Toromont Announces Results for the Fourth Quarter and Full Year 2009

TORONTO, ONTARIO, Feb 8, 2010 (Marketwire via COMTEX News Network) -- Toromont Industries Ltd. (TSX:TIH) today reported financial results for the fourth quarter and full year ended December 31, 2009. Revenues declined 26% from the records set in the fourth quarter of 2008, reflecting weaker economic conditions. Earnings per share were $0.48 in the quarter compared to $0.76 in the fourth quarter of 2008.

Revenues and net earnings for the twelve months ended December 31, 2009 were down 14%, both against records set in 2008. The record backlog carried into 2009 supported results through the first part of the year. Earnings per share were $1.86 for the year. Earnings in 2008 included $6.9 million ($0.10 per share) in after-tax investment gains. Excluding this, earnings per share were down 10%.

	Three months ended December 31			Twelve months ended December 31		
$ millions, except per share amounts	2009	2008	% change	2009	2008	% change
Revenues	$ 452.8	$ 609.7	(26%)	$ 1,824.6	$ 2,121.2	(14%)
Operating income	$ 45.8	$ 74.5	(38%)	$ 182.4	$ 207.9	(12%)
Net earnings	$ 31.4	$ 49.1	(36%)	$ 120.5	$ 140.5	(14%)
Earnings per share - basic	$ 0.48	$ 0.76	(36%)	$ 1.86	$ 2.16	(14%)

"I am pleased with our results in light of the general economic environment that has impacted each of our businesses in 2009," stated Robert M. Ogilvie, Chairman and Chief Executive Officer of Toromont Industries Ltd. "Substantial measures taken by our business unit leaders had a significant positive impact."

Highlights for the Fourth Quarter:

- Compression Group revenues were down 30% in the quarter compared to the same period last year. Natural gas compression package sales were 33% lower, with declines in both the U.S. and Canada. Operating income was down 25% on lower revenues, partially offset by higher margins in Canada and refrigeration operations.

- Compression Group bookings for the quarter were 46% higher compared to the fourth quarter of 2008. Natural gas and process compression in both the U.S. and Canada reported strong bookings. Backlogs were down 46% from December 31, 2008 on lower natural gas activity, partially offset by increased backlog in Canadian refrigeration.

- Equipment Group revenues were down 21% in the quarter versus the similar period of 2008 on lower new and used machine sales, product support revenues and rentals. Operating income decreased 50% compared to last year on lower volumes and lower gross margins.

- Equipment Group bookings were 25% higher than the fourth quarter of 2008 on improved activity levels in certain sectors including commercial, mining and road building. Also, bookings in the fourth quarter of 2008 were negatively impacted by order cancellations. Backlogs were 24% lower than at December 31, 2008.

- The Company maintained a strong financial position and ended the quarter with $207 million of cash and cash equivalents. Cash exceeded total debt at December 31, 2009.

- The Board of Directors declared the regular quarterly dividend of $0.15 per common share, paid on January 4, 2010 to shareholders of record on December 14, 2009. The Company has paid dividends every year since going public in 1968.

- In January 2010, Toromont completed its take-over bid for Enerflex Systems Income Fund ("Enerflex"). Toromont now owns approximately 96% of the outstanding trust units of Enerflex (on a fully-diluted basis) and will acquire the balance of the outstanding trust units on February 26, 2010. The total consideration to be paid for all Enerflex units is approximately $670 million.

"While we are encouraged by the improvement in our booking levels in the fourth quarter in both Compression and Equipment, 2010 will continue to present challenges until a meaningful economic recovery is evident, the timing of which is uncertain," continued Mr. Ogilvie. "We are excited about moving forward with the integration of Enerflex with Toromont Energy Systems. We expect the acquisition will be accretive to earnings in 2011."

Quarterly Conference Call and Webcast (to be updated)

Interested parties are invited to join the quarterly conference call with investment analysts, in listen-only mode, on Monday, February 8, 2009 at 4:30 p.m. (EST). The call may be accessed by telephone at 1-866-226-1792 (toll free) or 416-340-2216 (Toronto area). A replay of the conference call will be available until Monday, February 22, 2010 by calling 1-800-408-3053 or 416-695-5800 and quoting passcode 6125413.

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 larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a Global 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. 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, 2009, 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, 2009.

The consolidated financial statements reported herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian dollars. The information in this MD&A is current to February 5, 2010.

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

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2009, Toromont employs approximately 3,800 people in more than 125 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 specialized construction equipment and industrial engines. These activities generated 48% of the Company's revenues in 2009 (2008 - 52%). 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 the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; residential and commercial construction; mining; aggregates; waste management; steel; forestry and agriculture. Other significant activities include sales and product support activities for Caterpillar engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation.

The Compression Group is a leading North American business specializing in the design, engineering, fabrication, installation

and after-sale support of compression, process and refrigeration systems. These activities generated 52% of the Company's revenues in 2009 (2008 - 48%). In 2009, the Compression Group was comprised of Toromont Energy Systems Inc., a leader in supplying and servicing compression and process systems used in natural gas, fuel gas and carbon dioxide applications and CIMCO Refrigeration, a leader in industrial and recreational markets. Results in the Compression Group are influenced by conditions in the primary market segments served: natural gas production and transportation; chemical, petrochemical, food and beverage processing; cold storage, food distribution and ice rink construction.

ACQUISITION OF ENERFLEX

On January 20, 2010, Toromont completed its take-over bid for Enerflex Systems Income Fund ("Enerflex"), acquiring a total of approximately 42.2 million trust units and exchangeable limited partnership units. Together with the trust units owned by Toromont prior to commencement of the take-over bid, Toromont now owns approximately 96% of the outstanding trust units on a fully-diluted basis. Toromont will acquire the balance of the outstanding trust units on February 26, 2010. The total consideration for Enerflex is approximately $670 million, including units acquired prior to the take-over bid, units acquired in the take-over bid and the second step transaction.

Enerflex is a supplier of products and services to the global oil and gas production industry, and has operations in Canada, Australia, the Netherlands, the United States, Germany, Pakistan, the United Arab Emirates, Egypt, Indonesia and Malaysia.

This important transaction brings together Enerflex and Toromont Energy Systems, reported in the Compression Group, to create a stronger organization (named "Enerflex Ltd."), better able to serve customers and compete in both North American and international markets. The combined organization has significant presence in key global markets including Canada, the United States, Australia, Europe and the Middle East. The new Enerflex benefits from increased financial strength and access to capital and is better positioned to serve customers. Toromont also expects to realize attractive synergies and cost savings through the elimination of excess fabrication capacity, overlapping service facilities, certain public company costs of Enerflex and duplicative head office and general and administration expenses.

Toromont acquired the Enerflex units tendered to its take-over bid with cash and shares, and will acquire the remaining trust units on the same terms. In the aggregate, Toromont will pay approximately $315.6 million in cash and issue 11.9 million common shares for these units.

The cash consideration of the purchase price along with transaction costs and repayment of $100.6 million in senior secured notes payable at Enerflex will be largely financed with additional unsecured bank debt under a new term loan facility that Toromont closed in January 2010. Borrowings of up to $450 million are available to Toromont under this facility, with drawdowns to occur by July 2010, and are due in July 2011 (eighteen month term). Interest on borrowings is charged at floating rates based on Canadian prime rate or Canadian Bankers' Acceptances rate, plus a specified margin.

This acquisition will be accounted for as a business combination with Toromont as the acquirer of Enerflex. The purchase method of accounting will be used. The Company is in the process of finalizing the estimated fair values of assets acquired and liabilities assumed at the date of acquisition, including goodwill and identifiable intangible assets. The consolidated results of operations of Enerflex will be included in the Consolidated Statement of Earnings after January 20, 2010.

Except as otherwise disclosed, the information presented herein excludes Enerflex and its businesses as Enerflex was acquired after December 31, 2009.

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

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

Expand Markets

Toromont serves a diverse number of markets that offer significant long-term 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.

Strengthen Product Support

Toromont's parts and service business is a significant contributor to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent opportunities to develop closer relationships with customers and differentiate the Company's product and service offering. The ability to consistently meet or exceed customers' expectations for

service efficiency and quality is critical, as after-market support is an integral part of the customer's decision-making process when purchasing equipment.

Broaden Product Offerings

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

Invest in Resources

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

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

Maintain a Strong Financial Position

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

CONSOLIDATED RESULTS OF OPERATIONS

	Twelve months ended December 31		
$ thousands, except per share amounts	2009	2008	% change
Revenues	$ 1,824,592	$ 2,121,209	(14%)
Cost of goods sold	1,415,476	1,660,285	(15%)
Gross profit	409,116	460,924	(11%)
Selling and administrative expenses	226,764	253,070	(10%)
Operating income	182,352	207,854	(12%)
Interest expense	8,815	11,753	(25%)
Interest and investment income	(6,355)	(14,999)	(58%)
Income before income taxes	179,892	211,100	(15%)
Income taxes	59,376	70,247	(15%)
Earnings from continuing operations	120,516	140,853	(14%)
Loss on disposal of discontinued operations	-	(432)	n/m
Earnings from discontinued operations	-	103	n/m
Net earnings	$ 120,516	$ 140,524	(14%)
Basic earnings per share	$ 1.86	$ 2.16	(14%)

Key ratios:

Gross profit as a % of revenues	22.4%	21.7%
Selling and administrative expenses as a % of revenues	12.4%	11.9%
Operating income as a % of revenues	10.0%	9.8%
Income taxes as a % of income before income taxes	33.0%	33.3%

Revenues decreased by $296.6 million or 14% in 2009 compared to a year ago on weak economic conditions. Compression revenues were down 8% while Equipment revenues were down 20%.

The Canadian/U.S. dollar exchange rate impacts reported revenues on the translation of the financial statements of the Compression Group's growing U.S. operations. Exchange rates between the Canadian and US dollar have been volatile in 2009, ranging from a low of $0.77 to a high of $0.97; on average, the Canadian dollar was 6% weaker in 2009 compared to 2008. The impact in 2009 was an increase in revenues of $40 million and net income by $3 million. In addition, the exchange rate impacts revenues in the Canadian operations of both the Equipment and Compression Groups, as pricing to customers typically reflects movements in the exchange rate on U.S. sourced equipment, components and spare parts, although this will typically lag posted rate changes given the age of inventory, timing of orders and hedging practices.

Gross profit margin in 2009 was 22.4%, compared to 21.7% in 2008. The change in gross margin reflected the increased proportion of revenues coming from the relatively higher margin product support business within the Equipment Group. Compression Group gross margins were 40 basis points higher on improved sales mix and project execution. In 2008, the Compression Group reported several large pipeline projects which carried lower margins. Equipment Group gross profit margins were 140 basis points higher on a change in sales mix, with a higher proportion of product support business in 2009 compared to 2008.

Selling and administrative expenses decreased $26.3 million or 10% in 2009, tracking the 14% decrease in revenue. Compensation costs were $8.4 million lower due to reduced staffing levels and lower profit sharing related to lower earnings. Bad debt expense decreased $6.9 million reflecting strong collections experience and an improved aging of accounts receivable. Sales-related expenses such as freight, service costs and marketing were down approximately $4.7 million on lower activity levels. Other cost including occupancy, travel and training were tightly controlled in light of the economic slowdown resulting in annual reduction of approximately $8.2 million. Foreign exchange on translation of subsidiaries increased expense $2.3 million. Selling and administrative expenses as a percentage of revenues were 12.4% for 2009, versus 11.9% in 2008.

Operating income declined $25.5 million or 12% in 2009 compared to the prior year on lower revenues, partially offset by improved gross margins. Operating income as a percentage of revenue improved to 10.0% from 9.8% in 2008.

Interest expense was $2.9 million or 25% lower in 2009 than in the prior year. Certain long-term debt was repaid during the year as scheduled and served to reduce the effective average interest rate.

Interest and investment income in 2008 included gains realized on the sale of marketable securities of $8.2 million, or $0.10 per share after tax. Excluding this item, interest and investment income decreased $0.4 million or 6% from the prior year reflecting lower interest rates on investing of excess cash, partially offset by higher dividend income on Enerflex trust units held during 2009.

The effective income tax rate for 2009 was 33.0% compared to 33.3% for 2008, reflecting lower corporate income tax rates in 2009.

Net earnings in 2009 were $120.5 million, $1.86 basic earnings per share ("EPS"), down 14% from 2008. Excluding investment gains in 2008, net earnings and EPS in 2009 were down 10%.

Comprehensive income for the year was $109.0 million, comprised of net earnings of $120.5 million and other comprehensive loss of $11.5 million. Other comprehensive loss arose primarily from a loss on translation of self-sustaining foreign operations of $23.3 million and a decrease in fair value of derivatives designated as cash flow hedges of $4.1 million, partially offset by an unrealized gain on Enerflex trust units designated as available for sale assets of $15.6 million.

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 2009	2008	% change
Equipment sales and rentals			
New	$ 336,907	$ 503,478	(33%)
Used	118,273	145,069	(18%)
Rental	137,536	151,342	(9%)
Total equipment sales and rentals	592,716	799,889	(26%)
Power generation	9,692	8,893	9%
Product support	278,938	290,431	(4%)
Total revenues	$ 881,346	$ 1,099,213	(20%)
Operating income	$ 85,441	$ 108,672	(21%)
Capital expenditures	$ 37,706	$ 65,835	(43%)
Key ratios:			
Product support revenues as a % of total revenues	31.6%	26.4%	
Group total revenues as a % of consolidated revenues	48.3%	51.8%	
Operating income as a % of revenues	9.7%	9.9%	

Results in the Equipment Group were dampened by weak economic conditions in Canada.

New equipment sales were 33% lower in 2009 compared to 2008 on lower unit sales. Industrial power systems applications, including prime and backup power systems, recorded good deliveries in the year. Other market segments, most notably heavy and general construction, and mining were lower.

Used equipment sales were 18% lower reflecting weaker market conditions. Sales of used equipment vary depending on customer buying preferences, exchange rate considerations and product availability.

Rental revenues were down $14 million or 9% from 2008 reflecting lower utilization and lower rental rates in a competitive market.

Power generation revenues from Toromont-owned plants increased 9% over the prior year, reflecting increased operating hours and higher average prices for electricity.

Product support revenues were down $11 million or 4% from 2008 on lower parts and service. Product support revenues in 2009 benefited from higher parts pricing on the weaker Canadian dollar during the earlier part of the year. On a constant dollar basis, parts revenues were down 14%. Lower activity levels and economic uncertainty have led to reduced demand for maintenance and repair services.

Operating income was down $23.2 million or 21% from 2008 on the 20% decrease in revenues. Gross margins were higher in 2009 on a higher proportion of product support activities. Selling and administrative expenses were 11% lower in 2009 than in the prior year on lower compensation costs, bad debt expense and sales-related expenses in light of lower volume levels. Operating income was 9.7% of revenues, down slightly from the prior year.

New equipment bookings for the year were down 29% in 2009 from the prior year due to year-over-year decreases seen in the first three quarters of 2009. Bookings were lower across most industries, particularly heavy and general construction and mining.

Backlogs at December 31, 2009 were down 24% year-over-year on the lower bookings.

Capital expenditures in the Equipment Group totaled $37.7 million in 2009 compared to $65.8 million in 2008. Capital expenditures have been reduced in light of the prevailing economic climate. Expenditures related to replacement and expansion of the rental fleet accounted for $27.2 million of total expenditures in 2009.

Results of Operations in the Compression Group

	Twelve months ended December 31		
$ thousands	2009	2008	% change
Package sales and rentals			
Package sales	$ 746,741	$ 792,856	(6%)
Rentals	15,238	21,149	(28%)
Total package sales and rentals	761,979	814,005	(6%)
Product support	181,267	207,991	(13%)
Total revenues	$ 943,246	$ 1,021,996	(8%)
Operating income	$ 96,911	$ 99,182	(2%)
Capital expenditures	$ 23,335	$ 30,640	(24%)

Key ratios:		
Product support revenues as a % of total revenues	19.2%	20.4%
Group total revenues as a % of consolidated revenues	51.7%	48.2%
Operating income as a % of revenues	10.3%	9.7%

The Compression Group delivered terrific revenues and operating income in 2009 considering the economic slowdown, benefiting from a large backlog entering the year.

Package sales revenues $46.1 million or 6% lower compared to 2008 on the following factors:

- On average, the Canadian dollar was weaker in 2009, resulting in an increase in package revenues on translation of foreign operations of $35 million.

- U.S. natural gas compression revenues were flat to 2008 on a U.S. dollar basis, despite revenues in 2008 including approximately $65 million related to large pipeline projects not repeated in 2009.

- Canadian natural gas compression revenues were down 40% from 2008 on continued weak market fundamentals.

- Process systems revenues were up 2% on a constant dollar basis.

- Package revenues from refrigeration systems were $25 million lower compared to the similar period of 2008, primarily on lower activity within industrial and US recreational markets.

Rental revenues were $5.9 million or 28% lower in 2009 than in the prior year. The decrease was due to lower utilization of the Canadian rental fleet on lower demand for compression equipment in light of weak natural gas pricing.

Product support revenues were down $26.7 million or 13% in the year. Natural gas product support activities were down approximately 29% in Canada and 14% in the U.S. on a constant dollar basis on lower market activity. Industrial refrigeration product support activities were even with levels reported in the prior year.

Operating income for the Compression Group decreased just 2% on the 8% reduction in revenues. Gross margins were up slightly over the prior year on better project execution and job mix. General and administrative expenses decreased 10% year-over-year with decreases driven by lower compensation and sales-related expenses in keeping with the current economic environment. Operating income increased to 10.3% of revenues for the year compared with 9.7% in the prior year.

Compression bookings in 2009 were down 48% from the record bookings seen in 2008. Natural gas compression bookings were down 60%, with decreases in both the U.S. and Canada. Lower prices for natural gas have led to reductions in the capital spending by natural gas producers. Industrial and recreational bookings were up 10%, as gains in Canada were partially offset by lower activity in the United States.

End-of-year backlogs were down 46% from December 31, 2008 on the reduced bookings.

Capital expenditures in the Compression Group totalled $23.3 million in 2009 compared to $30.6 million in 2008. Significant capital expenditures related to the expansion of manufacturing facilities in Casper, Wyoming.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position for many years. At December 31, 2009, the ratio of total debt net of cash to equity was less than 0.01:1 compared to 0.05:1 in the prior year. The Company had significant cash balances at year-end which exceeded total debt. Total assets were $1.4 billion at December 31, 2009, compared with $1.5 billion at the end of 2008.

Working Capital

The Company's investment in non-cash working capital decreased to $332.3 million at December 31, 2009. The major components, along with the changes from December 31, 2009, are identified in the following table.

$ thousands	December 31 2009	December 31 2008	Change $	Change %
Accounts receivable	$ 244,759	$ 375,059	$ (130,300)	-35%
Inventories	373,110	499,360	(126,250)	-25%
Future income tax assets	34,326	34,934	(608)	-2%
Derivative financial instruments	(874)	11,246	(12,120)	n/m
Other current assets	6,037	11,381	(5,344)	-47%
Accounts payable and accrued liabilities	(228,436)	(337,073)	108,637	-32%
Dividends payable	(9,728)	(9,045)	(683)	8%
Deferred revenue	(89,810)	(194,261)	104,451	-54%
Current portion of long-term debt	(14,044)	(15,363)	1,319	-9%
Income taxes receivable (payable), net	16,967	(4,236)	21,203	n/m
Total non-cash working capital	$ 332,307	$ 372,002	$ (39,695)	-11%

n/m equals not meaningful

Accounts receivable were 35% lower than last year reflecting lower revenues in the fourth quarter of 2009. Focused attention on collections has resulted in improvements in days sales outstanding in all businesses.

Inventories were 25% lower than at December 31, 2008. Inventories in the majority of locations were lower due to focused efforts to reduce existing inventories.

Future income tax assets reflect differences between income tax and accounting.

Derivative financial instruments represent the fair value of foreign exchange contracts. Given the recent volatility in the Canadian/U.S. dollar exchange rate, the Company's hedging practices have led to a cumulative net loss of $0.9 million as at December 31, 2009. This is not expected to affect net income, as the unrealized loss will offset future gains on the related hedged items.

Other current assets in 2008 included deposits made for equipment ordered for delivery through 2009.

Accounts payable and accrued liabilities were down 32% from 2008. Lower activity levels have reduced purchasing.

Dividends payable were 8% higher than in 2008 reflecting the higher dividend rate of $0.15 per share compared to $0.14 per share a year ago.

Deferred revenues represent receipts from customers in excess of revenue recognized. In the Compression Group, deferred revenues arise on progress billings received in advance of revenue recognition. Deferred revenues decreased 56% compared to December 2008 as a result of lower activity. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty and other customer support agreements as well as on progress billings on long-term construction contracts. Equipment Group deferred revenues decreased 44% compared to December 2008 on lower sales with residual value guarantees and completion of several long-term industrial projects.

Current portion of long-term debt reflects scheduled principal repayments due in 2010. This amount is lower as a result of the maturity of senior debentures in September 2008.

Income taxes receivable (payable) reflects amounts owing for corporate income taxes less installments made to date. The amount in 2009 is a receivable as higher tax instalments were made compared to income generated in the year.

Goodwill

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, 2009.

Employee Share Ownership

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

The Company maintains an Executive Stock Option Plan for certain employees and directors. 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. At December 31, 2009, 2.0 million options to purchase common shares were outstanding, of which 0.9 million were exercisable.

The Company offers an Employee Share Ownership Plan whereby employees can purchase shares by way of payroll deductions. In 2008, the Company enhanced this plan to provide a Company match on contributions at a rate of $1 for every $3 dollars contributed, to a maximum of $1,000 per annum per employee. Company contributions vest to the employee immediately. Company contributions amounting to $0.9 million in 2009 (2008 - $0.8 million) were charged to selling and administrative expense when paid. A third party administers the Plan.

The Company also 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 Toromont common share and generally vests immediately. DSUs will be redeemed on termination of employment or resignation from the Board, as the case may be. As at December 31, 2009, 68,723 units were outstanding at a value of $1,882 (2008 - 79,476 units at a value of $1,671). The Company records the cost of the DSU Plan as compensation expense. During 2009, 47,086 units were redeemed for $1,098 (2008 - Nil).

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. Future expense for these plans will vary based on future participation rates.

Approximately 5% of active employees participate in one of two defined benefit plans:

- Powell Plan - Consists of personnel of Powell Equipment (acquired by Toromont in 2001); and

- Other plan assets and obligations - 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 who, in accordance with the plan provisions, have elected to receive a pension directly from the plan.

Financial markets improved in 2009 after a significant downturn in 2008. This resulted in a gain on opening plan assets of $5.5 million or 13%. The funded status of the plans has declined from zero to a deficit of $0.4 million. The unrecognized actuarial loss at December 31, 2009, was $12.4 million, unchanged from the prior year. Pension plan accounting requires gains and losses to be effectively smoothed over future periods, beginning in the following period. The Company expects pension expense and cash pension contributions in 2010 to be similar to 2009 levels, before consideration of the acquisition of Enerflex.

The Company also has a pension arrangement for certain senior executives that provides for a supplementary retirement payout in excess of amounts provided for under the registered plan. This "Executive Plan" is a non-contributory pension arrangement 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 to secure the obligations under this plan, which were $19.9 million as at December 31, 2009. As there are only nominal plan assets, the impact of volatility in financial markets on pension expense and contributions for this plan are insignificant.

The Company estimates a long-term return on plan assets of 7%. While there is no assurance that the plan will be able to generate this assumed rate of return each year, management believes that it is a reasonable longer-term estimate.

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

Off-Balance Sheet Arrangements

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

Legal and Other Contingencies

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

Normal Course Issuer Bid

Toromont believes that from time to time the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the Toronto Stock Exchange was renewed in 2009. This issuer bid allows the Company to purchase up to approximately 4.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2010. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

The Company purchased and cancelled 43,400 shares for $0.9 million (average cost of $19.77 per share) in 2009. The shares were purchased for an amount higher than their weighted average book value per share ($1.97 per share) resulting in a reduction of retained earnings of $772. In 2008, the Company purchased and cancelled 595,600 shares for $12.8 million (average cost of $21.50 per share), resulting in a reduction of retained earnings of $11.7 million.

Outstanding Share Data

On January 22, 2010, Toromont issued 11,362,031 common shares pursuant to purchase of tendered units of Enerflex. As at the date of this MD&A, the Company had 76,296,981 common shares and 1,893,389 share options outstanding.

The Company will issue approximately 515,300 additional common shares as partial consideration for the purchase of the remaining units of Enerflex on February 26, 2010.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30% of trailing earnings from continuing operations. This practice is reviewed from time-to-time, based upon and subject to the Company's earnings, financial requirements and general economic circumstances. During 2009, the Company declared dividends of $0.60 per common share ($0.56 per common share in 2008).

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, 2009, $156.0 million or 99% 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 5.3%. The remaining $2.1 million or 1% of long-term debt carried interest at a variable rate of 0.14% with maturities in 2010.

Combined unsecured credit facilities amounted to $246 million at year-end comprised of $225 million in Canada and US $20 million in the United States ($21 million Canadian equivalent). Of these combined credit facilities, US $20 million matures in 2010 and the balance matures in 2011. At December 31, 2009, there were no drawings against these credit facilities. Letters of credit in the amount of $33 million were issued against the credit facilities.

Toromont secured a term loan facility in January 2010 in connection with the acquisition of Enerflex. Borrowings of up to $450 million are available to Toromont under this facility, with drawdowns to occur by July 2010. As at February 5, 2010, $313.8 million was drawn under this facility. Debt incurred under this facility is unsecured and ranks equally with debt incurred under Toromont's existing credit facility and debentures. This facility is subject to fees at levels customary for credit facilities of this type. Outstanding loans under this facility bear interest at a rate equal to the Canadian prime rate plus a specified margin ranging from 175 to 300 basis points. Alternatively, Toromont may utilize this facility through the issuance of bankers' acceptances with acceptance fees ranging from 275 to 400 basis points. The applicable margin or acceptance fee will, in each case, be determined based on Toromont's leverage ratio. This facility matures in July 2011. Amounts outstanding from time to time must be repaid on the basis of 15% per annum, payable in equal quarterly installments. Subject to certain exceptions, this facility also provides that the net proceeds of any new debt issued by Toromont during the term of the Credit Facility must be used to repay any amounts outstanding under this facility. This facility includes covenants, restrictions and events of default that are substantially the same as the corresponding provisions in Toromont's existing credit facility.

The Company expects that continued cash flows from operations in 2010, cash and cash equivalents on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

Principal Components of Cash Flow

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

	Twelve months ended December 31	
$ thousands	2009	2008
Cash, beginning of period	$ 137,274	$ 103,514
Cash, provided by (used in):		
Operations	176,945	174,862

Change in non-cash working capital and other	19,308	(10,150)
Operating activities	196,253	164,712
Investing activities	(73,904)	(31,940)
Financing activities	(51,014)	(101,255)
Increase (decrease) in cash in the period	71,335	31,517
Effect of foreign exchange on cash balances	(1,652)	2,243
Cash, end of period	$ 206,957	$ 137,274

Cash Flows from Operating Activities

Operating activities provided $196.3 million in the year compared to $164.7 million in 2008. Net earnings adjusted for items not requiring cash was up 1%. Non-cash working capital and other provided $19.3 million in 2009 compared to using $10.1 million in 2008. The components and changes in working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition."

Cash Flows from Investing Activities

Investing activities used $73.9 million in the year compared to $31.9 million in 2008.

During 2009, Toromont purchased 3.9 million trust units of Enerflex at a cost of $37.8 million ($9.69 per unit).

In 2008, Toromont realized a net cash inflow of $30.1 million from sale of investments.

Net additions to the rental fleet (additions less proceeds on disposal) in 2009 were $9.6 million compared to $27.4 million in 2008. Additions to the rental fleet have been curtailed in light of the current economic environment.

Gross investment in property, plant and equipment was $21.3 million, $17.2 million lower than in the prior year. Significant investments in 2009 included the following:

- $5.7 million for completion of the expansion of the compression facilities in Northern US Operations, including Casper, Wyoming;

- $1.6 million to complete expansion of the compression facilities in Houston, Texas;

- $4.7 million for additions to the service vehicle fleet, primarily for the Equipment Group;

- $5.8 million for facilities renovations and expansion in the Equipment Group; and

- $1.9 million for computer technology upgrades.

Additions in 2008 included significant spending for expansion of the compression facilities in Casper, Wyoming.

In 2008, Aero Tech Manufacturing, a wholly owned subsidiary, was sold for proceeds of $4.0 million.

Cash Flows from Financing Activities

Financing activities used $51.0 million in 2009 compared to $101.3 million in 2008. The significant financing activities and changes from the prior year were as follows:

- Long-term debt decreased $15.4 million in 2009 due to scheduled debt repayments. In 2008, long-term debt decreased $56.8 million.

- Dividends paid to common shareholders in 2009 totalled $38.2 million, an increase of 9% over 2008 reflecting the higher dividend rate.

- Purchases under the normal course issuer bid used $0.9 million in 2009 compared to $12.8 million in 2008.

- Cash received on exercise of share options totaled $3.4 million compared to $3.5 million in 2008. The number of stock options exercised was generally consistent with the prior year.

OUTLOOK

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. Toromont is well positioned in each of its diverse markets and both business segments have good growth prospects over the longer term.

In January 2010, Enerflex was substantially acquired through the take-up of 96% of its units, with the remaining units expected to be acquired in late February 2010. The process of merging Enerflex with Toromont Energy Systems is well under way. The newly merged business, Enerflex Ltd., is a well capitalized global leader in the compression market, built on the complementary strengths of its predecessor organizations. A strong leadership team is in place and the prospects for this business are excellent and will become more evident when the demand for compression equipment picks up.

The global economy is in recession, the duration of which is impossible to predict. This will present challenges. Fortunately, 2009 started with significant backlogs that cushioned the impact through the first half of the year.

Our Equipment Group is experiencing reduced bookings related to the general economic slowdown. Certain markets continue to perform well including road building, power systems and precious metals mining and the announced stimulus spending for Canadian infrastructure looks positive. The parts and service business provides a measure of stability, driven by the larger installed base of equipment in the field.

Our Compression Group is also experiencing reduced bookings related to the global economic slowdown and on weak natural gas markets. The Company believes that the long term market fundamentals for natural gas in both Canada and the U.S. are positive. Process and international markets also provide opportunity. Canadian refrigeration markets have held up well, and the Canadian governmental spending stimulus contains monies designated for recreational refrigeration projects.

Our management teams have been adjusting to these conditions. Areas of focus include headcount adjustments, asset management, discretionary spending reductions and limiting capital investment.

Although we reported improved bookings in the fourth quarter of 2009, it is uncertain whether this improvement is sustainable in nature. We do not expect a meaningful recovery in our businesses in 2010.

CONTRACTUAL OBLIGATIONS

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

Payments due by Period	2010	2011	2012	2013	2014	There-after	Total
Long-term Debt							
- principal	$ 14,044	$ 6,889	$ 1,280	$ 1,372	$ 1,471	$ 133,039	$ 158,095
- interest	8,137	7,266	6,986	6,895	6,796	7,635	43,715
Operating Leases	4,188	3,423	2,492	1,942	1,423	3,881	17,349
	$ 26,369	$ 17,578	$ 10,758	$ 10,208	$ 9,690	$ 144,554	$ 219,159

Toromont secured a term loan facility in January 2010 in connection with the acquisition of Enerflex. As at February 5, 2010, $313.8 million was drawn under this facility. This debt is not included within the above contractual obligations table. For further details as to this facility, including its repayment terms, see "Liquidity and Capital Resources - Sources of Funds".

KEY PERFORMANCE MEASURES

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

Years ended December 31,	2009	2008	2007	2006	2005
Expanding Markets and Broadening Product Offerings					
Revenue growth	-14.0%	12.4%	8.1%	10.2%	12.0%
Revenue generated outside North America (millions)	$ 87.9	$ 69.0	$ 75.6	$ 80.8	$ 70.0
Revenues, Equipment Group to Compression Group	48:52	52:48	58:42	56:44	57:43
Strengthening Product Support					
Product support revenue growth	-7.7%	5.5%	6.3%	9.2%	15.8%
Investing in Our Resources					
Revenue per employee (thousands)	$ 422	$ 463	$ 431	$ 407	$ 392
Investment in information technology (millions)	$ 15.3	$ 14.9	$ 13.6	$ 12.7	$ 13.2
Return on capital employed	21.1%	26.4%	24.7%	22.7%	17.8%
Strong Financial Position					
Working capital (millions)	$ 539	$ 509	$ 467	$ 470	$ 411
Total debt, net of cash to equity ratio	n/m	.05:1	.19:1	.36:1	.42:1
Book value (shareholders' equity) per share	$ 13.17	$ 12.06	$ 10.08	$ 8.79	$ 7.57
Build Shareholder Value					
Basic earnings per share growth	-13.9%	14.3%	21.2%	24.8%	12.6%
Dividends per share growth	7.1%	16.7%	20.0%	25.0%	23.1%
Return on equity	15.5%	21.5%	21.6%	20.6%	18.9%

n/m equals not meaningful

While the global recession of 2009 has interrupted the steady string of growth across key performance measures, profitability

endured and the balance sheet continued to strengthen. This has been discussed at length throughout this MD&A.

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

Since 2005, revenues increased at an average annual rate of 5.7%. Product support revenue growth has averaged 5.8% annually. Revenue growth in continuing operations has been a result of:

- Significant expansion of compression operations in the United States;

- Additional product offerings over the years from Caterpillar and other suppliers;

- Organic growth through increased fleet size and additional branches;

- Increased customer demand for formal product support agreements; and

- Acquisitions, primarily within the Equipment Group's rental operations.

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

- General economic weakness, which has negatively impacted revenues since the latter part of 2008;

- Declines in underlying market conditions such as depressed natural gas prices in Canada;

- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and

- Lack of skilled workers such as mechanics and journeymen resulting in service revenue and efficiency impacts.

Changes in the Canadian/U.S. exchange rate impacts reported revenues in two ways. First the exchange rate impacts on the translation of results from foreign subsidiaries. Second the exchange rate impacts on the purchase price of equipment that in turn is reflected in selling prices.

Over the past two years the Company's revenue base has been further diversified and in 2009 was fairly evenly split between Compression and Equipment Groups. The underlying diversification - by industrial market, by type of product/service provided and by customer provides a certain amount of balance in a cyclical environment.

Revenues generated outside North America have remained relatively consistent from year to year although do vary in terms of customer and end market. While an important component of the Company's diversification strategy, operating internationally poses challenges and as such, international revenue will continue to be generated in a prudent and measured manner.

Toromont has generated significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels. Revenue per employee has increased 8% since 2005.

Toromont continues to maintain a strong balance sheet. In 2009, book value (shareholders' equity) per share increased 9% over the prior year on strong earnings. 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. This trend was not continued in 2009 due to the weak economic environment, which reduced revenues.

Toromont has paid dividends consistently since 1968, and has increased the dividend in each of the last 20 years.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE FOURTH QUARTER 2009

	Three months ended December 31		
$ thousands, except per share amounts	2009	2008	% change
Revenues	$ 452,838	$ 609,704	(26%)
Cost of goods sold	352,485	468,447	(25%)

Gross profit	100,353	141,257	(29%)
Selling and administrative expenses	54,532	66,784	(18%)
Operating income	45,821	74,473	(38%)
Interest expense	2,450	2,747	(11%)
Interest and investment income	(2,913)	(1,881)	55%
Income before income taxes	46,284	73,607	(37%)
Income taxes	14,934	24,497	(39%)
Net earnings	$ 31,350	$ 49,110	(36%)
Basic earnings per share	$ 0.48	$ 0.76	(37%)

Key ratios:		
Gross profit as a % of revenues	22.2%	23.2%
Selling and administrative expenses as a % of revenues	12.0%	11.0%
Operating income as a % of revenues	10.1%	12.2%
Income taxes as a % of income before income taxes	32.3%	33.3%

The Canadian dollar was 14% stronger on average for the fourth quarter of 2009 compared to the similar period last year. The impact on revenues and net income on translation of foreign subsidiaries, all reported in the Compression Group, were decreases of $21 million and $2 million respectively.

Revenues were 26% lower in the fourth quarter of 2009 compared to the same period last year. Decreases were reported in both Compression and Equipment.

Gross profit decreased 29% in the fourth quarter over last year on the lower sales volumes and lower gross margins. Gross profit margin was 22.2% in 2009, down from 23.2% in 2008. Lower margins were reported in the Equipment Group on lower volumes, partially offset by a sales mix shift to a higher proportion of product support business. The Compression Group reported higher margins on improved project execution and sales mix.

Selling and administrative expenses decreased $12.3 million or 18% versus the comparable period of the prior year. Bad debt expense decreased $5.4 million reflecting strong collections activity in the quarter and on improved aging of accounts receivable. Compensation was lower in the fourth quarter on reduced staffing levels and lower profit sharing on lower net earnings. Other expenses were lower on strong cost control initiatives implemented throughout the year in light of economic conditions.

Interest expense was lower in the quarter compared to the similar period last year on lower average debt balances.

Interest income was higher in the fourth quarter of 2009 as distributions received on investment in Enerflex trust units were partially offset by lower interest rates on treasury investments.

The effective income tax rate was 32.3% compared to 33.3% in the fourth quarter of 2008 reflecting lower statutory income tax rates.

Net earnings in the quarter were $31.4 million, down 36% from 2008. Basic earnings per share were $0.48 compared with $0.75 in 2008, a decrease of 36%.

Comprehensive income was $43.1 million, comprised of net earnings of $31.4 million and other comprehensive income of $11.7 million. Other comprehensive income arose primarily on unrealized gains on the Company's investment in Enerflex trust units which were designated as available for sale.

Fourth Quarter Results of Operations in the Equipment Group

$ thousands	2009	2008	% change
	Three months ended December 31		
Equipment sales and rentals			
New	$ 99,632	$ 133,746	(26%)
Used	32,492	49,391	(34%)
Rental	38,065	43,790	(13%)
Total equipment sales and rentals	170,189	226,927	(25%)
Power generation	2,482	2,117	17%
Product support	66,338	74,860	(11%)
Total revenues	$ 239,009	$ 303,904	(21%)
Operating income	$ 19,558	$ 39,399	(50%)
Key ratios:			
Product support revenues as a % of total revenues	27.8%	24.6%	
Group total revenues as a % of consolidated revenues	52.8%	49.8%	
Operating income as a % of revenues	8.2%	13.0%	

New equipment sales were 26% lower on a decline in new tractor unit deliveries. In the fourth quarter of 2009, the global economic uncertainty resulted in fewer year-end purchases and rental conversions.

Used equipment sales were down 34% versus the comparable period of 2008 due to general economic conditions. Used equipment sales are dependent on a variety of factors and will fluctuate from quarter to quarter.

Rental revenues were down 13% in the quarter compared to the prior year on lower fleet utilization and rental rates in a competitive market.

Product support revenues were down 11% compared to the prior year on lower activity levels.

Operating income was down 50% over last year on lower revenues and lower gross margins. Gross margins decreased due to reduced price realization on parts and equipment, partially offset by a higher proportion of product support, which carries relatively higher margins than equipment sales. Selling and administrative expenses declined 15% largely driven by lower staffing levels and lower bad debt expense. Operating income as a percentage of revenues was 8.2% compared to 13.0% in the fourth quarter of 2008.

Bookings in the fourth quarter were 25% higher than the comparable period last year on improved activity levels in certain sectors including commercial, mining and road building. Also, bookings in 2008 were negatively impacted by order cancellations.

Fourth Quarter Results of Operations in the Compression Group

$ thousands	2009	2008	% change
	Three months ended December 31		
Package sales and rentals			
Package sales	$ 166,200	$ 244,666	(32%)
Rentals	3,322	4,972	(33%)

Total package sales and rentals	169,522	249,638	(32%)
Product support	44,307	56,162	(21%)
Total revenues	$ 213,829	$ 305,800	(30%)
Operating income	$ 26,263	$ 35,074	(25%)

Key ratios:		
Product support revenues as a % of total revenues	20.7%	18.4%
Group total revenues as a % of consolidated revenues	47.2%	50.2%
Operating income as a % of revenues	12.3%	11.5%

Revenues in the Compression Group for the fourth quarter of 2009 were down $92.0 million or 30% from the similar period last year on the following factors:

- On average, the Canadian dollar was stronger in the fourth quarter of 2009, resulting in a decrease in revenues on translation of foreign operations of $21 million.

- Natural gas package sales were down 27% on a constant dollar basis on lower activity levels.

- Process compression systems were down 37% in the quarter, however were up slightly for the full year. Process system sales depend on timing of customer orders and requirements.

- Refrigeration revenues for the quarter were 18% lower on weaker industrial and U.S. recreational activity, resulting largely from the weak economy. Canadian recreational revenues were 10% higher with increased activity levels, especially with the Eco-Chill product line.

- Natural gas product support revenues were 33% lower than the comparable period last year on lower activity in both Canada and the United States.

- Refrigeration product support revenues were consistent with prior year as increased activity in Canada was largely offset by lower activity in the United States.

Operating income was 25% lower in the fourth quarter of 2009 compared to the similar period last year on lower volume, partially offset by higher margins. Gross margin was higher in 2009 compared to 2008 on product mix and project execution. Selling and administrative expenses were down 23% from prior year on lower compensation on reduced headcount and lower bad debt expense.

Bookings in the fourth quarter were up 46% from the prior year with several good orders received late in 2009. Bookings in 2008 were also depressed and included order cancellations from customers in light of economic conditions.

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 2008 annual audited consolidated financial statements.

$ thousands, except per share amounts	Q1	Q2	Q3	Q4
2008				

Revenues				
Equipment Group	$ 202,023	$ 285,845	$ 307,441	$ 303,904
Compression Group	195,036	250,632	270,528	305,800
Total revenues	$ 397,059	$ 536,477	$ 577,969	$ 609,704
Net earnings				
Continuing operations	$ 16,417	$ 38,222	$ 37,104	$ 49,110
Discontinued operations	77	(406)	-	-
	$ 16,494	$ 37,816	$ 37,104	$ 49,110
Per share information:				
Basic earnings per share				
Continuing operations	$ 0.25	$ 0.59	$ 0.57	$ 0.76
Discontinued operations	-	(0.01)	-	-
	$ 0.25	$ 0.58	$ 0.57	$ 0.76
Diluted earnings per share				
Continuing operations	$ 0.25	$ 0.59	$ 0.56	$ 0.76
Discontinued operations	-	(0.01)	-	-
	$ 0.25	$ 0.58	$ 0.56	$ 0.76
Dividends per share	$ 0.14	$ 0.14	$ 0.14	$ 0.14

2009

Revenues				
Equipment Group	$ 191,693	$ 217,015	$ 233,629	$ 239,009
Compression Group	265,966	267,158	196,293	213,829
Total revenues	$ 457,659	$ 484,173	$ 429,922	$ 452,838
Net earnings	$ 23,718	$ 33,525	$ 31,923	$ 31,350
Per share information:				
Basic earnings per share	$ 0.37	$ 0.51	$ 0.50	$ 0.48
Diluted earnings per share	$ 0.37	$ 0.51	$ 0.50	$ 0.48
Dividends per share	$ 0.15	$ 0.15	$ 0.15	$ 0.15

Interim period revenues and earnings historically reflect some seasonality.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter has typically 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. This trend has not been evident in the last two years due

to slowdown in the Canadian economy. Management expects the trend to continue as economic conditions improve.

The Compression Group also has historically had a distinct seasonal trend in activity levels due to well-site access and drilling patterns, which reflect weather conditions. Generally, higher revenues are reported in the fourth quarter of each year. This trend has not been evident in the last two years due to deteriorating natural gas markets and general economic conditions. Geographic and product mix diversification has also served to mitigate this seasonality. Management expects this trend to continue as natural gas market fundamentals improve.

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)	2009	2008	2007
Revenues	$ 1,824,592	$ 2,121,209	$ 1,886,761
Net earnings - continuing operations	$ 120,516	$ 140,853	$ 121,868
Net earnings	$ 120,516	$ 140,524	$ 122,280
Earnings per share - continuing operations			
- Basic	$ 1.86	$ 2.17	$ 1.88
- Diluted	$ 1.86	$ 2.16	$ 1.87
Earnings per share			
- Basic	$ 1.86	$ 2.16	$ 1.89
- Diluted	$ 1.86	$ 2.15	$ 1.88
Dividends declared per share	$ 0.60	$ 0.56	$ 0.48
Total assets	$ 1,364,667	$ 1,533,450	$ 1,356,861
Total long-term debt	$ 158,095	$ 173,475	$ 230,299

Revenue growth was strong through 2008 with year-over-year increases of 8% and 12% in 2007 and 2008 respectively. The global economic crisis of late 2008 and 2009 has served to reduce revenues in 2009 as activity levels in end markets has slowed down.

Growth in net earnings on a continuing operations basis has also been strong through 2008, with year-over-year increases of 23% and 16% in 2007 and 2008 respectively. Net earnings declined 14% in 2009 on lower revenues. Net earnings in 2007 and 2008 also included gains on sales of assets.

Earnings per share have generally varied in line with earnings. The number of common shares outstanding over the last three years has remained fairly consistent as new shares issued on exercise of stock options have been largely offset by purchases under the NCIB.

Dividends have generally increased in proportion to trailing earnings growth.

Total assets have decreased in 2009 as inventories were reduced in light of lower activity levels. Accounts receivable have also decreased due to lower revenues.

Long-term debt decreased in 2009 and represented 19% of total shareholders' equity at year end. In 2008, long-term debt represented 22% of shareholders' equity. At December 31, 2009, total cash exceeded total long-term debt.

RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial 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 capital to finance purchases. Toromont's customers are typically affected, to varying degrees, by these factors and trends in the general business cycle within their respective markets. As a result, Toromont's financial performance is affected by the impact of such business cycles on the Company's customer base.

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

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 offerings and geographic diversification are designed to 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 typically subject to less volatility than equipment supply activities.

Product and Supply

Equipment Group

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 16 years and management expects this will continue going forward.

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

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

Compression Group

The Compression Group purchases a broad range of materials and components in connection with its manufacturing and service activities. Though it is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications and delivery schedules is important to the maintenance of customer satisfaction. Further, a significant increase in the price of one or more of these components could have a negative impact on Toromont's results of operations.

Competition

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

The Compression Group requires skilled engineering and design professionals in order to maintain customer satisfaction and engage in product innovation. Toromont competes for these professionals, not only with other companies in the same industry, but also with oil and gas producers and other industries. In periods of high energy activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

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

Credit Risk

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

Cash equivalents consist mainly of short-term investments, such as money market deposits. No asset-backed commercial paper products were held. The Company manages its credit exposure associated with cash equivalents by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer, industry or geographic area. The Company has accounts receivable from customers engaged in various industries including oil and gas production construction, mining, food and beverage, and governmental agencies. These customers are based across North America with a smaller percentage of accounts receivable held with international clients. Management does not believe that any single industry or geographic region represents significant credit risk. While the acquisition of Enerflex will increase the concentration of customers in the natural gas industry, there will be further diversification in terms of geographic representation, as Enerflex has significant operations in Europe and Australia.

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

Warranties and Maintenance Contracts

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

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

Foreign Exchange

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

Transaction Exposure

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

In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Company also sells compression packages in foreign currencies, primarily the U.S. dollar and the Euro, and enters into foreign currency contracts to reduce these exchange rate risks. Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency transactions when they occur.

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

Translation Exposure

At December 31, 2009 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. Analysis of Enerflex's foreign operations will be performed in 2010 to determine whether they are self-sustaining or integrated.

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 2009 was to reduce revenues by $40 million and net income by approximately $3 million.

However, exchange rate fluctuations may be more significant in future periods as a result of Toromont's acquisition of Enerflex. When Enerflex's results of operations are consolidated with those of Toromont, a larger percentage of revenues and expenses will be denominated in currencies other than the Canadian dollar.

Interest Rate

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

The Company is exposed to changes in interest rates, which may impact on the Company's floating rate borrowing costs. At December 31, 2009, the Company's debt portfolio is comprised of 99% fixed rate and 1% floating rate debt. In January 2010, in connection with the acquisition of Enerflex, Toromont secured a term loan facility providing for the availability of an additional $450 million of floating rate debt, of which $313.8 million had been drawn as at February 5, 2010. Further drawdowns of this facility will be made as required. Assuming the full amount of the facility is drawndown, Toromont's debt portfolio would be comprised of approximately 26% fixed rate and 74% floating rate debt.

Fixed rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. The Company's fixed rate debt matures between 2011 and 2019, with 80% maturing in 2015.

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

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

Financing Arrangements

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

Integration Risk

The anticipated benefits and synergies from acquiring Enerflex will depend in part on whether the operations, systems,

management and cultures of Enerflex and Toromont can be integrated in an efficient and effective manner and whether the presumed bases or sources of synergies produce the benefits anticipated. Most operational and strategic decisions with respect to the combined organization have not yet been made and may not have been fully identified. These decisions and the integration of Enerflex with Toromont Energy Systems will present significant challenges to management. There can be no assurance that there will be operational or other synergies realized by the combined company, or that the integration of the two companies' operations, systems, management, personnel and cultures will be timely or effectively accomplished, or ultimately will be successful in achieving the anticipated benefits. The integration process may lead to greater than expected operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, client or suppliers) for Toromont or the combined organization that may affect the ability of the combined organization to realize the anticipated benefits of the combination or may otherwise materially and adversely affect Toromont's business, results of operations or financial condition.

Environmental Regulation

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

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

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 of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. Management reviews its estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. The critical accounting policies and estimates described below affect both the Equipment Group and Compression Group similarly and therefore are not discussed on a segmented basis.

Revenue Recognition

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

Property, Plant and Equipment

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

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

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

plans that incorporate management's judgments as to the remaining service potential of the fixed assets.

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

Income Taxes

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 require 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 17 of the accompanying unaudited consolidated financial statements.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Instruments

Effective January 1, 2009, the Company adopted CICA EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. Adoption of this guidance had no impact on the Company's consolidated financial statements.

Financial Instruments - Disclosures

In June 2009, the CICA amended Section 3862 Financial Instruments - Disclosures. The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk, of financial instruments. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. The amendments are effective the Company's 2009 annual consolidated financial statements and its adoption did not have an impact on the financial position, cash flow or earnings of the Company. The required disclosures are provided in note 14. Comparative information is not required in the year of adoption.

Financial Instruments - Recognition and Measurement

In 2009, the CICA made several amendments and clarifications to Section 3855 Financial Instruments - Recognition and Measurement. The changes were as follows:

- Clarified the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period

- Clarified the requirements regarding reclassification of held-for-trading financial instruments containing embedded derivatives

- Eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified.

The adoption of these amendments did not have a material impact on the financial position, cash flow or earnings of the

Company.

FUTURE ACCOUNTING STANDARDS

In January 2009, the CICA issued Handbook Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements, and Section 1502 Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. Early adoption is permitted. If an entity applies this Section before January 1, 2011, it shall also adopt Section 1601 and 1602. The Company is currently considering early adoption of Section 1582.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

International Financial Reporting Standards (IFRS) will be required in Canada for publicly accountable enterprises for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The conversion project consists of four phases: diagnostic, design and planning, solution development and implementation. Investments in training and resources will be made throughout the transition period to facilitate a timely conversion.

Based on diagnostics completed to date, the areas identified with the most potential impact are as follows: property, plant and equipment; provisions; certain aspects of revenue recognition; expanded disclosure requirements and IFRS 1 First Time Adoption. The Company expects the transition to IFRS to potentially impact financial reporting, business processes, internal controls and information systems.

We are in the solution development phase and have established issue-specific work teams to focus on quantification of impact, generating options and making recommendations in the identified risk areas. During this phase, we will establish a staff communications plan, develop our staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

Although our solution development activities are well underway and commencing according to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of IFRS changeover accounting policy differences. In addition, due to anticipated changes in Canadian GAAP and IFRS prior to the Company's transition to IFRS, the full impact of adopting IFRS on the Company's future financial position and results of operations cannot be reasonably determined at this time.

Toromont anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The 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 and internal controls over financial reporting as at December 31, 2009, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2009, to provide reasonable assurance that a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2009, to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no changes in the design of the Company's internal controls over financial reporting during the fourth quarter of 2009 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting as at December 31, 2009 and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

NON-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.

ADVISORY

Statements and information herein that are not historical facts are "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify forward-looking information and statements.

By their nature, forward-looking information and statements are subject to risks and uncertainties which may be beyond Toromont's ability to control or predict. Actual results or events could differ materially from those expressed or implied by forward-looking information and statements. Factors that could cause actual results or events to differ from current expectations include, among others: business cycle risk, including general economic conditions in the countries in which Toromont operates; risk of commodity price changes including precious and base metals and natural gas; risk of changes in foreign exchange rates, including the Cdn$/US$ exchange rate; risk of the termination of distribution or original equipment manufacturer agreements; risk of equipment product acceptance and availability of supply; risk of increased competition; credit risk related to financial instruments; risk of additional costs associated with warranties and maintenance contracts; interest rate risk on financing arrangements; risk of availability of financing; risk of environmental regulation; and risks related to the integration of Enerflex's operations with those of Toromont. Additional information on these factors and other risks and uncertainties that could cause actual results or events to differ from current expectations can be found in the "Risks and Risk

Management" and "Outlook" section of this MD&A. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by forward-looking information and statements.

Forward-looking information and statements contained herein about prospective results of operations, financial position or cash flows that are based on assumptions about future economic conditions and courses of action are presented for the purpose of assisting Toromont's shareholders in understanding managements' current view regarding those future outcomes and may not be appropriate for other purposes. Readers are cautioned not to place undue reliance on the forward-looking information and statements contained herein, which are given as of the date of this document, and not to use such information and statements for anything other than their intended purpose. Toromont disclaims any obligation or intention to update or revise any forward-looking information or statement, whether the result of new information, future events or otherwise, except as required by applicable law.

TOROMONT INDUSTRIES LTD.
CONSOLIDATED BALANCE SHEETS
(unaudited)

as at December 31 ($ thousands)	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 206,957	$ 137,274
Accounts receivable	244,759	375,059
Inventories (note 5)	373,110	499,360
Income taxes receivable	16,967	2,068
Future income taxes (note 17)	34,326	34,934
Derivative financial instruments	-	13,212
Other current assets	6,037	11,381
Total current assets	882,156	1,073,288
Property, plant and equipment (note 6)	186,491	199,370
Rental equipment (note 7)	183,175	203,277
Derivative financial instruments	-	1,403
Other assets (note 8)	78,045	21,312
Goodwill	34,800	34,800
Total assets	$ 1,364,667	$ 1,533,450
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	$ 238,164	$ 346,118
Deferred revenues	89,810	194,261
Current portion of long-term debt (note 10)	14,044	15,363
Income taxes payable	-	6,304
Derivative financial instruments	874	1,966
Total current liabilities	342,892	564,012
Deferred revenues	13,386	25,480
Long-term debt (note 10)	144,051	158,112
Accrued pension liability (note 16)	2,351	2,322
Future income taxes (note 17)	7,924	4,421
Shareholders' equity		
Share capital (note 11)	132,261	127,704
Contributed surplus (note 12)	10,012	8,978
Retained earnings	712,418	631,522
Accumulated other comprehensive (loss) income		

(note 13)	(628)	10,899
Total shareholders' equity	854,063	779,103
Total liabilities and shareholders' equity	$ 1,364,667	$ 1,533,450

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF EARNINGS
(unaudited)

Years ended December 31($ thousands, except share amounts)	2009	2008
Revenues	$ 1,824,592	$ 2,121,209
Cost of goods sold	1,415,476	1,660,285
Gross profit	409,116	460,924
Selling and administrative expenses	226,764	253,070
Operating income	182,352	207,854
Interest expense	8,815	11,753
Interest and investment income	(6,355)	(14,999)
Income before income taxes	179,892	211,100
Income taxes	59,376	70,247
Earnings from continuing operations	120,516	140,853
Loss on disposal of discontinued operations (note 3)	-	(432)
Earnings from discontinued operations, net of tax (note 3)	-	103
Net earnings	$ 120,516	$ 140,524
Basic earnings per share (note 18)		
Continuing operations	$ 1.86	$ 2.17
Discontinued operations	-	(0.01)
	$ 1.86	$ 2.16
Diluted earnings per share (note 18)		
Continuing operations	$ 1.86	$ 2.16
Discontinued operations	-	(0.01)
	$ 1.86	$ 2.15
Weighted average number of shares outstanding		
Basic	64,716,775	65,016,778
Diluted	64,830,866	65,439,046

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(unaudited)

Years ended December 31 ($ thousands)	2009	2008
Retained earnings, beginning of year	$ 631,522	$ 539,039
Net earnings	120,516	140,524
Dividends	(38,848)	(36,391)
Shares purchased for cancellation (note 11)	(772)	(11,650)
Retained earnings, end of year	$ 712,418	$ 631,522

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

Years ended December 31 ($ thousands)	2009	2008
Net earnings	$ 120,516	$ 140,524
Other comprehensive income:		
Unrealized (loss) gain on translation of financial statements of self-sustaining foreign operations	(23,308)	21,072
Loss on translation of financial statements of self-sustaining foreign operations transferred to net income on dispositon of operations	-	1,090
Change in fair value of derivatives designated as cash flow hedges, net of income tax (recovery) expense (2009 - ($2,181); 2008 - $4,062)	(4,063)	7,547
Loss (gain) on derivatives designated as cash flow hedges transferred to net income in the current period, net of income tax expense (recovery) (2009 - $122; 2008 - ($1,415))	229	(2,626)
Unrealized gain on financial assets designated as available-for-sale, net of income taxes ($3,090)	15,615	-
Gain on financial assets designated as available-for-sale transferred to net income on realization, net of income taxes of $24	-	(44)
Other comprehensive (loss) income	(11,527)	27,039
Comprehensive income	$ 108,989	$ 167,563

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Years ended December 31 ($ thousands)	2009	2008
Operating activities		
Net earnings	$ 120,516	$ 140,524
Items not requiring cash and cash equivalents		
Depreciation	58,165	56,070
Stock-based compensation	2,289	2,494
Accrued pension liability	29	(1,261)
Future income taxes	3,093	(8,972)
Gain on sale of:		
Rental equipment, property, plant, and equipment	(7,147)	(6,191)
Investments	-	(8,234)
Loss on disposal of discontinued operations	-	432
	176,945	174,862
Net change in non-cash working capital and other (note 21)	19,308	(10,150)
Cash provided by operating activities	196,253	164,712
Investing activities		
Additions to:		
Rental equipment	(39,712)	(57,901)
Property, plant and equipment	(21,329)	(38,574)
Investments	(37,797)	(13,811)
Proceeds on disposal of:		
Rental equipment	30,078	30,456
Property, plant and equipment	5,128	1,319
Investments	-	43,948
Disposal of discontinued operations (note 3)	-	4,038
Increase in other assets	(10,272)	(786)
Business acquisitions (note 4)	-	(629)
Cash used in investing activities	(73,904)	(31,940)
Financing activities		
Decrease in term credit facility debt	-	(30,000)
Repayment of other long-term debt	(15,380)	(26,824)
Dividends	(38,165)	(35,138)
Shares purchased for cancellation	(858)	(12,808)
Cash received on exercise of options	3,389	3,515
Cash used in financing activities	(51,014)	(101,255)
Effect of exchange rate changes on cash denominated in foreign currency	(1,652)	2,243
Increase in cash and cash equivalents	69,683	33,760
Cash and cash equivalents at beginning of year	137,274	103,514

Cash and cash equivalents at end of year	$ 206,957	$ 137,274

Supplemental cash flow information (note 21)

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

December 31, 2009

($ thousands except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Toromont Industries Ltd. and its subsidiaries (the "Company") operate through two business segments: Equipment Group and Compression Group. The Equipment Group includes one of the world's larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a Global leader specializing in the design, engineering, fabrication, and installation of natural gas compression units and hydrocarbon and petrochemical process systems and industrial and recreational refrigeration systems. Both Groups offer comprehensive product support capabilities. Toromont 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 determined using the percentage-of-completion method, based on total costs incurred as a proportion of expected total costs of the project. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any foreseeable losses on such projects are charged to operations when determined.

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

(d) Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized

when the part is shipped to the customer. For servicing of equipment, revenues are recognized as the service work is completed and billed.

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

(f) Revenues on equipment sold directly to customers or to third-party lessors for which the Company has provided a guarantee to repurchase the equipment at predetermined residual values and dates are accounted for as operating leases wherein revenue is recognized over the period extending to the date of the residual guarantee.

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 loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the interest rate method.

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities

- Level 2 - observable inputs other than Level 1 prices that are observable or can be corroborated by observable market data for substantially the full term of asset or liability

- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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 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. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale are added to the value of the instrument at acquisition. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into net income 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. 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 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.

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, 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, 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 or on the average remaining lifetime in the case of retirees.

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

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

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

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

Cost of inventories include the transfer from accumulated other comprehensive income (loss) of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

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

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed.

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 2008 and 2009, annual goodwill assessments were performed and determined that there was no impairment in either year.

Discontinued Operations

The results of discontinued operations are presented net of tax on a one-line basis in the consolidated statements of earnings. Direct corporate overheads and income taxes are allocated to discontinued operations. Interest expense (income) and general corporate overheads are not allocated to discontinued operations.

Comparative Amounts

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

2. CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no impact on the Company's consolidated financial statements.

Credit Risk and the Fair Value of Financial Instruments

Effective January 1, 2009, the Company adopted CICA EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. Adoption of this guidance had no impact on the Company's consolidated financial statements.

Financial Instruments - Disclosures

In June 2009, the CICA amended Section 3862 Financial Instruments - Disclosures. The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk, of financial instruments. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009. The amendments are effective the Company's 2009 annual consolidated financial statements and its adoption did not have an impact on the financial position, cash flow or earnings of the Company. The required disclosures are provided in note 14. Comparative information is not required in the year of adoption.

Financial Instruments - Recognition and Measurement

In 2009, the CICA made several amendments and clarifications to Section 3855 Financial Instruments - Recognition and Measurement. The changes were as follows:

- Clarified the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period

- Clarified the requirements regarding reclassification of held-for-trading financial instruments containing embedded derivatives

- Eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified.

The adoption of these amendments did not have a material impact on the financial position, cash flow or earnings of the Company.

Future Accounting Standards

Business Combinations

In January 2009, the CICA issued Handbook Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements, and Section 1502 Non-controlling Interests. These new standards are harmonized with International Financial Reporting Standards (IFRS). Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. Early adoption is permitted. If an entity applies this Section before January 1, 2011, it shall also adopt Section1601 and 1602. The Company is currently considering early adoption of Section 1582.

International Financial Reporting Standards

Canadian GAAP will be converged with IFRS effective January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

3. DISCONTINUED OPERATIONS

Effective June 30, 2008, the shares of Aero Tech Manufacturing Inc. were sold to its local management. Revenues and income before income taxes from discontinued operations in 2008 were $7,621 and $163 respectively.

4. BUSINESS ACQUISITIONS

Effective June 25, 2008, certain assets of a privately owned rental operation in Sault Ste Marie, Ontario, were purchased. The acquisition was recorded using the purchase method. The purchase price was $629. The fair value of assets acquired was as follows: non-cash working capital - $126; property, plant and equipment - $165; and rental assets - $338.

5. INVENTORIES

	2009	2008
Equipment	$ 164,744	$ 232,879
Repair and distribution parts	74,809	80,261
Direct materials	75,740	72,041
Work-in-process	57,817	114,179
	$ 373,110	$ 499,360

The amount of inventory recognized as an expense and included in cost of goods sold accounted for other than by the percentage-of-completion method during 2009 was $704 million (2008: $902 million). The amount charged to the income statement and included in cost of goods sold for the write-down of inventory for valuation issues during 2009 was $13.8 million (2008: $9.6 million).

6. PROPERTY, PLANT AND EQUIPMENT

	2009			2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 41,269	$ -	$ 41,269	$ 39,030	$ -	$ 39,030
Buildings	157,830	58,679	99,151	143,333	51,814	91,519
Equipment	129,987	97,774	32,213	147,554	106,928	40,626
Power generation	37,714	24,353	13,361	36,061	23,264	12,797
Assets under construction	497	-	497	15,398	-	15,398
	$ 367,297	$ 180,806	$ 186,491	$ 381,376	$ 182,006	$ 199,370

Depreciation expense for the year ended December 31, 2009 was $22,668 (2008 - $23,423).

7. RENTAL EQUIPMENT

	2009	2008
Cost	$ 301,489	$ 311,619
Less: Accumulated depreciation	118,314	108,342
	$ 183,175	$ 203,277

Depreciation expense for the year ended December 31, 2009 was $35,497 (2008 - $32,647). Operating income from rental operations for the year ended December 31, 2009 was $17.2 million (2008 - $31.5 million).

8. OTHER ASSETS

	2009	2008
Equipment sold with guaranteed residual values	$ 10,940	$ 20,981
Investment in marketable securities	56,502	-
Deferred transaction costs	10,160	-
Other	443	331
	$ 78,045	$ 21,312

The investment in marketable securities is comprised of 3.9 million trust units of Enerflex Systems Income Fund. Units were purchased at a cost of $37,797 ($9.69 per unit) and were marked to market value of $56,502 ($14.48) as at December 31, 2009. These financial instruments are designated as available for sale and as such the unrealized gain of $18,705 has been credited to other comprehensive income.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	$ 228,436	$ 337,073
Dividends payable	9,728	9,045
Total accounts payable and accrued liabilities	$ 238,164	$ 346,118

10. LONG-TERM DEBT

	2009	2008
Senior debentures (b)	$ 155,999	$ 166,659
Notes payable (c)	2,096	6,816

Total long-term debt	158,095	173,475
Less current portion	14,044	15,363
	$ 144,051	$ 158,112

All debt is unsecured.

(a) The Company maintains $225 million in bank credit in Canada and US $20 million in bank credit in the United States, provided through committed credit facilities. Of this, US $20 million matures in 2010 and $225 million matures in 2011. Bank borrowings bear interest at rates ranging from prime to bankers acceptance rates. At December 31, 2009, the Canadian prime rate was 2.25% and the 30-day banker's acceptance rate was 0.3%. Standby letters of credit issued utilized $33,248 of the credit lines at December 31, 2009 (2008 - $62,225).

(b) Terms of the senior debentures are:

- $16,527, 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

- $14,471, 7.06% senior debentures due March 29, 2019, interest payable semi-annually through September 29, 2009; thereafter, blended principal and interest payments through to maturity.

(c) Notes payable mature in 2010 and bear interest at 0.14%.

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

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

	Principal	Interest
2010	$ 14,044	$ 8,137
2011	6,889	7,266
2012	1,280	6,986
2013	1,372	6,895
2014	1,471	6,796
2015 to 2019	133,039	7,635
	$ 158,095	$ 43,715

Interest expense included interest on debt initially incurred for a term greater than one year of $8,636 (2008 - $11,042).

11. 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:

	2009		2008	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Balance, beginning of year	64,620,677	$ 127,704	64,943,497	$ 124,124
Exercise of stock options	290,190	4,643	272,780	4,739
Purchase of shares for cancellation	(43,400)	(86)	(595,600)	(1,159)
Balance, end of year	64,867,467	$ 132,261	64,620,677	$ 127,704

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 Shareholder Rights Plan was continued and amended in 2009. Amendments were largely administrative in nature. The plan expires in April 2012.

Normal Course Issuer Bid (NCIB)

On August 27, 2009, Toromont announced the renewal of its NCIB program. The issuer bid allows the Company to purchase up to approximately 4.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2010. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled. The Company purchased and cancelled 43,400 shares for $858 (average cost of $19.77 per share) in 2009 under its NCIB program which expired on August 30, 2009. The shares were purchased for an amount higher than their weighted average book value per share ($1.97 per share) resulting in a reduction of retained earnings of $772. The Company purchased and cancelled 595,600 shares for $12,808 (average cost of $21.50 per share) in 2008.

	2009	2008
Total shares purchased (number of shares)	43,400	595,600
Average purchase price (per share)	$ 19.77	$ 21.50
Total cash paid (thousands)	$ 858	$ 12,808
Book value of shares cancelled	86	1,158
Reduction to retained earnings	$ 772	$ 11,650

12. 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:

	2009	2008
Balance, beginning of year	$ 8,978	$ 7,707
Stock-based compensation expense, net of forfeitures	2,289	2,494
Value of compensation cost associated with exercised options	(1,255)	(1,223)
Balance, end of year	$ 10,012	$ 8,978

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2009	2008
Balance, beginning of year	$ 10,899	$ (16,140)
Other comprehensive (loss) income	(11,527)	27,039
Balance, end of year	$ (628)	$ 10,899

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

	2009	2008
Unrealized (losses) gains on translation of financial statements of self-sustaining foreign operations	$ (15,954)	$ 7,355
(Losses) gains on foreign exchange derivatives designated as cash flow hedges, net of income taxes (2009 - $150; 2008 - ($1,909))	(289)	3,544
Unrealized gain on financial assets designated as available-for-sale (income taxes - Nil)	15,615	-
Balance, end of year	$ (628)	$ 10,899

The gains and losses on derivative contracts are intended to offset the transaction losses and gains. The losses of $289 will be reclassified to net income within the next twelve months. These losses will offset gains recorded on the underlying hedged items, namely foreign denominated accounts payable and accounts receivable. Management intends to hold these foreign currency contracts to maturity.

14. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

The carrying values of the Company's financial instruments are classified into the following categories:

	2009	2008
Held for trading (1)	$ 206,957	$ 137,274
Loans and receivables (2)	$ 244,759	$ 375,059
Available for sale assets (3)	$ 56,502	$ -
Other financial liabilities (4)	$ 396,259	$ 519,593
Derivatives designated as effective hedges gain (loss) (5)	$ (440)	$ 5,453
Derivatives designated as held for trading gain (loss) (6)	$ (434)	$ 7,196

(1) Comprised of cash and cash equivalents. All held for trading assets were designated as such upon initial recognition.
(2) Comprised of accounts receivable
(3) Comprised of investment in marketable securities which are reported in other assets.
(4) Comprised of accounts payable and accrued liabilities and long-term debt.
(5) Comprised of the Company's foreign exchange forward contracts designated as hedges.
(6) Comprised of the Company's foreign exchange forward contracts that are not designated as hedges for accounting purposes.

Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as at December 31, 2009 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value.

	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Marketable securities	$ 56,502	$ 56,502	-	-	$ 56,502
Liabilities					
Derivative financial instruments	$ 874	-	$ 874	-	$ 874
Senior debentures	$155,999	-	$156,993	-	$156,993

The estimated fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, borrowings under the bank term facility and notes payable approximate their respective carrying values.

The fair value of marketable securities is measured based on quoted market prices.

The fair value of derivative financial instruments is measured using a generally accepted valuation technique, that is, the discounted value of the difference between the contract's value at maturity based on the foreign exchange rate set out in the contract and the contract's value at maturity based on the foreign exchange rate that the financial institution would use if it were

to renegotiate the same contract at December 31, 2009 under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value.

The fair values of senior debentures is measured using a generally accepted valuation technique, that is, the 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.

Derivative financial instruments and hedge accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2009.

		Notional Amount	Average Exchange Rate	Maturity
Purchase contracts	USD	73,639	$ 1.0618	January 2010 to December 2010
	EUR	2,729	$ 1.5529	January 2010 to June 2010
Sales contracts	USD	3,769	$ 1.0609	January 2010 to December 2010

Management estimates that a loss of $874 would be realized if the contracts were terminated on December 31, 2009. Certain of these forward contracts are designated as cash flow hedges, and accordingly, a loss of $440 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 $434 on forward contracts not designated as hedges is included in net income which offsets gains recorded on the foreign-denominated items, namely accounts payable and accounts receivable.

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.

Risks arising from financial instruments and risk management

In the normal course of business, Toromont is exposed to 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. 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.

Currency risk

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

Transaction exposure

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

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

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

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. A fluctuation of +/- 5%, provided as an indicative range in a volatile currency environment, would, everything else being equal, have an annualized effect on net income before tax of approximately +/- $4.5 million.

Sensitivity analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable and derivative instruments. This sensitivity analysis relates to the position as at December 31, 2009. The following table shows Toromont's sensitivity to a 5% weakening of the Canadian dollar against the US dollar. A 5% strengthening of the Canadian dollar would have an equal and opposite effect.

	Net earnings	Other Comprehensive Income
Cdn/US dollar exchange rate - 5%		
- financial instruments in Canadian operations	$ 393	$ 1,371
- financial instruments held in foreign operations	n/a	$ 2,356

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

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

The movement in other comprehensive income in foreign operations reflects the change in the fair value of financial instruments. Gains or losses on translation of financial instruments held in self-sustaining subsidiaries are deferred in other comprehensive income.

Credit risk

Financial instruments that potentially subject the Company to 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.

Cash equivalents consist mainly of short-term investments, such as money market deposits. No asset-backed commercial paper products were held. 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 customers engaged in various industries including mining, construction, natural gas production and transportation, 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 particular geographic region represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

As at December 31, 2009, $14.3 million or 5.7% of accounts receivable were outstanding for more than 90 days (2008 - $21.9 million or 5.7%). The movement in the Company's allowance for doubtful accounts was as follows:

	2009	2008
Balance, beginning of year	$ 9,774	$ 6,501
Change in foreign exchange rates	(437)	356
Provisions and revisions, net	(2,241)	2,917
Balance, end of year	$ 7,096	$ 9,774

The Company minimizes the credit risk of investments by investing excess cash in short term securities that meet minimum requirements for quality and liquidity as allowed under the Company's treasury policy. Other securities may be purchased or disposed of as specifically approved by the Company's Board of Directors. Marketable securities at December 31, 2009 are comprised of trust units of Enerflex Systems Income Fund. The maximum credit risk associated with these financial instruments is represented by their carrying values.

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

Interest rate risk

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. As at December 31, 2009, $2.1 million or 1% of the Company's total debt portfolio was subject to movements in floating interest rates. A +/- 1.0% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would, all things being equal, have an insignificant impact on income before income taxes for the period.

The Company minimizes its interest rate risk by managing its portfolio of floating and fixed rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2009 or 2008.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2009, the Company was holding cash and cash equivalents of $207 million and had unutilized lines of credit of $213 million.

The contractual maturities of the Company's long-term debt and scheduled interest payments are presented in Note 10.

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

The Company expects that continued cash flows from operations in 2010, 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.

Market risk

The Company is subject to market risk arising from its investments in marketable securities. Marketable securities are market traded equity instruments which are accounted for based on their quoted market value. The investments in marketable securities are in publicly traded markets which are susceptible to significant volatility. To the extent that market prices vary from

those at the previous reporting periods, unrealized gains or losses would be recorded through other comprehensive income/loss.

15. STOCK-BASED COMPENSATION

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:

	Twelve Months ended December 31 2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,917,599	$ 21.62	1,843,359	$ 18.78
Granted	508,000	22.05	384,400	28.76
Exercised	(290,190)	11.53	(272,780)	12.15
Forfeited	(173,600)	25.14	(37,380)	24.28
Options outstanding, end of year	1,961,809	$ 22.91	1,917,599	$ 21.62
Options exercisable, end of year	900,607	$ 20.85	906,983	$ 17.06

The following table summarizes stock options outstanding and exercisable at December 31, 2009:

Range of Exercise Prices	Number Outstanding	Options Outstanding Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Options Exercisable Number Outstanding	Weighted Average Exercise Price
$10.28 - $10.71	71,420	0.1	$ 10.68	71,420	$ 10.68
$16.59 - $23.34	1,006,149	3.7	20.51	495,519	18.93
$24.58 - $28.84	884,240	4.2	26.63	333,668	25.89
Total	1,961,809	3.8	$ 22.91	900,607	$ 20.85

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:

	Twelve Months ended December 31	
	2009	2008
Weighted average fair value price per option	$ 4.55	$ 6.88
Expected life of options (years)	5.80	5.84
Expected stock price volatility	25.0%	25.0%
Expected dividend yield	2.7%	2.0%
Risk-free interest rate	2.0%	3.3%

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 resignation from 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. As at December 31, 2009, 68,723 units were outstanding at a value of $1,882 (2008 - 79,476 units at a value of $1,671). The Company records the cost of the DSU Plan as compensation expense. During 2009, 47,086 units were redeemed for $1,098 (2008 - Nil).

Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. In 2008, the plan was enhanced to provide a Company match of up to $1,000 per employee per annum based on contributions by the Company of $1 for every $3 dollars contributed by the employee. Company contributions vest to the employee immediately. Company contributions amounting to $0.9 million in 2009 (2008 - $0.8 million), were charged to selling and administrative expense when paid. The Plan is administered by a third party.

16. 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 5% of participating employees are included in defined benefit plans.

a) Powell Plan - This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The plan is a contributory plan that provides pension benefits based on length of service and career average earnings. The 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 that 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, 2009. The next valuation is scheduled as at December 31, 2010.

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, 2009. The next valuation is scheduled as at January 1, 2012.

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

	2009	2008

Accrued benefit obligations:		
Balance, beginning of year	$ 61,517	$ 71,529
Transfers	-	153
Service cost	1,412	1,570
Interest cost	3,686	3,656
Actuarial (gain) loss	4,538	(7,330)
Benefits paid	(5,503)	(8,061)
Balance, end of year	$ 65,650	$ 61,517
Plan assets:		
Fair value, beginning of year	$ 45,363	$ 58,159
Transfers	15	16
Actual return on plan assets	5,867	(7,482)
Company contributions	2,235	2,280
Participant contributions	422	452
Benefits paid	(5,503)	(8,061)
Fair value, end of year	$ 48,399	$ 45,364
Funded status of the plans	$ (17,251)	$ (16,153)
Unrecognized actuarial loss	15,785	15,013
Unrecognized past service benefit	(887)	(1,182)
Accrued pension liability	$ (2,353)	$ (2,322)

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

			2009			2008
	Accrued benefit obligation	Plan assets	Funded status - surplus (deficit)	Accrued benefit obligation	Plan assets	Funded status - surplus (deficit)
Powell Plan	$ 38,392	$ 36,583	$ (1,809)	$ 35,937	$ 34,646	$ (1,291)
Executive Plan	18,923	2,071	(16,852)	17,868	1,724	(16,144)
Other plan assets and obligations	8,334	9,746	1,412	7,712	8,994	1,282
Funded status of the plans	$ 65,649	$ 48,400	$ (17,249)	$ 61,517	$ 45,364	$ (16,153)

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 $19.9 million to secure the obligations under this plan.

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

	2009	2008
Discount rate	5.75%	6.25%
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:

	2009	2008
Equity securities	44.2%	40.5%
Debt securities	43.9%	43.7%
Real estate	11.9%	12.4%
Cash and cash equivalents	-	3.4%

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:

	2009	2008
Defined Benefit Plans		
Service cost	$ 990	$ 1,118
Interest cost	3,686	3,656
Actual return on plan assets	(5,867)	7,482
Actuarial loss (gain)	4,538	(7,330)
Difference between actual and expected return on assets	2,876	(11,406)
Difference between actual and recognized actuarial loss	(3,663)	7,643
Difference between actual and recognized past service benefits	(296)	(296)
	2,264	867
Defined Contribution Plans	8,788	9,102
401(k) matched savings plan	787	818
Net pension expense	$ 11,839	$ 10,787

The total cash amount paid or payable for employee future benefits in 2009, including defined benefit and defined contribution plans, was $12,116 (2008 - $12,343).

17. INCOME TAXES

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

	2009	2008
Current income tax expense	$ 56,283	$ 79,219

Future income tax expense (recovery)	3,093	(8,972)
Total income tax expense	$ 59,376	$ 70,247

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

	2009	2008
Statutory Canadian federal and provincial income tax rates	33.0%	33.5%
Expected taxes on income	$ 59,364	$ 70,719
Increase (decrease) in income taxes resulting from:		
Lower effective tax rates in other jurisdictions	(102)	(1,380)
Manufacturing and processing rate reduction	(147)	(164)
Expenses not deductible for tax purposes	1,138	1,485
Non-taxable gains	(93)	(794)
Effect of future income tax rate reductions	814	419
Other	(1,598)	(38)
Provision for income taxes	$ 59,376	$ 70,247
Effective income tax rate	33.0%	33.3%

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:

	2009	2008
CURRENT FUTURE INCOME TAX ASSETS		
Accrued liabilities	$ 12,761	$ 14,573
Deferred revenue	2,358	5,772
Accounts receivable	2,490	3,029
Inventories	16,554	12,977
Cash flow hedges in other comprehensive income	163	(1,417)
	$ 34,326	$ 34,934
NON-CURRENT FUTURE INCOME TAX LIABILITIES		
Capital assets	$ (9,047)	$ (9,250)
Other	4,213	5,321
Cash flow hedges in other comprehensive income	-	(492)
Available for sale financial assets in other comprehensive income	(3,090)	-

	$ (7,924)	$ (4,421)

18. EARNINGS PER SHARE

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

	2009	2008
Net earnings available to common shareholders	$ 120,516	$ 140,524
Weighted average common shares outstanding	64,716,775	65,016,778
Dilutive effect of stock option conversion	114,091	422,268
Diluted weighted average common shares outstanding	64,830,866	65,439,046
Basic earnings per share		
Continuing operations	$ 1.86	$ 2.17
Discontinued operations	-	(0.01)
	$ 1.86	$ 2.16
Diluted earnings per share		
Continuing operations	$ 1.86	$ 2.16
Discontinued operations	-	(0.01)
	$ 1.86	$ 2.15

In 2009, 884,240 outstanding stock options with an exercise price range of $24.58 to $28.84 were excluded from the calculation of diluted earnings per share as these options were anti-dilutive. In 2008, 383,400 outstanding stock options were excluded from the calculation.

19. COMMITMENTS

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

2010	$ 4,188
2011	3,423
2012	2,492
2013	1,942
2014	1,423
2015 and thereafter	3,881

$ 17,349

20. CAPITAL MANAGEMENT

The Company defines capital as the aggregate of shareholders' equity (excluding accumulated other comprehensive income) and long-term debt less cash and cash equivalents.

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

The Company generally targets a net debt to equity ratio of 0.5:1, although there is a degree of variability associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

The above capital management criteria can be illustrated as follows:

	December 31 2009	December 31 2008
Shareholder's equity excluding accumulated OCI	$ 854,691	$ 768,204
Long-term debt	158,095	173,475
Cash and cash equivalents	(206,957)	(137,274)
Capital under management	$ 805,829	$ 804,405
Net debt as a % of capital under management	n/m	5%
Net debt to equity ratio	n/m	0.05:1

n/m - not meaningful, cash exceeds long-term debt at December 31, 2009

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

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2009	2008
Net change in non-cash working capital and other		
Accounts receivable	$ 130,300	$ (37,920)
Inventories	126,250	(97,691)
Accounts payable and accrued liabilities	(101,028)	61,943
Deferred revenues	(104,451)	33,583
Other	(31,763)	29,935
	$ 19,308	$ (10,150)

Cash paid during the year for:		
Interest	$ 9,818	$ 12,306
Income taxes	$ 77,204	$ 78,604
Non-cash transactions:		
Capital asset additions included in accounts payable and accrued liabilities	$ 467	$ 460

22. 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 larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations. The Compression Group is a Global leader specializing in the design, engineering, fabrication, and installation of natural gas compression units and hydrocarbon and petrochemical 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	
	2009	2008	2009	2008	2009	2008
Equipment/ package sales	$ 455,180	$ 648,547	$ 746,741	$ 792,856	$1,201,921	$1,441,403
Rentals	137,536	151,342	15,238	21,149	152,774	172,491
Product support	278,938	290,431	181,267	207,991	460,205	498,422
Power generation	9,692	8,893	-	-	9,692	8,893
Total revenues	$ 881,346	$ 1,099,213	$ 943,246	$1,021,996	$1,824,592	$2,121,209
Operating Income	$ 85,441	$ 108,672	$ 96,911	$ 99,182	$ 182,352	$ 207,854
Interest expense					8,815	11,753
Interest and investment income					(6,355)	(14,999)
Income taxes					59,376	70,247
Net earnings						

from continuing operations	$ 120,516	$ 140,853

Selected Balance Sheet Information

	Equipment Group 2009	Equipment Group 2008	Compression Group 2009	Compression Group 2008	Consolidated 2009	Consolidated 2008
Identifiable assets	$ 599,358	$ 731,553	$ 459,572	$ 633,941	$ 1,058,930	$ 1,365,494
Corporate assets					305,737	$ 167,956
Total assets					$ 1,364,667	$ 1,533,450
Capital expenditures	$ 37,706	$ 65,835	$ 23,335	$ 30,640	$ 61,041	$ 96,475
Depreciation	$ 43,104	$ 44,002	$ 15,061	$ 12,068	$ 58,165	$ 56,070
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.

	2009	2008
Revenues		
Canada	$ 1,127,929	$ 1,445,302
United States	608,798	606,816
International	87,865	69,091
	$ 1,824,592	$ 2,121,209
Capital Assets and Goodwill		
Canada	$ 350,596	$ 379,992
United States	53,870	57,455
	$ 404,466	$ 437,447

23. 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.

24. SUBSEQUENT EVENT

On January 20, 2010, Toromont completed its take-over bid for Enerflex Systems Income Fund ("Enerflex"), acquiring a total of approximately 42.2 million trust units and exchangeable limited partnership units. Together with the trust units owned by Toromont prior to commencement of the take-over bid, Toromont now owns approximately 96% of the outstanding trust units on a fully-diluted basis. Toromont will acquire the balance of the outstanding trust units on February 26, 2010. The total consideration for the Enerflex units acquired in the take-over bid and the second step transaction is approximately $670 million.

Toromont acquired the Enerflex units tendered to its take-over bid with cash and shares, and will acquire the remaining trust units on the same terms. In the aggregate, Toromont will pay approximately $315.6 million in cash and issue 11.9 million common shares for these units.

The cash consideration of the purchase price along with transaction costs and repayment of $100.6 million in senior secured notes payable at Enerflex will be largely financed with additional unsecured bank debt under a new term loan facility that Toromont closed in January 2010. Borrowings of up to $450 million are available to Toromont under this facility, with drawdowns to occur by July 2010 and are due in July 2011 (eighteen month term). Interest on borrowings is charged at floating rates based on Canadian prime rate or Canadian Bankers' Acceptances rate, plus a specified margin.

This acquisition will be accounted for as a business combination with Toromont as the acquirer of Enerflex. The purchase method of accounting will be used and the earnings will be consolidated from the acquisition date. The Company is in the process of finalizing the estimated fair values of assets acquired and liabilities assumed at the date of acquisition, including goodwill and identifiable intangible assets. The consolidated results of operations of Enerflex will be included in the Consolidated Statement of Earnings from January 20, 2010.

Enerflex is a supplier of products and services to the global oil and gas production industry, and has operations in Canada, Australia, the Netherlands, the United States, Germany, Pakistan, the United Arab Emirates, Egypt, Indonesia and Malaysia.

SOURCE: Toromont Industries Ltd.

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