PEOPLE POWERED
DISCIPLINE DRIVEN
2006 ANNUAL REPORT

TOROMONT










TOROMONT INDUSTRIES LTD. EMPLOYS APPROXIMATELY 4,400 PEOPLE IN OVER 115 LOCATIONS, PREDOMINANTLY IN CANADA AND THE UNITED STATES. OUR DIVIDEND-PAYING COMMON STOCK IS LISTED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL TIH. WE SERVE OUR CUSTOMERS THROUGH TWO BUSINESS GROUPS: EQUIPMENT AND COMPRESSION.

EQUIPMENT GROUP

Within Equipment we sell, rent and service a broad range of mobile equipment and industrial engines through our Caterpillar dealership and Battlefield – The CAT Rental Store in Ontario, Manitoba, Newfoundland, eastern Labrador and Nunavut.

Estimated Market: $5 billion
Drivers: GDP in our markets, interest rates, commodity prices, infrastructure and other development spending.
Opportunities: Product support growth, increased penetration of markets, new product offerings, new territories.
Strengths: Strong product offering with brand name recognition, proximity to market through branch locations, value-added services for product support and maintenance.

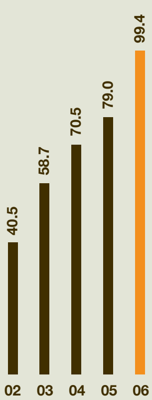
COMPRESSION GROUP

Within Compression our core business is to design, engineer, fabricate, install and service natural gas and process compression systems through Toromont Energy Systems, and industrial and recreational refrigeration compression systems through CIMCO Refrigeration.

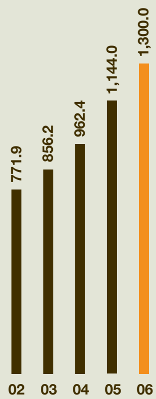
Estimated Market: $11 billion
Drivers: Natural gas prices, global GDP, capital spending in gas processing, CO_2, recreational, industrial and other markets.
Opportunities: U.S. market penetration, product support growth, coal-bed methane, CO_2, international markets.
Strengths: Value-added engineering, strategic fabrication capabilities in U.S. and Canada, branch coverage, international project management, strong alliances and product representation.

FINANCIAL HIGHLIGHTS

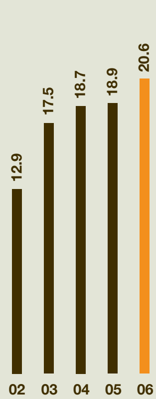
NET EARNINGS
($ MILLIONS)



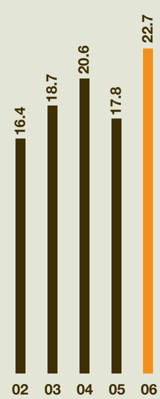
TOTAL ASSETS
($ MILLIONS)



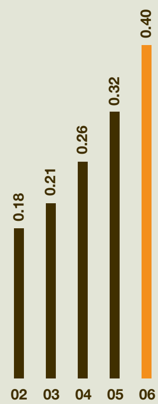
RETURN ON EQUITY
(%)



RETURN ON CAPITAL EMPLOYED
(%)



DIVIDENDS PER SHARE
($)



FOR OVER TWO DECADES, WE HAVE BUILT ON OUR CORE STRENGTHS: OUR PEOPLE, OUR BUSINESS MODEL, OUR DISCIPLINED EXECUTION, AND A FOCUS ON PROGRESSIVE IMPROVEMENT AND LONG-TERM PERFORMANCE. THE POWER OF THIS APPROACH IS CLEAR: OVER THE LAST 20 YEARS, OUR RETURN ON EQUITY HAS AVERAGED 21% AND WE HAVE ACHIEVED COMPOUND ANNUAL GROWTH IN REVENUE AND EARNINGS OF 19% AND 28% RESPECTIVELY. WE HAVE PAID DIVIDENDS EVERY YEAR SINCE GOING PUBLIC IN 1968 AND 2006 MARKED THE 17TH CONSECUTIVE YEAR OF DIVIDEND INCREASES. TOTAL RETURN TO SHAREHOLDERS WITH DIVIDENDS REINVESTED WAS 25% OVER THE LAST 20 YEARS. 2006 RESULTS AGAIN DEMONSTRATE THE DEDICATION OF OUR PEOPLE AND THE DISCIPLINE WE APPLY IN MANAGING OUR RESOURCES.

DEAR FELLOW SHAREHOLDERS

OUR VISION IS CLEAR. OUR GOAL IS STRAIGHTFORWARD – TO PROVIDE SUPERIOR RETURNS TO SHAREHOLDERS OVER THE LONGER TERM.

ROBERT M. OGILVIE
Chairman and Chief Executive Officer

We are pleased to report that Toromont had another excellent year. Every business unit delivered stronger results. Revenues were up 10% and earnings were 26% higher.

PERFORMANCE

Toromont's people powered another outstanding year in 2006, featuring record financial performance by the Compression and Equipment segments. We are extremely proud of their efforts.

- Consolidated revenues increased 10% over 2005 to $1.8 billion, representing the 14th consecutive year of growth.
- Compression Group revenues were 13% higher to $777 million in 2006. The Equipment Group was ahead 8% to $988 million.
- Net earnings were $99.4 million or $1.56 per share, up 26% and 25% respectively compared to 2005. Higher operating margins were a result of productivity gains throughout the organization that were most evident in the fourth quarter and in the U.S. Compression operations.

2006 results demonstrated the financial disciplines that have been the hallmark of our Company.

- Return on shareholders' equity was 20.6% – the 15th year in the past 20 that it has exceeded 15%.
- Dividends increased for the 17th straight year to $0.40 per share; 2006 marked the 38th consecutive year of dividend payments.
- Total return to shareholders, assuming reinvestment of dividends, was 21% over the past five years and 25% over the past 20 – representing 8% and 15% premiums to the TSX respectively.
- Total debt, net of cash, to shareholders' equity was only 0.36:1.

IMPORTANT DEVELOPMENTS

Toromont's exceptional financial performance reflects the efficiencies driven by years of investment in our businesses. In the last five years, more than $360 million has been invested in our operations by way of capital expenditures. In 2006 we invested more than $100 million in our shops, rental assets, customer support infrastructure, e-commerce and other information technology to better position our Company in our core markets.

During the past year we:

- increased our packaging and product support capabilities in the diverse and expanding gas compression market in the United States through the purchase of a business in Wyoming and subsequent doubling of its plant capacity, doubling the size of our Houston plant and increasing market coverage of gas compression in the southern states and offshore markets. The Houston-based gas compression activities represented $50 million of incremental revenues in 2006. Inclusive of our Wyoming business, revenues from the sale of natural gas compression packages in the United States exceeded $100 million.
- expanded our Sudbury Toromont CAT branch and remanufacturing operations as part of our commitment to the growing mining sector.
- opened two new Battlefield – The CAT Rental Stores, bringing our total store count to 33, invested in new fleet, along with other rental support assets and

marketing activities that drove 14% growth in revenues from equipment rental and sales at Battlefield.

- commissioned our comprehensive new business system throughout the Toromont Energy Systems organization that significantly enhances our quotation, material procurement, production and project management processes.

A PEOPLE-POWERED CULTURE

Toromont's strength is built upon high-quality relationships.

For shareholders, our duty is to safeguard your investment and operate in a manner that provides a healthy return, within the context of full compliance with all laws and the social and environmental welfare of our communities.

For customers, our success is tied directly to your accomplishments. Only when you succeed, do we. This means working hard and smart to provide value for money.

For suppliers and partners, you are valued allies, vital to the growth and success of Toromont.

For employees, we seek to build a fair, progressive and high performance culture. We expect you to perform, as always, with honesty, integrity and dedication.

These relationships, based on shared expectations and trust, have served our shareholders and customers well over many years.

Newcomer and veteran alike, each employee appreciates that we will strive to provide a competitive pay-for-performance compensation program, create a safe working environment and ensure equal opportunity. Planning employee development and progression are critical to us and whenever possible, we promote from within.

Leadership is also imperative. Our decentralized business structure requires that our divisional leaders take full responsibility for their performance. This accountability encourages each business to focus on the products and services that bring real and enduring value to their customers and is an important factor underlying the success that we have enjoyed for years. To ensure the full power of our people is realized, we look to our seven presidents within our two business Groups, to nurture and sustain an environment that enables employees to develop, compete aggressively and achieve their full potential.

We congratulate all 4,400 members of the Toromont team for creating a culture of pride, prudence and leadership that has provided our Company with a defining business advantage.

NEW MANDATES

People power is also reflected in the many exciting new customer mandates received in 2006, including the largest in our history – a $100 million order to supply compression systems to the Rockies Express Pipeline LLC. This project will incorporate CM-34 Caterpillar engines – the largest reciprocating engines we have ever installed in a transmission line – as well as the largest compressors made by Ariel to move natural gas from producing regions in Colorado into Ohio. We expect to make our first deliveries in late 2007, continuing into 2008.

The Equipment Group won several significant orders, including the multi-year supply of machines and power systems for Ontario's first diamond mine. We began to deliver product to the De Beers Canada Victor Mine in 2006, will continue to do so through early 2008, and will support installations with an on-site parts and service depot opening in 2007. We have over 160 underground mining machines working in our territory, the largest CAT underground fleet in North America and the fourth largest CAT underground fleet in the world. We have recently received a large order for 24 underground mining units for delivery in 2007, along with a multi-year service arrangement on this equipment.

"Toromont has distinguished itself by its long-term performance. Over the past 20 years, compound annual growth in shareholder returns of 25% place Toromont very near the top amongst TSX-listed companies."

"Dividends are an important component of shareholder returns and an equally important management discipline. On this front, Toromont's record is matched by very few Canadian companies."

Toromont secured the distribution rights to represent Caterpillar's MaK-branded marine prime propulsion engines and generator sets within the Great Lakes region. MaK bookings for deliveries through 2009 now total over $35 million.

Toromont refrigeration equipment will again be prominent on the Olympic scene, with several orders received for the 2010 Vancouver Olympic Games. Other highlights included contracts for NHL-style ice rinks, electric power projects in the wastewater treatment, hospital and data sectors, along with a large order for supply of an amine plant in the natural gas sector.

DISCIPLINE DRIVEN

People power is an important ingredient in the success of our company, but it is not just effort that makes the difference. Success is the result of empowering our people to grow Toromont in a disciplined, shareholder-focused fashion.

Discipline starts with accountability at the operating level for the achievement of Return on Capital Employed (ROCE) targets that support our broader goal for superior Return on Equity. We review and set capital requirements at the beginning of each year for each of our businesses, allocating debt and equity based on assessment of growth and return opportunities within each. Return hurdles are similarly reset and tied into variable compensation components for each entity.

ROCE is the primary measure of operating results, but it is not the only performance metric. Each of our businesses is responsible for meeting various other objectives in vital areas such as employee health and safety, succession, market share and growth.

These objectives have a multi-year focus. We manage Toromont for the long term. We believe that long-range business planning, backed by long-term decision-making and full accountability for actions taken are absolutely critical disciplines that make Toromont a better company.

THE DISCIPLINE OF OWNERSHIP

The most fundamental way to power our people to act in a shareholder focused, discipline-driven fashion is to encourage employee share ownership. Share ownership is a necessary requisite for our senior management and criteria for participation in the share option program. Today, senior management and Directors own 3.4 million Toromont shares. Each of our business unit presidents and their direct reports is a significant owner, as are all Directors. With pride and personal wealth on the line every day, management discipline is assured.

THE DISCIPLINE OF DIVIDENDS

Dividends are an important component of shareholder returns and an equally important management discipline. On this front, Toromont's record is matched by very few Canadian companies. Toromont has never failed to make a dividend payment since going public in 1968. Inclusive of our recent action (your Board announced a 20% increase in the annual dividend to $0.48 per share, effective with the dividend payable on April 2, 2007 to shareholders of record on March 16, 2007), dividend increases have averaged 17% annually for the past 10 years.

DRIVING DISCIPLINE IN 2007

In 2007, we will continue to apply these and other disciplined actions, as we have for the past two decades. We will also work within our business model of selling specialized capital equipment with significant after sales product support opportunities. In most of our businesses we are the market leader. In the others, we are striving mightily to get there. We believe that if we are best in class in terms of people, value offered, after sales support, information technology, financial depth and customer relationships, then we can steadily grow market share, the key determinant of growth, sustainability and profitability.

In addition to growth in existing markets we continually search for opportunities to:

- improve productivity
- enter new markets
- expand our product support operations
- broaden product offerings
- increase differentiation

Growth will be heavily weighted to the North American markets where we believe that more predictable and profitable results can be realized. This renewed focus on core markets with diverse growth drivers, should position us very well for the future.

CAPITAL MANAGEMENT DISCIPLINE

We have long believed that a strong balance sheet, featuring modest leverage, is important to stability and is a major competitive advantage. With a net debt to equity ratio averaging less than 0.5:1 over many years, we have embraced the financial discipline that is required to sustain this advantage. We clearly have substantial room to finance expansion and larger acquisitions.

While there will be no fundamental change in our disciplined capital management, we have room to improve. We are focusing on improving inventory turns and collection cycles.

DISCIPLINE DRIVEN GOVERNANCE

We benefit greatly from the perspective and advice provided by our Directors. Indeed, we believe that the quality of our Board is one of our business advantages. They are knowledgeable in the affairs of the Company, disciplined and principled in their conduct. Each is a proven leader in his own right and we regularly draw from this leadership to make Toromont a better company.

IN TRIBUTE

We were saddened by the passing of David F. Duncan, President of Toromont Energy Systems, in March 2006. David was an important and long-standing member of our management team and was a key driver in the incredible success and growth of our Compression operations. He was a friend.

APPRECIATION

During 2006, we accepted the resignation of Hugo T. Sørensen as President & Chief Executive Officer and as a director of the Company. We acknowledge Hugo's contribution to the success of Toromont and wish him the very best in future endeavours.

LOOKING FORWARD

We are well positioned in each of our markets and have good growth prospects. We believe that our existing businesses can increase revenues at an average annual rate of 10% over the longer term. As always, we expect to accomplish this with increasing profitability.

Following on a very strong fourth quarter in 2006, we had excellent momentum entering 2007, in terms of backlog (at record levels) and prospects. The slower demand experienced in our Canadian natural gas compression packaging segment in the second half of 2006 continues, with high natural gas inventories, lower prices and weaker drilling activity suppressing market enthusiasm. In contrast, demand for gas packages in the United States and for other compression products and services on both sides of the border, remains strong. Prospects of a slower economy in central Canada have not yet resulted in weaker demand in our Equipment segment, as soft spots in residential housing have been more than offset by continuing growth in other core markets such as mining and infrastructure. Equipment Group order backlogs entering 2007 are the largest in our history.

We are proud to be associated with Caterpillar, one of the world's great business success stories. We support Caterpillar's *Vision 2020* – a strategy to grow and enhance the value of this global company and we expect to be a significant beneficiary.

In closing, I sincerely thank all members of the Toromont family – shareholders, customers, employees and partners – for your enduring trust and highly valued support and contribution.

We look with confidence to the future, knowing that we have the financial strength, the discipline and the people power to sustain Toromont's record of top tier performance.

On behalf of the Board of Directors,

ROBERT M. OGILVIE
Chairman of the Board and
Chief Executive Officer

"We are proud to be associated with Caterpillar, one of the world's great business success stories. We support Caterpillar's *Vision 2020* – a strategy to grow and enhance the value of this global company and we expect to be a significant beneficiary."

MEASURED

TOROMONT'S TRACK RECORD OF GENERATING A CONSISTENTLY STRONG RATE OF RETURN ON EQUITY IS THE RESULT OF A DISCIPLINED AND MEASURED APPROACH TO CAPITAL ALLOCATION WITHIN EACH OF OUR BUSINESS GROUPS.

SCOTT MEDHURST
President, Equipment Division, Toromont CAT

"We will continue to focus our attention to detail while unleashing the spirit of our people. This means employing specific strategies to increase our share of selected growth markets and improve our effectiveness. Most fundamentally, it involves coaching, protecting, incenting and empowering our team to advance our leadership for the long term."

TOROMONT'S BUSINESS UNITS SUPPLY SPECIALIZED CAPITAL GOODS AND PROVIDE AFTER SALES PRODUCT SUPPORT ON THOSE PRODUCTS. THIS IS THE TIE THAT DEFINES OUR BUSINESS MODEL. WHILE THE SUPPLY OF CAPITAL GOODS DEFINES OUR INDIVIDUAL BUSINESS UNITS, IT IS THE SUPPLY OF CAPITAL THAT DEFINES TOROMONT. WE SUCCEED WHEN WE APPLY CAPITAL SMARTLY IN SUPPORT OF WELL-DEFINED FINANCIAL TARGETS.

CAPITAL ALLOCATION AND MANAGEMENT

It takes discipline to manage a high performance business and this begins with consistent adherence to meaningful financial benchmarks. For many years, Toromont has used two key measures to guide capital allocation decisions: Return on Equity (ROE) and Return on Capital Employed (ROCE).

Historically we have sought 15% ROE over the business cycle as a target. More recently, reflecting our desire to pick up the pace, we have increased this goal to 18%.

We translate this expectation into ROCE targets for each business unit that varies from a low of 17% in more capital intensive rental operations to a high of 25% for certain segments of the Compression business – taking into consideration conservative leverage, growth prospects, capital intensity of the business unit and other key factors. Using these primary measures as the "bottom line" for evaluating progression is one of the distinguishing characteristics of Toromont.

Specific capital allocation decisions are not made centrally. Once strategic plans are established, deployment decisions are made by our divisional Presidents, after giving consideration to market opportunities, prospects and customer requirements.

Empowering our business leaders in this way recognizes that they are best equipped to know where, when and how much capital is required to provide the best returns.

By following this measured "people powered, discipline driven" approach, our businesses have generated superior rates of return over the long term by allocating capital to our:

- service and support infrastructure
- branch and store networks
- equipment inventories
- rental fleets
- industry-leading information technology resources
- employee development programs

The photographs page left were chosen to highlight investments made in 2006 as a result of the capital allocation decisions of our divisional Presidents. The bottom left shows a new Battlefield store in Barrie, and centre, expanded Compression operations in Houston. The centre left shows a technician at work in Toromont CAT's remanufacturing operations, and centre right, a Toromont Energy Systems natural gas compression rental unit, part of an expanded fleet.

A measured approach also guides acquisitions, such as the strategic purchase of 40,000 sq. ft. of production capacity in Wyoming for fabrication of compression equipment for the growing and important U.S. natural gas market.

An equally important discipline is to withdraw capital. We do not shy away from this task, seeing it as a necessary aspect of managing a growth company that serves ever-changing industries.

Our measured approach also extends to capital management. As a result, our capital structure is solid (0.36:1 net debt to equity ratio at December 31, 2006), our BBB credit rating is stable, and we continue to rely on cash flow generated from operations as the principal source of liquidity.

With a strong balance sheet and a disciplined formula for deploying capital, Toromont is ready for a high performance future.

RANDY CASSON
President, Battlefield – The CAT Rental Store

"Industry forecasts suggest 50% of all equipment will enter the market through the rental channel by 2010. Our existing store network plus our strategic expansion plan position Battlefield well to meet expected demand, with a clear emphasis on high-value segments. In 2007, a new system will be implemented to improve our core rental process and support our disciplined approach to profitable growth."

COMMITTED

TOROMONT'S FUTURE WILL BE POWERED BY OUR PEOPLE, SO IT STANDS TO REASON THAT WE USE FORMAL PROGRAMS TO ADVANCE THE SKILLS OF OUR EMPLOYEES AND ENSURE THEIR LONG-TERM COMMITMENT TO SHAREHOLDERS AND CUSTOMERS.

JERRY FRAELIC
President, U.S. Operations, Toromont Energy Systems

"U.S. compression is a core growth market and over the past three years, we have established a firm foundation to serve it. We have substantially increased our human resources and product offerings, the keys to success. This has strengthened our profile with the largest players, particularly in the pipeline and storage segments. All of this bodes well for continued rapid progress."

WE STRIVE TO CONTINUE TO BUILD OUR HIGH PERFORMING TEAM. THIS MEANS INVESTING IN OUR RESOURCES IN A DISCIPLINED MANNER SO THAT WE HAVE THE RIGHT PEOPLE IN THE RIGHT PLACES TO DRIVE RESULTS THAT MAKE THE DIFFERENCE.

Setting the stage for high performance begins at the top, with an enduring focus on achieving our key objectives: Return on Capital Employed, Return on Equity and earnings' growth.

To ensure executive commitment to these objectives, Toromont uses a compensation-at-risk approach. Incentives are only earned when we meet rigorous targets.

We also expect our business leaders to be shareholders. As a result, our executives and directors collectively own 3.4 million Toromont shares and all senior leaders are owners. Nothing brings greater focus to performance metrics that matter to shareholders than being shareholders ourselves. We also encourage employee ownership. In 2006, 1,100 employees, or approximately 25% of our team, participated in our share purchase plan.

Our most significant investments are not made at the top. Our strategies, operations and future rest in the capable hands of our employees. By continuously enhancing their potential, we enhance Toromont's potential to perform.

INVESTING IN PEOPLE

Reflecting our desire to have the best team in our industry, we make serious human capital investments. In 2006, we committed to developing the talent of our supervisors by launching "Coaching for High Performance." This ambitious effort gives over 200 supervisors additional strategies to improve their leadership effectiveness. We also launched professional "SalesPro" training to ensure we lead in satisfying rapidly evolving customer requirements, increasing loyalty in the process. SalesPro will teach contemporary sales practices to over 140 participants within Toromont CAT. Similar training investments are also being made at Toromont Energy Systems to help our team meet the demands of rapid growth and at CIMCO to enhance our technical skills.

Each of these investments is well structured and focused to develop defined employee skills, behaviours and customer orientation to support the continued achievement of objectives.

One of the ways we measure the success of these investments is employee progression. Our ability to develop our own leaders has been a major determinant of Toromont's success to date. Two of our business unit presidents are graduates of Toromont's management trainee program – Scott Medhurst in 1988 and Randy Casson in 1977. Today Toromont leaders are enrolled and progressing in programs across our organization, photo bottom left.

Another vital aspect of building a high performance team is listening to what our employees think and acting on their suggestions. This is of utmost importance because we have great people and they have great ideas. As a catalyst for formal feedback and improvement, we benchmark our practices through annual, independently conducted employee attitude surveys. This is just part of a collective effort to keep the lines of communication open and healthy.

OUR HEALTH AND SAFETY

For everyone at Toromont, workplace health and safety is of primary concern. As a result of this ongoing focus, we reduced our lost time injury frequency rate by 22.6% in 2006 over 2005. Until there are no injuries, we take no satisfaction. We commit to making our Company the safety leader in our industries, have enshrined this objective on page 1 of our Code of Business Conduct and live it every day. Specific strategies populate each division's annual business plan. Within our largest divisions for example, Toromont CAT introduced a new "Safety Playbook", photo top right, a compendium of safety processes and procedures in 2006; Battlefield's Safety Awareness Program continued to evolve aggressively with seven regional trainers providing employee and customer training on safe equipment operation; and Toromont Energy Systems' continuous improvement effort was focused on reductions in injuries and accidents – areas where our statistics are "best-in-industry" – and the provision of a safe workplace for employees, customers and suppliers.

IVAN HEIDECKER
President, Canadian Operations, Toromont Energy Systems

"The activation of a new material and job cost management system and the recent realignment of resources into four market-specific groups support a higher standard of performance across our geographically diversified operations. These initiatives will make us more nimble, efficient and effective in serving multiple growth opportunities as a discipline-driven business."

FOCUSED

A WORLD OF OPPORTUNITIES AWAITS TOROMONT. THIS IS THE ADVANTAGE WE ENJOY BECAUSE OF THE BREADTH OF OUR PRODUCT LINES AND ABILITY TO APPLY THEM TO DIVERSE INDUSTRIAL MARKETS. AT THE SAME TIME, WE DON'T SEEK GROWTH EVERYWHERE, NOR DO WE SEEK IT FOR THE SAKE OF GROWTH ALONE.

TIM RILEY
President, Aero Tech Manufacturing

"By far our greatest strength is our people. Our management group has served Aero Tech for 25 plus years and our team of 150 is expert in all facets of metal fabrication and electro/mechanical assembly. Clearly, we have the power we need to grow in our diversified core markets."

TO MEET OUR PERFORMANCE TARGETS, WE FOCUS ON CORE MARKETS WHERE WE HAVE COMPELLING ADVANTAGES AS WELL AS LONG-TERM OPPORTUNITIES.

EQUIPMENT

An estimated $5 billion of equipment is purchased or rented annually in our core Equipment markets. Heavy and general construction (road building, landfill, sewer, water, electrical power, residential and commercial construction) have historically been our largest segments.

In these and all markets, we seek to drive performance by developing more intimate customer relationships and focusing on:

- the effectiveness, breadth and positioning of our sales force
- our branch and store networks to ensure they are resourced and located to serve regions offering the most sustainable long-term growth opportunities
- the management of rental equipment

Mining (photo top right) is a fast-growing core market in our territories. To better serve this opportunity, we recently increased the capacity of our Sudbury, Ontario branch, plan to add capacity in Grand Falls, Newfoundland, Thunder Bay and Dryden, Ontario, and to invest in additional customer site installations.

This focus has paid off. In 2006, Toromont won exciting new mandates that should keep us busy. We also look forward to serving projects such as:

- De Beer's Victor Diamond Project on the James Bay Coast – an open-pit diamond mine
- Aur Resources' Duck Pond Project in central Newfoundland – an underground and open-pit copper and zinc mine
- Goldcorp's underground mines at Musselwhite, north of Pickle Lake, Ontario and at Red Lake, north of Dryden, Ontario

Renewed focus was also brought to marine power systems (photo bottom left). In 2006, Caterpillar made Toromont one of four North American dealers for MaK marine engines and generator sets. Our awarded territory includes the Great Lakes states and the Province of Ontario. We foresee strong marine sales over the next three years. Over $35 million of new marine business has been booked to date and we have committed new resources to this market.

COMPRESSION

Natural gas and process compression are core markets with an estimated annual value of some $8 billion.

In recent years, our primary focus has been natural gas compression. Increasing our profile with key Canadian natural gas producers has resulted in strong domestic positioning.

In the U.S., recent expansions to our Wyoming and Houston operations, with added sales, service and fabrication capabilities, have allowed us to make good headway in the southern states and Rocky Mountain region. Securing a $100 million order in 2006 to build compression equipment over the next two years for the Rockies Express pipeline is an example of the benefits of this focus.

Process markets are also getting much greater attention with a reinforced sales effort focused on specialty and high spec assignments in dewpoint, dehydration and amine system markets. We experienced the early benefits of this focus in 2006 when we provided complete solutions to a water chilling plant in Abu Dhabi, and secured an $11 million order (for delivery in the middle of 2007) to supply systems for a natural gas processing dewpoint plant in Western Canada.

Through CIMCO, we are also a leader in design, engineering, manufacturing, installing and servicing industrial and recreational refrigeration systems for markets valued at some $3 billion. CIMCO's focus in 2007 is on growing its revenue base with particular emphasis on vertical markets such as food, dairy, beverage and cold storage distribution as well as sports recreation where it offers innovative ammonia-based solutions.

STEVE McLEOD
President, CIMCO Refrigeration

"CIMCO again demonstrated its leadership in core markets. Our talented staff also earned a gold medal performance by winning mandates for the 2010 Vancouver Winter Olympic Games (sliding centre, speed-skating oval with practice rinks, women's hockey centre and two ski jumps). These projects are key to CIMCO, the athletes, the Games and the millions who will watch around the world."

DEDICATED

OUR BUSINESS MODEL IS PREDICATED ON REPRESENTING SPECIALIZED CAPITAL EQUIPMENT AND PROVIDING COMPREHENSIVE SERVICE AND SUPPORT FOR THAT EQUIPMENT.

JOHN PAUK
President, Toromont Energy Services

"Toromont is setting new standards in customer support. New branches, new services such as lube trucks, new product offerings and new maintenance tracking systems added in the past year significantly increased our market reach, customer connectivity, and preventative maintenance capabilities. All position us to more effectively serve our growing installed base of compression systems."

WE ARE DEDICATED TO OUR CUSTOMERS AND TO GROWING OUR AFTER SALES SUPPORT INFRASTRUCTURE TO KEEP PACE WITH OUR CUSTOMERS' NEEDS AND THE OPPORTUNITIES CREATED BY OUR EXPANDING INSTALLED BASE.

EQUIPMENT

Toromont delivered some 11,000 new Caterpillar machines in the past five years and we are one of the top CAT engine dealers in North America. As a result, the Equipment Group's product support business is poised for expansion.

To serve this opportunity, we have:

- a network of branch-based and in-field service technicians equipped with advanced diagnostics and tools
- dedicated remanufacturing operations to restore used equipment to "as new" condition
- robust technology systems that enable multiple forms of e-commerce, including parts ordering
- a number of Internet-based tools that enable online diagnostics and asset/utilization tracking

To take advantage of this infrastructure, we introduced the concept of total preventative maintenance solutions for customers several years ago. Our Customer Support Agreements (CSAs) allow customers to lock in their future maintenance needs at the time of equipment purchase, thereby ensuring worry-free usage, higher lifetime equipment value and guaranteed cost of ownership.

In 2007, we target increasing the number of new product sales that include CSAs to 20% (up from 16% in 2006) and increasing the efficiency of CSA delivery. This effort is led by our customer support centre and aided by greater use of satellite-enabled *Product Link* units on new equipment covered by CSAs. *Product Link* enables our customer support centre to track equipment utilization and assist in remote diagnostics in real time, allowing us to anticipate the need for preventative maintenance and schedule our support resources accordingly.

Adding capacity to our remanufacturing operations in 2007 is also a priority and we plan to add more in-field resources through aggressive recruiting.

We are also recruiting technicians internationally, have stepped up the pace of our apprenticeship program, continue to award college scholarships and showcase the benefits of a technical career to high school students.

COMPRESSION

The Compression Group's product support revenues climbed 17% in 2006 over 2005 to $173 million. This reflects our growing installed base and the focus placed on total customer support.

To more effectively serve this major opportunity, we have made significant advancements within our North American support infrastructure including:

- expanding our service capabilities in Western Canada and the U.S. Rocky Mountain region
- adding in-field support resources such as lubrication trucks
- installing a sophisticated online intranet service scheduler system at TESI, and beginning the rollout of a proactive tool for managing and predicting maintenance required on customer units in the field
- reorganizing TESI's technical services group to enhance the connection between customer, field service branches, quality inspectors and our manufacturing operations
- leveraging CIMCO's direct presence in the U.S.A., combined with the power of our technology systems to win new product support mandates, particularly in food industries.

We have also increased emphasis on equipment exchange and retrofitting in response to customer demand for reconditioned equipment as an alternative to new package purchases – an alternative that becomes more popular in periods of softer gas prices.

ENVIRONMENTAL ACTION

A MAJOR TOPIC OF CONCERN FOR OUR COMMUNITIES IS THE ENVIRONMENT. WE SHARE THESE CONCERNS. WE ARE COMMITTED TO ENSURING THAT OUR BUSINESSES ARE CONDUCTED WITH CARE AND RESPECT FOR THE ENVIRONMENT.

ECO CHILL, a CIMCO innovation, provides substantial energy savings with no greenhouse gas emissions at the Dow Centennial Centre in Fort Saskatchewan, Alberta.

One of our skilled specialists remanufactures an engine block, inspecting and magnafluxing for cracks, main bore diameter and other performance dimensions.

GREEN ICE

Within the Compression Group, CIMCO has become an environmental leader in the use of ammonia-based refrigeration. Ammonia not only offers superior efficiency, it is a natural refrigerant that is totally non-ozone depleting. Over the past five years, our installed systems have saved over 2,000 tons of CFCs and HCFCs from being manufactured, installed and potentially released into the atmosphere.

Using ammonia-based refrigeration and its considerable engineering expertise, CIMCO has also created significant breakthroughs in efficiency while lowering the CO_2 emissions of ice making technology. How? ECO CHILL.

At work in 34 ice rinks in North America and the UK, our proprietary and patented ECO CHILL system not only freezes ice, it captures heat created by the compressors, redirects it into thermal storage tanks and makes it available for snow melting, frost-heave protection under the ice pad and heating the building – including dressing rooms and bleachers. The benefits? Four kilowatts of heat for every one kilowatt of power used, as well as uncompromised ice quality, reduced maintenance costs and no effect on the ozone layer. Through its installed base, ECO CHILL reduces potential greenhouse gas emissions by more than 19,000 metric tonnes of CO_2 annually.

A FOURTH R

In the spirit of the three Rs, (Reduce, Reuse, Recycle), Toromont contributes a fourth R: Remanufacturing. Remanufacturing – the process of rebuilding equipment to original specifications – diverts many compression systems and heavy equipment components from the waste stream. We have made major investments in our reman operations in recent years and are in the process of expanding to meet customer demand.

Remanufacturing engines, drive trains and chassis components is not a one-time event. We often rebuild the same components three or four times, enabling a substantial extension of machine life and saving customers thousands of dollars in the process. We estimate that we remanufacture what would otherwise be approximately 1.5 million tons of scrap metal annually. In this way, we reduce waste for our customers, and create new opportunities for them and for Toromont.

A major user of our remanufacturing capabilities is the mining sector. Miners deploy their heavy equipment in harsh conditions and utilize it constantly. This rapidly accelerates wear. Rather than discarding equipment, they look to Toromont for both custom rebuilds and remanufacturing. We not only specialize in remanufacturing heavy duty mining equipment, we have the special skills and resources to reinstall it right in the mine: above or below ground.

ALL OPERATIONS HAVE DESIGNATED EMPLOYEES RESPONSIBLE FOR ENSURING AND VERIFYING COMPLIANCE. IN THE BELIEF THAT WE CAN ALWAYS DO MORE AND DO IT BETTER, WE ARE USING ENGINEERING KNOW-HOW AND EMPLOYEE CREATIVITY TO MAKE A SUSTAINED EFFORT TO CONSERVE AND PROTECT OUR NATURAL ENVIRONMENT AND HELP OUR CUSTOMERS DO THE SAME. HERE ARE A FEW EXAMPLES.

Our technician prepares to remove contaminated oil from a compression system. It will be recycled offsite and reused, contributing to sound environmental practices.

Toromont makes methane an economical source of energy – rather than a contribution to greenhouse gas – at Hamilton's Woodward Avenue treatment plant.

OIL RECYCLING

Our customers are major consumers of oil. To significantly reduce waste oil, and improve the performance and longevity of the equipment we sell, Toromont makes major investments in kidney loop technology. In recent years, this technology has been installed in our branches as well as in 22 field service trucks.

This technology enables Toromont CAT to circulate the oil directly from a customer's machine, through high efficiency filters to remove contaminants as small as one micron, and return the oil back to the machine. Because this oil is now cleaned to meet new standards, wear is reduced extending component life up to 100%, and oil change intervals can be doubled or tripled. With this technology, we are cleaning and recycling an estimated 100,000 liters of oil annually and we anticipate this to increase substantially.

For Toromont Energy Systems, our lube trucks not only provide the benefits of kidney loop technology onsite, they also remove waste oil and transport it for offsite recycling. Waste filters, barrels and drums recovered during service are also recycled in partnership with a contractor. We also encourage the use of reusable stainless steel filters.

POWER FROM NEW SOURCES

We have gained significant experience as builders, suppliers and operators of distributed generation and high efficiency power projects that use landfill and digester gas as the energy source. Over the past five years, we have designed, built and installed more than 10 megawatts of digester and landfill gas power systems. As a result, we help our customers make a meaningful contribution to the reduction of methane gas – which is some 21 times more harmful than carbon dioxide on a volume basis – while delivering significant ongoing energy and cost savings. A recent case in point? In 2006, we installed a digester gas-fuelled power generation system at Hamilton's Woodward wastewater treatment plant. In addition to removing harmful methane, our system produces heat that is recycled to warm the facility, thereby saving The City of Hamilton approximately half a million dollars a year on natural gas. We also recently won a new assignment to supply two landfill gas-to-energy systems at the Glanbrook landfill in southern Ontario. This system is expected to turn methane gas into enough electricity to supply 700 homes.

CORPORATE GOVERNANCE OVERVIEW

A strong and effective corporate governance program continues to be a principal priority for Toromont. The Nominating and Corporate Governance Committee, on behalf of the Board, establishes and monitors the governance program and its effectiveness. The Company's corporate governance structure and procedures are founded on our Code of Business Conduct that applies to all directors, officers and employees. Our governance program includes the activities of the Board of Directors, who are elected by and are accountable to the shareholders, and the activities of management who are appointed by the Board and are charged with the day-to-day management of the Company.

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

The Company's corporate governance program is in compliance with National Policy 58-201 – *Corporate Governance Guidelines* and Multilateral Instrument 52-110 – *Audit Committees*.

BOARD OF DIRECTORS

The role of the Board of Directors, its activities and responsibilities are documented and are regularly, and at least annually, assessed, as are the terms of reference for each of the committees of the Board, the Chairs of the committees, the Lead Director and the Chairman and Chief Executive Officer, inclusive of scope and limits of authority of management. The Board acts in a supervisory role and any responsibilities not delegated to management remain with the Board. The Board's supervisory role includes such matters as strategic planning, identification and management of risks, succession planning, communication policy, internal controls and governance.

The Lead Director is an independent director appointed annually by the independent directors of the Board to facilitate the Board's functioning autonomously from management. The Lead Director serves as a non-partisan contact for other directors on matters not deemed appropriate to be discussed initially with the Chairman or in situations where the Chairman is not available. The Lead Director is available to counsel the Chairman on matters appropriate for review in advance of discussion with the full Board of Directors. The Lead Director chairs a session at each Board meeting during which only independent directors are present.

COMMITTEE STRUCTURE AND MANDATES

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

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

The Nominating and Corporate Governance Committee: Principal responsibilities are reviewing and making recommendations as to all matters relating to effective corporate governance. The committee is responsible for assessing effectiveness of the Board, its size and composition, its committees, director compensation, the Board's relationship to management and individual performance and contribution of its directors. The committee is responsible for identification and recruitment of new directors and new director orientation.

The Audit Committee: Principal duties include oversight responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, legal compliance on ethics programs established by management, the approval of all audit and non-audit services provided by the independent auditors and consultation with the auditors independent of management and overseeing the work of the auditors.

The Human Resources and Compensation Committee: Principal responsibilities are compensation of executive officers and other senior management, short and long-term incentive programs, pension and other benefit plans, executive officer appointments, evaluation of performance of the 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.

BOARD OF DIRECTORS

Robert M. Franklin ● ▲ Director since 1994
Chairman, Human Resources and Compensation Committee
Mr. Franklin is Chairman of Photowatt Technologies, a subsidiary of ATS Automation Tooling Systems Inc. and President of Signalta Capital Corporation, a private investment company. He currently serves on the Board of Directors of Barrick Gold Corporation, First Uranium Corporation, Great Lakes Carbon Income Trust and Resolve Business Outsourcing Income Fund.

Ronald G. Gage, FCA ■ ● Director since 2000
Chairman, Nominating and 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 Trimark Canada Inc., AIM Trimark Corporate Class Inc., easyhome Ltd. and the Canadian Public Accountability Board.

David A. Galloway ■ ▲ Director since 2002
Mr. Galloway is Chairman of the Board of Bank of Montreal. He also serves on the Board of Directors of Shell Canada, E.W. Scripps Company and Abitibi Consolidated Inc.

Wayne S. Hill Director since 1988
Mr. Hill is Executive Vice President of the Company. Mr. Hill joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President in February 2002.

H. Stanley Marshall ▲ Director since 1998
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). He is also a director of Caribbean Utilities Company, Ltd.

John S. McCallum ■ ● Director since 1985
Lead Director and Chairman, Audit Committee
Mr. McCallum is a Professor of Finance in the I.H. Asper School of Business at the University of Manitoba. He is also a director of IGM Financial Inc., Wawanesa Mutual Insurance Company, Wawanesa General Insurance Company, Wawanesa Life Insurance Company and Fortis Inc.

Robert M. Ogilvie Director since 1986
Mr. Ogilvie is Chairman of the Board and Chief Executive Officer of the Company. Mr. Ogilvie joined Toromont as President in 1985 and was Chairman, President and Chief Executive Officer of the Company from 1987 to 1997. He was Chairman and Chief Executive Officer of the Company from 1997 to 2002, at which time he became Executive Chairman of the Board. He was reappointed Chief Executive Officer in 2006.

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

Back row left to right:
H. Stanley Marshall,
Robert M. Franklin,
John S. McCallum
Front row left to right:
Wayne S. Hill,
Ronald G. Gage,
David A. Galloway,
Robert M. Ogilvie

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Results for the year ended December 31, 2006

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2006, compared to the preceding year. This MD&A should be read in conjunction with the attached audited consolidated financial statements and related notes for the year ended December 31, 2006.

The consolidated financial statements reported herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. The information in this MD&A is current to February 5, 2007.

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2006. Based on that evaluation, they have concluded that the design and operations of the Company's disclosure controls and procedures were adequate and effective as of December 31, 2006 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities.

Additionally, the Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP. There has been no change in the design of the Company's internal controls over financial reporting during the fourth quarter of 2006 that would materially affect, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures for the year ended December 31, 2006 and have concluded that they are being maintained as designed, they expect that the disclosure controls and procedures or internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

ADVISORY

Certain statements contained herein constitute "forward-looking statements". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "should" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on current expectations and are influenced by management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. These statements entail various risks and uncertainties as more fully described in the "Risks and Risk Management" and the "Outlook" sections of this MD&A. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether the result of new information, future events or otherwise.

NON-GAAP FINANCIAL MEASURES

The success of the Company and business unit strategies is measured using a number of key performance indicators, which are outlined below. These measures are also used by management in its assessment of relative investments in operations. These key performance indicators are not measurements in accordance with Canadian GAAP. It is possible that these measures will not be comparable to similar measures prescribed by other companies. They should not be considered as an alternative to net income or any other measure of performance under Canadian GAAP.

Operating Income and Operating Margin

Each business segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest income and interest expense. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of our business segments. Consolidated and segmented operating income is reconciled to net earnings in tables where used in this MD&A.

Operating income margin is calculated by dividing operating income by total revenues.

Return on Equity (ROE) and Return on Capital Employed (ROCE)

Return on equity is monitored to assess the profitability of the consolidated Company. ROE is calculated by dividing net earnings by opening shareholders' equity.

ROCE is a key performance indicator that is utilized to assess both current operating performance and prospective investments. The numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is monthly average capital employed, which is defined as net debt plus shareholders' equity.

Working Capital and Non-Cash Working Capital

Working capital is defined as current assets less current liabilities. Non-cash working capital is defined as working capital less cash and equivalents.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

Toromont employs approximately 4,400 people in more than 115 locations, predominately in Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH. The Company serves its customers through two business groups.

The Equipment Group sells, rents and services a broad range of construction equipment and industrial engines, generating 56% of the Company's revenues in 2006. The Equipment Group includes Toromont CAT, one of the world's largest Caterpillar dealerships by revenue and geographic territory, and Battlefield – The CAT Rental Store, an industry-leading rental operation. Performance in this business segment is driven by activity in several industries: residential and commercial construction, infrastructure projects, road building, aggregates, waste management, steel, forestry, mining and agriculture. Other significant activities 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 power generation applications.

The Compression Group is a leading North American business specializing in the design, engineering, fabrication and installation of compression systems for natural gas, fuel gas and carbon dioxide, process systems, and industrial and recreational refrigeration systems. These activities generated 44% of the Company's revenues in 2006. Results in the Compression Group are influenced by conditions in the primary market segments served, chemical, petrochemical, gas production and transportation, in addition to industrial markets including food and beverage processing, cold storage, food distribution and recreational construction.

While Canada is the primary source of revenues (82% of revenues in 2006), the Company has a solid and growing presence in the United States (13% of revenues in 2006). Offshore markets represent approximately 5% of revenues.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

A 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 served 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.

Strengthening Product Support

The parts and service business is a significant contributor to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent opportunities to develop closer relationships with customers and differentiate our product and service offering. The ability to consistently meet or exceed customers' expectations for service efficiency and quality is critical, as after-market support is an integral part of the customer's decision-making process when purchasing equipment.

Broadening Product Offerings

Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, thousands of different parts are offered through our distribution channels. The Company expands its customer base through selectively extending product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading, if not best in class, offerings from suppliers that are continually expanding and complementing their products. Strong relationships with suppliers are critical in achieving growth objectives.

Investing in Our Resources

People are our most valuable resource. The combined knowledge and experience of management and staff is a key competitive advantage. Our growth is dependent on attracting, retaining and developing employees with values that are consistent with Toromont's. Incentive programs, a strong share ownership and highly principled culture result in a close alignment with Company and shareholder interests. By investing in employee 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, drive efficiency 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

Management reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the key financial performance measures are summarized in the following table. Others include, but are not limited to, measures such as market share, fleet utilization, and customer and employee satisfaction.

Years ended December 31	2006	2005	2004	2003	2002
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**10.3%**	11.5%	14.9%	20.6%	16.1%
Revenue generated outside North America (millions)	**$ 80.8**	$ 70.0	$ 79.0	$ 55.4	$ 22.5
Revenues, Equipment Group to Compression Group	**56:44**	57:43	57:43	63:37	69:31
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**9.2%**	15.8%	10.7%	12.1%	14.7%
INVESTING IN OUR RESOURCES					
Revenue per employee (thousands)	**$ 399**	$ 384	$ 381	$ 373	$ 359
Investment in information technology (millions)	**$ 12.7**	$ 13.2	$ 11.7	$ 11.2	$ 8.8
Return on capital employed	**22.7%**	17.8%	20.6%	18.7%	16.4%
STRONG FINANCIAL POSITION					
Working capital (millions)	**$ 470**	$ 411	$ 263	$ 204	$ 213
Total debt net of cash to equity ratio	**.36:1**	.42:1	.45:1	.47:1	.41:1
Book value (shareholders' equity) per share	**$ 8.79**	$ 7.57	$ 6.59	$ 5.93	$ 5.28
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth*	**24.8%**	12.6%	19.4%	47.6%	16.7%
Dividends per share growth	**25.1%**	23.1%	23.8%	16.7%	5.9%
Return on equity	**20.6%**	18.9%	18.7%	17.5%	12.9%

* 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 14.7% since 2002. Product support revenues have increased at an average annual growth rate of 12.5% over the same period. In the past two years, revenue growth has been dampened by the strengthening Canadian dollar relative to the U.S. currency, resulting in lower selling prices. Generally, foreign exchange rate movements on underlying equipment and parts costs flow through to final pricing. Margins have not been negatively affected, as there is a corresponding impact on cost of goods sold. Additionally, revenue growth between 2004 and 2006 was affected by supply constraints on certain equipment, resulting in some delays in deliveries to customers and lost opportunities.

Significant investments have been made in the area of information technology over the past five years. These investments have provided a competitive advantage in the marketplace and increase productivity levels. Revenue per employee has increased 11% since 2002.

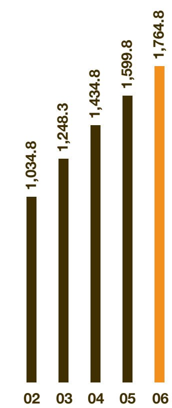
Toromont continues to maintain a strong balance sheet. In 2006, working capital and book value (shareholders' equity) per share both increased over prior year levels. Leverage, as represented by the ratio of total debt, net of cash to equity, also improved over the prior year.

Toromont has a long history of progressive earnings per share (EPS) growth. EPS have increased in every year since 2002. In 2006, EPS was almost 2.5 times higher than that reported in 2002. Toromont has paid dividends consistently since 1968, and has increased the dividend rate in each of the last 17 years.

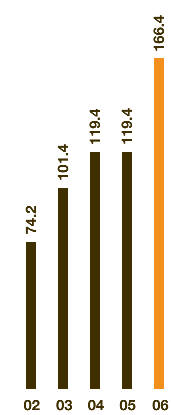
CONSOLIDATED RESULTS OF OPERATIONS

Years ended December 31	2006	2005	% change
REVENUES	**$1,764,833**	$1,599,792	10%
Cost of goods sold	**1,376,492**	1,250,714	10%
Gross profit	**388,341**	349,078	11%
Selling and administrative expenses	**221,968**	211,899	5%
Asset impairment charge	**–**	17,800	n/m
OPERATING INCOME	**166,373**	119,379	39%
Interest expense	**14,899**	12,977	15%
Interest and investment income	**(3,789)**	(2,785)	36%
Income before income taxes	**155,263**	109,187	42%
Income taxes	**55,842**	30,795	81%
EARNINGS FROM CONTINUING OPERATIONS	**99,421**	78,392	27%
Gain on disposal of discontinued operations	**–**	745	n/m
Loss from discontinued operations	**–**	(175)	n/m
NET EARNINGS	**$ 99,421**	$ 78,962	26%
EARNINGS PER SHARE – BASIC	**$ 1.56**	$ 1.25	25%
KEY RATIOS:			
Gross profit as a % of revenues	**22.0%**	21.8%	
Selling and administrative expenses as a % of revenues	**12.6%**	13.2%	
Operating income as a % of revenues	**9.4%**	7.5%	
Income taxes as a % of income before income taxes	**36.0%**	28.2%	

REVENUE ($ MILLIONS)



OPERATING INCOME ($ MILLIONS)



Increases in both operating groups led to year-over-year revenue growth of 10%, representing the seventh consecutive year of double-digit revenue growth. Equipment Group revenues were higher on increased new and used machine sales and brisk rental activity. Product support continued to expand, with increases in both Groups. Compression Group package revenues were higher on increased natural gas, process systems, rentals and other revenues. The year started strongly for the natural gas segment but revenues and booking activity in the Canadian market weakened in the second half, as lower natural gas prices and escalating operating costs for Canadian producers reduced activity levels. The U.S. gas compression market has continued to be strong, producing significantly higher revenues and earnings from this sector in 2006 and supporting increased second half Compression earnings.

On average, the Canadian dollar strengthened 7% relative to the U.S. dollar in 2006 versus the average in 2005. The stronger Canadian dollar is estimated to have lowered revenues by $85 million. Margins were not adversely impacted due to a corresponding affect on the cost of goods sold.

Gross profit increased 11% on the 10% increase in revenues and a 0.2 point improvement in gross profit margins. Gross profit margin in 2006 was 22.0%, compared to 21.8% reported in 2005. Gross profit margins in the Compression Group were higher in 2006 on a higher proportion of product support and rental business and improved project execution. Equipment Group gross profit margins were down slightly from 2005 levels as 2006 included a relatively higher percentage of new equipment sales, which generates a relatively lower profit margin.

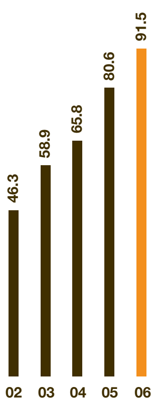
Selling and administrative expenses increased $10.1 million or 5% in 2006 versus the prior year, due to increased compensation costs, expansion in the U.S. and increased occupancy costs. Selling and administrative expenses as a percentage of revenues were 12.6% for 2006 compared to 13.2% in 2005.

Upon accepting the resignation of the former President and Chief Executive Officer, the Company agreed to continue his compensation and certain benefits through to September 15, 2008. These costs were provided for in the third quarter of 2006. Accordingly, selling and administrative expenses were adversely impacted by approximately $2.1 million, net of adjustments to accrued annual incentives and stock option costs related to unvested options, which were forfeited upon resignation.

The Company improved its defined contribution pension plan to provide an improved retirement program to substantially all of its Canadian-based employees. This resulted in increased pension expense of approximately $1.5 million in the year compared to 2005. Coincident with these changes, annual performance incentive programs were revised. This resulted in a reduction in accrued incentives in the year of $4.1 million related to amounts previously accrued together with the continuing

EQUIPMENT GROUP REVENUE ($ MILLIONS)

EQUIPMENT GROUP OPERATING INCOME ($ MILLIONS)



impact of reductions in the rate of accrual, offset by higher profit sharing on higher earnings. These two program changes are expected to be substantially cost neutral in future periods.

Excluding the above items, salaries and benefits increased by $3.9 million in the year versus last year, reflecting higher compensation costs attributable to a larger employee base, together with general increases in rates of pay.

Other selling and administrative expenses increased $6.6 million in the year from 2005. The expansion of the natural gas fabrication and service business in the United States, including the Wyoming business acquired in early 2006, increased expenses by approximately $3.0 million in the year. Occupancy costs across the Company's operations increased $1.0 million year-over-year.

Operating income in 2006 was up 39% over the prior year. Excluding the asset impairment charge recorded in 2005, operating income in 2006 was up 21% on higher sales, improved gross margins and lower relative expense levels. Operating income margin improvements were reported in both the Equipment and Compression Groups. Operating income as a percentage of revenues improved to 9.4% in 2006.

Interest expense was 15% higher in 2006 than in the prior year. Average debt balances in 2006 were consistent with that reported in 2005, however, a higher portion of the Company's debt in 2006 carried fixed interest rates, which were generally higher than floating rates.

Interest income was 36% higher in 2006 than in the prior year. Interest income varies with the level of short-term investing of daily cash flows from operations. The Company had higher cash balances in 2006 as a result of improved cash flow from operations.

The effective income tax rate for the year was 36.0% compared to 28.2% for 2005. The 2005 rate was lower due to certain adjustments following a comprehensive review of current tax items. Excluding these adjustments, the effective income tax rate for 2005 was 36.2%.

Earnings from continuing operations in 2006 were $99.4 million, up 27% from 2005. Excluding the impairment charge and reduction of tax reserves recorded last year, earnings from continuing operations in 2006 were up 22%. Net earnings in 2005 included a gain on the sale of discontinued operations (Ontario Sterling) of $745,000.

Basic earnings per share for 2006 were $1.56 compared with $1.25 in 2005, an increase of 25%. Earnings per share growth was lower than the growth in earnings as the number of shares outstanding increased due to the exercise of stock options during the year.

BUSINESS SEGMENT OPERATING RESULTS

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

Results of Operations in the Equipment Group

Years ended December 31	**2006**	2005	% change
Equipment sales and rentals			
New	**$ 441,398**	$ 389,787	13%
Used	**125,352**	123,531	1%
Rental	**133,610**	126,250	6%
Total equipment sales and rentals	**700,360**	639,568	10%
Power generation	**15,473**	14,723	5%
Product support	**272,036**	259,654	5%
Total revenues	**$ 987,869**	$ 913,945	8%
Operating income	**$ 91,485**	$ 62,796	46%
Capital expenditures	**$ 79,695**	$ 65,312	22%
KEY RATIOS:			
Product support revenues as a % of total revenues	**27.5%**	28.4%	
Group total revenues as a % of consolidated revenues	**56.0%**	57.1%	
Operating income as a % of revenues	**9.3%**	6.9%	

The Equipment Group delivered record revenues and operating income on excellent growth across most markets.

New machine sales were up 13% in the year on higher unit sales of tractors and modestly higher prices. The market segments generating growth in tractor sales include heavy and general construction, mining and paving. Gains were partially offset by declines in the agriculture and forestry sectors.

Used equipment sales were up 1% in the year. Sales of used equipment vary depending on customer buying preferences, exchange rate considerations and product availability. Used equipment inventories were down marginally from this time last year.

Rental revenues were up 6% over 2005 as two new Battlefield – The CAT Rental Store branches were opened in late 2005 and early in 2006 in Barrie and Waterloo, Ontario. Revenues generated by stores open for more than one year were 5% higher this year versus the prior year on a larger rental fleet. The Ontario market provided substantially all of the growth.

Power generation revenues from Toromont-owned plants increased 5% in the year over the prior year, benefiting from a clean energy supply contract signed with the Ontario Power Authority in early 2006. Operating hours were lower in 2006 than in 2005 due to lower average electricity prices and softer summer demand.

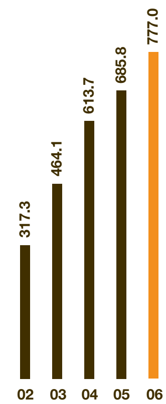
Product support revenues were 5% higher than the prior year on increases in both parts and service revenues. Product support revenues are a function of the size, usage and age of the installed base of Caterpillar equipment. Product support activity in 2006 benefited from strong customer demand for service on increased construction and mining activities. This was partially offset by weakness in the forestry and agriculture sectors. Service work-in-process at December 31, 2006 was at the same level as at the end of 2005.

Operating income increased 14% over the prior year exclusive of an impairment charge taken against the power generation assets in 2005. Higher operating income resulted from increased revenues and lower relative growth in selling and administrative expenses. Gross margins were down 0.2 percentage points from the prior year on the lower percentage of product support revenue in the current year. Operating income increased to 9.3% of revenues compared with 8.8% in the prior year, excluding the 2005 asset impairment charge. This represents a record level of profitability for the Equipment Group.

The availability of new equipment improved in the last half of 2006 compared to 2005, although many models remain on managed distribution. Booking activity was very strong in the year, particularly in the last quarter. Record backlogs at December 31, 2006 led by significant orders received from customers in the mining industry, were up more than 100% over the prior year.

Capital expenditures in the Equipment Group increased $14.4 million to $79.7 million in 2006. Capital expenditures included investments in both new and expanded branches as well as significant additions to the rental fleet.

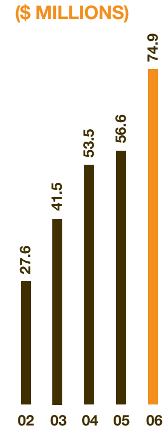
COMPRESSION GROUP REVENUE ($ MILLIONS)



Results of Operations in the Compression Group

Years ended December 31	2006	2005	% change
Package sales and rentals			
Package sales	**$ 584,297**	$ 521,424	12%
Rentals	**20,158**	16,933	19%
Total package sales and rentals	**604,455**	538,357	12%
Product support	**172,509**	147,490	17%
Total revenues	**$ 776,964**	$ 685,847	13%
Operating income	**$ 74,888**	$ 56,583	32%
Capital expenditures	**$ 22,749**	$ 7,501	203%
KEY RATIOS:			
Product support revenues as a % of total revenues	**22.2%**	21.5%	
Group total revenues as a % of consolidated revenues	**44.0%**	42.9%	
Operating income as a % of revenues	**9.6%**	8.3%	

COMPRESSION GROUP OPERATING INCOME ($ MILLIONS)



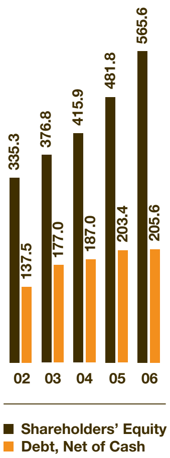
The Compression Group produced record results reporting a 13% increase in revenues and a 32% increase in operating income in 2006.

This growth was fueled by increased production in the U.S. market where revenues increased more than 300% in 2006 versus the prior year. The market for gas compression in the United States remained strong throughout the year, evidenced by a 15% increase in the number of rigs drilling for natural gas according to Baker-Hughes Incorporated. The Company participated in this strong demand through an enhanced sales focus on the U.S.-based gas market, expanded facilities in Houston, Texas, and the Wyoming business acquired early in 2006.

Revenues on natural gas packages produced in Canada declined 15% in 2006 versus 2005. The Canadian natural gas market reported a 12% increase in activity levels in the first half of the year, however the second half was down 34%. Higher gas storage levels, lower natural gas prices, warmer weather and other factors suppressed demand from gas producers, particularly for screw compression equipment. In response to reduced order intake, the Company lowered the workforce in its Calgary screw compression facility by approximately 250 in the latter half of 2006.

Revenues from the sale of process systems, which comprise approximately 20% of group revenues, were 8% higher in the year on higher activity in Canada. Industrial segment revenues were also higher, driven by a 45% increase in revenues in Canada. These revenues tend to fluctuate through the year due to the nature and timing of orders.

CAPITAL STRUCTURE ($ MILLIONS)



Rental revenues were 19% higher in 2006 than in 2005. The increase was due to a larger fleet of gas compression equipment on strong customer demand and excellent utilization through the year.

Product support revenues were up 17% in the year, with a 23% increase in the natural gas segment and a 9% increase in industrial. New service branches and the growing installed base continue to strengthen our compression product support activities. Gains were reported in both Canadian and U.S. service business.

Operating income for the Compression Group increased 32% in the year on higher revenues and margins across all segments. Gross profit margins improved in the Compression Group on better project execution, a favourable mix shift and improved utilization of the Company's U.S. facilities. General and administrative expenses were held at the same relative level as in 2005 as higher spending to expand the U.S. operations was largely offset by revised estimates for annual performance incentive programs. Operating income in the Industrial and Recreational sector improved year-over-year on higher margins from better project execution. Operating income increased to 9.6% of revenues for the year compared with 8.3% in the prior year.

Compression booking activity for the full year was down approximately 4%. Bookings in the U.S. natural gas and process markets were strong for the year, up more than 100%. Bookings in the corresponding Canadian markets were down 43% in the year on lower demand as previously discussed. Bookings in process systems were solid, up 3% over 2005 while industrial and recreational bookings were up 3.5%.

End-of-year backlogs were higher than at the comparable time last year, including a $100 million project for the Rockies Express pipeline reported earlier this year.

Capital expenditures of $22.7 million were $15.2 million higher than the prior year. Investments in 2006 included $9.2 million for the expansion of manufacturing facilities in Houston, Texas and $3.0 million expended to date for the Casper, Wyoming, expansion to be completed in the first quarter of 2007.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position. At December 31, 2006, the ratio of total debt, net of cash to equity was 0.36:1 compared to 0.42:1 in the prior year. Total assets were $1.3 billion at December 31, 2006 compared with $1.1 billion at the end of 2005.

The Company's investment in non-cash working capital increased by $51.4 million or 14% to $411.6 million at December 31, 2006, principally on higher inventory levels than a year ago.

Accounts receivable of $341.5 million at December 31, 2006, were 1% higher than last year on a 4% increase in revenues in the last quarter of 2006.

Inventories were $461.7 million at the end of the year, 22% higher than at December 2005 on increases in both Groups. Equipment Group inventory was up 6% over that reported at this time last year on higher new machine inventory. Compression Group inventory was 49% higher at the end of the year compared to this time last year due to increases in units held for stock availability and increases in major serialized components.

The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. The assessment of goodwill entails estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows. This assessment affirmed goodwill values as at December 31, 2006.

The normal course issuer bid was renewed in 2006 and allows the Company to purchase up to approximately 3.2 million of its common shares during the year ending August 30, 2007. Toromont believes that from time to time the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. The Company did not purchase any shares under the normal course issuer bid in either of 2005 or 2006.

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Outstanding Share Data

As at the date of this MD&A, the Company had 64,465,577 common shares and 1,936,379 stock options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30% of trailing earnings from continuing operations. This practice is reviewed from time to time, based upon and subject to the Company's earnings, financial requirements and general economic circumstances. During 2006, the Company declared dividends of $0.40 per common share. Subsequent to year-end, the Board declared a quarterly dividend of 12 cents per common share, an increase of 20%, payable April 2, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

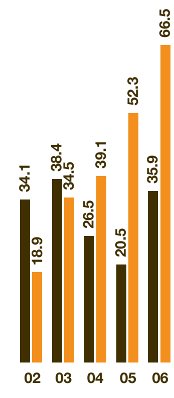
Toromont's liquidity needs can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

At December 31, 2006, $230.8 million or 88% of the Company's long-term debt carried interest at fixed rates. This term debt matures at various points through to 2019 with a current weighted average interest rate of 5.9%. The remaining $32.9 million or 12% of the Company's long-term debt carried interest at variable rates, averaging 4.8%, with maturities through 2009.

Combined unsecured credit facilities amounted to $248 million at year-end, of which $183 million was unutilized.

The Company expects that continued cash flows from operations in 2007, together with currently available credit facilities, will be more than sufficient to fund its requirements, including working capital, dividends, capital investments and other uses of cash.

CAPITAL EXPENDITURES ($ MILLIONS)



Principal Components of Cash Flow

The cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows, are summarized in the following table:

Years ended December 31	2006	2005	% change
Cash provided by operating activities	**$ 95,477**	$ 23,617	304%
Cash used in investing activities	**(81,171)**	(25,123)	(223%)
Cash (used in) provided by financing activities	**(7,008)**	52,222	(113%)

Cash Flows from Operating Activities

Cash flows from operating activities increased $71.9 million in 2006 over the prior year. Net earnings, adjusted for items not requiring cash, were up $13.5 million, and the increase in investments in non-working capital and other, were down $58.4 million in 2006 relative to the increase in the prior year. The components and changes in working capital are discussed in more detail in this MD&A under the heading "Financial Condition".

Cash Flows from Investing Activities

Cash used in investing activities increased $56.0 million from 2005 to 2006. Net additions to the rental fleet (defined as additions less proceeds on disposal) in 2006 were $40.7 million, $15.5 million higher than in the prior year. In 2006, these increases were largely attributable to the Equipment Group. Property, plant and equipment additions of $35.9 million were $15.4 million higher than in the prior year, primarily as a result of expansion in the United States.

Significant investments in 2006 included the following:

- $9.2 million for expanded compression facilities and related equipment in Houston, Texas;
- $5.5 million for the acquisition of land, plant and equipment in Casper, Wyoming;
- $3.0 million for the expansion of the compression facilities in Casper;
- $2.0 million for compression machinery and equipment upgrades in Calgary, Alberta;
- $8.5 million for additions to the service vehicle fleet, primarily for the Equipment Group;
- $7.0 million for facilities renovations and expansions in the Equipment Group; and
- $4.0 million for computer technology upgrades.

In 2005, proceeds of $18.9 million were received on the sale of Ontario Sterling.

Cash Flows from Financing Activities

Financing activities used $7.0 million in 2006. Dividends paid to common shareholders totaled $24.3 million, an increase of 26% over 2005 reflecting the higher dividend rate. This was partially offset by an increase in debt of $9.6 million and cash received on exercise of stock options of $7.7 million.

OUTLOOK

Financially, Toromont has a strong foundation. Net debt to shareholders' equity is at the lowest level since 1998. Toromont is well positioned in each of its markets and each business segment has good growth prospects. Over the longer term, it is expected that the existing businesses can achieve average annual revenue growth of 10%, with increasing profitability.

The Equipment Group has an excellent order backlog entering 2007. Continued growth in the parts and service business is expected, driven by the larger installed base of equipment in the field. Growth in core markets, including mining and infrastructure is expected to continue and will counter prospects of weaker residential construction and forestry activities. We also expect to benefit from broader market participation as Caterpillar introduces additional lines in coming years.

Market fundamentals for gas for the longer term continue to be positive given declining reservoir pressures and future supply needs. However, recent activity within the Compression Group has been negatively affected by high natural gas inventories, lower prices and lower activity in the Canadian natural gas sector. It is expected that the excellent growth in product support business achieved in recent years will be maintained. The U.S. gas market is expected to make a larger contribution to Group results through continued strength in the northwestern states, increased penetration in the southern U.S. and a stronger focus on process packaging.

Capital expenditures for 2007 are expected to be 20–25% lower than 2006 on lower investments in rental equipment.

Overall, management is cautiously optimistic that 2007 will be another successful year for Toromont.

CONTRACTUAL OBLIGATIONS

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

Payments due by period	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Long-term debt	$ 263,662	$ 25,194	$ 82,470	$ 18,835	$ 137,163
Operating leases	15,356	5,700	7,080	1,492	1,084
Total	$ 279,018	$ 30,894	$ 89,550	$ 20,327	$ 138,247

SELECTED ANNUAL INFORMATION

($ thousands, except per share amounts)	**2006**	2005	2004
Revenues	**$1,764,833**	$1,599,792	$1,434,756
Net earnings – continuing operations	**$ 99,421**	$ 78,392	$ 70,140
Net earnings	**$ 99,421**	$ 78,962	$ 70,518
Earnings per share – continuing operations			
Basic	**$ 1.56**	$ 1.24	$ 1.10
Diluted	**$ 1.54**	$ 1.22	$ 1.08
Earnings per share			
Basic	**$ 1.56**	$ 1.25	$ 1.11
Diluted	**$ 1.54**	$ 1.23	$ 1.09
Dividends per share	**$ 0.40**	$ 0.32	$ 0.26
Total assets	**$1,299,992**	$1,143,972	$ 962,437
Total long-term debt	**$ 263,662**	$ 254,093	$ 187,047

Revenue growth has been strong with year-over-year increases of 15%, 12% and 10% in 2004, 2005 and 2006 respectively. Strong organic growth was achieved in both operating segments on increases in machine and package sales, rental revenues and product support activities. Organic revenue growth has also been complemented by acquisitions.

Growth in net earnings, on a continuing operations basis, has also been strong, with year-over-year increases of 20%, 12% and 27% in 2004, 2005 and 2006 respectively.

Earnings per share have grown in line with earnings growth. Improvements in all years have been the result of higher sales volumes in both operating segments. On a consolidated basis, gross margins have improved overall.

Dividends have generally increased in proportion to earnings growth.

Total assets have increased over the three-year period on higher inventories held in light of strong customer demand and short supply of product. Accounts receivable have also increased due to higher reported revenues. The Company has also invested in rental assets and other property, plant and equipment in targeted markets.

Long-term debt increased in 2006 and represents 47% of total shareholders' equity. In 2004, long-term debt represented 45% of shareholders' equity. The ratio of total debt, net of cash, to shareholders' equity has improved to 36% at December 31, 2006 compared to 45% at the end of 2004.

FOURTH QUARTER 2006

Three months ended December 31	2006	2005	% change
REVENUES	$ 495,843	$ 475,488	4%
Cost of goods sold	381,256	365,829	4%
Gross profit	114,587	109,659	4%
Selling and administrative expenses	54,901	59,818	(8%)
Asset impairment charge	–	17,800	n/m
OPERATING INCOME	59,686	32,041	86%
Interest expense	4,027	4,030	–
Interest and investment income	(1,436)	(1,443)	–
Income before income taxes	57,095	29,454	94%
Income taxes	20,204	2,158	n/m
NET EARNINGS	$ 36,891	$ 27,296	35%
EARNINGS PER SHARE – BASIC	$ 0.58	$ 0.43	35%
KEY RATIOS:			
Gross profit as a % of revenues	23.1%	23.1%	
Selling and administrative expenses as a % of revenues	11.1%	12.6%	
Operating income as a % of revenues	12.0%	6.7%	
Income taxes as a % of income before income taxes	35.4%	7.3%	

Revenues were 4% higher in the fourth quarter of 2006 compared to the same period last year as a 9% increase in the Equipment Group was partially offset by a 2% decrease in the Compression Group. Activity within the Canadian natural gas compression market was lower in the fourth quarter of 2006, versus the similar quarter of last year.

Gross profit increased 4% in the quarter over last year on higher sales volumes. Gross profit margin was at the same level in the fourth quarter of 2006 compared to the same quarter of the prior year as lower margins in the Equipment Group were offset by improved margins in the Compression Group.

Selling and administrative expenses decreased $4.9 million or 8% in the fourth quarter versus the comparable period of the prior year. Salaries and benefits decreased by $3.8 million in the quarter versus the comparable period last year on the net impact of changes and timing of expenses related to defined contribution and profit sharing plans, described previously in this MD&A.

Interest expense was at the same level in the fourth quarter of 2006 as in the comparable period of the prior year. Average debt balances in the fourth quarter of 2006 were 7% lower than in the fourth quarter of 2005, however these balances carried a larger proportion of higher fixed interest rates.

Interest income in the fourth quarter of 2006 was even with the same period of the prior year on similar levels of cash balances.

The effective income tax rate for the fourth quarter year was 35.4% compared to 7.3% in the similar period of 2005. The 2005 rate was lower due to certain adjustments following a comprehensive review of current tax items. Excluding these adjustments, the effective income tax rate for the fourth quarter of 2005 was 36.9%.

Earnings in the fourth quarter of 2006 were $36.9 million, or $0.58 per share, up 35% from those reported in the comparable period of 2005. Excluding the impairment charge and reduction of tax reserves recorded in 2005, earnings in the fourth quarter of 2006 were up 22%.

Fourth Quarter Results of Operations in the Equipment Group

Three months ended December 31	2006	2005	% change
Equipment sales and rentals			
New	**$ 146,149**	$ 120,687	21%
Used	**38,085**	40,118	(5%)
Rental	**36,474**	36,232	1%
Total equipment sales and rentals	**220,708**	197,037	12%
Power generation	**3,999**	3,879	3%
Product support	**66,019**	65,099	1%
Total revenues	**$ 290,726**	$ 266,015	9%
Operating income	**$ 30,038**	$ 9,745	208%
KEY RATIOS:			
Product support revenues as a % of total revenues	**22.7%**	24.5%	
Group total revenues as a % of consolidated revenues	**58.6%**	55.9%	
Operating income as a % of revenues	**10.3%**	3.7%	

Higher revenues in the Equipment Group compared to 2005 were driven by a 21% increase in new machine sales, benefiting from end-of-year purchasing decisions by customers. Used equipment sales were down 5% in the fourth quarter versus the comparable period of 2005. Rental revenues were up 1% compared to the similar quarter in the prior year as wet weather through the fall months stalled general construction activity and generally muted demand for certain other products supporting colder weather construction. Product support revenues were also up 1% compared to the same quarter in the prior year, with activity levels reduced by the wet weather. Product support includes three components: parts, service and remanufactured sales. Service revenues increased on higher service hours. Part sales declined due to price adjustments related to the strengthened Canadian dollar, and remanufacturing continued its steady pace of growth.

Gross margins were down in the fourth quarter of 2006 versus the fourth quarter of 2005 due to above average margins experienced in 2005 and charges against inventories specific to certain underperforming markets. The impact of the lower margins was largely offset by reductions in selling and administrative expenses related to a variety of factors including reduced marketing expenses (net of supplier credits) and timing of certain benefit costs.

Excluding the impact of an asset impairment charge in 2005, operating income was up 9.0% in the fourth quarter. Operating income as a percentage of revenues was 10.3% compared to 10.4% in the fourth quarter of 2005 (excluding the asset impairment charge).

Fourth Quarter Results of Operations in the Compression Group

Three months ended December 31	2006	2005	% change
Package sales and rentals			
Package sales	**$ 154,908**	$ 165,853	(7%)
Rentals	**5,045**	4,394	15%
Total package sales and rentals	**159,953**	170,247	(6%)
Product support	**45,165**	39,226	15%
Total revenues	**$ 205,118**	$ 209,473	(2%)
Operating income	**$ 29,648**	$ 22,296	33%
KEY RATIOS:			
Product support revenues as a % of total revenues	**22.0%**	18.7%	
Group total revenues as a % of consolidated revenues	**41.4%**	44.1%	
Operating income as a % of revenues	**14.5%**	10.6%	

Revenues in the Compression Group for the three months ended December 31, 2006 were 2% below those reported in the same period last year as a 7% decline in package sales was partially offset by a 15% increase in rentals and product support revenues. Activity in the Canadian natural gas compression market declined in the fourth quarter of 2006 due to lower prices for natural gas, and a pullback in expansion activity by producers in response to escalating costs, as previously discussed. Natural gas prices during the fourth quarter of 2006 averaged approximately $6.41/mmBTU, down 46% from an average of $11.90/mmBTU in the fourth quarter of 2005. This was partially offset by increased revenues from natural gas packages manufactured in the U.S., benefiting from strong market activity. Revenues in the industrial and recreational refrigeration business for the quarter exceeded those recorded in the same period last year on strength in the Canadian operations. Product support business produced excellent growth in all markets.

Operating income was 33% higher in the fourth quarter of 2006 compared to the similar period last year on higher gross margins and lower relative selling and administrative expenses. In the Canadian natural gas and process packaging operations, improvements in margin arising from price and efficiency gains mostly offset reduced revenues. In the comparable U.S. operations, better project execution produced significantly improved margins and contributed about half of the total increase in operating earnings. The balance of earnings improvements were due to increases in product support and improved project execution in the industrial and recreational refrigeration business.

Bookings in the fourth quarter were 45% lower than the strong activity levels in the similar period last year. Lower booking activity was a result of weaker natural gas market conditions as previously discussed.

QUARTERLY RESULTS

The table below summarizes unaudited quarterly financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2006 annual audited consolidated financial statements.

Thousands of dollars, except per share amounts	Q1	Q2	Q3	Q4	Year
2006					
Revenues	**$ 369,428**	**$ 443,603**	**$ 455,959**	**$ 495,843**	**$1,764,833**
Net earnings	**11,722**	**24,910**	**25,898**	**36,891**	**99,421**
Earnings per share					
Basic	**0.18**	**0.39**	**0.41**	**0.58**	**1.56**
Diluted	**0.18**	**0.38**	**0.40**	**0.58**	**1.54**
Dividends per share	**0.10**	**0.10**	**0.10**	**0.10**	**0.40**
2005					
Revenues	$ 306,289	$ 390,127	$ 427,888	$ 475,488	$1,599,792
Net earnings – continuing operations	8,250	18,903	23,943	27,296	78,392
Net earnings	8,177	18,804	24,685	27,296	78,962
Earnings per share – continuing operations					
Basic	0.13	0.30	0.38	0.43	1.24
Diluted	0.13	0.29	0.37	0.43	1.22
Earnings per share					
Basic	0.13	0.30	0.39	0.43	1.25
Diluted	0.13	0.29	0.38	0.43	1.23
Dividends per share	0.08	0.08	0.08	0.08	0.32

Interim period revenues and earnings historically reflect some seasonality.

The Equipment Group has a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter has consistently been the strongest quarter due in part to the timing of customers' capital investment decisions and conversions of equipment on rent with a purchase option.

The Compression Group also has a distinct seasonal trend in activity levels due to well-site access and drilling patterns, which are adjusted to take advantage of weather conditions. Generally, higher revenues are reported in the fourth quarter of each year. Variations from this trend usually occur when natural gas market fundamentals are either improving or deteriorating.

Management anticipates that the seasonality historically experienced will continue in the future, although it may be somewhat mitigated by continued product and geographic diversification.

As a result of the historical seasonal sales trends, inventories increase through the year in order to meet the expected demand for delivery in the fourth quarter of the fiscal year, while accounts receivable are highest at year end.

RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to operating and financial risks that may potentially impact 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 within their respective markets. As a result, financial performance is affected by the impact of such business cycles on our customer base.

Sales are also indirectly affected by fluctuations in commodity prices. Commodity price movements in the forestry, metals and petroleum sectors can have an impact on customers' demands for equipment and customer service.

Toromont's business is diversified across a wide range of industry market segments and geographic territories, serving to temper the effects of business cycles on consolidated results. Continued diversification strategies such as expanding our customer base, broadening our 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. Product support growth has been, and will continue to be, fundamental to 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 under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for over a decade and management expects this will continue going forward.

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a high-quality manufacturer, with excellent brand recognition and customer support and high market shares in many of the markets it serves.

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

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including: the range and quality of products and services; ability to meet sophisticated customer requirements; distribution capabilities including number and proximity of locations; in certain cases, financial services offered by Caterpillar Finance; e-commerce solutions; reputation and financial strength.

Credit Risk

The Company has a large diversified customer base and is not dependent on any single customer or group of customers. Toromont also has credit exposure arising from foreign exchange and interest rate derivative contracts. This risk is minimized by ensuring there is no excessive concentration of credit risk with any single counterparty and by dealing only with highly rated financial institutions.

Warranties and Maintenance Contracts

Toromont provides warranties for most of the equipment it sells, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

The Company also enters into long-term maintenance and repair contracts, whereby it is obligated to maintain equipment for its customers. The length of these contracts varies generally from two to five years. The contracts are typically fixed price with provisions for inflationary adjustments. Due to the long-term nature of these contracts, there is a risk that maintenance costs may exceed estimate, thereby resulting in a loss on the contract. These contracts are closely monitored for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold.

Foreign Exchange

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar and the Euro. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The types of foreign exchange risk can be categorized as follows:

Transaction Exposure

The Company sources the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate. In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Company also sells compression packages in foreign currencies, primarily the U.S. dollar and Euro, and enters into foreign currency contracts to reduce these exchange rate risks.

Translation Exposure

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in a separate component of shareholders' equity. The cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the foreign operations.

Foreign currency based earnings are translated into Canadian dollars each period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material relative to the overall earnings or financial position of the Company.

Interest Rate

In relation to its debt financing, the Company is exposed to changes in interest rates, which may impact on the Company's borrowing costs. Floating rate debt exposes the Company to fluctuations in short-term interest rates, while fixed rate debt exposes the Company to future interest rate movements upon the debt's maturity. Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing.

The Company minimizes its interest rate risk by balancing its portfolio of floating and fixed rate debt, as well as managing the term to maturity. The Company will also use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates.

Financing Arrangements

The Company requires capital to finance its growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 1 to the audited consolidated financial statements. The preparation of financial statements in conformity with Canadian GAAP requires estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. Management reviews its estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. These critical accounting policies and estimates are described below.

Revenue Recognition

The Company reflects revenues generated from the assembly and manufacture of projects using the percentage-of-completion approach of accounting for performance of production-type contracts. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period. However, there are many of these projects in process at any given point, the majority of which are in actual construction for a period of three months or less.

Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation, including asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives of fixed assets are reviewed on a regular basis. Assessing the reasonableness of the estimated useful lives of fixed assets requires judgment and is based on currently available information.

Fixed assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset or asset group exceeds its fair value, as determined by the discounted future cash flows of the asset or asset group. In estimating future cash flows, the Company uses its best estimates based on internal plans, which incorporate management's judgments as to the remaining service potential of the fixed assets.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of fixed assets or future cash flows constitute a change in accounting estimate and are applied prospectively.

Income Taxes

The liability method of accounting for income taxes is used. Future income tax assets and liabilities, measured at substantively enacted tax rates, are recognized for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the audited consolidated financial statements.

Income tax rules and regulations in the countries in which the Company operates and income tax treaties between these countries are subject to interpretation and required estimates and assumptions in determining the Company's consolidated income tax provision that may be challenged by the taxation authorities.

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in Note 15 to the consolidated financial statements.

FUTURE ACCOUNTING STANDARDS

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting standards: Financial Instruments – Recognition and Measurement, Hedges, and Comprehensive Income, which are effective for the Company as of January 1, 2007. As a result of adopting these standards, a new category, "accumulated other comprehensive income", will be added to shareholders' equity and certain unrealized gains and losses will be reported in other comprehensive income until realization.

Effective January 1, 2007, certain financial assets and liabilities will be measured at fair value and others at amortized cost. Any adjustment of the previous carrying amounts will be recognized as an adjustment to either accumulated other comprehensive income or retained earnings at January 1, 2007 and prior period consolidated financial statements will not be restated. Toromont continues to determine the impact of these accounting changes on the consolidated financial statements of future periods. Based on the analysis completed to date, the significant components of the implementation of the standards are expected to include:

- Derivative financial instruments will be recorded on the balance sheet at fair value as either other assets or other liabilities. For derivatives identified as hedging items, the changes in fair value of the derivative will be recorded in other comprehensive income. For derivatives not identified as part of a hedging arrangement, changes in fair value will be included in net income for the period.
- Accounts receivable and accounts payable will be translated at current exchange rates, even if the amounts are hedged.
- Long-term debt will be reflected at fair market value as at January 1, 2007, with a corresponding adjustment to retained earnings, but will then continue to be recorded at amortized cost.

Net income is not expected to change significantly as a result of the new accounting requirements, however there may be potentially large quarterly swings in the comprehensive income component of shareholders' equity as certain financial instruments are adjusted to market value.

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 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.

We, as the Company's Chief Executive Officer and Chief Financial Officer, will certify Toromont's annual filings with the Ontario Securities Commission as required by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings).

ROBERT M. OGILVIE
Chairman and
Chief Executive Officer

PAUL R. JEWER
Vice President Finance and
Chief Financial Officer

Toronto, Ontario
February 2, 2007

AUDITORS' REPORT

To the Shareholders of Toromont Industries Ltd.:

We have audited the consolidated balance sheets of Toromont Industries Ltd. as at December 31, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

ERNST & YOUNG LLP
Chartered Accountants

Toronto, Canada
February 2, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ thousands)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	**$ 58,014**	$ 50,716
Accounts receivable	**341,470**	337,381
Inventories (note 4)	**461,672**	379,819
Future income taxes (note 15)	**24,305**	18,501
Other current assets	**7,753**	7,742
Total current assets	**893,214**	794,159
Property, plant and equipment (note 5)	**185,290**	168,253
Rental equipment (note 7)	**138,214**	115,154
Goodwill	**34,800**	34,800
Future income taxes (note 15)	**–**	1,126
Other assets (note 8)	**48,474**	30,480
Total assets	**$1,299,992**	$1,143,972
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 18)	**$ 398,158**	$ 357,714
Current portion of long-term debt (note 9)	**25,194**	12,828
Income taxes payable	**224**	12,627
Total current liabilities	**423,576**	383,169
Deferred revenues	**66,419**	31,709
Long-term debt (note 9)	**238,468**	241,265
Accrued pension liability (note 14)	**5,483**	6,017
Future income taxes (note 15)	**490**	–
SHAREHOLDERS' EQUITY		
Share capital (note 10)	**116,848**	107,348
Contributed surplus (note 11)	**6,543**	6,692
Retained earnings	**447,820**	373,993
Cumulative translation adjustment	**(5,655)**	(6,221)
Total shareholders' equity	**565,556**	481,812
Total liabilities and shareholders' equity	**$1,299,992**	$1,143,972

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)	2006	2005
REVENUES	$1,764,833	$1,599,792
Cost of goods sold	1,376,492	1,250,714
Gross profit	388,341	349,078
Selling and administrative expenses	221,968	211,899
Asset impairment charge (note 6)	–	17,800
OPERATING INCOME	166,373	119,379
Interest expense (note 9)	14,899	12,977
Interest and investment income	(3,789)	(2,785)
Income before income taxes	155,263	109,187
Income taxes (note 15)	55,842	30,795
EARNINGS FROM CONTINUING OPERATIONS	99,421	78,392
Gain on disposal of discontinued operations (note 2)	–	745
Loss from discontinued operations (note 2)	–	(175)
NET EARNINGS	$ 99,421	$ 78,962
EARNINGS PER SHARE (note 16)		
Basic	$ 1.56	$ 1.25
Diluted	$ 1.54	$ 1.23
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	63,889,036	63,310,574
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	64,693,466	64,420,633

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended December 31 ($ thousands)	2006	2005
Retained earnings, beginning of year	$ 373,993	$ 315,311
Net earnings	99,421	78,962
Dividends	(25,594)	(20,280)
Retained earnings, end of year	$ 447,820	$ 373,993

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	2006	2005
OPERATING ACTIVITIES		
Net earnings	**$ 99,421**	$ 78,962
Items not requiring cash and cash equivalents		
Depreciation	**48,498**	46,594
Asset impairment charge	**–**	17,800
Stock-based compensation	**1,674**	2,378
Accrued pension liability	**(534)**	157
Recovery of future income tax	**(4,188)**	(12,792)
Gain on sale of rental equipment and property, plant and equipment	**(7,301)**	(8,258)
Gain on disposal of discontinued operations (note 2)	**–**	(745)
	137,570	124,096
Net change in non-cash working capital and other (note 19)	**(42,093)**	(100,479)
Cash provided by operating activities	**95,477**	23,617
INVESTING ACTIVITIES		
Additions to:		
Rental equipment	**(66,528)**	(52,268)
Property, plant and equipment	**(35,916)**	(20,545)
Proceeds on disposal of:		
Rental equipment	**25,855**	27,103
Property, plant and equipment	**814**	435
Business acquisitions (note 3)	**(5,481)**	–
Decrease in other assets	**85**	1,219
Disposal of discontinued operations (note 2)	**–**	18,933
Cash used in investing activities	**(81,171)**	(25,123)
FINANCING ACTIVITIES		
Increase (decrease) in term credit facility debt	**13,686**	(40,101)
Issue of other long-term debt	**9,801**	138,121
Repayment of other long-term debt	**(13,918)**	(30,974)
Dividends	**(24,254)**	(19,283)
Shares issued on exercise of options	**7,677**	4,459
Cash (used in) provided by financing activities	**(7,008)**	52,222
Increase in cash and cash equivalents	**7,298**	50,716
Cash and cash equivalents at beginning of year	**50,716**	–
Cash and cash equivalents at end of year	**$ 58,014**	$ 50,716

SUPPLEMENTAL CASH FLOW INFORMATION (note 19)

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006
($ thousands except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Toromont Industries Ltd. and its subsidiaries (the "Company") operate through two business segments: The Equipment Group and the Compression Group. The Equipment Group includes one of the world's 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, coal-bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both Groups offer comprehensive product support capabilities. Toromont employs over 4,400 people in more than 115 locations and is listed on the Toronto Stock Exchange under the symbol TIH.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of Consolidation

The consolidated financial statements include the accounts of the Company 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 in accounting for items and matters such as long-term contracts, allowance for uncollectible accounts receivable, allowance for inventory obsolescence, product warranty, estimated useful lives of assets for depreciation, asset and goodwill impairment assessments, employee benefits and income taxes.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, performance requirements are achieved and ultimate collection is reasonably assured. In addition to this general policy, the following describes the specific revenue recognition policies for each major category of revenue.

(a) Revenues from the sale of equipment are recorded when goods are shipped to the customer, at which time title to the equipment and significant risks of ownership have passed.

(b) Revenues from the supply of equipment systems involving design, manufacture, installation and start-up are recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total costs of the project. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any foreseeable losses on such projects are charged to operations when determined.

(c) Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer, generally on a straight-line basis over the term of the agreement.

(d) Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized when the part is shipped to the customer. For servicing of equipment, revenues are recognized as the service work is completed and billed.

(e) Revenues on extended warranty and long-term maintenance contracts are recognized either on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour service provided, or on a straight-line basis over the life of the warranty. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any losses estimated during the term of the contract are recognized when identified.

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 rate. Revenue and expense items are translated at the average exchange rate 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 agreements for speculative purposes.

All derivative financial instruments designated as hedges are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions.

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

Stock-Based Compensation

The fair value method of accounting for stock options is used. The fair value of option grants is calculated using the Black-Scholes option pricing model and is recognized as compensation expense over the vesting period of those grants with a corresponding adjustment to contributed surplus. On the exercise of stock options, the consideration paid by the employee and the related amounts in contributed surplus are credited to common share capital.

Employee Future Benefits

For defined contribution plans, which cover the majority of employees, the pension expense recorded in earnings is the amount of the contributions the Company is required to pay in accordance with the terms of the plan.

For defined benefit plans, which cover approximately 7% of employees, the Company accrues its obligations and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit plans:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on length of service and management's best estimate assumptions to value its pensions using a measurement date of December 31;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of the active employees.

Earnings per Share ("EPS")

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

Cash and Cash Equivalents

Cash and cash equivalents, 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 for serialized inventory is determined on a specific item basis. Cost for non-serialized inventory is determined based on weighted average actual cost. Direct materials are recorded at the lower of cost and replacement cost.

Rental Equipment

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

Property, Plant and Equipment

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

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset group exceeds its fair value, as determined by the discounted future cash flows of the asset group.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment.

Comparative Amounts

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

2. DISCONTINUED OPERATIONS

Effective August 31, 2005, the assets of the Ontario Sterling Division, previously included in the Equipment Group, were sold. Ontario Sterling was a Sterling Truck franchise in the Greater Toronto Area selling and servicing medium and heavy duty Class 5 to Class 8 trucks. It was determined that this business was not core to the growth of the Company and that it was not generating returns commensurate with expectations. Total proceeds on the sale were $18,933 resulting in an after-tax gain of $745 or 1 cent per share.

Revenues from discontinued operations in 2005 were $32,238 and the loss before income taxes was $283.

3. BUSINESS ACQUISITIONS

Effective January 10, 2006, the Company purchased land, plant and equipment in Casper, Wyoming for $5.5 million. There were no business acquisitions in 2005.

The fair value of net assets acquired was as follows:

Non-cash working capital	$ 135
Property, plant and equipment	5,346
Purchase price	$ 5,481

4. INVENTORIES

	2006	2005
Equipment	**$ 280,528**	$ 228,319
Repair and distribution parts	**73,923**	72,786
Direct materials	**52,138**	33,291
Work-in-process	**55,083**	45,423
	$ 461,672	$ 379,819

5. PROPERTY, PLANT AND EQUIPMENT

			2006			2005
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 38,272**	**$ –**	**$ 38,272**	$ 37,134	$ –	$ 37,134
Buildings	**124,768**	**39,071**	**85,697**	108,118	33,409	74,709
Equipment	**137,401**	**92,403**	**44,998**	125,840	85,205	40,635
Power generation	**42,974**	**29,192**	**13,782**	44,565	29,680	14,885
Assets under construction	**2,541**	**–**	**2,541**	890	–	890
	$ 345,956	**$ 160,666**	**$ 185,290**	$ 316,547	$ 148,294	$ 168,253

Depreciation expense for the year ended December 31, 2006 was $23,236 (2005 – $22,705).

6. ASSET IMPAIRMENT CHARGE

In 2005, Toromont signed a Letter of Intent for a five-year agreement with the Ontario Power Authority. Based on the terms of this agreement, the Company concluded that the revenues generated would not be sufficient to cover the fixed operating costs and depreciation of the Company's power generation assets. As a result, the Company recorded a pre-tax charge of $17,800 in 2005 to reflect the impairment of these long-lived assets, $11,600 on an after-tax basis.

7. RENTAL EQUIPMENT

	2006	2005
Cost	**$ 221,469**	$ 191,123
Less: Accumulated depreciation	**83,255**	75,969
	$ 138,214	$ 115,154

Depreciation expense for the year ended December 31, 2006 was $25,262 (2005 – $23,889). Operating income from rental operations for the year ended December 31, 2006 was $25.7 million (2005 – $19.5 million).

8. OTHER ASSETS

Other long-term assets include $25,521 (2005 – $29,855), representing equipment sold directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase the equipment, at a predetermined residual value and date. 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 operating leases, wherein revenue is recognized over the period extending to the date of residual value guarantee.

9. LONG-TERM DEBT

	2006	2005
Drawn on bank term facility (a)	**$ 43,686**	$ 30,000
Senior debentures (b)	**199,673**	206,174
Notes payable (c)	**20,303**	17,919
Total long-term debt	**263,662**	254,093
Less current portion	**25,194**	12,828
	$ 238,468	$ 241,265

All debt is unsecured.

(a) The Company maintains $248,000 (2005 – $231,000) in bank credit, provided through committed credit facilities, with $23 million maturing in 2008 and the balance of $225 million maturing in 2011. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. Standby letters of credit issued utilized $21,800 of the credit lines at December 31, 2006 (2005 – $9,800).

(b) Terms of the senior debentures are:

- $14,673, 8.17% senior debentures due September 18, 2008, blended principal and interest payments semi-annually from September 18, 2004 through to maturity;
- $45,000, 6.80% senior debentures due March 29, 2011, interest payable semi-annually through March 29, 2007; thereafter, blended principal and interest payments through to maturity;
- $125,000, 4.92% senior debentures due October 13, 2015, interest payable semi-annually, principal due on maturity; and
- $15,000, 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.

(c) Notes payable mature from 2007 to 2009 and bear interest at rates ranging from 1.36% 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:

2007	$ 25,194
2008	68,813
2009	13,657
2010	11,947
2011	6,888
2012 to 2019	137,163
	$ 263,662

Interest expense included interest on debt initially incurred for a term greater than one year of $14,047 (2005 – $12,461).

10. SHARE CAPITAL

Authorized

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

Issued

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

	2006		2005	
	Number of Common Shares	**Common Share Capital**	Number of Common Shares	Common Share Capital
Balance, beginning of year	**63,624,936**	**$ 107,348**	63,082,586	$ 102,719
Exercise of stock options	**685,641**	**9,500**	542,350	4,629
Balance, end of year	**64,310,577**	**$ 116,848**	63,624,936	$ 107,348

Shareholder Rights Plan

On November 2, 2005, the Company adopted a Shareholder Rights Plan (the "Plan") which was confirmed by the Company's shareholders at the Annual and Special Meeting of Shareholders held April 20, 2006. To implement the Plan, the Board of Directors authorized the issuance of one right in respect of each common share outstanding at the close of business November 2, 2005 and one right in respect of each common share to be issued thereafter. If a person or a group acting jointly or in concert, acquires (other than pursuant to an exemption available under the Plan), beneficial ownership of 20% or more of the Company's common shares, the rights will separate from the common shares and permit the holders to purchase common shares effectively at half the prevailing market price. At any time prior to the rights becoming exercisable, the Board of Directors may waive the operations of the Plan with respect to certain events before they occur.

11. CONTRIBUTED SURPLUS

Changes in contributed surplus were as follows:

	2006	2005
Balance, beginning of year	**$ 6,692**	$ 4,484
Stock-based compensation expense, net of forfeitures	**1,674**	2,378
Compensation costs associated with exercised options	**(1,823)**	(170)
Balance, end of year	**$ 6,543**	$ 6,692

12. 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 foreign currency denominated obligations related to purchases of inventory and sales of products. Gains and losses arising from these contracts offset the foreign exchange losses and gains from the underlying hedged transactions. Forward exchange contracts in Euros and US dollars, all maturing in 2007, at December 31, 2006 were as follows:

		Notional Amount	Average Exchange Rate
Purchase contracts	USD	132,541	$ 1.1192
	EUR	2,450	$ 1.5195
Sales contracts	USD	501	$ 1.1123

Interest Rate Swap Contract

An interest rate swap is held which converts $30,000 (2005 – $30,000) 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 financial instruments:

- Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and borrowings under the bank term facility 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;
- Senior debentures and notes payable are valued based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities. The Company has no plans to prepay these instruments 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 financial instruments as at December 31 are as follows:

	2006		2005	
	Fair Value	**Carrying Amount**	Fair Value	Carrying Amount
Senior debentures	**$ 203,775**	**$ 199,673**	$ 212,714	$ 206,174
Notes payable	**$ 19,483**	**$ 20,303**	$ 17,650	$ 17,919
Foreign exchange contracts	**$ 6,143**	**$ –**	$ (1,416)	$ –
Interest rate swap contract	**$ (857)**	**$ –**	$ (1,394)	$ –

13. STOCK-BASED COMPENSATION PLAN

The Company maintains an Executive Stock Option Plan for certain employees. Under the plan, options may be granted for up to 6,096,000 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:

	2006		2005	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	**2,689,795**	**$ 12.72**	2,849,170	$ 10.47
Granted	**370,380**	**24.58**	411,375	21.97
Exercised	**(685,641)**	**11.02**	(542,350)	7.75
Forfeited	**(283,155)**	**17.98**	(28,400)	15.10
Options outstanding, end of year	**2,091,379**	**$ 14.67**	2,689,795	$ 12.72
Options exercisable, end of year	**1,001,823**	**$ 10.67**	1,211,876	$ 9.54

The following table summarizes stock options outstanding and exercisable at December 31, 2006:

Range of Exercise Prices	Number Outstanding	Options Outstanding: Weighted Average Remaining Life (years)	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Outstanding	Options Exercisable: Weighted Average Exercise Price
$7.29 – $8.04	442,400	0.8	$ 7.79	442,400	$ 7.79
$10.27 – $10.71	679,419	2.6	10.66	390,699	10.66
$16.59 – $24.58	969,560	5.0	20.61	168,724	18.24
Total	2,091,379	3.3	$ 14.67	1,001,823	$ 10.67

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 $6.51 (2005 – $6.98). The fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Expected life of options (years)	**5.78**	5.75
Expected stock price volatility	**25.0%**	25.0%
Expected dividend yield	**1.6%**	1.5%
Risk-free interest rate	**4.1%**	3.5%

The Company offers a deferred share unit ("DSU") plan to non-employee directors. A DSU is a notional unit that reflects the market value of a single common share of Toromont. Each director may elect to take all or a portion of his board retainer and meeting fees in DSUs. Each DSU fully vests upon award. The DSUs will be redeemed for cash upon a director leaving the board. The redemption amount will be based upon the average of the high and low trading prices of the common shares on the TSX for the five trading days preceding the redemption date. The program commenced in 2006 and as at December 31, 2006, the total DSUs held by participating directors was 4,307.

14. 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.

Approximately 7% of participating employees are included in defined benefit plans.

(a) Powell Plan – Consists of personnel of Powell Equipment (acquired by Toromont in 2001). The plan is a contributory plan which provides pension benefits based on length of service and career average earnings. The last actuarial valuation of the plan was completed as at December 31, 2003. The next valuation is scheduled as at December 31, 2006, to be completed during 2007.

(b) Executive Plan – This is a non-contributory pension arrangement for certain senior executives which provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. The most recent actuarial valuation of the plan was completed as at January 1, 2005. The next valuation is scheduled as at January 1, 2008.

(c) Other plan assets and obligations – This provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan that, in accordance with the plan provisions, have elected to receive a pension directly from the plan. The most recent actuarial valuation of the plan was completed as at January 1, 2006. The next valuation is scheduled as at January 1, 2009.

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

	2006	2005
ACCRUED BENEFIT OBLIGATIONS		
Balance, beginning of year	**$ 70,503**	$ 66,723
Transfer from Defined Contribution Plan	**899**	–
Service cost	**2,061**	2,186
Interest cost	**3,539**	3,787
Actuarial loss	**2,331**	3,992
Benefits paid	**(5,137)**	(6,185)
Balance, end of year	**$ 74,196**	$ 70,503
PLAN ASSETS		
Fair value, beginning of year	**$ 55,100**	$ 53,132
Transfer from Defined Contribution Plan	**899**	–
Actual return on plan assets	**5,556**	5,368
Company contributions	**2,642**	2,260
Participant contributions	**534**	525
Benefits paid	**(5,137)**	(6,185)
Fair value, end of year	**$ 59,594**	$ 55,100
FUNDED STATUS OF THE PLANS	**$ (14,602)**	$ (15,403)
Unrecognized actuarial loss	**10,892**	11,455
Unrecognized past service benefit	**(1,773)**	(2,069)
ACCRUED PENSION LIABILITY	**$ (5,483)**	$ (6,017)

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

	2006			2005		
	Accrued benefit obligation	**Plan assets**	**Funded status – surplus (deficit)**	Accrued benefit obligation	Plan assets	Funded status – surplus (deficit)
Powell Plan	**$ 44,584**	**$ 44,264**	**$ (320)**	$ 42,412	$ 40,976	$ (1,436)
Executive Plan	**20,021**	**2,373**	**(17,648)**	20,207	2,852	(17,355)
Other plan assets and obligations	**9,591**	**12,957**	**3,366**	7,884	11,272	3,388
Funded status of the plans	**$ 74,196**	**$ 59,594**	**$ (14,602)**	$ 70,503	$ 55,100	$ (15,403)

The Executive Plan is a supplemental pension plan and is solely the obligation of the Company. The Company is not obligated to fund this plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted a letter of credit in the amount of $12.2 million to secure the obligations under this plan.

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

	2006	2005
Discount rate	**5.00%**	5.00%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
Rate of compensation increase	**4.00%**	4.00%

The allocations of plan assets are as follows:

	2006	2005
Equity securities	**45.0%**	45.4%
Debt securities	**37.4%**	39.3%
Real estate	**15.5%**	13.6%
Cash and cash equivalents	**2.1%**	1.7%

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

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

	2006	2005
DEFINED BENEFIT PLANS		
Service cost	**$ 1,527**	$ 1,661
Interest cost	**3,539**	3,787
Actual return on plan assets	**(5,556)**	(5,368)
Actuarial loss	**2,331**	3,992
Difference between actual and expected return on assets	**1,706**	1,765
Difference between actual and recognized actuarial loss	**(1,142)**	(3,124)
Difference between actual and recognized past service benefits	**(296)**	(296)
	2,109	2,417
DEFINED CONTRIBUTION PLANS	**8,424**	6,217
401(k) MATCHED SAVINGS PLAN	**569**	426
NET PENSION EXPENSE	**$ 11,102**	$ 9,060

The total cash amount paid or payable for employee future benefits, including both defined benefits and defined contribution plans, in 2006 was $11,636 (2005 – $9,356).

15. INCOME TAXES

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

	2006	2005
Current income tax expense	**$ 60,030**	$ 43,587
Future income tax recovery	**(4,188)**	(12,792)
Total income tax expense	**$ 55,842**	$ 30,795

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

	2006	2005
Statutory Canadian federal and provincial income tax rates	**36.12%**	36.12%
Expected taxes on income	**$ 56,081**	$ 39,438
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates at foreign subsidiaries	**24**	96
Manufacturing and processing rate reduction	**(147)**	(134)
Large corporation tax	**–**	60
Non-taxable gains	**(144)**	(119)
Impact of adjustment to tax reserves	**–**	(8,700)
Other	**28**	154
Provision for income taxes	**$ 55,842**	$ 30,795
Effective income tax rate	**35.97%**	28.20%

In 2005, Toromont recognized an $8,700 reduction of tax reserves following a comprehensive review of current items. This review was triggered by the successful closure of several outstanding matters including the completion by federal, provincial and state taxing authorities of their review of filings for the three successive tax years up to and including the period ended December 31, 2002.

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:

	2006	2005
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	**$ 11,963**	$ 10,844
Deferred revenue	**2,791**	2,467
Accounts receivable	**2,724**	2,228
Inventories	**6,827**	2,962
	$ 24,305	$ 18,501
NON-CURRENT FUTURE INCOME TAX ASSETS (LIABILITIES)		
Capital assets	**$ (7,512)**	$ (5,467)
Other	**7,022**	6,593
	$ (490)	$ 1,126

16. EARNINGS PER SHARE

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

	2006	2005
Net earnings available to common shareholders	**$ 99,421**	$ 78,962
Weighted average common shares outstanding	**63,889,036**	63,310,574
Dilutive effect of stock option conversion	**804,430**	1,110,059
Diluted weighted average common shares outstanding	**64,693,466**	64,420,633
Basic earnings per share	**$ 1.56**	$ 1.25
Dilutive effect of stock option conversion	**(0.02)**	(0.02)
DILUTED EARNINGS PER SHARE	**$ 1.54**	$ 1.23

17. COMMITMENTS

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

2007	$ 5,700
2008	4,230
2009	2,850
2010	1,109
2011	383
2012 and thereafter	1,084
	$ 15,356

18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	2005
Accounts payable and accrued liabilities	**$ 301,131**	$ 272,627
Dividends payable	**6,431**	5,090
Deferred revenues	**90,596**	79,997
Total accounts payable and accrued liabilities	**$ 398,158**	$ 357,714

Deferred revenue represents unearned income associated with warranty and service agreements, contract advances, and any other situations where payments are received in advance of revenue recognition.

19. SUPPLEMENTAL CASH FLOW INFORMATION

	2006	2005
Net change in non-cash working capital and other		
Accounts receivable	**$ (4,089)**	$ (68,670)
Inventories	**(81,695)**	(82,487)
Accounts payable and accrued liabilities	**38,908**	58,366
Other	**4,783**	(7,688)
	$ (42,093)	$ (100,479)
Cash paid during the year for:		
Interest	**$ 15,213**	$ 12,298
Income taxes	**$ 72,881**	$ 50,422
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued liabilities	**$ 2,704**	$ 2,532

20. 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, coal bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both groups offer comprehensive product support capabilities.

The 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	
	2006	2005	**2006**	2005	**2006**	2005
Equipment/package sales	**$ 566,750**	$ 513,318	**$ 584,297**	$ 521,424	**$1,151,047**	$1,034,742
Rentals	**133,610**	126,250	**20,158**	16,933	**153,768**	143,183
Product support	**272,036**	259,654	**172,509**	147,490	**444,545**	407,144
Power generation	**15,473**	14,723	**–**	–	**15,473**	14,723
Total revenues	**$ 987,869**	$ 913,945	**$ 776,964**	$ 685,847	**$1,764,833**	$1,599,792
Operating income before impairment charge	**$ 91,485**	$ 80,596	**$ 74,888**	$ 56,583	**$ 166,373**	$ 137,179
Asset impairment charge	**–**	17,800	**–**	–	**–**	17,800
Operating income	**$ 91,485**	$ 62,796	**$ 74,888**	$ 56,583	**$ 166,373**	$ 119,379
Interest expense					**14,899**	12,977
Interest and investment income					**(3,789)**	(2,785)
Income taxes					**55,842**	30,795
Net earnings from continuing operations					**$ 99,421**	$ 78,392

Selected Balance Sheet information

	Equipment Group		Compression Group		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
Identifiable assets	**$ 702,455**	$ 660,028	**$ 519,144**	$ 418,192	**$1,221,599**	$1,078,220
Corporate assets					**78,393**	65,752
Total assets					**$1,299,992**	$1,143,972
Capital expenditures	**$ 79,695**	$ 65,312	**$ 22,749**	$ 7,501	**$ 102,444**	$ 72,813
Depreciation	**$ 39,200**	$ 37,837	**$ 9,298**	$ 8,757	**$ 48,498**	$ 46,594
Goodwill	**$ 13,000**	$ 13,000	**$ 21,800**	$ 21,800	**$ 34,800**	$ 34,800

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

	2006	2005
Revenues		
Canada	**$1,450,099**	$1,381,629
United States	**233,971**	148,124
International	**80,763**	70,039
	$1,764,833	$1,599,792
Capital assets and goodwill		
Canada	**$ 332,127**	$ 305,431
United States	**25,768**	12,469
International	**409**	307
	$ 358,304	$ 318,207

21. 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

For the years ended December 31 ($ thousands except where otherwise indicated)	**2006**	2005	2004 (1)	2003 (2)
OPERATING RESULTS				
Revenues	**1,764,833**	1,599,792	1,434,756	1,299,389
Net earnings before unusual items	**99,421**	78,962	70,518	58,693
Unusual items	**–**	–	–	–
Net earnings	**99,421**	78,962	70,518	58,693
Net interest (income) expense	**11,110**	10,192	10,202	10,608
Capital expenditures	**102,444**	72,813	65,608	72,922
Dividends declared	**25,594**	20,280	16,486	13,319
FINANCIAL POSITION				
Working capital	**469,638**	410,990	263,294	203,577
Capital assets	**323,504**	283,407	297,645	293,211
Total assets	**1,299,992**	1,143,972	962,437	856,176
Long-term debt	**238,468**	241,265	166,508	159,694
Shareholders' equity	**565,556**	481,812	415,855	376,837
FINANCIAL RATIOS				
Working capital	**2.1:1**	2.1:1	1.8:1	1.7:1
Return on opening shareholders' equity (%)	**20.6**	18.9	18.7	17.5
Total debt net of cash to shareholders' equity	**.4:1**	.4:1	.4:1	.5:1
PER SHARE DATA ($)				
Net earnings before unusual items	**1.56**	1.25	1.11	0.93
Unusual items	**–**	–	–	–
Net earnings	**1.56**	1.25	1.11	0.93
Dividends declared	**0.40**	0.32	0.26	0.21
Book value (shareholders' equity)	**8.79**	7.57	6.59	5.93
Shares outstanding at year end	**64,310,377**	63,624,936	63,082,586	63,563,246
Price range				
High	**27.15**	25.68	20.85	16.73
Low	**20.08**	20.05	15.88	9.88
Close	**24.50**	25.40	20.72	16.53

Notes

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

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

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

2002	2001 (3)	2000	1999	1998	1997
1,076,930	911,005	800,464	723,937	683,482	684,716
40,457	43,700	32,345	32,057	28,242	25,674
–	–	–	–	9,946	35,159
40,457	43,700	32,345	32,057	38,188	60,833
7,136	(6,913)	3,797	(1,774)	1,910	2,424
53,042	77,394	57,968	52,146	36,307	29,627
11,541	10,646	9,257	8,213	7,650	5,859
213,222	218,132	165,098	183,922	144,109	138,458
258,764	252,104	206,526	138,499	106,628	84,831
771,902	720,702	613,787	531,201	442,972	434,341
156,479	171,970	157,187	120,000	60,000	60,000
335,316	314,248	218,213	203,062	183,596	155,821
1.8:1	2.0:1	1.7:1	1.9:1	1.8:1	1.7:1
12.9	17.1	15.9	17.5	24.5	60.6
.4:1	.5:1	.7:1	.6:1	.3:1	.4:1
0.63	0.71	0.56	0.55	0.48	0.44
–	–	–	–	0.17	0.60
0.63	0.71	0.56	0.55	0.65	1.04
0.18	0.17	0.16	0.14	0.13	0.10
5.28	4.90	3.77	3.47	3.12	2.65
63,455,146	64,194,946	57,951,396	58,576,196	58,916,420	58,797,736
13.25	13.10	10.38	9.95	11.50	9.20
9.25	7.63	6.90	6.88	7.13	6.34
10.33	10.24	8.75	8.13	7.88	8.25

CORPORATE INFORMATION

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ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 a.m. on Thursday, April 26, 2007 in the Glenn Gould Studio located in the CBC Broadcast Centre, 250 Front Street West, Toronto, Ontario.

OFFICERS

Robert M. Ogilvie, Chairman and Chief Executive Officer
Wayne S. Hill, Executive Vice President
Paul R. Jewer, Vice President, Finance and Chief Financial Officer
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, General Counsel & Secretary
Eric C. Breitkreutz, Vice President, Human Resources

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HOW TO REACH OUR TRANSFER AGENT AND REGISTRAR
Investors are encouraged to contact CIBC Mellon Trust for information regarding their security holdings.

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