TOROMONT

Growing Agriculture

Keeyask Answered

The Winning Edge

ANNUAL REPORT

2014 Proven Steady Growth

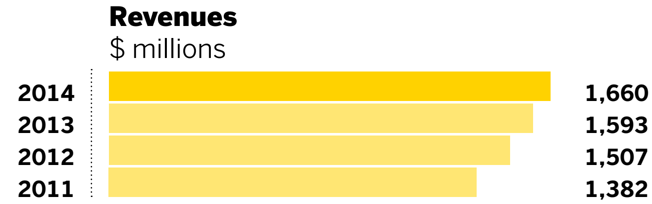


TABLE OF CONTENTS

Net Earnings – Continuing Operations
$ millions

Toromont Industries Ltd. and our dedicated team of more than 3,350 deliver specialized equipment and much more from over 100 locations in Canada and the United States. Our common shares are listed on the Toronto Stock Exchange (symbol TIH).

Equipment Group

We are a market leader in the supply of specialized mobile equipment and industrial engines. We provide sales and rental solutions as well as comprehensive product support through Toromont Cat, Battlefield – The Cat Rental Store and SITECH Mid-Canada Ltd. in Ontario, Newfoundland, Manitoba and most of Labrador and Nunavut, and Ag West Equipment Ltd. in Manitoba.

CIMCO

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

Proven Steady Growth

in thousands, except per share amounts and ratios

	2014	**2013**	**2012**
Revenues	**$1,660,390**	$1,593,431	$1,507,173
Net earnings	**133,196**	123,031	119,473
Earnings per share – basic	**1.73**	1.61	1.56
Dividends per share	**0.60**	0.52	0.48
Closing share price (TSX)	**28.51**	26.65	21.10
Total debt, net of cash, to total capitalization	**6%**	10%	25%

Scott J. Medhurst
President and
Chief Executive Officer

Robert M. Ogilvie
Chairman of the Board

FELLOW SHAREHOL

Toromont's deep resources and unifying strength of purpose served us well in 2014 as we met customer demand across many industries, delivered record financial performance and identified opportunities for future advancement.

While 2013 proved to be a tough comparator, 2014 revenues stood at a record level of $1.7 billion with product support and rental leading the way. Operating income was up 6%. Net earnings were also a record, up 8% to $1.73 per share.

For the 25th consecutive year, strong earnings funded a dividend increase in 2014 and our Board extended that track record to 26 years at their meeting in February 2015. Even though Toromont paid $45 million in aggregate to shareholders and invested $116 million to bolster our capabilities organically and through acquisition, we maintained a strong financial foundation. Total debt, net of cash, to total capitalization was 6% at year end, giving us the means to seize opportunities for accretive growth and defend the leadership positions we have achieved in chosen markets.

In many respects, 2014 was a typical year. Activity levels across the industries we serve varied. Competition was tough. While maintaining financial strength, we employed our standard "expand markets, strengthen product support, broaden product offerings and invest in resources" strategies in new and rewarding ways. We allocated capital with the same investment goal of 18% return on equity over a business cycle and delivered return on opening shareholders'

DERS,

equity of 23% for a 10-year average of 21.5%. Most important, we remained resolute in our desire to use our considerable resources – financial and human – to create customer value. This is our unifying purpose and the foundation for rewarding shareholders, employees and business partners. We are proud to say that these resources are deeper than at any time in our history.

As a market leader, Toromont commands one of the largest product support networks in our territories with over 1,300 technicians and 100 locations, including those that we share with customers at their remote sites. Our front-line efforts are backstopped by another 2,000 Toromont skilled employees who give us an edge in everything from technology development and analytics – areas of growing importance across our businesses – to product and parts sales. As a whole, our employees are experienced (62% have served Toromont for more than five years), engaged and motivated (54% are shareholders).

Deploying resources for maximum benefit is the responsibility of our empowered business unit leaders who operate with defined deliverables for customer satisfaction, safety and financial performance, including return on capital employed. These individuals did an excellent job in 2014 against their deliverables – overseeing, in particular, ongoing safety improvements – although it is the collective efforts of Toromont employees that once again made the difference.

Using Our Resources

In 2014, we used our resources in many different ways.

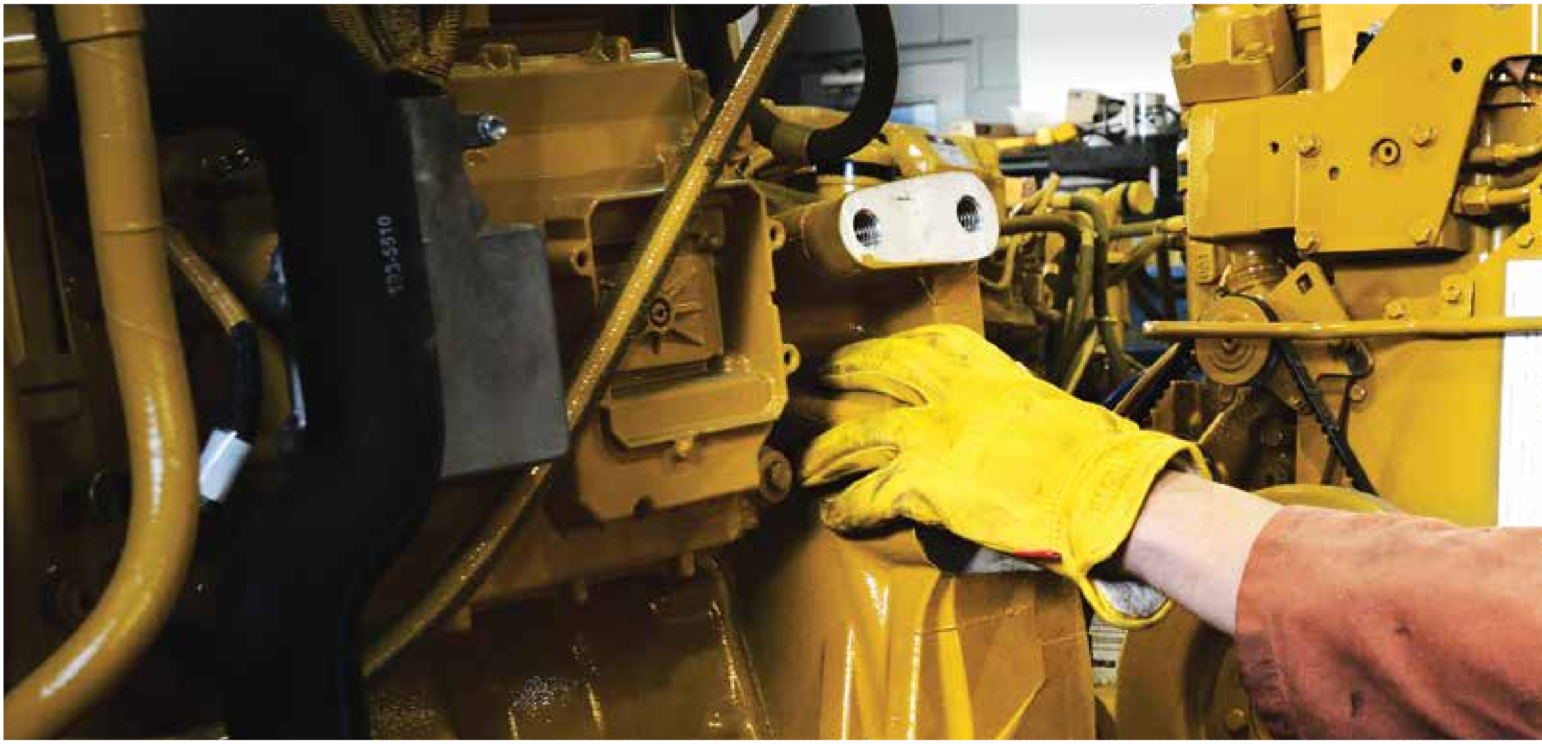
Toromont Cat and Battlefield – The Cat Rental Store met the construction equipment needs of the Keeyask hydroelectric project in northern Manitoba. This was the year's largest order, valued at over $55 million, and it made good use of various skill sets, including logistics, equipment customization and preparation, both in-branch and onsite, some 725 km northeast of Winnipeg.

We set a new record for product support revenues, including a new record for mining parts sales and equipment remanufacturing. While 2014 was a down year for new mining equipment purchases due to the commodities' cycle, the steady expansion of our installed base of under- and above-ground units over the past decade proved to be instrumental – and illustrative of the value of servicing everything we sell.

Battlefield's growing market presence and rigorous management of its rental fleet produced great results in 2014. In addition to increasing same-store sales, Battlefield also expanded its footprint with a new store in Happy Valley–Goose Bay, Labrador, where the Muskrat Falls hydroelectric project is driving considerable economic output.

Toromont Cat's Power Systems division engaged in a variety of projects on the way to improved performance, including re-equipping Rosa Flora, a long-time cogeneration customer; renting 16 megawatts of generation equipment to Newfoundland and Labrador Hydro's Holyrood Power Plant to bridge the power supply needs of the City of St. John's; and serving data centres that rely on high quality, uninterrupted power for banking and telecommunications.

To better serve the billion-dollar mobile equipment needs of Manitoba's agriculture industry, we acquired two AGCO equipment dealers for a combined purchase price of $13 million including assumed debt. The additions of Ag West Equipment in September and Canpro Gator Centre in December broadened our product offering, expanded our branch network and deepened our product support resources, thereby creating new sales synergies we can use to grow. On an annualized basis, agriculture is now nearly a $100 million market for Toromont including the revenue contributions of these businesses.



"Our history of performance over business cycles demonstrates the advantages of delivering highly specified equipment with follow-on product support into diverse markets."

Sometimes we use our resources to improve how we do business. Such was the case in 2014 within our Heavy Rent operations, where we focused on operational and process efficiencies as a prerequisite to continued growth. With these changes in place, we look to increase investment in 2015.

Rounding out our Equipment Group, SITECH Mid-Canada Ltd. enhanced coverage of Cat AccuGrade® control systems and Trimble Connected Site Solutions by adding field-service staff and creating a mining and special projects group. It too recorded new customer wins.

CIMCO partly offset the impact of softer project activity with record product support revenue in both Canadian and U.S. markets. This follows investments in field-service and further development of capabilities such as vibration analysis, water treatment, plant audits and risk assessments.

In industrial markets, our resources were used by leaders such as Maple Leaf Foods, Cameco, Dr. Oetker, Cadbury, Parmalat Canada Inc., Walmart Canada and Unilever USA on their construction projects.

CIMCO's status as the long-time preferred ice rink equipment supplier to the NHL and its deep engineering resources helped it secure several new projects, including work at Rogers Place, the future home of the Edmonton Oilers. Recent innovations in the use of CO_2 for recreational applications also led to the award of more ECO_2 CHILL® and ECO CHILL® package sales in a relatively quiet year for municipal investment in community ice rinks.

CIMCO ended 2014 with higher backlog than a year ago.

Promoting from Within

At year end, we noted a planned changing of the guard at CIMCO. After serving CIMCO since 1971, including the past 29 years as President, Steve McLeod retired. With Steve's expert guidance, CIMCO became the market leader in Canada and a growing force in the United States. We sincerely

thank Steve for his dedication and for his work in grooming the next generation of CIMCO leaders. In that regard, we were pleased to appoint David Malinauskas as President of CIMCO effective January 1, 2015. A professional engineer, Dave has served CIMCO for 16 years, most recently as Director of Engineering.

The ability to promote talented people into positions of leadership is one sign of a deeply resourced organization. While Toromont's workforce is relatively youthful with an average age of 42, continued focus on human resource development for leadership succession is crucial to retention and our long-term business success.

Looking Forward

Our challenge is to continue to use our existing resources to the fullest extent possible and to invest in new resources that best address emerging customer needs and our requirements for value creation. Meeting these challenges is never easy, nor guaranteed, but we do believe that Toromont has the right plans in place.

For 2015, these plans build on strategies that have served us well over many years and focus on familiar themes. One is the advancement of technology, which has the potential of helping us to build closer ties with customers wherever and whenever they do business. During 2014, we worked closely with Caterpillar to introduce a suite of equipment monitoring solutions that leverages telematics to enable better asset management and tracking of machine productivity. This effort adds another dimension to Toromont's traditional product support role and, as more customers subscribe to these services, enhances our ability to predict service needs and plan resources to deliver maintenance more effectively.

Another familiar theme is market expansion; growth in Manitoba's agriculture industry being a recent example. Our history of performance over business cycles demonstrates the advantages of delivering highly specified equipment with follow-on product support into diverse markets. We will continue on this path in 2015.

Special Note

We regretfully report the passing of former Board member Andrew "Drew" Gilmour McCaughey in May 2014. Drew served on the Board with distinction from 1984 – 1998, key formative years for the Toromont you see today, and retired upon attaining our mandatory retirement age for directors. He was a great friend, a respected business executive and will be missed.

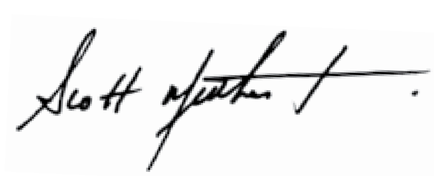
Conclusion

In closing, it takes many resources to grow steadily and profitably across diverse markets and geographically dispersed territories. It also demands a clear sense of purpose. Your Company is fortunate to have both.

We sincerely thank all of our customers, shareholders, employees, Directors and business partners for your ongoing support and contributions in a challenging but rewarding year.

Yours sincerely,

Robert M. Ogilvie
Chairman of the Board



Scott J. Medhurst
President and Chief Executive Officer

KEEYASK ANSWERED

A Toromont-supplied **Cat 740B** truck at work.

Equipping Manitoba's massive hydro project takes a steady stream of resources

When it is completed in approximately five years, the Keeyask hydroelectric project will produce some 4,400 gigawatt hours of electricity annually, enough to power 400,000 homes.

For Manitoba Hydro and its four First Nations partners, this new $6.5 billion project on the lower Nelson River will create reliable and renewable energy for use in the province and for sale to export markets in Canada and the United States.

To realize this objective, a massive amount of rock must be excavated. Temporary river management structures known as cofferdams will be built to control water flow. Concrete by the ton must be poured for the spillway and powerhouse. Many kilometres of access roads need to be constructed and maintained, and complex electrical and mechanical work must be done.

Recognizing the need for significant construction resources and deep experience, Manitoba Hydro as Project Manager for the partnership awarded a $1.4 billion general civil contract in early March 2014 to the consortium of Bechtel Canada Co., Barnard Construction of Canada Ltd. and EllisDon Civil Ltd., known collectively as BBE Hydro Constructors Limited Partnership.

Immediately after, BBE moved to equip itself, turning to Toromont for a fleet of machines valued at over $55 million. This was our largest single order of 2014 and the largest order ever for our Toromont Cat operations in Manitoba.

A fleet of Toromont-supplied machines stands ready to serve.

"This was our largest single order of 2014 and the largest order ever for Toromont Cat operations in Manitoba."

As expert contractors, BBE knew exactly what machines they needed, based on projected production levels and cost-of-operating calculations. The equipment list featured some of the mainstays of the Cat product line: 777G trucks, each with 94.8 tons of payload capacity; 740B articulated trucks, each with 489 horsepower; and D9T dozers, each weighing 48,361 kg. Challenger tractors, which we represent as an AGCO dealer were also specified, and Battlefield – The Cat Rental Store delivered skid steer loaders, telehandlers and light stands. Our SITECH Mid-Canada Ltd. technology dealership was also heavily involved.

Like many large assignments, we dedicated teams of specialists to source and deliver the machine fleet, which was modified to custom specifications reflecting the type of work to be carried out and the project's remote and very cold location, 725 km northeast of Winnipeg, where Gull Lake flows into Stephens Lake. Here, the thermometer displays –30° C for weeks on end.

Included in the order were: Cat AccuGrade® control systems that BBE operators will use instead of survey stakes to maintain consistent grades across kilometres of territory; GPS and two-way radios; Webasto fluid warmers; and oils, greases and coolants rated to –50° C. Machine headlights were also converted to Light Emitting Diodes (LED) because the Keeyask site is dark in the winter for 16 hours a day.

Manitoba Hydro as Project Manager also put a premium on safety for people and the environment, leading to the installation of bulletproof glass and QuickFit™ oil evacuation systems.

One of the workhorses at Keeyask, the **Cat D9T** dozer.

The glass protects excavator operators while they hammer through rock. QuickFit eliminates hot oil spills by using compressed air to purge on-board filters and to create dripless connections. This system also improves safety for technicians by eliminating the need to climb on or under machines and reduces time to complete oil changes.

Time Crunch

Toromont modifies machines on a daily basis. The challenge with Keeyask was time.

"A significant part of the order was due in June," said Chris Moskal, Toromont Cat Vice President, Western Region, "giving us just under one month, once the purchase orders were received, to acquire the equipment, line up components and prep the machines."

With Winnipeg, Hamilton and Concord branches contributing, some 40 Toromont Cat service technicians, along with product support supervisors and a service controller, worked with partners from SITECH to outfit the machines in assembly-line conditions.

"A total of 60 machines came through our Hamilton branch and we assigned multiple technicians to complete all services, including customization and pre-delivery inspections (PDIs) within a very short window of time," said Dan Dent, Product Support Sales Manager, Southwest Region. "Orchestrating the on-time arrival of parts and components from various sources proved to be formidable, but the project management approach we learned from doing other large projects helped to get us over the finish line."

When the equipment is destined for a remote location, no detail can be missed because even minor problems can turn major. BBE's equipment, complete with supplies for the parts depot, was delivered on flatbeds travelling north on Provincial Road 280. Many machines were fully assembled, but the largest arrived in pieces, creating the need for onsite assembly.

A rotating team of 12 onsite service technicians started their work in June, working outdoors on a gravel laydown area to build the Cat 777G trucks from the chassis up, a 400-hour task per machine. Despite wilderness conditions (the site is just 270 km from Hudson's Bay), and the temporary nature of the assembly area, rigorous inspections showed that the trucks met the exact same standards as equipment assembled in any Toromont branch.

"Many of us have worked in similar or even more onerous conditions," said Michael Angel, onsite Product Support Manager, "so we were prepared for the environmental challenges of assembling machines outdoors in an area that is buffeted by high winds and cold temperatures. Through it all, we are proud to report that we had zero safety incidents in 2014. This is our fundamental responsibility."

The one challenge our onsite team continues to face is how quickly the landscape is changing. "When you're away on rotation and come back," said Mr. Angel, "it takes time to figure out how to get to the construction camp because the temporary roads keep shifting."

When operational, the seven-unit generation station will feed clean energy to Manitoba's grid for generations to come. Toromont is proud to meet the project's needs for specialized equipment and people. TIH

GROWING AGRICULTURE

Through acquisitions, we have fortified our place in Manitoba's largest industry

Toromont is investing to grow its agricultural equipment business. Why? The fundamentals are promising. The world's population continues to expand and, with more mouths to feed, there is an ongoing need to make scarce, arable land more productive.

By our estimates, the agriculture industry in Manitoba purchases upwards of a billion dollars of mobile equipment and product support annually, making it a large and attractive market and one we are serious about serving for the long haul.

To serve this market, Toromont formed a new business unit called Ag West Equipment Ltd. to combine the operations of the former Toromont Cat Ag division with two newly acquired businesses: Ag West Equipment Ltd. (September 2014) and Canpro Gator Centre (December 2014).

As a result of these purchases, we boosted our annualized agricultural equipment revenues (products and product support) to approximately $100 million and improved our market coverage by adding 44 employees and two dedicated branches in Manitoba (Portage la Prairie and Neepawa) to our existing provincial footprint, which itself was enhanced during the year with the opening of a new Toromont Cat facility in Brandon.

We also gained access to AGCO brands we did not previously represent, including Fendt, which is known worldwide for agriculture innovation; Massey Ferguson, an iconic name in Canadian farming with a history dating back to 1847; and RoGator, TerraGator and Willmar application equipment.

These products complement the AGCO Challenger and CLAAS Lexion brands that we have represented since 2001. Challenger was originally part of the Caterpillar family and traces its corporate lineage to Benjamin Holt, an entrepreneur who invented the first track-type tractor for plowing soft ground in 1904 and nicknamed it the Caterpillar. CLAAS is one of the world's leading manufacturers of agricultural engineering equipment, with home operations in Harsewinkel, Germany, and a successful history dating back to 1913.

By combining CLAAS and our now-broader AGCO offerings with Cat construction products that are popular in the agriculture industry, such as skid steer and backhoe loaders, we are better able to serve the estimated 19,000 field-crop and livestock farms in the province as a one-stop source for specialized combine harvesters; removable headers; tractors; seeding, tillage, hay and forage equipment as well as sprayers and spreaders.

Like customers in other industries, farm operators expect the highest productivity and the lowest cost of ownership. This is where AGCO and CLAAS differentiate themselves. AGCO directs all of its investments to the agriculture industry and has been on the leading edge of developments such as hybrid combines and telemetry-based machine tracking. Similarly, CLAAS is a pure-play agriculture company with world-leading positions in both combine and self-propelled forage harvesters, and is known for its Efficient Agriculture Systems.

Product Support

While machine capability is vital and is well addressed through our partners, so too is machine maintenance and repair, which are

The **AGCO MT800E** Series Challenger track tractor boasts industry-leading displacement and torque.

provided by Toromont. During harvest time, customers cannot accept even a few hours of delay due to equipment malfunction.

Our experience shows that only when the farm operator is satisfied that product support is readily available – no more than 30 minutes away – will a supplier be awarded a capital purchase. This is why market coverage and field-service resource increases are so important to Toromont. With these acquisitions and organic growth during the year, we nearly tripled our Ag service technician workforce.

In Manitoba's agriculture industry, we take pride in helping customers in their place of business: be it field or shop. For example, when a customer in Meadows, Manitoba reported an electrical fault with their Lexion 780TT combine this past September, David Goodwill, a technician from our Elie branch, was quick on the scene. Due to the sporadic nature of the problem, the machine's owner suggested we wait to do a full diagnosis until the machine was idle the next day. Instead, we grabbed data while the harvest continued by plugging into the machine's interface. The information was then relayed to a support team at CLAAS for analysis. Later that evening, a potential solution was identified, the technician returned to the farm just before midnight to apply the fix and the problem, caused by a misplaced O-ring on the cam speed sensor, was solved.

Other times our product support takes the form of machine substitution. When harvesting flax, a specialty crop, Wingham Farms Ltd. in Elm Creek, Manitoba, ran into some unique and challenging conditions caused by high plant-fibre content. Their existing machine was unable to process the crop because the plants bound themselves to internal components, which created a fire hazard. To get the job done, we provided the customer with a Lexion 670 combine that uses what is known as a straw walker. The harvest was completed stress-free.

Parts supply is equally important. In 2014, we grew our parts team, continued to offer extended hours during peak seasons with 24/7 on-call availability, and employed systems to track demand history that ensure we stock the right parts at the right time. As a result, we improved over-the-counter fill rates for customers by 2% over 2013 while achieving strong parts sales volumes and inventory turns.

Growth Trends

As a result of these acquisitions, Toromont is also better positioned for two other fundamental trends. One is growth in farm acreage as a result of consolidations, which increases the need for faster and larger capacity machines such as those we represent. The other is the increased use of information technologies that allow farmers to gather field data during operations for more effective use of equipment, including more precise applications of fertilizers and pesticides. The brands we represent are all leaders in on-board technologies.

"We are dedicated to Manitoba's farming community and see the additions of Ag West and Canpro as tangible expressions of our commitment," said Larry Moffatt, Vice President, Ag West. "Our plan is to grow and we are enticed to compete because we know that, in Manitoba, the Ag market is larger than the construction market, and the underlying trends affecting the opportunity play to our strengths. As a result of our increased scale and capabilities, the province's agriculture industry is now a more important contributor to meeting our goal of proven, steady growth."

With more great brand names, improved territorial coverage, growing product support resources and significant experience, Toromont plans to be farm strong in Manitoba for years to come.

MORE LIVES TO LIVE

Toromont Reman keeps customers on the move with remanufactured components

When heavy equipment components are used and abused, they don't go to waste, they go to Reman.

Toromont Reman is where machine components and attachments are remanufactured and brought back into productive service two, three and even four times. It is also where extraordinary efforts are made to keep pace with customer demand. During 2014, our Reman operations restored 720 hydraulic cylinders, 194 engines, 160 transmissions, 138 final drives, 93 torque converters and thousands of other off-the-shelf exchange components on the way to record throughput.

The popularity of our offering reflected growth in our installed base of equipment and machine utilization levels, and a broadening of our markets to include the landfill, marine, electric power generation, quarry and aggregate, earthmoving, steel, and paper industries. Customers in virtually all of our markets now use our capabilities because remanufactured parts are competitively priced (at approximately 40% to 60% of the cost of buying new). Mining was the biggest consumer in 2014, accounting for about 60% of rebuild activity, following the significant increase in Toromont's installed mining equipment base in recent years.

Running an effective Reman operation takes a number of capabilities, including component sourcing. "Most customer requests are hot turnarounds," says Joel Couture, General Manager of Toromont Reman, "meaning they are required within hours not weeks. If we do not have the rebuilt component in inventory, the customer could be forced to look elsewhere rather than wait due to the cost of machine downtime in critical applications. To meet customer demands, we use a number of strategies all aimed at ensuring an appropriate supply of cores."

Cores are any machine component that comes in to be remanufactured. The primary source of cores is customers. Remaining needs are met in a variety of ways. One is to seed a customer's program by buying a new spare component from Cat so that there is always a guaranteed supply when an exchange takes place. The Toromont Cat branch network, which sells (and buys) used equipment, is another important source, as is trading with other Cat dealers and participating in equipment auctions. Toromont has been known to go as far afield as Australia to acquire a core.

While having a sufficient supply of cores is important, so too is determining where to focus remanufacturing efforts to ensure quick inventory turns. To avoid having too much of one product in inventory and not enough of another, analysts track the machine population in our territories and predict when equipment is likely to arrive at Toromont for remanufacturing. This is not an exact science, although equipment monitoring has improved our line of sight and the Toromont Cat branch network provides an early warning system. As a result, Toromont offers over-the-counter availability on hundreds of reconditioned parts and keeps inventory moving quickly.

Tools of the Trade

Toromont goes to great lengths to ensure quality. Our ISO 9001 certified Reman facilities are capable of remanufacturing and testing all major components used in

Toromont Cat Reman's **Jayce Clarke** and **Wes Trotter** work on a boom cylinder for a **Cat 6060** hydraulic mining shovel.

even the largest equipment Caterpillar produces today. In 2014, we became only the second Cat dealer in the world to be certified to remanufacture Cat's single largest cylinder, the HydraCrowd™, which operates the behemoth earth mover known as the Cat 7495 electric rope shovel.

Preparing components for their second life starts with a molten salt bath where ultrasonic cleaners remove paint, carbon, oil and soil. Next, we apply advanced tools and techniques to evaluate components: dynamometers test engines and powertrains, magnetic particle inspectors test for hairline fractures, and a dedicated fluid analysis lab examines oils and coolants for microscopic contamination. The lab serves Toromont Reman and all of our branches and, on an average day, tests 500 samples.

More than 90 technicians are responsible for following the precise processes that lead to quality rebuilds. On a transmission alone, they use a 60-step procedure. Their work is top notch and our process quality group is relentless in its quest to root out any defects.

Deep Integration

Toromont Reman is deeply integrated with our branch network and the two sides of our product support business collaborate extensively. For example, to better address mining demand, we added a remanufacturing centre at Toromont Cat's Thunder Bay branch in 2012, bringing our total Reman capacity to 120,000 square feet across four facilities.

A good example of collaboration is a 2014 rebuild for Holcim (Canada) Inc., one of the country's largest vertically integrated building materials and construction companies. When the customer decided they wanted a Cat Certified Rebuild (CCR) on their 992G wheel loader, they chose our Peterborough branch, which is close to the machine's home base, the Ogden Point limestone quarry.

Peterborough branch managed the project and performed a variety of tasks, including stripping the machine, reconditioning the cab and ensuring that all critical engineering updates from Cat were incorporated. Toromont Reman rebuilt the engine, transmission, torque converter and axles, which were then returned to the branch for reassembly. In all, about 7,000 parts were replaced or rebuilt and all work was subject to strict audit. An audit is required because a machine seeking CCR status receives a brand new Vehicle Identification Number, meaning it is not just "as good as new," in many cases, it *is* new. While in the Peterborough branch, the wheel loader underwent more than 350 tests and inspections before earning CCR status.

As a result of this collaborative approach, Peterborough's Product Support Manager Margie Dingwall said, "Holcim got the machine it needed at a fraction of the cost of buying new and Toromont was able to best the average time required to rebuild similar machines by 300 person-hours, allowing us to deliver ahead of the customer's deadline."

While we work on different brands of equipment, Caterpillar machines are the ones that customers buy specifically because original manufacturing processes, such as heat-treating gears, means there is enough metal to allow for parts to have two, three and even four lives. This is an advantage for customers who plan to operate their equipment for the long haul.

Toromont Reman is an important part of our product support business that keeps our customers moving. When a Toromont rebuilt Cat product goes back into service, customers know we stand behind it 100%. TIH

DATA DRIVEN

A **Cat motor grader** with **AccuGrade** technology.

Smart machine technology fuels next generation of product support

Current technology now makes it possible to build wirelessly connected communities of smart machines where crucial equipment information is constantly streamed from work sites to data managers for aggregation, analysis and action.

The availability of these telematics-enabled machines worldwide is transforming how equipment is managed and maintained and, more fundamentally, how customers get their work done and what they expect from companies like Toromont.

With embedded electronic sensors beaming information by cellular networks or satellite, it is possible to gain fleet-wide intelligence on the performance of each machine, including the amount of material it moves, idling time and fuel consumption. Productivity levels can be compared across different machines doing similar jobs, invoices can be populated based on precise production levels, training can be improved when improper operation of the equipment is detected and, when a construction site is shut down, machine monitoring protects against equipment theft.

Machine-level connectivity stands to be a game changer that can drive greater efficiency for customers across a host of variables, lower labour and fuel costs and feed greater enterprise-level insight into operating results.

Toromont stands to benefit from greater technology penetration as customers align with suppliers that can help them efficiently capture, filter and interpret the myriad of data sets that emanate from smart machines. While the newest machines we sell are equipped with their own Internet address and telemetry capabilities as standard features, and the after-market conversion of older Cat and non-Cat machines into smart machines happens on a regular basis at Toromont, the real catalyst of adoption will be customer awareness of the value of on-board technologies. This will be assisted by the use of technology in consumer devices.

That said, Toromont has already staked its claim as a technology leader, using telematics to improve the ability to predict customer service needs, plan resources and maintain machines. For the Equipment Group, which generates about 32% of its annual revenues from product support, technology has been a driver of efficiency and service fulfillment for the past decade and increasingly is a market differentiator that can be used to deliver value-added business intelligence to customers.

"Product support is at its best when we can predict a problem before it happens by monitoring how many hours a machine operates, compare that with the manufacturer's guidelines for service, then intervening proactively with a service call," said Michael Cuddy, Vice President and Chief Information Officer of Toromont Industries. "We're doing that today on some 5,000 Cat machines in our territories. However, with

Time Sensitive

New investments target faster parts delivery

On an average day in 2014, Toromont Cat processed 3,000 parts orders. As throughput goes, it was a record year, but volume is just one of many metrics that counts. For our Product Support teams, order fulfillment accuracy and speed are also essential in hitting customer satisfaction targets and chasing out profitability-destroying inefficiencies.

As part of our continuous improvement process, we took action in 2014 to enhance performance. At our largest branch in Concord, Ontario, we commissioned a new warehouse-management software system, redesigned the 27,000 square meter space into six zones and upgraded handheld radio frequency (RF) scanners to enable priority sequencing. As a result, each staff member is now capable of picking 60 line items per hour, up from 25, and the electronic bar coding system we use verifies that each order is filled correctly. The resulting gains in throughput have wide-reaching benefits because many parts orders cross through Concord on their way to other Toromont Cat branches.

This was not the only upgrade. Since many customers place orders electronically through our PartStore web portal, we sought to make their experience faster by installing do-it-yourself computer kiosks. Customers swipe their Cat commercial card, receive a chit and use it to identify their pre-packaged order waiting for pick up. This avoids queuing up behind customers who need more assistance. Pick-ups can be accomplished in as little as one minute – barely enough time to grab a drink at the parts counter coffee bar.

We understand that often times, time is money and these investments make us faster for our customers.

greater use of technology, we see the opportunity to become more effective purveyors of timely advice and information that is useful to customers as they manage their projects and plot their future equipment needs."

EMSolutions

To lead the equipment industry of the future, Toromont is working closely with Caterpillar to make better use of embedded technologies for the benefit of its customers and the Company's value proposition.

In 2014, Toromont introduced Cat Equipment Management Solutions (Cat EMSolutions), an initiative that organizes and harmonizes its suite of customer-facing technology services with those of Cat dealers around the world. As customers become more globalized, Cat's vision – one Toromont shares – is that EMSolutions will allow multinationals in every industry to experience a consistent level of technology-enabled equipment monitoring and product support, no matter where they are located.

EMSolutions gives customers a choice of five different levels of service, each enabled by Cat Product Link™ hardware connected to the VisionLink® web interface. The ACCESS level provides near-real-time remote access to equipment hours, location, health and fuel information; sets up electronic alerts for upcoming maintenance; and identifies the exact parts needed to complete a scheduled repair so these can be easily ordered through Caterpillar's online PartStore. The INFORM level builds on these capabilities by adding an automated monthly benchmarking report from Toromont that allows customer subscribers to compare the health and utilization trends of their fleets. Customers using the ADVISE package take advantage of the diagnostic services of a Toromont advisor who suggests proactive maintenance based on an analysis and interpretation of multiple data sets. Customers using the SUPPORT

level rely on Toromont to schedule and perform preventative maintenance using equipment service meters that are monitored using VisionLink. The MANAGE level combines the entire EMSolutions' portfolio and is for customers who want Toromont to take care of all aspects of equipment monitoring, maintenance and repair.

Recognizing that it is not always easy for customers to adopt technology, Toromont Cat and Battlefield also offer various training options. These practical learning programs include in-field instruction for operators on the use of machine control equipment, as well as classroom sessions devoted to understanding digital design in road construction. In 2014, the Company provided 6,300 hours of such training.

From Smart Machines to Smarter Operations

Toromont employs approximately 30 software specialists to stay on pace with changing business needs and has invested more than $10 million in developing new technology-powered business solutions over the past five years.

"We continue to make a major investment in technology innovation every year," said Mr. Cuddy, "and we focus those efforts on areas that deliver greater customer value."

One of those areas of concentration led to the development of the Toromont Equipment Management Toolkit or EMT, a software package now used by a number of Cat dealers. EMT acts as an electronic scorecard for preventative maintenance agreements. It automates planning and scheduling of service, generates work orders, and documents when work is completed. In this way, it is both a resource-planning tool and an important verification tool that ensures customer obligations are completed efficiently and on time.

Technology improves Toromont's business and customer value proposition in other ways. Battlefield – The Cat Rental Store was an early adopter of wireless asset tracking to optimize product availability and dispatch deliveries to customer sites. Using it has enhanced customer service levels through real-time inventory status, and has created service efficiencies that, in turn, have led to increased equipment availability for customers.

Within Toromont's heavy rent operations, machines now sport a Quick Response (QR) code, which is an optical label used to access stored information. Currently, these codes are being used internally to improve asset tracking, but they will also be programmed to carry value-added information that customers can access by passing their smartphone over the QR barcode.

Customers also expect their suppliers to automate key business processes. Toromont has addressed these expectations at Toromont Cat and Battlefield with web-based portals. At MyToromont, customers find their web applications in one place, including the PartStore and VisionLink applications, as well as fluid sample results and machine manuals. Battlefield provides customers with online access to rental and sales agreements, delivery and pickup documents, invoices and the latest sales promotions.

Although technology is pervasive at Toromont, there are many opportunities for further advancement. Mr. Cuddy envisions that technology will be used "to map how we can respond to customer needs and preferences and improve value-creation throughout our marketing, sales and product support functions." Also expected is further development of on-board diagnostic tools that will reduce time spent downloading data from machine sensors to a laptop during field service. Cat is also currently piloting software that will assist in predicting future parts sales so we can better plan our inventories and resources, and further increase part availability for customers.

In these and other ways, data will drive the heavy equipment industry into the future. This is good news for Toromont, because we believe that the best decisions are made by empowered people armed with the best information. TIH

FLOWER POWER

Cogeneration feeds flourishing customer relationship

Rosa Flora is more than North America's largest gerbera farm. It is also a leader in energy conservation.

Under the leadership of Ralph DeBoer, Operations Manager, Rosa Flora has made a long-term commitment to Combined Heat and Power (CHP or cogeneration) within its greenhouses based on a business philosophy of investing in equipment that makes "good earth sense and good business sense."

This commitment dates back to 1991 when Rosa Flora purchased its first Toromont Cat Power Systems-supplied CHP systems, driven by two Cat G3516 generator sets. In 2010, Rosa Flora added to its CHP fleet, purchasing two additional Cat G3520 generator packages, nicknamed Brutus and Samson, and upping the facility's energy output to 5.6 MWs.

In early 2014, just as we finished commissioning another two CHP packages, disaster struck. Overnight on March 6, a devastating fire destroyed six hectares of farm property, including greenhouses, delivery trucks and office space. While the fire did not start near the CHP equipment, Sampson and Brutus melted due to the intensity of a blaze that took 80 firefighters almost 12 hours to control.

While the loss was significant, Mr. DeBoer made a quick decision. Rosa Flora would rebuild and do so with the same commitment to green energy, CHP and Toromont. This winter, our Power Systems division delivered another two new Cat G3520 generator sets capable of generating an additional 4MWs of green power. This marked a new beginning for our customer and our relationship.

What makes CHP an attractive power source for Rosa Flora is that our packages not only provide a flexible supply of electrical power for lighting, they also capture engine heat, which is then recycled and used as an economical source for heating water. Warm water is a key resource in Rosa Flora's greenhouses, where it is used to feed over 100 different varieties of gerberas. By simultaneously generating both thermal energy (heat) and electricity for greenhouse lighting, fuel efficiency soars to 96.5%. Higher efficiency means substantially reduced energy bills.

In the latest assignment for Rosa Flora, Toromont Cat Power Systems supplied the

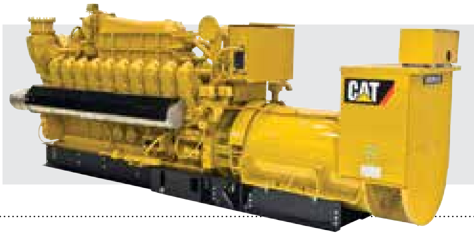
Toromont Powers the Seat of Power in Toronto

Toronto City Hall has served as the home of Canada's largest municipal government for over 50 years. So when fire broke out in an underground electrical vault on September 25, 2014, forcing an evacuation, the city's business came to an abrupt halt – but not for long.

That evening, Toromont received a request to deliver 10 MW of emergency power. Supplying this much power on an expedited basis is not unusual for Toromont Cat Power Systems, which operates on a 24/7 basis.

However, as Nancy Ambtman, Power Systems Rental Manager said, "There was one catch. This specific site runs on a 416-volt system, whereas the majority of the city is powered on a 600-volt system. That meant sourcing even more specialized equipment than usual."

By leveraging Toromont's resources and those of the Cat



A Toronmont-supplied Cat G3520 generator package

Rosa Flora's **Ralph DeBoer** inside one of the farm's greenhouses.

generator sets as well as specialized controls and switchgear – the technology that enables the various systems to operate safely and in unison. Permissive circuits are used to automatically engage each unit as required for maximum efficiency depending on greenhouse temperature and ambient conditions.

As a long-time subscriber to CHP technologies, and a company that is self-reliant, Rosa Flora is a highly educated green-energy consumer. The farm's leadership in green energy technologies, including a wind turbine and biomass-fueled boilers, has reduced the company's reliance on fossil fuels and resulted in the firm's recognition as an Industrial Energy Innovator by The Canadian Industry Program for Energy Conservation.

Choosing Toromont repeatedly to assist with their energy needs is a reflection of Mr. DeBoer's analysis of our value proposition of providing specialized equipment and reliable product support, including 24/7 parts and service supply.

"The relationship between Toromont Cat Power Systems and Rosa Flora spans more than two decades, four separate CHP projects and now one fire," said Mr. DeBoer. "This long-term partnership has resulted in Rosa Flora being able to reduce our overall energy bill and therefore create a competitive advantage in the floral marketplace."

Rosa Flora is not alone in its commitment to sustainable energy. Ontario Power Authority (OPA) recently reported that it was managing contracts for 434 MW of capacity from 10 CHP plants. To encourage the development of CHP facilities of up to 20 MW in size, with specific focus on agriculture and district energy projects, OPA introduced its Combined Heat and Power Standard Offer Program 2.0 in late summer 2014.

With the soaring cost of electricity, the attractive economics of natural gas, the environmental benefits of cogeneration, and the potential to qualify for OPA incentives, many leading organizations, including hospitals, colleges and municipalities, have started to study CHP technology.

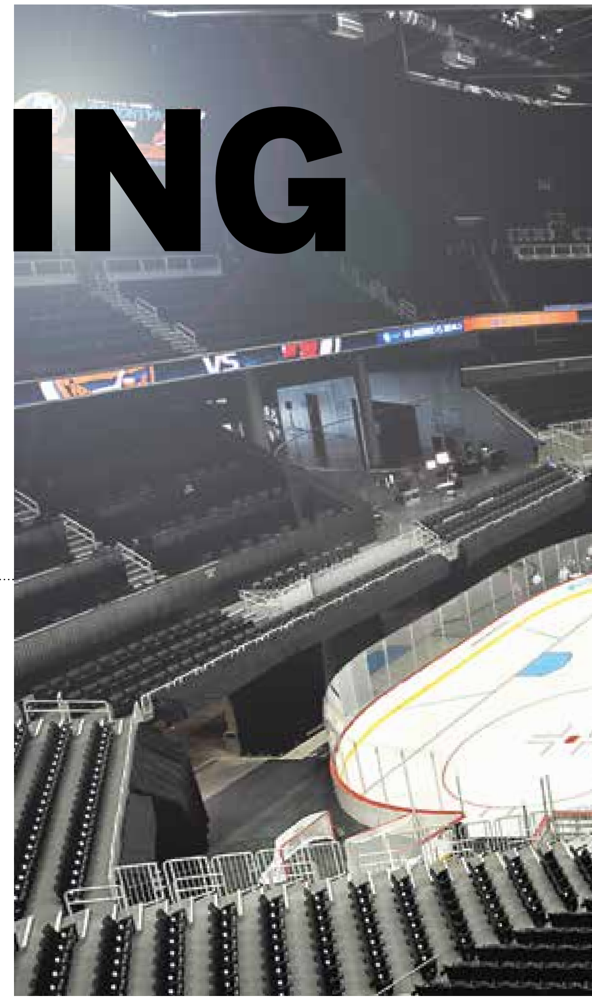
Toromont Cat Power Systems is ready to help these other power users flourish just as we've done with Rosa Flora for over two decades. TIH

network, our team identified five XQ 2000 units that would get the job done. Working through the night, Power Systems moved these diesel-powered units, each housed in a 12-metre trailer, to City Hall where teams began the task of connecting them to five separate electrical panels within the building. As part of the order, Power Systems also supplied over 6,000 metres of electrical cable.

By Saturday morning at 10 AM, less than two days after the fire, the business of City Hall resumed with full emergency electrical power provided by Toromont. This is not the end of the story. Over the following three-week period, until a new transformer could be installed, Toromont never left the site. One technician was there at all times to ensure the equipment functioned properly and to coordinate the thrice-daily diesel fuel drops.

Bringing power to the people is an important job, not only for staff at City Hall, but for Toromont in Toronto and throughout our operations.

THE WINNING EDGE



The NHL scores with assists from CIMCO

Fans of the Toronto Maple Leafs, Los Angeles Kings or any one of more than 20 other National Hockey League teams may not know it, but when they watch their favourite players, they also see CIMCO Refrigeration in action.

It has now been more than 70 years since CIMCO first supplied parts and service to an NHL arena (Maple Leaf Gardens), 40 years since it built its first refrigeration package for an NHL team (the Edmonton Oilers) and 17 years since it became the League's preferred ice rink equipment supplier. Over time, this partnership has grown stronger as both organizations have advanced.

For the NHL, advancement has come in many forms, including league expansion, development of outdoor games, greater television exposure and at-game attendance.

Similarly, CIMCO has advanced in size, scope and where it counts most to hockey fans and players across North America: in its ice-making capabilities. As a result of our work in mega NHL arenas, such as the New York Islanders' Barclays Center, the Boston Bruins' TD Garden, the New Jersey Devils' Prudential Center and our long-time association with the NHL's operations team, CIMCO has been on the leading edge of many developments that substantially improve playing and viewing conditions. In fact, working in conjunction with Stadium Consultants International, Inc., we helped the NHL set its performance guidelines for refrigeration, a set of technical specifications shared by all team owners and facility managers league-wide for the better part of the last two decades.

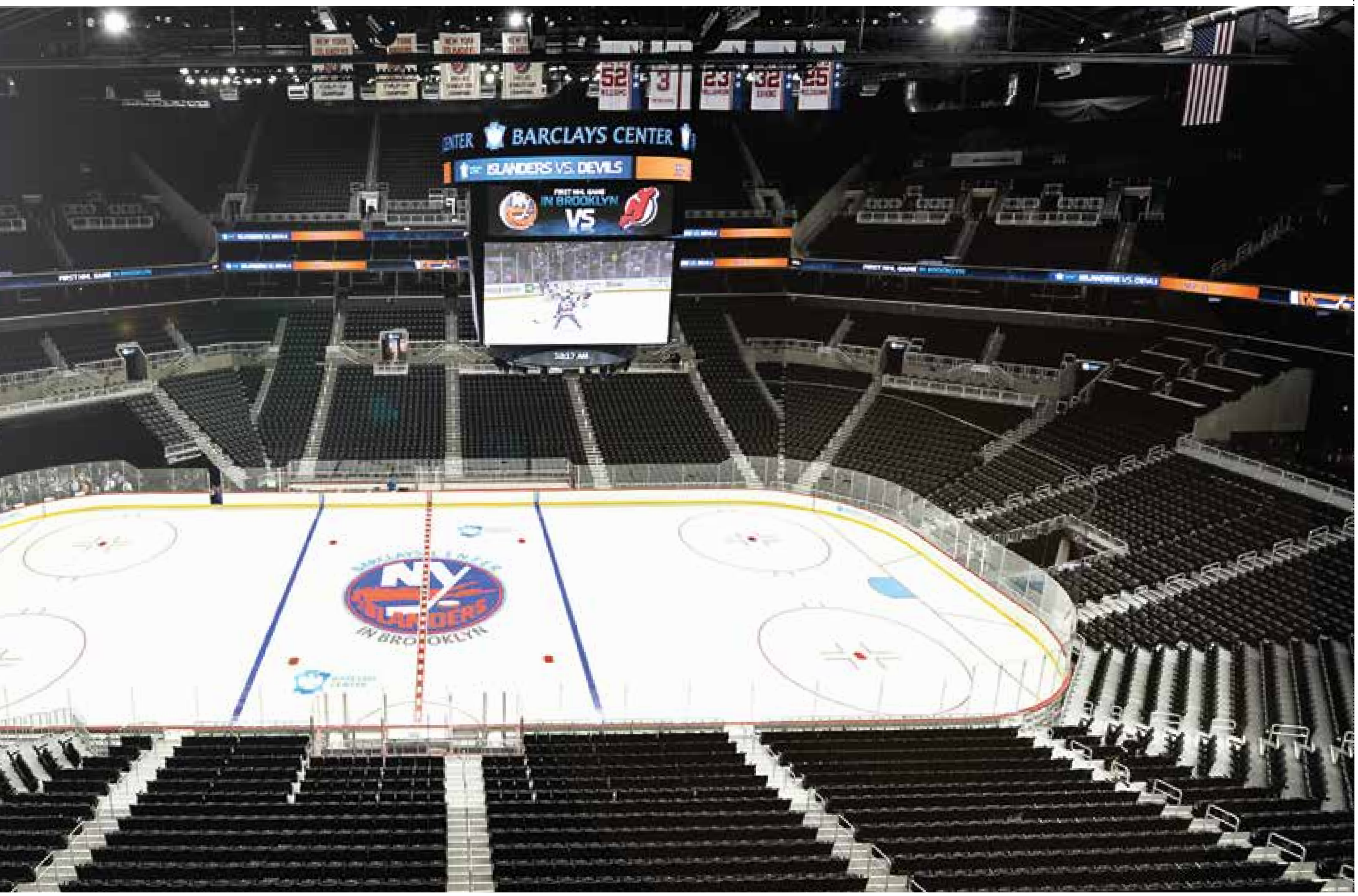
These specifications ensure that every NHL facility has the appropriate number of compressors, chillers, brine pumps, dehumidifiers and other materials to meet load requirements, which are understandably significant. Every centimetre of an NHL ice surface must maintain –6.1°Celsius, even though the ambient temperature of arenas rise markedly as thousands of fans stream in and crews power up their powerful television lights.

As arenas have become larger and more bowl-shaped, the demands on the ice-making equipment have only increased. To cope, CIMCO-powered NHL arenas use many innovative features, including comprehensive temperature control systems. In old-time hockey, the traditional method of managing ice was to adjust the brine or floor temperature to a level that operators estimated would produce the required ice solidity and thickness (all NHL ice surfaces are 3.81 centimetres thick). Since many factors can alter ice surface temperature, and these factors affect the ice long before the brine temperature changes, this approach was wholly inadequate for NHL-sized buildings and often resulted in the stoppage of play as referees knelt down to patch a hole.

To counteract this problem, CIMCO engineers worked with technology suppliers to integrate infra-red sensor technology with

1974 CIMCO designed its first NHL ice rink package 40 years ago

The Barclays Center, the future home of the New York Islanders.



our control systems. Today, discrete CIMCO cameras, mounted above NHL rinks, take precise temperature readings across the ice surface. Hundreds of times every minute, information from these cameras and a sensor in the concrete slab below the ice feed information to a CIMCO microprocessor. When the infra-red signals received from the ice surface indicate a variance of as little as 1/20 of 1 degree Celsius, the refrigeration system is automatically adjusted to maintain the optimal temperature.

Of course, it is not enough to simply monitor the temperature; having the right refrigeration capacity is critical. This is why NHL specifications call for high-horsepower screw compressors with built-in equipment redundancy. In old-style NHL arenas, reciprocating compressors were sometimes used with less than desirable outcomes, particularly in the southern U.S.

Another important advancement is the use of desiccant dehumidification. A desiccant is a substance that prompts and then sustains a state of dryness within its vicinity and is commonly used to keep vegetables crispy. While regular dehumidifiers work well in warm, moist environments, only desiccant dehumidifiers are suited to the cool climes of an NHL arena and are part of the NHL's rink specifications. By employing this equipment, the days when fog would envelop ice rink surfaces (think of the Phillies-Sabres playoff game at the old Buffalo Memorial Auditorium) are long gone.

It has now been close to two decades since NHL arena specifications were developed, and still CIMCO innovates on behalf of the League. A recent example is the portable package we designed as the sole source of refrigeration for the League's immensely popular outdoor games.

105,491

CIMCO technology inside **Rogers Arena**, home of the Vancouver Canucks.

Housed inside a tractor trailer, our package provides plug-and-play refrigeration that is powerful enough to freeze and maintain four regular ice surfaces and keep the rink at exactly the right temperature, even when the outdoor game is played in Los Angeles. We built our second NHL "ice truck" in 2013 and saw it employed at Michigan Stadium as the Detroit Red Wings hosted the Toronto Maple Leafs in the most highly attended NHL game in history with 105,491 fans. In early 2015, the Bridgetown NHL Winter Classic (Nationals Park, Washington, DC) and the Coors Light NHL Stadium Series (Levi's Stadium, Santa Clara, CA) both leveraged ice truck capabilities.

Our Newest Wins

While the NHL has established the ice-making performance standards that all teams must follow, it does not own the arenas where games are played. Team owners are free to choose their own refrigeration suppliers and that means CIMCO must compete vigorously to win new business. More often than not, we are successful, as 2014 assignments for the Vancouver Canucks (a rebuild of the Rogers Arena) and the Edmonton Oilers (a package for the new $480 million Rogers Place) attest.

"Preferred supplier status does convey an important advantage for CIMCO inside and outside the NHL," says Dave Malinauskas, President of CIMCO. "As a result of the expertise developed to outfit large arenas, we have been awarded assignments for many state-of-the art NHL practice facilities and facilities for NHL affiliates over the years."

For example, CIMCO supplied the refrigeration equipment for the four-pad MasterCard Centre in Etobicoke, Ontario, which has been used by the Toronto Maple Leafs and Toronto Marlies of the AHL since 2009. More recently, our NHL experience proved to be instrumental when we bid on the new twin-pad Haborcenter in Buffalo, NY that opened in the fall of 2014 as the home of Canisius College's NCAA Division I hockey team and the Buffalo Junior Sabres youth hockey organization. This past year also saw CIMCO upgrade refrigeration equipment at FirstOntario Centre, home of the Hamilton Bulldogs, the Montreal Canadiens' AHL affiliate.

"Whether it's in Canada or the U.S., our NHL work is well recognized and valued when we bid on community projects," says Steve Shutt, CIMCO's Manager, Business Development, Hockey. "Many times we hear community rink owners ask, can you build me an NHL-calibre ice rink, and the truthful answer is yes."

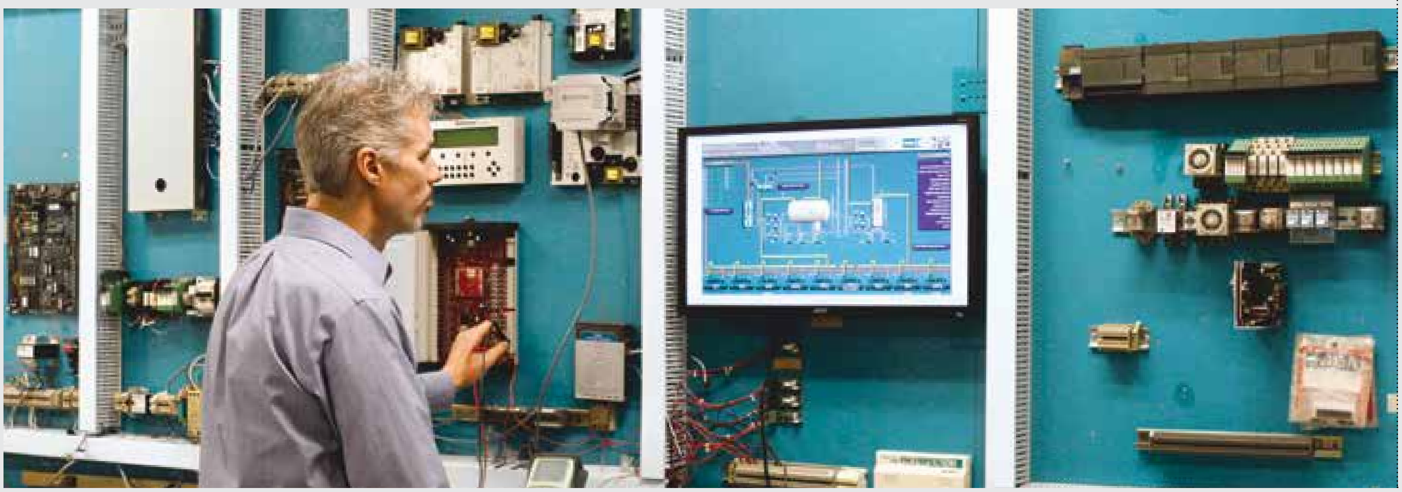
Mr. Shutt has served CIMCO for 17 years, and as a former Montreal Canadien with five Stanley Cup Championship rings to his credit, he knows more than a little about ice and is proud to serve with a company that serves the best hockey league in the world.

Since his time as a professional hockey player and NHL assistant coach, Mr. Shutt said that ice quality has improved dramatically, and a big reason is the NHL's insistence on the highest performance standards and the efforts of the League's Senior Director of Facilities Operations, Dan Craig. Mr. Craig is also a fan of CIMCO.

"I've been in the arena industry for four decades, first in community facilities, later with the Edmonton Oilers and, since the late 1990s, with the NHL," said Mr. Craig. "I've worked with CIMCO at every level, leaned on them many times for assistance and, whether we're playing in the U.S. or Canada, at indoor or outdoor games, and even at the 2010 Winter Olympics, they have always proved to be a great resource. Their technicians are absolutely first-rate and they gel well with every team."

As the NHL continues to score with fans and sponsors alike, CIMCO is ready to assist the League's teams in maintaining their winning edge with leading technology, know-how and a deep passion for our national pastime.

CIMCO's **Brad Smith**, CAG Manager, reviewing Maple Leaf Food's automation system.



One Meaty Assignment

CIMCO's automation capabilities on display for Canada's packaged meats leader

Maple Leaf Foods is Canada's leading consumer packaged meats company and one of our long-time customers.

This past year, they chose to replace refrigeration control systems at their Brandon, Manitoba, fresh pork processing plant. These systems automatically monitor and subsequently optimize and manage all of the refrigeration operations of the plant. While the plant's original control systems were state-of-the-art at the time of installation, they had become dated and Maple Leaf Foods wanted greater sophistication in what is one of the largest facilities of its kind in the world.

Rather than selling third-party systems as many industrial refrigeration companies do, CIMCO maintains its own automation group to design and engineer customized microprocessor-control technologies. These resident capabilities make it possible for us to respond faster and with more advanced offerings to operate and control customers' critical processes.

On this particular assignment, our capabilities were put to the test in two ways. First, at 640,000 square feet, the plant is large and complex, operating with 171 air units, 15 compressors, five evaporative condensers, three remote evaporator control panels, two engine room control panels and one CIMCO supercharger to keep water used in processing rooms heated to 60°C. All of this equipment needed to be networked and controlled. Second, this is an operating plant and Maple Leaf Foods needed us to install and commission the system over the Thanksgiving weekend.

By planning each aspect of the job with the customer, removing extraneous interfaces between microprocessors and electromechanical devices, conducting rigorous pre-site testing, and assigning considerable resources to the installation, we met the important deadlines without interrupting the plant operations.

With the new CIMCO system, the plant's operators now have complete command of all refrigeration on a single, integrated network. Risk management has been enhanced with the installation of password-protected controls and networked monitoring devices that allow staff to remotely monitor all aspects of the facilities' operations. Energy-saving algorithms have been written into the software and three-dimensional graphics make it easier to operate the system.

In food and beverage plants, which are highly regulated, controls are critical and typically represent 10–12% of the cost of a total industrial refrigeration system. They are upgraded periodically and replaced approximately every 10–12 years. So, while this was one meaty assignment, CIMCO expects many more in the future.

SUSTAINABILIT REPORT

Safety
Our first job is to protect our employees wherever and whenever they do business, as well as everyone who steps foot in the more than 100 locations with our marques. This is a responsibility that we take seriously.

Our desired outcome is an accident-free workplace where all employees know how to identify, avoid and correct hazards before they turn into injuries. To achieve it, we work to create a safety-first culture where every employee understands that a job is only well done when it is done safely. Our expectations are high: zero tolerance for non-conformance to safety protocols; recognition for best-in-class performance.

Each of our businesses applies safety strategies that are relevant to their type of work. At Toromont Cat, we began our current safety journey five years ago. In that time, our team has collectively attended more than 70,000 safety training courses, completed more than one million pre-job hazard assessments and received some 1,800 daily safety talks that bring awareness to the right behaviours. Each of our locations has undergone dozens of health and safety audits to track results against leading safety indicators. On an annual basis, one branch rises above the rest in a competition that measures safety performance across 14 categories. In 2014, that branch was Detour Lake and it received our Safety Bucket Award.

In several areas, we also set more-ambitious targets, including the number of safety-practice evaluations our Toromont Cat supervisors are expected to perform. Reasoning that underlying causes should not go unaddressed for any length of time, we established a five-day limit on incident investigations. We also asked employees to increase their focus on reporting hazardous situations, which improves our opportunity to fix root causes, share findings and thus prevent future issues. This resulted in proactive changes in protocols including, for example, safe blocking and storage.

Battlefield's current safety program was launched in 2003 with progressive changes and results along the way.

Toromont Recognized at Caterpillar People Conference

In 2014, Toromont took top honours at Caterpillar's annual People Conference in two categories: Cultural Assessment/Cultural Change and Service Management Development. The first award recognized the development of our health and safety culture. The second recognized improved delivery in our service operations. The competition included 65 dealers from the Americas.

Samantha McGillion, a junior technician, works toward becoming a certified heavy-duty mechanic at our Concord branch.

Y

2014 was the safest year on record at Toromont Cat

In addition to branch safety audits, we provide load retention seminars and practical training to our drivers, with driver abstracts completed monthly. Customer safety is equally important. Battlefield's five field trainers provide many hours of customer support to ensure safe use of rental equipment every year and we continue to install defibrillators in all stores.

CIMCO's safety program is also well established and constantly advancing. In 2014, we developed a new working-with-ammonia safety program, implemented a Safety Scorecard Audit for all 29 CIMCO branches and, reflecting the growth of our field-service workforce in the U.S., stepped up safety training there.

Safety is not just a bottom-up endeavour. We challenge our senior leaders to engage more deeply and frequently in safety conversations. Part of the variable compensation for our managers is based on safety scores. Our Board is an active overseer of environmental, health and safety results through its Human Resources and Compensation Committee and discussion at each regular Board meeting.

Due to the geographic dispersion of our operations, technology plays a role in our safety regimen. Since 2013, Toromont Cat has curated all incident reporting online. More recently, we moved our Material Safety Data Sheets (MSDS) into an online application, allowing employees to instantly access handling, storage and first aid treatment information on every chemical we use. A new smartphone application was added to our Toromont Cat Working in Isolation program. If an employee alone in the field or in a branch after hours fails to report in every two hours, a third-party monitoring service pinpoints their location and dispatches emergency personnel if necessary.

Sharing best practices with newly acquired businesses is also important. Sometimes this means investing in new safety tools, as our newest team members at Ag West found this fall when we delivered Toromont-standard Personal Protection Equipment that included, in their case, Arctic cold-rated coats.

For several years, we have required that all suppliers attend Toromont safety orientations to ensure they are qualified to our standards.

We have noted improved results from these activities. Total recordable injury frequency rates declined 64% between 2010 and 2014 while lost-time injuries were down 79% in the same period.

Despite positive trends, we are not yet injury-free. While we believe we have the right programs in place to reach our goal, it will only be achieved with even more effort and greater attention to the right behaviours.

Workforce Development and Diversity

We apply various strategies to recruit, train, motivate and retain the best people, knowing that our success depends on it.

To improve talent management, Toromont Cat recently introduced a web-based performance appraisal tool called MYPERFORMANCE. It was designed to improve the quality and consistency of employee reviews and reduce administrative time. In parallel, we launched MYFUTURE, a web-based tool to help employees identify their own professional objectives and match their needs with the skills development opportunities that we make available.

We also use our intranet for skills development. In 2014, six leadership modules were delivered to 106 employees

Toromont Cat Technician **Barry Cordner** attends to a **Cat D6T**.

"Building trusting relationships has paid off as we continued to hire and develop employees from our partner First Nations and Inuit communities."

from CIMCO, Battlefield and Toromont Cat. Over 283 sales representatives benefitted from Four Pillars Sales Professional training. Another 245 employees participated in Customer Engagement Training to increase the consistency and quality of service delivery.

For high-potential leaders, there is the Toromont Cat Management Trainee Program. Launched 30 years ago and formalized in 1998 with the introduction of an administrator, this program has prepared 57 employees to take on management roles. Our President and CEO, the President of our Construction Industries Division, the Vice President of our Central Region, our General Manager in Newfoundland, our Timmins branch manager, the manager of our Heavy Rent fleet, and several product support and parts managers are all past graduates. Our current trainees attended the Toromont 2014 Leadership Conference where they learned from senior leaders and developed strategies that we can use to grow and improve our business.

These activities have a decided impact on employee effectiveness and loyalty. Our voluntary turnover rates are consistently below industry averages and we benefit from having a large resource pool to draw from when choosing new leaders.

Effective recruitment is also important. We continue to use various techniques, including high school, college and university campus outreach. In 2014, we added Thunder Bay's Confederation College to, bring to nine, the number of educational institutions we support. Support includes participation on each institution's academic advisory board and, in some cases, donations of equipment components. In 2014, we supplied 15 Cat engines to our partner colleges so that students have modern equipment to explore. Students are also given full access to the latest Cat ET Diagnostic Software. In exchange, we share our ideas for improved curriculum, meet students, promote technical careers and interview promising future employees. This approach helped us to meet our 2014 target of recruiting 40 of the brightest people into the Toromont Cat apprenticeship program that now has 150 members. We also bestowed seven THINK BIG scholarships to help students pay for tuition at a sponsored college.

Recruiting in the north continues to be a priority and in 2014 included outreach to forge closer ties in the Kivalliq, Kitikmeot, and Qikiqtaaluk regions of Nunavut and with the Nunatsiavut Government in Labrador. Toromont also participated in Taykwa Tagamou Nation and Apitisawin job fairs, among others. Building trusting relationships has paid off as we continued to hire and develop employees from our partner First Nations and Inuit

15 Toromont donated engines to partner colleges in 2014

communities who now work at various sites, including branches in Goose Bay, Labrador; St. John's, Newfoundland; and at two mine sites in northern Ontario, Detour Lake and Victor.

Our industry remains male-dominated. However, we are working to change that, in part through participation in the Women in Trades Network (WiTN), which hosts annual forums where women are given hands-on learning experiences. Within our own business, we are pleased to note that more women are serving in leadership roles both on the corporate side and in our operations, including Ginnie Howe. In 2014, she became Toromont Cat's first female branch manager.

In the Community

Our employees support important causes with encouragement from Toromont. For the 11th straight year, Toromont's official charity was the United Way, an organization we favour because of its broad community reach and the opportunities it makes available for our employees across multiple provinces to volunteer together. In addition to a two-week United Way campaign, Toromont Cat employees organized a softball challenge featuring 14 teams slugging it out for fun and fundraising, and participated, along with a team from CIMCO, in the annual York Region Dragon Boat Race. Total United Way fundraising amounted to $178,217 in 2014. Beyond monetary donations, over half of Toromont Cat's branches participated in a Day of Caring® where employees volunteered their time and expertise to help organizations such as Toronto's Yonge Street Mission and the Blue Door Shelter in East Gwillimbury, Ontario, deliver social services.

Environment

Toromont does not have a heavy environmental footprint. At the same time, we are not indifferent to responsible environmental practices. On the contrary, we maintain anti-idling and minimum fuel-efficiency guidelines for Company vehicles, use high-efficiency air compressors in our service shops, light our facilities with energy-efficient bulbs, and are avid recyclers. Over the past six years, we diverted 55,961 kilograms of waste from landfill and recovered 43,384 litres of liquid, including oil, by recycling the absorbent pads used by our technicians when cleaning machines. In 2014, Battlefield's Ajax store and Toromont Cat's branches in Timmins, Brampton and Orillia became the latest in a growing number of facilities to install water-recycling wash bays. As a means of monitoring environmental progress, Toromont Cat tracks its water consumption and the contributors to its CO_2 footprint, including natural gas, gasoline, diesel and electricity.

We also continue to help our customers with their sustainability efforts. Across industrial and recreational markets, CIMCO's ECO CHILL and ECO_2 CHILL installed base has offset 445,000 tonnes of greenhouse gas emissions (GHG) compared to traditional refrigeration (the equivalent of taking 98,000 cars off the road) and saved 53 million kilowatt hours of electricity by recycling heat. We also offer customers industry-leading Tier 4 final engine packages from Cat that meet emission regulations requiring the use of ultra-low-sulfur diesel fuel.

We are proud of progress made in 2014, but when it comes to sustaining and building Toromont – whether it is through safety, employee development or environmental conservation – we know one thing: the job is never done.

Toromont Cat Celebrates LTI-Free Year

2014 was the safest year on record at Toromont Cat. Not a single lost-time injury (LTI) was recorded, continuing a trend that began in August 2013. This LTI-free status across 33 locations was achieved even though total exposure hours reached to 3.8 million during the year and 5.5 million since our last LTI. Exposure hour is a commonly used measure of the amount of time a workforce is exposed to on-the-job hazards. We are very pleased with this performance and with the fact that Toromont Cat has reduced lost workdays by 98% over the past five years.

CORPORATE GOVERNANCE

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

Toromont regularly reviews and enhances its governance practices in response to evolving regulatory developments and other applicable legislation.

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

Board of Directors

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

The Lead Director is an independent Director, appointed annually by the independent Directors of the Board to facilitate the Board's functioning autonomously from management. The Lead Director serves as a non-partisan contact for other Directors on matters not deemed appropriate to be discussed initially with the Chairman or in situations where the Chairman is not available. The Lead Director is available to counsel the Chairman on matters appropriate for review in advance of discussion with the full Board of Directors.

Committee Structure and Mandates

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

The Nominating and Corporate Governance Committee:

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

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

Board of Directors

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

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

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

David A. Galloway ■ ● Director since 2002
Chairman, Nominating and Corporate Governance Committee
Mr. Galloway is past Chairman of the Board of Directors of Bank of Montreal. He also serves on the Board of Directors of Harris Bank and E.W. Scripps Company.

Wayne S. Hill ▲ ● Director since 1988
Mr. Hill is a former Executive Vice President of the Company. Mr. Hill joined Toromont in 1985 as Vice President, Finance and Chief Financial Officer and became Executive Vice President in 2002. He retired from the Company in May 2008. He is also a Director of Enerflex Ltd.

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

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

Robert M. Ogilvie Director since 1986
Mr. Ogilvie is Chairman of the Board. Mr. Ogilvie joined Toromont in 1985 and has been Chairman since 1987. He was also the Company's CEO from 1987 to 2012, excluding the period from 2002 to 2006.

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

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

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

The Human Resources and Compensation Committee: Principal responsibilities are compensation of executive officers and other senior management, short- and long-term incentive programs, pension and other benefit plans, executive officer appointments, evaluation of performance of the Chief Executive Officer, succession planning and executive development. The committee also oversees compliance with the Company's Code of Business Conduct and the health, safety and environment program.

Executive Operating Team

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

Paul R. Jewer
Executive Vice President and Chief Financial Officer
Mr. Jewer joined Toromont in 2005 as Chief Financial Officer. Prior to joining Toromont, he served for five years as Chief Financial Officer for another Canadian publicly listed company. He is a CPA, CA and a member of the Institutes of Chartered Accountants of Newfoundland and Labrador, and Ontario. Mr. Jewer is also Chairman of the Board of The Country Day School, an independent school in King City, Ontario.

David A. Malinauskas
President, CIMCO Refrigeration
Mr. Malinauskas was appointed President of CIMCO on January 1, 2015 following a successful 16-year career with the business, during which time he held various positions of increasing responsibility, most recently, Director of Engineering. He is Professional Engineer and received his MBA in 2001.

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

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

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

Randall B. Casson
President, Toromont Construction Division/ Battlefield – The Cat Rental Store
Mr. Casson joined Toromont in 1977. He was appointed Vice President and General Manager, Northern Region in 1997 and became President of Battlefield in 2001. He is a graduate of Toromont's management training program. He was appointed to his current position in 2012.

L to R
David C. Wetherald, Paul R. Jewer, David A. Malinauskas, Michael P. Cuddy, Jennifer J. Cochrane, Scott J. Medhurst, Randall B. Casson

Battlefield – The Cat Rental Store offers a broad selection of leading products including lift equipment.

Management's Discussion & Analysis

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2014, 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, 2014.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to February 5, 2015.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2014 Annual Report and 2015 Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory

Information in this MD&A and Annual Report that is not a historical fact is "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify statements containing forward-looking information. Forward-looking information in this MD&A and Annual Report is based on current objectives, strategies, expectations and assumptions which management considers appropriate and reasonable at the time including, but not limited to, general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

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

Any of the above-mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A and Annual Report. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections of this MD&A. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

Corporate Profile and Business Segmentation

As at December 31, 2014, Toromont employed over 3,350 people in more than 100 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

The Equipment Group is comprised of Toromont CAT, one of the world's larger Caterpillar dealerships, Battlefield – The CAT Rental Store, an industry-leading rental operation, and Ag West, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers' products. Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service. Territories include Ontario, Manitoba, Newfoundland and most of Labrador and Nunavut.

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

Corporate Developments

During the year, the Company completed two acquisitions of agricultural equipment dealers. In September 2014, Ag West Equipment Ltd. was acquired for $6.7 million, including assumed debt. In December 2014, substantially all of the assets of Canpro Gator Centre were acquired for $6.4 million. Both based in Manitoba, these companies specialize in the sale and service of agricultural equipment as authorized dealers of AGCO and other products. These acquisitions provide broader market coverage, an expanded product portfolio and services, as well as additional cross-selling opportunities. Together with our existing agricultural equipment business in Manitoba, the combined company will continue as Ag West Equipment Ltd., headquartered in Elie, Manitoba, with four store locations.

For further information on the accounting for the acquisition, refer to note 25 of the notes to the consolidated financial statements.

Primary Objective and Major Strategies

The primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading "Key Performance Measures" in this MD&A) and each of its operating groups consistently employs the following broad strategies:

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

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

Broaden Product Offerings
Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, hundreds of thousands of different parts are offered through the Company's distribution channels. The Company expands its customer base through selectively extending product lines and capabilities.
In support of this strategy, Toromont represents product lines that are considered leading and generally best-in-class from suppliers and business partners who continually expand and develop their offerings. Strong relationships with suppliers and business partners are critical in achieving growth objectives.

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

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

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

Consolidated Annual Operating Results

($ thousands, except per share amounts)	2014	2013	$ change	% change
Revenues	$ 1,660,390	$ 1,593,431	$ 66,959	4%
Cost of goods sold	1,247,999	1,201,913	46,086	4%
Gross profit	412,391	391,518	20,873	5%
Selling and administrative expenses	227,579	217,556	10,023	5%
Operating Income	184,812	173,962	10,850	6%
Interest expense	8,188	8,693	(505)	(6%)
Interest and investment income	(4,154)	(3,793)	(361)	10%
Income before income taxes	180,778	169,062	11,716	7%
Income taxes	47,582	46,031	1,551	3%
Net Earnings	$ 133,196	$ 123,031	$ 10,165	8%
Earnings Per Share (Basic)	$ 1.73	$ 1.61	$ 0.12	7%
Key Ratios:				
Gross profit as a % of revenues	24.8%	24.6%		
Selling and administrative expenses as a % of revenues	13.7%	13.7%		
Operating income as a % of revenues	11.1%	10.9%		
Income taxes as a % of income before income taxes	26.3%	27.2%		
Return on capital employed [(1)]	26.0%	26.5%		
Return on equity [(2)]	23.0%	25.7%		

(1) Return on capital employed is defined in the section titled "Non-IFRS Financial Measures".
(2) Return on equity is defined in the section titled "Non-IFRS Financial Measures".

Revenues increased 4% on growth from the Equipment Group, more than offsetting lower revenues at CIMCO.

Gross profit margin was 24.8% in 2014 compared to 24.6% in 2013 with increases in both operating groups. Improved sales mix, with a higher proportion of product support in both groups, accounted for a 70 basis point improvement in gross profit margin. Equipment margins were lower on competitive market conditions.

Selling and administrative expenses increased 5% from 2013, in part reflecting the 4% increase in revenues. Compensation was $7.0 million (5%) higher than 2013 on annual salary increases, additional personnel and increased incentive compensation on the higher income. The recently acquired Ag West business accounted for $0.9 million of the increase, in addition to an adverse foreign exchange impact on translation of U.S. operations ($0.5 million) and lower insurance gains on the Mobile, Alabama, facility ($0.5 million). Certain other expense categories, such as occupancy, legal, training, advertising and promotions, information technology, warranty and travel costs, were higher, reflecting increased business levels. Bad debt expense decreased $2.0 million on specific exposures identified in 2013 and mark-to-market expense on deferred share units decreased $1.0 million.

Operating income increased on higher revenues and gross margins, partially offset by higher selling and administrative expenses.

Interest expense decreased on lower average debt balances.

Interest income increased reflecting higher levels of interest on conversion of rental equipment and increased investment income on higher average cash balances.

The effective income tax rate for 2014 was lower compared to 2013 due to final adjustments following routine reviews by tax authorities.

Net earnings in 2014 were $133.2 million and basic earnings per share ("EPS") were $1.73 per share, as compared to net earnings of $123.0 million and basic EPS of $1.61 per share in 2013. These represented 8% and 7% increases, respectively, over 2013.

Comprehensive income in 2014 was $129.0 million (2013 – $131.2 million), comprised of net earnings of $133.2 million (2013 – $123.0 million) and other comprehensive loss of $4.2 million (2013 – $8.2 million income). Other comprehensive income included actuarial losses on employee pension plans of $5.1 million (2013 – $7.3 million gain), net of tax.

Business Segment Annual Operating Results

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

The Equipment Group

($ thousands)	2014	2013	$ change	% change
Equipment sales and rentals				
New	$ 566,552	$ 590,796	$ (24,244)	(4%)
Used	186,360	155,210	31,150	20%
Rental	220,143	193,454	26,689	14%
Total equipment sales and rentals	973,055	939,460	33,595	4%
Power generation	11,548	11,650	(102)	(1%)
Product support	464,153	411,582	52,571	13%
Total revenues	$ 1,448,756	$ 1,362,692	$ 86,064	6%
Operating Income	$ 172,727	$ 157,924	$ 14,803	9%
Capital expenditures				
Rental	$ 81,358	$ 69,123	$ 12,235	18%
Other	24,999	21,661	3,338	15%
Total	$ 106,357	$ 90,784	$ 15,572	17%
Key Ratios:				
Product support revenues as a % of total revenues	32.0%	30.2%		
Operating income as a % of revenues	11.9%	11.6%		
Group total revenues as a % of consolidated revenues	87.3%	85.5%		
Return on capital employed	24.4%	24.0%		

Momentum from 2013 continued into 2014 as evidenced by the 6% revenue growth year-over-year. Rentals and product support revenues surpassed records set in 2013, reflecting strong market activity coupled with solid operational execution. While new equipment sales were lower, used equipment sales were higher, for an overall increase of 1% in total equipment sales.

New equipment sales were 4% lower than 2013. Mining equipment sales were down $58 million or 37% year-over-year. In 2013, substantial equipment deliveries were made in support of the initial stage of the Baffinland Iron Ore project, thereby making for a tough year-over-year comparator. Excluding mining, new equipment sales increased 8% over 2013. Given that new equipment is generally priced off of the U.S. dollar, the 7.2% strengthening in the average US$/Cdn$ rate would have been expected to deliver somewhat of a lift to new equipment sales, mitigated by hedged orders and deliveries from inventory. Construction markets were strong in 2014, increasing 9%, in part due to the equipment deliveries to support the Keeyask hydroelectric project in Manitoba. Power systems revenues were 10% lower than 2013 with decreases across all market segments served.

Used equipment sales include used equipment purchased for resale, equipment received on trade-in, rent with purchase option ("RPO") returns and sales of Company-owned rental fleet units. Used equipment sales increased 20% with contributions from all market segments. Construction (up 19%) and mining (up 8%) accounted for approximately 65% of the increase. Used equipment sales vary on factors such as product availability (both new and used), customer demands and the general pricing environment.

Rental revenues were higher across all categories on improved utilization and an expanded fleet as the Company invested $52.1 million, net of disposals, in 2014. Light equipment rentals increased 10%, heavy equipment 19% and power systems rentals 65% over last year. Revenue from equipment on RPO increased 12% on the higher RPO fleet ($43.5 million at December 31, 2014, compared to $34.7 million at December 31, 2013). Rental rates were fairly consistent in both years.

Power generation revenues from Toromont-owned and managed plants decreased marginally over last year on lower electricity sales from the Waterloo Landfill site partially offset by higher thermal revenue from the Sudbury Downtown plant.

Product support revenues were up 13%, benefiting from the larger installed base of equipment in our territory together with good equipment utilization levels. Parts revenues increased 15% over 2013 with substantial parts deliveries to mining and construction markets. Service revenues were up 6%, principally from strong mining (up 24%) and construction activity (up 3%).

Operating income increased 9% versus a year ago reflecting the higher revenues year-over-year.

Gross margin improved 10 basis points. A favorable sales mix of product support revenues to total (product support revenues represented 32% of total revenues versus 30.2% in 2013) accounted for 60 basis points. Equipment margins were lower (down 40 basis points) as the heightened competitive conditions continued to pressure margins.

Bad debt expenses decreased by $1.5 million mainly due to specific exposures identified in 2013 not repeated. Other selling and administrative expenses increased 6%, mainly reflecting the 6% increase in revenues but decreased 10 basis points as a percentage of revenues. Operating income as a percentage of revenues was 11.9% in 2014 versus 11.6% in 2013.

Capital expenditures in the Equipment Group were $15.6 million (17%) higher year-over-year, on increased spending on land and building and rental assets. Replacement and expansion of the rental fleet accounted for $81.4 million of total investment in 2014. Expenditures of $10.6 million related to new and expanded facilities to meet current and future growth requirements. Other capital expenditures included $7.6 million for service and delivery vehicles and $2.5 million for upgrades and enhancements to the current information technology infrastructure.

($ millions)	2014	2013	$ change	% change
Bookings – year ended December 31	$ 754	$ 714	$ 40	6%
Backlogs – as at December 31	$ 102	$ 97	$ 5	5%

Bookings in 2014 totalled $754 million, up 6% from 2013, including activity for Keeyask booked and delivered in the year.

Backlogs were a healthy $102 million, up 5% from 2013. At December 31, 2014, the majority of the backlog related to construction (44%), power systems (30%) and mining (17%). Substantially all backlog is expected to be delivered in 2015. Shortened delivery windows due to process improvements and increased capacity at Caterpillar, together with available equipment for construction orders, have contributed to relatively reduced backlogs as a percentage of fourth quarter bookings.

CIMCO

($ thousands)	2014	2013	$ change	% change
Package sales	$ 112,084	$ 140,747	$ (28,663)	(20%)
Product support	99,550	89,992	9,558	11%
Total revenues	$ 211,634	$ 230,739	$ (19,105)	(8%)
Operating income	$ 12,085	$ 16,038	$ (3,953)	(25%)
Capital expenditures	$ 1,458	$ 4,019	$ (2,561)	(64%)
Key Ratios:				
Product support revenues as a % of total revenues	47.0%	39.0%		
Operating income as a % of revenues	5.7%	7.0%		
Group total revenues as a % of consolidated revenues	12.7%	14.5%		
Return on capital employed	41.7%	65.4%		

CIMCO reported lower revenues and operating income for the year after record results in 2013. Package sales declined on softer market conditions in Canada while product support revenues continued to demonstrate solid growth in both Canada and the U.S.

Package revenues decreased 20% compared to 2013. Canadian package revenues were 25% lower compared to 2013 with decreases in both recreational (down 26%) and industrial activity (down 24%). Approximately 41% of the total decrease in Canadian revenues is explained by the large order for Maple Leaf Foods ("MLF") that was substantially billed in 2013 and completed in early 2014. U.S. package revenues increased 6% compared to 2013 with higher recreational activity (up 38%), partially offset by lower industrial activity (down 24%). Product support revenues were once again strong in both Canada (up 8%) and the U.S. (up 21%).

Operating income decreased 25% compared to 2013, largely reflecting the lower revenues and higher selling and administrative expenses partially offset by improved gross margins.

Gross margins increased 90 basis points mainly on an improved sales mix of product support revenues to total. Product support margins were 30 basis points higher while package margins were down 60 basis points. Lower package margins reflect project execution, the tight pricing environment and an unfavorable foreign exchange impact.

Selling and administrative expenses increased 5%, mainly due to higher compensation expense, legal fees associated with defending various patents and an unfavorable foreign exchange impact on translation of U.S. operations, partially offset by lower bad debt expenses.

Capital expenditures decreased 64% to $1.5 million as significant expenditures were incurred in 2013 related to rebuilding the Mobile facility. Expenditures in 2014 mainly included additional service vehicles ($0.7 million) and information technology infrastructure enhancements and upgrades ($0.4 million).

($ millions)	2014	2013	$ change	% change
Bookings – year ended December 31	$ 114	$ 108	$ 6	6%
Backlogs – as at December 31	$ 67	$ 65	$ 2	3%

Bookings increased 6% and represented the second-highest level over the last five years. Industrial bookings were strong in both Canada (up 31%) and the U.S. (up 52%), while weaker recreational activity was reported in Canada (down 24%) and the U.S. (down 41%). Canadian recreational activity reflected a slowdown in Ontario and Quebec.

Backlogs increased by a healthy 3% and were also at the second highest level over the last five years. Industrial backlogs increased 22% over 2013 with increases in both Canada (up 7%) and the U.S. (up 175%). Recreational backlogs, on the other hand, were 27% lower with decreases in both Canada (down 14%) and the U.S. (down 41%). Substantially all backlog is expected to revenue in 2015.

Consolidated Financial Condition

The Company has maintained a strong financial position for many years. At December 31, 2014, the ratio of total debt, net of cash, to total capitalization was 6%.

Working Capital

The Company's investment in non-cash working capital was $208.8 million at December 31, 2014. The major components, along with the changes from December 31, 2013, are identified in the following table.

($ thousands)	2014	2013	$ change	% change
Accounts receivable	$ 239,772	$ 240,259	$ (487)	nm
Inventories	367,193	332,123	35,070	11%
Other current assets	4,228	4,585	(357)	(8%)
Accounts payable, accrued liabilities and provisions	(227,186)	(238,474)	11,288	(5%)
Income taxes (payable) receivable	(3,886)	6,135	(10,021)	nm
Derivative financial instruments	1,683	1,331	352	26%
Dividends payable	(11,585)	(9,987)	(1,598)	16%
Deferred revenue	(34,852)	(48,924)	14,072	(29%)
Current portion of long-term debt	(126,576)	(1,470)	(125,106)	nm
Total non-cash working capital	$ 208,791	$ 285,578	$ (76,787)	(27%)

Accounts receivable were relatively flat despite the 14% increase in revenues in the fourth quarter due to improved collection efforts. CIMCO accounts receivable increased $3.7 million or 9% on the increase in revenues in the fourth quarter of 2014. Equipment Group accounts receivable decreased $1.1 million or 1% despite higher invoicing with some significant cash collections. Days sales outstanding (DSO) was 42 at December 31, 2014, compared to 48 at the same time last year with improvements in both operating groups.

Inventories at December 31, 2014, increased 11% to $367.2 million compared to December 31, 2013. Equipment Group inventories were $37.6 million (12%) higher than this time last year reflecting higher used equipment inventory levels (up $15.9 million) and inventory at Ag West ($9.6 million) and Canpro ($5.8 million). Parts inventories increased $2.3 million, also largely due to inventory levels acquired from Ag West and Canpro. CIMCO inventories were lower by $2.6 million or 17% versus a year ago mainly on lower work-in-process ($1.9 million) and replacement parts ($0.5 million).

Accounts payable and accrued liabilities at December 31, 2014, decreased $11.3 million or 5% from this time last year. The decrease was primarily due to the timing of payments related to inventory purchases and other supplies.

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

Higher dividends payable year-over-year reflect the higher dividend rate. In 2014, the quarterly dividend rate was increased from $0.13 per share to $0.15 per share, a 15% increase.

Deferred revenues represent billings to customers in excess of revenue recognized. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements, as well as on progress billings on long-term construction contracts. Equipment Group deferred revenues were 24% lower in 2014 than in 2013. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues were 44% lower in 2014 than in 2013.

The current portion of long-term debt reflects scheduled principal repayments due in 2015. Senior debentures of $125 million are due on October 13, 2015, as scheduled. The Company is currently assessing its longer-term financing needs and overall market conditions.

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate, using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2014.

Employee Share Ownership
The Company employs a variety of stock-based compensation plans to align employees' interests with corporate objectives.

The Company maintains an Executive Stock Option Plan for its senior employees. Effective 2013, non-employee directors no longer receive grants under this plan. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Effective 2013, stock options granted have a ten-year term, while those granted prior to 2013 have a seven-year term. At December 31, 2014, 2.7 million options to purchase common shares were outstanding, of which 1.1 million were exercisable.

The Company offers an Employee Share Ownership Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 dollars contributed, to a maximum of $1,000 per annum per employee. Company contributions vest to the employee immediately. Company contributions amounting to $1.0 million in 2014 (2013 – $0.9 million) were charged to selling and administrative expense when paid. Approximately 50% (2013 – 48%) of employees participate in this plan.

The Company also offers a deferred share unit (DSU) plan for certain executives and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus or fees, respectively, in DSUs. Non-employee directors also receive DSUs as part of their compensation, aligning at-risk and cash compensation components. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs will be redeemed on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. The Company records the cost of the DSU Plan as compensation expense in selling and administrative expenses.

As at December 31, 2014, 334,709 DSUs were outstanding with a total value of $9.5 million (2013 – 288,920 units at a value of $7.7 million). The liability for DSUs is included in accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

Employee Future Benefits
Defined Contribution Plans
The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to these retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

Defined Benefit Plans
The Company sponsors three defined benefit plans (Powell Plan, Executive Plan and Toromont Plan) for approximately 109 qualifying employees. These defined benefit plans are administered by a separate Fund that is legally separated from the Company and are described fully in note 19 to the consolidated financial statements.

The funded status of these plans changed by $7.7 million (an increase in the accrued pension liability) as at December 31, 2014. The change largely reflects a net actuarial loss of $9.6 million (2013 – net actuarial gain of $3.5 million), on the change in the discount rate (3.8% in 2014 vs. 4.6% in 2013).

The Executive Plan is a supplemental plan, whose members are largely retirees with only one active member remaining, and is solely the obligation of the Company. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were $18.3 million as at December 31, 2014. As there are only nominal plan assets, the impact of volatility in financial markets on pension expense and contributions for this plan are insignificant.

The Company expects pension expense and cash pension contributions for 2015 to be similar to 2014 levels.

A key assumption in pension accounting is the discount rate. This rate is set with regard to the yield on high-quality corporate bonds of similar average duration to the cash flow liabilities of the Plans. Yields are volatile and can deviate significantly from period to period.

Off-Balance Sheet Arrangements
The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

Legal and Other Contingencies
Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Normal Course Issuer Bid
Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders.

As such, the normal course issuer bid with the TSX was renewed in 2014. This issuer bid allows the Company to purchase up to approximately 5.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2015. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

No shares were purchased in the years ended December 31, 2014 and 2013.

Outstanding Share Data

As at the date of this MD&A, the Company had 77,381,896 common shares and 2,593,375 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30 – 40% of trailing earnings from continuing operations.

During 2014, the Company declared dividends of $0.60 per common share, $0.15 per quarter (2013 – $0.52 per common share or $0.13 per quarter).

Considering the Company's solid financial position, cash flows and balances, and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to $0.17 per share effective with the dividend payable on April 1, 2015. This represents a 13% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 26th consecutive year of increases.

Liquidity and Capital Resources

Sources of Liquidity

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

The Company maintains a $200 million committed credit facility. The facility matures in September 2017. Debt incurred under the facility is unsecured and ranks on par with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

As at December 31, 2014, no amounts were drawn on the facility (2013 – $nil). Letters of credit utilized $22.6 million (2013 – $26.6 million) of the facility.

Cash at December 31, 2014, was $86.0 million, compared to $70.8 million at December 31, 2013.

The Company expects that continued cash flows from operations in 2015 and currently available credit facilities will be more than sufficient to fund requirements for the senior debenture maturity in 2015 as well as investments in working capital and capital assets.

Principal Components of Cash Flow

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

($ thousands)	2014	2013
Cash, beginning of year	$ 70,769	$ 2,383
Cash, provided by (used in):		
Operating activities		
Operations	186,081	178,873
Change in non-cash working capital and other	(42,571)	21,665
	143,510	200,538
Investing activities	(85,762)	(72,032)
Financing activities	(42,696)	(60,285)
Effect of foreign exchange on cash balances	141	165
Increase in cash in the year	15,193	68,386
Cash, end of year	$ 85,962	$ 70,769

Cash Flows from Operating Activities

Operating activities provided $143.5 million in 2014 compared to $200.5 million in 2013. Net earnings adjusted for items not requiring cash were 4% higher than last year on higher revenues. Non-cash working capital and other used $42.6 million compared to $21.7 million provided in 2013.

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

Cash Flows from Investing Activities

Investing activities used $85.8 million in 2014 compared to $72.0 million in 2013.

Net rental fleet additions (purchases less proceeds of disposition) totalled $52.1 million in 2014 compared to $47.0 million in 2013. Investments in the rental fleet continued in light of stronger demand on improved market conditions, the existing fleet age profile and the continued expansion of our heavy rental operations.

Investments in property, plant and equipment in 2014 totalled $26.5 million compared to $25.7 million in 2013. Additions in 2014 and 2013 were largely made within the Equipment Group and included $10.8 million for land and buildings as well as for new and expanded branches (2013 – $5.8 million), $8.3 million for service vehicles (2013 – $8.6 million), $3.8 million for machinery and equipment (2013 – $4.2 million) and $3.0 million for IT equipment (2013 – $1.9 million).

Additionally, during the year ended December 31, 2014, $8.6 million was used for business acquisitions. Refer to note 25 of the notes to the consolidated financial statements for further information.

Cash Flows from Financing Activities

Financing activities used $42.7 million in 2014 compared to $60.3 million in 2013.

Significant sources and uses of cash in 2014 included:

- Repayment of the loans assumed on business acquisitions of $3.0 million;
- Dividends paid to common shareholders of $44.7 million or $0.58 per share; and
- Cash received on exercise of share options of $6.4 million.

Significant sources and uses of cash in 2013 included:

- Repayments on the credit facility of $26.5 million;
- Dividends paid to common shareholders of $39.0 million or $0.51 per share; and
- Cash received on exercise of share options of $6.7 million.

Outlook

Competitive pressure in the Equipment market continues. The weaker Canadian dollar will further challenge end markets as resultant price adjustments impact overall purchasing power. We will continue to closely monitor market conditions and assess opportunities as they arise. Longer term, large infrastructure investment is expected to continue and we remain committed to working with our customers to meet and exceed their requirements without compromising service delivery. The acquisition of Ag West and Canpro expands the Company's coverage of the important agricultural equipment market.

Market conditions in mining remain tight; however, mine production continues and opportunities for sales in support of new mine development, mine expansion and equipment replacement continue to exist. The Company remains engaged on a variety of mining projects at various stages of development within its territory. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

The parts and service business has experienced significant growth, driven by the larger installed base of equipment in the field, and provides a measure of stability. Service shops remain busy and the Company continues to hire new technicians to address the increased demand. Broader product lines and investment in the rental business will also contribute to future growth.

Activity at CIMCO reflects general economic activity, governmental investment levels and focus, as well as specific customer decisions and construction schedules. Canadian markets have generally been at good levels, although somewhat lower than last year. U.S. markets have also shown improvement as the economy strengthens. The product support business remains a focus for development and continued growth in this area is encouraging. CIMCO has a wide product offering using natural refrigerants including innovative CO_2 solutions, which are expected to contribute to growth in the future replacement of CFC, HCFC and HFC refrigerants in both recreational and industrial applications.

The diversity of the business, expanding product offering and capabilities, financial strength and disciplined operating culture positions the Company well for what is generally expected to be another year of modest economic growth in Canada.

Contractual Obligations

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

Payments due by period ($ thousands)	2015	2016	2017	2018	2019	Thereafter	Total
Long-term debt							
Principal	$ 126,576	$ 1,690	$ 1,811	$ 1,941	$ 1,022	$ —	$ 133,040
Interest	5,342	427	306	176	36	—	6,287
Accounts payable	238,771	—	—	—	—	—	238,771
Operating leases	2,841	2,557	2,016	1,478	1,145	1,254	11,291
	$ 373,530	$ 4,674	$ 4,133	$ 3,595	$ 2,203	$ 1,254	$ 389,389

Key Performance Measures

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

Years ended December 31	2014	2013	2012	2011	2010
Expanding Markets and Broadening Product Offerings					
Revenue growth (1)	4.2%	5.7%	9.1%	14.5%	14.8%
Revenue per employee (thousands) (1)	$ 501	$ 491	$ 481	$ 465	$ 423
Strengthening Product Support					
Product support revenue growth (1)	12.4%	2.5%	13.2%	12.6%	7.4%
Investing In Our Resources					
Investment in information technology (millions) (1)	$ 13.4	$ 12.0	$ 12.6	$ 12.1	$ 10.1
Return on capital employed (2)	26.0%	26.5%	28.5%	32.4%	10.8%
Strong Financial Position					
Non-cash working capital (millions) (1)	$ 209	$ 281	$ 301	$ 176	$ 136
Total debt, net of cash, to total capitalization	6%	10%	25%	13%	17%
Book value (shareholders' equity) per share	$ 8.65	$ 7.50	$ 6.24	$ 5.27	$ 15.50
Build Shareholder Value					
Basic earnings per share growth (1)	7.6%	2.9%	17.1%	32.5%	9.6%
Dividends per share growth (3)	15.4%	8.3%	17.0%	16.1%	3.3%
Return on equity (4)	23.0%	25.7%	29.9%	28.9%	9.1%

(1) Metric presents results on a continuing operations basis.
(2) Return on capital employed is defined in the section titled "Non-IFRS Financial Measures". 2011 ROCE was calculated excluding earnings and capital employed from discontinued operations.
(3) Dividends per share growth in 2011 reflects the announced increase in dividend subsequent to apportionment of dividend to Enerflex subsequent to spinoff.
(4) Return on equity is defined in the section titled "Non-IFRS Financial Measures". 2011 ROE was calculated excluding earnings and equity from discontinued operations.

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

Since 2010, revenues increased at an average annual rate of 9.7%. Product support revenue growth has averaged 9.6% annually. Revenue growth has been a result of:

- Increased customer demand in certain market segments, most notably construction and mining;
- Additional product offerings over the years from Caterpillar and other suppliers;
- Organic growth through increased rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Governmental funding programs such as the RinC program which provided support for recreational spending; and
- Acquisitions, primarily within the Equipment Group's rental operations.

Over the same five-year period, revenue growth has been constrained at times by a number of factors including:

- General economic weakness and uncertainty in specific sectors;
- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
- Declines in underlying market conditions such as depressed U.S. industrial markets.

Changes in the Canadian/U.S. exchange rate also impact reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2010 there has been fluctuations in the average yearly exchange rate of Canadian dollar against the U.S. dollar: 2010 – US$0.97, 2011 – US$1.01, 2012 – on par, 2013 – US$0.97, and 2014 – US$0.91.

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

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of total debt, net of cash, to total capitalization (net debt plus shareholders' equity), was 6%, well within targeted levels.

Toromont has a history of progressive earnings per share growth as evidenced by the results of the past five years, including 2014. In 2010, earnings per share growth were dampened by the issuance of shares in the year for the acquisition of Enerflex Systems Income Fund ("ESIF"). In 2011, on a continuing operations basis, earnings per share increased 32.5%, in line with earnings growth and a further 17.1% increase on a continuing operations basis in 2012. In 2013 and 2014, despite a challenged economy, earnings per share increased 2.9% and 7.6%, respectively.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 26 years, including 2015. In 2014, the regular quarterly dividend rate was increased 15% from $0.13 to $0.15 per share, evidencing our commitment to building exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31 ($ thousands, except per share amounts)	2014	2013	$ change	% change
Revenues	$ 465,651	$ 407,264	$ 58,387	14%
Cost of goods sold	340,113	303,410	36,703	12%
Gross profit	125,538	103,854	21,684	21%
Selling and administrative expenses	63,394	56,043	7,351	13%
Operating Income	62,144	47,811	14,333	30%
Interest expense	1,971	2,174	(203)	(9%)
Interest and investment income	(1,748)	(934)	(814)	87%
Income before income taxes	61,921	46,571	15,350	33%
Income taxes	16,251	12,157	4,094	34%
Net Earnings	$ 45,670	$ 34,414	$ 11,256	33%
Earnings Per Share (Basic)	$ 0.59	$ 0.45	$ 0.14	31%
Key Ratios:				
Gross profit as a % of revenues	27.0%	25.5%		
Selling and administrative expenses as a % of revenues	13.6%	13.8%		
Operating income as a % of revenues	13.3%	11.7%		
Income taxes as a % of income before income taxes	26.2%	26.1%		

Revenues were 14% higher in the fourth quarter of 2014 compared to the same period last year with strong increases in both the Equipment Group (up 15%) and CIMCO (up 9%).

Gross profit increased 21% in the quarter versus last year on the higher revenues and improved margins in both operating groups. Gross profit as a percentage of revenues increased 150 basis points compared to 2013 buoyed by a 120 basis points increase in the Equipment Group and a 30 basis points increase in CIMCO. Higher margins in the Equipment Group were mainly due to improved rental margins and a favorable sales mix of product support revenues to total. CIMCO margins were higher on improved product support and package margins as well as a favorable sales mix of product support revenues to total.

Selling and administrative expenses increased 13%, in part reflecting the 14% increase in revenues. Higher compensation costs accounted for the majority of this increase (up $5.3 million or 14%) largely due to annual increases, higher staffing levels, increased commissions and increased incentive compensation on the higher income. Selling and administrative expenses decreased 20 basis points period-over-period to 13.6% as a percentage of revenues.

Interest expense was $2.0 million in the fourth quarter of 2014, down $0.2 million from the similar period last year on lower debt balances.

Interest income was $1.7 million in the fourth quarter of 2014, up $0.8 million from last year on higher interest on conversions of rental equipment with purchase options.

The effective income tax rate for 2014 was 26.2% compared to 26.1% in the same period last year and largely reflects the mix of income by tax jurisdiction.

Net earnings in the quarter were $45.7 million and basic EPS were $0.59 per share, as compared to net earnings of $34.4 million and basic EPS of $0.45 in 2013. These represented 33% and 31% increases, respectively, over 2013.

Business Segment Fourth Quarter Operating Results

The Equipment Group

Three months ended December 31 ($ thousands)	2014	2013	$ change	% change
Equipment sales and rentals				
New	$ 154,904	$ 153,719	$ 1,185	1%
Used	58,825	38,357	20,468	53%
Rental	63,046	54,200	8,846	16%
Total equipment sales and rentals	276,775	246,276	30,499	12%
Power generation	2,880	2,842	38	1%
Product support	125,539	102,595	22,944	22%
Total revenues	$ 405,194	$ 351,713	$ 53,481	15%
Operating income	$ 57,522	$ 44,646	$ 12,876	29%
Bookings ($ millions)	$ 201	$ 173	$ 28	16%
Key Ratios:				
Product support revenues as a % of total revenues	31.0%	29.2%		
Operating income as a % of revenues	14.2%	12.7%		
Group total revenues as a % of consolidated revenues	87.0%	86.4%		

New equipment sales increased 1% compared to 2013, mainly on increases in construction markets (up 27%), partially offset by mining (down 57%) and agriculture (down 35%). Excluding mining, new equipment sales increased 19% over 2013.

Used equipment sales increased significantly in the quarter and represent a new fourth quarter record. Driving the increase were excellent mining, construction and forestry sales.

Rental revenues were higher across all categories on improved utilization and a larger fleet. Light equipment rentals increased 16% over 2013, heavy equipment 18%, power rentals 59% and equipment on RPO 5%. Rental rates were fairly consistent in both years with continuing competitive market conditions.

Product support revenues were up 22% over 2013 with increases in both parts (up 25%) and service (up 14%). Activity was strong across most markets.

Operating income increased 29% on the higher revenue and gross margins. Operating income as a percentage of revenues was 14.2% compared to 12.7% in the fourth quarter of 2013.

Gross profit margins increased 140 basis points in the quarter largely due to a favorable sales mix (up 50 basis points) with a higher proportion of product support revenues to total and improved rental margins (up 70 basis points).

Selling and administrative expenses were 14% higher than the comparable quarter last year mainly due to higher compensation and profit sharing, warranty expenses and occupancy costs. As a percentage of revenues, selling and administrative expenses decreased 10 basis points to 13.1%, compared to 13.2% in 2013.

Bookings in the fourth quarter of 2014 were $201 million, up 16% from the similar period last year.

CIMCO

Three months ended December 31 ($ thousands)	2014	2013	$ change	% change
Package sales	$ 33,441	$ 31,428	$ 2,013	6%
Product support	27,016	24,123	2,893	12%
Total revenues	$ 60,457	$ 55,551	$ 4,906	9%
Operating income	$ 4,622	$ 3,165	$ 1,457	46%
Bookings ($ millions)	$ 30	$ 21	$ 9	43%
Key Ratios:				
Product support revenues as a % of total revenues	44.7%	43.4%		
Operating income as a % of revenues	7.6%	5.7%		
Group total revenues as a % of consolidated revenues	13.0%	13.6%		

Results in the fourth quarter were strong after a weaker start to the year. The momentum is encouraging. Revenues increased 9% with strong package sales and continued product support growth while operating income set a new fourth-quarter record.

Canadian package revenues in the fourth quarter of 2013 were buoyed by the MLF project, which was completed in the first quarter of 2014. Excluding this order in both years, Canadian revenues were up 28% with strong increases in industrial (up 54%) partially offset by a decline in recreational activity (down 16%). U.S. package revenues were largely unchanged from last year as increased industrial activity (up 22%) was largely offset by lower recreational activity (down 18%).

Product support revenues set a new record for the fourth quarter with increased activity in both Canada and the U.S.

Operating income increased 46% on higher revenues and improved gross profit margins. Operating income as a percentage of revenues was 7.6% compared to 5.7% in 2013.

Gross margins increased 230 basis points on improved product support (up 120 basis points) and packages margins (up 80 basis points) as well as a favorable sales mix (up 30 basis points) with a higher proportion of product support revenues to total.

Selling and administrative expenses increased 12%, mainly due to higher compensation expense, legal fees associated with defending various patents, bad debt expenses and an unfavorable foreign exchange impact. As a percentage of revenues, selling and administrative expenses increased 50 basis points to 17.0% compared to 16.5% in 2013.

Bookings in the quarter totalled $30.0 million, up 43% from the comparable period last year. Canadian bookings were up 87% with strong industrial activity (up 122%) and a modest recreational growth (up 2%). U.S. bookings were down 32% as higher industrial activity (up 67%) was more than offset by lower recreational activity (down 110%).

Quarterly Results

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2014 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenues				
Equipment Group	$ 263,834	$ 368,650	$ 411,077	$ 405,194
CIMCO	47,914	46,909	56,355	60,457
Total revenues	$ 311,748	$ 415,559	$ 467,432	$ 465,651
Net Earnings	$ 18,629	$ 28,859	$ 40,038	$ 45,670
Per Share Information				
Earnings per share – basic	$ 0.24	$ 0.37	$ 0.52	$ 0.59
Earnings per share – diluted	$ 0.24	$ 0.37	$ 0.51	$ 0.59
Dividends paid per share	$ 0.13	$ 0.15	$ 0.15	$ 0.15
Weighted average common shares outstanding – Basic (in thousands)	76,895	77,032	77,117	77,195

($ thousands, except per share amounts)	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Revenues				
Equipment Group	$ 266,816	$ 317,052	$ 427,111	$ 351,713
CIMCO	46,316	57,686	71,186	55,551
Total revenues	$ 313,132	$ 374,738	$ 498,297	$ 407,264
Net Earnings	$ 17,848	$ 27,284	$ 43,485	$ 34,414
Per Share Information				
Earnings per share – basic	$ 0.23	$ 0.36	$ 0.57	$ 0.45
Earnings per share – diluted	$ 0.23	$ 0.35	$ 0.56	$ 0.44
Dividends paid per share	$ 0.12	$ 0.13	$ 0.13	$ 0.13
Weighted average common shares outstanding – Basic (in thousands)	76,495	76,589	76,625	76,737

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

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern has been interrupted by the timing of significant sales to mining and other customers, which can be variable due to the timing of mine site development and access, and construction project schedules. We expect this historical seasonal trend to continue for non-mining related business.

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

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

Selected Annual Information

(in thousands, except per share amounts)	2014	2013	2012
Revenues	$ 1,660,390	$ 1,593,431	$ 1,507,173
Net earnings	$ 133,196	$ 123,031	$ 119,473
Earnings per share			
Basic	$ 1.73	$ 1.61	$ 1.56
Diluted	$ 1.71	$ 1.59	$ 1.55
Dividends declared per share	$ 0.60	$ 0.52	$ 0.48
Total assets	$ 1,107,802	$ 1,030,555	$ 936,170
Total long-term debt	$ 131,518	$ 132,418	$ 159,767
Weighted average common shares outstanding, basic (millions)	77.1	76.6	76.5

Revenues grew 4% in 2014, despite competitive market conditions and an uncertain economic environment, mainly through strong performance in the Equipment Group and continued product support growth at CIMCO. In 2013, revenues grew 6% through excellent delivery and execution across all lines of business.

Net earnings improved 8% in 2014 and 3% in 2013 on the higher revenues, generally improving margins and a relatively flat selling and administrative expenses ratio.

Earnings per share have generally followed earnings.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate was increased in 2012 by 9% to $0.12 per share, in 2013 by 8% to $0.13 per share and in 2014 by 15% to $0.15 per share. The Company has announced dividend increases every year since 1968.

Total assets increased in 2014 by 7% mainly due to the continued investment in the rental fleet on strong demand and improved market conditions and assets acquired on business acquisitions.

Long-term debt decreased in 2014 mainly due to principal repayments made on the senior debenture due in March 2019, net of the amortization of debt issuance costs. Total debt, net of cash, to total capitalization was 6% at December 31, 2014, well within targeted levels.

Risks and Risk Management

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

Business Cycle

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

Commodities prices and, in particular, changes in the view on long-term trends, affect demand for the Company's products and services in the Equipment Group. Commodity price movements in base and precious metals sectors in particular can have an impact on customers' demands for equipment and customer service. With lower commodity prices, demand is reduced as development of new projects is often stopped and existing projects can be curtailed, both leading to less demand for heavy equipment.

The business of the Company is diversified across a wide range of industry market segments, serving to temper the effects of business cycles on consolidated results. Continued diversification strategies such as expanding the Company's customer base, broadening product offerings and geographic diversification are designed to moderate business cycle impacts.
The Company has focused on the sale of specialized equipment and ongoing support

through parts distribution and skilled service. Product support growth has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is typically subject to less volatility than equipment supply activities.

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days' notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for 22 years and management expects this will continue going forward.

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

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

Competition

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

Increased competitive pressures or the inability of the Company to maintain the factors that have enhanced its competitive position to date could adversely affect the Company's business, results of operations or financial condition.

The Company relies on the skills and availability of trained and experienced tradesmen and technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which make attracting and retaining skilled individuals more difficult.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

When the Company has cash on hand it may be invested in short-term instruments, such as money market deposits. The Company manages its credit exposure associated with cash equivalents by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer or industry. The Company has accounts receivable from customers engaged in various industries including construction, mining, food and beverage, and governmental agencies. Management does not believe that any single industry represents significant credit risk. These customers are based predominately in Canada.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Warranties and Maintenance Contracts

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

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

Foreign Exchange

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

The rate of exchange between the Canadian and U.S. dollar has an impact on revenue trends. The Canadian dollar averaged US$0.91 in 2014 compared to US$0.97 in 2013, a 6% decrease. As substantially all of the equipment and parts sold in the Equipment Group are sourced in U.S. dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's U.S. subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods. Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts.

The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency transactions when they occur.

As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Interest Rate

The Company minimizes its interest rate risk by managing its portfolio of floating and fixed rate debt, as well as managing the term to maturity.

At December 31, 2014, 100% of the Company's debt portfolio was comprised of fixed rate debt (2013 – 100%), maturing between 2015 and 2019. Fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity.

Floating rate debt exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

Further, the fair value of the Company's fixed rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company does not intend to settle or refinance any existing debt before maturity.

Financing Arrangements

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

Environmental Regulation

Toromont's customers are subject to significant and ever-increasing environmental legislation and regulation. This legislation can impact Toromont in two ways. First, it may increase the technical difficulty in meeting environmental requirements in product design, which could increase the cost of these businesses' products. Second, it may result in a reduction in activity by Toromont's customers in environmentally sensitive areas, in turn reducing the sales opportunities available to Toromont.

Toromont is also subject to a broad range of environmental laws and regulations. These may, in certain circumstances, impose strict liability for environmental contamination, which may render Toromont liable for remediation costs, natural resource damages and other damages as a result of conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners, operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighbouring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact Toromont's business, results of operations or financial condition.

Spinoff Transaction Risk

Although the spinoff of Enerflex in 2011 as a separate, publicly traded company is complete, the transaction exposes Toromont to certain ongoing risks. The spinoff was structured to comply with all the requirements of the public company "butterfly rules" in the *Income Tax Act*. However, there are certain requirements of these rules that depend on events occurring after completion of the spinoff or that may not be within the control of Toromont and/

or Enerflex. If these requirements are not met, Toromont could be exposed to significant tax liabilities which could have a material effect on the financial position of Toromont. In addition, Toromont has agreed to indemnify Enerflex for certain liabilities and obligations related to its business at the time of the spinoff. These indemnification obligations could be significant. These risks are more fully described in the Management Information Circular relating to the Plan of Arrangement dated April 11, 2011, which is available at www.sedar.com.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in note 1 to the consolidated financial statements.

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements. The critical accounting policies and estimates described below affect the operating segments similarly, and therefore are not discussed on a segmented basis.

Acquisitions

Management applied judgement relating to acquisitions with respect to whether the acquisitions were a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the respective acquisitions in order to reach a conclusion.

Property, Plant and Equipment

Fixed assets are stated at cost less accumulated depreciation, including asset impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of fixed assets are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of fixed assets requires judgment and is based on currently available information.

Fixed assets are also reviewed for potential impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases where the undiscounted expected future cash flows are less than the carrying amount, an impairment loss is recognized. Impairment losses on long-lived assets are measured as the amount by which the carrying value of an asset or asset group exceeds its fair value, as determined by the discounted future cash flows of the asset or asset group. In estimating future cash flows, the Company uses its best estimates based on internal plans that incorporate management's judgments as to the remaining service potential of the fixed assets. Changes in circumstances, such as technological advances and changes to business strategy, can result in actual useful lives and future cash flows differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of fixed assets or future cash flows constitute a change in accounting estimate and are applied prospectively.

Income Taxes

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

Estimates and judgments are made for uncertainties which exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Changes or differences in these estimates or assumptions may result in changes to the current or deferred tax balances on the consolidated statement of financial position, a charge or credit to income tax expense in the income statement and may result in cash payments or receipts.

Impairment of Non-Financial Assets

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

Revenue Recognition
The Company generates revenue from the assembly and manufacture of equipment using the percentage-of-completion method. This method requires management to make a number of estimates and assumptions surrounding: the expected profitability of the contract; the estimated degree of completion based on cost progression; and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

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

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

Employee Future Benefits Expense
The net obligations associated with the defined benefit pension plans are actuarially valued using: the projected unit credit method; the current market discount rate, salary escalation, life expectancy and future pension increases. All assumptions are reviewed at each reporting date.

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

Future Accounting Standards

A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2014, and accordingly, have not been applied in preparing the consolidated financial statements.

Revenue Recognition – In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Financial Instruments – In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Employee Benefits – The amendments to IAS 19 – *Employee Benefits*, require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014.

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

Responsibility of Management and the Board of Directors

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

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2014, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on that evaluation, they have concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2014, to provide reasonable assurance that a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2014, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no changes in the design of the Company's internal controls over financial reporting during 2014 that would materially affect, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting as at December 31, 2014, and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well-conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Non-IFRS Financial Measures

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

Operating Income and Operating Margin

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

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

Return on Equity and Return on Capital Employed

Return on equity ("ROE") is monitored to assess the profitability of the consolidated Company. ROE is calculated by dividing net earnings by opening shareholders' equity (adjusted for shares issued and redeemed during the year).

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

Working Capital and Non-Cash Working Capital

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

Net Debt to Total Capitalization

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

Free Cash Flow

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

Management's Report

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and necessarily include estimates. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

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

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

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

Scott J. Medhurst
President and
Chief Executive Officer

Paul R. Jewer
Executive Vice President and
Chief Financial Officer

February 5, 2015
Toronto, Canada

Independent Auditors' Report

To the Shareholders of Toromont Industries Ltd.

We have audited the accompanying consolidated financial statements of Toromont Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toromont Industries Ltd. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 5, 2015
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 ($ thousands)	Note	2014	2013
Assets			
Current assets			
Cash		$ 85,962	$ 70,769
Accounts receivable	3	239,772	240,259
Inventories	4	367,193	332,123
Income taxes receivable		—	6,135
Derivative financial instruments	12	1,683	1,331
Other current assets		4,228	4,585
Total current assets		698,838	655,202
Property, plant and equipment	5	176,398	166,440
Rental equipment	5	195,263	174,712
Other assets	6	3,546	4,177
Deferred tax assets	15	5,784	2,435
Goodwill and intangible assets	7	27,973	27,589
Total assets		$1,107,802	$1,030,555
Liabilities			
Current liabilities			
Accounts payable, accrued liabilities and provisions	8	$ 238,771	$ 248,461
Deferred revenues		34,852	48,924
Current portion of long-term debt	9	126,576	1,470
Income taxes payable		3,886	—
Total current liabilities		404,085	298,855
Deferred revenues		9,910	11,060
Long-term debt	9	4,942	130,948
Accrued pension liability	19	20,790	13,135
Shareholders' equity			
Share capital	10	287,002	279,149
Contributed surplus	11	7,212	6,329
Retained earnings		371,781	289,979
Accumulated other comprehensive income		2,080	1,100
Shareholders' equity		668,075	576,557
Total liabilities and shareholders' equity		$1,107,802	$1,030,555

See accompanying notes

Approved by the Board:

Robert M. Ogilvie
Director

John S. McCallum
Director

Consolidated Income Statements

Years ended December 31 ($ thousands, except share amounts)	Note	2014	2013
Revenues	23	$ 1,660,390	$ 1,593,431
Cost of goods sold	4, 5	1,247,999	1,201,913
Gross profit		412,391	391,518
Selling and administrative expenses	5	227,579	217,556
Operating income		184,812	173,962
Interest expense	14	8,188	8,693
Interest and investment income	14	(4,154)	(3,793)
Income before income taxes		180,778	169,062
Income taxes	15	47,582	46,031
Net earnings		$ 133,196	$ 123,031
Earnings per share			
Basic	16	$ 1.73	$ 1.61
Diluted	16	$ 1.71	$ 1.59
Weighted average number of shares outstanding			
Basic	16	77,061,455	76,612,204
Diluted	16	77,675,711	77,155,151

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	**2014**	**2013**
Net earnings	$ 133,196	$ 123,031
Other comprehensive (loss) income:		
Items that may be reclassified subsequently to net earnings:		
Unrealized gain on translation of financial statements of foreign operations	602	407
Change in fair value of derivatives designated as cash flow hedges, net of income tax expense (2014 – $938; 2013 – $1,084)	2,663	3,089
(Gain) on derivatives designated as cash flow hedges transferred to net earnings, net of income tax expense (2014 – $803; 2013 – $925)	(2,285)	(2,628)
Items that will not be reclassified subsequently to net earnings:		
Actuarial (losses) gains on pension plans, net of income tax (recovery) expense (2014 – ($1,849); 2013 – $2,637)	(5,127)	7,316
Other comprehensive (loss) income	(4,147)	8,184
Comprehensive income	$ 129,049	$ 131,215

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	Note	2014	2013
Operating activities			
Net earnings		$ 133,196	$ 123,031
Items not requiring cash:			
Depreciation and amortization	5, 7, 9	65,456	59,246
Stock-based compensation	11	2,330	1,957
Accrued pension liability		680	(3,752)
Deferred income taxes		(1,633)	8,462
Gain on sale of rental equipment and property, plant and equipment		(13,948)	(10,071)
		186,081	178,873
Net change in non-cash working capital and other	21	(42,571)	21,665
Cash provided by operating activities		143,510	200,538
Investing activities			
Additions to:			
Rental equipment		(81,358)	(69,123)
Property, plant and equipment		(26,457)	(25,680)
Proceeds on disposal of:			
Rental equipment		29,265	22,143
Property, plant and equipment		1,657	1,393
Increase in other assets		(235)	(265)
Increase in intangible assets		—	(500)
Business acquisitions		(8,634)	—
Cash used in investing activities		(85,762)	(72,032)
Financing Activities			
Decrease in term credit facility debt		—	(26,547)
Repayment of long-term debt		(1,471)	(1,372)
Repayment of loans assumed on business acquisitions	25	(2,960)	—
Dividends	10	(44,663)	(39,026)
Cash received on exercise of stock options		6,398	6,660
Cash used in financing activities		(42,696)	(60,285)
Effect of exchange rate changes on cash denominated in foreign currency		141	165
Increase in cash		15,193	68,386
Cash at beginning of year		70,769	2,383
Cash at end of year		$ 85,962	$ 70,769

Supplemental cash flow information (note 21)

See accompanying notes

Consolidated Statements of Changes in Equity

($ thousands)	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income: Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2014		$ 279,149	$ 6,329	$ 289,979	$ 831	$ 269	$ 1,100	$ 576,557
Net earnings		—	—	133,196	—	—	—	133,196
Other comprehensive (loss) income		—	—	(5,127)	602	378	980	(4,147)
Effect of stock compensation plans	10, 11	7,853	883	—	—	—	—	8,736
Dividends		—	—	(46,267)	—	—	—	(46,267)
At December 31, 2014		$ 287,002	$ 7,212	$ 371,781	$ 1,433	$ 647	$ 2,080	$ 668,075

($ thousands)	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income: Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2013		$ 270,900	$ 5,957	$ 199,486	$ 424	$ (192)	$ 232	$ 476,575
Net earnings		—	—	123,031	—	—	—	123,031
Other comprehensive income		—	—	7,316	407	461	868	8,184
Effect of stock compensation plans	10, 11	8,271	372	—	—	—	—	8,643
Other adjustments		(22)	—	—	—	—	—	(22)
Dividends		—	—	(39,854)	—	—	—	(39,854)
At December 31, 2013		$ 279,149	$ 6,329	$ 289,979	$ 831	$ 269	$ 1,100	$ 576,557

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2014
($ thousands except where otherwise indicated)

1. Description of Business and Significant Accounting Policies

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

Toromont operates through two reportable segments: The Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory, industry-leading rental operations and a growing agricultural dealership in Manitoba. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 3,350 people in more than 100 locations.

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

These consolidated audited financial statements were authorized for issue by the Audit Committee of the Board of the Directors on February 5, 2015.

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

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

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

Business Combinations and Goodwill
When determining the nature of an acquisition, as either a business combination or an asset acquisition, management defines a business as 'an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants'. An integrated set of activities and assets requires two essential elements – inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business need not include all of the inputs or processes that the seller used in operating that business if the Company is capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes. If the transaction does not meet the criteria of a business, it is accounted for as an asset acquisition.

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

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

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

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

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

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

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

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

Inventories
Inventories are valued at the lower of cost and net realizable value.

Cost of equipment, repair and distribution parts and direct materials include purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a specific-item basis. Non-serialized inventory is determined based on a weighted average actual cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives range from 20 to 30 years for buildings, three to 10 years for equipment and 20 years for power generation assets. Leasehold improvements and lease inducements are amortized on a straight-line basis over the term of the lease. Land is not depreciated.

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. Intangible assets with a definite useful life are amortized over a period of 17 years on a straight-line basis.

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

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

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

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

- Cash and cash equivalents are classified as held for trading and as such are measured at fair value, with changes in fair value being included in profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

amount exceeds its recoverable amount. Impairment losses are recognized in the income statement.

The Company bases its impairment calculation on detailed budgets which are prepared for each of the CGUs and generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year.

For assets other than goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

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

Revenue Recognition

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

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

Foreign Currency Translation

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

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

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

Share-based Payment Transactions

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

For equity-settled plans, which are no longer available to non-employee directors, expense is based on the fair value of the awards granted determined using the Black-Scholes option pricing model and the best estimate of the number of equity instruments that will ultimately vest. For awards with graded vesting, each tranche is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of grant and is recognized as stock-based compensation expense, net of forfeiture estimate, over the term of its respective vesting period.

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

Employee Future Benefits

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

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

- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on length of service and management's best estimate assumptions to value its pensions using a measurement date of December 31;
- Net interest is calculated by applying the discount rate to the net defined benefit liability or asset;
- Past service costs from plan amendments are recognized immediately in net earnings to the extent that the benefits have vested; otherwise, they are amortized on a straight-line basis over the vesting period; and
- Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in retained earnings and included in the statement of comprehensive income in the period in which they occur.

Income Taxes

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

Deferred taxes are provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the income statement in the period that includes the date of substantive enactment. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the Company considers probable to be realized.

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

Leases

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

Toromont as Lessee

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

Toromont as Lessor

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

Borrowing Costs

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

Standards Adopted in 2014

Certain amendments to standards and a new interpretation that were adopted on January 1, 2014 are noted below.

a. *IAS 36 – Impairment of Assets*

The amendment reverses the unintended requirement in IFRS 13 – *Fair Value Measurement*, to disclose the recoverable amount of each CGU to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendment, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The amendment affects presentation only and had no impact on the Company's financial position or performance.

b. *IAS 32 – Financial Instruments: Presentation*

These amendments clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and 'simultaneous realization and settlement'. These amendments had no impact on the Company's financial position or performance.

c. *International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies*
IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by the government that is accounted for in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. The application of IFRIC 21 had no impact on the Company's financial position or performance.

Standards Issued But Not Yet Effective
A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ended December 31, 2014, and accordingly, have not been applied in preparing these consolidated financial statements.

a. *Revenue Recognition*
In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of adopting this interpretation on its consolidated financial statements.

b. *Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting this interpretation on its consolidated financial statements.

c. *Employee Benefits*
The amendments to IAS 19 – *Employee Benefits*, require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment is effective for annual periods beginning on or after July 1, 2014. The Company is currently assessing the impact of these amendments on its consolidated financial statements.

2. Significant Accounting Estimates and Assumptions

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

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

Acquisitions
Management applied judgment relating to its acquisitions with respect to whether the acquisitions were a business combination or an asset acquisition. Management applied a three-element process to determine whether a business or an asset was purchased, considering inputs, processes and outputs of the respective acquisitions in order to reach a conclusion.

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

Impairment of Non-financial Assets
Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal

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

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

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

Revenue Recognition
The Company generates revenue from the assembly and manufacture of equipment using the percentage-of-completion method. This method requires management to make a number of estimates and assumptions surrounding: the expected profitability of the contract; the estimated degree of completion based on cost progression; and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in revenues recognized in a given period.

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

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

Employee Future Benefits Expense
The net obligations associated with the defined benefit pension plans are actuarially valued using: the projected unit credit method; the current market discount rate, salary escalation, life expectancy and future pension increases. All assumptions are reviewed at each reporting date.

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

3. Accounts Receivable

	2014	2013
Trade receivables	$ 224,880	$ 223,672
Less: allowance for doubtful accounts	(7,845)	(9,242)
Trade receivables – net	217,035	214,430
Other receivables	22,737	25,829
Trade and other receivables	$ 239,772	$ 240,259

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

	2014	2013
Current to 90 days	$ 211,497	$ 210,055
Over 90 days	13,383	13,617
	$ 224,880	$ 223,672

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

	2014	2013
Balance, beginning of year	$ 9,242	$ 5,496
Provisions and revisions, net	(1,397)	3,746
Balance, end of year	$ 7,845	$ 9,242

4. Inventories

	2014	2013
Equipment	$ 249,932	$ 219,330
Repair and distribution parts	86,878	85,001
Direct materials	3,881	2,789
Work-in-process	26,502	25,002
	$ 367,193	$ 332,123

The amount of inventory recognized as an expense and included in cost of goods sold accounted for other than by the percentage-of-completion method during 2014 was $993 million (2013 – $933 million). The cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The amounts charged to the consolidated income statement and included in cost of goods sold on a net basis for inventory valuation issues during 2014 was $2.1 million (2013 – $1.0 million).

5. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2014	$ 46,069	$ 123,988	$ 129,611	$ 38,639	$ 338,307	$ 333,390
Additions	2,305	8,990	15,979	105	27,379	81,173
Acquisitions	959	1,680	859	—	3,498	—
Disposals	(500)	(31)	(5,059)	—	(5,590)	(46,522)
Currency translation effects	12	191	160	—	363	—
December 31, 2014	$ 48,845	$ 134,818	$ 141,550	$ 38,744	$ 363,957	$ 368,041
Accumulated depreciation						
January 1, 2014	$ —	$ 58,625	$ 89,946	$ 23,296	$ 171,867	$ 158,678
Depreciation charge	—	5,279	13,737	1,559	20,575	44,281
Depreciation of disposals	—	(29)	(4,932)	—	(4,961)	(30,181)
Currency translation effects	—	7	71	—	78	—
December 31, 2014	$ —	$ 63,882	$ 98,822	$ 24,855	$ 187,559	$ 172,778
Net book value – December 31, 2014	$ 48,845	$ 70,936	$ 42,728	$ 13,889	$ 176,398	$ 195,263

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2013	$ 46,017	$ 113,200	$ 118,440	$ 38,291	$ 315,948	$ 299,412
Additions	55	10,835	15,565	348	26,803	69,494
Disposals	(12)	(52)	(4,449)	—	(4,513)	(35,516)
Currency translation effects	9	5	55	—	69	—
December 31, 2013	$ 46,069	$ 123,988	$ 129,611	$ 38,639	$ 338,307	$ 333,390
Accumulated depreciation						
January 1, 2013	$ —	$ 53,835	$ 82,361	$ 21,759	$ 157,955	$ 140,480
Depreciation charge	—	4,836	11,838	1,537	18,211	40,436
Depreciation of disposals	—	(48)	(4,280)	—	(4,328)	(22,238)
Currency translation effects	—	2	27	—	29	—
December 31, 2013	$ —	$ 58,625	$ 89,946	$ 23,296	$ 171,867	$ 158,678
Net book value – December 31, 2013	$ 46,069	$ 65,363	$ 39,665	$ 15,343	$ 166,440	$ 174,712

During 2014, depreciation expense of $59.6 million was charged in cost of goods sold (2013 – $53.9 million) and $5.2 million was charged to selling and administrative expenses (2013 – $4.8 million).

Operating income from rental operations for the year ended December 31, 2014 was $37.0 million (2013 – $29.4 million).

6. Other Assets

	2014	2013
Equipment sold with guaranteed residual values	$ 1,888	$ 2,753
Other	1,658	1,424
	$ 3,546	$ 4,177

7. Goodwill and Intangible Assets

		2014		2013
Goodwill		$ 13,450		$ 13,450
Intangible assets:				
Distribution network (indefinite life)		13,669		13,669
Patents & licences (definite life):				
Cost	500		500	
Accumulated amortization	(59)		(30)	
Net book value		441		470
Other		413		—
Total Goodwill and Intangible assets		$ 27,973		$ 27,589

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

As part of a business combination (refer to note 25), the Company recorded goodwill and intangibles of $0.4 million based on preliminary fair value of assets acquired.

Impairment Testing of Goodwill and Intangible Assets With Intangible Assets
Goodwill and intangible assets with indefinite lives have been allocated to two CGUs for impairment testing as follows:

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

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

	Goodwill		Intangible assets		Total	
	2014	2013	2014	2013	2014	2013
Toromont CAT	$ 13,000	$ 13,000	$ 13,669	$ 13,669	$ 26,669	$ 26,669
CIMCO	450	450	—	—	450	450
Total	$ 13,450	$ 13,450	$ 13,669	$ 13,669	$ 27,119	$ 27,119

The Company performed the annual impairment test of goodwill and intangible assets allocated to Toromont CAT as at December 31, 2014. The recoverable amount of Toromont CAT has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period was extrapolated using a 2% growth rate which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to future cash flows was 11%. As a result of the analysis, management determined there was no impairment for this CGU.

The Company performed the annual impairment test of goodwill allocated to CIMCO as at December 31, 2014. The recoverable amount of CIMCO has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period was extrapolated using a 2% growth rate which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to future cash flows was 12.9%. As a result of the analysis, management determined there was no impairment for this CGU.

Key Assumptions to Value-in-Use Calculations
The calculation of value-in-use for Toromont CAT and CIMCO are most sensitive to the following assumptions:

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

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

Growth rate estimates are based on published data, historical experiences and management's best estimate.

Sensitivity to Changes in Assumptions
Management believes that within reasonably plausible changes to any of the above key assumptions, recoverable amounts exceed carrying values.

8. Payables, Accruals and Provisions

	2014	**2013**
Accounts payable and accrued liabilities	$ 213,328	$ 224,073
Dividends payable	11,584	9,987
Provisions	13,859	14,401
	$ 238,771	$ 248,461

Activities related to provisions were as follows:

	Warranty	**Other**	**Total**
Balance as at January 1, 2014	$ 8,354	$ 6,047	$ 14,401
New provisions	8,042	1,584	9,626
Charges/credits against provisions	(8,619)	(1,549)	(10,168)
Balance as at December 31, 2014	$ 7,777	$ 6,082	$ 13,859

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

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

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

9. Long-term Debt

	2014	2013
Senior debentures	$ 133,040	$ 134,511
Debt issuance costs, net of amortization	(1,522)	(2,093)
Total long-term debt	$ 131,518	$ 132,418
Less current portion	126,576	1,470
	$ 4,942	$ 130,948

All debt is unsecured.

The Company maintains a $200 million committed credit facility. The facility matures in September 2017. Debt incurred under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

At December 31, 2014, standby letters of credit issued utilized $22.6 million of the credit lines (2013 – $26.6 million).

Terms of the senior debentures are:

- $125,000, 4.92% senior debentures due October 13, 2015, interest payable semi-annually, principal due on maturity; and
- $8,040, 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.

It is the Company's intention to refinance all or a portion of the October 2015 maturity prior to the due date, with any remaining balance funded through existing cash and facilities.

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

Interest expense includes interest on debt initially incurred for a term greater than one year of $7.9 million (2013 – $8.0 million).

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

	Principal	Interest
2015	$ 126,576	$ 5,342
2016	1,690	427
2017	1,811	306
2018	1,941	176
2019	1,022	36
	$ 133,040	$ 6,287

10. Share Capital

Authorized

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

Issued

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

	2014		2013	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	76,844,897	$ 279,149	76,407,658	$ 270,900
Exercise of stock options	414,499	7,853	443,371	8,271
Other adjustments	—	—	(6,132)	(22)
Balance, end of year	77,259,396	$ 287,002	76,844,897	$ 279,149

Shareholder Rights Plan

The Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person, and any related parties, acquires or commences a take-over bid to acquire 20% or more of the Company's outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company's Board of Directors. Should such an acquisition occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The plan expires in April 2015.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2014. The current issuer bid allows the Company to purchase up to approximately 5.7 million of its common shares in the 12-month period ending August 30, 2015, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

The Company did not purchase any shares under the normal course issuer bid during the years ended December 31, 2014 or 2013.

Dividends

The Company paid dividends of $44.7 million ($0.58 per share) for the year ended December 31, 2014 and $39.0 million ($0.51 per share) for the year ended December 31, 2013.

For the year ended December 31, 2014, the Board of Directors of the Company declared dividends of $0.60 per common share or $0.15 per quarter (2013 – $0.52 ($0.13 per quarter)). The fourth quarter dividend of $0.15 per share was declared on October 27, 2014, payable on January 2, 2015, to all shareholders on record at December 11, 2014. As such, at December 31, 2014, the Company accrued $11.6 million in accounts payable and accrued liabilities on the consolidated statement of financial position. Subsequent to the year ended December 31, 2014, this amount was paid.

11. Contributed Surplus

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Changes in contributed surplus were as follows:

	2014	2013
Contributed surplus, beginning of year	$ 6,329	$ 5,957
Stock-based compensation, net of forfeitures	2,330	1,957
Value of compensation cost associated with exercised options	(1,447)	(1,585)
Contributed surplus, end of year	$ 7,212	$ 6,329

12. Financial Instruments

Financial Assets and Liabilities – Classification and Measurement

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

Fair Value of Financial Instruments

As at December 31, 2014	Derivatives	Other financial liabilities	Total
Current portion of long-term debt	$ —	$ (126,576)	$ (126,576)
Derivative financial instruments	1,683	—	1,683
Long-term debt	—	(4,942)	(4,942)
Total	$ 1,683	$ (131, 518)	$ (129,835)

As at December 31, 2013	Derivatives	Other financial liabilities	Total
Current portion of long-term debt	$ —	$ (1,470)	$ (1,470)
Derivative financial instruments	1,331	—	1,331
Long-term debt	—	(130,948)	(130,948)
Total	$ 1,331	$ (132,418)	$ (131,087)

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on the comparable foreign exchange rate at period end under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability, most significantly foreign exchange spot and forward rates.

The fair value of senior debentures as at December 31, 2014 was $137,040 (carrying value of $133,040) (2013 – $141,800 (carrying value of $134,511)). The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability.

During the year ended December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting
Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. As at December 31, 2014, the Company was committed to USD purchase contracts with a notional amount of $115.8 million at an average exchange rate of $1.1481, maturing between January 2015 and October 2015.

Management estimates that a gain of $1.7 million (2013 – $1.3 million) would be realized if the contracts were terminated on December 31, 2014. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of $0.9 million (2013 – $0.4 million) has been included in OCI. These gains are not expected to affect net earnings as the gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign denominated accounts payable. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A gain of $0.8 million (2013 – $0.9 million) on these forward contracts is included in net earnings, which offsets losses recorded on the foreign-denominated items, namely accounts payable.

All hedging relationships are formally documented, including the risk management objective and strategy. On an on-going basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

13. Financial Instruments – Risk Management

In the normal course of business, Toromont is exposed to financial risks that may potentially impact its operating results in one or all of its reportable segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates. The Company does not enter into derivative financial agreements for speculative purposes.

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

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

Sensitivity Analysis
The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and comprehensive income. It is provided as a reasonably possibly change in currency in a volatile environment. Financial instruments affected by currency risk include cash, accounts receivable, accounts payable and derivative financial instruments.

As at December 31, 2014, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $0.1 million increase (decrease) in OCI for financial instruments held in foreign operations and a $0.4 million increase (decrease) in net earnings and $3.6 million increase (decrease) in OCI for financial instruments held in Canadian operations.

The movement in OCI in foreign operations reflects the change in the fair value of financial instruments. Gains or losses on translation of foreign subsidiaries are deferred in OCI. Accumulated currency translation adjustments are recognized in income when there is a reduction in the net investment in the foreign operation.

The movement in net earnings in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

The movement in OCI in Canadian operations reflects the change in the fair value of derivative financial instruments that are designated as cash flow hedges. The gains or losses on these instruments are not expected to affect net earnings as the gains or losses will offset losses or gains on the underlying hedged items.

Credit Risk
Financial instruments that potentially subject the Company to credit risk consist of cash, accounts receivable and derivative financial instruments. The carrying amount of assets included on the consolidated statement of financial position represents the maximum credit exposure.

The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from customers engaged in various industries including mining, construction, food and beverage, and governmental agencies. These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Interest Rate Risk

The Company minimizes its interest rate risk by managing its portfolio of floating and fixed rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2014 or 2013.

The Company did not have any floating rate debt at December 31, 2014 or 2013.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2014, the Company had unutilized lines of credit of $177.4 million (2013 – $173.4 million).

Accounts payable are primarily due within 90 days and will be satisfied from current working capital.

The Company expects that continued cash flows from operations in 2015, together with currently available credit facilities, will be more than sufficient to fund its requirements for the senior debenture repayment and investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

14. Interest Income and Expense

The components of interest expense were as follows:

	2014	2013
Term loan facility	$ 1,478	$ 1,894
Senior debentures	6,710	6,799
	$ 8,188	$ 8,693

The components of interest and investment income were as follows:

	2014	2013
Interest income – rental conversions	$ 3,270	$ 3,036
Other	884	757
	$ 4,154	$ 3,793

15. Income Taxes

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

	2014	2013
Current income tax expense	$ 49,204	$ 37,565
Deferred income tax (recovery) expense	(1,622)	8,466
Total income tax expense	$ 47,582	$ 46,031

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

	2014	2013
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	$ 47,906	$ 44,801
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	119	291
Manufacturing and processing rate reduction	(258)	(270)
Expenses not deductible for tax purposes	1,116	993
Non-taxable gains	(197)	(270)
Effect of future income tax rate (reductions) increases	(138)	283
Other	(966)	203
Provision for income taxes	$ 47,582	$ 46,031
Effective income tax rate	26.3%	27.2%

The statutory income tax rate represents the combined Canadian federal and Ontario provincial income tax rates which are the relevant tax jurisdictions for the Company.

The source of deferred income taxes was as follows:

	2014	2013
Accrued liabilities	$ 11,856	$ 10,315
Deferred revenues	1,921	1,988
Accounts receivable	1,619	1,389
Inventories	3,562	2,861
Capital assets	(18,848)	(18,000)
Pension	5,017	3,274
Other	885	700
Cash flow hedges in other comprehensive income	(228)	(92)
Deferred tax assets	$ 5,784	$ 2,435

The movement in net deferred tax assets was as follows:

	2014	2013
Balance, January 1	$ 2,435	$ 13,697
Tax recovery (expense) recognized in income	1,622	(8,466)
Tax recovery (expense) recognized in other comprehensive income	1,727	(2,796)
Balance, December 31	$ 5,784	$ 2,435

The aggregate amount of unremitted earnings in the Company's subsidiaries was $57.3 million (2013 – $50.1 million). These earnings can be remitted with no tax consequences.

16. Earnings Per Share

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

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

	2014	**2013**
Net earnings available to common shareholders	$ 133,196	$ 123,031
Weighted average common shares outstanding	77,061,455	76,612,204
Dilutive effect of stock option conversion	614,256	542,947
Diluted weighted average common shares outstanding	77,675,711	77,155,151
Earnings per share		
Basic	$ 1.73	$ 1.61
Diluted	$ 1.71	$ 1.59

For the calculation of diluted earnings per share for the year ended December 31, 2014, 522,000 (2013 – 507,200) outstanding stock options with a weighted average exercise price of $26.52 (2013 – $23.50) were considered anti-dilutive (exercise price in excess of average market price during the year) and as such were excluded from the calculation.

17. Employee Benefits Expense

	2014	**2013**
Wages and salaries	$ 282,471	$ 274,601
Other employment benefit expenses	45,962	44,218
Share options granted to directors and employees	2,330	1,957
Pension costs	11,543	11,590
	$ 342,306	$ 332,366

18. Stock-based Compensation

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company's policy that no more than 1% of outstanding shares or 768,449 share options may be granted in any one year.

Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Effective 2013, stock options granted have a ten-year term while those granted prior to 2013 have a seven-year term. Toromont accrues compensation cost over the vesting period based on the grant date fair value.

A reconciliation of the outstanding options for the years ended December 31, 2014 and 2013 was as follows:

	2014		2013	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Options outstanding, beginning of year	2,610,274	$ 18.49	2,564,355	$ 16.92
Granted	522,500	26.52	516,200	23.40
Exercised [(1)]	(414,499)	15.43	(443,371)	15.07
Forfeited	(2,400)	18.79	(26,910)	19.68
Options outstanding, end of year	2,715,875	$ 20.50	2,610,274	$ 18.49
Options exercisable, end of year	1,108,790	$ 17.56	1,006,224	$ 16.20

(1) The weighted average share price at date of exercise for the year ended December 31, 2014 was $26.12 (2013 – $23.78).

The following table summarizes stock options outstanding and exercisable as at December 31, 2014.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Life (years)**	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
$12.42 – $14.75	169,100	1.1	$ 12.44	169,100	$ 12.44
$14.76 – $17.10	942,110	2.8	$ 16.90	615,650	$ 16.85
$17.11 – $23.40	1,082,665	6.4	$ 21.98	324,040	$ 21.56
$23.41 – $26.79	522,000	9.6	$ 26.52	—	$ —
Total	2,715,875	5.4	$ 20.50	1,108,790	$ 17.56

The fair value of the stock options granted during 2014 and 2013 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013
Fair value price per option	$ 5.50	$ 5.49
Expected life of options (years)	8.45	8.29
Expected stock price volatility	23.0%	25.0%
Expected dividend yield	2.26%	2.22%
Risk-free interest rate	1.92%	2.28%

Deferred Share Unit Plan
The Company offers a deferred share unit ("DSU") plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their performance incentive bonus or fees, respectively, in DSUs. In addition, the Board may grant discretionary DSUs. Non-employee directors also receive a portion of their compensation in DSUs.

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

The following table summarizes information related to DSU activity:

	2014		2013	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, beginning of year	288,920	$ 7,696	211,872	$ 4,297
Units taken in lieu of performance incentive awards, director fees and dividends	53,575	1,420	77,048	1,743
Redemptions	(7,786)	(197)	—	—
Fair market value adjustment	—	608	—	1,656
Outstanding, end of year	334,709	$ 9,527	288,920	$ 7,696

Employee Share Ownership Plan
The Company offers an Employee Share Ownership Plan (the "Plan") whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to $1,000 per employee per annum based on contributions by the Company of $1 for every $3 contributed by the employee. Company contributions vest to the employee immediately. Company contributions amounting to $1.0 million in 2014 (2013 – $0.9 million) were charged to selling and administrative expenses when paid. The Plan is administered by a third party.

19. Employee Future Benefits

Defined Contribution Plans
The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to these retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

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

	2014	2013
Defined contribution plans	$ 9,504	$ 9,075
401(k) matched savings plans	158	128
Net pension expense	$ 9,662	$ 9,203

Defined Benefit Plans

The Company sponsors funded defined benefit plans for approximately 109 qualifying employees. The defined benefit plans are administered by a separate Fund that is legally separated from the Company.

Outlined below is a summary of the plans in effect at December 31, 2014 and 2013:

a) Powell Plan – This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The plan is a contributory plan that provides pension benefits based on length of service and career average earnings. The plan is administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. The plan is registered with the province of Manitoba. Manitoba's minimum funding regulations require special payments for Toromont to amortize any shortfalls of plan assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payments of an equivalent lump sum value (solvency funding basis). Security in the form of letters of credit is permitted in lieu of some or all of these solvency special payments. If the fair value of defined benefit assets were to exceed 105% of this solvency funding target, the excess can be applied to the cost of the defined benefits and defined contributions in future periods. The most recent actuarial valuation was completed as at December 31, 2013, with the next valuation scheduled for December 31, 2016.

b) Executive Plan – This is a non-contributory pension arrangement for certain senior executives that provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. The plan is a supplemental pension plan and is solely the obligation of the Company. The Company is not obligated to fund the plan but pay benefits under the terms of the plan as they come due. At December 31, 2014, the Company has posted letters of credit in the amount of $18.3 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2014, with the next valuation scheduled for December 31, 2015.

c) Other plan assets and obligations – This provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan that, in accordance with the plan provisions, have elected to receive a pension directly from the plan. The most recent actuarial valuation was completed on January 1, 2014, with the next valuation scheduled for January 1, 2017.

Risks

The plans typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

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

Interest risk

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

Longevity risk

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

Salary risk

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

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

	2014	2013
Discount rate(s)	3.80%	4.60%
Expected rate(s) of salary increase	4.00%	4.00%

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

	2014	2013
Service cost	$ 1,162	$ 1,394
Net interest expense	719	993
Components of defined benefit costs recognized in net earnings	$ 1,881	$ 2,387
Remeasurement on the net defined benefit liability:		
Actuarial losses arising from experience adjustments	$ 1,302	$ 992
Actuarial losses arising from changes in demographic assumptions	441	2,589
Actuarial losses/(gains) arising from changes in financial assumptions	7,828	(7,043)
Return on plan assets (excluding amounts included in net interest expense)	(2,595)	(6,491)
Components of defined benefit costs recognized in other comprehensive income	$ 6,976	$ (9,953)

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

	2014	2013
Accrued defined benefit obligations:		
Balance, beginning of year	$ 79,791	$ 83,733
Current service cost	1,162	1,394
Interest cost	3,714	3,212
Remeasurement losses/(gains)		
Actuarial losses arising from experience adjustments	1,302	992
Actuarial losses arising from changes in demographic assumptions	441	2,589
Actuarial losses/(gains) arising from changes in financial assumptions	7,828	(7,043)
Benefits paid	(8,036)	(5,496)
Voluntary contributions by plan participants	353	410
Balance, end of year	86,555	79,791
Plan assets:		
Fair value, beginning of year	66,656	56,893
Interest income on plan assets	2,995	2,219
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	2,595	6,491
Contributions from the Company	2,669	6,139
Contributions from the plan participants	353	410
Benefits paid	(8,036)	(5,496)
Transfer to Company defined contribution plan	(1,467)	—
Fair value, end of year	65,765	66,656
Accrued pension liability	$ 20,790	$ 13,135

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

	2014			2013		
	Accrued Defined Benefit Obligation	**Plan Assets**	**Accrued Pension (Liability)**	**Accrued Defined Benefit Obligation**	**Plan Assets**	**Accrued Pension Asset (Liability)**
Powell Plan	$ 56,521	$ 56,185	$ (336)	$ 51,431	$ 55,408	$ 3,977
Executive Plan	20,849	2,089	(18,760)	20,965	1,888	(19,077)
Other plan assets and obligations	9,185	7,491	(1,694)	7,395	9,360	1,965
Accrued pension (liability) asset	$ 86,555	$ 65,765	$ (20,790)	$ 79,791	$ 66,656	$ (13,315)

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

	2014	**2013**
Equity securities	43.6%	49.0%
Debt securities	38.2%	33.6%
Real estate	17.3%	16.9%
Cash and cash equivalents	0.9%	0.5%

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

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

The actual return on plan assets was $5.6 million (2013 – $8.7 million).

Sensitivity Analysis

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

As at December 31, 2014, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation:

	Discount Rate		**Life Expectancy**	
	1% Increase	**1% Decrease**	**Increase by 1 year**	**Decrease by 1 year**
Powell Plan	$ (7,310)	$ 8,403	$ 1,520	$ (1,520)
Executive Plan	$ (1,849)	$ 2,029	$ 549	$ (549)
Other Plan	$ (523)	$ 563	$ 356	$ (356)

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

The Company expects to contribute $2.1 million to the defined benefit plans during 2015.

The weighted average duration of the defined benefit plan obligation at December 31, 2014 was 13.1 years (2013 – 13.8 years).

20. Capital Management

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

The Company's capital management framework is designed to maintain a flexible capital structure that allows for optimization of the cost of capital at acceptable risk while balancing the interests of both equity and debt holders.

The Company generally targets a net debt to total capitalization ratio of 33%, although there is a degree of variability associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has comfortably met these minimum requirements during the year.

There were no changes in the Company's approach to capital management during the year.

The Company's capital management criteria can be illustrated as follows:

	2014	2013
Shareholders' equity	$ 668,075	$ 576,557
Long-term debt	131,518	132,418
Less cash	(85,962)	(70,769)
Total capitalization	$ 713,631	$ 638,206
Net debt as a % of total capitalization	6%	10%
Net debt to equity ratio	0.07:1	0.11:1

21. Supplemental Cash Flow Information

	2014	2013
Net change in non-cash working capital and other		
Accounts receivable	$ 1,174	$ (8,741)
Inventories	(17,886)	346
Accounts payable, accrued liabilities and provisions	(22,129)	42,806
Deferred revenues	(15,222)	(6,017)
Other	11,492	(6,729)
	$ (42,571)	$ 21,665
Cash paid during the year for:		
Interest	$ 7,463	$ 7,961
Income taxes	$ 43,547	$ 47,804
Cash received during the year for:		
Interest	$ 3,629	$ 3,309
Income taxes	$ 5,748	$ 2,120

22. Commitments

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

Future minimum lease payments under non-cancellable operating leases as at December 31, 2014 were as follows:

2015	$ 2,841
2016	2,557
2017	2,016
2018	1,478
2019	1,145
2020 and thereafter	1,254
	$ 11,291

23. Segmented Information

The Company has two reportable segments, each supported by the corporate office. These 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 segments. Corporate overheads are allocated to the segments based on revenue.

The accounting policies of the reportable segments are the same as those described in Note 1 – Significant Accounting Policies. Each reportable segment's performance is measured based on operating income. No reportable segment is reliant on any single external customer.

	Equipment Group		**CIMCO**		**Consolidated**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Equipment/package sales	$ 752,912	$ 746,006	$ 112,084	$ 140,747	$ 864,996	$ 886,753
Rentals	220,143	193,454	—	—	220,143	193,454
Product support	464,153	411,582	99,550	89,992	563,703	501,574
Power generation	11,548	11,650	—	—	11,548	11,650
Total revenues	$ 1,448,756	$ 1,362,692	$ 211,634	$ 230,739	$ 1,660,390	$ 1,593,431
Operating income	$ 172,727	$ 157,924	$ 12,085	$ 16,038	$ 184,812	$ 173,962
Interest expense					8,188	8,693
Interest and investment income					(4,154)	(3,793)
Income taxes					47,582	46,031
Net earnings					$ 133,196	$ 123,031

Selected Statement of Financial Position Information:

As at December 31, 2014	Equipment Group	CIMCO	Consolidated
Identifiable assets	$ 933,393	$ 64,087	$ 997,480
Corporate assets			110,322
Total assets			$1,107,802
Identifiable liabilities	$ 222,983	$ 34,883	$ 257,866
Corporate liabilities			181,861
Total liabilities			$ 439,727
Capital expenditures	$ 106,357	$ 1,458	$ 107,815
Depreciation	$ 63,416	$ 1,440	$ 64,856

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

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

	2014	2013
Revenues		
Canada	$ 1,609,909	$1,542,504
United States	49,217	43,895
International	1,264	7,032
	$ 1,660,390	$1,593,431

	2014	2013
Capital Assets and Goodwill		
Canada	$ 381,064	$ 351,016
United States	4,047	3,586
	$ 385,111	$ 354,602

24. Related Party Disclosures

Key management personnel and director compensation comprised:

	2014	2013
Salaries	$ 2,850	$ 2,962
Stock options and DSU awards	1,954	1,847
Annual non-equity incentive based plan compensation	2,875	2,785
Pension	508	494
All other compensation	147	174
	$ 8,334	$ 8,262

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

25. Business Combinations

Ag West Equipment Limited

On September 30, 2014, the Company acquired 100% of the voting shares of Ag West Equipment Limited ("Ag West"), for total cash consideration of $3.7 million, plus assumed debt of $3.0 million for a total transaction value of $6.7 million. Subsequent to the acquisition, the assumed debt was settled in full. The transaction was accounted for as a business combination under IFRS 3.

Based in Manitoba, Ag West specialised in the sale and service of agricultural equipment as an authorized dealer of AGCO and other manufacturers' products for over twenty years. With this acquisition, Toromont will further expand its cross-selling opportunities and strengthen its presence in the agricultural sector.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon the fair market value at the date of acquisition.

The final allocation of the purchase price was as follows:

Assets		
Cash	$	577
Trade receivables		261
Inventories		11,819
Other current assets		350
Property, plant and equipment		2,971
Deferred tax assets		5
	$	15,983
Liabilities		
Current liabilities	$	12,320
Net identifiable assets acquired	$	3,663

From the date of acquisition, Ag West contributed $5.7 million of revenues. If the acquisition had occurred on January 1, 2014, Ag West would have contributed approximately $22.3 million in total revenues.

Canpro Gator Centre
On December 19, 2014, Ag West acquired substantially all of the assets of Canpro Gator Centre ("Canpro"), for approximately $6.4 million (subject to closing adjustments), representing their assessed fair value. At the close of the transaction, $5.8 million was paid with the balance due within 30 days. The transaction was accounted for as a business combination in accordance with IFRS 3.

Based in Manitoba, Canpro also specialised in the sale and service of agricultural equipment as an authorized AGCO dealer. Additionally, Canpro is the licensed distributor for various state of the art agricultural precision devices that increase productivity and efficiency. This acquisition will provide broader market coverage with an expanded portfolio of products and services.

The purchase price was allocated to the underlying assets acquired based on preliminary fair value assessments as at the purchase date.

The following table provides a summary of the preliminary assessed fair value of assets acquired as reflected in the consolidated statement of financial position at December 31, 2014.

Assets	
Trade receivables	$ 124
Inventories	5,365
Property, plant and equipment	527
Goodwill and Intangible assets	413
	$ 6,429

From the date of acquisition, Canpro contributed no revenues due to timing. If the acquisition had taken place on January 1, 2014, Canpro would have contributed approximately $20.0 million in total revenues.

26. Economic Relationship

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

Ten-Year Financial Review [1]

For the years ended December 31 ($ thousands except where otherwise indicated)	2014	2013	2012 [5]	2011
Operating Results				
Revenues	1,660,390	1,593,431	1,507,173	1,381,974
Net earnings	133,196	123,031	119,473	246,459
Net interest expense (income) [2]	4,034	4,900	5,740	5,798
Capital expenditures [2]	107,815	94,803	101,311	82,877
Dividends declared	46,267	39,854	36,728	36,968
Financial Position				
Working capital	294,753	356,347	302,919	251,122
Capital assets	371,661	341,152	316,925	287,290
Total assets	1,107,802	1,030,555	936,170	913,331
Long-term debt	4,942	130,948	158,395	132,815
Shareholders' equity	668,075	576,557	476,575	403,861
Financial Ratios				
Working capital	1.7:1	2.2:1	2.2:1	1.7:1
Return on opening shareholders' equity (%) [3]	23.0	25.7	29.9	28.9
Total debt, net of cash, to shareholders' equity	.07:1	.11:1	.33:1	.15:1
Per Share Data ($)				
Net earnings – basic	1.73	1.61	1.56	3.20
Net earnings – diluted	1.71	1.59	1.55	3.18
Dividends declared	0.60	0.52	0.48	0.48
Book value (shareholders' equity)	8.65	7.50	6.24	5.27
Shares outstanding at year end	77,259,396	76,844,897	76,407,658	76,629,777
Price range [4]				
High	28.97	26.94	25.00	33.25
Low	24.48	21.12	18.61	15.39
Close	28.51	26.65	21.10	21.32

(1) 2010 – 2014 results were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.
(2) Figures for 2010 – 2014 are presented on a continuing operations basis.
(3) 2011 ROE was calculated excluding earnings and equity from discontinued operations.
(4) On June 1, 2011, Toromont completed the spinoff of Enerflex. Toromont shareholders received one share of Enerflex for each Toromont share held.
(5) The Company adopted revisions to IAS 19 – *Employee Benefits*, effective January 1, 2013. As a result, certain 2012 amounts were restated – refer to Note 1 of the 2013 audited financial statements.

2010	2009	2008	2007	2006	2005
1,207,028	1,824,592	2,121,209	1,886,761	1,746,162	1,584,911
103,912	120,516	140,524	122,280	99,421	78,962
8,826	2,460	(3,246)	9,331	11,110	10,192
71,143	61,041	96,475	97,108	102,444	72,813
47,716	38,848	36,391	31,061	25,594	20,280
478,289	539,264	509,276	466,859	469,638	410,990
556,991	369,666	402,647	341,159	323,504	283,407
2,271,763	1,364,667	1,533,450	1,356,861	1,299,992	1,143,972
413,040	144,051	158,112	203,425	238,468	241,265
1,196,838	854,063	779,103	654,730	565,556	481,812
1.8:1	2.6:1	1.9:1	2.0:1	2.1:1	2.1:1
9.1	15.5	21.5	21.6	20.6	18.9
.21:1	(.06):1	.05:1	.2:1	.4:1	.4:1
1.36	1.86	2.16	1.89	1.56	1.25
1.35	1.86	2.15	1.88	1.54	1.23
0.62	0.60	0.56	0.48	0.40	0.32
15.50	13.17	12.06	10.08	8.79	7.57
77,149,626	64,867,467	64,620,677	64,943,497	64,310,377	63,624,936
32.40	27.80	32.90	30.00	27.15	25.68
22.86	19.26	19.03	22.30	20.08	20.05
30.76	27.79	22.99	28.26	24.50	25.40

Corporate Information

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Paul R. Jewer, Executive Vice President and Chief Financial Officer
Randall B. Casson, President, Construction Industries Division/ Battlefield – The Cat Rental Store
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, Human Resources and Legal
Jennifer J. Cochrane, Vice President, Finance

Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am on Thursday, April 23, 2015 at the Hilton Garden Inn (Vaughan), 3201 Highway 7, Vaughan, Ontario L4K 5Z7.

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How to Reach Our Transfer Agent and Registrar

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