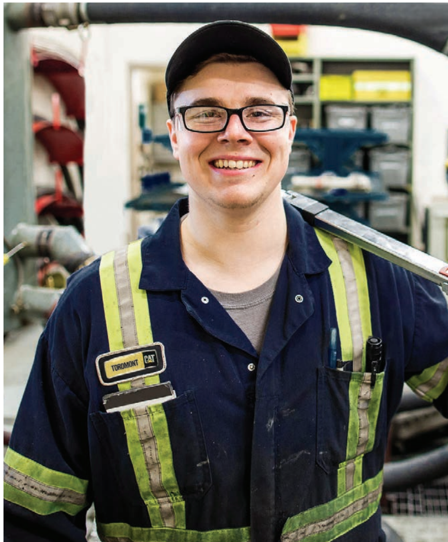
STRONGER TOGETHER
PLUS FORTS ENSEMBLE



TOROMONT | **TOROMONT INDUSTRIES LTD.**
ANNUAL REPORT 2017

STRONGER TOGETHER

PLUS FORTS ENSEMBLE

is the mantra we have marched to since expanding our employee base and dealership territory through acquisition in October of 2017. While apropos for this business combination, the ability to maximize the collective capabilities of our employees, partners and business units (newly acquired and long-held) by working together has long been the key to value creation at Toromont; and it will be the way we achieve our ambitious goals for the future.

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TOGETHER, WE ARE TOROMONT

Toromont Industries Ltd. (TSX: TIH) is a diversified growth company operating through two business segments: the Equipment Group and CIMCO. Both segments provide specialized equipment and comprehensive product support capabilities.

More information can be found at toromont.com and in this annual report.

TOROMONT CAT

With 60 branches across seven provinces and one territory, Toromont is one of the largest Caterpillar dealers in the world. As such, it serves the specialized heavy equipment, power generation and product support needs of thousands of mining, construction, demolition, paving, aggregate, waste management, agriculture, forestry, trucking, shipping, transit, public infrastructure and data centre customers.

BATTLEFIELD – THE CAT RENTAL STORE

From 72 stores in our Cat dealer territories, supported by a rapid delivery-to-site business system, Battlefield addresses the rental and purchase needs of contractors, specialty trades and do-it-yourself customers through its line-up of more than 250 brand-name machines, tools and supplies.

CIMCO REFRIGERATION

CIMCO is North America's largest supplier of industrial and recreational compression equipment and product support services for food, dairy, cold storage, beverage, pharmaceutical, automotive, chemical, petrochemical, mining and ice-rink applications.

AGWEST LTD.

From six facilities, AgWest serves the year-round equipment and product support needs of Manitoba's agriculture industry as the official dealer of ACGO and CLAAS, two trusted brands for crop and livestock applications.

TOROMONT MATERIAL HANDLING

From 14 locations, Toromont Material Handling rents, sells and services leading brand-name lift trucks, container handlers, industrial batteries, chargers and racking systems that ports and terminals, paper producers, automotive parts manufacturers, beverage companies, hardware retailers and other customers rely on to safely move, protect and store critical inventories.

JOBSITE EQUIPMENT

Across seven Ontario locations, Jobsite meets the specialized tool crib rental equipment needs of contractors working in industrial plants of all kinds, from automotive to pulp and paper.

SITECH MID-CANADA LTD.

SITECH specializes in providing machine control, site positioning, and asset management technologies as well as professional support services as a Trimble and Cat AccuGrade® dealer in Ontario, Manitoba, Newfoundland, Quebec and Atlantic Canada.

FELLOW SHAREHOLDERS,

We will remember 2017 as the year Toromont significantly increased the scale of its Caterpillar dealership, represented by Toromont Cat and Battlefield – The Cat Rental Store, by acquiring ownership of the businesses and net operating assets of the Hewitt Group of companies and expanding our employee base and service territory to include Quebec, the Maritimes and western Labrador.

Robert M. Ogilvie
Chairman of the Board

Scott J. Medhurst
President and CEO

This milestone acquisition, Toromont's largest, enhanced the size and diversity of our customer base, connected our operations in contiguous markets throughout Eastern and Central Canada and into the Far North, added scale in the form of 45 locations, and opened our doors to the talents of 2,100 additional employees.

We will also remember 2017 as a year of good financial results.

Toromont earned $2.20 per diluted share in 2017, 11% more than in 2016 despite $0.05 per share of incurred costs related to the Hewitt transaction.

Strong customer activity levels across most markets produced revenue growth for Toromont's specialized equipment and product support-fueled business. Revenue was $2.4 billion, 23% above last year (or 10% excluding acquired operations).

On higher earnings, return on opening shareholders' equity was 19.3%, in line with our long-term goal of an 18% after-tax return over a business cycle.

We are pleased that Toromont performed while simultaneously completing a large and complex acquisition. The ability to do both was a direct reflection of deep management bench strength developed over many years through decentralized decision-making. We are grateful to our empowered business-unit leaders and employees for focusing unwaveringly on operational excellence.

The aggressive deployment of the balance sheet for acquisition purposes was made possible by Toromont's strong financial

CIMCO, Battlefield and Toromont Cat teamed up to provide equipment to the Canada 150 ice rink.

A Toromont technician inspects a Cat C-175 generator, which provides mission critical power for mining, data centre and hospital applications.

Battlefield's hub and spoke distribution model, backed by technology, means quick delivery of equipment to customer sites.

foundation. We financed the $1.02 billion purchase price through cash on hand, the issuance of 2.25 million Toromont shares, a $500 million note offering, a $250 million bank term loan and our credit facilities, which were expanded and extended. Even with the balance sheet so deployed, we maintained financial flexibility and, during the year, continued to reinvest for growth and profit. While paying dividends of $59 million, Toromont allocated $140 million to its rental fleets, property and plants to improve competitiveness.

Business Unit Highlights

For **Toromont Cat**, 2017 was a breakthrough year on several levels. A clear highlight came in August when Toromont was named to Caterpillar's Circle of Excellence. Only 15 of Caterpillar's 171 dealers globally are chosen for this honour, based on performance across key metrics as well as their alignment with Caterpillar, our key business partner. Our service team also achieved coveted Gold status with Caterpillar. Global benchmarking and competition of this nature make us a better business.

Annual results were also noteworthy as the dealership experienced good activity levels generally in mining and construction sectors leading to more equipment sales, improved heavy rental fleet utilization, and strong product support revenues flowing from our large installed base. The roving mobile specialized service technicians assigned to Toromont's virtual "Store 90" provided the flexibility and expertise needed to meet demand for product support in remote territories without sacrificing capacity in Toromont Cat branches. Toromont's remanufacturing operations remained busy on significant demand for rebuilt hydraulic cylinders, engines, transmissions, final drives, torque converters and off-the-shelf exchange components. At Toromont Cat Power Systems, best-ever revenue performance reflected strong demand across prime and standby power markets. The addition of Gorman Rupp pumps to Toromont's product portfolio several years ago also continued to broaden opportunities as multiple units were placed with customers.

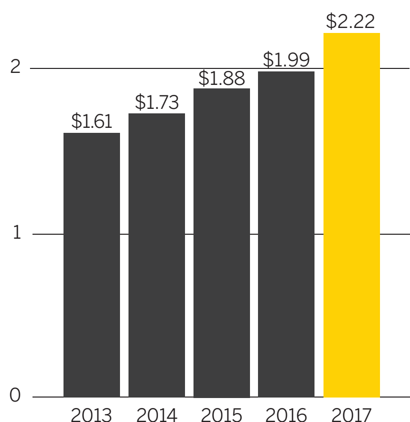
For **Battlefield**, which marked its 40th anniversary in 2017, a disciplined focus resulted in improved participation in customer opportunities. To address customer demand, after-hours shifts were added to improve rental product availability, while automated service processes eliminated wasted bench and administration time. Efficiency and technology advancements continue to be key elements of the growth model. On the latter, a smartphone mobile "app," introduced in late 2016, was well received by customers who now use it to optimize rental asset management. In 2018, more Android-based ordering tools will be added.

Jobsite kept busy in 2017 with several industrial projects. Jobsite's investment in a larger facility in Burlington, Ontario and a new location in Trenton, Ontario position it for ongoing growth.

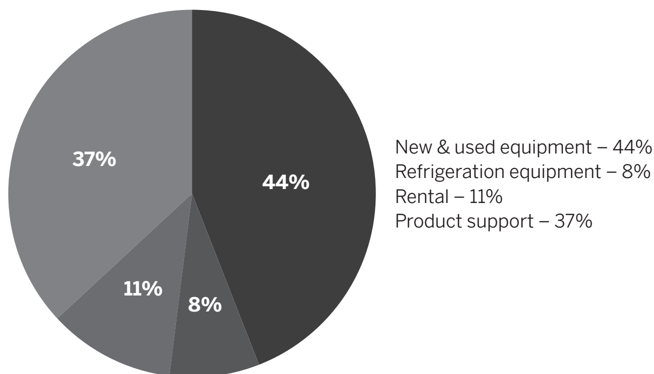
SITECH increased its professional consulting services to ensure customers receive full product support, as the adoption rate for software and hardware has accelerated.

AgWest completed the third year of its operational excellence journey by driving solid new machine sales as a dealer of AGCO and CLAAS equipment, and broadening its product offering to

EARNINGS PER SHARE (BASIC)



2017 REVENUES



include Trimble's Vantage portfolio of precision agronomy and water management technologies.

For **CIMCO**, 2017 was another year of innovation and growth across recreational and industrial markets for products and product support. CIMCO's engineering team, in concert with five OEM partners, introduced Smart Rink Connect – a portfolio of intelligent systems to monitor and report on the performance of compressors, chillers, condensers and dehumidifiers in real-time. Another highlight of CIMCO's year was supporting innovative customer projects, such as the 13,000 sq. ft. Bentway skating path under Toronto's Gardiner Expressway. It features the first CO_2/glycol refrigeration system in Ontario. Proving that we are stronger together, CIMCO teamed up with two other Toromont businesses to assist the Ottawa Senators and Capital Sports Management in the design-build of the Canada 150 Ice Rink on Parliament Hill. CIMCO provided a solution comprised of rental chillers and a back-up generator from Toromont Cat, and a quick-ice takeout system from Battlefield. The temporary rink was a main attraction in the nation's capital this past winter and will be reused at a local community after the event. Refrigeration packages for the Buffalo Sabres, Detroit Red Wings and the Las Vegas Golden Knights demonstrated the value of our long-term partnership with the NHL.

Safety

We are accountable for the safety of employees, a responsibility we accept as our most important. As our current safety journey has evolved, we experienced a noticeable improvement in total recordable injury frequency rate – down 37% in the past five years. This is a mathematical computation that measures how many recordable incidents occur per hours worked. Despite this progress, a tragic event at a customer location took the lives of three individuals in 2017, including a Toromont employee. We mourn their losses and are dedicated to ensuring the safety of our employees and all stakeholders.

Governance

John McCallum and David Galloway will not stand for re-election at this year's annual and special meeting of shareholders. While their retirements were well planned, we will certainly miss their experienced leadership and insightful counsel. Mr. McCallum joined our Board in 1985, served as Lead Director for several years and, until recently, chaired the Audit Committee. Mr. Galloway joined us in 2002 and, until recently, chaired the Nominating and Corporate Governance Committee. We sincerely thank John and David for helping to set the standard for governance excellence that we follow today and for playing formative roles in Toromont's success.

The Way Forward

Toromont is now a much larger business where it counts: in customer relationships across mining, construction and energy; geographic coverage; expanded product lines; product support; employee talent; and financial resources. In an industry that has shown a trend toward consolidation in recent years, our expanded scope and scale will become an increasingly important competitive advantage. With a substantial growth platform now in place, it is our job to leverage the collective strengths of our business so that we can transform this potential into continuing growth.

We began the integration program knowing the acquired and existing businesses were complementary, that we both shared

Marie-Josée Pagé, Engineering Supervisor and Jonathan Royal, Equipment Supervisor collaborate on a customer project at Toromont's operations in Pointe-Claire, Quebec.

Toromont supports infrastructure projects, including road paving, with specialized equipment, technology and service.

Cat dealer processes and that best-practice exchange across all operations could lead to improvements. To set the stage, we started with leadership appointments and embarked on the collaborative development of detailed strategic and business plans for 2018. Rebranding acquired operations under the Toromont Cat and Battlefield logos underscored our intention to provide a consistent customer experience across all territories.

Critical to the achievement of our objectives is embedding Toromont's decentralized management approach in acquired operations. Decentralization means granting management authority to our business unit leaders, matched by accountability for performance and alignment with Toromont's business model and five core strategies: expand markets, strengthen product support, broaden product offerings, invest in resources and maintain a strong financial foundation.

We are pleased and encouraged by the positive and enthusiastic response the business combination has received to date from all quarters of the Company and beyond. We are particularly grateful to Caterpillar for endorsing this transaction.

Looking ahead, our agenda is action-oriented and focuses on continuous improvement.

Coming Full Circle

The name Toromont was conceived in 1961 by private investors in Toronto and Montreal who came together to form a business that would leverage the opportunities resident in what, at that time, were Canada's two main centres of commerce. While much has changed over the past 57 years as Canada and Toromont have grown, we are proud to remain a Canadian company with deep roots in both cities anchoring our North American presence.

In 2018, Toromont will celebrate its 50th anniversary as a public company and we are proud of our track record of proven, steady growth. However, we know that success is never guaranteed; it is the product of hard work and good decisions made by a focused team. At Toromont, we are exceedingly fortunate to have such a team; from our 6,000 employees who expertly represent our brands to our experienced Board of Directors, corporate officers and business unit leaders who set the tone.

Together, we are out to prove once again that we are stronger for our customers, shareholders and business partners to whom we offer our utmost thanks for participating in a most memorable year.

Yours sincerely,

Scott J. Medhurst
President and CEO

Robert M. Ogilvie
Chairman of the Board

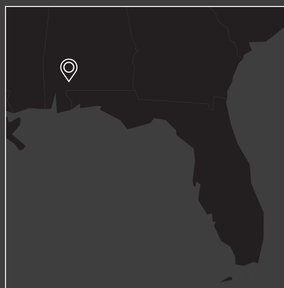
TOGETHER, WE COVER MORE GROUND

The recent expansion of our Toromont Cat and Battlefield territories created a contiguous market to address, stretching from western Manitoba to the eastern tip of Newfoundland and north to Ellesmere Island. Home to 72% of Canada's population, 68% of its economic output and a large share of its natural resources, it's an enormously diverse area. It's also a region Toromont is ideally situated to serve. By working together using our extensive branch network, fleets of service vehicles, and proven logistics and technology capabilities, we will cover more ground for customers and shareholders than ever before.

HEWITT ACQUISITION LOCATIONS

EQUIPMENT GROUP LOCATIONS

CIMCO LOCATIONS



2,100

Additional employees

45

Additional locations

146

Locations

6,000

Employees

$176m

Net income

Toromont earned $2.20 per diluted share in 2017, 11% more than in 2016 despite $0.05 per share of incurred costs related to the Hewitt transaction.

Consistent earnings performance is only one part of Toromont's responsibility as a company. To succeed, we must grow safely and with integrity, and we must lead in ways that support the development of employees, the progress of customers and business partners and the sustainability of the communities in which we work.

Safety
The safety of our 6,000 employees and all stakeholders who enter Toromont's 146 places of business is our most important obligation. As a result, we long ago established the appropriate structure and processes to ensure that all aspects of safety stewardship, including training and compliance, are prioritized across our operations and that all team members are given the tools and encouragement they need to keep themselves and their colleagues safe.

In 2017, employees participated in over 10,250 hours of formal, job-specific safety training needed to recognize, avoid and mitigate the risks inherent in their occupations and workspaces. While training provides important technical knowledge, and reinforces the safety culture at Toromont, it is not enough. Awareness, diligence and accountability form the most effective lines of defense against injury.

For many years, and again in 2017, we brought attention to safety through company-wide Safety Talks. These are short, informative daily reminders of how to avoid injury. Everyone at Toromont is more aware because of this initiative. To enhance participation, the corporate health and safety team shared ownership for Safety Talk content with Toromont Cat branches in 2017. Branch-led discussions brought focus to operations-specific hazards, while corporate Safety Talks provided an opportunity to spread awareness of policy changes.

Consistent with our decentralized approach, safety strategies continued to be customized and championed in all divisions. In 2017, two-day Leadership Safety Summits were introduced at selected Toromont Cat branches that enlisted the participation of branch leaders and supervisors with a focus on how to improve effectiveness. Branch employees, without the presence of their supervisors, were asked to offer their advice on how to enhance our safety-first culture. A visibility campaign with rotating posters promoting key safety messages placed in high-traffic areas was also introduced.

Some divisions build awareness through recognition programs. At Battlefield, where a core competency is the delivery of equipment to customer job sites, a quarterly and annual awards program for safe driving and clean inspections was introduced. At Toromont Cat, the annual Safety Bucket Award is given annually to the branch that best demonstrates the proper behaviours, which in 2017 was Timmins, Ontario.

Safety is also a consideration in equipment purchases. In 2017, Toromont Cat adopted a new metal-on-metal policy mandating the use of soft steel sledge hammers, which are safer and lighter. Ergonomically correct sit/stand desks were purchased in a pilot test to help employees avoid back and neck strains.

We encourage diligence through the mandated use of standardized pre-job-hazard assessments, which require technicians in all Toromont businesses to identify the specific risks inherent in every project (equipment installation and repair) and document the steps to be taken to mitigate those risks. In 2017, Battlefield's pre-job hazard assessment forms were digitized, making it easier and faster for service and road technicians to complete.

Accountability is engendered in several ways. Our Board of Directors is actively involved in safety stewardship. By reviewing safety results and practices at all regularly scheduled Board meetings, and demanding accountability for performance, the

A Growing Toromont Tribute to Canada 150

To celebrate Canada's 150th anniversary and show our support for environmental sustainability, Toromont employees set a goal to plant 150 maple trees at our facilities and in local parks. The idea blossomed and, at final count, over 350 trees were added from Manitoba through Newfoundland.

Directors establish the right tone from the top. At the management level, we tie variable compensation to safe operating performance and to management involvement in promoting safe behaviours. Managers and supervisors demonstrate their commitment by being visible and active.

We achieve the best results when all employees are accountable for their own safety and the safety of their colleagues. This is where Toromont's Five Cardinal Safety Rules policy plays its part. This policy reflects our serious commitment to the five behaviours that we deem of utmost importance: be fit for duty; assess all hazards prior to starting the job; control all hazardous energy; wear the right personal protective equipment; and, report all incidents. Failure to comply leads to disciplinary action up to employment termination.

As a result of employees' collective dedication to safety, Toromont's total recordable injury frequency rate has been cut by 37% over the past five years.

Despite the extensive efforts of our team at all levels, we were devastated by a tragic accident, which claimed the lives of three individuals in 2017, including a Toromont employee. This has deepened our commitment to ensuring the safety of our employees and all stakeholders.

Toromont is deeply engaged in safety, not simply because it is the right thing to do but because it is essential. Only when employees go home safely after their workdays does Toromont succeed as an employer, a supplier and as a responsible partner in communities throughout North America.

Employee Development

We recognize that employees who are committed to their work and to the Company are more customer focused, more productive, and more likely to build a long-term career at Toromont. For these reasons, we strive to create an empowered workforce where employees have opportunities to develop their skills, embrace new challenges and share in the rewards of superior financial performance.

One of the ways we achieve our workforce goals is through a decentralized approach to management. We believe that assigning authority and accountability deep into the organization creates a more meaningful work environment, strengthens talent development and ultimately leads to better decisions in support of our customer relationships.

To set the right foundation for empowerment, we invest 70% more in training per employee than the average company in North America based on benchmark data published by American Talent Development. We use these funds for programs that are custom-tailored to meet the specific needs of employees serving in our business units.

All Toromont Cat employees participate in setting personal annual training and development goals. We support goal attainment by documenting the key competencies that are necessary for each individual's success based on their role and making online and classroom training available to develop those competencies. Educational resources, catalogued in a Development Playbook, are bolstered by dozens of courses available through Caterpillar's dealer performance centre and from online educational service providers. In aggregate, Toromont Cat employees completed over 85,000 hours of technical training, over 2,500 hours of leadership and professional skills coaching and received over 2,700 hours of customer experience training in 2017 to elevate their capabilities and hone their skills.

Beyond core programs, we add specialized training. In 2017, as part of our collective commitment to better serving the natural resources industry, Toromont hosted a week-long, Caterpillar-delivered Mining Equipment Management workshop for Canadian Cat dealers. It improved our knowledge of machine

Toromont Cat Recognized as One of Canada's Best Employers

In February 2018, Forbes named Toromont Cat one of Canada's Best Employers using the findings of an independent survey of more than 8,000 Canadian workers. With a guarantee of anonymity, participants were asked to rate their willingness to recommend their own employers to friends and family and were prompted to evaluate other employers in their respective industries. Three hundred companies receive this distinction, including leaders such as Google Canada and Microsoft Canada.

applications, maintenance strategies, and customer needs. A Great Sales Leadership workshop was also held to elevate the capability of our sales leaders through the effective use of planning, coaching and communications strategies.

“To set the right foundation for empowerment, we invest 70% more in training per employee than the average company in North America”

In 2017, we created the Leaders@Work learning portal for release in 2018. The curriculum sets out a learning path for all new Toromont Cat leaders. As the name suggests, participants can continue to lead while learning because courses are available on demand and online. The majority of Toromont’s new leaders are promoted from within, making this type of training essential.

Toromont Cat’s two-year Management Trainee Program continued to provide an opportunity for skills development for high-potential future leaders recruited from Canadian universities. This program has proven to be instrumental in expanding the pool of emerging management talent over many years. In 2018, we intend to double the number of management trainees in the program to augment our leadership pipeline in support of future growth.

The long-running Toromont Cat apprenticeship program continues to feed a steady supply of technicians. At year end, 123 apprentices were moving toward completion of the technical training and hours of experience required to achieve journeyperson status. One of the ways we identify and attract future technicians and other talented people is through partnerships with 10 academic institutions that offer specialized skills training.

To bolster recruitment in an area of its business that is facing skills shortages, CIMCO developed, for 2018 launch, an apprenticeship program for product support technicians. During the year, CIMCO engineers were trained in newly acquired Revit software, which enables users to design a building’s refrigeration and mechanical structures in three dimensions. This investment shortens design time. Additionally, CIMCO reorganized its sales force and placed more emphasis on sales coaching with the goal of improving customer loyalty and growing revenue.

As part of the reward for all that they do, employees are given the option of participating in Toromont’s Employee Share Purchase plan as a complement to their regular compensation and benefits. A large percentage of our workforce participates in this plan, and as owners, our employees have an alignment of interest with our public shareholders.

These and other ongoing employee-development efforts have made Toromont a career destination of choice, with one of the lowest turnover rates in our industry.

Stronger Together Through Human Resources Best-Practice Exchange

The dealership acquisition in October 2017 provides an opportunity to strengthen the human resources strategies and practices of our larger corporation through a best-practice exchange. To capitalize on this opportunity, we are benchmarking safety, employee development, diversity and charitable-giving programs across the organization. We are pleased to note that the two predecessor organizations had shared values, including a belief in the pre-eminence of employee safety, training and awareness.

Management Trainee Program Among Best-in-Class

Separately, Toromont’s Management Trainee Program received special recognition in the “Best First Time Manager Development Program” and “Best Executive Coaching Program” categories at the 2018 LEAD (Leadership Excellence And Development) Awards in Salt Lake City, Utah. LEAD brings together human resources professionals globally for its annual conference and selects the top 15 companies in each judging category. Other top names included Rogers Communications and Cisco Systems.

Diversity and Inclusion

Toromont continuously explores new and innovative ways to enhance diversity hiring and maintain a workplace that is welcoming to all people who share our enthusiasm for hard work, uncompromising integrity and stakeholder value creation. By embracing diversity, we gain a richer range of experience that helps to make Toromont a better business.

Policy, training and recruitment are used to reinforce the development of an inclusive culture where leaders value and nurture differences and set the tone for respectful workplaces. To formalize our approach, Toromont Cat created a Diversity Council. It includes employees from under-represented groups who work together to spearhead specific action plans that will help shape our culture.

In recent years, we've developed partnerships with influential third parties that connect us to members of their communities for the purposes of hiring and promoting careers in our industry. This includes valued partnerships with the Moose Cree, the Cree people of Attawapiskat, Ontario and the Inuit and Innu of Canada's North. We also engaged with COSTI Immigrant Services and the Toronto District School Board. As a result of involvement with the Board's Enhanced Language Training Program, Toromont hosted a six-week placement in its EM Solutions Group for an internationally trained professional to gain relevant Canadian experience with the possibility of full-time employment.

As part of our Power of People recruitment program, we created Women@Toromont and Diversity in Action videos (available on Toromont's YouTube channel), the former featured as part of International Women's Day celebrations. We participated in Ryerson University's diversity networking event that allowed us to gain students' perspectives on inclusion. Ten Toromont women also participated in the Women in Construction dinner that is held annually to create awareness of exciting career opportunities available in our industry. We also walk the walk: 30% of our 2017 management trainees were women from mining and construction engineering fields.

Encouraging young people to enter the skilled trades is also important, and we do so, in part, through our long-running THINK BIG scholarship program. It continued in 2017 with an award to a Centennial College student who is now completing a level 1 apprenticeship in our Concord branch. Outreach to secondary-school students is another key tactic. In 2017, our Jobsite division contributed specialized tooling and Toromont Cat provided personal protective equipment to a 40-member high-school robotics team competing in the annual FIRST Robotics Canada showcase. We were delighted to note that young women made up almost half of the Wybern school team.

These and other initiatives are slowly but surely making Toromont a more diverse business and planting the seeds for a bigger and more diverse pool of future recruits.

Stronger Together for Our Communities

Toromont's official charity is the United Way, chosen 15 years ago because it serves those in need in communities throughout North America where we do business and offers employees the chance to collaborate as volunteers to raise funds and awareness. This alignment was reinforced with our dealership acquisition, as the acquired organization also aligned their primary charitable giving with United Way/Centraide. In 2017, Toromont employees contributed $465,000 to this important cause through grassroots events. Contributions to individual charities, such as Toronto's SickKids hospital rounded out our activities in support of building healthier communities.

Environment

Toromont has a relatively small environmental footprint, notwithstanding our broader scope of operations. This does not negate our responsibility to care for the environment. We

Toromont Atlantic Shows Caring Community Spirit

Fifteen Toromont Cat Atlantic and Battlefield employees marked the 100th anniversary of the Halifax Explosion by teaming up in a United Way-led Day of Action in December in support of YWCA Halifax, North Woodside Community Centre, and Excalibur ADHD Association, providing another example of how we are stronger together for our communities.

demonstrate our duty by committing to meet all regulations, maintaining environmental management processes that control and minimize our impact and seeking to continuously improve performance through regular assessments and ongoing investments.

Our fleet of vehicles is the single largest contributor to greenhouse gas (GHG) emissions in our business. Accordingly, we maintain anti-idling policies and employ GPS monitoring of our service vehicles to track and seek to eliminate excessive idling. Fuel efficiency is also a key factor in the selection of service vehicles.

Our network of facilities is the second largest source of GHG. Some branches are older and when they are renewed, we add energy-saving elements, such as insulated and sealed doors and fresh-air intake systems, which result in lower energy consumption. Continued replacement of old compressed-air units with high-efficiency systems leads to incremental improvement.

Our other main source of GHG is engine testing. To reduce this impact, we operate a Power Systems' testing facility in Brampton, Ontario, that incorporates a selective catalytic reduction emission abatement system. It minimizes the release of nitrogen oxide and sulfur oxide during generator testing by up to 95%.

Toromont uses water in its operations. To reduce consumption, we invest in waste-water treatment and water recycling for equipment cleaning. In 2017, Battlefield added wash-water treatment systems to stores in London, Ontario and St. John's, Newfoundland. Toromont Cat added similar systems in Hamilton, Timmins and Concord branches in Ontario. These additions expand the network of stores and branches that have made these important investments.

By remanufacturing and rebuilding customers' used machines and components, Toromont also contributes to the aptly named circular economy. Every year, remanufacturing operations extend the life of heavy equipment and, in the process, divert tonnes of end-of-life material from landfill.

Since 2012, Toromont Cat has reduced waste by recycling absorbent cloths used in cleaning and repairing machines. Since then, 48,170 kilograms of waste were diverted from landfill and 33,257 litres of liquid including oil were recovered. In addition to in-house conservation, Toromont and its business partners produce products that help customers achieve their sustainability objectives. At CIMCO, ECO CHILL® technologies, which collect and recycle energy used in the refrigeration process, have cumulatively offset 740,000 CO_2-equivalent tonnes (the same amount produced by 164,000 cars) compared to traditional refrigeration and saved 13 billion cubic feet of natural gas since they were introduced to the market.

In 2017, CIMCO introduced Adiabatic coolers. Designed for rural rinks that rely on well water, these systems reduce water consumption by up to 80% compared to conventional evaporative condensers without compromising energy efficiency and without the use of chemical treatments or pumps.

To remain an industry leader, Toromont works to be a better company for employees, customers, shareholders and the communities where we do business. While we are pleased with the efforts and progress made in 2017, there is always room to improve when it comes to sustainability in all its forms.

CORPORATE GOVERNANCE

A strong and effective corporate governance program continues to be a principal priority for Toromont. The Nominating and Corporate Governance Committee, on behalf of the Board, establishes and monitors the governance program and its effectiveness.

The Company's corporate governance structure and procedures are founded on our Code of Business Conduct that applies to all Directors, officers and employees. Our governance program includes the activities of the Board of Directors, who are elected by and are accountable to the shareholders, and the activities of management, who are appointed by the Board and are charged with the day-to-day management of the Company.

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

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

Board of Directors

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

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

For more information on the Board of Directors, please refer to the Management Information Circular dated February 28, 2018, prepared in connection with the Corporation's 2018 Annual and Special Meeting of Shareholders available on our website at **toromont.com**.

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

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

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

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

Board of Directors

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

EXECUTIVE OPERATING TEAM

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

Randall B. Casson
President, Toromont Construction Division / Battlefield – The Cat Rental Store

Mr. Casson joined Toromont in 1977. He was appointed Vice President and General Manager, Northern Region in 1997 and became President of Battlefield in 2001. He is a graduate of Toromont's Management Trainee Program. He was appointed to his current position in 2012.

Jennifer J. Cochrane
Vice President, Finance

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

Michael P. Cuddy
Vice President and Chief Information Officer

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

Paul R. Jewer
Executive Vice President and Chief Financial Officer

Mr. Jewer joined Toromont in 2005 as Chief Financial Officer. Prior to joining Toromont, he served for five years as Chief Financial Officer for another Canadian publicly listed company. He is a Fellow of CPA Ontario (FCPA, FCA), a member of CPA Newfoundland and Labrador and holds the ICD.D designation as a member of the Institute of Corporate Directors. Mr. Jewer is also Past Chair and a Director of the Board of The Country Day School, an independent school in King City, Ontario.

David A. Malinauskas
President, CIMCO Refrigeration

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

Scott J. Medhurst
President and Chief Executive Officer

Mr. Medhurst joined Toromont in 1988. He was appointed President of Toromont Cat in 2004 and became President and CEO of Toromont Industries Ltd. in 2012. Mr. Medhurst is a graduate of Toromont's Management Trainee Program. He is currently an active member of the World Presidents' Organization and Caterpillar Global Mining Council.

David C. Wetherald
Vice President, Human Resources and Legal

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

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2017, compared to the preceding year. This MD&A should be read in conjunction with the attached audited consolidated financial statements and related notes for the year ended December 31, 2017.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to February 22, 2018.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2017 Annual Report and 2018 Annual Information Form. These filings are available on SEDAR at sedar.com and on the Company's website at toromont.com.

Advisory

Information in this MD&A that is not a historical fact is "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify statements containing forward-looking information. Forward-looking information in this MD&A reflect current estimates, beliefs, and assumptions, which are based on Toromont's perception of historical trends, current conditions and expected future developments, as well as other factors management believes are appropriate in the circumstances. Toromont's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. Toromont can give no assurance that such estimates, beliefs and assumptions will prove to be correct. This MD&A also contains forward-looking statements about the recently acquired businesses of Hewitt.

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn$/US$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities of the acquired businesses and changes to environmental regulation; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; and any requirement of Toromont to make contributions to the registered funded defined benefit pension plans, post-employment benefits plan or the multi-employer pension plan obligations in which it participates in and acquired from Hewitt thereunder in excess of those currently contemplated. Risks and uncertainties related to the acquisition of the Hewitt operations could also cause the actual results to differ materially from the estimates beliefs and assumptions expressed or implied in the forward-looking statements, including but not limited to: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material undiscovered liabilities in the Hewitt business; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition; and risks related to integration of Hewitt operations with those of Toromont including cost of integration and ability to achieve the expected benefits. Readers are cautioned that the foregoing list of factors is not exhaustive.

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

Readers are cautioned not to place undue reliance on statements containing forward-looking information, which reflect Toromont's expectations only as of the date of this MD&A, and not to use such information for anything other than their intended purpose. Toromont disclaims any obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Corporate Development

Acquisition of the Hewitt Group of Companies ("Hewitt")

On October 27, 2017, Toromont completed the acquisition of the businesses and net operating assets of Hewitt.

Hewitt was the authorized Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Québec and most of Ontario, in addition to the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States, from Maine to Virginia. Additional distribution rights were also acquired in this transaction.

This important transaction delivers a substantial growth opportunity, and strengthens the Company's expertise and operations in the mining, construction, power systems, product support and expanded product lines.

For further information on the accounting for the acquisition, refer to note 3 of the notes to the consolidated financial statements.

Corporate Profile and Business Segmentation

As at December 31, 2017, Toromont employed approximately 6,000 people in 146 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

The Equipment Group includes Toromont CAT, one of the world's larger Caterpillar dealerships, Battlefield – The CAT Rental Store, an industry-leading rental operation, Sitech, providing Trimble technology products and services, AgWest, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers' products, in addition to the recently acquired businesses, which are in varying stages of integration. Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service. Pursuant to the acquisition, the Company is now the exclusive Caterpillar dealer for a contiguous geographical territory in Canada that covers Manitoba, Ontario, Quebec, Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island and most of Nunavut. Additionally, the Company is now the MaK engine dealer for the Eastern seaboard of the United States, from Maine to Virginia.

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

Primary Objective and Major Strategies

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

Expand Markets

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

Strengthen Product Support

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

Broaden Product Offerings

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

Invest in Resources

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

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

Maintain a Strong Financial Position

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

Consolidated Annual Operating Results

($ thousands, except per share amounts)	2017	2016	$ change	% change
Revenues	$ 2,350,162	$ 1,912,040	$ 438,122	23%
Cost of goods sold	1,794,213	1,443,978	350,235	24%
Gross profit [(1)]	555,949	468,062	87,887	19%
Selling and administrative expenses	306,367	256,438	49,929	19%
Gain on sale of internally-developed software	—	(4,939)	4,939	nm
Operating income [(1)]	249,582	216,563	33,019	15%
Interest expense	12,277	7,242	5,035	70%
Interest and investment income	(4,659)	(4,006)	(653)	16%
Income before income taxes	241,964	213,327	28,637	13%
Income taxes	65,994	57,579	8,415	15%
Net earnings	175,970	155,748	20,222	13%
Basic earnings per share	$ 2.22	$ 1.99	$ 0.23	12%
Key ratios:				
Gross profit margin [(1)]	23.7%	24.5%		
Selling and administrative expenses as a % of revenues	13.0%	13.4%		
Operating income margin [(1)]	10.6%	11.3%		
Income taxes as a % of income before income taxes	27.3%	27.0%		
Return on capital employed [(1)]	21.5%	24.5%		
Return on equity [(1)]	19.3%	20.0%		

(1) Defined in the sections titled "Description of Additional GAAP and Non-GAAP Measures."

The Company delivered another solid year, both in terms of incremental volumes and profit generated by the acquired businesses, and on solid organic growth generated by the legacy Equipment Group businesses and CIMCO.

For the remainder of this document, unless otherwise indicated, specific comments on operating results will refer to the legacy Toromont businesses only. Where applicable, the acquired businesses will be referred to collectively as Toromont Quebec/Maritimes ("Toromont QM").

Toromont QM generated revenues of $242.6 million for the two months since acquisition. Excluding this, revenues grew 10% or $195.5 million to $2.1 billion. The Equipment Group reported a 10% increase on strong equipment sales and rentals along with continued product support growth. CIMCO also reported strong growth of 13% on record package sales and product support revenues.

Gross profit margin was lower by 80 basis points ("bps"), half of which related to lower average profit margins in Toromont QM. In the Equipment Group, challenging market conditions continued to exert downward pressures on equipment margins. At CIMCO, higher package margins served to offset lower product support margins. Across both Groups, a higher proportion of equipment revenues to higher margin product support revenues dampened overall margins.

Selling and administrative expenses increased $49.9 million or 19% reflecting the incremental expenses at Toromont QM for the two months ($38.0 million), higher compensation costs (up $5.6 million), acquisition-related expenses ($6.0 million) and higher mark-to-market adjustments on Deferred Share Units ("DSUs") (up $0.9 million). Most other expense categories were lower as the Company remains focused on expense management. Excluding Toromont QM and acquisition-related expenses, selling and administrative expenses as a percentage of revenues were 100 bps lower (12.4% versus 13.4%).

A gain of $4.9 million on the sale of internally-developed software was recorded in 2016.

Interest expense increased as a result of the debenture offerings and amendments to the credit facility to partially fund the acquisition.

Interest income increased on higher investment income resulting from higher average cash balances held in anticipation of the acquisition, partially offset by lower interest from conversions of equipment on rent with a purchase option ("RPO"). RPO interest income varies based on the length of the rental period to conversion.

The effective income tax rate for 2017 was 27.3% compared to 27.0% in 2016.

Net earnings in 2017 were $176.0 million, up 13% from 2016 while basic earnings per share ("EPS") increased $0.23 or 12% to $2.22.

Excluding all impact of the acquisition of Toromont QM together with the software gain in 2016, net earnings increased 16% while EPS increased 15%.

Comprehensive income in 2017 was $168.2 million (2016 - $154.2 million), comprised mainly of net earnings and other comprehensive loss resulting from an actuarial loss on defined benefit pension and other post-employment benefit plans and an unfavorable change in the fair value of cash flow hedges.

Business Segment Annual Operating Results

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

Equipment Group

($ thousands)	2017	2016	$ change	% change
Equipment sales and rentals				
New	$ 784,915	$ 524,931	$ 259,984	50%
Used	227,293	239,446	(12,153)	(5%)
Rentals	261,641	221,009	40,632	18%
Total equipment sales and rentals	1,273,849	985,386	288,463	29%
Power generation	11,270	12,242	(972)	(8%)
Product support	746,832	634,018	112,814	18%
Total revenues	$ 2,031,951	$ 1,631,646	$ 400,305	25%
Operating income	$ 219,814	$ 196,124	$ 23,690	12%
Capital expenditures				
Rental	$ 102,343	$ 98,668	$ 3,675	4%
Other	35,888	22,938	12,950	56%
Total	$ 138,231	$ 121,606	$ 16,625	14%
Key ratios:				
Product support revenues as a % of total revenues	36.8%	38.9%		
Operating income margin	10.8%	12.0%		
Group total revenues as a % of consolidated revenues	86.5%	85.3%		
Return on capital employed	19.3%	21.8%		

The Equipment Group results reflect good year-over-year growth for the legacy businesses and two months of operations at Toromont QM.

New equipment sales in the legacy businesses rebounded from a soft year in 2016 to record levels. Conversely, used equipment sales returned to normal levels following a record year in 2016. There is interplay between new and used equipment sales reflecting market conditions, equipment availability and relative pricing. On a combined basis, equipment sales increased $110.4 million or 14% at the legacy businesses as described below. Equipment sales at Toromont QM were $137.4 million.

Sales into legacy mining markets increased 74% versus last year. Mining activity within our territories remained active, providing opportunities for sales to support mine expansion, equipment replacement and new mine development. Toromont's proven track record in this sector again led to several key wins during the year. Power systems reported strong year-over-year growth of 51%. Demand for alternative sources of energy as a result of escalating electricity costs in Ontario, in addition to the construction of large data centers in our territories fuelled growth. Agriculture equipment sales increased 14%. Construction market sales contracted slightly (2%) as all regions except Manitoba and the Arctic reported declines.

Rental revenues at the legacy businesses increased $22.0 million or 10% versus last year. Heavy equipment rentals were up 17% on improved utilization and a larger fleet. Higher activity levels in Newfoundland and Manitoba were partially offset by a decline in Ontario which faced softer market conditions. Light equipment rentals were up 9% with all regions reporting growth. Power rentals increased 33%, driven by strong demand for uninterrupted power supply/generators, pumps and temperature control units. Focus remains on growing and diversifying

the power fleet offering. Rental revenues from RPO (equipment on rent with a purchase option) were up 1%. The RPO fleet at December 31, 2017, was $57.2 million versus $61.0 million at the end of 2016. Rental revenues at Toromont QM were $18.6 million with an RPO fleet at December 31, 2017 of $14.4 million.

Power generation revenues from Toromont owned-and-managed plants decreased $1.0 million or 8% over last year. The decrease was mainly attributable to lower electricity and thermal revenues at the Sudbury Hospital plant.

Product support revenues at the legacy businesses increased $26.2 million or 4% reflecting strong rebuild activity. Parts revenues were up 4% with good growth in most market segments. Service revenues were up 6% reflecting strong mining activity which served to offset decreases in other segments. As previously reported, Caterpillar's discontinuation of the on-highway truck product line a few years ago has led to a gradual reduction of product support opportunities in this space. Product support revenues at Toromont QM were $86.6 million.

Gross margins decreased 130 bps versus last year. Lower average profitability at Toromont QM reduced overall margins by 50 bps. Other than this, lower equipment margins (down 70 bps) and an unfavorable sales mix of product support revenues to total revenues (down 40 bps) were partially offset by improved product support margins (up 30 bps). A very tight pricing environment exacerbated by reduced rental conversions and a lower mix of higher margin used equipment sales exerted downward pressures on equipment margins for most of the year.

Selling and administrative expenses increased $6.9 million or 3% compared to last year, excluding Toromont QM. Higher compensation costs, including the mark-to-market on DSUs (up $2.5 million) and acquisition-related expenses ($6.0 million) were partially offset by a gain on sale of certain assets ($2.6 million). As a percentage of revenues, expenses were 80 bps lower than 2016 (12.3% vs. 13.1%) after excluding Toromont QM and acquisition-related expenses.

Operating income increased $23.7 million or 12%. Excluding all impact from the Toromont QM acquisition in 2017, together with the previously described gain on sale of internally-developed software recorded in 2016, underlying operating income increased $24.0 million or 13% and was 30 bps higher as a percentage of revenues (12.0% versus 11.7% last year).

Capital expenditures in the legacy Equipment Group were $8.2 million (7%) higher year-over-year, while $8.4 million was invested at Toromont QM. Replacement and expansion of the rental fleet, net of dispositions, accounted for $69.5 million of total investment in 2017. Other capital expenditures include $15.8 million for new and expanded facilities to meet current and future growth requirements, $12.5 million for service and delivery vehicles, $4.6 million for machinery and equipment and $1.9 million for upgrades and enhancements to the information technology infrastructure.

Bookings and Backlogs

($ millions)	2017	2016	$ change	% change
Bookings – year ended December 31	$ 1,013	$ 814	$ 199	24%
Backlogs – as at December 31	$ 327	$ 147	$ 180	122%

Bookings included $86.3 million for the two months of operations at Toromont QM. Excluding these, bookings increased 14% principally due to higher mining (up 45%), power systems (up 37%), construction (up 5%) and agriculture orders (up 6%).

Backlogs increased to $327.0 million, including $128.3 million at Toromont QM. At December 31, 2017, the majority of the backlog related to construction (37%), power systems (33%), mining (20%) and agriculture (8%), most of which is expected to be delivered in 2018. Backlogs can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

CIMCO

($ thousands)	2017	2016	$ change	% change
Package sales	$ 189,212	$ 161,614	$ 27,598	17%
Product support	128,999	118,780	10,219	9%
Total revenues	$ 318,211	$ 280,394	$ 37,817	13%
Operating income	$ 29,768	$ 20,439	$ 9,329	46%
Capital expenditures	$ 1,429	$ 1,888	$ (459)	(24%)
Key ratios:				
Product support revenues as a % of total revenues	40.5%	42.4%		
Operating income margin	9.4%	7.3%		
Group total revenues as a % of consolidated revenues	13.5%	14.7%		
Return on capital employed	96.4%	73.8%		

CIMCO delivered another record year on continued growth in Canada and the US. Translation of US operations did not have a significant impact on trends.

Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition. This introduces a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers). In Canada, package revenues were up $20.2 million or 17%, reflecting strong sales into recreational markets (up 95%), partially offset by softer industrial activity (down 5%). Good growth was reported in Ontario and Atlantic Canada, while Quebec was lower following record activity levels in 2016. In the US, package revenues increased $7.4 million or 18% on higher sales into recreational markets (up 27%).

Product support revenues increased $10.2 million or 9% versus last year, reflecting growth in Canada (up 11%) while US revenues were relatively unchanged. The increased installed base provides a solid growth platform in both Canada and the US.

Gross margins increased 180 bps on higher package margins, partially offset by lower product support margins and an unfavorable sales mix of product support revenues to total revenues. Improved package margins reflect improved execution and lower warranty costs. Product support revenues were 40.5% as a percentage of total revenues in 2017 compared to 42.4% in 2016.

Selling and administrative expenses increased $4.8 million or 11% compared to last year. Higher compensation costs (up $4.1 million) on annual salary increases, additional headcount to support growth and increased profit sharing accrual on the higher earnings accounted for the majority of the increase. As a percentage of revenues, expenses were 30 bps lower than last year (15.0% vs. 15.3%).

Operating income increased 46% to $29.8 million largely reflecting the higher revenues and gross profit margins together with a lower expense ratio. As a percentage of revenues, operating income increased 210 bps to 9.4%.

Capital expenditures were down 24% to $1.4 million with the majority of expenditures in 2017 related to additional service vehicles ($0.6 million), information technology infrastructure enhancements and upgrades ($0.3 million) and machinery and equipment ($0.2 million).

Bookings and Backlogs

($ millions)	2017	2016	$ change	% change
Bookings – year ended December 31	$ 233	$ 178	$ 55	31%
Backlogs – as at December 31	$ 134	$ 99	$ 35	35%

Bookings of $233.0 million surpassed the all-time high set last year. Industrial bookings were up 41% with good growth in Canada (up 39%) and the US (up 50%). Recreational bookings increased 15% with strong Canadian activity levels (up 50%) offsetting lower US levels (down 28%).

Backlogs increased $35.0 million or 35% to $134.0 million. Industrial backlogs were up 68% with terrific growth in Canada (up 84%), partially offset by a slight decline in the US (down 4%). Recreational backlogs were relatively unchanged year-over-year as higher Canadian activity levels (up 3%) were offset by lower US levels (down 4%). The record backlog levels for this time of year provide a solid base entering 2018 with substantially all expected to be realized as revenue during 2018.

Consolidated Financial Condition

The Company has maintained a strong financial position for many years and continues to do so, even after raising financing for the substantial acquisition completed this year. At December 31, 2017, the ratio of net debt to total capitalization was 40%.

Non-Cash Working Capital

The Company's investment in non-cash working capital was $619.8 million at December 31, 2017. The major components, along with the changes from December 31, 2016, are identified in the following table.

($ thousands)	2017	2016	$ change	% change
Accounts receivable	$ 528,748	$ 260,691	$ 268,057	103%
Inventories	780,024	435,757	344,267	79%
Other current assets	8,386	5,236	3,150	60%
Accounts payable and accrued liabilities	(521,666)	(231,746)	(289,920)	125%
Provisions	(17,436)	(16,094)	(1,342)	8%
Income taxes payable	(204)	(1,262)	1,058	nm
Derivative financial instruments	(5,260)	1,197	(6,457)	nm
Dividends payable	(15,655)	(14,110)	(1,545)	11%
Deferred revenues	(137,129)	(51,211)	(85,918)	168%
Total non-cash working capital	$ 619,808	$ 388,458	$ 231,350	60%

Accounts receivable increased $268.1 million of which $182.9 million related to Toromont QM and $42.7 million related to amounts owing to the Company as part of the acquisition of Hewitt (refer to note 4 of the notes of the consolidated financial statements). For the legacy businesses, accounts receivable were up $42.5 million or 16% compared to 2016 largely reflecting the 18% increase in revenues in the quarter. Equipment Group accounts receivable increased $19.9 million or 10% while CIMCO accounts receivable increased $22.6 million or 44%.

Inventories increased $344.3 million of which $278.9 million related to Toromont QM. For the legacy businesses, inventories were up $65.4 million or 15% with increases in both Groups.

- Equipment Group inventories were $63.4 million or 15% higher than this time last year with increases in equipment (up $50.4 million or 17%), parts (up $7.0 million or 7%) and service work-in-process (up $6.0 million or 37%). The higher equipment inventory levels were mainly a result of certain inventories held in advance of customer-specified delivery dates later in 2018, while the higher service work-in-process reflects busy shops.
- CIMCO inventories were $2.0 million (11%) higher than this time last year, reflecting strong work-in-process levels.

The increase in other current assets mainly relates to prepaid expenses at Toromont QM.

Accounts payable and accrued liabilities increased $289.9 million of which $166.4 million related to Toromont QM. For the legacy businesses, the increase of $123.5 million or 53% versus this time last year mainly reflects:

- The timing of payments and terms related to inventory purchases and other supplies;
- Higher DSU liability primarily attributable to the higher average share price, partly due to the acquisition announcement; and
- Higher accrual for performance incentive bonuses on the higher income.

Income taxes payable reflects the difference between tax installments and current tax expense.

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net loss of $5.3 million as at December 31, 2017. This is not expected to affect net income as the unrealized losses will offset future gains on the related hedged items.

Higher dividends payable year-over-year reflect the higher dividend rate and additional dividends on the shares issued to partially fund the acquisition. In 2017, the quarterly dividend rate was increased from $0.18 per share to $0.19 per share, a 6% increase. As part of the acquisition, 2,249,478 common shares were issued (refer to note 3 of the notes to the consolidated financial statements).

Deferred revenues represent billings to customers in excess of revenue recognized. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements as well as on progress billings on long-term construction contracts. Excluding $50.6 million of deferred revenues at Toromont QM, Equipment Group deferred revenues were up 62% versus last year due to increased progress billings for equipment deliveries in the future and progress billings relative to work completed on long-term customer service agreements ("CSAs"). At CIMCO, deferred revenues arise on progress billings in advance of revenue

recognition and were up 85% versus last year, reflecting the strong backlog levels.

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate, using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2017 for balances existing at the beginning of the year and goodwill and intangibles acquired as part of the acquisition. See note 8 of the notes to the consolidated financial statements.

Employee Share Ownership

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

The Company maintains an Executive Stock Option Plan for its senior employees. Non-employee directors have not received grants under this plan since 2013. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. Stock options granted in 2013 and after have a 10-year term while those granted prior to 2013 have a seven-year term. At December 31, 2017, 2.6 million options to purchase common shares were outstanding, of which 1.1 million were exercisable.

The Company offers an Employee Share Purchase Plan whereby employees can purchase shares by way of payroll deductions. At December 31, 2017, employees of Toromont QM were not yet eligible to participate in this plan. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or $1,000 per annum. Company contributions vest to the employee immediately. Company contributions amounting to $2.0 million in 2017 (2016 – $1.8 million) were charged to selling and administrative expense when paid. Approximately 52% (2016 – 50%) of eligible employees participate in this plan. The Plan is administered by an independent third party.

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

As at December 31, 2017, 426,279 DSUs were outstanding with a total value of $23.4 million (2016 – 407,731 units at a value of $17.3 million). The liability for DSUs is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

Employee Future Benefits

Defined Contribution Plans

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to their retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents. At December 31, 2017, acquired employees at Toromont QM were not part of these plans.

Defined Benefit Plans

Pre-acquisition

The Company sponsors defined benefit pension plans (Powell Plan, Executive Plan and Toromont Plan) for approximately 91 qualifying employees. The Powell and Toromont Plans are administered by a separate Fund that is legally separated from the Company and as described in note 19 of the notes to the consolidated financial statements.

The funded status of these plans changed by $1.0 million (a decrease in the accrued pension liability) as at December 31, 2017.

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were $18.4 million as at December 31, 2017. As there are no plan assets, there is no impact on pension expense and contributions.

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

Acquisition of Hewitt Plans

The Company acquired defined benefit plans which provides pension and other post-retirement benefits covering approximately 1,800 qualifying employees. The Plans are administered by a separate Fund that is legally separated from the Company and as

described in note 19 of the notes to the consolidated financial statements.

The funded status of these plans was a deficit of $99.8 million as at December 31, 2017.

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

Off-Balance Sheet Arrangements

Other than the Company's operating leases, 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 ("NCIB")

Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the TSX was renewed in 2017. This issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2018. 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.

During the year ended December 31, 2017, no shares were purchased and cancelled. During the year ended December 31, 2016, the Company purchased and cancelled 89,244 common shares for $2.6 million (average cost of $28.84 per share, including transaction costs).

Outstanding Share Data

As at the date of this MD&A, the Company had 80,951,779 common shares and 2,626,076 share options outstanding.

Dividends

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

During 2017, the Company declared dividends of $0.76 per common share, $0.19 per quarter (2016 - $0.72 per common share or $0.18 per quarter).

Considering the Company's solid financial position and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to 23 cents per share effective with the dividend payable on April 2, 2018. This represents a 21% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 29th consecutive year it has announced an increase.

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.

To partially fund the aforementioned acquisition, the Company expanded and extended its committed unsecured credit facility and issued senior unsecured debentures (refer to note 3 of the notes to the consolidated financial statements for further information).

Effective October 27, 2017, the credit facility provides a term facility of $250.0 million and a revolving facility of $500.0 million, maturing in October 2022. Debt under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. The facility includes covenants, restrictions and events of default typical for credit facilities of this nature.

As at December 31, 2017, $250.0 million was drawn on the facility (2016 - $nil). Letters of credit utilized an additional $26.7 million of the facility (2016 - $21.7 million).

Effective October 27, 2017, the Company also issued senior unsecured debentures in an aggregate principal amount of $500.0 million (the "Debentures"). The Debentures mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually. The Debentures are unsecured, unsubordinated and rank pari passu with other unsecured, unsubordinated debt.

Cash at December 31, 2017, was $160.5 million, compared to $188.7 million at December 31, 2016.

The Company expects that continued cash flows from combined operations in 2018, cash 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:

($ thousands)	2017	2016
Cash, beginning of year	$ 188,735	$ 66,680
Cash, provided by (used in):		
Operating activities		
Operations	258,322	215,795
Change in non-cash working capital and other	70,010	34,744
Net rental fleet additions	(66,822)	(61,726)
	261,510	188,813
Investing activities	(979,978)	(18,575)
Financing activities	690,492	(48,112)
Effect of foreign exchange on cash balances	(252)	(71)
(Decrease)/increase in cash in the year	(28,228)	122,055
Cash, end of year	$ 160,507	$ 188,735

Cash Flows From Operating Activities

Operating activities provided significantly higher cash flow in 2017 compared to 2016, mainly due to increased cash generation from non-cash working capital and higher net earnings, partially offset by increased investments in net rental fleet additions.

The significant cash inflow from non-cash working capital was mainly due to higher accounts payable and accrued liabilities, deferred revenues and provision for income taxes, partially offset by higher accounts receivable and inventories.

Net rental fleet additions (purchases less proceeds of dispositions) included $5.8 million spent on growing Toromont QM's fleet. The Company continues to invest heavily in this very important rental segment.

The components and changes in non-cash 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 $980.0 million in 2017 compared to $18.6 million in 2016, largely reflecting $945.8 million used to partially fund the acquisition (refer to note 3 of the notes to the consolidated financial statements for further information).

Investments in property, plant and equipment accounted for the remainder of the cash used and included $2.7 million on facility upgrades and machinery and equipment at the acquired locations. For the legacy businesses, additions included:

- $14.0 million for land and buildings for new and expanded branches (2016 - $6.3 million);
- $13.2 million for service vehicles (2016 - $12.2 million);
- $4.1 million for machinery and equipment (2016 - $3.1 million); and
- $2.1 million for upgrades and enhancements to information technology infrastructure (2016 - $1.7 million).

The Company also recorded proceeds on the disposal of internally-developed software of $4.9 million in 2016.

Cash Flows From Financing Activities

Financing activities provided $690.5 million versus $48.1 million used in 2016, largely due to debt, net of financing costs, of $744.4 million incurred to partially fund the acquisition (refer to note 3 of the notes to the consolidated financial statements for further information).

The Company paid dividends of $58.9 million or $0.75 per share in 2017 (2016 - $55.4 million or $0.71 per share).

The Company received $6.8 million on the exercise of stock options in 2017 (2016 - $11.6 million).

There were no normal course purchases and cancellations of common shares in 2017 compared to 89,244 common shares purchased and cancelled in 2016 for $2.6 million (average cost of $28.84, including transaction costs).

Outlook

The expansion of our territories to include Quebec and Atlantic Canada is expected to be transformative to the long-term performance of Toromont. It provides a substantial growth platform and strengthens our Company by providing a large contiguous operating platform extending across all of Eastern and Central Canada, and into the far North. Effective execution will be required to realize on this significant potential which will allow for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems. Focus is currently on safety of our people, customer deliverables, business integration, and transition to generate favorable long-term returns.

The Equipment Group's parts and service business continues to provide momentum driven by the larger installed base of equipment working in the field, providing a measure of stability in a variable business environment. The Company continues to hire technicians in anticipation of an increase in demand, including the opportunity for increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment, expanding the agricultural business and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth.

The long-term outlook for infrastructure spending continues to be positive across most territories.

Increased activity in the mining space has translated to increased bookings and sales this year and we are cautiously optimistic that there is the opportunity for continued growth. In the meantime, production continues at existing mine sites, generating product support opportunities and incremental equipment to support the operations and expansion. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

CIMCO's strong bookings activity and current backlog levels bode well for future prospects. Increasing product support levels is also a positive signal for future trends. CIMCO has a wide product offering using natural refrigerants including innovative CO2 solutions, which are expected to contribute to growth. In addition, CIMCO is focused on its growth strategy in the US, which represents a significant market opportunity.

The diversity of the markets served, expanding product offering and services, financial strength and disciplined operating culture position the Company for continued growth in the long term.

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 long-term financing facilities.

Payments due by period ($ thousands)	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt							
Principal	$ 1,941	$ 1,022	$ —	$ —	$ 250,000	$ 650,000	$ 902,963
Interest	30,825	30,825	30,825	30,825	29,748	111,342	264,390
Accounts payable and accrued liabilities	537,321	—	—	—	—	—	537,321
Operating leases	10,725	9,097	5,083	3,488	2,171	1,642	32,206
	$ 580,812	$ 40,944	$ 35,908	$ 34,313	$ 281,919	$ 762,984	$ 1,736,880

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	2017	2016	2015	2014	2013
Expanding markets and broadening product offerings					
Revenue growth	22.9%	3.5%	11.2%	4.2%	5.7%
Revenue per employee (thousands)	$ 487	$ 533	$ 537	$ 501	$ 491
Strengthening product support					
Product support revenue growth	16.3%	7.6%	24.2%	12.4%	2.5%
Investing in our resources					
Investment in information technology (millions)	$ 15.0	$ 15.2	$ 14.0	$ 13.4	$ 12.0
Return on capital employed (1)	21.5%	24.5%	24.3%	26.0%	26.5%
Strong financial position					
Non-cash working capital (millions) (1)	$ 620	$ 388	$ 421	$ 335	$ 282
Net debt to total capitalization (1)	40%	-4%	10%	6%	10%
Book value (shareholders' equity) per share	$ 13.89	$ 11.29	$ 9.95	$ 8.65	$ 7.50
Build shareholder value					
Basic earnings per share growth	11.6%	6.3%	8.5%	7.6%	2.9%
Dividends per share growth	5.6%	5.9%	13.3%	15.4%	8.3%
Return on equity (1)	19.3%	20.0%	21.6%	23.0%	25.7%

(1) Defined in the sections titled "Additional GAAP Measures and Non-GAAP Measures."

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has made and continues to make significant progress. The addition of Toromont QM is expected to further bolster these key performance measures in the near and long-term.

Included in the table above are two months of operations at Toromont QM which increased the income statement metrics presented and conversely diluted the balance sheet metrics. The Company estimates that most metrics improved versus last year for the legacy businesses.

In relation to the legacy businesses, since 2013, revenues increased at an average annual rate of 7.0%. Revenue per employee in 2017 was $561. Product support revenue growth has averaged 10.3% annually. This growth has mainly been a result of:

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

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

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

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2013 there have been fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar – 2013 - US$0.97, 2014 - US$0.91, 2015 – US$0.78, 2016 – US$0.75 and 2017 – US$0.77.

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

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization was 40%.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 29 years. The regular quarterly dividend rate was increased 6% from $0.18 to $0.19 per share in 2017 and a further 21% to $0.23 per share in 2018, evidencing our commitment to delivering exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31 ($ thousands, except per share amounts)	2017	2016	$ change	% change
Revenues	$ 822,766	$ 492,223	$ 330,543	67%
Cost of goods sold	630,652	362,866	267,786	74%
Gross profit	192,114	129,357	62,757	49%
Selling and administrative expenses	105,533	66,469	39,064	59%
Operating income	86,581	62,888	23,693	38%
Interest expense	6,788	1,853	4,935	266%
Interest and investment income	(1,637)	(1,377)	(260)	19%
Income before income taxes	81,430	62,412	19,018	30%
Income taxes	22,294	16,883	5,411	32%
Net earnings	$ 59,136	$ 45,529	$ 13,607	30%
Basic earnings per share	$ 0.73	$ 0.58	$ 0.15	26%
Key ratios:				
Gross profit margin	23.3%	26.3%		
Selling and administrative expenses as a % of revenues	12.8%	13.5%		
Operating income margin	10.5%	12.8%		
Income taxes as a % of income before income taxes	27.4%	27.1%		

Even excluding the impact of Toromont QM described earlier, the Company delivered record fourth quarter results on solid performance in both Groups.

Toromont QM contributed $242.6 million to revenues in the fourth quarter. At the legacy businesses, revenues were $87.9 million or 18% higher with strong growth in both the Equipment Group and CIMCO.

Gross profit margin decreased 300 bps to 23.3% in the quarter. Compressed equipment margins in the Equipment Group, the impact of lower average Toromont QM margins (140 bps) and an unfavorable sales mix of product support revenues to total revenues in both Groups accounted for the majority of the decrease.

Selling and administrative expenses increased $39.1 million or 59% largely reflecting the incremental expenses at Toromont QM for the two months ($38.0 million) and acquisition-related expenses ($3.4 million), partially offset by a lower mark-to-market on DSUs (down $2.3 million). Excluding Toromont QM and acquisition-related expenses, selling and administrative expenses as a percentage of revenues were down 250 bps to 11.0%.

Interest expense increased as a result of the debenture offerings and amendments to the credit facility to partially fund the acquisition.

Interest income was up from last year on increased investment income from higher average cash balances and higher interest from conversions of equipment on rent with a purchase option.

The effective income tax rate for the fourth quarter of 2017 was 27.4% compared to 27.1% in the same period last year and largely reflects the mix of income by tax jurisdiction.

Net earnings in the quarter were up 30% to $59.1 million while basic EPS was up 26% to $0.73.

Excluding all impact of the acquisition of Toromont QM, net earnings increased 25% while EPS increased 21%.

Business Segment Fourth Quarter Operating Results

Equipment Group

Three months ended December 31 ($ thousands)	2017	2016	$ change	% change
Equipment sales and rentals				
New	$ 308,528	$ 133,218	$ 175,310	132%
Used	69,219	66,270	2,949	4%
Rentals	90,039	64,294	25,745	40%
Total equipment sales and rentals	467,786	263,782	204,004	77%
Power generation	2,462	3,137	(675)	(22%)
Product support	255,763	151,874	103,889	68%
Total revenues	$ 726,011	$ 418,793	$ 307,218	73%
Operating income	$ 75,434	$ 56,651	$ 18,783	33%
Bookings ($ millions)	$ 328	$ 224	$ 104	46%
Key ratios:				
Product support revenues as a % of total revenues	35.2%	36.3%		
Operating income margin	10.4%	13.5%		
Group total revenues as a % of consolidated revenues	88.2%	85.1%		

The Equipment Group reported strong results even after excluding the impact of the two months of operations for Toromont QM.

Combined new and used equipment sales at Toromont QM were $137.4 million for the two months of operations in the fourth quarter. For the legacy businesses, total equipment sales increased $40.9 million or 20% versus last year. Deliveries into most market segments were up, led by mining (up 64%), construction (up 7%), agriculture (up 120%) and power systems (up 29%).

Rental revenues at Toromont QM were $18.6 million. For the legacy businesses, all rental segments reported increases, with light equipment up 10%, heavy equipment up 12%, power rentals up 60% and equipment on rent with a purchase option up 2%. Milder temperatures extended the construction season and led to improved utilization of a larger more rebalanced fleet offering. Power rentals benefitted from activity in support of the Puerto Rico hurricane relief efforts and demand in the cryptocurrency space.

Product support revenues at Toromont QM were $86.6 million. For the legacy businesses, product support revenues increased $17.3 million or 11% on higher parts (up 13%) and service revenues (up 8%). Activity levels were good across most segments, notably in mining and construction.

Gross profit margins decreased 340 bps in the quarter versus last year, half of which related to the impact of lower average margins for Toromont QM. For the legacy businesses, lower equipment margins and an unfavorable sales mix of product support revenues to total revenues were partially offset by slightly higher product support and rental margins.

Selling and administrative expenses increased by $39.2 million mainly due to the incremental expenses at Toromont QM, acquisition-related expenses and higher compensation costs partially offset by lower mark-to-market on DSUs and a favorable change in the allowance for doubtful accounts resulting from the relative aging profile of accounts receivables. As a percentage of revenues, expenses decreased 210 bps as a percentage of revenues (11.2% vs. 13.3%) after excluding Toromont QM and acquisition-related expenses.

Operating income was up 33% to $75.4 million in the quarter. Excluding all impact from the Toromont QM acquisition, operating income increased 20% and was 60 bps higher as a percentage of revenues (14.1% versus 13.5% last year).

Excluding Toromont QM, bookings in the fourth quarter of 2017 of $86.3 million, the legacy businesses grew bookings by $17.7 million or 8%, with increases in construction, power systems and agriculture orders, partially offset by lower mining orders.

CIMCO

Three months ended December 31 ($ thousands)	2017	2016	$ change	% change
Package sales	$ 64,641	$ 43,152	$ 21,489	50%
Product support	32,114	30,278	1,836	6%
Total revenues	$ 96,755	$ 73,430	$ 23,325	32%
Operating income	$ 11,147	$ 6,237	$ 4,910	79%
Bookings ($ millions)	$ 26	$ 41	$ (15)	(37%)
Key ratios:				
Product support revenues as a % of total revenues	33.2%	41.2%		
Operating income margin	11.5%	8.5%		
Group total revenues as a % of consolidated revenues	11.8%	14.9%		

CIMCO delivered record results in the fourth quarter. Translation of US operations did not have a significant impact on results.

Package revenues increased 50% on higher activity in Canada (up 32%) and the US (up 132%). In Canada, with the exception of Atlantic Canada, all regions reported growth, led by Ontario and Quebec. Recreational revenues more than tripled versus last year and were partially offset by softer industrial revenues (down 10%). In the US, both market segments increased considerably with industrial revenues more than tripling and recreational revenues nearly doubling last year's reported amounts for the quarter.

Product support revenues increased 6% versus last year on higher Canadian activity levels as the US remained relatively unchanged.

Gross margins decreased 70 bps principally due to the impact of an unfavorable sales mix of product support revenues to total revenues, partially offset by higher package and product support margins. Product support revenues as a percentage of total revenues were 33.2% compared to 41.2% in the fourth quarter of 2016.

Selling and administrative expenses were down $0.2 million or 1% and were 380 bps lower as a percentage of revenues (11.1% versus 14.9% last year). Higher compensation costs were more than offset by decreases across most other expense categories.

Operating income increased 79% to $11.1 million and was up 300 bps to 11.5% as a percentage of revenues, mainly on the higher revenues and lower relative expense ratio, partially offset by the lower margins.

Bookings in the quarter of $26.0 million were down 37% versus last year with lower US bookings accounting for approximately 90% of the decrease. Record US bookings in the fourth quarter last year were not repeated.

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 2017 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Revenues				
Equipment Group	$ 359,763	$ 458,158	$ 488,020	$ 726,011
CIMCO	52,545	72,772	96,138	96,755
Total revenues	$ 412,308	$ 530,930	$ 584,158	$ 822,766
Net earnings	$ 27,024	$ 40,455	$ 49,355	$ 59,136
Per share information:				
Basic earnings per share	$ 0.34	$ 0.52	$ 0.63	$ 0.73
Diluted earnings per share	$ 0.34	$ 0.51	$ 0.62	$ 0.72
Dividends paid per share	$ 0.18	$ 0.19	$ 0.19	$ 0.19
Weighted average common shares outstanding – basic (in thousands)	78,434	78,474	78,522	80,916

($ thousands, except per share amounts)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues				
Equipment Group	$ 337,847	$ 453,145	$ 421,862	$ 418,793
CIMCO	50,072	68,979	87,912	73,430
Total revenues	$ 387,919	$ 522,124	$ 509,774	$ 492,223
Net earnings	$ 24,170	$ 38,406	$ 47,643	$ 45,529
Per share information:				
Basic earnings per share	$ 0.31	$ 0.49	$ 0.61	$ 0.58
Diluted earnings per share	$ 0.31	$ 0.49	$ 0.60	$ 0.58
Dividends paid per share	$ 0.17	$ 0.18	$ 0.18	$ 0.18
Weighted average common shares outstanding – basic (in thousands)	77,898	78,056	78,211	78,344

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

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules. The Company does not expect this trend to be impacted by the acquisition; however, a better understanding of the customers, industries and economic climate of the new territories is needed before arriving at a conclusion.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives and significant industrial projects.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year-end.

Selected Annual Information

($ thousands, except per share amounts)	2017	2016	2015
Revenues	$ 2,350,162	$ 1,912,040	$ 1,846,723
Net earnings	$ 175,970	$ 155,748	$ 145,666
Earnings per share			
Basic	$ 2.22	$ 1.99	$ 1.88
Diluted	$ 2.20	$ 1.98	$ 1.86
Dividends declared per share	$ 0.76	$ 0.72	$ 0.68
Total assets	$ 2,857,909	$ 1,394,212	$ 1,276,077
Total long-term debt	$ 895,747	$ 152,528	$ 153,769
Weighted average common shares outstanding – basic (in millions)	79.9	78.7	77.7

Revenues grew 23% in 2017 inclusive of the two months of operations at Toromont QM which generated revenues of $242.6 million. For the legacy businesses, revenues grew 10% on good sales execution in the Equipment Group and CIMCO, underpinned by continued product support growth. In 2016, revenues grew 4% mainly through strong performance at CIMCO, as the Equipment Group grew modestly on product support growth which served to offset the impact of challenging equipment market conditions.

Net earnings increased 13% in 2017, reflecting higher revenues and a relatively lower expense ratio, in addition to the incremental impact of the acquisition. Lower margins, especially in the Equipment Group, diluted earnings. Selling and administrative expenses included acquisition-related expenses and the impact of higher DSU mark-to-market expenses on the higher average share price following the announcement of the acquisition. Higher interest expense resulting from increased debt levels to partially fund the acquisition, also dampened net earnings. In 2016, net earnings increased 7% on higher revenues and slightly improved gross margins, partially offset by a higher selling and administrative expense ratio. A one-time pre-tax gain of $4.9 million on the sale of internally-developed software recorded in 2016 also lifted earnings.

Earnings per share ("EPS") have generally followed earnings with basic EPS increasing 12% in 2017 and 6% in 2016.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate was increased in 2015 by 13% to $0.17 per share, in 2016 by 6% to $0.18 per share, in 2017 by 6% to $0.19 per share and in 2018 by 21% to $0.23 per share. The Company has paid dividends every year since 1968.

Total assets more than doubled in 2017 (up 105%) reflecting the acquisition and growth in the Company's operations and supports the higher revenues and earnings. Total assets increased 9% in 2016.

Long-term debt increased in 2017 to partially fund the acquisition. In 2016, long-term debt had decreased relative to 2015 mainly due to principal repayments on the senior debenture due in March 2019, net of the amortization of debt issuance costs. Net debt to total capitalization at December 31, 2017, was 40% compared to -4% at December 31, 2016 (cash exceeded total debt).

Risks and Risk Management

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

Acquisition and Integration of the Hewitt operations

Risks and uncertainties exist related to the acquisition of the Hewitt operations including but not limited to: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material undiscovered liabilities in the Hewitt business; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition.

The anticipated benefits and synergies from acquiring Hewitt will depend in part on whether the operations, systems, management and cultures of Hewitt and Toromont can be integrated in an efficient and effective manner. While certain operational and strategic decisions with respect to the combined organization have been made, other decisions remain and some may not have been identified. These decisions and the integration of Hewitt with the existing Toromont businesses will present significant challenges to management. 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 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.

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

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

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days' notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for 25 years and management expects this will continue going forward.

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

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

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including 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 Company relies on the skills and availability of trained and experienced tradesmen and technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which make attracting and retaining skilled individuals more difficult.

Credit Risk

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

When the Company has cash on hand it may be invested in short-term instruments, such as money-market deposits. The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.

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

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

Warranties and Maintenance Contracts

Warranties are provided for most of the equipment sold, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the

equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

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

Foreign Exchange

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

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged US$0.77 in 2017 compared to US$0.75 in 2016, a 2% increase. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency transactions when they occur. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Interest Rate

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

At December 31, 2017, the Company's debt portfolio included $653.0 million in fixed-rate debt (72% of total debt outstanding) and a $750.0 million floating-rate credit facility, of which $250 million was drawn (28% of total debt outstanding).

Fixed-rate debt amortizes or matures between 2018 and 2027. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Further, the fair value of the Company's fixed-rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing.

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

The Company does not intend to settle or refinance any existing fixed-rate debt before maturity.

Financing Arrangements

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

Environmental Regulation

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

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

Significant Accounting Policies and Estimates

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

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

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

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

Acquisitions

In a business combination, the Company may acquire certain assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment to determine the fair values assigned to the tangible and intangible assets (i.e., backlog, client relationships, and distribution networks) acquired and the liabilities assumed on the acquisition. Determining fair value involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed. After the measurement period, a revision of fair value may impact the Company's net income.

Property, Plant and Equipment

Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

Impairment of Non-financial Assets

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the cash generating units ("CGUs") to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in note 8 of the notes to the consolidated financial statements.

Income Taxes

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

Revenue Recognition

Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

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

Inventories

Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

Allowance for Doubtful Accounts

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. By their nature, these are estimates based on management's judgment and historical experience.

Share-based Compensation

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

Post-Employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

Changes in Accounting Policies

Effective January 1, 2017, the Company adopted the amendments to IAS 7 – Statement of Cash Flows. The amendments introduce new requirements to disclose changes in liabilities arising from financing activities, included changes arising from cash flows and non-cash flows. The required disclosures have been added to note 21 of the notes to the consolidated financial statements.

Pending Accounting Changes

A number of new standards and amendments to standards have been issued but were not yet effective for the financial year ending December 31, 2017, and accordingly, have not been applied in preparing these consolidated financial statements. The effect of future accounting pronouncements and effective dates are discussed in note 1 of the notes to the consolidated financial statements.

Controls and Procedures

Disclosure Controls and Procedures

Management, under the supervision of the President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, and have designed such disclosure controls and procedures, or have caused it to be designed under their supervision, to provide reasonable assurance that material information with respect to Toromont is made known to them.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures. The CEO and CFO have limited the scope of their design and evaluation of the Company's disclosure controls and procedures to exclude the disclosure controls and procedures of Hewitt's operations, which were acquired on October 27, 2017. Hewitt's contribution to the overall consolidated financial statements of Toromont for the year ended December 31, 2017 was approximately 10% of consolidated revenues and 4% of consolidated net income. The design of Hewitt's disclosure controls and procedures will be completed for the fourth quarter of fiscal 2018.

Based on that evaluation, which excluded Hewitt's disclosure controls and procedures, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2017.

Internal Control over Financial Reporting

Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, and have designed such internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2017, using the criteria set forth in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

The CEO and CFO have limited the scope of their design and evaluation of the Company's internal control over financial reporting to exclude the internal control over financial reporting of the Hewitt operations, which were acquired on October 27, 2017.

Based on that evaluation, which excluded Hewitt's internal control over financial reporting, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2017.

There have been no changes in the design of the Company's internal control over financial reporting during 2017 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely

basis. Also, a projection of the evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. 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.

Additional GAAP Measures

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to the understanding of the Company's results.

Gross Profit
Gross Profit is defined as total revenues less cost of goods sold.

Operating Income
Operating income is defined as net earnings before interest expense, interest and investment income and income taxes and is used by management to assess and evaluate the financial performance of its operating segments. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments do not correspond to income tax jurisdictions, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments.

	Three months ended December 31		**Years ended December 31**	
($ thousands)	**2017**	**2016**	**2017**	**2016**
Net earnings	$ 59,136	$ 45,529	$ 175,970	$ 155,748
plus: Interest expense	6,788	1,853	12,277	7,242
less: Interest and investment income	(1,637)	(1,377)	(4,659)	(4,006)
plus: Income taxes	22,294	16,883	65,994	57,579
Operating income	$ 86,581	$ 62,888	$ 249,582	$ 216,563

Net Debt to Total Capitalization and Equity

Net debt to total capitalization and equity are calculated as net debt divided by total capitalization and shareholders' equity, respectively, as defined below, and are used by management as measures of the Company's financial leverage.

Net debt is calculated as long-term debt plus current portion of long-term debt less cash. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

($ thousands)	2017	2016
Long-term debt	$ 893,806	$ 150,717
Current portion of long-term debt	1,941	1,811
less: Cash	160,507	188,735
Net debt	735,240	(36,207)
Shareholders' equity	1,124,727	885,432
Total capitalization	$ 1,859,967	$ 849,225
Net debt to total capitalization	40%	-4%
Net debt to equity	0.65:1	-0.04:1

For the year ended December 31, 2016, cash exceeded total debt and effectively resulted in negative net debt to total capitalization and equity ratios, as illustrated above.

Non-GAAP Measures

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

The non-GAAP measures used by management do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with IFRS.

Working Capital

Working capital is defined as total current assets less total current liabilities. Management views working capital as a measure for assessing overall liquidity.

($ thousands)	2017	2016
Total current assets	$ 1,477,665	$ 891,616
less: Total current liabilities	699,291	316,234
Working capital	$ 778,374	$ 575,382

Non-Cash Working Capital

Non-cash working capital is defined as total current assets (excluding cash) less total current liabilities (excluding current portion of long-term debt).

($ thousands)	2017	2016
Total current assets	$ 1,477,665	$ 891,616
less: Cash	160,507	188,735
	1,317,158	702,881
Total current liabilities	699,291	316,234
less: Current portion of long-term debt	1,941	1,811
	697,350	314,423
Non-cash working capital	$ 619,808	$ 388,458

Market Capitalization and Total Enterprise Value

Market capitalization represents the total market value of the Company's equity. It is calculated by multiplying the market price of the Company's share by the total outstanding shares.

Total enterprise value represents the total value of the Company and is often used as a more comprehensive alternative to market capitalization. It is calculated by adding net debt (defined above) to market capitalization.

The calculations are as follows:

($ thousands, except for share price)	2017	2016
Outstanding common shares, December 31	80,950	78,398
x Ending share price, December 31	$ 55.10	$ 42.35
Market capitalization	$ 4,460,335	$ 3,320,175
Long-term debt	$ 893,806	$ 150,717
Current portion of long-term debt	1,941	1,811
less: Cash	160,507	188,735
Net debt	$ 735,240	$ (36,207)
Total enterprise value	$ 5,195,575	$ 3,283,968

Key Performance Indicators ("KPIs")

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

Gross Profit Margin

This measure is defined as gross profit (defined above) divided by total revenues.

Operating Income Margin

This measure is defined as operating income (defined above) divided by total revenues.

Order Bookings and Backlogs

The Company's order bookings represent equipment unit orders that management believes are firm. Backlogs are defined as the retail value of equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

Return on Capital Employed ("ROCE")

ROCE 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 or total capitalization.

($ thousands)	2017	2016
Net earnings	$ 175,970	$ 155,748
plus: Interest expense	12,277	7,242
less: Interest and investment income	(4,659)	(4,006)
plus: Interest income – rental conversions (see note 14)	2,308	2,811
plus: Income taxes	65,994	57,579
	$ 251,890	$ 219,374
Average capital employed	$ 1,171,449	$ 894,765
Return on capital employed	21.5%	24.5%

Return on Equity ("ROE")

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

($ thousands)	2017	2016
Net earnings	$ 175,970	$ 155,748
Opening shareholders' equity (net of adjustments)	$ 909,715	$ 778,896
Return on equity	19.3%	20.0%

Management's Report

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

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

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

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

Scott J. Medhurst
President and
Chief Executive Officer

Paul R. Jewer
Executive Vice President and
Chief Financial Officer

February 22, 2018
Toronto, Canada

Independent Auditors' Report

To the Shareholders of Toromont Industries Ltd.

We have audited the accompanying consolidated financial statements of Toromont Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated income statements, and consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

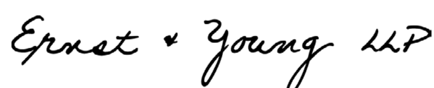
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toromont Industries Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.



Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 22, 2018
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 ($ thousands)	Note	2017	2016
Assets			
Current assets			
Cash		$ 160,507	$ 188,735
Accounts receivable	4	528,748	260,691
Inventories	5	780,024	435,757
Derivative financial instruments	12	—	1,197
Other current assets		8,386	5,236
Total current assets		1,477,665	891,616
Property, plant and equipment	6	413,178	181,827
Rental equipment	6	469,342	272,277
Other assets	7	17,206	15,381
Deferred tax assets	15	411	5,610
Goodwill and intangible assets	8	480,107	27,501
Total assets		$ 2,857,909	$ 1,394,212
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 537,321	$ 245,856
Provisions	9	17,436	16,094
Deferred revenues		137,129	51,211
Current portion of long-term debt	10	1,941	1,811
Derivative financial instruments	12	5,260	—
Income taxes payable		204	1,262
Total current liabilities		699,291	316,234
Deferred revenues		18,750	19,259
Long-term debt	10	893,806	150,717
Net post-employment obligations	19	121,335	22,570
Shareholders' equity			
Share capital	11	444,427	315,078
Contributed surplus		10,290	8,166
Retained earnings		669,813	559,252
Accumulated other comprehensive income		197	2,936
Shareholders' equity		1,124,727	885,432
Total liabilities and shareholders' equity		$ 2,857,909	$ 1,394,212

Commitments - see note 22
See accompanying notes

Approved by the Board:

Robert M. Ogilvie
Director

Wayne S. Hill
Director

Consolidated Income Statements

Years ended December 31 ($ thousands, except share amounts)	Note	2017	2016
Revenues	23	$ 2,350,162	$ 1,912,040
Cost of goods sold	5,6	1,794,213	1,443,978
Gross profit		555,949	468,062
Selling and administrative expenses		306,367	256,438
Gain on sale of internally-developed software		—	(4,939)
Operating income		249,582	216,563
Interest expense	14	12,277	7,242
Interest and investment income	14	(4,659)	(4,006)
Income before income taxes		241,964	213,327
Income taxes	15	65,994	57,579
Net earnings		$ 175,970	$ 155,748
Earnings per share			
Basic	16	$ 2.22	$ 1.99
Diluted	16	$ 2.20	$ 1.98
Weighted average number of shares outstanding			
Basic		79,091,706	78,127,400
Diluted		79,907,470	78,674,297

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2017	2016
Net earnings	$ 175,970	$ 155,748
Other comprehensive (loss) income, net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	(716)	(277)
Unrealized loss on derivatives designated as cash flow hedges	(5,946)	(948)
Income tax recovery	1,548	248
Unrealized loss on cash flow hedges, net of income taxes	(4,398)	(700)
Realized loss on derivatives designated as cash flow hedges	3,211	644
Income tax recovery	(836)	(169)
Realized loss on cash flow hedges, net of income taxes	2,375	475
Items that will not be reclassified subsequently to net earnings:		
Actuarial losses	(6,765)	(1,465)
Income tax recovery	1,758	389
Actuarial losses, net of income taxes	(5,007)	(1,076)
Other comprehensive loss	(7,746)	(1,578)
Total comprehensive income	$ 168,224	$ 154,170

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	Note	2017	2016
Operating activities			
Net earnings		$ 175,970	$ 155,748
Items not requiring cash:			
Depreciation and amortization	6,8,10	89,705	76,726
Stock-based compensation	17	3,502	3,261
Post-employment benefit expense		448	10
Deferred income taxes		10,287	2,960
Gain on sale of rental equipment and property, plant and equipment		(21,590)	(17,971)
Gain on sale of internally-developed software		—	(4,939)
		258,322	215,795
Net change in non-cash working capital and other	21	70,010	34,744
Additions to rental equipment		(102,343)	(98,668)
Proceeds on disposal of rental equipment		35,521	36,942
Cash provided by operating activities		261,510	188,813
Investing activities			
Additions to property, plant and equipment		(37,317)	(24,826)
Proceeds on disposal of property, plant and equipment		3,185	1,521
Proceeds on disposal of internally-developed software		—	4,939
Increase in other assets	3	(42,950)	(209)
Business acquisition	3	(902,896)	—
Cash used in investing activities		(979,978)	(18,575)
Financing activities			
Issue of senior debentures	10	500,000	—
Issue of term bank debt	10	250,000	—
Repayment of senior debentures		(1,811)	(1,690)
Debt issuance costs	10	(5,597)	—
Dividends	11	(58,858)	(55,422)
Cash received on exercise of stock options		6,758	11,574
Shares purchased for cancellation	11	—	(2,574)
Cash provided by (used in) financing activities		690,492	(48,112)
Effect of currency translation on cash balances		(252)	(71)
(Decrease) increase in cash		(28,228)	122,055
Cash, at beginning of year		188,735	66,680
Cash, at end of year		$ 160,507	$ 188,735

Supplemental cash flow information (note 21)

See accompanying notes

Consolidated Statements of Changes in Equity

	Share Capital				Accumulated other comprehensive income			
($ thousands)	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2016	77,905,821	$ 301,413	$ 7,236	$ 463,194	$ 2,904	$ 534	$ 3,438	$ 775,281
Net earnings	—	—	—	155,748	—	—	—	155,748
Other comprehensive loss	—	—	—	(1,076)	(277)	(225)	(502)	(1,578)
Total comprehensive income	—	—	—	154,672	(277)	(225)	(502)	154,170
Exercise of stock options	581,879	14,009	—	—	—	—	—	14,009
Stock-based compensation expense	—	—	3,261	—	—	—	—	3,261
Stock options exercised	—	—	(2,331)	—	—	—	—	(2,331)
Effect of stock compensation plans	581,879	14,009	930	—	—	—	—	14,939
Shares purchased for cancellation	(89,244)	(344)	—	(2,334)	—	—	—	(2,678)
Dividends	—	—	—	(56,280)	—	—	—	(56,280)
At December 31, 2016	78,398,456	$ 315,078	$ 8,166	$ 559,252	$ 2,627	$ 309	$ 2,936	$ 885,432
Net earnings	—	—	—	175,970	—	—	—	175,970
Other comprehensive loss	—	—	—	(5,007)	(716)	(2,023)	(2,739)	(7,746)
Total comprehensive income	—	—	—	170,963	(716)	(2,023)	(2,739)	168,224
Exercise of stock options	301,885	8,136	—	—	—	—	—	8,136
Stock-based compensation expense	—	—	3,502	—	—	—	—	3,502
Stock options exercised	—	—	(1,378)	—	—	—	—	(1,378)
Effect of stock compensation plans	301,885	8,136	2,124	—	—	—	—	10,260
Business acquisition	2,249,478	121,213	—	—	—	—	—	121,213
Dividends	—	—	—	(60,402)	—	—	—	(60,402)
At December 31, 2017	80,949,819	$ 444,427	$ 10,290	$ 669,813	$ 1,911	$(1,714)	$ 197	$1,124,727

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2017
($ thousands except where otherwise indicated)

1. Description of Business and Significant Accounting Policies

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

Toromont operates through two reportable segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations and an expanding agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs approximately 6,000 people in 146 locations.

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

These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on February 22, 2018.

Basis of Preparation
These consolidated financial statements were prepared on a historical cost basis, except for derivative instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except where otherwise indicated. Certain balances in the comparative numbers in the consolidated income statements and statements of financial position have been reclassified from statements previously presented to conform to the presentation of the 2017 consolidated financial statements.

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

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

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

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

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

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

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal

of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

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

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

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

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

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

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

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

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

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

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

Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives range from 20 to 30 years for buildings, 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. Land is not depreciated.

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

Rental Equipment
Rental equipment is recorded at cost, net of accumulated depreciation and any impairment losses. Cost is determined on a specific-item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis, which ranges from 1 to 10 years.

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired as part of a business acquisition are initially recorded at the acquisition date fair value. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, as applicable.

Intangible assets with a finite useful life are amortized over their estimated useful lives and are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

Amortization is recorded as follows:

- Customer Relationships – 8 years, straight-line
- ERP System – 5 years, straight-line
- Customer Order Backlog – specific basis
- Patents and Licenses – remaining life, straight-line

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or when indicators of impairment are present. Distribution networks are considered to have an indefinite life based on the terms of the distribution rights contracts. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

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

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

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

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

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

loans and receivables and are recorded at amortized cost using the effective interest rate method, less provisions for doubtful accounts.

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

Financial Liabilities

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

- Accounts payable and accrued liabilities are classified as financial liabilities and as such are measured at amortized cost. The Company has not designated any financial liability at fair value through profit or loss.
- Long-term debt is classified as loans and borrowings and as such is subsequently measured at amortized cost using the effective interest rate method. Discounts, premiums and fees on acquisition are taken into account in determining amortized cost.

Derivatives

Derivative assets and liabilities are classified as held for trading and are measured at fair value with changes in fair value being included in profit or loss, unless they are designated as hedging instruments, in which case changes in fair value are included in other comprehensive income.

Fair Value of Financial Instruments

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

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

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

Impairment of Non-financial Assets

The Company assesses whether goodwill or intangible assets with indefinite lives may be impaired annually during the fourth quarter, or when indicators of impairment are present. For the purpose of impairment testing, goodwill arising from acquisitions is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes, and is not higher than an operating segment. Intangible assets with indefinite lives that do not have separate identifiable cash flows are also allocated to CGUs or a group of CGUs. Any potential impairment of goodwill or intangible assets is identified by comparing the recoverable amount of a CGU or a group of CGUs to its carrying value. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statements.

The Company bases its impairment calculation on detailed three-year budgets and extrapolated long-term growth rate for periods beyond the third year.

For non-financial assets other than goodwill and intangible assets with indefinite

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

Revenue Recognition

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

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

Foreign Currency Translation

The functional and presentation currency of the Company is the Canadian dollar. Each of the Company's subsidiaries determines its functional currency.

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

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

Share-based Payment Transactions

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

For equity-settled plans, expense is based on the fair value of the awards granted determined using the Black-Scholes option pricing model and the best estimate of the number of equity instruments that will ultimately vest. For awards with graded vesting, each tranche is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of the grant and is recognized as stock-based compensation expense, net of forfeiture estimate, over its respective vesting period.

For cash-settled plans, the expense is determined based on the fair value of the liability incurred at each award date. The fair value of the liability is measured by

applying quoted market prices. Changes in fair value are recognized in the consolidated income statements in selling and administrative expenses.

Employee Future Benefits
For defined contribution plans, the pension expense recorded in the consolidated income statements is the amount of the contributions the Company is required to pay in accordance with the terms of the plans.

For defined benefit pension plans and other post-employment benefit plans, the expense is determined separately for each plan using the following policies:

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

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

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

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

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

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

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

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

Amendments to Standard Adopted in 2017
The following amendments were adopted on January 1, 2017.

Statement of Cash flows
Amendments to IAS 7 - *Statement of Cash Flows*, require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities; including both changes arising from cash flows and non-cash flows. The required disclosures have been included in note 21 herein.

Standards Issued But Not Effective
The following new standards and amendments to standards have been issued but are not effective for the financial year ended December 31, 2017 and, accordingly, have not been applied in preparing these consolidated financial statements.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Entities choose either a full retrospective approach with some limited relief provided or a modified retrospective approach for annual periods beginning on or after January 1, 2018.

Management evaluated the new standard and assessed the impact, including a review of revenue contracts

with customers. Management has determined that the new standard will not have a material impact on the amount or timing of revenue recognition.

b) Share-based Payment

Amendments to IFRS 2 – *Share-based payment*, clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. Adoption of this standard has no impact on the Company's financial position or net earnings.

c) Financial Instruments

In July 2014, the IASB completed the three-part project to replace IAS 39 - *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9 includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

IFRS 9 also introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their consolidated financial statements.

IFRS 9 will be effective for the Company's fiscal year beginning on January 1, 2018. The Company's analysis has not identified significant differences resulting from the adoption of this standard.

d) Foreign Currency Transactions and Advance Consideration

IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*, clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency.

The new interpretation is effective for annual periods beginning on or after January 1, 2018. Management has determined that the new standard will not have a material impact on the Company's financial position.

e) Leases

IFRS 16 – *Leases*, introduces new requirements for the classification and measurement of lessees. For lessors, there is little change to the existing accounting in IAS 17 - *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements, however expects that IFRS 16 will result in higher non-current assets and non-current liabilities recorded on the consolidated statements of financial position.

f) Uncertainty over Income Tax Treatments

IFRIC 23 - *Uncertainty over Income Tax Treatments*, provides guidance when there is uncertainty over income tax treatments including (but not limited to) whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances.

The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

2. Significant Accounting Estimates and Assumptions

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

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

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on

the amounts recognized in the consolidated financial statements.

Acquisitions
In a business combination, the Company may acquire certain assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment to determine the fair values assigned to the tangible and intangible assets (i.e. backlog, client relationships, and distribution networks) acquired and the liabilities assumed on the acquisition. Determining fair value involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed. After the measurement period, a revision of fair value may impact the Company's net income.

Property, Plant and Equipment and Rental Equipment
Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

Impairment of Non-financial Assets
Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the CGUs to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in note 8.

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

Revenue Recognition
Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method, requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

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

Inventories
Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

Allowance for Doubtful Accounts
The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified.

Share-based Compensation
The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

Post-Employment Benefit Plans
The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

3. Business Acquisition

Hewitt Group of Companies ("Hewitt")

On October 27, 2017, the Company acquired the businesses and net operating assets of Hewitt and became the approved Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Quebec and most of Ontario and the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States, from Maine to Virginia. Additional distribution rights were also acquired in this transaction. The acquisition expands the Company's Eastern operations into a contiguous territory covering all of Eastern and Central Canada extending into the far North and provides a platform for long-term growth opportunities and diversification into new markets.

The Company acquired the businesses and net operating assets of Hewitt in exchange for consideration of $902.9 million cash (net of a preliminary closing working capital adjustment) plus the issuance of 2.25 million Toromont common shares ($121.2 million) for a total consideration of $1.02 billion. Toromont funded the cash portion of the acquisition through cash on hand, the issuance of long-term senior debentures and drawings on an unsecured term credit facility (see note 10 for further details).

The acquisition has been accounted for using the purchase method of accounting. Revenues of $242.6 million and net income of $7.8 million were included in the consolidated income statements and statements of comprehensive income from the date of acquisition. Results from the acquired businesses were included in the Equipment Group reportable segment.

Purchase Price

Cash consideration	$ 902,896
Issuance of Toromont common shares	121,213
Total	$ 1,024,109

Purchase Price Allocation

Final valuations of certain items are not yet complete due to the inherent complexity associated with valuations and the timing of the acquisition. Therefore, the purchase price allocation is preliminary and subject to adjustment on completion of the valuation process. The Company determined the preliminary fair values based on discounted cash flows, market information, independent valuations and management's estimates.

Accounts receivable	$ 159,539
Inventories	291,035
Property, plant and equipment	216,755
Rental equipment	169,993
Deferred tax asset	2,617
Intangible assets with an indefinite life:	
Distribution network	345,989
Intangible assets with a finite life:	
ERP system	10,000
Customer relationships	14,731
Other	4,243
Accounts payable and accrued liabilities	(127,124)
Provisions	(1,045)
Deferred revenues	(51,503)
Post-employment benefit obligations	(91,555)
Net identifiable assets	943,675
Residual purchase price allocated to goodwill	80,434
Total	$ 1,024,109

Accounts receivable represents gross contractual amounts receivable of $166.1 million less management's best estimate of the allowance for doubtful accounts of $6.6 million.

Goodwill arises principally from the ability to leverage the larger base of operations, the assembled workforce, future growth and the potential to realize synergies in the form of cost savings. The amount assigned to goodwill is expected to be deductible for tax purposes.

Acquisition-related costs, primarily for advisory services, were approximately $6.0 million and were included in selling and administrative expenses for the year ended December 31, 2017.

Pro-forma Disclosures

The following pro-forma supplemental information presents certain results of operations as if the acquisition had been completed at the beginning of the fiscal period presented.

	As reported	Pro-forma (unaudited)
Revenues	$ 2,350,162	$ 3,235,043
Net earnings	$ 175,970	$ 199,330

The pro-forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro-forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that would have been realized had the business acquisition been completed at the beginning of the period presented. The pro-forma supplemental information excludes business integration costs and opportunities.

4. Accounts Receivable

	2017	2016
Trade receivables	$ 479,832	$ 256,985
Less: allowance for doubtful accounts	(10,573)	(9,700)
Trade receivables – net	469,259	247,285
Other receivables	59,489	13,406
Trade and other receivables	$ 528,748	$ 260,691

Other receivables at December 31, 2017 included $42.7 million related to amounts owing to the Company from the seller with respect to the purchase price of the acquisition (see note 3).

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

	2017	2016
Current to 90 days	$ 448,115	$ 240,418
Over 90 days	31,717	16,567
	$ 479,832	$ 256,985

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

	2017	2016
Balance, beginning of year	$ 9,700	$ 9,168
Provisions and revisions, net	873	532
Balance, end of year	$ 10,573	$ 9,700

5. Inventories

	2017	2016
Equipment	$ 497,033	$ 300,344
Repair and distribution parts	199,283	99,297
Direct materials	4,048	4,001
Work-in-process	79,660	32,115
	$ 780,024	$ 435,757

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2017 was $1.4 billion (2016 - $1.1 billion). Cost of goods sold included inventory write-downs pertaining to obsolescence and aging, together with recoveries of past write-downs upon disposition. A net reversal of write-downs of $0.8 million was recorded in 2017 (2016 – net write-down of $0.3 million).

6. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2017	$ 50,151	$ 148,030	$ 158,646	$ 38,827	$ 395,654	$ 479,554
Additions	4,493	12,800	22,920	73	40,286	104,996
Additions - acquisition	73,266	124,341	19,148	—	216,755	169,993
Disposals	(193)	(3,931)	(10,394)	—	(14,518)	(57,112)
Currency translation effects	(11)	(183)	(280)	—	(474)	—
December 31, 2017	$ 127,706	$ 281,057	$ 190,040	$ 38,900	$ 637,703	$ 697,431
Accumulated depreciation						
January 1, 2017	$ —	$ 73,782	$ 112,063	$ 27,982	$ 213,827	$ 207,277
Depreciation charge	—	6,870	16,529	1,554	24,953	61,334
Depreciation of disposals	—	(3,681)	(10,374)	—	(14,055)	(40,522)
Currency translation effects	—	(18)	(182)	—	(200)	—
December 31, 2017	$ —	$ 76,953	$ 118,036	$ 29,536	$ 224,525	$ 228,089
Net book value – December 31, 2017	$ 127,706	$ 204,104	$ 72,004	$ 9,364	$ 413,178	$ 469,342

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2016	$ 49,988	$ 143,223	$ 154,924	$ 38,771	$ 386,906	$ 438,607
Additions	539	4,912	16,850	56	22,357	98,696
Disposals	(371)	(20)	(13,030)	—	(13,421)	(57,749)
Currency translation effects	(5)	(85)	(98)	—	(188)	—
December 31, 2016	$ 50,151	$ 148,030	$ 158,646	$ 38,827	$ 395,654	$ 479,554
Accumulated depreciation						
January 1, 2016	$ —	$ 67,923	$ 108,413	$ 26,416	$ 202,752	$ 192,937
Depreciation charge	—	5,884	16,321	1,566	23,771	52,476
Depreciation of disposals	—	(18)	(12,604)	—	(12,622)	(38,136)
Currency translation effects	—	(7)	(67)	—	(74)	—
December 31, 2016	$ —	$ 73,782	$ 112,063	$ 27,982	$ 213,827	$ 207,277
Net book value – December 31, 2016	$ 50,151	$ 74,248	$ 46,583	$ 10,845	$ 181,827	$ 272,277

During 2017, depreciation expense of $76.9 million was charged to cost of goods sold (2016 - $69.4 million) and $9.4 million was charged to selling and administrative expenses (2016 - $6.8 million).

Operating income from rental operations for the year ended December 31, 2017, was $38.1 million (2016 - $28.4 million).

7. Other Assets

	2017	2016
Equipment sold with guaranteed residual values	$ 12,464	$ 13,147
Other	4,742	2,234
	$ 17,206	$ 15,381

8. Goodwill and Intangible Assets

	Patents and Licenses	Customer Order Backlog	ERP System	Customer Relationships	Distribution Network	Goodwill	Total
Cost							
At January 1, 2016 and December 31, 2016	$ 500	$ —	$ —	$ —	$ 13,669	$ 13,450	$ 27,619
Acquisition	—	4,243	10,000	14,731	345,989	80,434	455,397
At December 31, 2017	$ 500	$ 4,243	$ 10,000	$ 14,731	$ 359,658	$ 93,884	$ 483,016
Accumulated amortization							
At January 1, 2016	$ 88	$ —	$ —	$ —	$ —	$ —	$ 88
Amortization	30	—	—	—	—	—	30
At December 31, 2016	$ 118	$ —	$ —	$ —	$ —	$ —	$ 118
Amortization	29	2,122	333	307	—	—	2,791
At December 31, 2017	$ 147	$ 2,122	$ 333	$ 307	—	—	2,909
Net book value – At December 31, 2016	$ 382	$ —	$ —	$ —	$ 13,669	$ 13,450	$ 27,501
At December 31, 2017	$ 353	$ 2,121	$ 9,667	$ 14,424	$ 359,658	$ 93,884	$ 480,107

Impairment testing of Goodwill and Intangible Assets with Indefinite Lives

The carrying amount of goodwill and distribution networks has been allocated to the following CGUs and/or group of CGUs:

	Goodwill		Distribution Network	
	2017	2016	2017	2016
Equipment Group				
- Toromont Quebec/Maritimes	$ 76,374	$ —	$ 340,541	$ —
- Toromont CAT dealership	13,000	13,000	13,669	13,669
- Battlefield Equipment	4,060	—	5,448	—
	$ 93,434	$ 13,000	$ 359,658	$ 13,669
CIMCO	450	450	—	—
	$ 93,884	$ 13,450	$ 359,658	$ 13,669

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2017. The test for impairment is to compare the recoverable amount of the CGU or group of CGUs to their carrying value. The recoverable amounts have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flows beyond the three-year period were extrapolated using a 2.0% growth rate which represents the expected growth in the Canadian economy. The discount rate applied to each CGU or group of CGUs to determine value-in-use is a pre-tax rate that reflects an optimal debt-to-equity ratio and considers the risk-free rate, market equity risk premium, size premium and the risks specific to each asset or CGU's cash flow projections. The discount rate ranged from 10.0% – 13.0%. As a result of the analysis, management determined there was no impairment of goodwill or indefinite lived intangible assets.

Key Assumptions to Value-in-Use Calculations and Sensitivity Analysis
The calculation of value-in-use is most sensitive to the following assumptions:

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

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the CGU's weighted average cost of capital, taking into account both debt and equity.

The cost of equity is derived from the expected return on investment by the Company's shareholders. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service.

Segment-specific risk is incorporated by applying different debt to equity ratios.

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

Management believes that within reasonably possible changes to any of the above key assumptions, recoverable amounts exceed carrying values.

9. Provisions

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at January 1, 2016	$ 8,016	$ 8,806	$ 16,822
New provisions	17,420	1,290	18,710
Charges/credits against provisions	(14,636)	(4,802)	(19,438)
Balance as at December 31, 2016	$ 10,800	$ 5,294	$ 16,094
Acquisition	1,045	—	1,045
New provisions	21,940	1,145	23,085
Charges/credits against provisions	(20,554)	(2,234)	(22,788)
Balance as at December 31, 2017	$ 13,231	$ 4,205	$ 17,436

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

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

10. Long-Term Debt

All debt is unsecured.

	2017	2016
7.06%, $15.0 million, due March 29, 2019 (1)	$ 2,963	$ 4,774
3.71%, $150.0 million, due September 30, 2025 (2)	150,000	150,000
3.84%, $500.0 million, due October 27, 2027 (2)	500,000	—
Senior debentures	652,963	154,774
$250.0 million term credit facility due on October 27, 2022 (3)	250,000	—
	902,963	154,774
Debt issuance costs, net of amortization	(7,216)	(2,246)
Total long-term debt	$ 895,747	$ 152,528
Less: current portion of long-term debt	(1,941)	(1,811)
Non-current portion of long-term debt	$ 893,806	$ 150,717

(1) Blended principal and interest payments payable semi-annually through to maturity.
(2) Interest payable semi-annually, principal due on maturity.
(3) Interest payable monthly, principal due on maturity.

On October 27, 2017, the Company issued senior unsecured debentures in an aggregate principal amount of $500.0 million (the "Debentures") to partially fund the Hewitt acquisition (see note 3 for further details). The Debentures mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually. The Debentures are unsecured, unsubordinated and rank pari passu with debt outstanding under Toromont's existing debentures.

On October 27, 2017, the Company also expanded and extended its committed unsecured credit facility. The facility provides a term facility of $250.0 million and a revolving facility of $500.0 million, maturing in October 2022. Debt incurred under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's other outstanding debt. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility. Debt under either facility may be repaid at any time. To partially fund the aforementioned acquisition, $250.0 million was drawn on the term facility. At December 31, 2017, the interest rate on these drawings was 2.42%.

At December 31, 2017, standby letters of credit issued utilized $26.7 million of the credit lines (2016 - $21.7 million).

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.

The Company was in compliance with all covenants at December 31, 2017 and 2016.

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

	Principal	Interest
2018	$ 1,941	$ 30,825
2019	1,022	30,825
2020	—	30,825
2021	—	30,825
2022	250,000	29,748
Thereafter	650,000	111,342
	$ 902,963	$ 264,390

Interest expense includes interest on debt initially incurred for a term greater than one year of $11.8 million (2016 - $7.1 million).

11. Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares (no par value) and preferred shares. No preferred shares were issued or outstanding for the years ended December 31, 2017 and 2016.

A continuity of the shares issued and outstanding for the years ended December 31, 2017 and 2016 is presented in the consolidated statements of changes in equity.

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 takeover bid to acquire 20.0% 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 50.0% discount to the market price at that time. The Plan expires in April 2018.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2017. The current issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares in the 12-month period ending August 30, 2018, representing 10.0% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

There were no shares purchased under the NCIB program for the year ended December 31, 2017. During the year ended December 31, 2016, the Company purchased and cancelled 89,244 common shares for $2.6 million (average cost of $28.84 per share, including transaction costs) under its NCIB program.

Dividends

The Company paid dividends of $58.9 million ($0.75 per share) for the year ended December 31, 2017, and $55.4 million ($0.71 per share) for the year ended December 31, 2016.

Subsequent to the year ended December 31, 2017, the Board of Directors approved a quarterly dividend of $0.23 per share payable on April 2, 2018, to shareholders on record at the close of business on March 9, 2018.

12. Financial Instruments

Financial Assets and Liabilities – Classification and Measurement

The following table highlights the carrying amounts and classifications of certain financial assets and liabilities:

	2017	2016
Other financial liabilities:		
Current portion of long-term debt	$ 1,941	$ 1,811
Long-term debt	$ 893,806	$ 150,717
Derivative financial instruments:		
Foreign exchange forward contracts	$ (5,260)	$ 1,197

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

The fair value and carrying value of long-term debt is as follows:

Long-term debt	2017	2016
Fair value	$ 917,583	$ 154,929
Carrying value	$ 902,963	$ 154,774

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability.

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. As at December 31, 2017, the Company was committed to US dollar purchase contracts with a notional amount of $276.6 million at an average exchange rate of $1.2737, maturing between January 2018 and February 2019.

Management estimates that a loss of $5.3 million (2016 – gain of $1.2 million) would be realized if the contracts were terminated on December 31, 2017. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized loss of $2.3 million (2016 – unrealized gain of $0.4 million) has been included in other comprehensive income. These losses will be reclassified to net earnings within the next 12 months and will offset gains recorded on the underlying hedged items, namely foreign-denominated accounts payable. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A loss of $3.0 million (2016 – gain of $0.8 million) on these forward contracts is included in net earnings, which offsets gains recorded on the foreign-denominated items, namely accounts payable.

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.

13. Financial Instruments – Risk Management

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

Currency Risk

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

The Company also sells its products to certain customers in US currency. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cash inflows where appropriate.

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

Sensitivity Analysis

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

As at December 31, 2017, a 5.0% weakening/(strengthening) of the Canadian dollar against the US dollar would result in a $0.4 million (decrease)/increase in OCI for financial instruments held in foreign operations, and a $1.4 million increase (decrease) in net earnings and $5.4 million (decrease)/increase in OCI for financial instruments held in Canadian operations.

Credit Risk

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

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

The Company has accounts receivable from customers engaged in various industries including mining, construction, food and beverage, and governmental agencies. These specific customers may be affected by economic factors that may impact accounts receivable. Management

does not believe that any single customer represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

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

Interest Rate Risk
The Company minimizes its interest rate risk by managing its portfolio of floating- and fixed-rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2017 or 2016.

The Company had a floating rate debt of $250.0 million as at December 31, 2017 (2016 - $nil).

Sensitivity Analysis
An increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would increase interest expense by $2.5 million (decrease net income after tax by $1.8 million).

Liquidity Risk
Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2017, the Company had unutilized lines of credit of $473.3 million (2016 - $228.3 million).

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

The Company expects that continued cash flows from operations in 2018, together with currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

14. Interest Income and Expense

The components of interest expense were as follows:

	2017	2016
Credit facilities	$ 2,381	$ 820
Senior debentures	9,896	6,422
	$ 12,277	$ 7,242

The components of interest and investment income were as follows:

	2017	2016
Interest income on rental conversions	$ 2,308	$ 2,811
Other	2,351	1,195
	$ 4,659	$ 4,006

15. Income Taxes

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

	2017	2016
Current income tax expense	$ 55,699	$ 54,846
Deferred income tax expense	10,295	2,733
Total income tax expense	$ 65,994	$ 57,579

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

	2017	2016
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	$ 64,120	$ 56,532
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	973	490
Manufacturing and processing rate reduction	(171)	(330)
Expenses not deductible for tax purposes	1,565	1,539
Non-taxable gains	(655)	(853)
Effect of change in future income tax rate	249	13
Other	(87)	188
Provision for income taxes	$ 65,994	$ 57,579
Effective income tax rate	27.3%	27.0%

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

The source of deferred income taxes was as follows:

	2017	2016
Accrued liabilities	$ 16,857	$ 15,267
Deferred revenues	1,869	1,960
Accounts receivable	2,241	2,072
Inventories	5,216	5,245
Capital assets	(36,375)	(24,740)
Intangible assets and goodwill	1,428	(791)
Net post-employment obligations	7,645	5,759
Other	926	946
Cash flow hedges in other comprehensive income	604	(108)
Deferred tax assets	$ 411	$ 5,610

The movement in net deferred tax assets was as follows:

	2017	2016
Balance, January 1	$ 5,610	$ 8,102
Tax expense recognized in income	(10,295)	(2,733)
Acquisition	2,617	—
Tax recovery recognized in other comprehensive income	2,479	241
Balance, December 31	$ 411	$ 5,610

The aggregate amount of unremitted earnings in the Company's subsidiaries was $19.4 million (2016 - $17.3 million). These earnings can be remitted with no tax consequences.

16. Earnings Per Share

	2017	2016
Net earnings available to common shareholders	$ 175,970	$ 155,748
Weighted average common shares outstanding	79,091,706	78,127,400
Dilutive effect of stock option conversions	815,764	546,897
Diluted weighted average common shares outstanding	79,907,470	78,674,297
Earnings per share		
Basic	$ 2.22	$ 1.99
Diluted	$ 2.20	$ 1.98

For the calculation of diluted earnings per share for the year ended December 31, 2017, 514,550 (2016 – 513,500) outstanding stock options with a weighted average exercise price of $53.88 (2016 - $39.79) were considered anti-dilutive (exercise price in excess of average market price during the year) and, as such, were excluded from the calculation.

17. Employee Benefits Expense

	2017	2016
Wages and salaries	$ 368,497	$ 315,050
Other employment benefit expenses	57,937	54,125
Share options granted to directors and employees	3,502	3,261
Pension costs	17,321	13,276
	$ 447,257	$ 385,712

18. Stock-based Compensation

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company's policy that the aggregate number of options that may be granted in any one calendar year shall not exceed 1.0% of the outstanding shares as of the beginning of the year in which a grant is made (2017 - 783,985). Stock options vest 20.0% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Stock options granted in 2013 and after have a 10-year term while those granted prior to 2013 have a seven-year term. Toromont accrues compensation cost over the vesting period based on the grant date fair value.

A reconciliation of the outstanding options for the years ended December 31, 2017 and 2016, was as follows:

	2017		2016	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Options outstanding, January 1	2,430,871	$ 29.25	2,512,250	$ 24.91
Granted	514,550	53.88	517,500	39.79
Exercised [(1)]	(301,885)	22.39	(581,879)	19.89
Forfeited	(15,500)	31.63	(17,000)	29.06
Options outstanding, December 31	2,628,036	$ 34.85	2,430,871	$ 29.25
Options exercisable, December 31	1,123,236	$ 26.15	931,056	$ 23.12

(1) The weighted average share price at date of exercise for the year ended December 31, 2017, was $51.65 (2016 – $37.36).

The following table summarizes stock options outstanding and exercisable as at December 31, 2017.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number**	**Weighted Average Remaining Life (years)**	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
$17.10 – $23.40	701,366	3.3	$ 21.17	614,476	$ 20.85
$23.41 – $26.79	427,240	6.6	26.52	235,400	26.52
$36.65	482,540	7.6	36.65	179,420	36.65
$39.79	502,340	8.6	39.79	93,940	39.79
$53.88	514,550	9.7	53.88	—	—
	2,628,036	6.9	$ 34.85	1,123,236	$ 26.15

The fair value of the stock options granted during 2017 and 2016 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2017	2016
Fair value price per option	$ 12.28	$ 7.61
Share price	$ 53.88	$ 39.79
Expected life of options (years)	8.06	8.25
Expected stock price volatility	22.0%	22.0%
Expected dividend yield	1.41%	1.81%
Risk-free interest rate	1.75%	0.96%

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

The following table summarizes information related to DSU activity:

	2017		2016	
	Number of DSUs	**Value**	**Number of DSUs**	**Value**
Outstanding, January 1	407,731	$ 17,265	377,311	$ 12,000
Units taken or taken in lieu and dividends	35,937	1,722	47,240	1,661
Redemptions	(17,389)	(778)	(16,820)	(683)
Fair market value adjustment	—	5,208	—	4,287
Outstanding, December 31	426,279	$ 23,417	407,731	$ 17,265

Employee Share Ownership Plan
The Company offers an Employee Share Ownership Plan ("ESOP") whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match at the rate of $1 for every $3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or $1,000 per annum. Company contributions amounting to $2.0 million in 2017 (2016 - $1.8 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

19. Employee Future Benefits

Defined Contribution Plans
The Company sponsors pension arrangements for approximately 3,000 of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to these retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

Pension expense recognized in net earnings for these plans was as follows:

	2017	2016
Defined contribution plans	$ 11,765	$ 11,140
401(k) matched savings plans	281	248
Net pension expense	$ 12,046	$ 11,388

Defined Benefit Plans
The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,900 qualifying employees. The plans described in d) and e) below are plans which were assumed on acquisition of the Hewitt operations (note 3):

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

105.0% of this solvency funding target, the excess can be applied to the cost of the defined benefits and defined contributions in future periods. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled for December 31, 2017.

b) Executive Pension Plan – The plan is a supplemental pension plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. At December 31, 2017, the Company has posted letters of credit in the amount of $18.4 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2017, with the next valuation scheduled for December 31, 2018.

c) Other pension plan assets and obligations – This plan 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 at that time, that, in accordance with the plan provisions, had elected to receive a pension directly from the plan. The plan is administered by a fund that is legally separated from the Company. The most recent actuarial valuation was completed on January 1, 2017, with the next valuation scheduled for January 1, 2020.

d) Quebec/Maritimes Pension Plan – The Company sponsors six contributory plans that provide pension benefits based on length of service and career average earnings. The plans are now administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled as at December 31, 2017.

e) Post-Employment Benefit Plans – These plans provide supplementary post-employment health and life insurance coverage to certain employees. The Company is not obligated to fund the plans but is obligated to pay benefits under the terms of the plan as they come due. The most recent actuarial valuation was completed as at December 31, 2017, with the next valuation scheduled as at December 31, 2018.

Risks

Defined benefit pension plans and other post-employment benefit plans expose the Company to risks as described below:

- Investment risk - The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently, the plans have a relatively balanced investment in equity securities, debt instruments and real estate assets. The Toromont Pension Management Committee reviews the asset mix and performance of the plan assets on a quarterly basis with the balanced investment strategy intention.
- Interest rate risk - A decrease in the bond interest rates will increase the plan liability; however, this will be partially offset by an increase in the plan's holdings in debt instruments
- Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
- Salary risk - The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The significant weighted average actuarial assumptions adopted in measuring the Company's benefit obligations were as follows:

	2017	**2016**
Discount rate	3.40%	3.60%
Expected rate of salary increase	3.47%	3.50%

Pension and other post-retirement benefit expense recognized in net earnings were as follows:

	2017	**2016**
Service cost	$ 3,955	$ 1,055
Net interest expense	1,320	833
Components of defined benefit costs recognized in net earnings	$ 5,275	$ 1,888

Pre-tax amounts recognized in other comprehensive income were as follows:

	2017	2016
Actuarial gains arising from experience adjustments	$ (664)	$ (551)
Actuarial losses arising from changes in demographic assumptions	99	—
Actuarial losses arising from changes in financial assumptions	8,152	3,096
Return on plan assets (excluding amounts included in net interest expense)	(822)	(1,080)
Components of defined benefit costs recognized in other comprehensive income	$ 6,765	$ 1,465

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Post-Employment Benefit Plans
	2017	2016	2017
Defined benefit obligations:			
Balance, January 1	$ 83,370	$ 81,778	$ —
Business acquisition	401,986	—	24,740
Current service cost	3,814	1,055	141
Interest cost	5,274	3,116	140
Remeasurement (gains) losses:			
Actuarial (gains) losses arising from experience adjustments	(699)	(551)	35
Actuarial losses arising from demographic assumptions	99	—	—
Actuarial losses arising from changes in financial assumptions	8,152	3,096	—
Benefits paid	(9,375)	(5,435)	(198)
Contributions by plan participants	1,124	311	—
Balance, December 31	493,745	83,370	24,858
Plan assets:			
Fair value, January 1	60,800	60,683	—
Business acquisition	335,171	—	—
Interest income on plan assets	4,094	2,283	—
Return on plan assets (excluding amounts included in net interest expense)	822	1,080	—
Contributions from the Company	4,632	1,878	198
Contributions from plan participants	1,124	311	—
Benefits paid	(9,375)	(5,435)	(198)
Fair value, December 31	397,268	60,800	—
Net post-employment obligations	$ 96,477	$ 22,570	$ 24,858

The funded status of the Company's defined benefit pension plans at December 31 was as follows:

	2017			2016		
	Defined benefit obligations	Plan assets	Net post-employment obligations	Defined benefit obligations	Plan assets	Net post-employment obligations
Powell Plan	$ 57,660	$ 56,245	$ (1,415)	$ 56,723	$ 55,234	$ (1,489)
Executive Plan	18,368	—	(18,368)	18,377	—	(18,377)
Quebec/Maritimes Plan	410,451	335,526	(74,925)	—	—	—
Quebec/Maritimes other post-employment benefits	24,858	—	(24,858)	—	—	—
Other plan assets and obligations	7,266	5,497	(1,769)	8,270	5,566	(2,704)
	$ 518,603	$ 397,268	$ (121,335)	$ 83,370	$ 60,800	$ (22,570)

The Company's pension plans weighted average asset allocations by asset category were as follows:

	2017	2016
Equity securities	53.9%	43.9%
Debt securities	42.5%	38.2%
Real estate assets	2.8%	17.8%
Cash and cash equivalents	0.8%	0.1%

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

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

The actual return on plan assets was $4.9 million (2016 - $3.4 million).

The Company expects to contribute $27.0 million to pension and other benefit plans in 2018, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligation at December 31, 2017, was 14.5 years (2016 - 13.4 years).

Sensitivity Analysis

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

As at December 31, 2017, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation ("DBO"):

		Increase (decrease) in DBO		
Actuarial Assumption	Sensitivity	Pension benefit plans	Other post-retirement benefit plans	Total
Period end discount rate	1% increase	$ (71,202)	$ (1,865)	$ (73,067)
	1% decrease	$ 83,426	$ 2,121	$ 85,547
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 10,725	$ (479)	$ 10,246

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

20. Capital Management

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

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

The Company generally targets a net debt to total capitalization ratio of 33.0%, although there is a degree of variability associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

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

	2017	2016
Long-term debt	$ 893,806	$ 150,717
Current portion of long-term debt	1,941	1,811
Less: Cash	160,507	188,735
Net debt	735,240	(36,207)
Shareholders' equity	1,124,727	885,432
Total capitalization	$ 1,859,967	$ 849,225
Net debt as a % of total capitalization	40%	-4%
Net debt to equity ratio	0.65:1	-0.04:1

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has met these minimum requirements during the years ended December 31, 2017 and 2016.

There were no changes in the Company's approach to capital management during the years ended December 31, 2017 and 2016.

21. Supplemental Cash Flow Information

	2017	2016
Net change in non-cash working capital and other		
Accounts receivable	$ (65,840)	$ 1,832
Inventories	(53,232)	27,453
Accounts payable and accrued liabilities	162,797	8,364
Provisions	297	(728)
Deferred revenues	33,906	1,046
Income taxes payable	(1,058)	(1,790)
Other	(6,860)	(1,433)
	$ 70,010	$ 34,744
Cash paid during the year for:		
Interest	$ 7,863	$ 6,587
Income taxes	$ 57,686	$ 57,328
Cash received during the year for:		
Interest	$ 4,130	$ 3,599
Income taxes	$ 1,705	$ 1,845

Reconciliation of liabilities arising from financing activities was as follows:

	Current Portion of Long-term Debt	Long-term Debt	Total
Balance, January 1, 2017	$ 1,811	$ 150,717	$ 152,528
Cash flow provided by financing activities	130	743,089	743,219
Balance, December 31, 2017	$ 1,941	$ 893,806	$ 895,747

22. Commitments

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

Future minimum lease payments under non-cancellable operating leases as at December 31, 2017, were as follows:

2018	$ 10,725
2019	9,097
2020	5,083
2021	3,488
2022	2,171
Thereafter	1,642
	$ 32,206

23. Segmented Information

The Company has two reportable segments: the Equipment Group and CIMCO, each supported by the corporate office. These segments are strategic business units that offer different products and services, and each is managed separately. The corporate office provides finance, treasury, legal, human resources and other administrative support to the segments. The accounting policies of each of the reportable segments are the same as the significant accounting policies described in note 1.

The operating segments are being reported based on the financial information provided to the Chief Executive Officer and Chief Financial Officer, who have been identified as the Chief Operating Decision Makers ("CODMs") in monitoring segment performance and allocating resources between segments. The CODMs assess segment performance based on segment operating income, which is measured differently than income from operations in the consolidated financial statements. Corporate overheads are allocated to the segments based on revenue. Income taxes, interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.

The aggregation of the operating segments is based on the economic characteristics of the business units. These business units are considered to have similar economic characteristics including nature of products and services, class of customers and markets served and similar distribution models.

No reportable segment is reliant on any single external customer.

Equipment Group

The Equipment Group comprises the following:

- *Toromont CAT* – supplies, rents and provides support services for specialized mobile equipment and industrial engines.
- *Battlefield – The CAT Rental Store* – supplies and rents specialized mobile equipment as well as specialty supplies and tools.
- *Toromont Material Handling* – supplies, rents and services lift trucks.
- *AgWest* – supplies specialized mobile equipment to the agriculture industry.
- *Toromont Energy* – develops distributed generators and combined heat and power projects using Caterpillar engines.
- *SITECH* – supplies control systems for specialized mobile equipment.

CIMCO

Provider of design, engineering, fabrication, installation, and product support of industrial and recreational refrigeration systems.

Corporate Office

The corporate office does not meet the definition of a reportable operating segment as defined in IFRS 8 – *Operating Segments*, as it does not earn revenue.

The following table sets forth information by segment for the years ended December 31:

	Equipment Group		CIMCO		Consolidated	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Equipment/package sales	$1,012,208	$ 764,377	$ 189,212	$ 161,614	$1,201,420	$ 925,991
Rentals	261,641	221,009	—	—	261,641	221,009
Product support	746,832	634,018	128,999	118,780	875,831	752,798
Power generation	11,270	12,242	—	—	11,270	12,242
Total revenues	$2,031,951	$1,631,646	$ 318,211	$ 280,394	$2,350,162	$1,912,040
Operating income	$ 219,814	$ 196,124	$ 29,768	$ 20,439	$ 249,582	$ 216,563
Interest expense					12,277	7,242
Interest and investment income					(4,659)	(4,006)
Income taxes					65,994	57,579
Net earnings					$ 175,970	$ 155,748

Selected statements of financial position information:

	Equipment Group		CIMCO		Consolidated	
As at December 31	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Identifiable assets	$2,551,574	$1,109,223	$ 101,719	$ 77,079	$2,653,293	$1,186,302
Corporate assets					204,616	207,910
Total assets					2,857,909	$1,394,212
Identifiable liabilities	$ 602,694	$ 243,410	$ 76,323	$ 53,176	$ 679,017	$ 296,586
Corporate liabilities					1,054,165	212,194
Total liabilities					1,733,182	$ 508,780
Capital expenditures	$ 138,231	$ 121,606	$ 1,429	$ 1,888	$ 139,660	$ 123,494
Depreciation	$ 84,922	$ 74,812	$ 1,365	$ 1,435	$ 86,287	$ 76,247

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

	2017	**2016**
Revenues		
Canada	$2,252,343	$1,822,196
United States	96,666	88,523
International	1,153	1,321
	$2,350,162	$1,912,040

	2017	2016
Capital Assets and Goodwill		
Canada	$ 972,086	$ 462,937
United States	4,318	4,617
	$ 976,404	$ 467,554

24. Related Party Disclosures

Key management personnel and director compensation comprised:

	2017	2016
Salaries	$ 3,271	$ 3,273
Stock options and DSU awards	2,169	1,912
Annual non-equity incentive based plan compensation	2,733	2,799
Pension	647	607
All other compensation	148	118
	8,968	$ 8,709

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

25. Economic Relationship

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

Ten-Year Financial Review[1]

For the years ended December 31 ($ thousands, except where otherwise indicated)	2017[7][8]	2016	2015	2014
Operating Results				
Revenues	2,350,162	1,912,040	1,846,723	1,660,390
Net earnings	175,970	155,748	145,666	133,196
Net interest expense (income)[2]	7,618	3,236	5,246	4,034
Capital expenditures[2]	139,660	123,494	150,106	107,815
Dividends declared	60,402	56,280	52,882	46,267
Financial Position				
Working capital	778,374	575,382	486,293	294,753
Capital assets	882,520	454,104	429,824	371,661
Total assets	2,857,909	1,394,212	1,276,077	1,107,802
Long-term debt[3][8]	893,806	150,717	152,079	4,942
Shareholders' equity	1,124,727	885,432	775,281	668,075
Financial Ratios				
Working capital	2.1:1	2.8:1	2.6:1	1.7:1
Return on opening shareholders' equity (%)[4]	19.3	20.0	21.6	23.0
Total debt, net of cash, to shareholders' equity	.65:1	(.04):1	.11:1	.07:1
Per Share Data ($)				
Basic earnings per share	2.22	1.99	1.88	1.73
Diluted earnings per share	2.20	1.98	1.86	1.71
Dividends declared	0.76	0.72	0.68	0.60
Book value (shareholders' equity)	13.89	11.29	9.95	8.65
Shares outstanding at year end[8]	80,949,819	78,398,456	77,905,821	77,259,396
Price range[5]				
High	58.44	44.44	37.61	28.97
Low	41.10	27.25	26.70	24.48
Close	55.10	42.35	31.55	28.51

(1) 2010 - 2017 results were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.
(2) Figures for 2010 onwards are presented on a continuing operations basis, excluding the spinoff discussed in (5) below.
(3) In 2015, debentures totalling $125.0 million matured and as such were shown as "Current portion of long-term debt" in 2014.
(4) 2011 ROE was calculated excluding earnings and equity from discontinued operations.
(5) On June 1, 2011, Toromont completed the spinoff of Enerflex. Toromont shareholders received one share of Enerflex for each Toromont share held.
(6) The Company adopted revisions to IAS 19 - Employee Benefits, effective January 1, 2013. As a result, certain 2012 amounts were restated - refer to Note 1 of the 2013 audited financial statements.
(7) The Company completed the acquisition of the businesses and net operating assets of the Hewitt Group of Companies on October 27, 2017 for $1.02 billion - refer to Note 3 of the 2017 audited financial statements.
(8) Long-term debt and common shares were issued on October 27, 2017, to partially fund the aforementioned acquisition - refer to Note 3 of the 2017 audited financial statements.

2013	2012[6]	2011	2010	2009	2008
1,593,431	1,507,173	1,381,974	1,207,028	1,824,592	2,121,209
123,031	119,473	246,459	103,912	120,516	140,524
4,900	5,740	5,798	8,826	2,460	(3,246)
94,803	101,311	82,877	71,143	61,041	96,475
39,854	36,728	36,968	47,716	38,848	36,391
356,347	302,919	251,122	478,289	539,264	509,276
341,152	316,925	287,290	556,991	369,666	402,647
1,030,555	936,170	913,331	2,271,763	1,364,667	1,533,450
130,948	158,395	132,815	413,040	144,051	158,112
576,557	476,575	403,861	1,196,838	854,063	779,103
2.2:1	2.2:1	1.7:1	1.8:1	2.6:1	1.9:1
25.7	29.9	28.9	9.1	15.5	21.5
.11:1	.33:1	.15:1	.21:1	(.06):1	.05:1
1.61	1.56	3.20	1.36	1.86	2.16
1.59	1.55	3.18	1.35	1.86	2.15
0.52	0.48	0.48	0.62	0.60	0.56
7.50	6.24	5.27	15.50	13.17	12.06
76,844,897	76,407,658	76,629,777	77,149,626	64,867,467	64,620,677
26.94	25.00	33.25	32.40	27.80	32.90
21.12	18.61	15.39	22.86	19.26	19.03
26.65	21.10	21.32	30.76	27.79	22.99

Corporate Information

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Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am (EST) on Thursday, April 26, 2018 in the Toscana Banquet Hall at The Hilton Garden Inn Toronto/Vaughan, 3201 Highway 7 West, Vaughan, Ontario L4K 5Z7.

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Investors are encouraged to contact AST Trust Company (Canada) for information regarding their security holdings.

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