manufacturers' systems. In 2013, we also outfitted our CIMCO U.S.A. technicians with handheld tablets that enable them to electronically record details of work performed, parts provided and time consumed; present the tablet to customers for electronic sign-off; and email the completed service ticket to customers and the CIMCO billing department. This improves record-keeping for all parties and accelerates invoicing. Our technicians also use these computer tablets to complete pre-job inspection forms which are part of our safety regimen.



1

1. One of many McLane Company distribution centres that CIMCO supports with its broad U.S. service capabilities.

1

> “CIMCO’s push to the south is creating a more diversified growth platform and with it, the foundation for a new century of success.”

The service we provide to customers will also be more efficiently served as a result of the late 2013 re-opening of the Mobile plant, which was destroyed by fire during a 2012 hurricane. The new plant, which doubles as CIMCO’s U.S. headquarters, has an adjoining 3,000-square-foot facility dedicated to rebuilding compressors at a rate of 150 per year.

We have leveraged our service capabilities to win over hundreds of industrial customers in the U.S. over the past decade and to help our Canadian customers in the operation of their American plants. Household brands like Maple Leaf Foods, Sysco, Kraft, Wade Farms, Peter Pan and Unilever are all valued accounts for CIMCO U.S.A. Operations.

Perhaps the best example of success is the service agreement we signed with McLane Company Inc., the $44 billion supply-chain services business owned by Berkshire Hathaway Inc. This agreement, believed to be the largest of its kind in the U.S., made CIMCO the official supplier of industrial refrigeration product support to 19 McLane Grocery distribution centres.

“Our customers see us as risk managers and refrigeration advisors, not just repairmen,” said Jose Mergulhão, Vice President, CIMCO U.S.A. Operations. “We use our knowledge of industrial refrigeration and logistics capabilities to help customers plan an appropriate and cost-effective maintenance schedule that minimizes the risk of plant disruption. Then, when they are contemplating a capital program, they tap into our engineering resources to size up technology alternatives.”

It is at the equipment replacement stage that CIMCO’s strategy comes full circle. By developing a trusted and ongoing relationship with customers through product support, we enhance our competitive standing when tenders are let for a new project.

The development of CIMCO’s product support coverage has also assisted in making us more responsive to the U.S. recreational ice rink market. Today, recreational refrigeration product support represents about 16% of CIMCO’s U.S. product support business.

1. **A CIMCO technician inside an industrial customer's mechanical room.**
2. **The CIMCO-outfitted NHL ice truck serves as the backdrop to promote the recent Maple Leaf-Red Wings outdoor game.**
3. **Calgary’s Saddledome.**

CIMCO Saddles Up to Save Calgary’s Arena

Friday June 21, 2013, was a down day at Calgary’s Scotiabank Saddledome, home of the Calgary Flames and Calgary Hitmen. The 17,000-seat arena was closed for summer maintenance when the unthinkable happened: the Elbow and Bow Rivers flooded, sending an ugly mixture of storm water and mud careening across the ice rink surface.

Before it subsided, the ice plant, players’ dressing rooms, kitchens, and video control room, along with the first nine rows of seats, were submerged. Filing cabinets were floating on the ice rink surface. Damage was in the millions. If that wasn’t bad enough, the arena stood to lose money and disappoint countless fans if it failed to re-open in time for the Calgary Flames first pre-season games in September.

3

Have Ice, Will Travel

CIMCO Serves as NHL's Go-to Provider of Outdoor Refrigeration

The National Hockey League's Winter Classic, held annually at outdoor venues, is among the most anticipated and watched hockey events in the world. Since the NHL first made the outdoor games concept a fixture on the annual schedule, CIMCO has provided the mobile refrigeration to make it possible.

In 2014, the NHL takes another bold step in serving fans and expanding its fan base through its Stadium Series and Heritage Classic, featuring games at Dodger Stadium in Los Angeles, Yankee Stadium in the Bronx, New York, Chicago's Soldier Field and Vancouver's BC Place, in addition to the New Year's Day match at Michigan Stadium between the Toronto Maple Leafs and Detroit Red Wings.

With an even more ambitious schedule of large-scale, outdoor games – including in the U.S. southwest – the NHL once again sought out CIMCO's playmaking abilities, asking it to build a second refrigeration system-to-go in 2013 to serve alongside our first.

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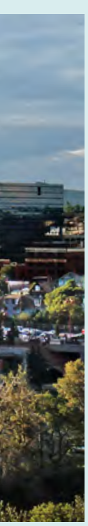
Each system is self-contained inside a 53-foot trailer. While the physical confines are tight, and required the two compressor packages to be mounted at 30-degree angles to the trailer, there is nothing small about the refrigeration capacity inside. Powered by 263- and 235-horsepower motors, the new trailer delivers 300 tons of nominal refrigeration capacity; the same as the capacity of a normal NHL arena. Using environmentally friendly ammonia, the system sends ethylene glycol to the ice rink floor at a temperature of minus 9.4C. No matter how cold or warm it is in the stadium, the trailer makes ice to the same high standards demanded by the NHL and its players for indoor matches.

"The challenge with the outdoor concept is that there is no way to predict game-day temperatures, which means it's impossible to determine exact load factors," said David Fauser, CIMCO Ontario Sales Manager. "This means we had to, in effect, design the system so that it can handle whatever the climate dishes out whether it's in sunny California or snowy Detroit. Other than its physical size, this equipment is identical to what you will find in any NHL arena."

In recognition of the fact that outdoor venues may or may not allow the trailer to be parked close to the rink, the system includes highly efficient, variable-speed pumps for precise control of glycol flow rates and significant power savings. It is also road-worthy and rugged enough to be towed hundreds of thousands of kilometres over its lifespan. In fact, after making its debut on New Year's Day in Detroit, it immediately left for Los Angeles, a 3,200-km trek.

Beyond making ice, the trailer is also a prominent part of the NHL's pre-game promotions. Fans gather to watch the trailer come to town bearing the logos and decals associated with the event.

For pure sports excitement, and overall entertainment value, the NHL is in a league of its own and we are proud to be their preferred supplier, indoors, outdoors or wherever the puck drops.



Knowing that the show must go on come hell or high water, building operators moved quickly to assemble an emergency response team that included CIMCO, the architect, and since the facility opened in 1983, the supporter of the building's refrigeration system.

It was a full two days before CIMCO service technicians could access the building and their first job was to safely drain the refrigerant, a process completed in 24 hours. Next, they inspected the ice rink floor, pressure-tested the pipes running underneath and assessed the losses sustained. Fortunately, the ice rink slab was spared but the entire mechanical room was lost. Matt Smith, CIMCO's Vice-President Western Canada, was part of the assessment team and what he remembers most "was the grass hanging down from pipes 12 feet off the ground" in the mechanical room.

Drawing on the local resources of the CIMCO team in Calgary, remediation began. Through July and August, all three screw compressors, every pump, motor, electrical component, switch and sensor were removed and replaced and a completely new automated control system was programmed and installed.

While CIMCO's product support team focused on their tasks, some 500 other contracted workers descended on the facility, sanitizing it, removing and replacing drywall, reupholstering 2,500 seats and even restocking cutlery for the arena's kitchens.

With a work ethic worthy of an NHL team, and a labour output by all contractors totalling 650,000 manhours, the facility re-opened on time and as good as new, with the ice rink being put to the test right away in a pre-season game with the Oilers on September 14th.

In the final analysis, climatologists may call this a once in a 100-year flood, but for CIMCO, cleaning up after it is all part of the everyday world of supporting customers when they need it most.

CONCORDIA'S BREAKAWAY

Practice begins at the Ed Meagher Arena.

ECO_2 Chill® Seen as Game-Changer in Recreational Refrigeration

First there was ozone-depleting Freon. Then there was environmentally friendly ammonia. Now North American arenas have an important new refrigeration option to consider: carbon dioxide, a clean, alternative technology patented for ice rinks by CIMCO Refrigeration.

Aptly branded ECO_2 CHILL®, this potential game changer harnesses CO_2. This non-combustible gas is found naturally in the environment along with water vapour, ozone and nitrous oxide, is less than one-tenth the cost of Freon to purchase and has excellent thermodynamic properties, meaning it makes great ice.

These advantages are now on display at Concordia University's recently refurbished Ed Meagher Arena, the first rink in the world to employ ECO_2 CHILL.

In ice rink applications, temperature consistency is mission critical. While the temperature of some coolants can vary by as much as three degrees Celsius between the time they leave the compressor and the time they reach the far end of a rink, there is no degradation in cooling power with CO_2. At Concordia, CO_2 leaves the compressors at minus 9.4º C, circulates under the entire ice rink floor freezing the slab as it moves, and then returns at exactly the same temperature. The result is a perfectly frozen surface.

While ice quality is a key consideration for today's rink owners, so too are energy efficiency and its by-product, environmental sustainability. This is where ECO_2 CHILL sets itself apart. Using the same conservation-delivering technology as CIMCO's ammonia-based packages, the system reclaims all of the heat from the compressors rather than rejecting it to the atmosphere. Captured heat can then be used for free to heat dressing rooms, common rooms and water for showers. The need for a separate boiler can be eliminated, along with the energy needed to power it.

While delivering its primary mission of freezing ice, CIMCO estimates that the Concordia's ECO_2 CHILL system provides the home energy equivalent of 15 furnaces and 15 hot water heaters and will save in excess of 800,000 kWhr/year in electricity. The cost savings make for an attractive payback, while the use of CO_2 means the system is environmentally benign with no ozone-depletion potential and neutral as a greenhouse gas, a major contrast to Freon-refrigerated ice rinks.

Energy is also conserved because the unique thermodynamic properties of CO_2 mean the system needs only low-powered pumps. While systems using glycol or brine in the refrigerated slab require 25 horsepower pumps, ECO_2 CHILL at Concordia operates with three pumps needing only 1.5 horsepower each.

The inherent volumetric efficiencies of CO_2 also allow the system to use small-diameter copper pipes that require smaller insulation thickness. These pipes come in 64-metre lengths eliminating brazing or soldering. Another unique feature of the Concordia installation is that the ice rink slab uses reverse-return headers to ensure that each of the 128 circuits in the floor receives the perfect amount of cooling.

The $6.5 million reconstruction of Ed Meagher Arena, its ice surface, mechanical and dressing rooms means that students now have a NHL-sized facility that can accommodate high-performance training camps, Concordia Stingers men's and women's hockey programs, as well as recreational users and the bragging rights that come with an energy-efficient, environmentally responsible ice rink.

Designing the Concordia system required approximately 500 hours of engineering time and involved a team of CIMCO designers, controls and project engineers. Component parts were also sourced from various suppliers, some as far away as Italy and Denmark. Even so, the package was delivered on time and on budget.

"By complementing ECO CHILL ammonia-based systems with CO_2 trans-critical refrigeration, we've given rink owners the power to choose the refrigerant that best suits the needs of their facilities, budgets and return on investment requirements," said Benoit Rodier, CIMCO's Director of Business Development and Concordia's project team member. "Whatever decision they make, they will know that they are making the right choice for the environment and that CIMCO will be there for the long run to maintain the equipment to factory standards."

ECO CHILL ammonia and ECO_2 CHILL are both responsible environmental choices that serve the best economic interests of rink operators and both make superior ice. In certain circumstances, depending on municipal preferences, ECO_2 CHILL will be the preferred choice as it was to Concordia.

However, the real target of CIMCO's two innovative technologies is Freon-based refrigeration systems that produce a toxic cocktail of carbon, chlorine and fluorine.

CIMCO estimates that there are hundreds of rinks in North America – including 300 in Québec – that still use Freon. Due to the Montréal Protocol and follow-up legislation, these rinks must replace Freon when their facilities reach their end of life. CIMCO now provides the breakaway technologies to make this possible.

SUSTAINABILITY REPORT

Employees row for the United Way in the annual Toromont Cat Dragon Boat festival.

Protecting and Developing Our People

Protecting Our People
Whether the goal is satisfying customers, building value for shareholders or being good corporate citizens, all roads at Toromont start with our employees. Their safety is our highest priority and we pursue this energetically.

Rigorous safety training, ongoing enforcement and identification of best practices were all part of an active 2013 agenda.

To maintain a safe environment, we focus on ensuring that all employees not only understand but abide by the specific injury avoidance rules governing our workplace. Every technician must complete a hazard assessment checklist before starting each job and is expected to follow safe procedures from beginning to end. Safety Talks are provided at every Toromont site, giving employees practical advice on everything from winter driving techniques to proper lifting.

All Toromont business units are required to tailor their safety strategies to fit their places of business, whether that involves servicing a power system carrying a 600-volt charge at Toromont Cat's Power Systems, or working under a 570-tonne Cat 795F truck at its Resource Industries division. CIMCO has, for example, developed dedicated Electrical Safe Work and Working with Ammonia programs and is delivering more training online such as ladder safety. Battlefield provides load retention seminars and defensive driving techniques in recognition of the thousands of hours its drivers spend behind the wheel each year and helps its customers stay safe through a dedicated Professional Training Services Division.

Each location's practices are formally audited by health and safety personnel, a process that involves reviewing compliance against leading safety indicators and incident performance. Zero tolerance is given to non-conformance with our policies and procedures and variable compensation for managers has a safety component that is punitive if standards are not upheld. Safety is also celebrated. Toromont CAT presents the Safety Bucket award to its safest branch on an annual basis (won by Orillia in 2013 for best scores across 14 categories), and the competition created for this award enhances safety awareness and performance.

Safety statistics and trends are tracked and analyzed using, in some cases, web-based incident reporting systems and shared with management and our Board of Directors through its Human Resources and Compensation Committee.

Over the past three years, these efforts have paid off. Total recordable injury frequency rate and lost-time injuries have declined by 53% and 61% respectively. However, that means injuries are still occurring, which is unacceptable. As a result, we will continue to evolve our programs to advance our safety culture and eliminate all injuries.

Preparing Employees for the Future
While safety is job one, talent identification and development are jobs two and three in building a sustainable culture of excellence. To make our employee assessments more objective and useful, Toromont Cat uses a standardized process known as 9-Box. Employed by many of the world's leading companies to focus succession planning, this process evaluates an employee's current contribution to the organization, interest in taking additional responsibilities, and potential for advancement. Results are tallied in a matrix with nine categories. This is a valuable tool that allows us to shape our development programs to suit individual and Company needs.

To link learning and development with the needs of Toromont Cat employees, we created a training roadmap in 2013 to help our new and emerging leaders follow a logical course in acquiring the mindset and skillsets needed to manage others effectively. First-time supervisors can choose from courses such as situational leadership, a workshop designed to increase the competence, confidence and motivation of staff. Managers can take Cat Dealer Management Simulation training to enhance their leadership skills, learn to systematically identify areas for revenue and profit enhancement, gain a better understanding of cost drivers and how to judge the return potential of competing investments. Emerging leaders are offered courses such

> **“All of these activities are designed to strengthen the management of our company by helping employees thrive and achieve ever higher levels of success.”**

as Leading Transformational & Sustainable Change to learn how to make a business case for change. There are also modules for executive development including a talent assessment workshop and several options offered in conjunction with leading universities such as Queen's and York's Schulich School of Business. Some candidates also qualify to participate in our formal leadership training program, where they rotate through departments and are assigned special projects to expand their knowledge.

Recognizing that our employees are extremely busy supporting customers, we also offer web-based courses through Toromont University on topics such as budgeting and innovation, and in 2013, we added a series of modules called Managing Your Human Resources, which combine live interactive sessions with web conferences.

All of these activities are designed to strengthen the management of our company by helping employees thrive and achieve ever higher levels of success. In turn, engaged employees create a positive environment for customers. We complement development initiatives with competitive compensation and benefits and a company-matching employee share ownership program that motivates participants to align with the goal of shareholder value creation.

Recruiting the Best and Brightest

As a growing business, Toromont is constantly recruiting, especially in product support, where competition for talent is fierce. In Canada's north, we work in partnership with customers and First Nations' communities. In 2013, we sought out prospective employees at five career fairs in the Lower James Bay region and used a variety of tools – including social media – to let our neighbours within Moose Cree, Mushkegowuk, Wahgoshig, and Taykwa Tagamou First Nations know of employment opportunities. We also forged a new relationship with KIIKENOMAGA KIKENJIGEWEN (KKETS) Employment and Training Services, a division of the Matawa First Nations and increased our recruiting efforts among the Inuit in Nunavut.

KKETS helped us to identify and place two co-op students within our Thunder Bay and Timmins branches where they served as site assistants, while our efforts in First Nations' job fairs allowed us to recruit two apprentice technicians, one site assistant and a parts technician. We intend to keep expanding our ties with our northern partners through a variety of strategies.

CIMCO's efforts to ignite student interest in a refrigeration career took an innovative turn this year. When coordinators at the Southern Alberta Institute of Technology (SAIT) issued a tender for a refrigeration system to be used in the classroom starting in 2014, CIMCO suggested the students would benefit from experimenting on CO_2 technology, which is at the leading edge of industry development (see page 20). SAIT agreed and CIMCO designed a special dual cooler and freezer unit that students in the Power Engineering Training Systems program will use in their studies.

Community colleges, universities and high schools are fertile ground for recruitment. We invested more time in these relationships in 2013, connecting with students at Confederation College in Thunder Bay – a new Toromont partner, Centennial College, Georgian College, Sir Sandford Fleming, Assiniboine Community College, Conestoga College, Cambrian College, Red River College, and two high schools, Central Technical School and Bear Creek. We serve on the academic advisory panels at four colleges. These efforts helped us recruit 45 apprentices in 2013.

In recognition of a longstanding collaboration, Cambrian bestowed its highest honour – the Dr. Fred Sheridan Award – on Toromont Cat in 2013. In presenting the award, Cambrian President Sylvia Barnard said: “Toromont Cat is the embodiment of an industry partner that believes in contributing to education. The company truly recognizes the value that workforce-ready graduates bring to industry across the nation, and it has an outstanding track record of investing in students. Toromont and its employees have made a tremendous difference in the

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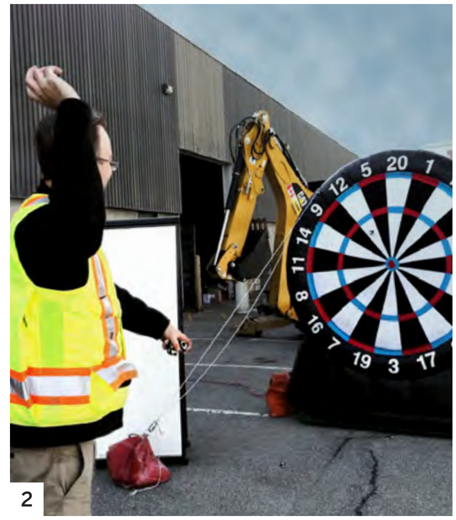

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educational experience of our students, and Cambrian is very thankful."

Financial support for students is also important. Each year, we present THINK BIG scholarships to deserving students. We also provide a scholarship through the Civil Engineering Department of Ryerson University to students entering fourth-year of Civil Engineering.

Community Participation

Toromont takes pride in supporting the communities where we do business. While providing employment is the best way to support healthy communities, we are engaged in other ways. As long-time supporters of United Way, Toromont and its employees donated $176,466 in 2013, participated in "Days of Caring" events in support of North York Harvest Food Bank, The Yellow Brick House, Canada Blood Services and Ronald McDonald House in Manitoba, and various fundraisers including the Run for Diabetes, Sudbury's Heart and Stroke Ride and the run for Camp Oochigeas.

Reflecting their volunteer efforts at Knights Table in Brampton, Ontario, which provides food, resources and workshops for the homeless, Toromont Power Systems employees were awarded the United Way's 2013 Community Service Award.

We also donate our time, expertise and sometimes our equipment to worthy causes, like the Eric The Red Rowing League for Kids, which encourages youth participation in rowing, the 1st Annual Toronto Pond Hockey Tournament and the Cure Cancer Classic at Queen's University which raised funds for the Canadian Cancer Society. All were causes supported in 2013 by Battlefield, which like CIMCO and Toromont CAT, has a long history of contributing to deserving charities.

Environmental Performance

Toromont's operations must conform with a variety of municipal, provincial, state and federal rules governing the environment – and they do. But we believe that we owe our employees and our communities a higher standard of care. For that reason, we monitor our environmental footprint, set goals and invest in practical ways. Our efforts are working.

Toromont Cat reduced its carbon footprint over the last three years by 13%, besting its 10% reduction target by a healthy margin. Contributing factors included mandated changes in fuel-efficiency standards for the company's vehicle fleet (including those used at Battlefield and CIMCO), anti-idling policies, and investments in high-efficiency air compressors (which can be significant power users) and energy-efficient lighting. Behavioural changes by our employees have also made our already relatively small environmental footprint, measured by Greenhouse Gas emissions (GHG), even smaller.

Toromont is also dedicated to water conservation. In 2013, another special wash bay was installed in the Battlefield store network, and in 2014, Toromont Cat will open a new Brandon, Manitoba branch with a closed-loop water recycling system. This equipment captures and recycles used water during machine cleaning and, in so doing, reduces water consumption.

Recycling absorbent pads used in servicing equipment is also having an impact. Over the past three years, we have diverted 29,988 kilograms of related waste from landfill and recovered 22,809 litres of liquid including oil.

CIMCO's ECO CHILL® and ECO$_2$ CHILL® are also having an impact. Across recreational and industrial markets, these systems now offset 355,000 metric tonnes of GHG compared to traditional refrigeration equipment (the equivalent of taking 79,000 cars off the road) and save almost 40 million kilowatt hours of electricity through innovative methods of capturing and recycling heat.

Whether it helps customers or our employees, Toromont is committed to sustainable performance.

1. **Life jackets on, our employees prepare to safely compete in the Dragon Boat festival.**
2. **Raising money and having fun at the annual Toromont Cat Concord branch United Way BBQ.**

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.

Cathryn E. Cranston ▲ Director since 2013
Ms. Cranston is Senior Vice President, Finance and Treasurer, BMO Financial Group. Ms. Cranston has served on non-profit and internal boards of directors.

Robert M. Franklin ▲ ● Director since 1994
Chairman, Human Resources and Compensation Committee
Mr. Franklin is President of Signalta Capital Corporation, a private investment company. Mr. Franklin has served on a number of public company boards of directors.

David A. Galloway ■ ● Director since 2002
Chairman, Nominating and Corporate Governance Committee
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.

Katherine A. Rethy ■ ● Director since 2013
Ms. Rethy is President of KAR Development Corporation, a leadership development and consulting company. Ms. Rethy is also a Director of SBM Offshore N.V. (Netherlands) and Equitable Bank.

Left to right:
Robert M. Franklin, Scott J. Medhurst, John S. McCallum, Robert M. Ogilvie, Cathryn E. Cranston, Jeffrey S. Chisholm, David A. Galloway, Katherine A. Rethy, Wayne S. Hill

■ Member of Nominating and Corporate Governance Committee

▲ Member of Audit Committee

● Member of Human Resources and Compensation Committee

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.

Jennifer J. Cochrane
Vice President, Finance
Ms. Cochrane joined Toromont in 2003 and has held increasingly senior management positions within the finance area. She is a CPA, CA. Ms. Cochrane was appointed to her current position in 2013.

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 CPA, CA 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 Executive 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.

Left to right:
David C. Wetherald, Paul R. Jewer, Steve D. McLeod, Michael P. Cuddy, Jennifer J. Cochrane, Scott J. Medhurst, Randall B. Casson

MANAGEMENT'S DISCUSSION AND ANALYSIS

Crews prepare to lift a Toromont Cat C32 generator set in to place to support a mission critical application.

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, 2013, 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, 2013.

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 10, 2014.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2013 Annual Report and 2014 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, 2013, Toromont employed over 3,200 people in more than 100 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 through selectively extending product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading and generally best-in-class from suppliers and business partners who continually expand and develop their offerings. Strong relationships with suppliers and business partners are critical in achieving growth objectives.

Invest in Resources

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

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

Maintain a Strong Financial Position

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

Consolidated Results of Operations

($ thousands, except per share amounts)	2013	2012	$ change	% change
Revenues	$ 1,593,431	$ 1,507,173	$ 86,258	6%
Cost of goods sold	1,201,913	1,122,765	79,148	7%
Gross profit	391,518	384,408	7,110	2%
Selling and administrative expenses	217,556	215,600	1,956	1%
Operating Income	173,962	168,808	5,154	3%
Interest expense	8,693	9,714	(1,021)	(11%)
Interest and investment income	(3,793)	(3,974)	181	(5%)
Income before income taxes	169,062	163,068	5,994	4%
Income taxes	46,031	43,595	2,436	6%
Net Earnings	123,031	119,473	3,558	3%
Earnings Per Share (Basic)	$ 1.61	$ 1.56	$ 0.05	3%
Key Ratios:				
Gross profit as a % of revenues	24.6%	25.5%		
Selling and administrative expenses as a % of revenues	13.7%	14.3%		
Operating income as a % of revenues	10.9%	11.2%		
Return on capital employed	26.5%	28.5%		
Income taxes as a % of income before income taxes	27.2%	26.7%		

Revenues increased in both operating groups. Equipment Group revenues were up 4% and CIMCO revenues were up 17% with increases in most areas.

Gross profit margin was 24.6% in 2013 compared with 25.5% in 2012. Gross profit margins were lower in both the Equipment Group and CIMCO.

Selling and administrative expenses increased 1% from 2012, in part reflecting the 6% increase in revenues. Bad debt expense increased $3.1 million on specific exposures and the general aging of accounts receivable. Mark-to-market expense on deferred share units increased $1.9 million, due to the increased share price. Compensation was $3.3 million (2%) lower in 2013 compared to 2012. Certain expense categories such as occupancy, legal, freight, training and travel costs were higher ($3.5 million), reflecting increased business levels, while warranty was lower ($3.2 million).

Operating income increased on higher revenues and contained expense levels, partially offset by lower gross margins.

Interest expense decreased on the lower average debt balances resulting from good cash flows.

Interest income decreased reflecting lower levels of interest on conversion of rental equipment.

The increased effective income tax rate for 2013 largely reflects a change in the mix of income by tax jurisdiction.

Net earnings in 2013 were $123.0 million and basic earnings per share ("EPS") were $1.61 per share, as compared to net earnings of $119.5 million and basic EPS of $1.56 per share. These represented 3% increases over 2012.

Comprehensive income in 2013 was $131.2 million (2012 – $115.7 million), comprised of net earnings of $123.0 million (2012 – $119.5 million) and other comprehensive income of $8.2 million (2012 – ($3.8 million) loss). Other comprehensive income included actuarial gains on employee pension plans of $7.3 million (2012 – $3.1 million loss), net of tax.

Business Segment Operating Results

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

EQUIPMENT GROUP:

($ thousands)	2013	2012	$ change	% change
Equipment sales and rentals				
New	$ 590,796	$ 564,435	$ 26,361	5%
Used	155,210	144,367	10,843	8%
Rental	193,454	183,777	9,677	5%
Total equipment sales and rentals	939,460	892,579	46,881	5%
Power generation	11,650	11,435	215	2%
Product support	411,582	405,880	5,702	1%
Total revenues	$ 1,362,692	$ 1,309,894	$ 52,798	4%
Operating income	$ 157,924	$ 154,589	$ 3,335	2%
Capital expenditures	$ 90,784	$ 99,871	$ (9,087)	(9%)
Key Ratios:				
Product support revenues as a % of total revenues	30.2%	31.0%		
Group total revenues as a % of consolidated revenues	85.5%	86.9%		
Return on capital employed	24.0%	26.5%		
Operating income as a % of revenues	11.6%	11.8%		

Despite sector-specific weakness, overall demand for the Company's products and services remained buoyant as evidenced by the year-over-year growth.

Equipment sales and rentals exceeded the record set in 2012, continuing the steady increase over the last four years.

New equipment sales increased 5% mainly on increases from construction (up $56.5 million), agriculture (up $7.9 million) and forestry (up $5.0 million), offset by decreases from mining (down $43.2 million). Excluding mining, revenues increased $70.6 million or 18% year over year on strong sales across most markets, representative of the diverse product lines.

Used equipment sales include used equipment purchased for resale, equipment received on trade-in, rental returns (demo class which is the key driver of used sales this past year) and sales of Company owned rental fleet. The increase of 8% was largely due to mining (up $5.8 million) and agriculture (up $2.2 million). 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 an improved utilization and on expanded fleet as the Company invested $47 million, net of disposals, in 2013. Utilization of light equipment was exceptional, driving revenues up 10% year over year, while heavy equipment rental increased 20%. Operating efficiencies with the heavy rental fleet remains a focus as high repair costs, freight expense, and rental processes experienced in 2013 diluted the profitability of the larger fleet. Equipment on rent with a purchase option decreased 20%, reflective of the general economic uncertainty which led some customers to opt for rent-to-rent solutions. Rental rates were fairly consistent in both years with continuing competitive market conditions.

Power generation revenues from Toromont-owned plants increased marginally over last year on higher electricity sales from the Waterloo Landfill and Sudbury Hospital plants, together with higher thermal revenue for the Sudbury Downtown plant.

Product support revenues were up 1% from the record set in 2012, benefiting from the larger installed base of equipment in our territory together with good activity levels for the equipment. Parts revenues were down 0.5% due to substantial parts deliveries to remote mine sites experienced in the fourth quarter of 2012. Excluding mining, parts sales were up 8% with strong results from construction. Service revenues were up 7%, principally from strong mining results (up $6.8 million), reflecting a mining sector that remains focused on production but with a change in timing of major rebuilds from 2012. Excluding mining, service revenues were largely in line with last year across all industries.

Operating income increased 2% versus a year ago. Gross margin as a percentage of revenues decreased 80 basis points compared to 2012. Equipment gross margins were relatively flat year over year and were more than offset by a decrease in product support gross margins. Bad debt expenses increased by $3.6 million on specific exposures and aged accounts receivable balances. Other selling and administrative expenses were down 2% year over year as the Company remained focused on controlling costs in a competitive environment. Operating income as a percentage of revenues was 11.6% in 2013 versus 11.8% in 2012.

Capital expenditures in the Equipment Group were $9.1 million (9%) lower year over year, on reduced spending on rental assets and vehicles. Replacement and expansion of the rental fleet accounted for $69.1 million of total investment in 2013. Expenditures of $3.3 million related to new and expanded facilities to meet current and future growth requirements. Other capital expenditures included $8.2 million for service and delivery vehicles.

($ millions)	2013	2012	$ change	% change
Bookings – year ended December 31	$ 714	$ 614	$ 100	16%
Backlogs – as at December 31	$ 97	$ 128	$ (31)	(24%)

Bookings in 2013 totalled $714 million, up 16% from 2012, lifted by substantial mining orders booked and delivered in the year.

Backlogs were lower in 2013 on improved equipment availability and completed deliveries. At December 31, the backlog was almost evenly split among mining, power systems and construction equipment orders. Substantially all backlog is expected to be delivered in 2014. Shortened delivery windows due to process improvements and increased capacity at Caterpillar have also contributed to reduced backlogs.

CIMCO:

($ thousands)	2013	2012	$ change	% change
Package sales	$ 140,747	$ 113,586	$ 27,161	24%
Product support	89,992	83,693	6,299	8%
Total revenues	$ 230,739	$ 197,279	$ 33,460	17%
Operating income	$ 16,038	$ 14,219	$ 1,819	13%
Capital expenditures	$ 4,019	$ 1,440	$ 2,579	179%
Key Ratios:				
Product support revenues as a % of total revenues	39.0%	42.4%		
Group total revenues as a % of consolidated revenues	14.5%	13.1%		
Return on capital employed	65.4%	70.3%		
Operating income as a % of revenues	7.0%	7.2%		

CIMCO reported record results for the third straight year on growth in recreational and industrial activity.

Package revenues increased 24% year over year. Activity in recreational markets was strong in both Canada (up 51%) and the US (up 83%). Industrial markets were also strong, up 12%, with increases in both Canada and the US. Product support revenues were up with increased activity in both Canada (6%) and in the US (15%).

Operating income included a gain of $1.0 million from the insurance proceeds related to a fire at the Mobile facility (2012 – $0.5 million). Excluding this, operating income increased 9%, reflecting higher revenues, offset partially by lower margins and higher selling and administrative expenses. Gross margins were down 160 basis points on lower package margins due to relative technical complexity impacting value-add and tighter bids. A change in the sales mix, with a lower proportion of product support revenues to total, also dampened gross margins. Selling and administrative expenses, excluding the insurance gain, increased 9%, mainly due to increased compensation expense and increased legal fees associated with defending various patents, offset by a reduction in bad debt expense.

Capital expenditures totalled $4 million in 2013 and related mainly to rebuilding the Mobile facility, together with investments in information technology and branch renovations.

($ millions)	2013	2012	$ change	% change
Bookings – year ended December 31	$ 108	$ 162	$ (54)	(33%)
Backlogs – as at December 31	$ 65	$ 99	$ (34)	(34%)

Bookings in 2012 included $49.8 million in orders from Maple Leaf Foods ("MLF") for their transformation project. Excluding these record orders for CIMCO, bookings were comparable year over year. Recreational bookings were up 29%, with increases in both Canada and the US. Industrial bookings were down 53% (28% excluding MLF in 2012), with a 59% decrease in Canada, partially offset by a 28% increase in the US.

Backlogs were lower on significant completion of the MLF project. Excluding the MLF order in both years, backlogs were 3% higher in 2013. Recreational backlogs were comparable to 2012 as an increase in the US (39%) was offset by a decrease in Canada (15%). Industrial backlogs were 5% higher excluding MLF. Substantially the entire backlog is expected to revenue in 2014.

Consolidated Financial Condition

The Company has maintained a strong financial position for many years. At December 31, 2013, the ratio of total debt, net of cash, to total capitalization was 10%.

Working Capital

The Company's investment in non-cash working capital was $281 million at December 31, 2013. The major components, along with the changes from December 31, 2012, are identified in the following table.

($ thousands)	2013	2012	$ change	% change
Accounts receivable	$ 240,259	$ 231,518	$ 8,741	4%
Inventories	327,439	327,785	(346)	–
Other current assets	4,585	4,086	499	12%
Accounts payable, accrued liabilities and provisions	(238,473)	(194,304)	(44,169)	23%
Income taxes receivable (payable)	6,135	(3,130)	9,265	nm
Derivative financial instruments	1,331	(219)	1,550	nm
Dividends payable	(9,988)	(9,164)	(824)	9%
Deferred revenue	(48,924)	(54,664)	5,740	(11%)
Current portion of long-term debt	(1,470)	(1,372)	(98)	7%
Total non-cash working capital	$ 280,894	$ 300,536	$ (19,642)	(7%)

Accounts receivable increased on higher days sales outstanding (DSO). CIMCO accounts receivable decreased $3 million or 7% on the decrease in revenues in the fourth quarter of 2013. Equipment Group accounts receivable increased $11 million or 6%. DSO was 48 at December 31, 2013 compared to 45 at the same time last year.

In total, inventories at December 31, 2013 were largely unchanged year over year. Equipment Group inventories were $2.4 million (0.8%) higher than this time last year; however, total mobile equipment inventory was down 9% on new inventory reductions of 13% from the previous year. Parts inventories increased $8.6 million, substantially in support of newer remote mine sites. Mining equipment inventories increased $17.8 million, largely offset by decreases in construction equipment ($13.9 million) and inventories of rental equipment with purchase options ($9.8 million). CIMCO inventories were lower by $2.7 million or 16% versus a year ago on lower work-in-process ($3.3 million).

Accounts payable and accrued liabilities at December 31, 2013 increased $44.2 million or 23% from this time last year. The increase was primarily due to the timing of order inflow from a key supplier in the fourth quarter of 2013.

Income taxes receivable represents amounts due to the Company as installments made during the year exceeded current tax expense.

Higher dividends payable year over year reflect the higher dividend rate. In 2013, the quarterly dividend rate was increased 8% from $0.12 per share to $0.13 per share.

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 10% lower than this time last year. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues decreased 12% from this time last year.

The current portion of long-term debt reflects scheduled principal repayments due in 2014.

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate, using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2013.

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 its senior employees. Effective 2013, non-employee directors no longer receive grants under this plan. Stock options 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. Stock options granted prior to 2013 have a seven-year term and those granted in 2013 have a ten-year term. At December 31, 2013, 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 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 2013 (2012 – $0.9 million) were charged to selling and administrative expense when paid. Approximately 48% of employees participate in this plan.

The Company also offers a deferred share unit (DSU) plan for certain 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. Non-employee directors also receive DSUs as part of their compensation, aligning at-risk and cash compensation components. 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 in selling and administrative expenses.

As at December 31, 2013, 288,920 DSUs were outstanding with a total value of $7.7 million (2012 – 211,872 units at a value of $4.3 million). The liability for DSUs is included in accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

Employee Future Benefits

Defined Contribution Plans

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 documents.

Defined Benefit Plans

The Company sponsors three defined benefit plans (Powell Plan, Executive Plan and Toromont Plan) for approximately 121 qualifying employees. These defined benefit plans are administered by a separate Fund that is legally separated from the Company and are described fully in note 19 to the consolidated financial statements.

The funded status of these plans changed by $13.7 million (a decrease in the accrued pension liability) as at December 31, 2013. The improvement resulted from (i) a good return on the plan assets in 2013 of 15% (2012 – 8%); and (ii) a net actuarial gain of $10 million (2012 – net actuarial loss of $4.2 million), largely reflecting the change in the discount rate (4.6% in 2013 versus 3.9% in 2012), partially offset by the impact of adopting new mortality rates in 2013.

The Executive Plan is a supplemental plan, whose members are largely retirees with only one active member remaining, and is solely the obligation of the Company. The Company is not obligated to fund the 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, 2013. As there are only nominal plan assets, the impact of volatility in financial markets on pension expense and contributions for this plan are insignificant.

The Company expects pension expense and cash pension contributions for 2014 to be similar to 2013 levels.

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 2013. This issuer bid allows the Company to purchase up to approximately 6.5 million of its common shares, representing 10% of common shares in the public float, in the 12-month period ending August 30, 2014. 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 2013, no shares were purchased. In 2012, the Company purchased and cancelled 666,039 shares for $14.1 million (average cost of $21.23 per share).

Outstanding Share Data

As at the date of this MD&A, the Company had 76,891,347 common shares and 2,563,824 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 2013, the Company declared dividends of $0.52 per common share, $0.13 per quarter. In 2012, the Company declared dividends of $0.48 per common share, $0.12 per quarter.

Considering the Company's solid financial position, cash flows and balances, and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to $0.15 per share effective with the dividend payable on April 1, 2014. This represents a 15% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 25th consecutive year of increases.

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 maintains a $200 million committed credit facility. The facility matures in September 2017. Debt incurred under the facility is unsecured and ranks on par with debt outstanding under Toromont's existing debentures. 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.

As at December 31, 2013, no amounts were drawn on the facility. Letters of credit utilized $26.6 million of the facility.

Cash at December 31, 2013 was $70.8 million, compared to $2.4 million at December 31, 2012.

The Company expects that continued cash flows from operations in 2014 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)	2013	2012
Cash, beginning of year	$ 2,383	$ 75,319
Cash, provided by (used in):		
Operating activities		
Operations	178,873	161,830
Change in non-cash working capital and other	21,665	(124,475)
	200,538	37,355
Investing activities	(72,032)	(91,205)
Financing activities	(60,285)	(19,033)
Effect of foreign exchange on cash balances	165	(53)
Increase (decrease) in cash in the year	68,386	(72,936)
Cash, end of year	$ 70,769	$ 2,383

Cash Flows from Operating Activities

Operating activities provided $200.5 million in 2013 compared to $37.4 million in 2012. Net earnings adjusted for items not requiring cash were 11% higher than last year on higher revenues. Non-cash working capital and other provided $21.7 million compared to $124.5 million used in 2012.

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 used $72 million in 2013 compared to $91.2 million in 2012.

Net rental fleet additions (purchases less proceeds of disposition) totalled $47 million in 2013 compared to $55 million in 2012. Rental fleet additions were lower in 2013 as compared to 2012 when increased investments were made 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 2013 totalled $25.7 million compared to $23.7 million in 2012. Additions in 2013 were largely made within the Equipment Group. Capital additions included $5.7 million for land and buildings, mainly to rebuild CIMCO's Mobile facility that was damaged by fire, as well as for new and expanded branches, $8.6 million for service vehicles, $4.2 million for machinery and equipment and $1.9 million for IT equipment. Additions in 2012 included $4.1 million for land and buildings acquired for new and expanded branch locations, $14.3 million for service vehicles and $3.2 million for machinery and equipment.

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

Cash Flows from Financing Activities
Financing activities used $60.3 million in 2013 compared to $19 million in 2012.

Significant sources and uses of cash in 2013 included:

- Repayments on the credit facility of $26.5 million;
- Dividends paid to common shareholders of $39 million or $0.51 cents per share; and
- Cash received on exercise of share options of $6.7 million.

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.

Outlook

Softening in several market segments has increased the competitive pressure for equipment sales in the Equipment Group's markets. Overall construction spending levels have eased somewhat, leading to a decline in total industry unit sales in 2013, although investment in large infrastructure projects continue to provide opportunity. Toromont has been successful in increasing its market share, however backlogs and RPO (rent with purchase option) inventories have declined versus a year ago, reducing near-term opportunities.

The mining segment has seen good activity over the last two years with significant deliveries to Detour Gold and Baffinland. Market conditions have tightened, however opportunities for new mine development, mine expansion and equipment replacement continue to exist. We remain engaged on a variety of mining projects at various stages of development within our territory; however, we do not anticipate that 2014 will see a replication of the equipment deliveries reported in 2013. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

The parts and service business has experienced significant growth and provides a measure of stability, driven by the larger installed base of equipment in the field. While the sale of parts decreased year over year due to significant sales to remote mine sites in the fourth quarter of 2012, the growth trend for parts sales is intact and service activity continued to grow. Work-in-process levels remain healthy. We also expect that our increased investment in the rental business, construction and power system segments and broader product lines will continue to contribute to growth.

At CIMCO, Canadian recreational bookings have returned to the more historical levels seen prior to the federal stimulus program. Canadian industrial bookings are at healthy levels, and quoting activity continued to be strong. US bookings were strong in 2013 reflecting improving market conditions. Backlogs are good for this time of the year. The product support business remains a focus for growth and we are encouraged by results so far in the United States. CIMCO has also expanded its product offering to include CO_2–based solutions, which are expected to contribute to its growth. Additionally, a provincial program in Québec to replace CFC and HFC refrigerants bodes well for recreational activities.

The growth in product support, fueled by the increased installed base in the Equipment Group and broader product lines and services, bodes well for the Company's continued success.

Contractual Obligations

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

Payments due by period	2014	2015	2016	2017	2018	Thereafter	Total
Long-term debt							
Principal	$ 1,470	$ 126,577	$ 1,690	$ 1,811	$ 1,941	$ 1,022	$ 134,511
Interest	6,796	5,342	427	306	176	36	13,083
Accounts payable	248,461	–	–	–	–	–	248,461
Operating leases	2,473	1,942	1,702	1,174	647	1,064	9,002
	$ 259,200	$ 133,861	$ 3,819	$ 3,291	$ 2,764	$ 2,122	$ 405,057

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,	2013	2012	2011	2010	2009 (3)
Expanding Markets and Broadening Product Offerings					
Revenue growth (1)	5.7%	9.1%	14.5%	14.8%	(18.7%)
Revenue per employee (thousands) (1)	$ 491	$ 481	$ 465	$ 423	$ 364
Strengthening Product Support					
Product support revenue growth (1)	2.5%	13.2%	12.6%	7.4%	(3.0%)
Investing In Our Resources					
Investment in information technology (millions) (1)	$ 10.7	$ 10.8	$ 12.1	$ 10.1	$ 10.6
Return on capital employed (2)	26.5%	28.5%	32.4%	10.8%	21.1%
Strong Financial Position					
Non-cash working capital (millions) (1)	$ 281	$ 301	$ 176	$ 136	$ 172
Total debt, net of cash, to total capitalization	10%	25%	13%	17%	(6%)
Book value (shareholders' equity) per share	$ 7.50	$ 6.24	$ 5.27	$ 15.50	$ 13.17
Build Shareholder Value					
Basic earnings per share growth (1)	2.9%	17.1%	32.5%	9.6%	(18.3%)
Dividends per share growth (4)	8.3%	17.0%	16.1%	3.3%	7.1%
Return on equity (5)	25.7%	29.9%	28.9%	9.1%	15.5%

(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 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 in 2008-2009 interrupted the steady string of growth across key performance measures, profitability endured and the balance sheet continued to strengthen.

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

Since 2009, revenues increased at an average annual rate of 5.1%. Product support revenue growth has averaged 6.5% 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 has 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/U.S. exchange rate also impacts reported revenues as the exchange rate impacts the purchase price of equipment that in turn, is reflected in selling prices. Since 2009 there has been significant fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar – 2009 $0.88, 2010 – $0.97, 2011 – $1.01, 2012 – on par and 2013 – $0.97.

Toromont has generated significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels, and we will continue this into the future as it is a crucial element to our continued success in the marketplace.

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 10%, well within targeted levels.

Toromont has a history of progressive earnings per share growth as evidenced by the results of the past four years, including 2013. This trend was not continued in 2009 due to the weak economic environment, which reduced revenues. In 2010, earnings per share growth were dampened by the issuance of shares in the year for the acquisition of Enerflex Systems Income Fund ("ESIF"). In 2011, on a continuing operations basis, earnings per share increased 32.5%, in line with earnings growth and a further 17.1% increase on a continuing operations basis in 2012. In 2013, despite a challenged economy, EPS increased 2.9%.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 25 years, including 2014. In 2013, the regular quarterly dividend rate was increased 8% from $0.12 to $0.13 per share, evidencing our commitment to building exceptional shareholder value.

Consolidated Results of Operations for the Fourth Quarter 2013

Three months ended December 31 ($ thousands, except per share amounts)	2013	2012	$ change	% change
Revenues	$ 407,264	$ 431,068	$ (23,804)	(6%)
Cost of goods sold	303,410	312,109	(8,699)	(3%)
Gross profit	103,854	118,959	(15,105)	(13%)
Selling and administrative expenses	56,043	57,517	(1,474)	(3%)
Operating Income	47,811	61,442	(13,631)	(22%)
Interest expense	2,174	2,747	(573)	(21%)
Interest and investment income	(934)	(1,887)	953	(51%)
Income before income taxes	46,571	60,582	(14,011)	(23%)
Income taxes	12,157	15,925	(3,768)	(24%)
Net Earnings	$ 34,414	$ 44,657	$ (10,243)	(23%)
Earnings Per Share (Basic)	$ 0.45	$ 0.58	$ (0.13)	(22%)
Key Ratios:				
Gross profit as a % of revenues	25.5%	27.6%		
Selling and administrative expenses as a % of revenues	13.8%	13.3%		
Operating income as a % of revenues	11.7%	14.3%		
Income taxes as a % of income before income taxes	26.1%	26.3%		

Revenues were 6% lower in the fourth quarter of 2013 compared to the same period last year on a 4% decrease in the Equipment Group and a 13% decrease in CIMCO.

Gross profit decreased 13% in the fourth quarter over last year on the lower sales volumes. Gross profit margin was 25.5% in 2013 compared to 27.6% in 2012. Equipment Group margins decreased mainly due to the competitive pricing environment, lower utilization and higher repair costs on rentals, lower RPO conversions and a slightly unfavorable sales mix from product support. Higher margins were reported at CIMCO due to a favorable sales mix as well as increases in package and product support margins.

Selling and administrative expenses decreased 3% compared to the prior year principally due to reduced personnel costs, tracking revenues and earnings (commissions and profit-sharing). Due to the significant increase in share price experienced in the fourth quarter, mark-to-market of DSUs increased expenses by $1.1 million. Selling and administrative expenses as a percentage of revenues were 13.8% versus 13.3% in the comparable period last year.

Interest expense was $2.2 million in the fourth quarter of 2013, down $0.6 million from the similar period last year on lower debt balances resulting from good cash flows.

Interest income was $0.9 million in the fourth quarter of 2013, down $1.0 million from last year on lower interest on conversions of rental equipment with purchase options.

The effective income tax rate in the quarter was 26.1% compared to 26.3% in the same period last year.

Net earnings in the quarter were $34.4 million, down 23% from 2012. Basic earnings per share were $0.45, down 22% from 2012. Excluding the effect of the significant mining deliveries and large industrial refrigeration billings in the fourth quarter of 2012, net earnings and basic earnings per share were comparable period-over-period and in line with our expectations.

EQUIPMENT GROUP:

Three months ended December 31 ($ thousands)	2013	2012	$ change	% change
Equipment sales and rentals				
New	$ 153,719	$ 151,436	$ 2,283	2%
Used	38,357	41,539	(3,182)	(8%)
Rental	54,200	57,234	(3,034)	(5%)
Total equipment sales and rentals	246,276	250,209	(3,933)	(2%)
Power generation	2,842	2,816	26	1%
Product support	102,595	114,377	(11,782)	(10%)
Total revenues	$ 351,713	$ 367,402	$ (15,689)	(4%)
Operating income	$ 44,646	$ 57,093	$ (12,447)	(22%)
Bookings ($ millions)	$ 173	$ 156	$ 17	11%
Key Ratios:				
Product support revenues as a % of total revenues	29.2%	31.1%		
Group total revenues as a % of consolidated revenues	86.4%	85.2%		
Operating income as a % of revenues	12.7%	15.5%		

New equipment sales increased in the quarter, as compared to 2012, mainly on increases in the construction market (up $5.0 million), agriculture (up $1.8 million) and forestry (up $2.7 million), offset by decreases in mining (down $7.4 million). Excluding mining, new equipment sales increased 10% quarter over quarter.

Used equipment sales decreased mainly on lower mining equipment sales of $3.4 million in this quarter as compared to 2012. Excluding mining, sales decreased 2% with nominal decreases across all segments.

Rental revenues decreased on lower rental fleet utilization. Light equipment rental revenues increased 3% on higher utilization, while the other rental categories (equipment on rent with purchase options on a reduced fleet, heavy equipment on reduced utilization and power systems due to fleet rebalancing) were lower. Rental rates have been largely consistent with the prior year, with continuing competitive market conditions.

Product support revenues were reduced from the record levels achieved in 2012, due to significant parts deliveries to remote mine sites in Q4 of 2012 not repeated in Q4 of 2013. Parts revenues were down 14%. Excluding mining, parts increased 7% on strong construction activity. Service revenues were relatively even with a year ago across all industries.

Operating income decreased mainly as a result of reduced gross margins. Selling and administrative expenses were 6% lower than the comparable quarter last year, on lower compensation and profit sharing while other expenses remained constant. Operating income as a percentage of revenues was 12.7% compared to 15.5% in the fourth quarter of 2012.

Bookings in the fourth quarter of 2013 were $173 million, up 11% from the similar period last year. This represents a good level for this time of year.

CIMCO:

Three months ended December 31 ($ thousands)	2013	2012	$ change	% change
Package sales	$ 31,428	$ 41,786	$ (10,358)	(25%)
Product support	24,123	21,880	2,243	10%
Total revenues	$ 55,551	$ 63,666	$ (8,115)	(13%)
Operating income	$ 3,165	$ 4,349	$ (1,184)	(27%)
Bookings ($ millions)	$ 21	$ 23	$ (2)	(9%)
Key Ratios:				
Product support revenues as a % of total revenues	43.4%	34.4%		
Group total revenues as a % of consolidated revenues	13.6%	14.8%		
Operating income as a % of revenues	5.7%	6.8%		

Canadian package revenues in 2012 were buoyed by the MLF project, which is now winding down. Excluding this order in both years, Canadian revenues were up 6.9% with strong increases in recreational, offset by a minor decline in industrial. US package activity more than doubled the levels generated in 2012, with increases in both recreational and industrial.

Product support revenues set a new record for the fourth quarter and continued to rise steadily on increased activity in both Canada and the US.

Lower operating income reflects lower revenues and an increase in selling and administrative expenses, offset by an increase in gross margins on sales mix. In 2012, a gain of $0.3 million was recorded for the fire at the Mobile facility. Excluding the effect of this gain, selling and administrative expenses increased $1.0 million or 12% as a result of higher compensation expense of $0.5 million, higher legal fees to defend patents of $0.4 million and higher insurance costs of $0.2 million, offset by lower bad debt expense of $0.4 million.

Bookings in the quarter totalled $21 million, down 9% from the similar quarter last year with decreases in both Canada and the US.

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 2013 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Revenues				
Equipment Group	$ 266,816	$ 317,052	$ 427,111	$ 351,713
CIMCO	46,316	57,686	71,186	55,551
Total revenues	$ 313,132	$ 374,738	$ 498,297	$ 407,264
Net Earnings	$ 17,848	$ 27,284	$ 43,485	$ 34,414
Per Share Information:				
Earnings per share – basic	$ 0.23	$ 0.36	$ 0.57	$ 0.45
Earnings per share – diluted	$ 0.23	$ 0.35	$ 0.56	$ 0.45
Dividends paid per share	$ 0.12	$ 0.13	$ 0.13	$ 0.13
Weighted average common shares outstanding – Basic (in thousands)	76,495	76,589	76,625	76,737

	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	$ 16,970	$ 25,383	$ 32,463	$ 44,657
Per Share Information:				
Earnings per share – basic	$ 0.22	$ 0.33	$ 0.43	$ 0.58
Earnings per share – diluted	0.22	0.33	0.42	0.58
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

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 had 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. This pattern has been interrupted by the timing of significant sales to mining customers, which can be variable due to the timing of mine site development and access. We expect this historical seasonal trend to continue for non-mining related business given the nature of the mining industry and the timing of significant deliveries in any given quarter.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. CIMCO had traditionally posted a loss in the first quarter on slower construction activity. Profitability increased in subsequent quarters as activity levels and resultant revenues increased. This trend can and has been interrupted somewhat by significant governmental funding initiatives and significant industrial projects.

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)	2013	2012	2011
Revenues	$ 1,593,431	$ 1,507,173	$ 1,381,974
Net earnings – continuing operations	$ 123,031	$ 119,473	$ 102,678
Net earnings	$ 123,031	$ 119,473	$ 246,459
Earnings per share – continuing operations			
Basic	$ 1.61	$ 1.56	$ 1.33
Diluted	$ 1.59	$ 1.55	$ 1.32
Earnings per share			
Basic	$ 1.61	$ 1.56	$ 3.20
Diluted	$ 1.59	$ 1.55	$ 3.18
Dividends declared per share	$ 0.52	$ 0.48	$ 0.48
Total assets	$ 1,030,555	$ 936,170	$ 913,331
Total long-term debt	$ 132,418	$ 159,767	$ 134,095
Weighted average common shares outstanding, basic (millions)	76.6	76.5	77.0

Revenues grew 6% in 2013, despite competitive market conditions and an uncertain economic environment, through excellent delivery and execution across all lines of business. In 2012, revenues grew 9% on improved market conditions and significant mining activity within the Equipment Group.

Net earnings from continuing operations improved 3% in 2013 and 16% in 2012 on the higher revenues, generally improving margins and relatively slower growth in selling and administrative expenses.

Net earnings in 2011 include results from discontinued operations. 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 and in 2013 by 8% to $0.13 per share. The Company has announced dividend increases in each of the past 24 years.

Total assets increased in 2013 by 10% mainly due to the increase in cash generated from operations.

Long-term debt decreased in 2013 mainly due to the repayment of the term credit facility. Total debt, net of cash, to total capitalization was 10% at December 31, 2013, 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.

Commodities 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 and precious metals sectors in particular can have an impact on customers' demands for equipment and customer service. With lower commodity prices, demand is reduced as development of new projects is often stopped and existing projects can be curtailed, both leading to less demand for heavy equipment.

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

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days' notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for 21 years and management expects this will continue going forward.

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a high-quality manufacturer, with excellent brand recognition and customer support as well as leading market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

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

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including: the range and quality of products and services; ability to meet sophisticated customer requirements; distribution capabilities including number and proximity of locations; financing offered by Caterpillar Finance; e-commerce solutions; and, 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 Company transacts business in multiple currencies, the most significant of which are the Canadian dollar and the U.S. dollar. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies.

The rate of exchange between the Canadian and U.S. dollar has an impact on revenue trends. The Canadian dollar averaged US$0.97 in 2013 compared to being on par in 2012, a 3% decrease. As substantially all of the equipment and parts sold in the Equipment Group are sourced in U.S. dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

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, 2013, 100% of the Company's debt portfolio was comprised of fixed rate debt (2012 – 84%). 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 in 2011, 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.

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 three years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the

discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Revenue Recognition
The Company generates 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 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; the current market discount rate, salary escalation, life expectancy and future pension increases. 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; expected stock price volatility; and expected dividend yield.

Future Accounting Standards

A number of amendments to standards and a new interpretation have been issued but are not yet effective for the financial year ending December 31, 2013, and accordingly, have not been applied in preparing these consolidated financial statements.

Levies – In May 2013, the IFRS Interpretations Committee ("IFRIC"), with the approval by the IASB, issued IFRIC 21 – *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively.

Impairment of Assets – In May 2013, the IASB issued amendments to IAS 36 – *Impairment of Assets*, to reverse the unintended requirement in IFRS 13 – *Fair Value Measurement*, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. These amendments, which would only impact certain disclosure requirements, are effective for annual periods beginning on or after January 1, 2014.

The Company is currently assessing the impact of these amendments and interpretation on its financial statements and does not expect any significant impact.

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, 2013, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992. 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, 2013, 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, 2013, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no changes in the design of the Company's internal controls over financial reporting during 2013 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, 2013 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.

In May 2013, COSO released an updated version of the 1992 internal control integrated framework. The original framework will be available through December 15, 2014, at which time the 1992 framework will be superseded. The Company is in the process of reviewing the changes to the framework and developing a transition plan to adopt the new framework for the fiscal year ending December 31, 2014.

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).

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 cash 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.

Free Cash Flow
Free cash flow is defined as cash provided by operating activities (as per the Consolidated Statement of Cash Flows), less cash used in investing activities, other than business acquisitions.

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 judgment 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 10, 2014
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, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

February 10, 2014
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 ($ thousands)	Note	2013	2012
			Restated See note 1
Assets			
Current assets			
Cash		$ 70,769	$ 2,383
Accounts receivable	3	240,259	231,518
Inventories	4	327,439	327,785
Income taxes receivable		6,135	–
Derivative financial instruments		1,331	43
Other current assets		4,585	4,086
Total current assets		650,518	565,815
Property, plant and equipment	5	166,440	157,993
Rental equipment	5	174,712	158,932
Other assets	6	8,861	12,614
Deferred tax assets	15	2,435	13,697
Goodwill and intangible assets	7	27,589	27,119
Total assets		$ 1,030,555	$ 936,170
Liabilities			
Current liabilities			
Accounts payable, accrued liabilities and provisions	8	$ 248,461	$ 203,468
Deferred revenues		48,924	54,664
Current portion of long-term debt	9	1,470	1,372
Derivative financial instruments		–	262
Income taxes payable		–	3,130
Total current liabilities		298,855	262,896
Deferred revenues		11,060	11,337
Long-term debt	9	130,948	158,395
Accrued pension liability	19	13,135	26,840
Derivative financial instruments		–	127
Shareholders' equity			
Share capital	10	279,149	270,900
Contributed surplus	11	6,329	5,957
Retained earnings		289,979	199,486
Accumulated other comprehensive income		1,100	232
Shareholders' equity		576,557	476,575
Total liabilities and shareholders' equity		$ 1,030,555	$ 936,170

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	2013	2012
			Restated See note 1
Revenues	23	$ 1,593,431	$ 1,507,173
Cost of goods sold	17	1,201,913	1,122,765
Gross profit		391,518	384,408
Selling and administrative expenses	17	217,556	215,600
Operating income		173,962	168,808
Interest expense	14	8,693	9,714
Interest and investment income	14	(3,793)	(3,974)
Income before income taxes		169,062	163,068
Income taxes	15	46,031	43,595
Net earnings		$ 123,031	$ 119,473
Earnings per share			
Basic	16	$ 1.61	$ 1.56
Diluted	16	$ 1.59	$ 1.55
Weighted average number of shares outstanding			
Basic		76,612,204	76,549,792
Diluted		77,155,151	77,086,929

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2013	2012
		Restated See note 1
Net earnings	$ 123,031	$ 119,473
Other comprehensive income (loss):		
Items that may be reclassified subsequently to net earnings:		
Unrealized gain (loss) on translation of financial statements of foreign operations	407	(121)
Change in fair value of derivatives designated as cash flow hedges, net of income tax expense (recovery) (2013 – $1,084; 2012 – ($650))	3,089	(1,619)
(Gain) loss on derivatives designated as cash flow hedges transferred to net earnings, net of income tax expense (recovery) (2013 – $925; 2012 – ($435))	(2,628)	1,080
Items that will not be reclassified subsequently to net earnings:		
Actuarial gains (losses) on pension plans, net of income tax expense (recovery) (2013 – $2,637; 2012 – ($1,115))	7,316	(3,096)
Other comprehensive income (loss)	8,184	(3,756)
Comprehensive income	$ 131,215	$ 115,717

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	Note	2013	2012 Restated See note 1
Operating activities			
Net earnings		$ 123,031	$ 119,473
Items not requiring cash:			
Depreciation and amortization		59,246	52,818
Stock-based compensation	11	1,957	1,659
Accrued pension liability		(3,752)	(3,532)
Deferred income taxes		8,462	379
Gain on sale of rental equipment and property, plant and equipment		(10,071)	(8,967)
		178,873	161,830
Net change in non-cash working capital and other	21	21,665	(124,475)
Cash provided by operating activities		200,538	37,355
Investing activities			
Additions to:			
Rental equipment		(69,123)	(77,611)
Property, plant and equipment		(25,680)	(23,700)
Proceeds on disposal of:			
Rental equipment		22,143	22,562
Property, plant and equipment		1,393	1,504
Increase in other assets		(265)	(291)
Increase in intangible assets		(500)	(13,669)
Cash used in investing activities		(72,032)	(91,205)
Financing activities			
(Decrease) increase in term credit facility debt		(26,547)	26,547
Repayment of long-term debt		(1,372)	(1,280)
Financing costs		–	(369)
Dividends	10	(39,026)	(35,996)
Shares purchased for cancellation		–	(14,137)
Cash received on exercise of stock options		6,660	6,202
Cash used in financing activities		(60,285)	(19,033)
Effect of exchange rate changes on cash denominated in foreign currency		165	(53)
Increase (decrease) in cash		68,386	(72,936)
Cash at beginning of year		2,383	75,319
Cash at end of year		$ 70,769	$ 2,383

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	Total
At January 1, 2013		$ 270,900	$ 5,957	$ 199,486	$ 424	$ (192)	$ 232	$ 476,575
Net earnings		–	–	123,031	–	–	–	123,031
Other comprehensive income		–	–	7,316	407	461	868	8,184
Effect of stock compensation plans	10,11	8,271	372	–	–	–	–	8,643
Other adjustments		(22)	–	–	–	–	–	(22)
Dividends		–	–	(39,854)	–	–	–	(39,854)
At December 31, 2013		$ 279,149	$ 6,329	$ 289,979	$ 831	$ 269	$ 1,100	$ 576,557

					Accumulated other comprehensive income			
($ thousands) – Restated – See note 1	Note	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2012		$ 265,436	$ 5,890	$ 131,643	$ 545	$ 347	$ 892	$ 403,861
Net earnings		–	–	119,473	–	–	–	119,473
Other comprehensive loss		–	–	(3,096)	(121)	(539)	(660)	(3,756)
Shares purchased for cancellation	10	(2,330)	–	(11,806)	–	–	–	(14,136)
Effect of stock compensation plans	10,11	7,794	67	–	–	–	–	7,861
Dividends		–	–	(36,728)	–	–	–	(36,728)
At December 31, 2012		$ 270,900	$ 5,957	$ 199,486	$ 424	$ (192)	$ 232	$ 476,575

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2013
($ 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 over 3,200 people in more than 100 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 10, 2014.

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.

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 consists of petty cash and demand deposits. Cash equivalents, when applicable, consists of short-term deposits with an original maturity of three months or less.

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. Intangible assets with a definite useful life are amortized over a period of 17 years on a straight line basis.

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 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.

For equity-settled plans, which are no longer available to non-employee directors, 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;
- Net interest is calculated by applying the discount rate to the net defined benefit liability or asset;
- 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 Adopted in 2013
Certain new standards and amendments to standards that were adopted on January 1, 2013 are noted below.

a. IAS 19 – Employee Benefits
The Company adopted revisions to IAS 19 – *Employee Benefits* ("IAS 19R") effective January 1, 2013. As a result, expected returns on plan assets of defined benefit plans are not recognized in net earnings. Instead, interest on net defined benefit obligation is recognized in net earnings, calculated using the discount rate used to measure the net pension obligation or asset.

The change in accounting policy has been applied retrospectively. As all components of other comprehensive income related to employee benefits were previously recognized in retained earnings, there was no impact on the January 1, 2012 statement of financial position for the adoption of IAS 19R.

The following is a summary of the impact of the adjustments related to the adoption of IAS 19R on the financial statements as at and for the year ended December 31, 2012:

- Increase in pension expense – $1,470
- Decrease in income tax expense – $390
- Decrease in net earnings – $1,080 ($0.01 per share basic)
- Decrease in other comprehensive loss – $1,080
- No change to accrued pension liability or deferred tax assets

b. IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interests in Other Entities and amendments to IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates
The adoption of these standards and amendments had no impact on the financial statements of the Company.

c. IFRS 13 – Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 12.

d. 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 amendment affected presentation only and had no impact on the Company's financial position or performance.

Standards Issued But Not Yet Effective
A number of amendments to standards and a new interpretation have been issued but are not yet effective for the financial year

ended December 31, 2013, and accordingly, have not been applied in preparing these consolidated financial statements.

Levies – In May 2013, the IFRS Interpretations Committee ("IFRIC"), with the approval by the IASB, issued IFRIC 21 – *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company is currently assessing the impact of adopting this interpretation on its consolidated financial statements and does not expect any significant impact.

Impairment of Assets – In May 2013, the IASB issued amendments to IAS 36 – *Impairment of Assets*, to reverse the unintended requirement in IFRS 13 – *Fair Value Measurement*, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. These amendments are effective for annual periods beginning on or after January 1, 2014. As the amendments impact certain disclosure requirements only, the Company does not expect any significant impact on the 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 and Rental Equipment – Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values.

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 of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for 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 ("DCF") model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 7.

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

Income Taxes – Estimates and 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.

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; the current market discount rate, salary escalation, life expectancy and future pension increases. 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.

3. Accounts Receivable

	2013	2012
Trade receivables	$ 223,672	$ 221,999
Less: allowance for doubtful accounts	(9,242)	(5,496)
Trade receivables – net	214,430	216,503
Other receivables	25,829	15,015
	$ 240,259	$ 231,518

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

	2013	2012
Current to 90 days	$ 210,055	$ 211,750
Over 90 days	13,617	10,249
	$ 223,672	$ 221,999

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

	2013	2012
Balance, beginning of year	$ 5,496	$ 5,574
Provisions and revisions, net	3,746	(78)
Balance, end of year	$ 9,242	$ 5,496

4. Inventories

	2013	2012
Equipment	$ 214,646	$ 219,549
Repair and distribution parts	85,002	76,783
Direct materials	2,789	2,598
Work-in-process	25,002	28,855
	$ 327,439	$ 327,785

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 2013 was $933 million (2012 – $885 million). The cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The amounts charged to the consolidated income statement and included in cost of goods sold on a net basis for inventory valuation issues during 2013 was $1.0 million. A net reversal of write-downs of $0.2 million was recorded in 2012.

5. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2013	$ 46,017	$113,200	$ 118,440	$ 38,291	$ 315,948	$ 299,412
Additions	55	10,835	15,565	348	26,803	69,494
Disposals	(12)	(52)	(4,449)	–	(4,513)	(35,516)
Currency translation effects	9	5	55	–	69	–
December 31, 2013	$ 46,069	$123,988	$ 129,611	$ 38,639	$ 338,307	$ 333,390
Accumulated depreciation						
January 1, 2013	$ –	$ 53,835	$ 82,361	$ 21,759	$ 157,955	$ 140,480
Depreciation charge	–	4,836	11,838	1,537	18,211	40,436
Depreciation of disposals	–	(105)	(4,223)	–	(4,328)	(22,238)
Currency translation effects	–	2	27	–	29	–
December 31, 2013	$ –	$ 58,568	$ 90,003	$ 23,296	$ 171,867	$ 158,678
Net book value – December 31, 2013	$ 46,069	$ 65,420	$ 39,608	$ 15,343	$ 166,440	$ 174,712

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2012	$ 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						
January 1, 2012	$ –	$ 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

During 2013, depreciation expense of $53,864 was charged in cost of goods sold (2012 – $47,255) and $4,783 was charged to selling and administrative expenses (2012 – $4,790).

Operating income from rental operations for the year ended December 31, 2013 was $29.4 million (2012 – $26.8 million).

6. Other Assets

	2013	2012
Equipment sold with guaranteed residual values	$ 7,437	$ 11,456
Other	1,424	1,158
	$ 8,861	$ 12,614

7. Goodwill and Intangible Assets

		2013	2012
Goodwill		$ 13,450	$ 13,450
Intangible Assets:			
Distribution Network (indefinite life)		13,669	13,669
Patents (definite life):			
Cost	500		–
Accumulated amortization	(30)		–
Net book value		470	–
		$ 27,589	$ 27,119

The 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.

Impairment testing of Goodwill and Intangible Assets with indefinite lives

Goodwill and intangible assets with indefinite lives have been allocated to two CGUs for impairment testing as follows:

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

The respective carrying amounts have been allocated to the two CGUs below:

	Goodwill		Intangible Assets		Total	
	2013	2012	2013	2012	2013	2012
Toromont Cat	$ 13,000	$ 13,000	$ 13,669	$ 13,669	$ 26,669	$ 26,669
CIMCO	450	450	–	–	450	450
	$ 13,450	$ 13,450	$ 13,669	$ 13,669	$ 27,119	$ 27,119

The Company performed the annual impairment test of goodwill and intangible assets allocated to Toromont Cat as at December 31, 2013. 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, 2013. 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 13.0%. 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

	2013	2012
Accounts payable and accrued liabilities	$ 224,073	$ 183,361
Dividends payable	9,987	9,165
Provisions	14,401	10,942
	$ 248,461	$ 203,468

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at January 1, 2013	$ 6,577	$ 4,365	$ 10,942
New provisions	8,279	3,445	11,724
Charges/credits against provisions	(6,502)	(1,763)	(8,265)
Balance as at December 31, 2013	$ 8,354	$ 6,047	$ 14,401

	Warranty	Other	Total
Balance as at January 1, 2012	$ 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
At the time of sale, a provision is recognized for expected warranty claims on products and services, 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

	2013	2012
Bank credit facility	$ –	$ 26,547
Senior debentures	134,511	135,883
Debt issuance costs, net of amortization	(2,093)	(2,663)
Total long-term debt	132,418	159,767
Less current portion	1,470	1,372
	$ 130,948	$ 158,395

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. 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.

At December 31, 2013, standby letters of credit issued utilized $26.6 million of the credit lines (December 31, 2012 – $24.1 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
- $9,511, 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.

Interest expense includes interest on debt initially incurred for a term greater than one year of $7,984 (2012 – $8,425).

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

	Principal	Interest
2014	$ 1,470	$ 6,796
2015	126,577	5,342
2016	1,690	427
2017	1,811	306
2018	1,941	176
2019	1,022	36
	$ 134,511	$ 13,083

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:

		2013		2012
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	76,407,658	$ 270,900	76,629,777	$ 265,436
Exercise of stock options	443,371	8,271	443,920	7,794
Purchase of shares for cancellation	–	–	(666,039)	(2,330)
Other adjustments	(6,132)	(22)	–	–
Balance, end of year	76,844,897	$ 279,149	76,407,658	$ 270,900

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 2013. The current issuer bid allows the Company to purchase up to approximately 6.5 million of its common shares in the 12-month period ending August 30, 2014, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

The Company did not purchase any shares under the normal course issuer bid during the year ended December 31, 2013. 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.

Dividends

The Company paid dividends of $39.0 million ($0.51 per share) for the year ended December 31, 2013 and $36.0 million ($0.47 per share) for the year ended December 31, 2012.

For the year ended December 31, 2013, the Board of Directors of the Company declared dividends of $0.52 per common share or $0.13 per quarter (2012 – $0.48 or $0.12 per quarter). The fourth quarter dividend of $0.13 per share was declared on November 4, 2013, payable on January 2, 2014, to all shareholders on record at December 11, 2013. As such, at December 31, 2013, the Company accrued $10 million in accounts payable and accrued liabilities on the consolidated statement of financial position. Subsequent to the year ended December 31, 2013, this amount was paid.

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:

	2013	2012
Contributed surplus, beginning of year	$ 5,957	$ 5,890
Stock-based compensation, net of forfeitures	1,957	1,659
Value of compensation cost associated with exercised options	(1,585)	(1,592)
Contributed surplus, end of year	$ 6,329	$ 5,957

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, 2013	Derivatives	Other Financial Liabilities	Total
Current portion of long-term debt	$ –	$ (1,470)	$ (1,470)
Derivative financial instruments	1,331	–	1,331
Long-term debt	–	(130,948)	(130,948)
Total	$ 1,331	$ (132,418)	$ (131,087)

As at December 31, 2012	Derivatives	Other Financial Liabilities	Total
Current portion of long-term debt	$ –	$ (1,372)	$ (1,372)
Derivative financial instruments	(346)	–	(346)
Long-term debt	–	(158,395)	(158,395)
Total	$ (346)	$ (159,767)	$ (160,113)

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, most significantly foreign exchange spot and forward rates.

The fair value of senior debentures as at December 31, 2013 was $141,800 (carrying value of $134,511) (2012 – $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, 2013, 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. As at December 31, 2013, the Company was committed to USD purchase contracts with a notional amount of $107 million at an average exchange rate of $1.0527, maturing between January 2014 and November 2014.

Management estimates that a gain of $1,331 (2012 – loss of $346) would be realized if the contracts were terminated on December 31, 2013. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of $360 (2012 – loss of $260) has been included in OCI. These gains are not expected to affect net earnings as the gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign denominated accounts payable. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A gain of $971 (2012 – loss of $86) on these forward contracts is included in net earnings, which offsets losses recorded on the foreign-denominated items, namely accounts payable.

All hedging relationships are formally documented, including the risk management objective and strategy. On an on-going 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. It is provided as a reasonably possibly change in currency in a volatile environment. Financial instruments affected by currency risk include cash, accounts receivable, accounts payable and derivative financial instruments.

As at December 31, 2013, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $235 increase (decrease) in OCI for financial instruments held in foreign operations and a $810 increase (decrease) in net earnings and $1,851 increase (decrease) in OCI for financial instruments held in Canadian operations.

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, 2013 or December 31, 2012.

The Company did not have any floating rate debt at December 31, 2013 (December 31, 2012 – $26.5 million).

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2013, the Company had unutilized lines of credit of $173.4 million (December 31, 2012 – $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 2014, 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 were as follows:

	2013	2012
Term loan facility	$ 1,894	$ 2,807
Senior debentures	6,799	6,907
	$ 8,693	$ 9,714

The components of interest and investment income were as follows:

	2013	2012
Interest income on rental conversions	$ 3,036	$ 3,529
Other	757	445
	$ 3,793	$ 3,974

15. Income Taxes

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

	2013	2012
Current income tax expense	$ 37,565	$ 43,212
Deferred income tax expense	8,466	383
Total income tax expense	$ 46,031	$ 43,595

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

	2013	2012
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	$ 44,801	$ 43,213
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	291	110
Manufacturing and processing rate reduction	(270)	(218)
Expenses not deductible for tax purposes	993	902
Non-taxable gains	(270)	(83)
Effect of future income tax rate increases (reductions)	283	(320)
Other	203	(9)
Provision for income taxes	$ 46,031	$ 43,595
Effective income tax rate	27.2%	26.7%

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 source of deferred income taxes was as follows:

	2013	2012
Accrued liabilities	$ 10,315	$ 9,681
Deferred revenue	1,988	1,193
Accounts receivable	1,389	1,273
Inventories	2,861	2,866
Capital assets	(18,000)	(9,147)
Pension	3,274	7,144
Other	700	620
Cash flow hedges in other comprehensive income	(92)	67
Deferred tax assets	$ 2,435	$ 13,697

The movement in net deferred tax assets was as follows:

	2013	2012
Balance, January 1	$ 13,697	$ 12,749
Tax expense recognized in income	(8,466)	(383)
Tax (expense) recovery recognized in other comprehensive income	(2,796)	1,331
Balance, December 31	$ 2,435	$ 13,697

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax assets have not been recognized as at December 31, 2013 was $50,097 (December 31, 2012 – $39,512).

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.

	2013	2012
Net earnings available to common shareholders	$ 123,031	$ 119,473
Weighted average common shares outstanding	76,612,204	76,549,792
Dilutive effect of stock option conversion	542,947	537,137
Diluted weighted average common shares outstanding	77,155,151	77,086,929
Earnings per share		
Basic	$ 1.61	$ 1.56
Diluted	$ 1.59	$ 1.55

For the calculation of diluted earnings per share for the year ended December 31, 2013, 507,200 outstanding stock options with an exercise price of $23.50 were considered anti-dilutive (exercise price in excess of average market price during the year ended December 31, 2013) and as such were excluded from the calculation. There were no anti-dilutive options for the year ended December 31, 2012.

17. Employee Benefits Expense

	2013	2012
Wages and salaries	$ 274,601	$ 264,360
Other employment benefit expenses	44,218	43,013
Share options granted to directors and employees	1,957	1,659
Pension costs	11,590	11,097
	$ 332,366	$ 320,129

18. Stock-Based Compensation

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 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 764,077 share options may be granted in any one year. Stock options 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. Stock options granted prior to 2013 have a seven-year term and those granted in 2013 have a ten-year term. Toromont accrues compensation cost over the vesting period based on the grant date fair value.

A reconciliation of the outstanding options for the years ended December 31, 2013 and 2012 was as follows:

		2013		2012
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	2,564,355	$ 16.92	2,419,060	$ 15.41
Granted	516,200	23.40	610,100	20.76
Exercised (1)	(443,371)	15.07	(443,920)	13.97
Forfeited	(26,910)	19.68	(20,885)	16.61
Options outstanding, end of year	2,610,274	$ 18.49	2,564,355	$ 16.92
Options exercisable, end of year	1,006,224	$ 16.20	972,990	$ 15.24

(1) For the year ended December 31, 2013, the weighted average share price at date of exercise was $23.78 (2012 – $21.95).

The following table summarizes stock options outstanding and exercisable as at December 31, 2013.

		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 – $14.75	344,289	1.7	$ 12.93	271,029	$ 13.07
$14.76 – $17.10	1,165,770	3.5	$ 16.83	618,920	$ 16.71
$17.11 – $23.40	1,100,215	7.4	$ 21.98	116,275	$ 20.76
Total	2,610,274	4.9	$ 18.49	1,006,224	$ 16.20

The fair value of the stock options granted during 2013 and 2012 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2013	2012
Fair value price per option	$ 5.49	$ 3.91
Expected life of options (years)	8.29	5.81
Expected stock price volatility	25.0%	25.0%
Expected dividend yield	2.22%	2.31%
Risk-free interest rate	2.28%	1.34%

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. Non-employee directors also receive a portion of their compensation in DSUs.

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

The following table summarizes information related to DSU activity:

	2013		2012	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, beginning of year	211,872	$ 4,297	193,728	$ 4,093
Units granted or taken in lieu of performance incentive awards, director fees and dividends	77,048	1,743	33,671	778
Redemptions	–	–	(15,527)	(314)
Fair market value adjustment	–	1,656	–	(260)
Outstanding, end of year	288,920	$ 7,696	211,872	$ 4,297

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 2013 (2012 – $0.9 million) were charged to selling and administrative expenses when paid. The Plan is administered by a third party.

19. Employee Future Benefits

Defined Contribution Plans

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 documents.

Included in the net pension expense for the years ended December 31, were the following components of the defined contribution plans:

	2013	2012
Defined contribution plans	$ 9,075	$ 8,648
401(k) matched savings plans	128	120
Net pension expense	$ 9,203	$ 8,768

Defined Benefit Plans

The Company sponsors funded defined benefit plans for approximately 121 qualifying employees. The defined benefit plans are administered by a separate Fund that is legally separated from the Company.

Outlined below is a summary of the plans in effect at December 31, 2013 and 2012:

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 plan is administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. The plan is registered with the province of Manitoba. Manitoba's minimum funding regulations require special payments for Toromont to amortize any shortfalls of plan assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payments of an equivalent lump sum value (solvency funding basis). Security in the form of letters of credit is permitted in lieu of some or all of these solvency special payments. If the fair value of defined benefit assets were to exceed 105% of this solvency funding target, the excess can be applied to the cost of the defined benefits and defined contributions in future periods. The most recent actuarial valuation was completed as at December 31, 2012, with the next valuation scheduled for December 31, 2013.

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 plan is a supplemental pension plan and is solely the obligation of the Company. The Company is not obligated to fund the plan but pay benefits under the terms of the plan as they come due. At December 31, 2013, the Company has posted letters of credit in the amount of $20.2 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2013, with the next valuation scheduled for December 31, 2014.

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 was completed on January 1, 2011, with the next valuation scheduled for January 1, 2014.

Risks

The plans typically expose the Company to actuarial risks such as follows:

a) Investment risk — The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. The Toromont Pension Management Committee reviews the asset mix and performance of the plan assets on a quarterly basis with the balanced investment strategy intention.

b) Interest risk — A decrease in the bond interest rates will increase the plan liability; however, this will be partially offset by an increase in the plan's holdings in debt instruments.

c) Longevity risk — The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

d) Salary risk — The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2013	2012
Discount rate (s)	4.60%	3.90%
Expected rate(s) of salary increase	4.00%	4.00%

Amounts are recognized in comprehensive income in respect to these defined benefit plans as follows:

	2013	2012
Service cost	$ 1,394	$ 1,209
Net interest expense	993	1,120
Components of defined benefit costs recognized in net earnings	$ 2,387	$ 2,329
Remeasurement on the net defined benefit liability		
Actuarial losses arising from experience adjustments	$ 992	$ 1,823
Actuarial losses arising from changes in demographic assumptions	2,589	961
Actuarial (gains)/losses arising from changes in financial assumptions	(7,043)	3,413
Return on plan assets (excluding amounts included in net interest expense)	(6,491)	(1,986)
Components of defined benefit costs recognized in other comprehensive income	$ (9,953)	$ 4,211

The changes in the fair value of assets and the pension obligations of the defined benefit plans at year end were as follows:

	2013	2012
Accrued defined benefit obligations:		
Balance, beginning of year	$ 83,733	$ 79,373
Current service cost	1,394	1,209
Interest cost	3,212	3,392
Remeasurement (gains)/losses:		
Actuarial losses arising from experience adjustments	992	1,935
Actuarial losses arising from changes in demographic assumptions	2,589	961
Actuarial (gains)/losses arising from changes in financial assumptions	(7,043)	3,413
Benefits paid	(5,496)	(6,983)
Voluntary contributions by plan participants	410	433
Balance, end of year	79,791	83,733
Plan assets:		
Fair value, beginning of year	56,893	53,212
Interest income on plan assets	2,219	2,272
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	6,491	1,986
Contributions from the Company	6,139	5,961
Contributions from the plan participants	410	433
Benefits paid	(5,496)	(6,983)
Other adjustments	–	12
Fair value, end of year	66,656	56,893
Accrued pension liability	$ 13,135	$ 26,840

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

	2013			2012		
	Accrued Defined Benefit Obligation	**Plan Assets**	**Accrued Pension Asset (Liability)**	**Accrued Defined Benefit Obligation**	**Plan Assets**	**Accrued Pension Asset (Liability)**
Powell Plan	$ 51,431	$ 55,408	$ 3,977	$ 53,844	$ 46,634	$ (7,210)
Executive Plan	20,965	1,888	(19,077)	21,843	1,527	(20,316)
Other plan assets and obligations	7,395	9,360	1,965	8,046	8,732	686
Accrued pension asset (liability)	$ 79,791	$ 66,656	$ (13,135)	$ 83,733	$ 56,893	$ (26,840)

The actual return on plan assets was $8.7 million (2012 – $4.3 million).

The Company expects to contribute $5.9 million to the defined benefit plans during 2014.

The weighted average duration of the defined benefit plan obligation at December 31, 2013 was 13.8 years (2012 – 13.2 years).

The allocation of the fair value of the plan assets at the end of the reporting period for each category, were as follows:

	2013	**2012**
Equity securities	49.0%	44.6%
Debt securities	33.6%	37.8%
Real estate	16.9%	16.8%
Cash and cash equivalents	0.5%	0.8%

The fair values of the above plan assets are determined based on the following methods:

- Equity securities – generally quoted market prices in active markets.
- Debt securities – generally quoted market prices in active markets.
- Real estate – are valued based on appraisals performed by a qualified external real estate appraiser. Real estate assets are located primarily in Canada.
- Cash and cash equivalents – generally recorded at cost which approximates fair value.

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are the discount rate and the life expectancy. The sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

As at December 31, 2013, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation:

	Discount Rate		**Life Expectancy**	
	1% Increase	**1% Decrease**	**Increase by 1 year**	**Decrease by 1 year**
Powell Plan	$ (6,625)	$ 7,650	$ 1,383	$ (1,383)
Executive Plan	$ (1,904)	$ 2,225	$ 552	$ (552)
Other Plan Assets and Obligations	$ (500)	$ 538	$ 357	$ (357)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

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:

	2013	2012
Shareholders' equity	$ 576,557	$ 476,575
Long-term debt	132,418	159,767
Less cash	(70,769)	(2,383)
Total capitalization	$ 638,206	$ 633,959
Net debt as a % of total capitalization	10%	25%
Net debt to equity ratio	0.11:1	0.33:1

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

	2013	2012
Net change in non-cash working capital and other		
Accounts receivable	$ (8,741)	$ (22,275)
Inventories	346	(25,848)
Accounts payable, accrued liabilities and provisions	42,806	(73,486)
Deferred revenues	(6,017)	6,514
Other	(6,729)	(9,380)
	$ 21,665	$ (124,475)
Cash paid during the year for:		
Interest	$ 7,961	$ 9,097
Income taxes	$ 47,804	$ 47,578
Cash received during the year for:		
Interest	$ 3,309	$ 3,776
Income taxes	$ 2,120	$ 308

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, 2013 were as follows:

2014	$ 2,473
2015	1,942
2016	1,702
2017	1,174
2018	647
2019 and thereafter	1,064
	$ 9,002

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 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.

	Equipment Group		**CIMCO**		**Consolidated**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Equipment/package sales	$ 746,006	$ 708,802	$ 140,747	$ 113,586	$ 886,753	$ 822,388
Rentals	193,454	183,777	–	–	193,454	183,777
Product support	411,582	405,880	89,992	83,693	501,574	489,573
Power generation	11,650	11,435	–	–	11,650	11,435
Total revenues	$ 1,362,692	$ 1,309,894	$ 230,739	$ 197,279	$ 1,593,431	$ 1,507,173
Operating Income	$ 157,924	$ 154,589	$ 16,038	$ 14,219	$ 173,962	$ 168,808
Interest expense					8,693	9,714
Interest and investment income					(3,793)	(3,974)
Income taxes					46,031	43,595
Net earnings					$ 123,031	$ 119,473

SELECTED BALANCE SHEET INFORMATION:

As at December 31, 2013	Equipment Group	CIMCO	Consolidated
Identifiable assets	$ 868,145	$ 62,725	$ 930,870
Corporate assets			99,685
Total assets			$ 1,030,555
Identifiable liabilities	$ 247,990	$ 39,081	$ 287,071
Corporate liabilities			166,927
Total liabilities			$ 453,998
Capital expenditures	$ 90,784	$ 4,019	$ 94,803
Depreciation	$ 57,489	$ 1,157	$ 58,646

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

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:

	2013	2012
Revenues		
Canada	$ 1,542,504	$ 1,470,686
United States	43,895	31,375
International	7,032	5,112
	$ 1,593,431	$ 1,507,173

	2013	2012
Capital Assets and Goodwill		
Canada	$ 351,016	$ 329,346
United States	3,586	1,029
	$ 354,602	$ 330,375

24. Related Party Disclosures

Key management personnel and director compensation comprised:

	2013	2012
Salaries	$ 2,962	$ 3,128
Stock options and DSU awards	1,847	1,337
Annual non-equity incentive based plan compensation	2,785	3,665
Pension	494	451
All other compensation	174	195
	$ 8,262	$ 8,776

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.

25. Economic Relationship

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

Ten-Year Financial Review[1]

For the years ended December 31 ($ thousands except where otherwise indicated)	2013	2012 [5]	2011	2010
Operating Results				
Revenues	1,593,431	1,507,173	1,381,974	1,207,028
Net earnings	123,031	119,473	246,459	103,912
Net interest expense (income) [2]	4,900	5,740	5,798	8,826
Capital expenditures [2]	94,803	101,311	82,877	71,143
Dividends declared	39,854	36,728	36,968	47,716
Financial Position				
Working capital	351,663	302,919	251,122	478,289
Capital assets	341,152	316,925	287,290	556,991
Total assets	1,030,555	936,170	913,331	2,271,763
Long-term debt	130,948	158,395	132,815	413,040
Shareholders' equity	576,557	476,575	403,861	1,196,838
Financial Ratios				
Working capital	2.2:1	2.2:1	1.7:1	1.8:1
Return on opening shareholders' equity (%) [3]	25.7	29.9	28.9	9.1
Total debt, net of cash, to shareholders' equity	.11:1	.33:1	.15:1	.21:1
Per Share Data ($)				
Net earnings – basic	1.61	1.56	3.20	1.36
Net earnings – diluted	1.59	1.55	3.18	1.35
Dividends declared	0.52	0.48	0.48	0.62
Book value (shareholders' equity)	7.50	6.24	5.27	15.50
Shares outstanding at year end	76,844,897	76,407,658	76,629,777	77,149,626
Price range [4]				
High	26.94	25.00	33.25	32.40
Low	21.12	18.61	15.39	22.86
Close	26.65	21.10	21.32	30.76

(1) Results for 2010-2013 were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.
(2) Figures for 2010-2013 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.
(5) The Company adopted revisions to IAS 19 - Employee Benefits, effective January 1, 2013. As a result, certain 2012 amounts were restated - refer to Note 1 of the 2013 audited financial statements.

2009	2008	2007	2006	2005	2004
1,824,592	2,121,209	1,886,761	1,746,162	1,584,911	1,434,756
120,516	140,524	122,280	99,421	78,962	70,518
2,460	(3,246)	9,331	11,110	10,192	10,202
61,041	96,475	97,108	102,444	72,813	65,608
38,848	36,391	31,061	25,594	20,280	16,486
539,264	509,276	466,859	469,638	410,990	263,294
369,666	402,647	341,159	323,504	283,407	297,645
1,364,667	1,533,450	1,356,861	1,299,992	1,143,972	962,437
144,051	158,112	203,425	238,468	241,265	166,508
854,063	779,103	654,730	565,556	481,812	415,855
2.6:1	1.9:1	2.0:1	2.1:1	2.1:1	1.8:1
15.5	21.5	21.6	20.6	18.9	18.7
(.06):1	.05:1	.2:1	.4:1	.4:1	.4:1
1.86	2.16	1.89	1.56	1.25	1.11
1.86	2.15	1.88	1.54	1.23	1.09
0.60	0.56	0.48	0.40	0.32	0.26
13.17	12.06	10.08	8.79	7.57	6.59
64,867,467	64,620,677	64,943,497	64,310,377	63,624,936	63,082,586
27.80	32.90	30.00	27.15	25.68	20.85
19.26	19.03	22.30	20.08	20.05	15.88
27.79	22.99	28.26	24.50	25.40	20.72

Corporate Information

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Officers

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

Jennifer J. Cochrane, Vice President, Finance

Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am on Friday, April 25, 2014 in the Imperial Room at the Fairmont Royal York Hotel, 100 Front Street West, Toronto, Ontario.

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