Toromont Announces Record Results for 2007

TORONTO, ONTARIO--(Marketwire - Feb. 4, 2008) - Toromont Industries Ltd. (TSX:TIH - News) today reported record financial results for 2007 representing the fifth consecutive year of growth. Revenues and net earnings were higher compared to the same periods of 2006. Net earnings for the quarter were $39.3 million or $0.61 per share, up 7% from $36.9 million or $0.58 per share reported in the fourth quarter of 2006. For the year, net earnings were $122.3 million or $1.89 per share, up 23% from 2006. Record mobile equipment sales and rentals together with solid project execution and very strong growth of the US compression business were the primary contributors to the higher earnings. Full year results for 2007 included a $0.20 per share gain on sale of property recorded in the second quarter.

$ millions, except per share amounts	Three months ended December 31			Twelve months ended December 31		
	2007	2006	% change	2007	2006	% change
Revenues	$ 540.7	$ 495.8	9%	$ 1,903.0	$ 1,764.8	8%
Operating income	$ 62.1	$ 59.7	4%	$ 180.8	$ 166.4	9%
Net earnings	$ 39.3	$ 36.9	7%	$ 122.3	$ 99.4	23%
Earnings per share basic	$ 0.61	$ 0.58	5%	$ 1.89	$ 1.56	21%

"We are pleased with our results, particularly in light of the record highs set in 2006. Revenues have increased annually over the past ten years and net earnings have been higher in nine of the last ten years. The Equipment Group exceeded expectations in the fourth quarter, setting a new December record for sales of new equipment. The Compression Group also exceeded expectations in the fourth quarter on excellent project execution in all operations and continued business growth in the United States," stated Robert M. Ogilvie, Chairman and Chief Executive Officer of Toromont Industries Ltd. "The Equipment Group delivered exceptional results, with solid growth in both revenues and operating income driven by strong demand in the mining, infrastructure and marine industries. Product support activity was particularly strong in the last quarter after a slower start to the year. Rental operations through Battlefield - The CAT Rental Store have shown consistent growth in revenues since inception in 1996, adding another 16% in 2007. The Compression Group reported a 3% reduction in operating income, but we are nonetheless very pleased with the overall results given softness in Canadian natural gas markets. In Canada, management has done an excellent job of optimizing facilities, controlling costs and executing projects; while current market conditions are tough, we believe the long-term fundamentals remain sound. US natural gas operations have seen terrific growth in 2007 in light of our expanded presence in this market, improved project execution and underlying market strength. Industrial and recreational refrigeration reported significantly improved results in 2007, aided by higher activity and cost control."

Highlights:

- Equipment Group revenues were up 9% in the fourth quarter of 2007 versus the same period of 2006 on 17% growth in new machine and engine sales, a 14% increase in rentals and an 11% increase in product support. Operating income in the quarter increased 18% over the same period last year on the higher revenues and improved gross margins.

- For the year, Equipment Group revenues were up 11% over 2006 while operating income was up 18%. Revenue growth was driven by a 20% increase in new machine and engine sales and rental revenues. Growth in operating income, up 18%, reflects higher revenues and improved gross margins.

- Equipment Group bookings in the fourth quarter were down 25% from the record levels seen in the comparable period last year, which had included several large mining orders. For the year, bookings were approximately the same level as 2006. Backlogs were also comparable to the record levels reported at the end of last year.

- Compression Group revenues were up 9% in the quarter compared to the same period last year on 9% growth in package sales and an 11% growth in product support revenues. Operating income for the quarter was down 10% on lower operating margins in the Canadian natural gas compression market due to reduced activity levels, partially offset by increased activity levels in US operations and improved project execution in natural gas operations.

- For the year, Compression Group revenues were up 4% on an 11% increase in product support revenues and a 2% increase in package sales. Operating income for the year was down 3% on lower operating margins in Canada, partially offset by improvements in US natural gas operations and refrigeration operations.

- Compression Group bookings were 81% higher in the fourth quarter of 2007 versus the relatively weak activity levels in the fourth quarter of 2006, with strong increases in bookings in US natural gas compression systems, process compression systems and Canadian industrial refrigeration systems. Bookings for the full year 2007 were 10% higher. Backlogs set a new high for this time of year and were up 32% over 2006.

- Cash provided by operating activities in 2007 was significantly higher than 2006 due to higher earnings and a reduced investment in non-cash working capital. Total debt net of cash as a percentage of shareholders' equity at December 31, 2007 was 19% versus 36% reported last year.

- The Board of Directors declared the regular quarterly dividend of $0.12 per common share, paid on January 2, 2008 to shareholders of record on December 14, 2007. The Company has paid dividends every year since going public in 1968.

"Toromont has a history of performance at a high level for all stakeholders, resulting from consistent application of long-term strategies, a proven business model and a focus on asset management and progressive, profitable improvement," continued Mr. Ogilvie. "Financially, we have a strong foundation with net debt to shareholders' equity at its the lowest level since 1997. We are well positioned in each of our markets and we believe that over the longer term, our existing businesses can achieve average annual revenue growth of 10%, with increasing profitability. While the US economy is weak and Canadian GDP growth has slowed, prospects for the Equipment Group remain favourable, with strong activity expected to continue in the mining and infrastructure markets and in power systems and marine applications. Compression has record backlogs entering 2008, with significantly higher levels in both US natural gas and industrial and recreational refrigeration."

Quarterly Conference Call and Webcast

Interested parties are invited to join the quarterly conference call with investment analysts, in listen-only mode, on Monday, February 4, 2008 at 4:30 p.m. (ET). The call may be accessed by telephone at 1-866-862-3915 (toll free) or 416-641-6133 (Toronto area). A replay of the conference call will be available until Tuesday, February 18, 2007 by calling 1-800-408-3053 or 416-695-5800 and quoting passcode 3249629.

Both the live webcast and the replay of the quarterly conference call can be accessed at www.toromont.com.

About Toromont

Toromont Industries Ltd. operates through two business segments: The Equipment Group and the Compression Group. The Equipment Group includes one of the world's largest Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a North American leader specializing in the design, engineering, fabrication, and installation of compression systems for natural gas, coal-bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both Groups offer comprehensive product support capabilities. Toromont employs approximately 4,500 people in more than 130 locations and is listed on the Toronto Stock Exchange under the symbol TIH. This press release and more information about Toromont Industries can be found on the Web at www.toromont.com.

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, 2007, compared to the preceding year. This MD&A should be read in conjunction with the attached unaudited consolidated financial statements and related notes for the year ended December 31, 2007.

The consolidated financial statements reported herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. The information in this MD&A is current to February 1, 2008.

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

ADVISORY

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

CORPORATE PROFILE AND BUSINESS SEGMENTATION

Toromont employs approximately 4,500 people in more than 130 locations, predominately in Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH. The Company serves its customers through two business groups.

The Equipment Group sells, rents and services a broad range of construction equipment and industrial engines. These activities generate 58% of the Company's revenues in 2007. The Equipment Group is comprised of Toromont CAT, one of the world's largest Caterpillar dealerships by revenue and geographic territory, and Battlefield - The CAT Rental Store, an industry-leading rental operation. Performance in this business segment is driven by activity in several industries: residential and commercial construction, infrastructure projects, mining, road building, aggregates, waste management, steel, forestry and agriculture. Other significant activities of the Equipment Group include sales and product support activities for Caterpillar engines used in a variety of applications including on highway trucks, industrial, commercial, marine and power generation applications.

The Compression Group is a leading North American business specializing in the design, engineering, fabrication and installation of compression systems for natural gas, fuel gas and carbon dioxide, as well as process systems, and industrial and recreational refrigeration systems. These activities generated 42% of the Company's revenues in 2007. Results in the Compression Group are influenced by conditions in the primary market segments served, gas production and transportation chemical, petrochemical, food and beverage processing, cold storage, food distribution and ice rink construction.

The majority of revenues are derived in Canada, representing 77% of revenues in 2007. The Company has a solid and growing presence in the United States, generating 19% of revenues in 2007, up from 13% in 2006. Offshore markets represented 4% of revenues in 2007.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

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

Expanding Markets

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

Strengthening Product Support

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.

Broadening Product Offerings

Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, 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, if not best-in-class offerings from suppliers that are continually expanding and complementing their products. Strong relationships with suppliers are critical in achieving growth objectives.

Investing in 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. Incentive programs, a strong share ownership and highly-principled culture result in a close alignment with Company and shareholder interests. By investing in employee training and development, the capabilities and productivity of employees continually improve to better serve customers, business partners and shareholders.

Toromont's information technology represents another competitive differentiator in the marketplace. 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.

Strong Financial Position

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

CONSOLIDATED RESULTS OF OPERATIONS

$ thousands, except per share amounts	Twelve months ended December 31 2007	2006	% change
Revenues	$ 1,902,980	$ 1,764,833	8%
Cost of goods sold	1,486,775	1,376,492	8%
Gross profit	416,205	388,341	7%
Selling and administrative expenses	235,453	221,968	6%
Operating income	180,752	166,373	9%
Interest expense	13,589	14,899	(9%)
Interest and investment income	(4,258)	(3,789)	12%
Gain on sale of property	15,990	-	-
Income before income taxes	187,411	155,263	21%
Income taxes	65,131	55,842	17%
Net earnings	$ 122,280	$ 99,421	23%
Earnings per share - Basic	$ 1.89	$ 1.56	21%
Key ratios:			
Gross profit as a % of revenues	21.9%	22.0%	
Selling and administrative expenses as a % of revenues	12.4%	12.6%	
Operating income as a % of revenues	9.5%	9.4%	
Income taxes as a % of income before income taxes	34.8%	36.0%	

Contributions from both operating groups led to year-over-year revenue growth of 8%, representing the fifteenth consecutive year of growth from continuing operations. Equipment Group revenues were 11% higher on increased machine and engine sales and strong rental activity. Compression revenues were 4% higher on a 29% increase in revenues from refrigeration packages. Natural gas compression package revenues were down 5% as strong demand in US markets was more than offset by lower activity in Canada. Product support continued to expand, with increases in both Groups.

The stronger Canadian dollar has had a dampening impact on revenues as pricing to customers typically reflects movements in the exchange rate on US sourced equipment, components and spare parts. As well, the stronger Canadian dollar negatively impacts reported revenues on the translation of the financial statements of the Compression Group's growing US operations.

The Canadian dollar was 6% stronger on average in 2007 compared to the prior year. The estimated impact of the stronger Canadian dollar was a decrease in reported revenues of $73 million, $41 million in Equipment and $32 million in Compression. The impact in Compression included a $20 million decrease in revenues due to the translation of foreign subsidiaries, which also reduced net income in the Group by $1.5 million.

Gross profit increased 7% on the 8% increase in revenues, partially offset by a 0.1 percentage point decrease in gross profit margins. Gross profit margin in 2007 was 21.9%, compared to 22.0% reported in 2006. Gross profit margins in the Compression Group were slightly lower in 2007. This was due to lower margins in Canadian natural gas compression operations on lower revenues, partially offset by stronger margins in the US natural gas operations on improved job execution and higher volumes. Equipment Group gross profit margins were at similar levels as in the prior year.

Selling and administrative expenses increased $13.5 million or 6% in 2007 versus the prior year. Compensation costs were $9.7 million higher due to increased profit sharing related to earnings growth and scheduled annual salary increases. Sales-related expenses such as freight, service costs and marketing were up approximately $1.5 million on the increased volumes. Selling and administrative expenses as a percentage of revenues were 12.4% for 2007 compared to 12.6% in 2006.

Operating income in 2007 was up 9% over the prior year on higher revenues and a lower relative expense level. Operating income as a percentage of revenue improved to 9.5% from 9.4% in 2006.

Interest expense was 9% lower in 2007 than in the prior year. Average debt balances in 2007 were lower than those reported in 2006 as cash flow from operating and other activities has been strong.

Interest income was 12% higher in 2007 than in the prior year. Interest income varies with the level of short-term investing of daily cash flows from operations. The Company had higher cash balances in 2007 as a result of improved cash flow from operations. In addition, interest rates were marginally higher in 2007 than 2006.

During the second quarter of 2007, a 60-acre parcel of land in the Region of Halton was sold for net proceeds of $17.6 million. The resulting gain was $16.0 million, $12.9 million after tax, or $0.20 basic earnings per share.

The effective income tax rate for the year was 34.8% compared to 36.0% for 2006. The 2007 rate was lower due to the lower rate on the capital gain from the sale of property in the second quarter. Excluding this item, the effective income tax rate for 2007 was 36.2%, marginally higher than in 2006 due to the impact of lower future tax rates on future income tax assets.

Net earnings in 2007 were $122.3 million, up 23% from 2006. Basic earnings per share for 2007 were $1.89 compared with $1.56 in 2006, an increase of 21%. Excluding the gain on sale of property in 2007, net earnings in 2007 were $109.3 million or $1.69 basic per share, up 10% and 8% respectively.

Comprehensive income for the year was $110.8 million, comprised of net earnings of $122.3 million and other comprehensive loss of $11.5 million. The other comprehensive loss arose primarily on translation of self-sustaining foreign operations and a decline in fair value of cash flow hedges. Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establish 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.

BUSINESS SEGMENT OPERATING RESULTS

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

Results of Operations in the Equipment Group

$ thousands	Twelve months ended December 31 2007	2006	% change
Equipment sales and rentals			
New	$ 528,406	$ 441,398	20%
Used	129,989	125,352	4%
Rental	147,427	133,610	10%
Total equipment sales and rentals	805,822	700,360	15%
Power generation	11,328	15,473	(27%)

Product support	281,186	272,036	3%
Total revenues	$ 1,098,336	$ 987,869	11%
Operating income	$ 108,267	$ 91,485	18%
Capital expenditures	$ 77,658	$ 79,695	(3%)

Key ratios:		
Product support revenues as a % of total revenues	25.6%	27.5%
Group total revenues as a % of consolidated revenues	57.7%	56.0%
Operating income as a % of revenues	9.9%	9.3%

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

New machine sales were up 20% in the year on higher unit sales, modestly higher prices and improved mix of larger units. The markets contributing to this growth included mining and heavy construction industries, prime and back-up electrical power systems, and engines for marine applications.

Used equipment sales were up 4% in the year. Sales of used equipment vary depending on customer buying preferences, exchange rate considerations and product availability.

Rental revenues were up 10% over 2006, largely due to modest market share gains and an expanded rental fleet. Revenues generated by stores open for more than one year were 8.1% higher this year versus the prior year on improved utilization. Two new locations, in Timmins and Concord, Ontario also contributed to increased rental revenues.

Power generation revenues from Toromont-owned plants declined 27% in the year over the prior year, reflecting the disposition of power generation assets located near Trenton, Ontario in mid 2007. On a comparable basis, power generation revenues were up 18% over 2006, reflecting increased operating hours and higher average prices for electricity.

Product support revenues were 3% higher than the prior year on increases in both parts and service. Product support revenues benefited from higher parts sales to construction and mining customers, particularly during the last quarter of the year. Partially offsetting this has been lower service work in on-highway truck engines due to softness in the transportation sector. A continuing strike by hourly staff in Newfoundland commencing in August 2007 has also negatively impacted revenues by approximately $2 million. Service work in process at December 31, 2007 was approximately 15% higher than at the end of 2006.

Operating income increased 18% over the prior year, on the 11% increase in revenues. Selling and administrative expenses as a percentage of revenues were lower in 2007 than in the prior year. Gross margins were at similar levels to 2006 as improved price realization offset the impact of a lower proportion of product support activities. Operating income increased to 9.9% of revenues compared with 9.3% in the prior year - a record level of profitability for the Equipment Group.

Booking activity in 2007 was comparable to the record activity reported in 2006. Demand continued to be strong for new equipment, particularly for the larger models used in mining and infrastructure markets and for marine and power applications.

Backlogs at December 31, 2007 were comparable to the records set last year on significant orders received from customers in the mining and marine industries.

Capital expenditures in the Equipment Group totaled $77.7 million in 2007, of which approximately 78% were for replacement and expansion of the rental fleet. Other capital expenditures included investments for both new and existing branches as well as service and delivery vehicles.

Results of Operations in the Compression Group

$ thousands	Twelve months ended December 31 2007	2006	% change
Package sales and rentals			
Package sales	$ 594,029	$ 584,297	2%
Rentals	19,236	20,158	(5%)
Total package sales and rentals	613,265	604,455	1%
Product support	191,379	172,509	11%
Total revenues	$ 804,644	$ 776,964	4%
Operating income	$ 72,484	$ 74,888	(3%)
Capital expenditures	$ 19,450	$ 22,749	(15%)
Key ratios:			
Product support revenues as a % of total revenues	23.8%	22.2%	
Group total revenues as a % of consolidated revenues	42.3%	44.0%	
Operating income as a % of revenues	9.0%	9.6%	

Revenue growth within the Compression Group reflects varied market conditions. The net impact of these conditions has been marginally positive in 2007.

- The Canadian natural gas industry slowed significantly from the very active market conditions seen through 2005. High levels of gas in storage have kept prices low. A higher cost structure in Canada together with the strengthening Canadian dollar has resulted in cost disadvantages for Canadian natural gas producers. As a result, drilling in Canada has declined and the demand for compression equipment is down substantially from the peak seen in 2005.

- Conditions within the US natural gas compression market have been favourable and the Company's participation in this market has increased through investment in facilities and people. More than $25 million has been invested in US compression facilities and the workforce has more than doubled since the end of 2005.

- Activity within the US and international refrigeration markets, both industrial and recreational was higher in 2007.

Package sales revenues were up 2% from the prior year on a 29% increase in recreational and industrial refrigeration revenues. Revenues from natural gas compression packages were down 5% as higher revenues generated from U.S. natural gas compression operations were more than offset by declines in the Canadian natural gas market.

Rental revenues were $0.9 million or 5% lower in 2007 than in 2006. The marginal decrease was due to lower fleet utilization in Canada.

Product support revenues were up 11% in the year, with a 14% increase in the natural gas sector and a 6% increase in industrial refrigeration. New service branches and the growing installed base continue to strengthen Compression product support activities. Gains were reported in both Canadian and US service businesses.

Operating income for the Compression Group decreased 3% in the year on a 4% increase in revenues. Substantial growth in US natural gas operations and improved performance in industrial and recreational refrigeration were more than offset by declines in Canadian natural gas compression. Gross margins were down slightly over the prior year on lower margins in Canadian natural gas product support, which were dampened due to continuing soft market conditions. Gross margins on natural gas compression equipment were relatively consistent with the prior year as lower margins in Canada on reduced volumes were largely offset by gains in the US on higher volumes, better project execution and project mix. General and administrative expenses were held at the same relative level as in 2006, as higher spending to expand the U.S. operations was largely offset by lower spending in Canada. Operating income in the Industrial and Recreational sector substantially improved year over year on higher revenues and lower relative selling and administrative expenses. Operating income decreased to 9.0% of revenues for the year compared with 9.6% in the prior year.

Compression booking activity for the year was up 10%. The US natural gas and process markets were up 38%, while the corresponding Canadian markets were down 28%. Industrial and recreational bookings were up 26%, led by gains in the industrial sector. End-of-year backlogs were 32% higher than last year.

Capital expenditures in the Compression Group totaled $19.4 million in 2007. Approximately 50% of capital expenditures were for natural gas compression package rental fleet in Canada in response to specific demand. Investments to the Company's rental fleet are made only when demand exists for rental units. Other capital expenditures included investments for the expansion of manufacturing facilities in Casper, Wyoming. Investments in 2006 were directed at expansion in Houston, Texas.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position. At December 31, 2007, the ratio of total debt, net of cash, to equity was 0.19:1 compared to 0.36:1 in the prior year. Total assets were $1.4 billion at December 31, 2007 compared with $1.3 billion at the end of 2006.

Working Capital

The Company's investment in non-cash working capital decreased to $363.3 million at December 31, 2007. The major components, along with the changes from December 31, 2006 are identified in the following table.

	December 31 2007	December 31 2006	Increase (Decrease)
Accounts receivable	$ 339,381	$ 341,470	$ (2,089)
Inventories	444,858	461,672	(16,814)
Other current assets	27,607	7,753	19,854
Accounts payable and accrued liabilities	(267,999)	(301,131)	33,132
Deferred revenue	(160,678)	(90,596)	(70,082)
Dividends payable	(7,792)	(6,431)	(1,361)
Derivative financial instruments	(3,575)	-	(3,575)
Other	(8,457)	(1,113)	(7,344)
Total non-cash working capital	$ 363,345	$ 411,624	$ (48,279)

Accounts receivable were 1% lower than last year. Accounts receivable in the Equipment Group were up 13% on higher revenues in the fourth quarter. Accounts receivable in the Compression Group were down 12% on higher advance deposits received and improved collections.

Inventories were 4% lower than at December 2006. Equipment Group inventory was down 12% over that reported at this time last year on strong new machine sales in the fourth quarter. Compression Group inventory was up 7% on a 9% decrease in inventories in Canada and a 75% increase in the expanded US compression operations.

Other current assets increased on deposits made for equipment ordered relating to a significant project and scheduled for delivery through 2008.

Accounts payable and accrued liabilities were 11% lower than December 2006 due to reduced key supplier payables.

Deferred revenues have increased $70.1 million or 77% from December 2006. The Compression Group uses progress billings as a method of funding working capital requirements on long-term contracts. Progress billings collected in 2006 on certain long-term contracts scheduled for delivery in 2008 are now classified as current.

Derivative financial instruments, namely foreign exchange contracts and an interest rate swap, are recorded on the balance sheet beginning January 1, 2007. Given the recent volatility in the Canadian/US dollar exchange rate, the Company's hedging practices have led to a cumulative opportunity cost of approximately $3.6 million as at December 31, 2007. This is not expected to affect net income, as the unrealized losses will offset future gains on hedged items.

Other Balance Sheet Items

The Company performs impairment tests on its goodwill balances on an annual basis or as warranted by events or circumstances. The assessment of goodwill entails estimating the fair value of operations to which the goodwill relates using the present value of expected discounted future cash flows. This assessment affirmed goodwill values as at December 31, 2007.

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

Normal Course Issuer Bid

The normal course issuer bid with the Toronto Stock Exchange was renewed in 2007. The issuer bid allows the Company to purchase up to approximately 3.2 million of its common shares, representing approximately 5% of shares issued and outstanding, in the year ending August 30, 2008. 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. Toromont believes that from time to time the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. The Company did not purchase any shares under the normal course issuer bid in either 2006 or 2007.

Outstanding Share Data

As at the date of this MD&A, the Company had 64,949,897 common shares and 1,836,959 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30% of trailing earnings from continuing operations. This practice is reviewed from time-to-time, based upon and subject to the Corporation's earnings, financial requirements and general economic circumstances. During 2007, the Company declared dividends of $0.48 per common share.

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.

At December 31, 2007, $214.3 million or 93% of long-term debt carried interest at fixed rates. This debt matures at various dates through to 2019 with a current weighted average interest rate of 5.6%. The remaining $16.0 million or 7% of long-term debt carried interest at variable rates, ranging from 1.36% - 7.75%, with maturities through 2010.

Combined unsecured credit facilities amounted to $245 million at year-end, with $20 million maturing in 2009 and the balance maturing in 2011. At December 31, 2007, $182.8 million of the credit facilities were unutilized.

The Company expects that continued cash flows from operations in 2008, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments.

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:

Twelve months ended December 31

($ thousands)	2007	2006	$ Variance
Cash provided by operating activities	$ 176,811	$ 95,477	$ 81,334
Cash used in investing activities	(74,615)	(81,171)	6,556
Cash used in financing activities	(56,696)	(7,008)	(49,688)
Change in cash and cash equivalents	$ 45,500	$ 7,298	$ 38,202

Cash Flows from Operating Activities

Operating activities provided a record $176.8 million in the year compared to $95.5 million in 2006. Net earnings, adjusted for items not requiring cash, were up $14.6 million or 10.6%, reflecting higher revenues, improved operating margins and lower net interest expense. Non-cash working capital and other provided $24.6 million in 2007 compared to using $42.1 million in 2006. The components and changes in working capital are discussed in more detail in this MD&A under the heading "Financial Condition".

Cash Flows from Investing Activities

Investing activities used $74.6 million in the year compared to $81.1 million in 2006. Investing activities for the 2007 included net proceeds of $17.6 million on the sale of property.

Net additions to the rental fleet (additions less proceeds on disposal) in 2007 were $42.7 million, up 5% from the prior year. Approximately 80% of the investments in 2007 were attributable to the Equipment Group.

Gross investment in property, plant and equipment was $26.4 million and were $9.5 million lower than in the prior year. Significant investments in 2007 included the following:

- $5.5 million to complete the expansion of the compression facilities in Casper, Wyoming;

- $6.8 million for additions to the service vehicle fleet, primarily for the Equipment Group;

- $6.5 million for facilities renovations and expansion in the Equipment Group; and

- $3.0 million for computer technology upgrades.

During 2007, a rental operation in Timmins, Ontario was purchased for net cash of $3.1 million.

Cash Flows from Financing Activities

Financing activities used $56.7 million in 2007. The significant financing activities are as follows:

- Dividends paid to common shareholders in 2007 totaled $29.7 million, an increase of 23% over 2006 reflecting the higher dividend rate and more common shares outstanding.

- The outstanding balance of 8.17% senior debentures issued in 2004 matured in the year.

- Cash received on exercise of share options totaled $6.4 million.

OUTLOOK

Financially, Toromont has a strong foundation. Net debt to shareholders' equity is at the lowest level since 1997. Toromont is well positioned in each of its markets and each business segment has good growth prospects. Over the longer term, it is expected that the existing businesses can achieve average annual revenue growth of 10%, with increasing profitability.

The Equipment Group has an excellent order backlog entering 2008. Continued growth in the parts and service business is expected, driven by the larger installed base of equipment in the field. Growth in other important core markets, including mining and infrastructure and in power systems applications is expected to continue to counter prospects of weaker residential construction and forestry activity. We also expect to benefit from broader market participation as Caterpillar introduces additional lines in coming years.

Market fundamentals for natural gas for the longer term continue to be positive given declining reservoir pressures and future supply needs. Backlogs entering 2008 are at record levels, driven by increased natural gas activity in the US, largely from pipeline business. The US gas market is expected to continue to be strong and Toromont's participation will increase in light of the Company's expanded presence. It is expected that the Canadian natural gas compression market will continue to be weak in the near term.

While the US economy is weak and Canadian GDP growth has slowed, solid backlogs and industry and market diversification provide management with reasonable optimism for continued success for Toromont Industries Ltd. in 2008.

CONTRACTUAL OBLIGATIONS

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

Payments due by Period	Total	Less than 1 year	1 to 3 years	4 - 5 years	After 5 years
Long-term Debt	$ 230,299	$ 26,874	$ 29,373	$ 38,169	$ 135,883
Operating Leases	19,468	4,871	7,330	2,942	4,325
Total	$ 249,767	$ 31,745	$ 36,703	$ 41,111	$ 140,208

KEY PERFORMANCE MEASURES

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

Years ended December 31,	2007	2006	2005	2004	2003
Expanding Markets and Broadening Product Offerings					
Revenue growth	7.8%	10.3%	11.5%	14.9%	20.6%
Revenue generated outside North America (millions)	$ 75.6	$ 80.8	$ 70.0	$ 79.0	$ 55.4
Revenues, Equipment Group to Compression Group	58:42	56:44	57:43	57:43	63:37
Strengthening Product Support					
Product support revenue growth	6.3%	9.2%	15.8%	10.7%	12.1%
Investing in Our Resources					
Revenue per employee (thousands)	$ 422	$ 399	$ 384	$ 381	$ 373

Investment in information technology (millions)	$ 13.6	$ 12.7	$ 13.2	$ 11.7	$ 11.2
Return on capital employed	24.7%	22.7%	17.8%	20.6%	18.7%
Strong Financial Position					
Working capital (millions)	$ 485	$ 470	$ 411	$ 263	$ 204
Total debt, net of cash to equity ratio	.19:1	.36:1	.42:1	.45:1	.47:1
Book value (shareholders' equity) per share	$ 10.08	$ 8.79	$ 7.57	$ 6.59	$ 5.93
Build Shareholder Value					
Basic earnings per share growth	21.2%	24.8%	12.6%	19.4%	47.6%
Dividends per share growth	20.0%	25.0%	23.1%	23.8%	16.7%
Return on equity	21.6%	20.6%	18.9%	18.7%	17.5%

The performance measures indicate successful execution of strategies. Revenues have increased at an average annual rate of 13.0% since 2003. Product support revenues have increased at an average annual growth rate of 10.8% over the same period. Several factors have had an impact on revenue growth:

- In the last two years, revenue growth in Canadian operations has been dampened by the strengthening Canadian dollar relative to the U.S. currency, which has resulted in lower selling prices. Generally foreign exchange rate movements on underlying equipment and parts costs flow through to final pricing. Margins have not been negatively affected, as there is a corresponding impact on cost of goods sold.

- The stronger Canadian dollar has also negatively impacted reported revenues from US operations on translation of financial results for reporting purposes. The impact in 2007 was to reduce revenues by $20 million compared to 2006.

- Since mid 2006, Canadian natural gas compression markets have been significantly slower than in 2005 and early 2006. High natural gas inventories in Canada, combined with a strong Canadian dollar, uncertainty around the Alberta Royalty Review and the change in taxation rules for income trust corporations have all served to weaken fundamental in the Western Canadian Sedimentary Basin.

- Additionally, revenue growth between 2004 and 2006 was affected by supply constraints on certain equipment, resulting in some delays in deliveries to customers and lost opportunities.

Significant expenditures have been made in the area of information technology over the past five years. These investments have provided a competitive advantage in the marketplace and increase productivity levels. Revenue per employee has increased 13% since 2003.

Toromont continues to maintain a strong balance sheet. In 2007, book value (shareholders' equity) per share increased 14.7% over the prior year on strong earnings in the year. Leverage, as represented by the ratio of total debt, net of cash, to shareholders' equity, also improved over the prior year.

Toromont has a history of progressive earnings per share growth. Earnings per share have increased in nine of the past ten years and since 2003 have increased at an average annual rate of 25.1%.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 18 years.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2007

	Three months ended December 31		
$ thousands, except per share amounts	2007	2006	% change

Revenues	$ 540,659	$ 495,843	9%
Cost of goods sold	416,027	381,256	9%
Gross profit	124,632	114,587	9%
Selling and administrative expenses	62,525	54,901	14%
Operating income	62,107	59,686	4%
Interest expense	2,952	4,027	(27%)
Interest and investment income	(1,499)	(1,436)	4%
Income before income taxes	60,654	57,095	6%
Income taxes	21,356	20,204	6%
Net earnings	$ 39,298	$ 36,891	7%
Earnings per share - Basic	$ 0.61	$ 0.58	5%

Key ratios:		
Gross profit as a % of revenues	23.1%	23.1%
Selling and administrative expenses as a % of revenues	11.6%	11.1%
Operating income as a % of revenues	11.5%	12.0%
Income taxes as a % of income before income taxes	35.2%	35.4%

Revenues were 9% higher in the fourth quarter of 2007 compared to the same period last year on similar increases in both operating segments.

Gross profit increased 9% in the quarter over last year on higher sales volumes. Gross profit margin even with the prior year as higher margins in the Equipment Group arising from improved price realization and a higher proportion of product support revenues were offset by lower margins in the Compression Group on reduced utilization of natural gas compression facilities in Canada.

Selling and administrative expenses increased $7.6 million or 14% versus the comparable period of the prior year. Salaries and benefits increased $4.6 million versus the comparable period last year on general salary increases. Other expenses have increased in line with the growth in the business, such as sales and marketing related expenses, up $1.7 million and occupancy up $0.9 million.

Interest expense was $1.1 million or 27% lower than the prior fourth quarter. Average debt balances in 2007 were lower than in 2006, and these balances carried a slightly lower interest rate.

Interest income was up 4% on higher interest earned on higher cash balances partially offset by lower interest recognized on reduced conversion of equipment on rent with purchase options during the quarter.

The effective income tax rate was 35.2% compared to 35.4% in the similar period of 2006.

Net earnings in the quarter were $39.3 million, up 7% from 2006. Basic earnings per share were $0.61 compared with $0.58 in 2006, an increase of 5%.

Comprehensive income was $42.1 million, comprised of net earnings of $39.3 million and other comprehensive income of $2.8 million. The other comprehensive income arose primarily on increases in fair value of cash flow hedges.

Fourth Quarter Results of Operations in the Equipment Group

$ thousands	Three months ended December 31 2007	2006	% change
Equipment sales and rentals			
New	$ 171,476	$ 146,149	17%
Used	27,602	38,085	(28%)
Rental	41,758	36,474	14%
Total equipment sales and rentals	240,836	220,708	9%
Power generation	2,385	3,999	(40%)
Product support	73,449	66,019	11%
Total revenues	$ 316,670	$ 290,726	9%
Operating income	$ 35,324	$ 30,038	18%
Key ratios:			
Product support revenues as a % of total revenues	23.2%	22.7%	
Group total revenues as a % of consolidated revenues	58.6%	58.6%	
Operating income as a % of revenues	11.2%	10.3%	

Higher revenues in the fourth quarter compared to 2006 were driven by a 17% increase in new machine sales, benefiting from end of year purchasing decisions by customers and timing of delivery from suppliers on customer specific orders. Used equipment sales were down 28% versus the comparable period of 2006. Used equipment sales are dependent on a variety of factors and will fluctuate from quarter to quarter. Used equipment revenues were up 4% for the full year, however were down in the fourth quarter after a strong third quarter, which was 48% higher than 2006. Rental revenues were up 14% compared to the prior year on market share gains, an expanded rental fleet and two new locations. Product support revenues were up 11% compared to the prior year, on stronger activity after a slower first nine months of the year.

Operating income was up 18% over last year on improved gross margins. Gross margins improved due to a favourable mix in the quarter with a higher proportion of product support and rental activity which both carry relatively higher margins. Gross margin improvements were partially offset by higher selling and administrative expenses, largely compensation and sales volume related. Operating income as a percentage of revenues was 11.2% compared to 10.3% in the fourth quarter of 2006.

Bookings in the fourth quarter were down 25% from the prior year, due to the timing of large orders for the mining industry booked in 2006.

Fourth Quarter Results of Operations in the Compression Group

$ thousands	Three months ended December 31 2007	2006	% change
Package sales and rentals			
Package sales	$ 168,664	$ 154,907	9%
Rentals	5,034	5,045	-
Total package sales and rentals	173,698	159,952	9%
Product support	50,291	45,165	11%
Total revenues	$ 223,989	$ 205,117	9%

Operating income	$ 26,783	$ 29,648	(10%)

Key ratios:

Product support revenues as a % of total revenues	22.5%	22.0%
Group total revenues as a % of consolidated revenues	41.4%	41.4%
Operating income as a % of revenues	12.0%	14.5%

Revenues in the Compression Group for the fourth quarter of 2007 were up 9% from the similar period last year on growth in package sales and product support activity. Natural gas package sales were up 3% as higher revenues in US compression offset continued weakness in Canada. Revenues in the industrial and recreational refrigeration for the quarter exceeded those recorded in the same period of last year by 37% on higher activity levels in the industrial sector. Product support business in both natural gas and refrigeration markets reported higher revenues.

Operating income was 10% lower in 2007 compared to last year on lower gross margins. In Canada, margins were lower on reduced facilities utilization and increased competition in product support. In the comparable US operations, strong project execution and increased volumes produced higher margins.

Bookings in the fourth quarter were 81% higher than 2006 driven by both favourable market conditions in US natural gas and increased investment in that region, together with excellent bookings in the Canadian industrial refrigeration sector.

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 2006 annual audited consolidated financial statements.

Thousands of dollars, except per share amounts	Q1	Q2	Q3	Q4	Year
2007					
Revenues					
Equipment Group	$ 228,306	$ 268,432	$ 284,928	$ 316,670	$ 1,098,336
Compression Group	161,849	200,956	217,850	223,989	804,644
Total revenues	390,155	469,388	502,778	540,658	1,902,979
Net earnings	14,251	38,070	30,661	39,298	122,280
Earnings per share					
- Basic	0.22	0.59	0.47	0.61	1.89
- Diluted	0.22	0.58	0.47	0.61	1.88
Dividends per share	0.12	0.12	0.12	0.12	0.48
2006					

Revenues					
Equipment Group	$ 187,188	$ 262,057	$ 247,898	$ 290,726	$ 987,869
Compression Group	182,240	181,546	208,061	205,117	776,964
Total revenues	369,428	443,603	455,959	495,843	1,764,833
Net earnings	11,722	24,910	25,898	36,891	99,421
Earnings per share					
- Basic	0.18	0.39	0.41	0.58	1.56
- Diluted	0.18	0.38	0.40	0.58	1.54
Dividends per share	0.10	0.10	0.10	0.10	0.40

Interim period revenues and earnings historically reflect some seasonality.

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

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

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

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

SELECTED ANNUAL INFORMATION

(in thousands, except per share amounts)	2007	2006	2005
Revenues	$ 1,902,980	$ 1,764,833	$ 1,599,792
Net earnings - continuing operations	$ 122,280	$ 99,421	$ 78,392
Net earnings	$ 122,280	$ 99,421	$ 78,962
Earnings per share - continuing operations			
- Basic	$ 1.89	$ 1.56	$ 1.24
- Diluted	$ 1.88	$ 1.54	$ 1.22
Earnings per share			
- Basic	$ 1.89	$ 1.56	$ 1.25
- Diluted	$ 1.88	$ 1.54	$ 1.23
Dividends declared per share	$ 0.48	$ 0.40	$ 0.32
Total assets	$ 1,356,861	$ 1,299,992	$ 1,143,972
Total long-term debt	$ 230,299	$ 263,662	$ 254,093

Revenue growth in continuing operations has been strong with year-over-year increases of 12%, 10% and 8% in 2005, 2006 and 2007 respectively. Strong organic growth was achieved in both operating segments on increases in machine and package sales, rental revenues and product support activities. Organic revenue growth has also been complemented by acquisitions.

Growth in net earnings, on a continuing operations basis, has also been strong, with year-over-year increases of 12%, 27% and 23% in 2005, 2006 and 2007 respectively. Improvements in all years have been the result of higher sales volumes in both operating segments.

Earnings per share have grown in line with earnings growth, dampened somewhat by an increase in number of shares outstanding due to the exercise of stock options.

Dividends have generally increased in proportion to earnings growth.

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

Long-term debt decreased in 2007 and represents 35% of total shareholders' equity. In 2005, long-term debt represented 53% of shareholders' equity. The ratio of total debt, net of cash, to shareholders' equity has improved to 19% at December 31, 2007 compared to 42% at the end of 2005.

RISKS AND RISK MANAGEMENT

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

Business Cycle

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

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

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

Product and Supply

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

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

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

Competition

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

Credit Risk

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

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

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

The Company minimizes the credit risk of investments by investing in securities that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors.

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

Warranties and Maintenance Contracts

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

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

Foreign Exchange

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

Transaction Exposure

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

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

Translation Exposure

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

Foreign currency based earnings are translated into Canadian dollars each period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. The impact in 2007 was to reduce revenues by $20 million and net income by approximately $1.5 million.

Interest Rate

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

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

Financing Arrangements

The Company requires capital to finance its growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's future financial condition. Further, the Company's ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. The Company maintains a very 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue Recognition

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

Property, Plant and Equipment

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

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

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

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

Income Taxes

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

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

Changes or differences in these estimates or assumptions may result in changes to the current or future income tax balances on the consolidated balance sheet, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. Additional information on income taxes is provided in note 14 of the accompanying unaudited consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 Comprehensive Income, Section 3855 Financial Instruments - Recognition and Measurement, Section 3861 Financial Instruments - Disclosure and Presentation, and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges, as well as the recognition of certain transition adjustments. As provided under the standards, the comparative consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. The impact on the consolidated balance sheet of measuring derivatives at fair value is described in Note 2 to the unaudited consolidated financial statements.

The effect of these changes in accounting policies on net income for the three and twelve month periods ending December 31, 2007 is not significant.

Effective January 1, 2007, the Company adopted the revised Section 1506 Accounting Changes, relating to changes in accounting policies, changes in accounting estimates, and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the three month and twelve month periods ending December 31, 2007.

The reader is referred to Note 2 in the accompanying unaudited consolidated financial statements for the quarter and year ended December 31, 2007 for further details regarding the adoption of these standards.

FUTURE ACCOUNTING STANDARDS

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures; Handbook Section 3862 Financial Instruments - Disclosures; and Handbook Section 3863 Financial Instruments - Presentation. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is in the process of assessing the impact of these new accounting standards.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures for the year ended December 31, 2007. 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 of December 31, 2007 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities.

Additionally, the Chairman & Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP. There has been no change in the design of the Company's internal controls over financial reporting during the fourth quarter of 2007 that would materially affect, or is reasonably likely to materially affect the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures for the year ended December 31, 2007 and have concluded that they are being maintained as designed, they expect that the disclosure controls and procedures or internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

NON-GAAP FINANCIAL MEASURES

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

Operating Income and Operating Margin

Each business segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest income and interest expense. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of 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 (ROE) and Return on Capital Employed (ROCE)

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

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

Working Capital and Non-Cash Working Capital

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

TOROMONT INDUSTRIES LTD.
CONSOLIDATED BALANCE SHEETS

unaudited, as at December 31 ($ thousands)	2007	2006

Assets		
Current assets		
Cash and cash equivalents	$ 103,514	$ 58,014
Accounts receivable	339,381	341,470
Inventories (note 4)	444,858	461,672
Future income taxes (note 14)	24,362	24,305
Other current assets	27,607	7,753
Total current assets	939,722	893,214
Property, plant and equipment (note 5)	181,531	185,290
Rental equipment (note 6)	159,628	138,214
Goodwill	34,800	34,800
Other assets	41,180	48,474
Total assets	$ 1,356,861	$ 1,299,992
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 17)	$ 275,791	$ 307,562
Deferred revenues	160,678	90,596
Current portion of long-term debt (note 7)	26,874	25,194
Income taxes payable	5,945	224
Derivative financial instruments	3,575	-
Total current liabilities	472,863	423,576
Deferred revenues	22,062	66,419
Long-term debt (note 7)	203,425	238,468
Accrued pension liability (note 13)	3,583	5,483
Future income taxes (note 14)	198	490
Shareholders' equity		
Share capital (note 8)	124,124	116,848
Contributed surplus (note 9)	7,707	6,543
Retained earnings	539,039	447,820
Accumulated other comprehensive income (note 10)	(16,140)	(5,655)
Total shareholders' equity	654,730	565,556
Total liabilities and shareholders' equity	$ 1,356,861	$ 1,299,992

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF EARNINGS

unaudited, Years ended December 31 ($ thousands, except share amounts)	2007	2006
Revenues	$ 1,902,980	$ 1,764,833
Cost of goods sold	1,486,775	1,376,492

Gross profit	416,205	388,341
Selling and administrative expenses	235,453	221,968
Operating income	180,752	166,373
Interest expense (note 7)	13,589	14,899
Interest and investment income	(4,258)	(3,789)
Gain on sale of property	15,990	-
Income before income taxes	187,411	155,263
Income taxes (note 14)	65,131	55,842
Net earnings	$ 122,280	$ 99,421
Earnings per share (note 15)		
Basic	$ 1.89	$ 1.56
Diluted	$ 1.88	$ 1.54
Weighted average number of common shares outstanding - basic	64,631,140	63,889,036
Weighted average number of common shares outstanding - diluted	65,067,027	64,693,466

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

unaudited, Years ended December 31 ($ thousands)	2007	2006
Retained earnings, beginning of year	$ 447,820	$ 373,993
Net earnings	122,280	99,421
Dividends	(31,061)	(25,594)
Retained earnings, end of year	$ 539,039	$ 447,820

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

unaudited, Years ended December 31 ($ thousands)	2007	2006
Net earnings	$ 122,280	$ 99,421
Other comprehensive (loss) income:		

Change in fair value of derivatives designated as cash flow hedges, net of income taxes ($3,153)	(5,920)	-
Losses on derivatives designated as cash flow hedges transferred to net income in the current period, net of income taxes ($1,869)	3,529	-
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	(9,152)	566
Unrealized gain on financial assets designated as available-for-sale, net of income taxes ($24)	44	
Other comprehensive (loss) income	(11,499)	566
Comprehensive income	$ 110,781	$ 99,987

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

unaudited, Years ended December 31 ($ thousands)	2007	2006
Operating activities		
Net earnings	$ 122,280	$ 99,421
Items not requiring cash and cash equivalents		
Depreciation	52,702	48,498
Stock-based compensation	2,073	1,674
Accrued pension liability	(1,900)	(534)
Future income taxes	365	(4,188)
Gain on sale of rental equipment and property, plant and equipment	(23,329)	(7,301)
	152,191	137,570
Net change in non-cash working capital and other (note 18)	24,620	(42,093)
Cash provided by operating activities	176,811	95,477
Investing activities		
Additions to:		
Rental equipment	(70,697)	(66,528)
Property, plant and equipment	(26,411)	(35,916)
Proceeds on disposal of:		
Rental equipment	27,985	25,855
Property, plant and equipment	18,540	814
(Increase) decrease in other assets	(20,908)	85
Business acquisitions (note 3)	(3,124)	(5,481)
Cash used in investing activities	(74,615)	(81,171)

Financing activities		
(Decrease) increase in term credit facility debt	(13,686)	13,686
Issue of other long-term debt	5,836	9,801
Repayment of other long-term debt	(25,513)	(13,918)
Dividends	(29,700)	(24,254)
Cash received on exercise of stock options	6,367	7,677
Cash used in financing activities	(56,696)	(7,008)
Increase in cash and cash equivalents	45,500	7,298
Cash and cash equivalents at beginning of year	58,014	50,716
Cash and cash equivalents at end of year	$ 103,514	$ 58,014

Supplemental cash flow information (note 18)

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

($ thousands except where otherwise indicated)

1. DESCRIPTION OF THE BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Toromont Industries Ltd. and its subsidiaries (the "Company") operate through two business segments: The Equipment Group and the Compression Group. The Equipment Group includes one of the world's largest Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a North American leader specializing in the design, engineering, fabrication, and installation of compression systems for natural gas, coal-bed methane, fuel gas and carbon dioxide in addition to process systems and industrial and recreational refrigeration systems. Both Groups offer comprehensive product support capabilities. Toromont employs over 4,500 people in more than 130 locations and is listed on the Toronto Stock Exchange under the symbol TIH.

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

Basis of Consolidation

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

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

(f) Revenues on equipment sold directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase at a predetermined residual value and dates are accounted for as operating leases wherein revenue is recognized over the period extending to the date of the residual guarantee. The value of such equipment at December 31, 2007 is $19.7 million (2006 - $25.5 million) and is included in other long-term assets.

Translation of Foreign Currencies

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

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

Financial Instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents are classified as assets held for trading and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.

- Accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains and losses resulting from the periodic revaluation are recorded in other comprehensive income.

- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Derivative Financial Instruments and Hedge Accounting

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

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for its interest rate swap and it is designated as a cash flow hedge. The Company also elected to apply hedge accounting for foreign exchange forward contracts for firm commitments and anticipated transactions. These are also designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in net income. Amounts charged to accumulated other comprehensive income are reclassified to the income statement when the hedged transaction affects the income statement.

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

In 2006 and prior, the Company applied hedge accounting as allowed under Accounting Guideline 13

- Hedging Relationships for all of its derivative financial instruments. Accordingly, unrealized gains and losses on derivatives were not recognized.

Income Taxes

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

Stock-Based Compensation

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

Employee Future Benefits

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

For defined benefit plans, which cover approximately 6% of employees, the Company accrues its obligations and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit plans:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on length of service and management's best estimate assumptions to value its pensions using a measurement date of December 31;

- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;

- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;

- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service period of the active employees.

Earnings per Share ("EPS")

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

Cash and Cash Equivalents

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

Inventories

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

Rental Equipment

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

Property, Plant and Equipment

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

Leasehold improvements and lease inducements are amortized on a straight-line basis over the term of the lease.

Impairment of Long-lived Assets

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

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate a potential impairment. In the fourth quarter of 2006 and 2007, the annual goodwill assessment was performed and determined that there was no impairment.

Comparative Amounts

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

2. CHANGES IN ACCOUNTING POLICIES

Financial Instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 1530 Comprehensive Income, Section 3855 Financial Instruments - Recognition and Measurement, Section 3861 Financial Instruments - Disclosure and Presentation, and Section 3865 Hedges. The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges, as well as the recognition of certain transition adjustments. As provided under the standards, the comparative interim consolidated financial statements have not been restated, except for the presentation of translation gains or losses on self-sustaining foreign operations.

The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of prior periods. As at January 1, 2007, the impact on the consolidated balance sheet of measuring derivatives at fair value was an increase in: accounts receivable $27, derivative financial instrument assets $6,143, current future income tax assets $300, accounts payable and accrued liabilities $3,753, long-term future income tax liabilities $846, derivative financial instrument liabilities $857 and opening accumulated other comprehensive income $1,014.

The effect of these changes in accounting policies on net income for the year ending December 31, 2007 is not significant.

Accounting Changes

Effective January 1, 2007, the Company adopted the revised Section 1506 Accounting Changes, relating to changes in accounting policies, changes in accounting estimates, and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ending December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (refer to Future Accounting Standards below).

Future Accounting Standards

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 Capital Disclosures; Handbook Section 3862 Financial Instruments - Disclosures; and Handbook Section 3863 Financial Instruments - Presentation. These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861 Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is in the process of assessing the impact of these new accounting standards.

3. BUSINESS ACQUISITIONS

Effective March 6, 2007, the Company purchased certain assets of a privately owned rental operation in Timmins, Ontario. In 2006, land, plant and equipment in Casper, Wyoming were purchased.

The acquisitions were recorded using the purchase method. The fair values of net assets acquired were as follows:

	2007	2006
Non-cash working capital	$ 1,048	$ 135
Property, plant and equipment	188	5,346
Rental equipment	1,888	-
Purchase price	$ 3,124	$ 5,481

4. INVENTORIES

	2007	2006
Equipment	$ 249,399	$ 280,528
Repair and distribution parts	79,630	73,923
Direct materials	60,673	52,138
Work-in-process	55,156	55,083
	$ 444,858	$ 461,672

5. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value

Land	$ 38,657	$ -	$ 38,657	$ 38,272	$ -	$ 38,272
Buildings	133,585	44,830	88,755	124,768	39,071	85,697
Equipment	144,434	103,042	41,392	137,401	92,403	44,997
Power generation	34,514	22,326	12,188	42,974	29,192	13,782
Assets under construction	540	-	540	2,541	-	2,541
	$ 351,730	$ 170,199	$ 181,531	$ 345,956	$ 160,666	$ 185,290

Depreciation expense for the year ended December 31, 2007 was $24,645 (2006 - $23,236).

6. RENTAL EQUIPMENT

	2007	2006
Cost	$ 255,264	$ 221,469
Less: Accumulated depreciation	95,635	83,255
	$ 159,628	$ 138,214

Depreciation expense for the year ended December 31, 2007 was $28,057 (2006 - $25,262). Operating income from rental operations for the year ended December 31, 2007 was $30.0 million (2006 - $25.7 million).

7. LONG-TERM DEBT

	2007	2006
Drawn on bank term facility (a)	$ 30,000	$ 43,686
Senior debentures (b)	183,766	199,673
Notes payable (c)	16,533	20,303
Total long-term debt	230,299	263,662
Less current portion	26,874	25,194
	$ 203,425	$ 238,468

All debt is unsecured.

(a) The Company maintains $245,000 (2006 - $248,000) in bank credit, provided through committed credit facilities, with $20 million maturing in 2009 and the balance of $225 million maturing in 2011. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. At December 31, 2007, the Canadian prime rate was 6.0% and the 30-day bankers acceptance rate was 4.56%. Standby letters of credit issued utilized $32,240 of the credit lines at December 31, 2007 (2006 - $21,800).

(b) Terms of the senior debentures are:

- $7,630, 8.17% senior debentures due September 18, 2008, blended principal and interest payments semi-annually from September 18, 2004 through to maturity;

- $36,136, 6.80% senior debentures due March 29, 2011, interest payable semi-annually through March 29, 2007; thereafter, blended principal and interest payments through to maturity;

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

- $15,000, 7.06% senior debentures due March 29, 2019, interest payable semi-annually through September 29, 2009; thereafter, blended principal and interest payments through to maturity.

© Notes payable mature from 2008 to 2010 and bear interest at rates ranging from 1.36% to 7.75%.

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

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

2008	$ 26,874
2009	15,322
2010	14,051
2011	36,889
2012	1,280
2013 to 2019	135,883
	$ 230,299

Interest expense included interest on debt initially incurred for a term greater than one year of $13,271 (2006 - $14,047).

8. SHARE CAPITAL

Authorized

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

Issued

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

2007		2006	
Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital

Balance, beginning of year	64,310,577	$ 116,848	63,624,936	$ 107,348
Exercise of stock options	632,920	7,276	685,641	9,500
Balance, end of year	64,943,497	$ 124,124	64,310,577	$ 116,848

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 2009.

9. 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:

	2007	2006
Balance, beginning of year	$ 6,543	$ 6,692
Stock-based compensation expense, net of forfeitures	2,073	1,674
Value of compensation cost associated with exercised options	(909)	(1,823)
Balance, end of year	$ 7,707	$ 6,543

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2007	2006
Balance, beginning of year, as previously reported	$ (5,655)	$ -
Unrealized losses on translation of financial statements of self sustaining foreign operations	-	(6,221)
Cumulative impact of accounting changes relating to financial instruments (note 2)	1,014	-
Restated balance, beginning of year	(4,641)	(6,221)
Other comprehensive (loss) income	(11,499)	566
Balance, end of year	$ (16,140)	$ (5,655)

As at December 31, 2007, accumulated other comprehensive income is comprised of the following amounts:

	2007	2006
Unrealized losses on translation of financial statements of self sustaining foreign operations	$ (14,807)	$ (5,655)
Unrealized gain on financial assets designated as available-for sale, net of taxes ($24)	44	
Losses on foreign exchange derivatives designated as cash flow hedges, net of taxes ($627)	(1,168)	-
Loss on interest rate derivative designated as a cash flow hedge, net of taxes ($111)	(209)	-
Balance, end of year	$ (16,140)	$ (5,655)

The Company does not enter into derivative financial agreements for speculative purposes. The gains and losses on these contracts are intended to offset the transaction losses and gains. These losses will be reclassified to net income within the next twelve months and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable in the case of foreign exchange derivatives and interest expense in the case of the interest rate derivative. Management intends to hold these foreign currency contracts to maturity.

11. FINANCIAL INSTRUMENTS

Interest Rate Risk

The Company is exposed to interest rate risk on the portion of its long-term debt that bears interest at variable rates, which at December 31, 2007 was $46 million or 20% of total long-term debt. The Company holds an interest rate swap with a Canadian chartered bank that mitigates variability on $30 million of this debt. The swap, which matures September 1, 2008, converts floating rate debt into fixed rate debt at 5.88% . Management estimates that a loss of $320 would be realized if the contract was terminated on December 31, 2007. This contract is designated as a hedge, in accordance with the new standards, and therefore this loss has been included in other comprehensive income. This loss is not expected to affect net income as management intends to hold the interest rate swap contract to maturity.

Interest rate risk related to the Company's fixed-interest long-term debt relates to the resetting of interest rates upon maturity and refinancing of the debt. Management does not believe that the impact of interest rate fluctuations will be significant.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Credit Risk

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

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

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

The Company minimizes the credit risk of investments by investing in securities that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors.

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

Currency Risk

The Company is exposed to currency risks arising from fluctuations in foreign exchange rates on purchases of inventory and sale of products. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on short-term foreign currency transactions, firm commitments and anticipated transactions. Hedge accounting is applied to foreign currency forward contracts for firm commitments and anticipated transactions. A natural hedge occurs for foreign currency forward contracts for goods already received.

The Company is also exposed to currency risk on its net investment in self-sustaining foreign subsidiaries, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2007.

		Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	USD	160,896	$ 1.0113	January 2008 to November 2008
	EUR	4,443	$ 1.4870	June 2008 to August 2008
	GBP	10	$ 2.2200	January 2008
Sales contracts	USD	15,078	$ 1.0018	January 2008 to December 2008

Management estimates that a loss of $3,255 would be realized if the contracts were terminated on December 31, 2007. Certain of these forward contracts are designated as hedges, in accordance with the new standards, and accordingly, a loss of $1,795 has been included in other comprehensive income. These losses are not expected to affect net income as the losses will be reclassified to net income within the next twelve months and will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable. A loss of $1,460 on forward contracts not designated as hedges is included in net income which offsets gains recorded on the underlying hedged item, namely foreign denominated accounts payable and accounts receivable.

Fair Value

At December 31, 2007 and 2006, the estimated fair values of cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, borrowings under the bank term facility and notes payable approximate their respective carrying values. Derivative financial instruments are carried at fair value at December 31, 2007.

The fair values of the senior debentures are based on discounted cash flows using current interest rates for debt with similar terms and remaining maturities. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the senior debentures as at December 31, 2007 were $180,802 and $183,766 respectively (2006 - $200,434 and $199,673 respectively).

12. STOCK-BASED COMPENSATION PLAN

The Company maintains an Executive Stock Option Plan for certain employees and directors. Under the plan, options may be granted for up to 6,096,000 common shares. Stock options have a seven-year term, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

A reconciliation of the outstanding options is as follows:

	Year ended December 31 2007		2006	
	Number of Options	Exercise Price	Weighted Average Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,091,379	$ 14.67	2,689,795	$ 12.72
Granted	393,900	25.95	370,380	24.58
Exercised	(632,920)	9.57	(685,641)	11.02
Forfeited	(9,000)	25.19	(283,155)	17.98
Options outstanding, end of period	1,843,359	$ 18.78	2,091,379	$ 14.67
Options exercisable, end of period	842,365	$ 14.42	1,001,823	$ 10.67

The following table summarizes stock options outstanding and exercisable at December 31, 2007:

Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Options Exercisable Number Outstanding	Weighted Average Exercise Price
$10.28 - $10.71	554,120	1.6	$ 10.66	481,556	$ 10.66
$16.59 - $22.78	640,479	3.6	19.10	310,693	18.60
$24.58 - $27.70	648,760	5.8	25.40	50,116	24.58
Total	1,843,359	3.8	$ 18.78	842,365	$ 14.42

The fair value of each stock option granted is estimated on the date of grant. The fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions:

	Year ended December 31 2007	2006
Weighted average fair value price per option	$ 6.66	$ 6.51
Expected life of options (years)	5.82	5.78
Expected stock price volatility	25.0%	25.0%
Expected dividend yield	1.9%	1.6%
Risk-free interest rate	4.1%	4.1%

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 management incentive award or fees, respectively in deferred share units. In addition, the Board may grant discretionary DSUs to executives. A DSU is a notional unit that reflects the market value of a single common share of Toromont and generally vests immediately. The DSUs will be redeemed on termination of employment or leaving the board, as the case may be. The redemption amount will be based upon the average of the high and low trading prices of the common shares on the TSX for the five trading days preceding the redemption date. The program commenced in 2006 and as at December 31, 2007, 21,405 units were outstanding at a value of $600.0 (2006 - 4,307 units at a value of $105.3). The Company records the cost of the DSU Plan as compensation expense. No units were redeemed or cancelled in either fiscal year.

13. EMPLOYEE FUTURE BENEFITS

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

Approximately 6% of participating employees are included in defined benefit plans.

a) Powell Plan - Consists of personnel of Powell Equipment (acquired by Toromont in 2001). The plan is a contributory plan which provides pension benefits based on length of service and career average earnings. The last actuarial valuation of the plan was completed as at December 31, 2006. The next valuation is scheduled as at December 31, 2009.

b) Executive Plan - This is a non-contributory pension arrangement for certain senior executives which provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. The most recent actuarial valuation of the plan was completed as at December 31, 2007. The next valuation is scheduled as at December 31, 2008.

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

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

	2007	2006
Accrued benefit obligations:		
Balance, beginning of year	$ 74,196	$ 70,503
Transfers	-	899
Service cost	1,529	2,061
Interest cost	3,590	3,539
Actuarial (gain) loss	(841)	2,331
Benefits paid	(6,945)	(5,137)
Balance, end of year	$ 71,529	$ 74,196

Plan assets:		
Fair value, beginning of year	$ 59,594	$ 55,100
Transfers	21	899
Actual return on plan assets	2,439	5,556
Company contributions	2,525	2,642
Participant contributions	525	534
Benefits paid	(6,945)	(5,137)
Fair value, end of year	$ 58,159	$ 59,594
Funded status of the plans	$ (13,370)	$ (14,602)
Unrecognized actuarial loss	11,265	10,892
Unrecognized past service benefit	(1,478)	(1,773)
Accrued pension liability	$ (3,583)	$ (5,483)

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

	2007 Accrued benefit obligation	2007 Plan assets	2007 Funded status - surplus (deficit)	2006 Accrued benefit obligation	2006 Plan assets	2006 Funded status - surplus (deficit)
Powell Plan	$ 42,920	$ 44,260	$ 1,340	$ 44,584	$ 44,264	$ (320)
Executive Plan	19,745	2,020	(17,725)	20,021	2,373	(17,648)
Other plan assets and obligations	8,864	11,879	3,015	9,591	12,957	3,366
Funded status of the plans	$ 71,529	$ 58,159	$(13,370)	$ 74,196	$ 59,594	$ (14,602)

The Executive Plan is a supplemental pension plan and is solely the obligation of the Company. The Company is not obligated to fund this plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit in the amount of $23.0 million to secure certain of the obligations under this plan.

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

	2007	2006

	2007	2006
Discount rate	5.25%	5.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

The allocations of plan assets are as follows:

	2007	2006
Equity securities	44.4%	45.0%
Debt securities	38.2%	37.4%
Real estate	15.8%	15.5%
Cash and cash equivalents	1.6%	2.1%

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

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

	2007	2006
Defined Benefit Plans		
Service cost	$ 1,004	$ 1,527
Interest cost	3,590	3,539
Actual return on plan assets	(2,439)	(5,556)
Actuarial loss	(841)	2,331
Difference between actual and expected return on assets	(1,570)	1,705
Difference between actual and recognized actuarial loss	1,177	(1,141)
Difference between actual and recognized past service benefits	(296)	(296)
	625	2,109
Defined Contribution Plans	8,546	8,424
401(k) matched savings plan	837	569
Net pension expense	$ 10,008	$ 11,102

The total cash amount paid or payable for employee future benefits, including both defined benefits and defined contribution plans, in 2007 was $11,909 (2006 - $11,636).

14. INCOME TAXES

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

	2007	2006
Current income tax expense	$ 64,766	$ 60,030
Future income tax expense (recovery)	365	(4,188)

Total income tax expense	$ 65,131	$ 55,842

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

	2007	2006
Statutory Canadian federal and provincial income tax rates	36.12%	36.12%
Expected taxes on income	$ 67,693	$ 56,081
Increase (decrease) in income taxes resulting from:		
Lower effective tax rates in other jurisdictions	(2,458)	(2,607)
Manufacturing and processing rate reduction	(203)	(147)
Expenses not deductible for tax purposes	1,211	1,562
Non-taxable gains	(2,817)	(144)
Effect of future income tax rate reductions	1,925	427
Other	(220)	670
Provision for income taxes	$ 65,131	$ 55,842
Effective income tax rate	34.75%	35.97%

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

	2007	2006
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	$ 10,746	$ 11,963
Deferred revenue	2,648	2,791
Accounts receivable	1,767	2,724
Inventories	8,463	6,827
Cash flow hedges in other comprehensive income	738	-
	$ 24,362	$ 24,305
NON-CURRENT FUTURE INCOME TAX LIABILITIES		
Capital assets	$ (7,807)	$ (7,512)
Other	7,633	7,022
Available for sale financial assets in other comprehensive income	(24)	-

	$ (198)	$ (490)

15. EARNINGS PER SHARE

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

	2007	2006
Net earnings available to common shareholders	$ 122,280	$ 99,421
Weighted average common shares outstanding	64,631,140	63,889,036
Dilutive effect of stock option conversion	435,887	804,430
Diluted weighted average common shares outstanding	65,067,027	64,693,466
Basic earnings per share	$ 1.89	$ 1.56
Dilutive effect of stock option conversion	(0.01)	(0.02)
Diluted earnings per share	$ 1.88	$ 1.54

16. COMMITMENTS

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

2008	$ 4,871
2009	4,274
2010	3,056
2011	1,808
2012	1,134
2013 and thereafter	4,325
	$ 19,468

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
Accounts payable and accrued liabilities	$ 267,999	$ 301,131
Dividends payable	7,792	6,431
Total accounts payable and accrued liabilities	$ 275,791	$ 307,562

18. SUPPLEMENTAL CASH FLOW INFORMATION

	2007	2006
Net change in non-cash working capital and other		
Accounts receivable	$ 2,967	$ (4,089)
Inventories	16,984	(81,695)
Accounts payable and accrued liabilities	(29,416)	28,309
Deferred revenues	70,082	10,599
Other	(35,997)	4,783
	$ 24,620	$ (42,093)
Cash paid during the year for:		
Interest	$ 14,507	$ 15,213
Income taxes	$ 61,894	$ 72,881
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued liabilities	$ 447	$ 2,704

19. SEGMENTED INFORMATION

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

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

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

	Equipment Group		Compression Group		Consolidated	
	2007	2006	2007	2006	2007	2006

	Equipment Group 2007	Equipment Group 2006	Compression Group 2007	Compression Group 2006	Consolidated 2007	Consolidated 2006
Equipment/ package sales	$ 658,395	$ 566,750	$ 594,029	$ 584,297	$ 1,252,424	$ 1,151,047
Rentals	147,427	133,610	19,236	20,158	166,663	153,768
Product support	281,186	272,036	191,379	172,509	472,565	444,545
Power gener- ation	11,328	15,473	-	-	11,328	15,473
Total revenues	$ 1,098,336	$ 987,869	$ 804,645	$ 776,964	$ 1,902,980	$ 1,764,833
Operating Income	$ 108,267	$ 91,485	$ 72,484	$ 74,888	$ 180,752	$ 166,373
Interest expense					13,589	14,899
Interest and investment income					(4,258)	(3,789)
Gain on sale of property					(15,990)	-
Income taxes					65,131	55,842
Net earnings from continuing operations					$ 122,280	$ 99,421

Selected Balance Sheet information

	Equipment Group 2007	Equipment Group 2006	Compression Group 2007	Compression Group 2006	Consolidated 2007	Consolidated 2006
Identifiable assets	$ 700,050	$ 702,455	$ 513,701	$ 519,144	$ 1,213,751	$ 1,221,599
Corporate assets					143,109	$ 78,393
Total assets					$ 1,356,861	$ 1,299,992
Capital expend- itures	$ 77,658	$ 79,695	$ 19,450	$ 22,749	$ 97,108	$ 102,444

Depreciation	$ 42,172	$ 39,200	$ 10,531	$ 9,298	$ 52,702	$ 48,498
Goodwill	$ 13,000	$ 13,000	$ 21,800	$ 21,800	$ 34,800	$ 34,800

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

	2007	2006
Revenues		
Canada	$ 1,466,553	$ 1,450,099
United States	360,849	233,971
International	75,579	80,763
	$ 1,902,980	$ 1,764,832
Capital Assets and Goodwill		
Canada	$ 348,708	$ 332,127
United States	26,940	25,768
International	312	409
	$ 375,959	$ 358,304

20. ECONOMIC RELATIONSHIP

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

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