

REVENUES / EARNINGS / RETURN ON SHAREHOLDERS' EQUITY /
TOTAL SHAREHOLDER RETURN / SHARE PRICE APPRECIATION /
DIVIDENDS / MANAGEMENT TENURE / CASH FLOW / BALANCE SHEET /
MARKET CAPITALIZATION / RETURN ON CAPITAL EMPLOYED /
CAPITAL AVAILABILITY / EMPLOYEE PRODUCTIVITY / CUSTOMER
SATISFACTION / EQUIPMENT UPTIME / MARKET COVERAGE / IN-FIELD
RESOURCES / MARKET SHARE / PRODUCT SUPPORT / EQUIPMENT
UTILIZATION / BUSINESS ACQUISITIONS / DIVERSIFICATION /
NEW CUSTOMERS / EMPLOYEE OWNERSHIP / E-COMMERCE / CODE
OF CONDUCT / CORPORATE GOVERNANCE...

BY ALL MEASURES

TOROMONT INDUSTRIES LTD. ANNUAL REPORT 2003

TOROMONT

**TOROMONT INDUSTRIES LTD. (TSX: TIH)
OPERATES THROUGH TWO BUSINESS SEGMENTS:**

THE EQUIPMENT GROUP INCLUDES ONE OF THE WORLD'S LARGEST CATERPILLAR DEALERSHIPS BY REVENUE AND GEOGRAPHIC TERRITORY IN ADDITION TO INDUSTRY-LEADING RENTAL OPERATIONS.

THE COMPRESSION GROUP IS A NORTH AMERICAN LEADER SPECIALIZING IN THE DESIGN, ENGINEERING, FABRICATION AND INSTALLATION OF COMPRESSION SYSTEMS FOR NATURAL GAS, FUEL GAS AND CARBON DIOXIDE IN ADDITION TO PROCESS SYSTEMS AND INDUSTRIAL AND RECREATIONAL REFRIGERATION SYSTEMS.

BOTH GROUPS OFFER AND DERIVE A SIGNIFICANT AMOUNT OF REVENUE FROM COMPREHENSIVE PRODUCT SUPPORT CAPABILITIES. TOROMONT EMPLOYS APPROXIMATELY 3,600 PEOPLE IN OVER 100 LOCATIONS.

02	LETTER TO SHAREHOLDERS
10	FINANCIAL HIGHLIGHTS
11	KEY GROWTH STRATEGIES
20	MANAGEMENT'S DISCUSSION AND ANALYSIS
33	MANAGEMENT'S AND AUDITORS' REPORTS
34	CONSOLIDATED FINANCIAL STATEMENTS

37	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
50	TEN YEAR FINANCIAL REVIEW
52	GOVERNANCE OVERVIEW
53	BOARD OF DIRECTORS AND OFFICERS
54	CORPORATE INFORMATION

**BY ALL
PERFORMANCE
MEASURES,
TOROMONT HAS
ACHIEVED AN
ENVIABLE RECORD
OF SUCCESS.**

FELLOW SHAREHOLDERS:

BY ALL MEASURES, TOROMONT HAD ITS BEST YEAR EVER IN 2003. FINANCIALLY, EARNINGS PER SHARE WERE 47% HIGHER THAN 2002. WE INCREASED THE DIVIDEND TWICE (22% IN TOTAL) TO AN ANNUALIZED RATE OF 44 CENTS PER SHARE, AND 2003 MARKED OUR 35TH YEAR OF CONTINUOUS DIVIDEND PAYMENTS. RETURN ON SHAREHOLDERS' EQUITY IMPROVED BY 4.8 PERCENTAGE POINTS OVER 2002 AND AT 18.0%, WAS WELL ABOVE OUR TARGET OF 15%. REVENUE INCREASED 21% YEAR-OVER-YEAR TO A RECORD \$1.3 BILLION. PROFITABLE GROWTH WAS ACHIEVED IN BOTH OUR COMPRESSION AND EQUIPMENT GROUPS. FOR THE FIRST TIME, TOROMONT'S MARKET CAPITALIZATION EXCEEDED \$1 BILLION, A DRAMATIC INCREASE FROM JUST \$121 MILLION IN 1993. ALL OF THESE STATISTICS ARE TESTAMENT THAT OUR FOCUS ON ACHIEVING LONG-TERM, CONSISTENT PROFITABILITY IS PAYING OFF.

Strategically, we achieved greater balance in Toromont's revenue profile in completing the expansion at Toromont Process Systems and by acquiring Energy Industries (renamed Toromont Energy Systems Inc.), a leading manufacturer of reciprocating natural gas compression packages. We also renewed our preferred ice rink equipment supplier agreement with the NHL, which has proven to be extremely valuable to our CIMCO Refrigeration operation. These initiatives position our Compression Group to be an even more significant player in a global industry. We also celebrated the 10th anniversary of our highly successful partnership with Caterpillar, the world's largest heavy equipment manufacturer. This relationship is the foundation of our Equipment Group and provides us with tremendous competitive advantages.

Operationally, market share increased in both groups. Beyond the immediate contribution to sales and earnings, higher market share delivers a product support legacy as we meet the ongoing needs of our customers. Significant efficiency, productivity and profitability advances were made in operations acquired over the past two years, including our Manitoba Caterpillar dealership and in our equipment rental activities. We strengthened our organization through the addition of approximately 650 new employees, more than 200 of whom joined us from Energy Industries.

17% AVERAGE ANNUAL COMPOUND REVENUE GROWTH

Toromont is a diversified company. We achieve growth by expanding our markets, broadening our product offerings, strengthening product support, and investing in our employees and resources. The diligent application of these strategies allowed us to generate 21% revenue growth in 2003 and 17% growth compounded annually since 1993. Our balanced and disciplined approach to growth has allowed us to achieve considerable diversity in our sources of revenue by geography, industry and customer.

We also secured a series of very notable equipment orders from customers spanning the globe and our solutions will be delivered to a variety of international destinations including Taipei, Equatorial Guinea, and Oman in 2004.

Financially, strategically and operationally – by these and many other measures, short and long term – Toromont continues to deliver value.

THE FOUNDATION FOR TOROMONT'S SUCCESS

We believe the foundation for Toromont's success comes from adherence to four key operating principles.

THE FIRST IS COMMITMENT.

The average tenure of our senior management group is 20 years. We have 621 employees (17% of our work force) with 15 or more years of service to the Company. Commitment is also evident in our strong share ownership culture. Excluding the significant personal share holdings that we hold, our fourteen senior most executives own an average of 42,300 Toromont shares. Commitment is also reflected in our well-developed succession plans to identify, prepare and retain Toromont's leaders of tomorrow. As recent examples of our program in action, in 2003 we were very pleased to appoint Scott Medhurst as Senior Vice President, Toromont CAT and Bill Martin, as Vice President, Finance for the Company. Both are capable business executives, both are committed shareholders, and both represent important additions to our executive team.

50% INCREASE IN REVENUE PER EMPLOYEE

Toromont's team is not only growing, it's highly productive. Since 1993, revenue per employee increased by 50% to \$401,000 despite a 120% increase in total employment. We believe this measure speaks well of the quality of our team, the value of our training programs, and the investments made in productivity-enhancing tools and technologies across all business units.

THE SECOND IS DISCIPLINE.

As managers and shareholders, we require a satisfactory return on capital employed. We have aggressive and well-defined targets for each of our business units. Capital is committed only when a strong business case can be made to support the purchase. Once a decision is made, we are patient but disciplined in our post-acquisition strategies. The net result of this approach over many years is an exceptionally strong financial platform.

THE THIRD IS INNOVATION.

We believe that Toromont must constantly adapt to the changing needs of our customers. This is why we invest in developing innovative new products (such as the environmentally friendly Eco-Chill™ refrigeration system and auxiliary power units for on-highway trucks that allow drivers to heat and cool their cabs without idling their engines), innovative new service offerings (including cryogenic cleaning of engine components) and new information technologies (like those coming online at our CIMCO and Battlefield Equipment facilities).

THE FOURTH IS RESPECT.

We are respectful of our customers, shareholders, employees, business partners, the communities where we do business and our competitors (whom we never underestimate). This respect manifests itself in many ways: the Toromont field technician who selflessly responds to a service call at 4 a.m.; the Directors of the Company who ensure that shareholders' interests are well served; and Toromont employees who are always willing to help nurture new apprentices.

68 CONSECUTIVE QUARTERS OF EARNINGS

Toromont is a consistent value creator. We have been profitable for 68 consecutive quarters and counting. In 2003, earnings per share increased 47% over the previous year to a record \$1.90. For the most recent 10 years, our compound annual growth rate in EPS was 20% and during this period, earnings added \$367 million to equity. This profitable track record reflects our growth strategies as well as an enduring focus on improving efficiency and productivity, maximizing value from new investments and acquisitions and maintaining financial flexibility.

We are proud of what Toromont has consistently accomplished over many years by taking this principled approach, but we are also cognizant of what this means for the future – the need to outperform our past. Achieving new records is never easy and there are no guarantees that we can repeat in 2004 or beyond. A co-operative economic environment is critical. What we can guarantee is that we will do our best, operate in accordance with our key principles, and continue to apply the growth strategies that have yielded strong results over the past decade: expanding our markets, broadening our product offerings, strengthening product support and investing in our resources.

2004 AGENDA

We have a very busy agenda for 2004 that includes:

- **MAXIMIZING THE VALUE OF RECENT INVESTMENTS.**

This includes aggressively driving international sales for our Compression Group. A major effort in 2004 will be to complete the integration of Toromont Energy Systems with Toromont Process Systems. Amongst other things, this will allow us to increase manufacturing flexibility and efficiencies, and expand our rental operations. Continued improvement in our Manitoba and Newfoundland Caterpillar dealership territories is also high on the agenda.

26% AVERAGE RETURN ON EQUITY

Toromont is generating an attractive return on shareholders' equity through the short and long term. Over the last 10 years, ROE was an outstanding 26%. Our goal is to achieve at least a 15% return over a business cycle and we set aggressive return on capital employed objectives for each of our operating groups to ensure we deliver.

- **EXPANDING MARKET SHARE THROUGHOUT OUR TERRITORIES.**

This will involve the strategic addition of new or expanded facilities where warranted, further investment in rental fleets, growth in our sales force and a concerted effort by all of us to identify and respond to changing customer needs.

- **IMPROVING BUSINESS EFFICIENCIES AND CONTROLLING COSTS.**

A major effort in the Caterpillar dealership for 2004 is the introduction of *Six Sigma*. We believe this program will help us to identify and track areas with the highest potential for efficiency, productivity, cost control and improved customer service. Investments in information technology initiatives also continue to improve customer service and resource utilization. Leveraging the combined buying power of an expanded Compression Group and improving working capital management are equally important objectives.

- **HIRING SKILLED TECHNICIANS.**

Each year we are challenged to keep pace with growth in service and maintenance volumes because of a shortage of skilled mechanics, technicians and engineers. This is one of the biggest challenges in achieving Toromont's growth objectives. In 2004, we will continue to recruit and carefully train new talent – and through scholarships, encourage talented young people to join our Company for very rewarding careers.

35 CONSECUTIVE YEARS OF DIVIDEND PAYMENTS

Toromont delivers value over the long term. We have paid quarterly dividends every year since going public in 1968. Our goal is to maintain a long-term payout of approximately 30% of trailing earnings from operations. Our strong earnings performance in 2003 allowed us to increase the dividend twice during the year, with an additional increase in dividends approved for Q1 2004. An equally strong track record of profitability over the past decade enabled us to raise the quarterly dividend rate on 9 other occasions since 1993, providing a compound average increase in dividends of 21% over the last 10 years.

SPECIAL NOTE

It is with profound sadness that we report the passing of long-time Board member Charles Maase in May 2003. Charles served Toromont with distinction from 1978 to 1996, when he attained the Company's mandatory retirement age for Directors. As a friend and distinguished business executive, he will be missed.

CONCLUSION

By all measures, performance over the long term has been outstanding. 2003 was no exception. However, there is more to the Toromont story than past performance. Our future looks bright and that's one of the reasons our Board of Directors approved an 18% increase in quarterly dividends and a two-for-one stock split – by way of a stock dividend – in February 2004. Shareholders of record on April 5 will each receive one additional common share of Toromont for each common share held. This is the fourth stock split in the last 10 years. These actions demonstrate our confidence in the future. The following pages profile just some of the many attractive growth opportunities we are currently pursuing that support our confidence.

830% TOTAL RETURN TO SHAREHOLDERS

Toromont is dedicated to generating shareholder value. A \$100 investment in Toromont common shares at the end of 1993 was worth \$930 at year-end 2003, four times the return of an investment made in the TSX/S&P Composite over the same period. Reflecting strong share price appreciation and the market's recognition of Toromont's profitable growth, our shares have split on a two-for-one basis four times over the past 10 years.

On behalf of the Board, we thank the many people who made 2003 our best year – so far – in a string of consistently excellent years for Toromont: our customers, employees and business partners. We also sincerely thank our shareholders for the confidence they have shown not only in 2003, but over the 35 years Toromont has been a public company.

Most importantly, we pledge to apply the same committed, disciplined, respectful, and innovative approach in the future that helped make Toromont the strong company it is today.

Yours sincerely,



Hugo T. Sørensen
President and
Chief Executive Officer

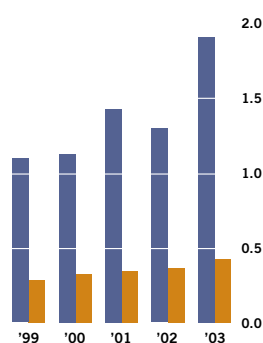


Robert M. Ogilvie
Executive Chairman of the Board



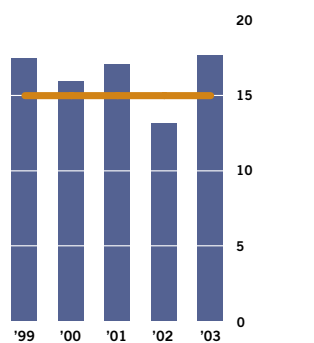
FINANCIAL HIGHLIGHTS

<i>\$ thousands, except per share data</i>	2003	2002	2001
Revenues	\$ 1,299,389	\$ 1,076,930	\$ 911,005
Operating income	102,127	74,829	65,129
Net earnings	60,230	41,375	43,700
Working capital	203,577	213,222	218,132
Total assets	856,176	771,902	720,702
Shareholders' equity	376,837	335,316	314,248
Cash from operations before change in non-cash working capital	91,689	73,546	65,306
Basic earnings per share	\$ 1.90	\$ 1.29	\$ 1.42
Dividends per share	0.42	0.36	0.34
Equity per share	11.86	10.57	9.79
Return on opening shareholders' equity	18.0%	13.2%	17.1%
Shares outstanding			
At year end	31,781,623	31,727,573	32,097,473
Weighted average for year	31,703,792	32,127,460	30,694,517



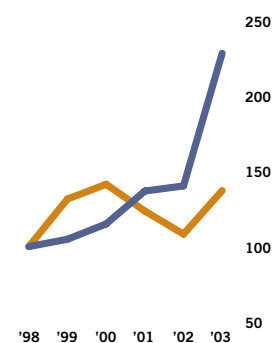
**EARNINGS AND DIVIDENDS
PER COMMON SHARE (\$)**

■ BASIC EPS
■ DIVIDENDS PER SHARE



**RETURN ON
SHAREHOLDERS' EQUITY (%)**

■ ROE
■ LONG-TERM ROE TARGET



**TOTAL RETURN ON A
\$100 INVESTMENT (\$)**

■ TOROMONT
■ TSX/S&P COMPOSITE

FOUR KEY STRATEGIES FOR PROFITABLE GROWTH

1
**EXPANDING
OUR MARKETS**

2
**BROADENING
PRODUCT
OFFERINGS**

3
**STRENGTHENING
PRODUCT
SUPPORT**

4
**INVESTING
IN OUR
RESOURCES**

REACHING FARTHER

The principal international markets for compression technology are Europe, Africa, the Middle East and Southeast Asia. Today, as a leader in the field, we see opportunity for growth in each and are adding sales, engineering and service personnel in selected high-growth areas to capture new assignments. We are also investigating emerging opportunities in Russia and the former Soviet republics. These market expansion efforts follow on recent initiatives to strengthen our application engineering group in the United Kingdom, the creation of new service branches in Arkansas, Arizona and Connecticut and the opening of a satellite facility to serve the growing Chinese market from Beijing.

CIMCO AMMONIA DISTRIBUTION SYSTEM



PETROLEUM PRODUCTION PLATFORM



BEIJING, CHINA



AROUND THE WORLD

We will continue to expand Toromont's global sales. With recent acquisitions and additional manufacturing capacity, our Compression Group now has the platform to accomplish this objective over a shorter timeframe. With a broader range of technologies, an expanded market presence and an aggressive plan to secure assignments in the most promising regions of the world, we believe we can capitalize on opportunities in what we estimate to be a \$10 billion and growing global market.

VOISEY'S BAY MINE SITE, LABRADOR



AT HOME

Canada boasts many excellent growth opportunities. Toromont's Equipment and Compression Groups have a well-established domestic presence to capitalize on each. Looking ahead, we see strong demand for our solutions in sectors as diverse as oil and gas, housing and road construction, truck transportation, standby and emergency electrical power generation for industrial, military and special event applications, mining, chemical, petrochemical, logistics, industrial cold storage and recreational refrigeration.



WHERE THE ACTION IS

International demand for our compression solutions is growing, driven by natural gas and other hydrocarbon developments in many countries – all backstopped by growth in mature industrial and recreational refrigeration markets. Toromont is well positioned to be where the action is up-stream (wellhead, gas gathering, boosting and processing), midstream (gas storage and recovery) and downstream (fuel gas compression, petrochemical, industrial gas compression, refrigeration and CO₂ applications). This is why our new order bookings from outside of North America have almost doubled in 2003.

1

INCREASING COVERAGE

To meet strong Canadian demand, we are enhancing our market coverage. In 2004, we will open a new Toromont CAT facility in Winnipeg, expand our Orillia, Ontario branch, and for the first time, create a joint Toromont CAT-Battlefield Equipment store, in a new Peterborough facility, that will offer a comprehensive, one-stop solution to customers. These expansions will be complemented by a new facility – with its four service bays – that opened in Owen Sound, Ontario in 2003 and a more intensive service/sales coverage in regional markets. In Compression, our 'at home' efforts include the recent establishment of new service branches and satellite offices in five key Alberta cities and increased capacity in Calgary and Edmonton. Combined, Toromont's market expansion initiatives should bring tangible returns – as they did in 2003 when our Canadian revenues climbed 26% to a record \$1.1 billion. We believe these returns will come in the form of better customer service, higher sales, and increased parts and service volumes.

BATTLEFIELD – THE CAT RENTAL STORE



TOROMONT PROCESS SYSTEMS, CALGARY



EXPANDING OUR MARKETS



CAT EMERGENCY POWER GENERATION

MORE LEADING BRANDS

As the exclusive dealer for Caterpillar in our territories, Toromont shares in the momentum of the world's largest heavy equipment and engine manufacturer. Each year, this success grows as Caterpillar enhances its industry-leading brands and we add value through our sales, marketing, parts and service activities co-coordinated from our 28 service locations, supported by our authorized Truck Engine Product Support (TEPS) dealer network. This year, CAT has given us more to sell and support than ever, including ACERT™ truck engine technology, which has become a prime mover of market share in our territories since entering production in 2003. Toromont's product offerings don't stop there. A growing area for us is power generation. We customize and package a full line of CAT generators, chillers, control panels and transformers to meet the growing electricity needs of our markets. Our CAT Rental store, Battlefield Equipment, is also participating by expanding its roster of brand-name products (currently at over 200), capitalizing on recent expansions to the CAT Compact Construction Equipment (CCE) line it represents and building on one of its key capabilities – direct to construction site delivery – to be more responsive to customers and enhance utilization rates. We have also recently become a distributor for Timberking and through the acquisition of Diesel Distribution, broadened our opportunities in the industrial engine market as the master distributor for Perkins in most of Ontario.

ACERT™ ENGINE



INSIDE BATTLEFIELD – THE CAT RENTAL STORE



TIMBERKING



THREE KEY ELEMENTS Toromont serves many different industries and in each, we have opportunities to capture additional market share by adding to the solutions we offer customers. Our strategy to broaden our product offerings has three key elements. We represent the highest quality and most innovative brand-name products. We create customized solutions that respond directly to the needs of our customers. We add value to everything we sell by ensuring our team is well versed in all new product details and can match product capabilities with customer needs. Applied consistently for more than a decade, this strategy has enabled us to significantly grow our domestic and global market share.

GROWTH IN COMPRESSION

We have achieved excellent momentum by expanding our capabilities in all areas of our business, including our Compression Group. Through the acquisition of Energy Industries, we added both product scope and economies of scale to our Compression operations, resulting in new and growing revenue streams from the sale, rental and after-market support of custom-designed reciprocating, rotary screw and centrifugal compression technologies. We have also benefited from the expansion of our industrial process cooling capabilities at CIMCO Refrigeration which provide chilled water temperature control technology for plastics, automotive and pharmaceutical industries.

COMPRESSION EQUIPMENT



2



COMMONWEALTH STADIUM, EDMONTON, ALBERTA

ENGINEERING THE FUTURE

By leveraging our engineering resources, we provide innovative solutions that answer customers' needs for a faster return on investment. An example is Eco-Chill. Developed by Toromont's CIMCO Refrigeration operations, Eco-Chill packages are capturing the attention of customers wishing a clean, energy-efficient solution that offers rapid pay-back through 100% energy recycling. The technology collects energy used to maintain the ice rink surface and recycles it to heat the arena, melt snow or provide hot water for the change rooms. We will install our first Eco-Chill systems in 2004. Our engineering resources also came into play when we supplied the ice rink technology for the landmark NHL outdoor hockey game between the Edmonton Oilers and the Montreal Canadiens at Edmonton's Commonwealth Stadium in November, 2003.

BROADENING PRODUCT OFFERINGS



ONTARIO STERLING MECHANIC AT WORK

SERVICE ANYWHERE, ANY TIME

Toromont's customers use equipment in demanding environments. Our goal is to make sure our products, and therefore our customers, are supported everywhere. This is why our Compression Group recently added a parts warehouse in the United States and opened or enhanced five new service locations in North America and internationally. It is why we continue to expand our fleet of Toromont CAT field service trucks, which are professionally staffed and fully equipped to perform on-site diagnostics, maintenance and service. It is also why we have doubled the number of service technicians working at our Sterling Truck franchise – Canada's number one Sterling Truck dealer two years running. Recently, we have expanded one of our new service models: stationing Toromont employees directly at a customer's site on a full-time basis. These technicians can now be found at remote mine sites in northern Ontario and in cold storage and bottling facilities equipped with our refrigeration technologies in the Toronto area.

FOR OUR CUSTOMERS When customers buy or rent from Toromont, we are not just supplying equipment. We are committing to our customers' ongoing success by providing full, after-sales support, in the form of Toromont's field service capabilities and comprehensive network of branches, parts service depots and e-commerce systems. Today, the rapid expansion of our territories and installed equipment base is creating new opportunities for us to further strengthen these product support capabilities for customers. Revenue from product support has grown 12% on a compound annual basis over the last five years and further growth is expected for both our Equipment and Compression Groups in 2004.

ON-SITE EQUIPMENT INSPECTION



PREVENTIVE MAINTENANCE



ON-SITE CUSTOMER SUPPORT



CUSTOMIZED MAINTENANCE

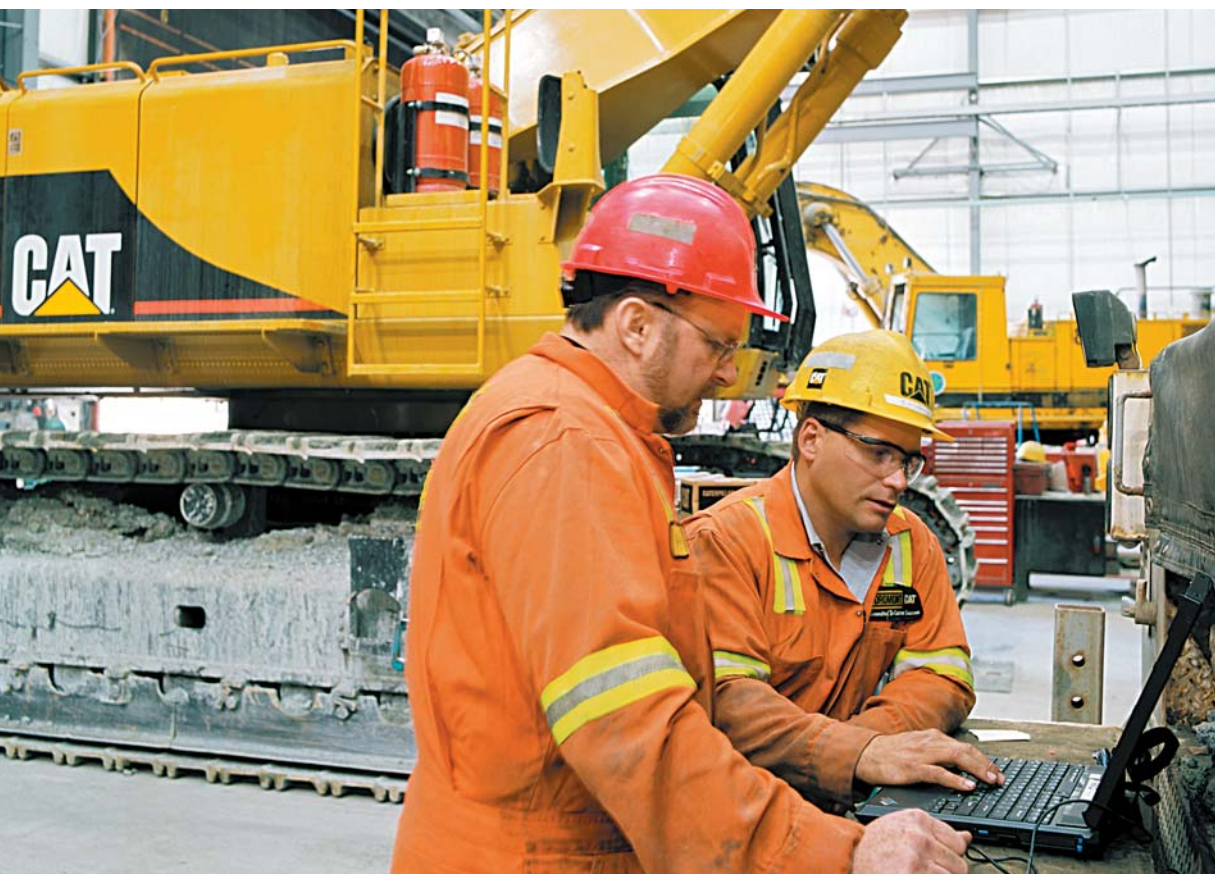
Total cost of ownership, to our customers, is the measure that counts. We understand and have responded with a solution that guarantees an attractive total cost of ownership. Customer Support Agreements (CSA's) are offered by both our Equipment and Compression Groups as a value-added option at the time of equipment purchase. CSA's are tailored to our customers' requirements, meaning they can be structured to offer everything from simple preventive maintenance to sophisticated total-performance guarantees. No matter how they are written, they ensure preventive maintenance is performed, to factory specifications, at all the right intervals, ensuring our customers achieve the longest possible life span for their equipment – with maximum uptime and at the lowest possible cost per hour of utilization. CSA's are an important and growing source of revenue for Toromont and we are now better positioned than ever to offer them company-wide.

COMPRESSION EQUIPMENT MAINTENANCE



STRENGTHENING PRODUCT SUPPORT

3



ON-THE-JOB TRAINING AT TOROMONT CAT MAINTENANCE FACILITY

TRAINING THAT REWARDS

We find great value in on-the-job training. Each year, we provide tens of thousands of hours of formal instruction to our technicians, offer Toromont CAT Toolkit programs and workshops for our people (that include tutorials on performance management, selection interviewing, and effective communication), maintain a self-study library on our web site, provide vital safety, defensive driving and load retention training to employees who move Toromont equipment to customer job sites, and have specific programs dedicated to the many apprentices who join us each year. Training benefits both our customers and our employees. It is vital to our performance-based culture that rewards hard work, and the development of well-defined succession plans helps us to attract and nurture top talent.

APPRENTICESHIP PROGRAM



IN-CLASS TRAINING



A DEDICATED STRATEGY By all measures, Toromont is growing. With growth comes the necessity of investing in our capacity, knowledge base and processes to manage the growth to ensure it delivers attractive financial returns to our shareholders. We are meeting this obligation through a dedicated strategy that will see us invest millions of dollars in information technology, new capacity, and employee training in 2004 – over and above substantial investments made over the past five years. The payoff we expect – and have achieved over the past five years – is higher revenue and profit per employee, the creation of new opportunities that broaden the experience and knowledge of our people, and the development of new capabilities that engage and better serve our customers. In these ways, we are supporting Toromont's top and bottom lines.

TECHNOLOGY THAT PAYS

The mission of information technology resources is clear: enable competitive advantage and business efficiency through the broad application of information technology. Our approach to technology investing is equally clear: every expenditure must generate a tangible return to our people, our businesses and our customers. This is a high standard, but by applying it we have created a technology infrastructure that pays. Our customers placed more than 30,000 orders worth over \$18 million using our e-commerce system in 2003. More than 300,000 parts were delivered to our customers as a result of these orders. Five years ago, we conducted less than 100 such transactions. But this is only one measure of return. We are also deploying our technology to wirelessly monitor the performance of equipment in the field under Customer Support Agreements and we are using tracking systems to improve inventory management. Our infrastructure has also proven invaluable during the integration of newly acquired businesses, the most recent example being Energy Industries which was added seamlessly to our network in 2003. Today, our technology is bringing us closer to our customers by enabling completely paperless commerce and supporting more rapid deployment of Toromont people and equipment across our territories. In 2004, we will roll out new systems in many areas of Toromont, including CIMCO and Battlefield Equipment.

4

TOROMONT FLUID ANALYSIS LAB



TOOLS THAT PRODUCE

Toromont supports profitable growth by investing in new tools and capacity. One of our most sizable recent investments, which should have long-term benefits, was a new manufacturing facility for Toromont Process Systems. Located in Calgary, this 158,000-square-foot facility allowed us to double our annual output. With demand for our compression technologies increasing, this was a wise investment. Of course, not all of the tools we buy produce growth. Some generate cost savings, such as the advanced 'kidney loop' systems being installed at Toromont CAT in 2004. These systems screen out microscopic contaminants in oil, and increase the productive life of major components such as transmissions by as much as 50%, making it more economical for us to offer high-value Customer Support Agreements. These systems are being added as part of a comprehensive program that seeks to reduce the sources of contamination in each of our branches as well as in our remanufacturing centre.



INSIDE TOROMONT PROCESS SYSTEMS, CALGARY

INVESTING IN OUR RESOURCES

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOROMONT'S PRIMARY OBJECTIVE:

TO BUILD SHAREHOLDER VALUE THROUGH SUSTAINABLE AND PROFITABLE GROWTH, FOUNDED ON A STRONG FINANCIAL POSITION. THE COMPANY'S STRATEGIES INCLUDE EXPANDING MARKETS, BROADENING PRODUCT OFFERINGS, STRENGTHENING PRODUCT SUPPORT, AND INVESTING IN OUR RESOURCES.

This discussion and analysis should be read in conjunction with the consolidated financial statements, management's report and the auditors' report included in this Annual Report for 2003. The date of this management discussion and analysis is February 20, 2004. All tabular amounts in the following discussion are in thousands of dollars unless otherwise noted. Additional information, including the Annual Information Form, is available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory: *This Annual Report, including management's discussion and analysis, contains certain forward-looking statements. These statements are influenced by management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risk factors materialize, or should assumptions prove incorrect, actual results may differ materially from those expected.*

CORPORATE PROFILE AND BUSINESS SEGMENTATION

Toromont Industries Ltd., through its two reportable business segments, is a leading provider of specialized capital equipment and comprehensive on-going product support to a number of diverse markets. Toromont employs approximately 3,600 people in more than 100 locations. While the Province of Ontario is the single most dominant source of revenues, significant sales are derived from other provinces, the United States and offshore markets. Major customers participate in a broad range of industries from construction, infrastructure, aggregates, steel, waste management, equipment rentals, agriculture, forestry, to oil and gas, petrochemicals, food and beverage processing, cold storage, recreation, and co-generation.

Approximately 64% of 2003 revenues were derived from the Equipment Group, which is engaged in selling, renting and servicing a broad range of construction equipment and industrial engines. The Equipment Group includes one of the world's largest Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations. Performance in this business segment is, amongst other factors, related to activity in the residential and commercial construction, infrastructure, road building, aggregates, waste management, steel, forestry, mining and agriculture industries. Other significant components of the Equipment Group include sales and product support activities for Caterpillar engines used in a variety of applications including on-highway trucks, industrial, commercial, marine and co-generation applications. The final component of the Equipment Group is a Sterling truck dealership that sells and services vocational trucks, the majority of which are equipped with Caterpillar engines.

The Compression Group, comprising approximately 36% of consolidated revenues, is a North American leader specializing in the design, engineering, fabrication, and installation of compression systems for natural gas, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. All of these activities involve the compression of gases. Results in the Compression Group are influenced by conditions in the primary market segments served, spanning the chemical, petrochemical, natural gas and co-generation industries in addition to industrial markets including food and beverage processing, cold storage, food distribution, and ice rink construction. Toromont Energy Systems Inc. (formerly Energy Industries Inc.), an established leader in the design and fabrication of modular natural gas compression packages ranging from 100 to 5,000 horsepower, was acquired January 1, 2003 and is included in the results of the Compression Group. Toromont Energy Systems Inc. has been a very positive addition to the Company, contributing \$106 million to revenues and was accretive to earnings in the first year.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

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

EXPANDING MARKETS

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

BROADENING PRODUCT OFFERINGS

Toromont delivers a wide variety of specialized capital equipment to a diverse range of customers and industries. Toromont will expand its customer portfolio and add to its installed base of equipment, by selectively extending both our product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading if not best in class offerings from suppliers that are continually expanding and complementing their product offerings. Strong relationships with suppliers are critical in achieving objectives.

STRENGTHENING PRODUCT SUPPORT

A key element of the Company's profitable growth strategy is the enhancement of the after-market product support annuity. The parts and service business contributes significantly to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent opportunities to develop closer relationships with customers. 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.

INVESTING IN OUR RESOURCES

People are the Company's most valuable resource. The combined knowledge and experience of management and staff is considered to be a key competitive advantage. Management is focused on attracting, retaining and developing employees with skill sets and values that are consistent with Toromont's. Incentive programs, a strong share ownership and a highly principled culture result in a close alignment with Company and shareholder interests. By investing substantial funds in training and development, the capabilities and productivity of employees continually improve to better serve customers, business partners and shareholders. Toromont's information technology represents another competitive differentiator in the marketplace. We make selective investments in technology, inclusive of e-commerce initiatives, to strengthen customer service capabilities, generate new opportunities for growth and increase returns to our shareholders.

STRONG FINANCIAL POSITION

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

KEY PERFORMANCE MEASURES

The Company continuously reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the Company's key financial performance measures are discussed below. Others include, but are not limited to, measures such as market share, fleet utilization, and customer satisfaction levels.

Years ended December 31	2003	2002	2001	2000	1999
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	21%	18%	14%	11%	6%
Revenue generated from outside Canada (\$ millions)	\$ 152	\$ 166	\$ 125	\$ 106	\$ 97
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	12%	16%	25%	8%	2%
INVESTING IN OUR RESOURCES					
Revenue per employee (\$ thousands)	\$ 401	\$ 373	\$ 353	\$ 364	\$ 362
Information technology expense (\$ millions)	\$ 11	\$ 9	\$ 8	\$ 8	\$ 6
MAINTAINING STRONG BALANCE SHEET					
Working capital (\$ millions)	\$ 204	\$ 213	\$ 218	\$ 165	\$ 184
Net debt to equity ratio	.47:1	.41:1	.48:1	.66:1	.54:1
Book value per share	\$ 11.86	\$ 10.57	\$ 9.79	\$ 7.53	\$ 6.93
CREATING SHAREHOLDER VALUE					
Basic earnings per common share growth*	47%	19%	(4)%	3%	14%
Return on opening shareholders' equity	18.0%	13.2%	17.1%	15.9%	17.5%

* Excluding gain on sale of investments in 2001

The performance measures indicate successful execution of our strategies. Revenues have increased at an average annual rate of 13.7% since 1998 and product support revenues have kept pace with an average annual growth rate of 12.3% over the same period. Growth rates were dampened in the most recent year by the strengthening of the Canadian dollar which has resulted in lower selling prices and costs.

Significant investments have been made in the area of information technology that have served to increase productivity levels. Revenue per employee has increased every year since 1999, except for 2001, which experienced a decrease as a result of business acquisitions.

Although revenue growth is important, we are also focused on achieving profitable growth. Earnings per share have improved in each year since 1999, with the exception of 2001, which was impacted by the issuance of common shares to finance the Powell acquisition. Net earnings have increased in all years noted above.

Toromont's growth has been measured, directed and sustained over many years. We have not sacrificed our strong financial position and have indeed improved upon an already solid balance sheet. Book value per share has increased in each of the past five years and debt levels are conservative, well within target levels and well below borrowing capacity.

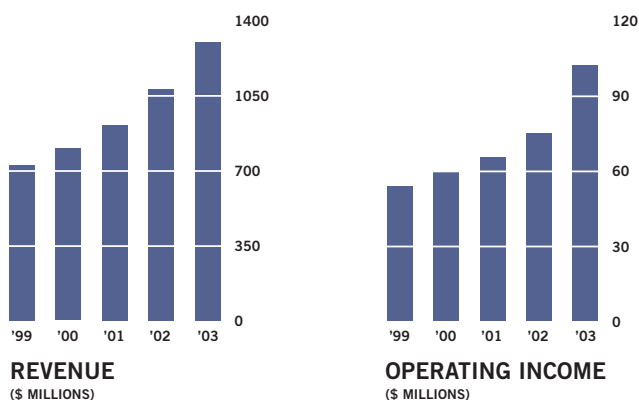
CONSOLIDATED RESULTS OF OPERATIONS

Years ended December 31	2003	2002	% change
REVENUES	\$ 1,299,389	\$ 1,076,930	21%
Cost of goods sold	1,028,410	859,646	20%
Gross profit	270,979	217,284	25%
Selling and administrative expenses	168,852	142,455	19%
OPERATING INCOME	102,127	74,829	36%
Interest expense	13,276	11,366	17%
Interest and investment income	(2,668)	(4,230)	(37%)
Income before income taxes	91,519	67,693	35%
Income taxes	31,289	26,318	19%
NET EARNINGS	\$ 60,230	\$ 41,375	46%
EARNINGS PER SHARE – BASIC	\$ 1.90	\$ 1.29	47%

Revenues increased 21% from the prior year to \$1.3 billion in 2003. Excluding acquisitions, revenues were up 11% over 2002. Higher revenues were achieved in both operating segments on increases in machine and package sales, rental and product support activities.

Equipment and Compression Group whole goods and parts are principally sourced from the United States or have pricing derived in US dollars. As the Canadian dollar has strengthened relative to the US currency (up 22% in 2003), the cost of more recently purchased product was lower than equipment acquired in prior periods. In 2003, it is estimated that selling price adjustments, to reflect the lower landed Canadian dollar cost, have reduced consolidated revenues by \$75 million, more than half of which was experienced in the Equipment Group.

Gross margin percentage increased from the prior year as improvements in the Equipment Group were partially offset by lower margins on Process package sales. Increased margins in the Equipment Group were a result of higher rental fleet utilization and margin improvements on machine sales and product support activities. Results in both operating groups also reflect a larger component of lower-margined equipment sales relative to total revenues in 2003.



Selling and administrative expenses as a percent of revenues were 13.0% in 2003 compared to 13.2% in 2002. Selling and administrative expenses were \$26 million higher than 2002. The inclusion of acquired businesses and higher sales related expenses arising from revenue growth accounted for the majority of the increase. In addition, higher information technology expenses (primarily resulting from new initiatives within the Compression Group) and additional employee profit sharing expenses (based on improved profitability) contributed to the increase.

Operating income (earnings before interest expense, interest and investment income and income taxes) was up 36% for the year, on strong increases in both operating segments from higher revenues and relatively lower expense ratios.

Interest expense was higher, and interest and investment income lower in 2003 as a result of cash expended on the Energy Industries' acquisition, increased capital expenditures and working capital requirements.

The effective income tax rate for 2003 was 34.2% compared to 38.9% in the prior year. The rate reduction is in part the result of the recognition of loss carry forwards not previously recorded and favourable resolution to prior years' tax audits, which combined, reduced the effective tax rate by 2.6 percentage points and increased earnings by 7 cents per share. Excluding these items, the effective income tax rate for 2003 would have been 36.8%, lower than 2002 due to reductions in federal and provincial income tax rates and a more favourable distribution of income by tax jurisdiction.

Net earnings increased \$19 million or 46% to \$60 million from \$41 million in the prior year. Basic earnings per share increased 61 cents or 47% to \$1.90 from \$1.29 in 2002.

Return on opening shareholders' equity in 2003 was 18.0% compared to the 2002 return of 13.2%. The most recent five and ten year average returns on common shareholders' equity were 16% and 26% respectively, well above the Company's long-term target of 15%.

BUSINESS SEGMENT OPERATING RESULTS

Management evaluates overall business segment performance based on top line revenue growth and operating income (earnings before interest expense, interest and investment income and income taxes) relative to revenues.

EQUIPMENT GROUP

Years ended December 31	2003	2002	% change
Equipment sales and rentals			
New	\$ 364,461	\$ 326,925	11%
Used	122,032	123,833	(1%)
Rental	118,712	88,028	35%
Total equipment sales and rentals	605,205	538,786	12%
Energy	11,696	11,858	(1%)
Product support	218,425	209,021	4%
Total revenues	\$ 835,326	\$ 759,665	10%
Operating income	\$ 59,970	\$ 46,907	28%
% of revenues	7.2%	6.2%	
Capital expenditures	\$ 53,344	\$ 33,571	59%

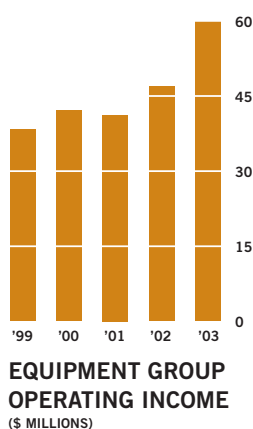
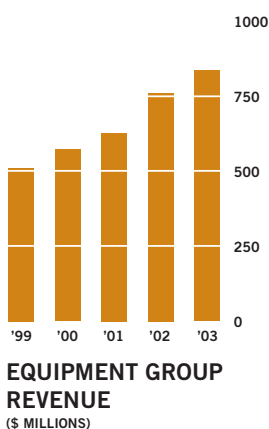
Revenues were \$835 million for 2003, up 10% from last year. Higher sales of new machines and increased rental fleet utilization were partially offset by a modest 1% decline in used equipment revenues. Conversions on equipment rentals with purchase options were favourable in relation to last year. As previously noted, the stronger Canadian dollar served to reduce reported revenue in the Equipment Group. Rental business increased on stronger utilization and from a \$25 million standby-power project with the Province of Ontario.

Power generation revenues for the year are comparable to 2002. Despite increasing concerns as to the availability and stability of supply of electricity in the Province of Ontario, current market conditions have not been favourable for natural gas fired co-generation plants. The combination of lower electricity prices and high natural gas prices resulted in modest operating losses for some of our projects. Given the unsettled state of electrical markets in Ontario, we have some confidence that the Province will ultimately establish a long-term policy and regulatory framework to stimulate and support investment in increased power generation capacity. We continue to closely monitor the Province's position with respect to independent power generation in Ontario.

Product support revenues reflect strong demand in all locations, offset somewhat by lower parts' selling prices resulting from the stronger Canadian dollar.

Operating income as a percent of sales improved to 7.2% in 2003 compared with 6.2% in the prior year. Operating income increased 28% over the prior year to \$60 million. Improvements were driven by higher-margined rental revenues, increased rental fleet utilization, and stronger margins on machine sales and product support revenues.

Capital expenditures within the Equipment Group increased \$20 million in 2003 due to investments made with respect to new branch openings and expansions as well as significant additions to the rental fleet.



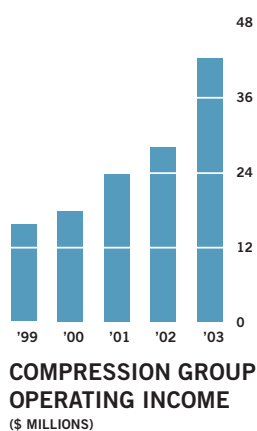
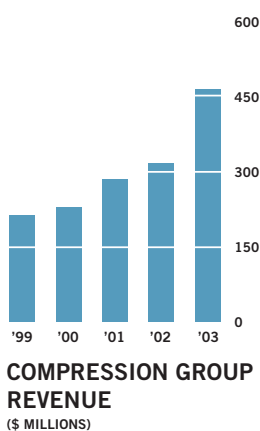
COMPRESSION GROUP

Years ended December 31	2003	2002	% change
Equipment package sales and rentals	\$ 354,849	\$ 233,999	52%
Product support	109,214	83,266	31%
Total revenues	\$ 464,063	\$ 317,265	46%
Operating income	\$ 42,157	\$ 27,922	51%
% of revenues	9.1%	8.8%	
Capital expenditures	\$ 19,578	\$ 19,471	1%

Revenues increased by \$147 million (46%) over the prior year. The acquisition of Toromont Energy Systems in early 2003 contributed \$106 million to revenues. Excluding this acquisition, revenues grew 13% over the prior year. Strong internal growth was driven by increased package sales from the balance of the Process operations and strong product support growth from both the Industrial and Process sectors, while project revenue from industrial operations was lower. Along with strong growth in natural gas compression revenues, the Process operations reported significant revenue growth from refrigeration systems, fuel gas compression and rental revenues. At year-end, there were several large Process and Industrial projects nearing finalization. Under the completed contract method of accounting, these will be recorded in 2004 and will provide a strong start to the new year.

Operating income increased 51% over the prior year with the inclusion of results from acquisitions, growth in existing businesses and relatively lower expense ratios. These favourable impacts were partially offset by lower gross profit margins and a slightly unfavourable change in mix of package sales relative to product support activities in the Process sector.

Capital expenditures were comparable to levels in 2003 as the significant investment in a new manufacturing facility was spread over both years.



CONSOLIDATED FINANCIAL CONDITION

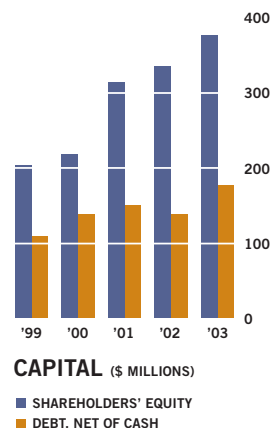
The Company has maintained a strong financial position. Net debt to equity at December 31, 2003 was .47:1 compared to .41:1 in the prior year, despite \$134 million invested in the year for capital assets and acquisitions. The Company renewed its Canadian credit arrangement. The new three-year committed facility with a syndicate of four Canadian financial institutions is unsecured and permits drawings of up to \$175 million, an increase of \$45 million over the previous credit line. We remain well below our borrowing capacity, leaving room for further growth either organically or through acquisition.

Outstanding Shares

As at the date of this report, the Company had 31,875,543 common shares outstanding.

Dividends

Toromont's policy is to maintain a dividend payout of approximately 30% of the prior year's net earnings from operations, giving consideration to earnings prospects, financial requirements and general economic circumstances. The Board of Directors and management review this policy on an ongoing basis. During 2003, quarterly dividends totalling 42 cents per common share were declared. The annualized dividend of 44 cents represented 34% of the 2002 net earnings from operations. Subsequent to year end, the Board declared a quarterly dividend of 13 cents per common share, an increase of 18%, payable April 1, 2004, and a two-for-one stock split by way of a stock dividend to shareholders of record on April 5, 2004.



LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Toromont obtains short-term financing through a combination of cash from operating activities and committed credit facilities. Total credit facilities, inclusive of bank lines, all of which are unsecured, amounted to \$182 million at year-end of which \$115 million was unutilized.

The Company obtains long-term financing through a variety of debentures and notes payable. Of these items, \$110 million bore interest at fixed rates, at a weighted average rate of 7.3%, with varying maturities through to 2019, and \$17 million bore interest at variable rates, averaging 4.7% through 2010.

Total debt, net of cash, amounted to 47% of equity compared with 41% at the end of 2002.

Principal Components of Cash Flow

Years ended December 31	2003	2002	% change
Cash provided by operating activities	\$ 87,312	\$ 72,197	21%
Cash used in investing activities	(113,178)	(39,257)	188%
Cash used in financing activities	(8,576)	(33,523)	(74%)
Total change in cash	\$ (34,442)	\$ (583)	n/m

Cash Flows from Operating Activities

Operating activities remain a major source of funds. In 2003, cash from operating activities increased \$15 million (21%) to \$87 million compared to \$72 million in the prior year. The increase resulted primarily from improved net earnings.

The working capital position at December 31, 2003 was \$204 million compared to \$213 million in 2002. The decrease in working capital was primarily due to use of available cash resources and a portion of our credit facilities to finance business acquisitions. This was largely offset by increases in accounts receivable and inventory, required to support the higher volumes.

In 2004, cash flows from operating activities are expected to be sufficient to fund anticipated capital investments.

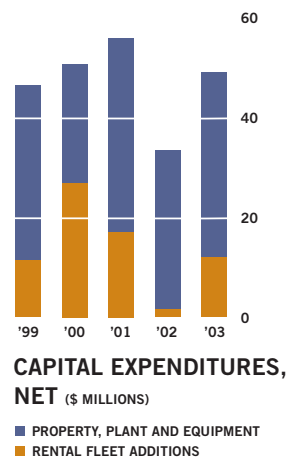
Cash Flows from Investing Activities

Cash flow used in investing activities in 2003 amounted to \$113 million compared to \$39 million in the prior year. Excluding business acquisitions, cash flows used in investing activities were \$52 million, up 32% from 2002. Over the past three years we have invested \$349 million in capital assets and acquisitions. Additional detail on business acquisitions can be found in Note 2 to the consolidated financial statements.

Capital expenditures totaled \$73 million (2002 – \$53 million) reflecting the Company's continuing commitment to maintain and renew its asset base and invest in growth across both operating segments. Investments in property, plant and equipment amounted to \$38 million in 2003. Expenditures primarily consisted of the Concord dealership facilities and the completion of the Calgary manufacturing plant. Net investments in rental fleet were \$12 million in 2003, up from \$1 million in the prior year.

Capital expenditures were directed as follows: \$53 million for the Equipment Group, and \$20 million for the Compression Group. This compares to investments in the prior year of \$34 million for the Equipment Group and \$19 million for the Compression Group.

The Company expects an overall reduction in its capital investment pace in 2004. Spending in property, plant and equipment will be lower in 2004 due to the large investments described above not expected to repeat. Investments in rental fleet are expected to continue at the current pace given current market conditions. New spending in power generation assets has been curtailed until new government regulations are released and further time has elapsed under "open market" pricing.



Cash Flows from Financing Activities

Cash used in financing activities in 2003 was \$9 million compared to \$34 million in the prior year. During 2003, long-term debt increased by \$5 million as increases under the long-term credit facilities exceeded scheduled repayment of notes payable. Dividend payments required \$13 million in cash, 15% higher compared to 2002 reflecting the 22% increase in quarterly dividend rate.

The Company renewed its Normal Course Issuer Bid (NCIB) on August 31, 2003, allowing the purchase of up to 1,585,000 common shares for cancellation over the next 12 months. The Company 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. During 2003, 151,400 common shares were purchased under the NCIB for a total cost of \$3.2 million (average price of \$21.13 per share).

CONTRACTUAL OBLIGATIONS

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

	Total	Payments due by Period			
		Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long-term debt	\$ 176,990	\$ 17,296	\$ 23,432	\$ 84,603	\$ 51,659
Operating leases	19,656	5,675	7,831	3,137	3,013
Total	\$ 196,646	\$ 22,971	\$ 31,263	\$ 87,740	\$ 54,672

SELECTED ANNUAL INFORMATION

<i>Years ended December 31</i>	2003	2002	2001
Revenues	\$ 1,299,389	\$ 1,076,930	\$ 911,005
Net earnings before investment gains	60,230	41,375	33,370
Per share – basic	1.90	1.29	1.08
Per share – diluted	1.88	1.28	1.07
Net earnings	60,230	41,375	43,700
Per share – basic	1.90	1.29	1.42
Per share – diluted	1.88	1.28	1.41
Dividends per common share	0.42	0.36	0.34
Total assets	856,176	771,902	720,702
Long-term debt	176,990	171,969	185,358
Shareholders' equity	376,837	335,316	314,248

Revenue growth has been strong with year-over-year increases of 14%, 18% and 21% in 2001, 2002 and 2003 respectively. Strong organic revenue growth was achieved in both operating segments on increases in machine and package sales, rental revenues and product support activities. Revenue growth has also been complemented by acquisitions. Toromont Energy Systems, acquired on January 1, 2003, contributed approximately \$106 million to revenue during the year. The acquisition of Powell Equipment Limited, effective July 1, 2001, has served to increase annual revenues by approximately \$135 million.

Growth in net earnings, excluding investment gains, has also been strong, with year-over-year increases of 3%, 24% and 46% in 2001, 2002 and 2003 respectively. Improvements in earnings have been the result of higher sales volumes and margins in both operating segments, lower levels of selling and administrative expenses relative to revenues and lower effective income tax rates.

In 2001, short-term investments were sold, producing an after-tax gain of \$10.3 million or \$0.34 per share.

Earnings per share (basic) have grown in line with earnings growth with the exception of 2001, a year in which the Company issued 3 million common shares to fund the acquisition of Powell Equipment.

In line with Toromont's dividend policy previously noted, dividends per share have been paid out consistently over the three-year period noted above, with the rate of dividends increasing in line with growth in earnings.

Total assets have increased over the three-year period noted above as a result of business acquisitions and investments in capital assets to accommodate growth in the existing businesses.

Long-term debt has remained fairly constant over the three year period noted above and it has decreased (net of cash) as a percent of shareholders' equity from 48% in 2001 to 47% in 2003.

Shareholders' equity has increased as a result of consistently strong earnings more than offsetting dividends and common share repurchases.

QUARTERLY RESULTS

	Q1	Q2	Q3	Q4	Year
2003					
Revenues	\$ 260,600	\$ 328,404	\$ 331,859	\$ 378,526	\$ 1,299,389
Net earnings	4,787	13,805	16,799	24,839	60,230
Earnings per share					
Basic	0.15	0.44	0.53	0.78	1.90
Diluted	0.15	0.43	0.52	0.78	1.88
Dividends per share	0.10	0.10	0.11	0.11	0.42
2002					
Revenues	\$ 192,937	\$ 287,612	\$ 271,792	\$ 324,589	\$ 1,076,930
Net earnings	2,256	11,199	8,713	19,207	41,375
Earnings per share					
Basic	0.07	0.35	0.27	0.60	1.29
Diluted	0.07	0.34	0.27	0.60	1.28
Dividends per share	0.09	0.09	0.09	0.09	0.36

Interim period revenues and earnings historically reflect some seasonality in both the Compression and Equipment Groups. The first quarter is typically the weakest due to winter shutdowns in the construction industry. The fourth quarter has historically been the strongest due to the completion of projects in the Compression Group, in addition to the period of highest conversions of equipment on rent with a purchase option. The second and third quarter impacts of seasonality are relatively neutral.

RISKS AND RISK MANAGEMENT

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

Business Cycle

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

Toromont's business is diversified across a wide range of industry market segments and geographic territories, serving to moderate the effects of business cycles on consolidated results. Continued diversification through expansion of the customer base, broadening of the product offering, and geographic diversification will further moderate business cycle impacts. Across both operating segments, the Company has focused on the sale of specialized equipment and ongoing support through parts distribution and skilled service personnel. 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 subject to less volatility than equipment supply activities.

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar. Toromont has maintained an excellent relationship with Caterpillar for over a decade and management expects this will continue going forward. Caterpillar has not experienced a significant interruption in product distribution for many years.

Foreign Exchange

The Equipment Group sources the majority of its products 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 generally adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Compression Group purchases certain raw materials and components from suppliers in the United States. Exchange rate risk is reduced by entering into foreign currency contracts to fix the cost of imported inventory where appropriate. In addition, the Compression Group is also generally able to recover the cost of exchange rate movements through adjustments to selling prices.

Fluctuations in the value of the U.S. dollar relative to the Canadian dollar also has some impact on Toromont's consolidated financial reporting, with the financial results of subsidiaries in the United States being translated into Canadian dollars upon consolidation. However, such exchange rate fluctuations have historically not been material relative to the overall earnings or financial position.

Interest Rate

Interest rate risk arises from potential changes in interest rates and the impact on the cost of borrowing. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon the debt's maturity. Balancing the portfolio of short-term credit facilities at floating rates and medium and long-term debt at fixed rates has reduced interest rate risk. In addition, the Company will from time to time enter into interest rate swap agreements to manage its current and anticipated exposure to interest rates. Market conditions and the impact of interest rate fluctuations on its fixed/floating interest rate exposure are monitored closely.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Toromont's significant accounting policies are described in Note 1 to the consolidated financial statements. The most critical of these policies are those related to revenue recognition, and property, plant and equipment. Each policy involves a number of estimates and assumptions made by management. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. These critical accounting policies and estimates are described below.

Revenue Recognition

Toromont, primarily through the Compression Group, generates a significant portion of its revenue from contracts for the supply of equipment packages. Revenues and profits on these contracts are recognized using the completed contract method based on substantial technical completion. Revenues and costs are not recognized on the income statement until the contract is substantially complete. This method has been chosen in order to conservatively record profits, given the inherent uncertainty in accurately estimating profitability during the earlier stages of any particular contract. The majority of projects are in actual construction for a period of three months or less.

Valuation of Capital Assets

Valuations of capital assets are reviewed on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value.

Capital assets make up 34% of the Company's total assets, including 4% representing power generation assets. Given the volatile nature of electricity and fuel prices in recent periods, and the uncertainty with respect to market deregulation and the Ontario Government's energy policy, these assets are carefully monitored. Assumptions that significantly impact expected cash flows of power generation assets, including future prices of electricity, costs of fuel, and operating hours over the estimated life of the plants, require considerable judgment. Actual results could differ significantly from management's estimates.

A significant amount of the Company's assets include property, plant and equipment and rental equipment. These assets are depreciated over their estimated useful lives, determined based on current circumstances and past experience. The rates and methodologies used are reviewed on an ongoing basis to ensure they continue to be appropriate.

FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants issued new accounting pronouncements that the Company will be required to adopt in the future. The Company expects to adopt the following accounting standards:

Revised Section 3870 – "Stock-based Compensation and Other Stock-based Payments". The amendments require the recognition of expense for all employee stock-based compensation transactions and eliminate the current option to disclose the pro forma effect of such transactions on net earnings and basic net earnings per common share in the notes to the consolidated financial statements. These amendments are effective for fiscal years beginning on or after January 1, 2004. The Company will implement the amendments on January 1, 2004 and the changes will be applied retroactively. Note 11 includes pro-forma disclosure of earnings per share as if all awards were accounted for using the fair value method.

Accounting Guideline 13 – "Hedging Relationships". This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. This guideline is effective for fiscal years beginning on or after July 1, 2003. The guideline was implemented on January 1, 2004 with no expected impact to current hedge accounting treatment.

OUTLOOK

Toromont had another very successful year in 2003, with excellent growth across all markets, resulting in strong earnings and operating cash flow. Despite investments of more than \$134 million for business acquisitions, investments in property plant, equipment and rental assets, the Company retains its strong balance sheet and remains well positioned to continue to implement its operating and financial strategies. Although the North American economic outlook for 2004 is positive, activity in Canada is expected to continue to be influenced by foreign exchange fluctuations. The improved balance in Toromont's products and markets combined with favourable exposure to after market activity should allow the Company to weather the negative impact of any short-term weaknesses in any particular industry. Product support business will benefit from the higher installed base in both operating groups, with record activity levels expected in 2004. We are cautiously optimistic about the prospects for another successful year in 2004.

MANAGEMENT'S REPORT

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

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

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

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



Hugo T. Sørensen
President and
Chief Executive Officer



Wayne S. Hill
Executive Vice President and
Chief Financial Officer

*Toronto, Ontario
January 27, 2004*

AUDITORS' REPORT

TO THE SHAREHOLDERS OF TOROMONT INDUSTRIES LTD.:

We have audited the consolidated balance sheets of Toromont Industries Ltd. as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP
Chartered Accountants

*Toronto, Ontario
January 27, 2004*

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

As at December 31 (\$ thousands)

2003

2002

ASSETS

Current assets

Cash and cash equivalents	\$ –	\$ 34,442
Accounts receivable	221,738	186,990
Inventories (note 3)	263,127	242,831
Future income taxes (note 13)	12,662	11,161
Other current assets (note 7)	10,950	7,583

Total current assets	508,477	483,007
Property, plant and equipment (note 4)	185,235	169,245
Rental equipment (note 5)	107,976	89,519
Goodwill (note 6)	34,350	13,000
Other assets (note 7)	20,138	17,131

Total assets	\$ 856,176	\$ 771,902
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LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$ 273,568	\$ 242,939
Current portion of long-term debt (note 8)	17,296	15,490
Income taxes payable	14,036	11,356

Total current liabilities	304,900	269,785
Long-term debt (note 8)	159,694	156,479
Accrued pension liability (note 12)	5,007	5,175
Future income taxes (note 13)	9,738	5,147

SHAREHOLDERS' EQUITY

Share capital (note 9)	99,785	97,329
Retained earnings	279,816	235,639
Cumulative translation adjustment	(2,764)	2,348

Total shareholders' equity	376,837	335,316
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Total liabilities and shareholders' equity	\$ 856,176	\$ 771,902
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See accompanying notes

On behalf of the Board:

Robert M. Ogilvie
Director

John S. McCallum
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Years ended December 31 (\$ thousands, except share amounts)	2003	2002
Revenues	\$ 1,299,389	\$ 1,076,930
Cost of goods sold	1,028,410	859,646
Gross profit	270,979	217,284
Selling and administrative expenses	168,852	142,455
OPERATING INCOME	102,127	74,829
Interest expense (note 8)	13,276	11,366
Interest and investment income	(2,668)	(4,230)
Income before income taxes	91,519	67,693
Income taxes (note 13)	31,289	26,318
NET EARNINGS	\$ 60,230	\$ 41,375
Earnings per share (note 14)		
Basic	\$ 1.90	\$ 1.29
Diluted	\$ 1.88	\$ 1.28
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	31,703,792	32,127,460

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31 (\$ thousands)	2003	2002
Retained earnings, beginning of year	\$ 235,639	\$ 214,360
Net earnings	60,230	41,375
Dividends	(13,319)	(11,541)
Shares purchased for cancellation	(2,734)	(8,555)
Retained earnings, end of year	\$ 279,816	\$ 235,639

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (\$ thousands)	2003	2002
OPERATING ACTIVITIES		
Net earnings	\$ 60,230	\$ 41,375
Items not requiring cash and cash equivalents		
Depreciation	39,423	36,652
Accrued pension liability	(168)	(272)
Future income taxes (recovery)/expense (note 13)	(1,319)	1,009
Gain on sale of rental equipment and property, plant and equipment	(6,477)	(5,218)
Cash provided by operations	91,689	73,546
Change in non-cash working capital and other		
Accounts receivable	(26,200)	(22,614)
Inventories	2,455	(17,263)
Accounts payable and accrued liabilities	22,074	33,969
Other	(2,706)	4,559
Cash provided by operating activities	87,312	72,197
INVESTING ACTIVITIES		
Business acquisitions (note 2)	(61,303)	–
Additions to rental equipment	(34,508)	(18,937)
Additions to property, plant and equipment	(38,414)	(34,105)
Increase in other assets	(3,007)	(5,801)
Sale of rental equipment	22,630	17,443
Sale of property, plant and equipment	1,424	2,143
Cash used in investing activities	(113,178)	(39,257)
FINANCING ACTIVITIES		
Increase in term credit facilities (note 8)	20,511	–
Repayment of long-term debt	(15,490)	(13,389)
Dividends	(13,319)	(11,541)
Shares purchased for cancellation	(3,199)	(10,195)
Shares issued on exercise of options	2,921	1,602
Cash used in financing activities	(8,576)	(33,523)
Decrease in cash and cash equivalents	(34,442)	(583)
Cash and cash equivalents at beginning of year	34,442	35,025
Cash and cash equivalents at end of year	\$ –	\$ 34,442
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 12,992	\$ 11,979
Income taxes paid	\$ 29,277	\$ 24,179
Capital asset additions included in accounts payable and accrued liabilities	\$ 4,211	\$ 4,638

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003 (\$ thousands except where otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Toromont Industries Ltd. and its subsidiaries (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of Consolidation

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

Use of Estimates

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

Revenue Recognition

Revenue recognition, with the exception of cash sales, includes obtaining a written arrangement with the customer, which is in the form of a contract or purchase order, establishing a fixed or determinable sales price with the customer whereby ultimate collection of the revenue is reasonably assured. Revenue is recognized as performance requirements are achieved in accordance with the following:

- a) Revenues from the supply of equipment systems involving design, manufacture and installation are recorded on the completed contract method based upon substantial technical completion. Any foreseeable losses on such projects are charged to operations when identified.
- b) Revenues from the sale of equipment is recorded when goods are shipped to the customer, at which time title to the equipment and significant risks of ownership passes to the customer.
- c) Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer, generally on a straight-line basis over the term of the agreement.
- d) Revenue from product support services includes sales of parts and servicing of equipment. For the sale of parts, revenue is recognized when the part is shipped to the customer. For servicing of equipment, revenue is recognized as the service work is completed and billed. Revenue on long-term maintenance contracts is recognized on a percentage of completion basis proportionate to the service work that has been performed based on the parts and labour service provided. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

Translation of Foreign Currencies

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

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

Derivative Financial Instruments

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

Foreign exchange forward contracts and options are identified as a hedge of commitments with realized gains and losses being included in the cost of the underlying hedged item. Unrealized gains and losses on currency forwards are not recognized.

The interest rate swap is identified as a hedge against interest rate fluctuations because it offsets the interest rate exposure on the underlying hedged item. The exchange of interest payments on the interest rate swap is recognized on an accrual basis over the life of the contract as an adjustment to interest expense. Unrealized gains and losses are not recognized.

Income Taxes

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

Stock-Based Compensation

The Executive Stock Option Plan is described in Note 11. It is the Company's policy to issue stock options at market value on the date of granting. The intrinsic value method of accounting for stock option awards granted to employees has been applied and accordingly, no compensation cost has been recognized. Pro-forma disclosure of earnings per share is provided as if all awards were accounted for using the fair value method. Pro-forma compensation expense is recognized over the vesting period of the option. Any consideration received on exercise of the stock options is recorded as share capital.

Earnings per Share ("EPS")

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

Cash and Cash Equivalents

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

Inventories

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

Rental Equipment

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

Property, Plant and Equipment

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

Impairment of Long-Lived Assets

CICA Handbook Section 3063 was adopted during 2003 and has been applied prospectively. Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value, as determined by the discounted future cash flows of the asset group.

Comparative Amounts

Certain prior year's information was reclassified to conform with the current year's presentation.

2. BUSINESS ACQUISITIONS

All of the shares of Energy Industries Inc. were purchased effective January 1, 2003 for \$60 million. Effective April 1, 2003, certain assets of Diesel Distribution Inc. were purchased. The remaining 50% interest in certain power generation assets were acquired effective August 29, 2003. No businesses were acquired in 2002. The acquisitions were accounted for using the purchase method which allocates the purchase price of a business to the assets acquired and the liabilities assumed based on their fair value at date of acquisition, with any excess recognized as goodwill. The results of the companies acquired are included in the consolidated financial statements from date of acquisition.

Details of the business acquisition purchase equations, including cash consideration paid and the net assets acquired at their fair values, are as follows:

	Energy Industries	Other	2003 Total
Non-cash working capital	\$ 23,250	\$ (90)	\$ 23,160
Property, plant and equipment	3,264	35	3,299
Rental equipment	16,140	–	16,140
Goodwill	21,350	–	21,350
Future income taxes	(3,570)	924	(2,646)
Total investment	60,434	869	61,303
Bank indebtedness	(434)	–	(434)
Purchase price	\$ 60,000	\$ 869	\$ 60,869

Goodwill included amounts totalling \$1,650 that are deductible for tax purposes.

3. INVENTORIES

	2003	2002
Equipment	\$ 174,614	\$ 165,211
Repair and distribution parts	58,025	52,960
Direct materials	12,318	13,121
Work-in-process	56,637	34,458
Progress billings and deposits	(38,467)	(22,919)
	<u>\$ 263,127</u>	<u>\$ 242,831</u>

4. PROPERTY, PLANT AND EQUIPMENT

	2003			2002		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 36,111	\$ –	\$ 36,111	\$ 26,417	\$ –	\$ 26,417
Buildings	97,206	24,366	72,840	84,940	20,165	64,775
Equipment	102,780	63,862	38,918	93,574	54,827	38,747
Power generation	44,860	7,494	37,366	42,926	3,620	39,306
	<u>\$ 280,957</u>	<u>\$ 95,722</u>	<u>\$ 185,235</u>	<u>\$ 247,857</u>	<u>\$ 78,612</u>	<u>\$ 169,245</u>

5. RENTAL EQUIPMENT

	2003	2002
Cost	\$ 171,519	\$ 146,283
Less: Accumulated depreciation	63,543	56,764
	<u>\$ 107,976</u>	<u>\$ 89,519</u>

6. GOODWILL

Changes in the carrying value of goodwill were as follows:

	Equipment Group	Compression Group	2003 Total	2002 Total
Goodwill, beginning of year	\$ 13,000	\$ –	\$ 13,000	\$ 13,000
Goodwill acquired during the year	–	21,350	21,350	–
Goodwill, end of year	\$ 13,000	\$ 21,350	\$ 34,350	\$ 13,000

Goodwill is tested annually for impairment. The Company has performed the annual goodwill impairment tests and determined that there was no impairment to the carrying value of goodwill.

7. OTHER ASSETS

Other current assets and other long-term assets include \$3,773 (2002 – \$3,301) and \$17,037 (2002 – \$13,329) respectively, representing equipment sold directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase, at a predetermined residual value and date, in the event the customer decides not to retain the equipment or, in the case of a lease, not to purchase the equipment at the end of the lease term. In accordance with GAAP, such transactions that involve a repurchase undertaking by the Company, or other contingent obligation similar to the guarantee of lease residuals, are accounted for as capital leases, wherein revenue is recognized over the period extending to the date of residual value guarantee.

8. LONG-TERM DEBT

	2003	2002
Drawn on bank term facility (a)	\$ 50,511	\$ 30,000
Senior debentures (b)	100,000	100,000
Notes payable (c)	26,479	41,969
Total long-term debt	176,990	171,969
Less current portion	17,296	15,490
	\$ 159,694	\$ 156,479

All debt is unsecured.

(a) The Company maintains \$182 million (2002 – \$137 million) in bank credit, provided through committed credit facilities, \$175 million of which matures in 2007. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. At December 31, 2003, approximately \$50 million was drawn on these credit lines (2002 – \$30 million). Standby letters of credit issued utilized an additional \$16.2 million of the credit lines at December 31, 2003 (2002 – \$3.2 million).

(b) Terms of the senior and other debentures are:

- \$30 million, 8.17% senior debentures due September 18, 2008, interest payable semi-annually through September 18, 2004; thereafter, blended principal and interest payments through to maturity.
- \$45 million, 6.80% senior debentures due March 29, 2011, interest payable semi-annually through March 29, 2007; thereafter, blended principal and interest payments through to maturity.
- \$15 million, 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.
- \$10 million debenture maturing in 2010 bearing interest at prime plus 0.4%, monthly interest payments through to maturity.

(c) Notes payable mature from 2005 to 2008 and bear interest at rates ranging from 2.91% to 7.75%.

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

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

2004	\$ 17,296
2005	16,414
2006	7,018
2007	66,965
2008	17,638
2009 to 2019	51,659
	<u>\$ 176,990</u>

Interest expense includes interest on debt initially incurred for a term greater than one year of \$11,751 in 2003 (2002 – \$11,184).

9. SHARE CAPITAL

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

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

	2003		2002	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	31,727,573	\$ 97,329	32,097,473	\$ 97,367
Exercise of stock options	205,450	2,921	166,600	1,602
Purchase of shares for cancellation	(151,400)	(465)	(536,500)	(1,640)
Balance, end of year	31,781,623	\$ 99,785	31,727,573	\$ 97,329

10. FINANCIAL INSTRUMENTS

Hedging activities are contracted with Canadian Schedule A chartered banks as counterparties. There is no significant concentration of credit risk with counterparties.

Transactions are limited to the following:

Foreign Exchange Contracts

In the normal course of business, foreign exchange contracts and options are entered into with financial institutions to hedge US denominated obligations related to purchases of inventory and sales of products. Gains and losses arising from these contracts offset the losses and gains from the underlying hedged transactions. At December 31, 2003, contracts were outstanding to purchase US\$66,175 at an average rate of 1.35 (2002 – US\$44,552 at 1.57).

Interest Rate Swap Contract

An interest rate swap is held which converts \$30 million (2002 – \$30 million) of floating rate debt into fixed rate debt at 5.88%. This transaction is with a Canadian chartered bank and matures September 1, 2008. This swap partially offsets exposure to Canadian floating interest rates.

Fair Value of Financial Instruments

The following methods and assumptions have been used to estimate the fair value of the financial instruments:

- Accounts receivable and accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their near-term maturities;
- Long-term debt value is estimated based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities. The Company has no plans to prepay any of its long-term debt commitments prior to maturity;
- The interest rate swap reflects the present value of the potential loss if settlement were to take place at the balance sheet date; and
- Foreign exchange contracts are represented by the estimated amounts that the Company would receive or pay to settle the contracts at the balance sheet date.

The fair value and the carrying amount of the financial instruments as at December 31 is as follows:

	2003		2002	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Senior debentures	\$ 106,992	\$ 100,000	\$ 104,100	\$ 100,000
Notes payable	\$ 26,251	\$ 26,479	\$ 41,969	\$ 41,969
Foreign exchange contracts	\$ (3,257)	\$ –	\$ 523	\$ –
Interest rate swap contract	\$ (2,467)	\$ –	\$ (2,572)	\$ –

11. EXECUTIVE STOCK OPTION PLAN

Under the plan, options may be granted to certain employees for up to 2,920,000 common shares. Stock options have a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

A reconciliation of the outstanding options is as follows:

	2003		2002	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,375,200	\$ 16.09	1,281,500	\$ 14.06
Granted	290,560	21.35	278,200	21.27
Exercised	(205,450)	13.52	(166,600)	8.85
Forfeited	(12,400)	16.08	(17,900)	18.30
Options outstanding, end of year	1,447,910	\$ 17.51	1,375,200	\$ 16.09
Options exercisable at year-end	655,790	\$ 15.62	621,600	\$ 14.45

The following table summarizes stock options outstanding and exercisable at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$13.35 – \$16.53	893,900	2.6	\$ 15.14	600,820	\$ 15.08
\$20.55 – \$22.44	554,010	5.6	21.33	54,970	21.44
Total	1,477,910	3.7	\$ 17.51	655,790	\$ 15.62

The intrinsic value method is used to account for stock options. Had the cost of the stock-based compensation been recognized based on the estimated fair value of stock options granted, results would have been as follows:

		2003	2002
Net earnings	As reported	\$ 60,230	\$ 41,375
	Pro-forma	\$ 58,693	\$ 40,457
Basic earnings per share	As reported	\$ 1.90	\$ 1.29
	Pro-forma	\$ 1.85	\$ 1.26
Diluted earnings per share	As reported	\$ 1.88	\$ 1.28
	Pro-forma	\$ 1.83	\$ 1.25

The fair value of each stock option granted is estimated on the date of grant. The weighted average fair value price of options granted during the year was \$21.35 (2002 – \$21.27). The fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions:

	2003	2002
Expected life of options (years)	5.4	5.1
Expected stock price volatility	34.0%	36.0%
Expected dividend yield	1.9%	1.7%
Risk-free interest rate	4.2%	4.6%

12. EMPLOYEE FUTURE BENEFITS

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

Approximately 10% of participating employees, consisting principally of the personnel of one subsidiary, are included in defined benefit plans. Pension benefit obligations under the defined benefit plans are determined periodically by independent actuaries and are accounted for using the accrued benefit method using a measurement date of December 31. The defined benefit plans also include a non-contributory pension arrangement for certain senior executives which includes a supplementary retirement plan that accommodates the portion of the benefit obligation in excess of that funded under the Registered Plan.

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

	2003	2002
ACCRUED BENEFIT OBLIGATIONS		
Balance, beginning of year	\$ 44,906	\$ 41,790
Service cost	1,938	1,738
Interest cost	2,915	2,864
Actuarial loss	1,626	690
Benefits paid	(2,431)	(2,176)
Balance, end of year	\$ 48,954	\$ 44,906
PLAN ASSETS		
Fair value, beginning of year	\$ 35,028	\$ 34,853
Actual return on plan assets	3,878	(82)
Company contribution	2,042	1,877
Participant contribution	569	556
Benefits paid	(2,431)	(2,176)
Fair value, end of year	\$ 39,086	\$ 35,028
FUNDED STATUS OF THE PLANS		
Unrecognized actuarial loss	\$ 9,868	\$ 9,878
	(4,861)	(4,703)
Accrued net pension liability	\$ 5,007	\$ 5,175

The accrued net pension liability of \$5.0 million includes a \$2.6 million prepaid pension asset related to the subsidiary plan. It also includes a \$7.6 million liability related to the defined benefit plan for senior executives and the supplementary portion of the liability that exists outside of the registered plan. The Company expenses the costs of these plans with cash funding limited to the maximum amount according to pension regulations.

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

	2003	2002
Discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

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

	2003	2002
Defined benefit plans		
Service cost	\$ 1,369	\$ 1,182
Interest cost	2,915	2,864
Expected return on plan assets	(2,411)	(2,441)
Defined benefit expense	1,873	1,605
Defined contribution plans	3,920	2,863
401(k) matched savings plan	358	403
Net expense	\$ 6,151	\$ 4,871

13. INCOME TAXES

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

	2003	2002
Current income tax expense	\$ 32,608	\$ 25,309
Future income tax (recovery)/expense	(1,319)	1,009
Total income tax expense	\$ 31,289	\$ 26,318

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

	2003	2002
Statutory Canadian federal and provincial income tax rates	36.6%	38.6%
Expected taxes on income	\$ 33,514	\$ 26,143
Increase (decrease) in income taxes resulting from:		
Lower effective tax rates at foreign subsidiaries	(101)	(33)
Manufacturing and processing rate reduction	(657)	(523)
Large corporation tax	298	(131)
Non-taxable gains	(110)	(129)
Tax benefit of losses not previously recognized	(1,406)	–
Effect of income tax rate changes	950	(306)
Other	(1,199)	1,297
Provision for income taxes	\$ 31,289	\$ 26,318
Effective income tax rate	34.2%	38.9%

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

	2003	2002
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	\$ 8,475	\$ 8,323
Deferred revenue	6,498	4,653
Accounts receivable	1,739	1,577
Inventories	(4,050)	(3,392)
	\$ 12,662	\$ 11,161
NON-CURRENT FUTURE INCOME TAX LIABILITIES		
Capital assets	\$ 12,770	\$ 7,328
Other	(3,032)	(2,181)
	\$ 9,738	\$ 5,147

14. BASIC AND DILUTED EARNINGS PER COMMON SHARE

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

	2003	2002
Net earnings available to common shareholders	\$ 60,230	\$ 41,375
Weighted average common shares outstanding	31,703,792	32,127,460
Dilutive effect of stock option conversion	418,034	315,695
Diluted weighted average common shares outstanding	32,121,826	32,443,155
Basic earnings per common share (\$)	\$ 1.90	\$ 1.29
Dilutive effect of stock option conversion (\$)	(0.02)	(0.01)
Diluted earnings per common share (\$)	\$ 1.88	\$ 1.28

15. COMMITMENTS

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

2004	\$ 5,675
2005	4,468
2006	3,363
2007	1,892
2008	1,245
2009 and thereafter	3,013
	\$ 19,656

16. SEGMENTED INFORMATION

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

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

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

	Equipment Group		Compression Group		Consolidated	Consolidated
	2003	2002	2003	2002	2003	2002
Revenues	\$ 835,326	\$ 759,665	\$ 464,063	\$ 317,265	\$ 1,299,389	\$ 1,076,930
Operating income	\$ 59,970	\$ 46,907	\$ 42,157	\$ 27,922	\$ 102,127	\$ 74,829
Interest expense					13,276	11,366
Interest and investment income					(2,668)	(4,230)
Income taxes					31,289	26,318
Net earnings					\$ 60,230	\$ 41,375
Identifiable assets	\$ 578,223	\$ 573,382	\$ 268,698	\$ 155,053	\$ 846,921	\$ 728,435
Corporate assets					9,255	43,467
Total assets	\$ 578,223	\$ 573,382	\$ 268,698	\$ 155,053	\$ 856,176	\$ 771,902
Capital expenditures	\$ 53,344	\$ 33,571	\$ 19,578	\$ 19,471	\$ 72,922	\$ 53,042
Depreciation	\$ 32,258	\$ 32,771	\$ 7,165	\$ 3,881	\$ 39,423	\$ 36,652

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

	2003	2002
Revenues		
Canada	\$ 1,146,969	\$ 911,100
United States	97,015	143,355
International	55,405	22,475
	\$ 1,299,389	\$ 1,076,930
Capital assets and goodwill		
Canada	\$ 320,052	\$ 262,150
United States	7,509	9,614
	\$ 327,561	\$ 271,764

17. ECONOMIC RELATIONSHIP

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

TEN YEAR FINANCIAL REVIEW

Years ended December 31 (\$ thousands except where otherwise indicated)	2003 ⁽¹⁾	2002	2001 ⁽²⁾
OPERATING RESULTS			
Revenues	1,299,389	1,076,930	911,005
Net earnings from continuing operations	60,230	41,375	43,700
Unusual items	—	—	—
Net earnings	60,230	41,375	43,700
Net interest (income) expense	10,608	7,136	(6,913)
Depreciation	39,423	36,652	34,369
Capital expenditures	72,922	53,042	77,394
Dividends declared	13,319	11,541	10,646
FINANCIAL POSITION			
Working capital	203,577	213,222	218,132
Capital assets	293,211	258,764	252,104
Total assets	856,176	771,902	720,702
Long-term debt	159,694	156,479	171,970
Shareholders' equity	376,837	335,316	314,248
FINANCIAL RATIOS			
Working capital	1.7:1	1.8:1	2.0:1
Return on opening shareholders' equity (%)	18.0	13.2	17.1
Total debt net of cash to shareholders' equity	.5:1	.4:1	.5:1
PER SHARE DATA (\$)			
Earnings from continuing operations	1.90	1.29	1.42
Unusual items	—	—	—
Net earnings	1.90	1.29	1.42
Dividends declared	0.42	0.36	0.34
Book value	11.86	10.57	9.79
Shares outstanding at year end	31,781,623	31,727,573	32,097,473
Price range			
High	33.45	26.50	26.20
Low	19.76	18.50	15.25
Close	33.05	20.65	20.47

Notes

(1) Includes the results of Energy Industries from January 1, 2003.

(2) Includes the results of Powell Equipment Limited from July 1, 2001.

(3) Includes the results of Newfoundland and Labrador Caterpillar Dealership from November 1, 1996.

2000	1999	1998	1997	1996 ⁽³⁾	1995	1994
800,464	723,937	683,482	684,716	542,477	496,648	416,489
32,345	32,057	28,242	25,674	21,905	19,521	17,336
–	–	9,946	35,159	–	–	–
32,345	32,057	38,188	60,833	21,905	19,521	17,336
3,797	(1,774)	1,910	2,424	5,213	3,061	3,651
26,900	15,898	14,900	11,667	10,327	6,772	6,334
57,968	52,146	36,307	29,627	20,632	9,373	22,004
9,257	8,213	7,650	5,859	4,382	3,757	2,312
165,098	183,922	144,109	138,458	96,294	71,001	63,660
206,526	138,499	106,628	84,831	68,132	34,179	31,772
613,787	531,201	442,972	434,341	318,287	262,616	211,531
157,187	120,000	60,000	60,000	60,806	41,240	42,625
218,213	203,062	183,596	155,821	100,305	79,680	64,460
1.7:1	1.9:1	1.8:1	1.7:1	1.6:1	1.5:1	1.6:1
15.9	17.5	24.5	60.6	27.5	30.3	35.4
.7:1	.6:1	.3:1	.4:1	.6:1	.5:1	.7:1
1.12	1.09	0.96	0.88	0.75	0.68	0.60
–	–	0.34	1.20	–	–	–
1.12	1.09	1.30	2.08	0.75	0.68	0.60
0.32	0.28	0.26	0.20	0.15	0.13	0.08
7.53	6.93	6.23	5.30	3.43	2.76	2.23
28,975,698	29,288,098	29,458,210	29,398,868	29,268,268	28,878,168	28,900,168
20.75	19.90	23.00	18.40	13.63	8.63	6.69
13.80	13.75	14.25	12.68	7.13	5.56	4.10
17.50	16.25	15.75	16.50	13.38	7.38	6.69

GOVERNANCE OVERVIEW

Maintaining a strong and effective corporate governance program continues to be a principal priority for Toromont. The Corporate Governance Committee, on behalf of the Board, maintains the governance program and monitors 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 includes the activities of the Board of Directors, which is elected by and are accountable to the shareholders, and the activities of management who are appointed by the Board and charged with the day-to-day management of the Company.

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

Management and the Board are committed to strong corporate governance practices. The Company's corporate governance program is in compliance with the Toronto Stock Exchange ("TSX") Guidelines for Corporate Governance.

BOARD OF DIRECTORS

The role of the Board of Directors, its activities and responsibilities are documented and are regularly assessed, as are the terms of reference for each of the committees of the Board, for the Lead Director, for the Executive Chairman and for the President and Chief Executive Officer, inclusive of the 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 Executive Chairman or in situations where the Executive Chairman is not available. The Lead Director is available to counsel the Executive Chairman on matters appropriate for review in advance of discussion with the full Board of Directors. The Lead Director chairs a session at each Board meeting during which only independent directors are present.

COMMITTEE STRUCTURE AND MANDATES

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

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

The 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 the 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 also 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, and consultation with the auditors independent of management.

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 the performance of the Executive Chairman of the Board and the President and Chief Executive Officer, succession planning and executive development. The Committee also oversees compliance with the Company's Code of Business Conduct and the health, safety and environment program.

A comprehensive report on Corporate Governance with reference to each of the TSX Guidelines is contained in the Company's Management Information Circular.

BOARD OF DIRECTORS AND OFFICERS



(left to right)

1 HUGO T. SØRENSEN

Mr. Sørensen is President and Chief Executive Officer of the Company. Mr. Sørensen joined the Company as President in March 1997 and was President and Chief Operating Officer from 1998 to 2002, at which time he was appointed President and Chief Executive Officer.

2 RONALD G. GAGE, FCA ■●

Chairman, Corporate Governance Committee

Mr. Gage, a Fellow of The Institute of Chartered Accountants of Ontario, was Chairman and Chief Executive officer of Ernst & Young LLP, Canada from 1993 to 1999. He is a director of AIM Canada Fund Inc., AIM Global Fund Inc. and RTO Enterprises Inc. Mr. Gage is also a member of the Canadian Public Accountability Board.

3 JOHN S. MCCALLUM ■●

Lead Director and Chairman, Audit Committee

Mr. McCallum is a Professor of Finance in the Faculty of Management at the University of Manitoba. He is also a director of Investors Group Inc., Investor Syndicate Ltd., Wawanesa Mutual Insurance Company, Wawanesa General Insurance Company, Wawanesa Life Insurance Company and Fortis Inc.

4 H. STANLEY MARSHALL ▲

Mr. Marshall is President and Chief Executive Officer and a director of Fortis Inc. and all of its subsidiaries (an international electric utility holding company).

5 WAYNE S. HILL

Mr. Hill is Executive Vice President and Chief Financial Officer and Secretary of the Company. Mr. Hill joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President of the Company in February 2002.

6 ROBERT M. FRANKLIN ●▲

Chairman, Human Resources and Compensation Committee

Mr. Franklin is Chairman of the Board and a Director of Placer Dome Inc. (an international gold mining company). He also serves on the Board of Directors of ELI Eco Logic Inc., Call-Net Enterprise Inc., Great Lakes Carbon Corporation and Serica Energy Corporation.

7 ROBERT M. OGILVIE

Mr. Ogilvie is Executive Chairman of the Board. He joined Toromont as President in 1985 and was Chairman, President and Chief Executive Officer of the Company from 1987 to March 1997. Mr. Ogilvie was Chairman and Chief Executive Officer of the Company from March 1997 to January 2002, at which time he became Executive Chairman of the Board. Mr. Ogilvie is also the Chairman of the National Advisory Council of Mount Allison University, New Brunswick.

8 DAVID A. GALLOWAY ■▲

Mr. Galloway was President and Chief Executive Officer of Torstar Corporation from 1988 until his retirement in May 2002. He is Chairman of the Board of Trustees for the Hospital for Sick Children. Mr. Galloway's current directorships include Bank of Montreal, Bankmont Financial Corp., E.W. Scripps Company and Hudson's Bay Company.

OFFICERS

Robert M. Ogilvie
Executive Chairman

Hugo T. Sørensen
President and Chief Executive Officer

Wayne S. Hill
Executive Vice President and Chief Financial Officer

William E. Martin
Vice President, Finance

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

CORPORATE INFORMATION

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General Manager

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D.F. Duncan
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I. Heidecker
Vice President

ANNUAL MEETING

The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 a.m. on Wednesday, April 14, 2004 in the Auditorium, Toronto Stock Exchange Conference Centre The Exchange Tower 130 King Street West Toronto, Ontario

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HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR

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CIBC Mellon Trust

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Toronto, Ontario M5H 4A6

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COMMON SHARES

Listed on The Toronto Stock Exchange

Stock Symbol – TIH

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