STRONGER TOGETHER
PLUS FORTS ENSEMBLE

TOROMONT

TORONTO INDUSTRIES LTD.

2018 ANNUAL REPORT

Oui to We

In 2018, Toromont employees answered the call to work together to integrate the largest acquisition in our history by saying Oui to We. Yes to teamwork, yes to making the whole greater than the sum of the parts, and yes to bringing a collective and unwavering focus to continuous improvement. By answering in the affirmative, the people of Toromont demonstrated that we are *Plus forts ensemble – Stronger Together.*

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One Toromont

Toromont Industries Ltd. (TSX: TIH) is a diversified growth company employing over 6,000 skilled workers at more than 150 locations. Despite the scope and scale of our assets and the differences in industries we serve through our diverse operating units, we are united as One Toromont by our core strategies and business model.

Multiple Growth Platforms

Toromont Cat
With 53 branches across seven provinces and one territory, Toromont is one of the largest Caterpillar dealers in the world. Through Toromont Cat, it serves the specialized heavy equipment, power generation and product support needs of thousands of public infrastructure, construction, demolition, paving, mining, aggregate, waste management, agriculture, forestry, trucking, shipping, transit and data centre customers.

SITECH Mid-Canada Ltd.
SITECH specializes in providing machine control, site positioning, and asset management technologies backed by professional support services as a Trimble and Cat AccuGrade® dealer in Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland and Labrador.

Battlefield – The Cat Rental Store
From 69 stores in our Cat dealer territories, supported by a rapid equipment delivery-to-site system, Battlefield Equipment Rentals addresses the rental and purchase needs of contractors, specialty trades and do-it-yourself customers through its line-up of brand-name machines, tools and supplies.

Toromont Material Handling
From 21 locations across most of eastern Canada, Toromont Material Handling rents, sells and provides after-sales service for 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, store and protect critical inventories.

CIMCO Refrigeration
CIMCO is a leading supplier of refrigeration equipment and product support services to customers in North America's food, dairy, cold storage, beverage, pharmaceutical, automotive, chemical, petrochemical, mining and recreational ice-rink markets.

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

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

Fellow Shareholders

In 2018, Toromont began to integrate the largest acquisition in its history by building the cultural and structural underpinnings for long-term success. It did so without losing focus on the critical factors that make Toromont a reliable supplier for customers, a trusted employer and a good investment for shareholders: safety, teamwork, empowerment, accountability, disciplined capital allocation and alignment to our core strategies. The result was another good year for Toromont – our 50th as a public company – and a clear demonstration that we are *Plus forts ensemble – Stronger Together*.

Customers count on Battlefield to deliver the right equipment, including this hydronic heater, at the right time, to ensure their construction projects are completed on time.

Toromont earned $3.07 per diluted share in 2018, 40% more than in 2017, reflecting good operating performance across the business together with accretion from Toromont QM, our acquired operations. On higher earnings, return on opening shareholders' equity was 22.3%.

Strong cash generation supported debt repayment of $252 million, the allocation of $199 million to rental fleets, property and plants to seed future returns, and a 21% increase in common share dividends. Since Toromont's public listing five decades ago, dividends have been paid every year, making the Company's addition in early 2018 to the S&P/TSX Canadian Dividend Aristocrats Index possible. With the recent 17% increase the Board announced at its meeting in February 2019, dividends have now increased for 30 years in a row.

Toromont's strong financial position provides the fuel for continued growth.

Realizing Growth Together

Year one of the business combination was broadly productive as we leveraged the scope and scale of the combined business. Bringing together the eastern Canadian Cat dealerships into one cohesive, contiguous unit, stretching from St. John's, Newfoundland to Brandon, Manitoba and from Windsor, Ontario to Pond Inlet, Nunavut, presents meaningful opportunities for all of our key stakeholders. Revenues increased to $3.5 billion with year-over-year growth of 6% in Legacy Toromont.

Deepening our relationships with existing customers in construction, mining, power systems and refrigeration was a critical driver of performance. In addition, we converted equipment users who were loyal to other brands in the past, to Toromont, and with new fleet investments, gained access to large infrastructure projects such as Montréal's Réseau express métropolitain light rail transit system and the new Champlain Bridge. Broader dealership territories with geographic proximity provided additional opportunities to sell used equipment. Investments in the fleet and realignment of the business led to increased rental revenues.

Building On Our Natural Advantages

We developed our integration priorities prior to completing the acquisition in October 2017 and in 2018 executed the first stages of our plan to unify our operations and structure the combined entity to support sustainable growth, workforce empowerment and improved accountability.

The clearest sign of change was the introduction of Toromont brands on storefronts, service vehicles, rental equipment and websites across our new Québec and Maritime territories. Every employee in our new regions received Toromont gear, identifying them as members of our cohesive, industry-leading team. We chose to quickly adopt common nomenclature to build equity in our brands and as a promise to customers that we would be building a consistent experience for them, wherever and however they choose to do business with us.

Net debt to total capitalization

40% → **18%**
2017 2018

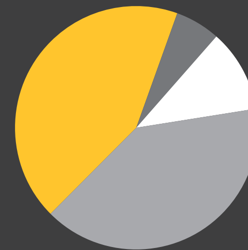
Our results

22.3%

Return on opening shareholders' equity, on higher earnings

Earnings per share (diluted)

2018 revenues



- New & used equipment – 43%
- Refrigeration equipment – 6%
- Rentals – 11%
- Product support – 40%

Core strategies

Expand markets

Strengthen product support

Broaden product offerings

Invest in resources

Maintain a strong financial position

Consistency of service is a key factor that large fleet accounts use in choosing their suppliers.

In tandem, we addressed succession and appointed leaders to key positions by drawing on the strength of both predecessor organizations. Details of the structural changes are found in the *Business Unit Highlights* section. Unchanged was the structure of our Executive Operating Team, which provides the critical guidance that supports our decentralized approach.

Culturally, we began to ingrain Toromont's disciplines and business principles, including our decentralized management approach, within acquired operations. To Toromont, decentralization means granting management authority to our business-unit leaders, matched by accountability for performance. Fidelity with Toromont's specialized product and product-support based business model and core strategies – expand markets, strengthen product support, broaden product offerings, invest in resources and our people and maintain a strong financial position – provides our central organizing principle. Decentralization is not the fastest way to achieve results, but over the years and through three previous Cat dealer acquisitions, it has proven to be the approach that delivers the best long-term performance, engenders the highest level of workforce engagement and develops the strongest, most engaged workforce.

As the year progressed, robust go-to-market strategies were implemented across our combined territories, assisted by resourceful marketing and sales groups.

"Culturally, we began to ingrain Toromont's disciplines and business principles, including our decentralized management approach, within acquired operations."

Toromont provides industry-leading products, such as this Cat MD6290 rotary blasthole drill, and in-field product support to mining customers throughout its territories.

In human resources, safety and workforce development remained at the forefront despite the distractions inherent in year-one integration. Details are provided in our *Sustainability Report*, although two metrics stand out. First, we continued our safety journey with five-year total recordable injury frequency rate declining by 46%. Second, we recruited over 290 service technicians – a positive outcome given intense competition for talent.

Business Unit Highlights

Toromont Cat embraced the addition of new Québec and Maritimes territories by structuring itself to achieve the benefits of both decentralized branch operations and a high level of coordination of services that cut across the entire dealership.

To respect the cultural differences of our diverse territories, and in recognition of geographic proximity, we overlaid a senior leadership structure for Central, Québec and Atlantic Canada with key appointments made in each region. Legacy Toromont Cat branches in Newfoundland and Labrador joined with our newly acquired operations in the Maritimes under the broader Atlantic group.

Our model runs on empowered branch managers with P&L responsibility. To assist in their development, branch leaders in our new territories participated in Dealer Management Simulation training, a Caterpillar program we tailor to include Toromont return on capital employed and asset management philosophies. Training programs are just one of many advantages that we realize from our partnership with Caterpillar. We marked our 25th anniversary as a Cat dealer in August, 2018, and our relationship has been a difference maker every year. We are particularly grateful for Caterpillar's support during this period of change.

Two pan-regional groups for product support were also created: one specializing in Services and Remanufacturing and the other addressing Parts and Logistics. This shared services structure will allow for the development of Centres of Excellence, and the realization of business synergies and economies of scale over time. One example of the power of scale was seen in our component remanufacturing ("Reman") operations. Each predecessor organization had two Reman facilities, each managed regionally. The combined portfolio of four facilities allows for much more of a product-specific focus and paves the way to achieving new synergies and increased throughput.

Mining, Power Systems and Heavy Rents capabilities grew substantially as a result of the acquisition and in the case of Heavy Rents, new fleet investments.

Even with the distractions of integration, product support growth was achieved in both parts and service.

Battlefield Equipment Rentals set new time utilization records for its rental fleet on the way to another year of positive performance. Significant investments were made in the fleet,

"Our model runs on empowered branch managers with P&L responsibility."

including foundational capital allocations in acquired territories where we installed our rental service model. Our model depends on a full-cycle of equipment uploading, aging and disposition to provide hurdle-rate returns. We draw the analogy that rental is more akin to planting an orchard than sowing a wheat field: value is created over time but is continuous.

Market coverage also improved with new stores in Owen Sound, Ontario, and Fermont, Québec, a new shared store (with AgWest) in Morden, Manitoba and conversion of facilities previously shared with heavy equipment in Québec and the Maritimes to Battlefield-branded stores. Ground heaters, along with saleable goods such as boots, rain suits and shovels were among products added in new territories to improve our positioning as all-weather service centres. To improve product availability, the hub and spoke distribution system, used to good effect in existing markets, was introduced in acquired territories to improve delivery efficiencies. As well, more technicians were recruited to maintain rental fleets for quick turnaround.

Toromont Material Handling was designated a standalone business due to its unique customer base and equipment offerings. Prior to the acquisition, we had a relatively small material handling business representing MCFA products and Cat-branded forklifts that operated under the auspices of Toromont Cat's Manitoba and Newfoundland and Labrador regions. The addition of Ontario and Québec regions created a substantial operation across most of eastern Canada. We transitioned leadership following a retirement to steer pan-regional growth and entrench new operating and financial disciplines to improve efficiencies. We believe this business presents good opportunities for growth, particularly in rental markets, and we are investing accordingly. The recent addition of Nilfisk to our product line helped to diversify the business, while representation of leading lift truck brands and specialized batteries continued to give Toromont Material Handling a competitive edge.

Steady progress was made in our smaller Equipment Group business units. **Jobsite** Industrial Rental Services kept busy in 2018 in chemical and refinery markets during customer facility maintenance shutdowns. **SITECH** brought more focus to professional services and participated in the launch of next-generation software including concrete curb machine technology and earthworks grade control systems. **AgWest** improved its market position and coverage by partnering with Battlefield in Morden, Manitoba.

CIMCO grew across its markets in Canada and the U.S. while innovating and bringing heightened focus to the fundamentals of execution including service delivery, talent recruitment and training. Rising demand for both energy efficiency and natural refrigerants with minimal global warming potential led more users to our ECO_2 CHILL® systems. In 2018, Toronto's College Park and Woodsy Park opened the first two outdoor direct CO_2 ice rink systems in North America. Long-standing partnerships with industry leaders in food, beverage and cold storage were nurtured, while new industrial customer relationships were forged. Courtesy of an introduction by Toromont Cat in the Maritimes, CIMCO gained a customer relationship that had previously been outside its orb. Product

CIMCO designed this industrial-grade carbon dioxide/ammonia cascade system to provide superior performance using natural refrigerants.

25 years

We marked our 25th anniversary as a Cat dealer in August, 2018, and this relationship is a core competitive advantage.

Toromont customers benefit from access to next-generation technology. An example is found in this model excavator, outfitted with Cat® Connect PAYLOAD that provides on-the-go load weighing for better productivity.

50 years

2018 marked our 50th anniversary as a TSX-listed company with a value creation mission for customers and shareholders.

support operations were heavily utilized in most markets in North America including U.S. operations, the latter of which now delivers service under 130 Customer Support Agreements. The third-quarter installation of Customer Relationship Management software gave the CIMCO team a tool that improves customer account visibility and a platform to access standardized quoting templates that reduce response time to customer opportunities.

Governance

We were pleased to welcome Richard G. Roy to Toromont's Board on November 6, 2018. Mr. Roy is a Montréal-based business and finance executive with a keen understanding of the Québec market and decades of relevant experience earned principally in automotive equipment distribution. Your Board has been actively managing succession due to scheduled retirements in recent years with others on the horizon and, accordingly, has nominated two new candidates for election at our annual meeting May 3, 2019. Peter J. Blake is an accomplished public company CEO with highly relevant and analogous heavy equipment sales, auction and distribution experience. Sharon L. Hodgson is an accomplished expert in technology, including digital and artificial intelligence, with significant North American-level business leadership experience. With these proposed additions, the Company's Board of Directors will consist of 11 members, of whom ten are independent.

Looking Forward

Although Toromont is a proven business with a long track record, each year we feel we have something more to accomplish and 2019 will be no different. Detailed planning identified many opportunities to pursue for profitable growth and challenges to manage.

Going forward, while running the business for continuous improvement, we will tackle the priorities that remain on our integration agenda, including the meaty assignment of developing common technology platforms. As always, we are committed to doing things properly and pragmatically with regards to strategic alignment, workforce capacity and the creation of long-term value. Our continued focus is on managing our business across the many stages of the economic cycle, not just for the vagaries of specific market conditions, for we believe this creates maximum sustained value for all of our key stakeholders.

Thanks

Up and down the line, the Toromont team has adapted well to the responsibilities that come with being a much larger company and we thank our employees, Directors and business partners for their many contributions in 2018. We reserve our utmost thanks to our customers and fellow shareholders for the opportunity to serve as one team with many growth platforms.

Yours sincerely,

Robert M. Ogilvie
Chairman of the Board

Scott J. Medhurst
President and Chief Executive Officer

Toromont's Aaron Wright is part of a team at our Power Systems operation in Brampton, Ontario, that customized this Cat 3516 diesel generator for a customer's mission-critical application.

Toromont Material Handling provides specialized equipment such as this electric powered Jungheinrich Class II reach truck that is specified to perform in the narrow confines of warehouses and logistics centres.

Sustainability Report

Much has changed at Toromont over the past year as we integrated the largest acquisition in our history and welcomed over 2,100 people to our team. What has not changed is our focus on sustainability – in all its forms – and our commitment to the safe, responsible and productive stewardship of our business on behalf of employees, customers, shareholders and the communities where we work.

Safety

Every year, Toromont makes substantial investments in training, coaching, recognition and employee engagement activities to nurture adherence to its safety culture. The Company's methodical approach is intended to elevate safety to the forefront of the activities carried out by all employees, regardless of rank or role.

Across more than 150 Toromont locations in North America, each day begins with Safety Talk, an informative daily reminder of how to avoid injury. From there, employees working in all shops and at customer sites perform formal pre-job-hazard assessments to document possible risks and the measures that they will take to avoid these risks. An assessment is completed for each job undertaken, and updated as hazards arise, to reinforce the need for safe behaviour at every turn. Supervisors review the assessments daily and provide feedback and coaching to ensure safe practices. In our shops and in the field, employees are provided with the right Personal Protective Equipment (PPE) for each task. Proper PPE use is one of our Five Cardinal Safety Rules intended to emphasize foundational safety principles.

In branches and stores, posters are displayed with key safety messages, providing another reminder of the importance we place on safeguarding our employees as well as customers and suppliers who visit our operations.

To ensure employees have access to all the latest safety techniques and knowledge, Toromont provides formal safety training. In 2018, employees embraced this training, completing over 128,000 hours of instruction designed to help them recognize, avoid and mitigate the risks inherent in their workspaces. We also make safety policies and procedures easily accessible through employee intranet sites. Both CIMCO and Battlefield Equipment Rentals upgraded their sites during 2018 to improve functionality.

We believe the best results are achieved when everyone at Toromont is accountable for safety. At the management level, variable compensation is tied to safe operating performance and to involvement in promoting safe behaviours. Managers and supervisors demonstrate their commitment by being visible and active, with a targeted 'leaders-on-the-floor' focus that ensures ongoing coaching and reinforcement of safe practices.

In 2018, Safety Summits of branch leaders and supervisors were hosted in five Toromont Cat locations to identify ways in which we could continuously improve our efforts and our results. One initiative we centered on was to enhance the safety training given to our branch leaders so that they could make a bigger and better contribution to our safety culture. During 2018, 10 members of our health and safety team were certified to offer Safety Leadership Training, a program that rolls out at Toromont Cat in 2019.

Compliance is a key part of the best safety programs. Throughout Toromont, periodic safety audits are one of the ways we encourage compliance and isolate issues for remedial action. In 2018, CIMCO engaged a third-party specialist to complete a 45-day branch and field safety audit across its operations. The findings of these audits, which included interviews with CIMCO staff to gauge their awareness of safety policies and procedures, were used to develop continuous improvement initiatives for each location.

Members of our Val-d'Or, Québec, branch gather to hear about the personal health benefits of a good work environment.

Avinash Narine-Jaikaran, an Apprentice Technician, serves at Toromont Cat where he is developing his skills for a productive career in the heavy equipment industry.

Compliance is also enforced through our Five Cardinal Safety Rules policy: be fit for duty, assess all hazards prior to starting the job, control all hazardous energy, wear the right PPE and report all incidents promptly. While all of our safety rules are important, failure to execute these five required foundational behaviours leads to elevated disciplinary action, up to employment termination, regardless of role or rank.

To ensure outside contractors are compliant when working in store locations or customer sites, all divisions maintain a Contractor Management Program. With our expanded organization, additional investments were made in 2018 to transition to a more robust Contractor Management tool in order to mitigate contractor risk and manage the expanded breadth and complexity of our operations effectively.

We also celebrate safe performance. Our Safety Bucket and Maurice De Stephano awards single out Toromont Cat branches that surpass all others in safety metrics. For 2018, we were proud to present these coveted awards to our Voisey's Bay (NL) and Québec City locations, respectively. Battlefield Equipment Rentals also provides quarterly and annual awards for safe driving and clean inspections.

In 2018, we began bringing together the best safety practices of acquired and legacy operations to ensure everyone is well protected and well informed. In so doing, we compared, refined and aligned individual policies and procedures to set ourselves on a unified path to achieve our goal of zero workplace injuries.

By providing the right stewardship, continuously investing in the best training and tools and ensuring that safety is a workplace characteristic to be admired and aspired to, Toromont has made progress in its safety journey as evidence by the five-year decline in total recordable injury frequency rate of 46%, and an 11% improvement year over year. With an increased focus on safety leadership and accountability, we seek to continue to drive towards a zero-injury workplace.

Workforce Development

Sustainable growth at the rate and quality Toromont seeks does not just happen. It is the product of our skilled, productive and invested workforce. Each year, we take steps to advance employee knowledge and engagement and 2018 was no different, although the scope of our activities increased dramatically with the addition of Toromont QM.

During the year, Toromont Cat employees across the expanded territory completed 189,310 hours of technical and skills training to prepare them for the opportunities and challenges ahead.

All Toromont Cat employees across our territories participated in setting individual performance goals based on business plan objectives. In tandem, employees were encouraged to set personal skills development goals, taking into account the key competencies that are necessary for them to excel in their roles. Toromont's deep educational resources are catalogued in a Development Playbook, and customized training is available for all employees to ensure personal and professional growth aligned with business needs.

Each month, Toromont Cat provided facilitated workshops on topics that addressed workforce needs including leading remotely while managing closely, project management and change leadership. Managing change in a positive manner is a key skill for our team, particularly during this time of integration. In the third quarter, we launched Leaders@Work, an on-demand platform that provides managers with the choice of how to learn in classroom, online, or in virtual classrooms. Formal study without the need to leave one's office improves participation and convenience. Over 2,700 hours of additional training was provided through Leaders@ Work and this forum will expand in 2019.

To prepare our Toromont QM managers to excel in their roles, we ran multiple dealer management workshops. Attended by over 50 managers, these workshops introduced financial concepts, discussed how to best execute strategies to achieve results, and honed the leadership skills needed to motivate teams. Utilizing business simulation to practice and reinforce learned behaviours, our QM leaders gained the insights needed to manage effectively in a decentralized organization where authority and accountability go hand in hand in producing great results.

Succession planning is important because the vast majority of our leaders are promoted from within. We introduced Toromont's method of succession planning at Toromont QM in the fall.

While delivering a record level of training, Toromont Cat's human resources team was amalgamated and skills shared. To expand internal coaching capabilities, several HR team members from Toromont QM were certified to offer training in foundational development programs in order to better identify high-potential candidates and fully understand and support all employees' needs and capabilities.

Other Toromont businesses provided skills training and development to meet the unique needs of their organizations. As a project-based business, CIMCO offered an intensive program on the fundamental disciplines of great execution.

Skills development is just one of the ways we invest in our workforce. Another is the Toromont Employee Share Ownership Purchase (ESOP) plan. As share owners,

participating employees have another direct stake in their own success and an alignment of interests with public shareholders. We will introduce ESOP to Toromont QM in 2019 and over time, hope to see the participation rate grow to where it was at the rest of Toromont in 2018 – at over 50%.

Broader benefits and a pay-for-performance culture, coupled with dedicated training and opportunities for advancement, are integral to building a Toromont workforce that is motivated, engaged and ready to take on new challenges.

Recruitment

Continued growth fueled the need for continued recruitment in 2018, particularly to increase the ranks of our highly skilled service technicians. Over 290 new Toromont Cat technicians were recruited, including three from Australia and one from South Africa. Battlefield Equipment Rentals also added over 50 technicians, while CIMCO recruited just over 30. Even with these increases, there remains a significant need.

Whether they work on heavy equipment, smaller machines or refrigeration systems, technicians are in high demand. Competition to attract them is fierce and the pipeline of young people entering the "trades" is insufficient to meet long-term demand.

Taking all of this into account, Toromont took some bold steps to enhance recruitment activities to set itself up for future success. To build our pipeline of future technicians, changes were made to encourage Toromont Cat branches to more aggressively invest in apprenticeship training, budgets were increased and two dedicated technician recruiters were added. A Mining Apprenticeship Training Program was created and the first two apprentices were recruited. We began to encourage skilled workers in other industries such as automotive to make the leap to heavy equipment repair. Overall, 32 apprentices were added.

At CIMCO, we prepared the curriculum for a seven-level Technician Apprenticeship Program in the United States. Unlike Canada, the U.S. does not operate an apprenticeship system to train refrigeration mechanics. With this program, we plan to train newcomers in multiple different equipment types and further develop the skills of our existing field-service personnel in the U.S. so that they can advance to the position of Master Technician. We believe this training program will differentiate CIMCO and support the goal of growing its service technician workforce by 10% per annum. CIMCO also made headway in recruiting technicians using its "friends and family" referral program.

Thinking more broadly about resource needs, we continued to recruit university graduates for our management trainee program. Every year, management trainees are given meaty assignments and make a positive contribution. In 2018, five trainees lent their expertise to a number of important projects including the centralization of our preventative maintenance program and the standardization of our service advisor model. Due to the success of this program, and demand for management trainees throughout the organization, we intend to expand it in 2019.

Winning Gold

Kaleb Czyruk, an apprentice from Toromont Cat's Peterborough branch, won gold in the Heavy Equipment Service category at the 2018 Skills Ontario Competition, an annual event featuring over 2,100 students from secondary and post-secondary institutions vying for medals in various skilled trades categories. Toromont Cat and Battlefield supported the competition by providing three CAT 924K wheel loaders and three judges. Winning gold qualified Kaleb to represent Ontario at the 2018 Skills Canada Competition in Edmonton where he took the bronze medal.

Toromont's long-time investment in the management trainee program has paid dividends for succession planning. Former trainees now serve in positions such as Vice President, Product Support, President, Battlefield Equipment Rentals and President and Chief Executive Officer, Toromont Industries.

Diversity

Toromont sees the advantage of building a diverse and inclusive team. For this reason, Toromont intentionally seeks to encourage members of underrepresented groups to participate in our industry and join our Company.

The first 'face' of Toromont that many candidates see is in our recruiting and customer promotional materials. In 2018, we made a conscious effort to ensure the faces used in our marketing campaigns represented the diversity of the communities we serve. Although a symbolic gesture, we believe this conscious choice sent a welcoming signal to the broader community.

During 2018, we recruited three technicians from First Nations communities to serve at Toromont Cat in Québec and one apprentice technician from the Inuit community to serve in our Baker Lake, Nunavut operation. We also created an internship opportunity for a member of the Inuit community at our Iqaluit, Nunavut branch and provided another internship to a member of the Cree Nation of Eastmain to develop skills at our Pointe-Claire, Québec Heavy Equipment shop.

Toromont continued its efforts to increase the proportion of women in its workforce and in its leadership. Over the past few years, we have made inroads with female representation in varied leadership roles including:

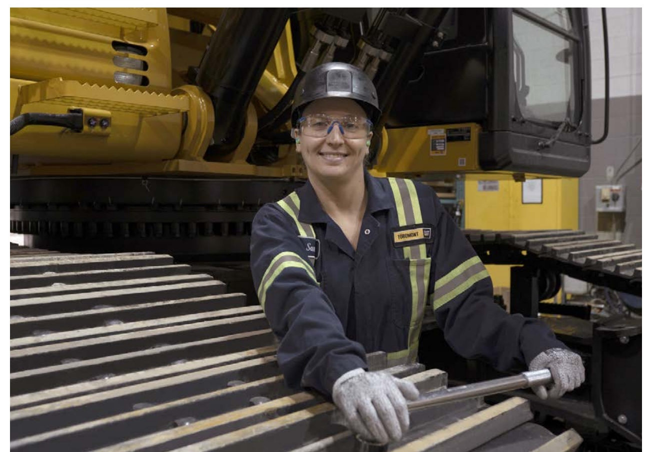
- Vice President, Power Systems;
- Regional Manager, Eastern Ontario, Battlefield Equipment Rentals;
- Heavy Rents Manager, Toromont Cat;
- Director, Human Resources, Toromont Cat;
- Director, Taxation, Toromont Industries;
- Director, Financial Services, Toromont Industries;
- General Counsel and Corporate Secretary, Toromont Industries; and,
- Vice President, Finance, Toromont Industries.

We also made a very deliberate choice to improve representation by recruiting Toromont's first two female Directors to the Company's Board of Directors several years ago.

We continued with this effort across our broader organization in 2018 by participating in events such as "*Jill of All Trades*" at Conestoga College and Diversity Networking at Ryerson and McMaster universities. Starting the conversation early with elementary school girls was made possible by our participation in the "*Women in Trades*" conference at the Toronto Congress Centre.

To ensure newcomers to Canada are aware of Toromont, we continued to recruit with the help of COSTI Immigrant Services. Overcoming the barriers to diversity and inclusion also requires a commitment to inform and elevate awareness internally. In 2018, we introduced several training modules for employees including

Toromont's Kaleb Czyruk receives his gold medal at the Skills Ontario Competition in Toronto.



Samantha McGillion, an Apprentice Technician, at work in our tractor shop in Concord, Ontario.

Toromont continues to invest in upgraded wash bays to realize improved water efficiency.

Toromont is a proud supporter of the annual World Pond Hockey Championship in Plaster Rock, New Brunswick, which attracts over 100 amateur teams playing on 20 outdoor ice surfaces.

"The Diversity Advantage" that contained insightful information on how to leverage differences at work for great results.

As a metrics-driven organization, Toromont believes it is important to measure the outcomes we seek to achieve. For this reason, diversity metrics are tracked in our quarterly Toromont CAT HR Scorecard. Our intentional efforts show measurable year-over-year improvement in the areas of leadership, gender and ethnic diversity with continued focus on all underrepresented groups.

Overall, Toromont's culture values actions over words. Therefore, the outcome of our diversity and inclusion activities is what counts. In 2018, we made progress in hiring broadly, advancing the skills of our team and – as always – promoting on merit. The outcome is a stronger Toromont.

Environment

Toromont's environmental sustainability efforts are an outgrowth of a disciplined approach to capital and operating management. Simply put, what is good for the environment can also be good for cost and efficiency.

Energy and Pollution Reduction
In aggregate, Toromont has a relatively small environmental footprint, but we never use this as an excuse for inaction.

Federal and provincial governments are taking various actions to address Canada's commitment to the Paris Climate Change Accord. Such actions will likely increase the cost of fuel to power our facilities and run our service trucks over time. To counter this impact and to do our part for the environment, we conserve energy use and reduce pollution wherever possible.

In managing our fleet of vehicles, which is the largest contributor to greenhouse gas (GHG) emissions in our business, fuel efficiency considerations are part of equipment purchase decisions. To eliminate needless pollution and energy consumption, we maintain anti-idling policies and employ GPS monitoring to assist us with fuel consumption benchmarking.

Toromont facilities are the second largest contributor to our GHGs, meaning we must continue to make steady improvements. At Toromont Cat, building energy intensity continued its downward trend in 2018 as a result of additional investments in more efficient HVAC systems, lighting, overhead doors and compressed air tools. Eight branches replaced fluorescent building signs with LED lighting kits, which cut energy usage and maintenance costs with a relatively fast payback. Battlefield Equipment Rentals also continued to upgrade heating and lighting as part of its capital plan.

Emission abatement was assisted at Power Systems by the use of selective catalytic reduction equipment that minimizes the release of nitrogen oxide and sulphur during generator testing.

More generally, facility care and yard maintenance are priorities because a clean, modern appearance reflects our brand, builds goodwill with customers and neighbours, assists in safe performance and compliance, and creates pride of place. Due to the increase in our footprint with acquired operations, and in support of our growth strategies, we increased capital spending by 33% year over year.

Small actions can also make a difference. This past year, we encouraged Toromont Cat branches to purchase environmentally friendly cleaning supplies that release lower levels of volatile organic compounds (VOCs), a contributor to ozone depletion.

Water Management
Through the use of specialized wash bays for equipment, Toromont continued to realize improved water efficiency.

These systems recycle water, allowing us to hold the line on consumption, even with higher activity levels. Energy-efficient, high-temperature steam and pressure washers installed in these systems also eliminate the use of chemical cleaning agents. In 2018, Toromont Cat's Sault Ste. Marie, Ontario branch was the latest to install such a system.

The recent replacement of five washing systems used to clean equipment parts also contributed to water conservation. Net water savings were approximately 3.4m^3 (900 gallons) for one cleaning cycle, or 817m^3 (216,000 gallons) per annum.

Battlefield Equipment Rentals' water conservation efforts were assisted by specialized wash bays in 25 standalone locations and another three shared with Toromont Cat.

Waste Diversion

To bring additional attention to the merits of a zero-waste ecosystem, and encourage permanent behavioural change, Zero Waste Champions were appointed at various branches. Toromont Cat also continued to recycle absorbent cloths used in cleaning and repairing machines. Since this program started in 2012, 48,654 kilograms of waste were diverted from landfill and 33,574 litres of liquid including oil were recovered.

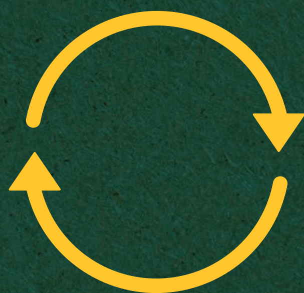
Helping Customers Go Green

Toromont and its business partners produce products that help customers achieve their sustainability objectives. We are proud of our home-grown innovations at CIMCO – sold primarily under the ECO CHILL and ECO$_2$ CHILL brands – that have proven to be game-changers for recreational and industrial refrigeration customers and the broader environment. By using a unique and patented heat capture and recycling system, the ECO CHILL installed base has cumulatively offset 851,000 CO_2-equivalent tonnes (the same amount produced by 189,000 cars) compared to traditional refrigeration and saved 17 billion cubic feet of natural gas over the past 14 years.

CIMCO's applied use of natural CO_2 refrigerant also provides customers with another alternative to freon. Customers responded well to this offering in 2018 as ECO$_2$ CHILL reached 8% of all orders booked.

Community

Toromont employees are community minded and as a company, we applaud and encourage their activities. Our official designated charity is the United Way/Centraide, which helps those in need in the communities we serve. In 2018, our employees contributed $285,000 to this important cause. These results were earned at early-morning breakfasts, BBQs, bingo games and through generous pledge donations. Toromont business units provided support to other worthy causes. In 2018, Battlefield Equipment Rentals supported Hope Air, a service connecting residents of remote communities to medical care hundreds of kilometres away. The Children's Wish Foundation in Québec and in the Maritimes (where we made a rental equipment donation in concert with New Brunswick Road Builder's Association) and Habitat for Humanity were also worthy recipients of our support.



With a larger workforce and facility footprint, Toromont has more corporate social responsibilities than ever and great opportunities to support the communities where we work and live. We take these responsibilities seriously and our focus up and down the organization is on long-term results and on the pragmatic actions that will achieve those results. Overall, our sustainability initiatives form part of the fabric of values that weave together for the Toromont tapestry, executed by the passion and commitment of the Toromont team.

Corporate Governance

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 Board to facilitate the Board's functioning. 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, 2019, prepared in connection with the Corporation's 2019 Annual Meeting of Shareholders and available on our website at **www.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

L to R: James W. Gill, Robert M. Franklin, Scott J. Medhurst, Robert M. Ogilvie, Cathryn E. Cranston, Jeffrey S. Chisholm, Richard G. Roy, Katherine A. Rethy, Wayne S. Hill

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.

Executive Operating Team

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

Randall B. Casson
President, Battlefield Equipment Rentals

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

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.

Lynn M. Korbak
General Counsel and Corporate Secretary

Ms. Korbak joined Toromont in 2018 as General Counsel and Corporate Secretary. She previously served in the same capacity at another Canadian publicly listed company for more than 13 years. She has also acted as in-house and external corporate counsel and secretary for a number of other national and international companies. She is a member of the Ontario Bar, and holds an LLB from Osgoode Hall Law School.

David A. Malinauskas
President, CIMCO Refrigeration

Mr. Malinauskas was appointed President of CIMCO in 2015 following a successful 16-year career with the business. He had held various positions of increasing responsibility, including 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.

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, 2018, 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, 2018.

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 14, 2019.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2018 Annual Report and 2019 Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory

Information in this MD&A 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.

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 and acquired in excess of those currently contemplated. Risks and uncertainties related to the 2017 significant acquisition 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 2017 acquisition; 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 the acquired 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 Recap

2017 Acquisition

Toromont completed a significant acquisition on October 27, 2017, and as a consequence became the authorized Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the MCFA 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. Collectively, the businesses acquired are referenced as Toromont Québec/Maritimes ("Toromont QM or TQM") throughout this report.

This important transaction 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.

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

Corporate Profile and Business Segmentation

As at December 31, 2018, Toromont employed over 6,000 people in more than 150 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 Equipment Rentals, 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 acquired businesses noted above, which are in varying stages of integration. The Company is the exclusive Caterpillar dealer for a contiguous geographical territory in Canada that covers Manitoba, Ontario, Québec, Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island and most of Nunavut. Additionally, the Company is the MaK engine dealer for the Eastern Seaboard of the United States, from Maine to Virginia. 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.

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)	2018	2017	$ change	% change
Revenues	$ 3,504,236	$ 2,350,162	$1,154,074	49%
Cost of goods sold	2,640,835	1,794,213	846,622	47%
Gross profit (1)	863,401	555,949	307,452	55%
Selling and administrative expenses	493,827	306,367	187,460	61%
Operating income (1)	369,574	249,582	119,992	48%
Interest expense	30,643	12,277	18,366	150%
Interest and investment income	(8,918)	(4,659)	(4,259)	91%
Income before income taxes	347,849	241,964	105,885	44%
Income taxes	95,865	65,994	29,871	45%
Net earnings	$ 251,984	$ 175,970	$ 76,014	43%
Basic earnings per share	$ 3.10	$ 2.22	$ 0.88	39%
Key ratios:				
Gross profit margin (1)	24.6%	23.7%		
Selling and administrative expenses as a % of revenues	14.1%	13.0%		
Operating income margin (1)	10.5%	10.6%		
Income taxes as a % of income before income taxes	27.6%	27.3%		
Return on capital employed (1)	21.7%	21.5%		
Return on equity (1)	22.3%	19.3%		

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

The Company delivered solid results in the year, the first across the expanded territories in its Equipment Group. Results at CIMCO were weaker, mainly due to specific items.

The legacy businesses reported revenue growth of $127.5 million or 6% for the year with increases across most revenue streams in the Equipment Group and higher package sales and product support revenues at CIMCO. Toromont QM contributed $1.3 billion in the year versus $242.6 million generated for the two months of ownership in 2017.

Gross profit margin increased 90 basis points ("bps") to 24.6% versus last year. The legacy Equipment Group reported higher margins across most revenue streams, partially offset by lower package margins at CIMCO. Both Groups benefitted from a favorable sales mix of higher product support revenues to total revenues.

Selling and administrative expenses increased $187.5 million, largely reflecting the incremental expenses at Toromont QM ($172.7 million). Acquisition-related costs were $4.9 million lower than last year, while mark-to-market adjustments on Deferred Share Units ("DSUs") favorably impacted expenses by $5.6 million, given the relative share prices. Compensation costs accounted for approximately 60% of the remaining increase on additional headcount, regular annual increases and higher profit sharing accrual on the increased earnings. Allowance for doubtful accounts were $2.0 million higher reflecting the relative aging profiles of accounts receivables. Certain other expenses categories such as customer support costs, insurance, travel, training and information technology costs, were higher in support of the growth and integration and transition efforts. As a percentage of revenues, expenses net of Toromont QM and acquisition-related expenses were 20 bps higher than last year at 12.6%.

Operating income increased $120.0 million reflecting the incremental contribution at Toromont QM, net of acquisition-related costs, and solid growth in the legacy Equipment Group, partially offset by weaker results at CIMCO. Operating income margin for the legacy businesses increased 80 bps to 12.5%.

Interest expense increased $18.4 million as a result of the additional debt incurred to partially fund the acquisition.

Interest income increased $4.3 million on higher investment income resulting from higher average cash balances held throughout the year and higher interest from conversions of equipment on rent with a purchase option ("RPO").

The effective income tax rate for 2018 was 27.6% compared to 27.3% in 2017. The increase is substantially due to the higher proportion of income earned in the higher tax jurisdictions, although this is expected to be mitigated in coming years as Québec continues to phase in reductions in the corporate tax rates.

Net earnings in 2018 were $252.0 million, up 43% from 2017, while basic earnings per share ("EPS") increased $0.88 or 39% to $3.10. The following table identifies the components of contributions to the 2018 results versus last year:

($ millions, except per share amounts)	Net earnings 2018	Net earnings 2017	Net earnings % change	Basic EPS[(a)] 2018	Basic EPS[(a)] 2017	Basic EPS[(a)] % change
						Years ended December 31
Legacy Toromont [(b)]	$ 205.9	$ 175.6	17%	$ 2.61	$ 2.29	14%
Toromont QM [(c)]	64.1	8.3	nm	0.81	0.11	nm
Acquisition-related interest expense and integration-related costs [(e)]	(18.0)	(7.9)	nm	(0.23)	(0.10)	nm
Dilutive impact of acquisition shares [(d)]	—	—	—	(0.09)	(0.08)	nm
As reported	$ 252.0	$ 176.0	43%	$ 3.10	$ 2.22	39%

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability.
(b) Defined as all businesses continuing from prior to the acquisition.
(c) Defined as all businesses acquired October 27, 2017.
(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings.
(e) Expenses shown net of taxes.

Legacy Toromont net earnings increased 17% in the year while EPS increased $0.32 or 14%.

Comprehensive income in 2018 was $273.0 million (2017 - $168.2 million), comprised mainly of net earnings and other comprehensive income resulting from actuarial gains on defined benefit pension and other post-employment benefit plans and a favorable 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)	2018	2017	$ change	% change
Equipment sales and rentals				
New	$ 1,197,739	$ 784,915	$ 412,824	53%
Used	310,381	227,293	83,088	37%
Rentals	378,027	261,641	116,386	44%
Total equipment sales and rentals	1,886,147	1,273,849	612,298	48%
Product support	1,264,295	746,832	517,463	69%
Power generation	10,645	11,270	(625)	(6%)
Total revenues	$ 3,161,087	$ 2,031,951	$ 1,129,136	56%
Operating income	$ 348,876	$ 219,814	$ 129,062	59%
Capital expenditures (net)				
Rental	$ 125,148	$ 66,822	$ 58,326	87%
Other	37,546	32,710	4,836	15%
Total	$ 162,694	$ 99,532	$ 63,162	63%
Key ratios:				
Product support revenues as a % of total revenues	40.0%	36.8%		
Operating income margin	11.0%	10.8%		
Group total revenues as a % of consolidated revenues	90.2%	86.5%		
Return on capital employed	21.4%	21.1%		

Total Equipment Group results demonstrated significant increases in revenues and earnings on continued year-over-year growth in the legacy operations and an accretive full year of operations in the expanded territories (versus two months in 2017).

The legacy Equipment Group revenues grew 6% to $1.9 billion on increases across most revenue streams. Toromont QM contributed $1.3 billion in its first full year of operations under Toromont's ownership, representing a 13% increase over those generated in 2017, ten months of which were at the predecessor organization. To provide a more complete understanding of the business trends at TQM, year-over-year revenue comparisons will be against pro forma 2017 revenues (i.e. Toromont + predecessor organization).

At the legacy businesses, total equipment sales (new and used) increased $21.6 million or 2%. New equipment sales were up 6%. Growth in construction and agriculture followed positive markets, which more than offset lower sales in mining and power systems, following significant orders and record performance in the prior year. Used equipment sales were down 7%, significantly due to tighter availability, together with the strategic curtailment of rental fleet dispositions, due to growth focus in rental, together with a view to product availability.

At Toromont QM, total new and used equipment sales of $611.7 million represented a 16% increase over total new and used revenues generated in 2017 at Toromont and the predecessor organization combined. Sales into construction markets were up on good penetration of robust markets, and power systems increased on higher sales into electric power markets, somewhat offset by lower marine activity. Sales into mining markets were lower coming off a strong year. Material handling or lift truck sales increased with an expanding product portfolio, together with higher activity levels with the larger customers.

Legacy rental revenues increased $30.2 million or 12% versus last year, mainly on higher utilization and larger fleets. Rental rates have remained relatively constant to 2017, while the average cost for machines added to the fleets has increased. Heavy equipment rentals were up 4% with strong activity levels reported in Ontario, especially in the north and southwestern corridor, offsetting lower activity in Newfoundland. Light equipment rentals increased 10% with all regions reporting growth except Newfoundland. Power rentals increased 67%, closing out a record year, on strong growth in the prime power segment. Market penetration was also good across most other industries, reflecting the continued focus on growing and diversifying the fleet to address demand signals across the wider market base. Rental revenues from equipment on rent with a purchase option ("RPO") were up 10% on a larger average fleet versus 2017. At Toromont QM, rental revenues of $104.8 million represented a 6% increase over 2017. Higher investments in the fleets, together with a diversified portfolio aligning to the legacy operations mix yielded higher revenues. At December 31, 2018, the RPO fleet across the business was $74.6 million, up $3.0 million from a year ago.

Product support revenues at the legacy businesses increased $51.3 million or 8%. Parts sales grew 6%, mainly reflecting good activity into mining markets. Service revenues were up 13% with growth across most market segments. At Toromont QM, product support revenues of $552.8 million represented a 10% increase over 2017 on higher parts (up 9%) and service revenues (up 15%). Both legacy and Toromont QM's product support revenues benefitted from good rebuild activity and a growing technician base.

Power generation revenues were $10.6 million versus $11.3 million last year, reflecting lower electricity output at the Waterloo landfill plant and lower thermal revenues at the Sudbury Hospital plant.

Gross margins increased 160 bps versus last year. For the legacy operations, product support, equipment and rental margins were higher, further buoyed by a favorable sales mix of product support revenues to total revenues.

Selling and administrative expenses were up $187.3 million, mainly due to the incremental expenses at Toromont QM, net of acquisition-related costs. At the legacy businesses, expenses increased $19.6 million or 9% and were 40 bps higher as a percentage of revenues, mainly due to higher compensation costs, allowance for doubtful accounts and general increases across most other categories in support of growth and integration and transition efforts.

Operating income was up $129.1 million. The operating income of the legacy businesses increased $42.3 million or 20% and was 160 bps higher as a percentage of revenues (13.7% versus 12.1% last year).

Capital expenditures, net of dispositions, increased $63.2 million, largely due to investments at Toromont QM (up $65.1 million). At the legacy businesses, replacement and expansion of the rental fleet were up $7.3 million to $68.3 million while other capital expenditures were lower by $9.2 million, mainly due to lower investments in land and buildings. At Toromont QM, $51.1 million of the increase related to growing the rental fleet.

Bookings and Backlogs

($ millions)	2018	2017	$ change	% change
Bookings – year ended December 31	$ 1,537	$ 1,013	$ 524	52%
Backlogs – as at December 31	$ 342	$ 327	$ 15	5%

The legacy businesses bookings increased $16.0 million or 2%. A large power systems order, together with higher construction (up 5%) and agriculture orders (up 14%), served to offset the impact of the large mining package delivered last year.

Toromont QM bookings were $594.0 million for 2018 versus $86.0 million for the two months of operations in 2017. Prior to the acquisition, bookings were not tracked at the predecessor organization. Approximately 60% of the orders in 2018 were construction related, with the remainder split somewhat evenly between mining, power systems and lift truck orders.

Backlogs, which would be on a comparable basis year-over-year, increased $15.0 million or 5% to $342.0 million. At December 31, 2018, the total backlog related to power systems (42%), construction (26%), mining (19%), agriculture (7%) and lift trucks (6%), most of which is expected to be delivered in 2019. 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)	2018	2017	$ change	% change
Package sales	$ 202,367	$ 189,212	$ 13,155	7%
Product support	140,782	128,999	11,783	9%
Total revenues	$ 343,149	$ 318,211	$ 24,938	8%
Operating income	$ 20,698	$ 29,768	$ (9,070)	(30%)
Capital expenditures (net)	$ 2,452	$ 1,422	$ 1,030	72%
Key ratios:				
Product support revenues as a % of total revenues	41.0%	40.5%		
Operating income margin	6.0%	9.4%		
Group total revenues as a % of consolidated revenues	9.8%	13.5%		
Return on capital employed	64.1%	99.9%		

CIMCO delivered record revenues for the year, mainly on continued growth in Canada as the US contracted slightly following a very strong 2017. The translation of financial results at the US operations did not have a significant impact on results. Lower operating income reflects a specific one-time inventory adjustment recorded in the fourth quarter.

In Canada, package revenues were up $19.2 million or 14%, reflecting strong sales into industrial markets (up 32%), partially offset by lower recreational sales (down 19%). Québec and Western Canada revenues increased to record levels while Ontario and Atlantic Canada returned to more normal levels following the record 2017. In the US, package revenues decreased $6.0 million or 13% as strong sales into industrial markets (up 134%) were partially offset by lower sales into recreational markets (down 61%).

Product support revenues increased $11.8 million or 9% versus last year on growth in both Canada (up 10%) and the US (up 8%). The increased installed base continues to provide a solid growth platform as product support revenues have increased every year since 2009. Focus remains on growing the technician base to address demand signals.

Gross margins decreased 440 bps, largely attributable to an inventory write-down recorded in the fourth quarter ($6.0 million), together with execution problems encountered in the first half of the year on one US project resulting in a charge of $2.9 million for the year. The inventory charge stemmed from a review of work-in-process costing and aging. Apart from this, project margins continued to face pressures in both Canada and the US, mainly on a very competitive pricing environment. The growing proportion of product support revenues to total revenues continues to somewhat mitigate this impact. Product support revenues were 41.0% as a percentage of total revenues compared to 40.5% in 2017.

Selling and administrative expenses were relatively in line with last year but down 100 bps as a percentage of revenues (14.0% versus 15.0%). Higher compensation costs were offset by reductions in most other expense categories as the Group continues to focus on expense management to mitigate the margin pressures.

Operating income was lower by $9.1 million or 30% in 2018, principally due to the lower margins described above. As a percentage of revenues, operating income was 6.0%.

Capital expenditures, net of dispositions, were up $1.0 million or 72% to $2.5 million with the majority of expenditures in 2018 related to additional service vehicles ($1.2 million), information technology infrastructure enhancements and upgrades ($0.7 million) and machinery and equipment ($0.5 million).

Bookings and Backlogs

($ millions)	2018	2017	$ change	% change
Bookings – year ended December 31	$ 185	$ 233	$ (48)	(21%)
Backlogs – as at December 31	$ 113	$ 134	$ (21)	(16%)

Bookings of $185.0 million were lower by $48.0 million versus the all-time high achieved last year. Industrial orders were lower in both Canada (down 21%) and the US (down 61%) while recreational orders were lower in Canada (down 10%) and relatively unchanged in the US.

Backlogs of $113.0 million were also lower against the record 2017 levels, but still higher than the previous five-year average. Industrial backlogs were down 19%, mainly in Canada. Recreational backlogs were down 11% with higher Canadian activity more than offset by lower US activity. The backlog levels for this time of year provide a good base entering 2019, with substantially all expected to be realized as revenue in 2019.

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 of TQM in October 2017.

At December 31, 2018, the ratio of net debt to total capitalization decreased to 18% versus 40% at December 31, 2017.

Non-cash Working Capital

The Company's investment in non-cash working capital was $309.5 million at December 31, 2018. The major components, along with the changes from December 31, 2017, are identified in the following table.

($ thousands)	2018	2017	$ change	% change
Accounts receivable	$ 522,462	$ 528,748	$ (6,286)	(1%)
Inventories	873,507	777,524	95,983	12%
Other current assets	9,932	8,386	1,546	18%
Accounts payable and accrued liabilities	(916,300)	(525,166)	(391,134)	74%
Provisions	(24,382)	(22,436)	(1,946)	9%
Income taxes payable	(28,368)	(204)	(28,164)	nm
Derivative financial instruments	27,624	(5,260)	32,884	nm
Dividends payable	(18,737)	(15,655)	(3,082)	20%
Deferred revenues and contract liabilities	(136,244)	(137,129)	885	(1%)
Total non-cash working capital	$ 309,494	$ 608,808	$ (299,314)	(49%)

Accounts receivable at December 31, 2017, included $42.7 million related to amounts owing to the Company stemming from the acquisition which was subsequently collected in the first quarter of 2018. Excluding this, accounts receivables increased $36.4 million or 7%, largely reflecting higher revenues at the legacy businesses in the fourth quarter (up 5%), the impact of Toromont QM in the fourth quarter year-over-year (three months of activity in 2018 versus two months in 2017) and slower collections.

Inventories increased $96.0 million or 12% with increases in both Groups:

- Equipment Group inventories were $95.7 million or 13% higher with increases in equipment (up $51.9 million or 10%), parts (up $40.9 million or 21%) and service work-in-process (up $2.9 million or 5%). With increased business opportunities following the expansion, the Company built up both the equipment and parts inventory levels throughout the year. Additionally, certain inventory was held in advance of customer specified delivery dates later in 2019 together with higher parts inventory at remote mine sites to support higher activity levels. The higher service work-in-process levels reflects good activity levels across our service operations.
- CIMCO inventories were up $0.3 million or 2% on higher work-in-process levels.

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

Accounts payable and accrued liabilities increased $391.1 million or 74%, principally due to the transitional terms from suppliers related to inventory purchases.

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 gain of $27.6 million as at December 31, 2018. This is not expected to affect net earnings as the unrealized gains will offset future losses on the related hedged items.

Higher dividends payable year-over-year reflect the higher dividend rate. Early in 2018, the quarterly dividend rate was increased from $0.19 per share to $0.23 per share, a 21% increase.

Deferred revenues and contract liabilities, which were down $0.9 million or 1%, represent billings to customers in excess of revenue recognized.

- In the Equipment Group, these arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. In 2018, these increased $8.1 million or 7% largely related to progress billings and customer deposits for deliveries in 2019.
- At CIMCO, these arise on progress billings from the sale of refrigeration packages and were down $9.0 million or 31%, correlating to the lower 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, 2018 as outlined in note 7 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. 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, 2018, 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. 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 $2.4 million in 2018 (2017 – $2.0 million) were charged to selling and administrative expense when paid. Approximately 53% (2017 – 52%) of eligible employees participate in the plan, which is administered by an independent third party.

The Company also offers a deferred share unit ("DSU") plan for executives, certain senior managers and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus (in the case of employees) or fees (in the case of directors) in DSUs. 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, 2018, 358,151 DSUs were outstanding with a total value of $19.0 million (2017 – 426,279 units at a value of $23.4 million). The liability for DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Employee Future Benefits

The Company sponsors pension arrangements for substantially all of its employees. These include:

- Defined contribution plans, which cover the largest segment of employees, including all newly hired employees;
- Defined benefit plans, which are largely associated with acquired businesses and some historic agreements;
- 401(k) matched savings plans for employees in the US; and
- Other post-employment benefit plans for certain grand-fathered employees in the acquired businesses.

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.

Defined Contribution Plans

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, 2018, 3,647 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Plans

The Company sponsors defined benefit pension plans which provide pension and other post-retirement benefits for approximately 2,181 qualifying employees. All Plans are administered by a separate Fund that is legally separated from the Company, with the exception of the Executive Plan described below.

The funded status of these plans changed by $17.0 million (a decrease in the accrued pension liability) as at December 31, 2018.

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 $17.1 million as at December 31, 2018.

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

Off-balance Sheet Arrangements

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 2018. This issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares, representing 10.0% of common shares in the public float, in the twelve-month period ending August 30, 2019. 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, 2018, the Company purchased and cancelled 237,952 common shares for $12.8 million (average cost of $53.83 per share, including transaction costs). No shares were purchased and cancelled in 2017.

Outstanding Share Data

As at the date of this MD&A, the Company had 81,229,723 common shares and 2,632,730 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 2018, the Company declared dividends of $0.92 per common share, $0.23 per quarter (2017 - $0.76 per common share or $0.19 per quarter).

Considering the Company's solid financial position and positive long-term outlook, the Board of Directors announced an increase to the quarterly dividend to 27 cents per share effective with the dividend payable on April 3, 2019. This represents a 17.4% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 30th 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.

Toromont's debt portfolio is unsecured, unsubordinated and ranks pari passu.

To partially fund the aforementioned acquisition on October 27, 2017, the Company expanded and extended its committed unsecured credit facility to include a term facility of $250.0 million and a revolving facility of $500.0 million, maturing in October 2022. The $250.0 million drawn on the term facility in 2017 was repaid in full during 2018. Standby letters of credit utilized $29.9 million of the revolving facility (2017 - $26.7 million).

Also in October 2017, the Company issued senior unsecured debentures ("Debentures") in the principal amount of $500.0 million which mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually.

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, 2018 and 2017.

Cash at December 31, 2018, was $345.4 million, compared to $160.5 million at December 31, 2017.

The Company expects that continued cash flows from combined operations in 2019, 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)	2018	2017
Cash, beginning of year	$ 160,507	$ 188,735
Cash, provided by (used in):		
Operating activities		
Operations	395,281	258,322
Change in non-cash working capital and other	236,050	70,010
Net rental fleet additions	(125,148)	(66,822)
	506,183	261,510
Investing activities	2,475	(979,978)
Financing activities	(323,985)	690,492
Effect of foreign exchange on cash balances	254	(252)
Increase (decrease) in cash in the year	184,927	(28,228)
Cash, end of year	$ 345,434	$ 160,507

Cash Flows from Operating Activities

Operating activities provided significantly higher cash flow in 2018 compared to 2017.

The higher cash generated from operations reflect the increased cash earnings generated by both Toromont QM and at the legacy businesses.

Non-cash working capital and other provided significantly higher cash in 2018, mainly as a result of higher accounts payable and accrued liabilities, higher income taxes payable and lower accounts receivables, partially offset by higher inventories, lower deferred revenues and contract liabilities and the unfavorable impact of the fair value on derivative financial instruments.

Net rental fleet additions (purchases less proceeds of dispositions) were higher mainly due to investments at Toromont QM to grow the fleet (up $51.1 million). At Legacy Toromont, net additions were $7.3 million higher. The Company continues to invest heavily in this very important rental segment to address strong retail demand signals.

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 provided $2.5 million in 2018 compared to $980.0 million used in 2017.

The majority of the cash invested in 2017 was to fund the acquisition of Toromont QM, including a final working capital adjustment of $42.7 million which was collected from the vendor in 2018 (refer to note 25 of the notes to the consolidated financial statements for further information).

Investments in property, plant and equipment, net of disposition proceeds, were $40.0 million in 2018 versus $34.1 million in 2017 as follows:

- $18.5 million for service vehicles (2017 - $12.5 million);
- $11.4 million for machinery and equipment (2017 - $2.7 million);
- $5.2 million for land and buildings for new and expanded branches (2017 - $15.5 million); and
- $4.9 million for upgrades and enhancements to information technology infrastructure and furniture and fixtures (2017 - $3.4 million).

Included in the net property, plant and equipment additions above were $16.7 million at Toromont QM versus $2.7 million for the two months of ownership last year.

Cash Flows from Financing Activities

Financing activities used $324.0 million in 2018 versus $690.5 million provided in 2017.

To partially fund the acquisition of Toromont QM in 2017, the Company issued senior debentures of $500.0 million and drew $250.0 million against its term credit facility. Debt issuance costs of $5.6 million were also incurred. During 2018, the Company repaid the $250.0 million drawn on the term credit facility.

Other significant sources and uses of cash in 2018 included:

- Dividends paid to common shareholders of $71.4 million or $0.88 per share (2017 - $58.9 million or $0.75 per share);
- Cash received on exercise of share options of $12.2 million (2017 - $6.8 million); and
- Normal course purchases and cancellations of 237,952 common shares at an average cost of $53.83, including transaction costs, for $12.8 million (2017 – $nil).

Outlook

The expansion of our territories to include Québec and Atlantic Canada is proving 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 for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems, combined with the growing rental services and material handling markets. Focus is currently on safety of our people, customer deliverables, business integration, operational excellence initiatives 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 and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth.

The long-term outlook for infrastructure projects and other construction activity remains positive across most territories.

The Company has experienced good growth in mining product support this year. Production continues at existing mine sites, generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion. The substantially increased base of installed equipment bodes well for future product support activity.

CIMCO's increasing installed base and long-term product support levels are positive signals for future growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO2 solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides continued growth opportunities.

Tariffs implemented this year have not had a material, direct impact to Toromont's businesses.

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)	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt							
Principal	$ 1,022	$ —	$ —	$ —	$ —	$ 650,000	$ 651,022
Interest	24,811	24,775	24,775	24,775	24,775	83,146	207,057
Accounts payable and accrued liabilities	935,037	—	—	—	—	—	935,037
Operating leases	12,895	8,764	5,325	3,115	4,285	1,166	35,550
	$ 973,765	$ 33,539	$ 30,100	$ 27,890	$ 29,060	$ 734,312	$ 1,828,666

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	2018	2017	2016	2015	2014
Expanding markets and broadening product offerings					
Revenue growth	49.1%	22.9%	3.5%	11.2%	4.2%
Revenue per employee (thousands)	$ 578	$ 487	$ 533	$ 537	$ 501
Strengthening product support					
Product support revenue growth	60.4%	16.3%	7.6%	24.2%	12.4%
Investing in our resources					
Investment in information technology (millions)	$ 27.4	$ 15.0	$ 15.2	$ 14.0	$ 13.4
Return on capital employed (1)	21.7%	21.5%	24.5%	24.3%	26.0%
Strong financial position					
Non-cash working capital (millions) (1)	$ 309.5	$ 608.8	$ 388.5	$ 421.3	$ 335.4
Net debt to total capitalization (1)	18%	40%	-4%	10%	6%
Book value (shareholders' equity) per share	$ 16.35	$ 13.89	$ 11.29	$ 9.95	$ 8.65
Build shareholder value					
Basic earnings per share growth	39.4%	11.6%	6.3%	8.5%	7.6%
Dividends per share growth	21.1%	5.6%	5.9%	13.3%	15.4%
Return on equity (1)	22.3%	19.3%	20.0%	21.6%	23.0%

(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 delivered consistent, steady growth. The addition of Toromont QM bolstered these key performance measures in 2018, a trend that is expected to continue in the near and long term.

Included in the table above were two months of operations at Toromont QM in 2017 which increased the income statement metrics presented for that year and conversely diluted the balance sheet metrics. The Company estimated that most metrics in 2017 improved versus 2016 for the legacy businesses.

The 2018 amounts shown above include one full year of results at Toromont QM and would affect the comparability of results versus the prior years.

In relation to the legacy businesses only, since 2014, revenues increased at an average annual rate of 7.0%, with product support growing at 11.4% annually. Over this period, revenue growth has been mainly 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 2014 there have been fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar – 2014 - US$0.91, 2015 - US$0.78, 2016 - US$0.75, 2017 - US$0.77 and 2018 - 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. 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 18% at the end of 2018 versus 40% at the end of 2017.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 30 years. The regular quarterly dividend rate was increased 21.1% from $0.19 per share to $0.23 per share in 2018 and a further 17.4% to $0.27 per share in 2019, evidencing our commitment to delivering exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31 ($ thousands, except per share amounts)	2018	2017	$ change	% change
Revenues	$ 966,047	$ 822,766	$ 143,281	17%
Cost of goods sold	722,581	630,652	91,929	15%
Gross profit	243,466	192,114	51,352	27%
Selling and administrative expenses	121,837	105,533	16,304	15%
Operating income	121,629	86,581	35,048	40%
Interest expense	6,550	6,788	(238)	(4%)
Interest and investment income	(2,488)	(1,637)	(851)	52%
Income before income taxes	117,567	81,430	36,137	44%
Income taxes	32,669	22,294	10,375	47%
Net earnings	$ 84,898	$ 59,136	$ 25,762	44%
Basic earnings per share	$ 1.04	$ 0.73	$ 0.31	43%
Key ratios:				
Gross profit margin	25.2%	23.3%		
Selling and administrative expenses as a % of revenues	12.6%	12.8%		
Operating income margin	12.6%	10.5%		
Income taxes as a % of income before income taxes	27.8%	27.4%		

Results in the fourth quarter reflect solid execution in the legacy Equipment Group together with the contribution at Toromont QM. Results at CIMCO were lower on an inventory adjustment recorded in the quarter.

Revenues grew $143.3 million or 17%. Toromont QM's fourth quarter revenues were $356.7 million versus $242.6 million for the two months last year and $361.7 million, pro forma for the full fourth quarter of 2017, including revenues generated at the predecessor organization. The legacy businesses were up $29.2 million or 5%, with growth in the Equipment Group (up 7%) offsetting softness at CIMCO (down 5%).

Gross profit margin increased 190 bps to 25.2% in the quarter. Legacy Equipment Group reported higher equipment and product support margins across the business while CIMCO recorded lower package sales margins as a consequence of a specific adjustment.

Selling and administrative expenses increased $16.3 million. Incremental expenses at Toromont QM were $11.1 million. Acquisition-related costs were $3.1 million lower while mark-to-market adjustments on DSUs represented a $3.9 million reduction to expenses. Compensation costs accounted for the majority of the remaining increase together with an increase in the allowance for doubtful accounts (up $1.6 million). As a percentage of revenues, expenses net of Toromont QM and acquisition-related expenses were 90 bps higher than last year at 11.5%.

Operating income increased $35.0 million reflecting the incremental contribution at Toromont QM, net of acquisition-related costs, and solid growth in the Equipment Group. Operating income margin for the legacy businesses increased 70 bps to 14.2%.

Interest expense decreased $0.2 million or 4% in the quarter and benefitted from the lower average debt balances resulting from the repayment of the $250.0 million term credit facility in 2018.

Interest income increased $0.9 million on higher investment income resulting from higher average cash balances held throughout the year and higher interest from conversions of RPOs.

The effective income tax rate for the fourth quarter was 27.8% compared to 27.4% in 2017. The increase is substantially due to the higher proportion of income earned in the higher tax jurisdictions, although this is expected to be mitigated in coming years as Québec continues to phase in reductions in the corporate tax rates.

Net earnings in the quarter were up 44% to $84.9 million with EPS tracking the increase at $0.31 to $1.04. The following table identifies the components of contributions to the fourth results versus last year:

	Three months ended December 31					
	Net earnings			Basic EPS[a]		
($ millions, except per share amounts)	2018	2017	% change	2018	2017	% change
Legacy Toromont [b]	$ 67.2	$ 56.8	18%	$ 0.85	$ 0.72	18%
Toromont QM [c]	21.4	8.3	nm	0.27	0.11	nm
Acquisition-related interest expense and integration-related costs [e]	(3.7)	(6.0)	nm	(0.05)	(0.07)	nm
Dilutive impact of acquisition shares [d]	–	–	–	(0.03)	(0.03)	–
As reported	$ 84.9	$ 59.1	44%	$ 1.04	$ 0.73	43%

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability.
(b) Defined as all businesses continuing from prior to the acquisition.
(c) Defined as all businesses acquired October 27, 2017.
(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings.
(e) Expenses shown net of taxes.

Legacy Toromont net earnings and EPS grew 18%.

Business Segment Fourth Quarter Operating Results

Equipment Group

Three months ended December 31 ($ thousands)	2018	2017	$ change	% change
Equipment sales and rentals				
New	$ 341,497	$ 308,528	$ 32,969	11%
Used	101,773	69,219	32,554	47%
Rentals	103,093	90,039	13,054	14%
Total equipment sales and rentals	546,363	467,786	78,577	17%
Product support	324,641	255,763	68,878	27%
Power generation	2,864	2,462	402	16%
Total revenues	$ 873,868	$ 726,011	$ 147,857	20%
Operating income	$ 115,741	$ 75,434	$ 40,307	53%
Bookings ($ millions)	$ 423	$ 328	$ 95	29%
Key ratios:				
Product support revenues as a % of total revenues	37.1%	35.2%		
Operating income margin	13.2%	10.4%		
Group total revenues as a % of consolidated revenues	90.5%	88.2%		

The legacy operations revenues increased $33.8 million or 7% with growth across all revenue streams. Toromont QM contributed $356.7 million, versus $242.6 million generated at Toromont for the two months of operations post-acquisition, and $361.7 million pro forma for the full fourth quarter of 2017, including one month from the predecessor organization. Similar to the comments for the full year above, focus in this section will be on comparable basis which will include the one month of overlap at the predecessor organization.

Total legacy equipment sales (new and used) increased $14.8 million or 6%. Higher sales into construction (up 15%), power systems (up 35%) and agriculture markets (up 79%) were partially offset by lower

mining sales (down 51%). At Toromont QM, total equipment sales of $188.1 million represented a decrease of $8.2 million or 4% versus the pro forma total equipment sales for the fourth quarter revenues last year, mainly as a result of lower mining sales, which were partially offset by increases across the other segments. Mining sales can vary substantially from period to period due to the timing of deliveries.

Rental revenues at the legacy businesses increased $6.3 million or 9%. All rental segments reported growth, led by light equipment (up 8%), power (up 33%), heavy rentals (up 6%) and equipment on rent with a purchase option (up 3%). Toromont QM rental revenues of $25.4 million represented a decrease of $4.8 million or 16% versus the pro forma revenues in 2017.

Product support revenues at the legacy businesses increased $12.3 million or 7% on higher parts (up 4%) and service (up 15%). Activity levels were good across most segments, notably in mining and construction. Toromont QM product support revenues of $143.1 million represented an increase of 6% versus the pro forma revenues 2017 with higher parts (up 3%) and service (up 17%).

Power generation revenues were $2.9 million versus $2.5 million last year on higher electricity output at the Sudbury Hospital plant.

Gross margins increased 250 bps in the quarter versus last year, principally due to higher equipment and product support margins at the legacy businesses.

Selling and administrative expenses increased by $16.1 million, largely reflecting the incremental expenses at Toromont QM (up $11.1 million). At the legacy businesses, higher compensation costs and allowance for doubtful accounts accounted for the majority of the increase. As a percentage of revenues, selling and administrative expenses at the legacy businesses were up 90 bps.

Operating income was up $40.3 million in the quarter. Operating income in the legacy businesses increased $13.5 million or 20% and was 170 bps higher as a percentage of revenues at 15.6%, largely reflecting the higher margins and revenues, partially offset by the higher expense ratio.

Bookings at the legacy businesses increased $15.0 million or 6% to $257.0 million, reflecting higher mining, construction and agriculture orders, partially offset by lower power systems orders. Toromont QM bookings were $166.0 million for the three months in 2018 versus $86.0 million for the two months in 2017.

CIMCO

Three months ended December 31 ($ thousands)	2018	2017	$ change	% change
Package sales	$ 50,931	$ 64,641	$ (13,710)	(21%)
Product support	41,248	32,114	9,134	28%
Total revenues	$ 92,179	$ 96,755	$ (4,576)	(5%)
Operating income	$ 5,888	$ 11,147	$ (5,259)	(47%)
Bookings ($ millions)	$ 37	$ 26	$ 11	44%
Key ratios:				
Product support revenues as a % of total revenues	44.7%	33.2%		
Operating income margin	6.4%	11.5%		
Group total revenues as a % of consolidated revenues	9.5%	11.8%		

CIMCO results were dampened in the fourth quarter by an inventory write-down. Translation of US operations did not have a significant impact on results.

Package revenues were down $13.7 million or 21% versus the record levels last year, approximately two-thirds of which related to lower US sales. Canadian revenues were lower by 10% as higher industrial sales (up 9%) were more than offset by lower recreational sales (down 35%). In the US, both market segments experienced significant growth in the fourth quarter last year which were not repeated. Despite this however, fourth quarter revenues in the US were relatively in line with the previous five-year average.

Product support revenues grew $9.1 million or 28% to record levels for a fourth quarter in both Canada (up 28%) and the US (up 29%).

Gross margins decreased 440 bps in the quarter. The inventory write-down of $6.0 million recorded in the fourth quarter largely accounted for the erosion, partially offset by a favorable sales mix of product support revenues to total revenues (44.7% versus 33.2% in 2017).

Selling and administrative expenses were relatively in line with last year for similar reasons outlined earlier for the year-to-date commentary. As a percentage of revenues, selling and administrative expenses were up 80 bps as a percentage of revenues (11.9% versus 11.1% last year).

Operating income was lower by $5.3 million or 47% in 2018, mainly due to the inventory write-down. Despite this however, operating income was relatively in line with the previous five-year average which included the record last year. As a percentage of revenues, operating income was 6.4%.

Bookings increased $11.0 million or 44% to $37.0 million on strong orders in both Canada and the US. Recreational orders were up in both Canada and the US, while industrial orders increased only in the US.

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 2018 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Revenues				
Equipment Group	$ 612,971	$ 874,120	$ 800,128	$ 873,868
CIMCO	63,857	87,147	99,966	92,179
Total revenues	$ 676,828	$ 961,267	$ 900,094	$ 966,047
Net earnings	$ 30,779	$ 67,610	$ 68,697	$ 84,898
Per share information:				
Basic earnings per share	$ 0.38	$ 0.83	$ 0.84	$ 1.04
Diluted earnings per share	$ 0.38	$ 0.83	$ 0.84	$ 1.03
Dividends paid per share	$ 0.19	$ 0.23	$ 0.23	$ 0.23
Weighted average common shares outstanding – basic (in thousands)	80,976	81,131	81,383	81,427

($ 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

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The acquisition in the fourth quarter of 2017 also affects comparability on a year-over-year basis.

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 is still in the process of gathering data and analyzing the dynamics of the customers, industries and economic climates of the acquired territories and does not expect the historical trend to be impacted; however more analysis 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)	2018	2017	2016
Revenues	$ 3,504,236	$ 2,350,162	$ 1,912,040
Net earnings	$ 251,984	$ 175,970	$ 155,748
Earnings per share (“EPS”)			
Basic	$ 3.10	$ 2.22	$ 1.99
Diluted	$ 3.07	$ 2.20	$ 1.98
Dividends declared per share	$ 0.92	$ 0.76	$ 0.72
Total assets	$ 3,234,531	$ 2,866,945	$ 1,394,212
Total long-term debt	$ 645,562	$ 895,747	$ 152,528
Weighted average common shares outstanding – basic (in millions)	81.2	79.1	78.1

Revenues grew 49% in 2018. Toromont QM contributed $1.3 billion in its first full year of operations in 2018, versus $242.6 million for the two months of ownership in 2017. The legacy businesses revenues increased 6% on good growth in the Equipment Group and CIMCO, both buoyed by good product support growth. In 2017, revenues had increased 23%, inclusive of the two months of operations at Toromont QM noted above, with the legacy businesses growing 10% on good sales execution in the Equipment Group and at CIMCO, underpinned by continued product support growth.

Net earnings increased 43% in 2018. In addition to the incremental net earnings at Toromont QM, the legacy Equipment Group delivered good results, which served to offset weaker results at CIMCO and the higher net interest expense as a result of the additional debt incurred to partially fund the acquisition in 2017. In 2017, net earnings had increased 13%, reflecting higher revenues and a relatively lower expense ratio, in addition to the incremental impact of the acquisition.

EPS have generally tracked earnings with basic EPS increasing 39% in 2018 and 12% in 2017.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate continues to increase - in 2016 by 5.9% to $0.18 per share, in 2017 by 5.6% to $0.19 per share, in 2018 by 21.1% to $0.23 per share and in 2019 by 17.4% to $0.27 per share. The Company has paid dividends every year since 1968.

Total assets increased 13% in 2018 after more than doubling in 2017 (up 106%). The Company continues to invest in strategic opportunities and assets to drive and sustain the earnings growth experienced.

Long-term debt had increased in 2017 to partially fund the acquisition. The decrease in 2018 mainly represents repayment of the amounts drawn on the term credit facility at that time.

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 of Toromont QM

Risks and uncertainties exist related to the acquisition, 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; 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 the acquisition will depend in part on whether the operations, systems, management and cultures can be integrated in an efficient and effective manner. While progress regarding certain operational and strategic decisions with respect to the combined organization has been made, other decisions remain and some may not have been identified. These decisions and the integration 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, affect demand for the Company's products and services in the Equipment Group. Commodity price movements in base and precious metals sectors in particular can have an impact on customers' demands for equipment and 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 since inception 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 amounts on the statement of financial position represent 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 both 2018 and 2017. 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, 2018, the Company's outstanding debt of $651.0 million was all fixed-rate.

Fixed-rate debt amortizes or matures between 2019 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.

The Company's revolving credit facility of $500.0 million is a floating-rate debt which exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary. At December 31, 2018, no amounts were drawn on this facility while standby letters of credit utilized $29.9 million.

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, are 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 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 affect the operating segments similarly, and therefore are not discussed on a segmented basis.

The Company's significant accounting policies, estimates and assumptions are described in notes 1 and 2 of the notes to the consolidated financial statements.

Changes in Accounting Policies

Effective January 1, 2018, the Company adopted IFRS 15 - *Revenue from Contracts with Customers*, IFRS 9 - *Financial Instruments* and amendments to IFRS 2 - *Share-based payment*.

The impact upon adoption of these standards and amendments are described in full in note 1 of the notes to the consolidated financial statements.

Pending Accounting Changes

A new standard (IFRS 16 – *Leases*) and an interpretation (IFRIC 23 - *Uncertainty over Income Tax Treatments*) have been issued but were not yet effective for the financial year ending December 31, 2018, and accordingly, have not been applied in preparing the consolidated financial statements. The effect of this new standard and interpretation, together with 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.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2018.

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, 2018, using the criteria set forth in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2018.

There have been no changes in the design of the Company's internal control over financial reporting during 2018 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 is 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)	**2018**	**2017**	**2018**	**2017**
Net earnings	$ 84,898	$ 59,136	$ 251,984	$ 175,970
plus: Interest expense	6,550	6,788	30,643	12,277
less: Interest and investment income	(2,488)	(1,637)	(8,918)	(4,659)
plus: Income taxes	32,669	22,294	95,865	65,994
Operating income	$ 121,629	$ 86,581	$ 369,574	$ 249,582

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)	**2018**	**2017**
Long-term debt	$ 644,540	$ 893,806
Current portion of long-term debt	1,022	1,941
less: Cash	345,434	160,507
Net debt	300,128	735,240
Shareholders' equity	1,327,679	1,124,727
Total capitalization	$ 1,627,807	$ 1,859,967
Net debt to total capitalization	18%	40%
Net debt to equity	0.23:1	0.65:1

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)	2018	2017
Total current assets	$ 1,779,100	$ 1,475,701
less: Total current liabilities	1,125,194	708,327
Working capital	$ 653,906	$ 767,374

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)	2018	2017
Total current assets	$ 1,779,100	$ 1,475,701
less: Cash	345,434	160,507
	1,433,666	1,315,194
Total current liabilities	1,125,194	708,327
less: Current portion of long-term debt	1,022	1,941
	1,124,172	706,386
Non-cash working capital	$ 309,494	$ 608,808

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)	2018	2017
Outstanding common shares	81,226	80,950
times: Ending share price at December 31	$ 54.26	$ 55.10
Market capitalization	$ 4,407,344	$ 4,460,335
Long-term debt	$ 644,540	893,806
Current portion of long-term debt	1,022	1,941
less: Cash	345,434	160,507
Net debt	$ 300,128	735,240
Total enterprise value	$ 4,707,472	$ 5,195,575

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 income 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 backlogs as a measure of projecting future equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlogs.

Return on Capital Employed ("ROCE")
ROCE is utilized to assess both current operating performance and prospective investments. The adjusted earnings 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)	2018	2017
Net earnings	$ 251,984	$ 175,970
plus: Interest expense	30,643	12,277
less: Interest and investment income	(8,918)	(4,659)
plus: Interest income – rental conversions (see note 14)	3,461	2,308
plus: Income taxes	95,865	65,994
	$ 373,035	$ 251,890
Average capital employed	$ 1,720,921	$ 1,171,449
Return on capital employed	21.7%	21.5%

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)	2018	2017
Net earnings	$ 251,984	$ 175,970
Opening shareholders' equity (net of adjustments)	$ 1,130,947	$ 909,715
Return on equity	22.3%	19.3%

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 14, 2019
Toronto, Canada

Independent Auditor's Report

To the Shareholders of Toromont Industries Ltd.

We have audited the consolidated financial statements of Toromont Industries Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, the consolidated income statements, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information which comprises:

- Management's Discussion & Analysis
- The information other than the consolidated financial statements and our auditor's report thereon, in this Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of this auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Don Linsdell.

Ernst & Young LLP

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 14, 2019
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 ($ thousands)	Note	2018	2017
Assets			
Current assets			
Cash		$ 345,434	$ 160,507
Accounts receivable	3	522,462	528,748
Inventories	4	873,507	777,524
Income taxes receivable		118	536
Derivative financial instruments	12	27,647	—
Other current assets		9,932	8,386
Total current assets		1,779,100	1,475,701
Property, plant and equipment	5	412,776	412,535
Rental equipment	5	541,530	469,342
Other assets	6	13,206	17,206
Deferred tax assets	15	1,610	411
Goodwill and intangible assets	7	486,309	491,750
Total assets		$3,234,531	$2,866,945
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 935,037	$ 540,821
Provisions	8	24,382	22,436
Deferred revenues and contract liabilities	9	136,244	137,129
Current portion of long-term debt	10	1,022	1,941
Derivative financial instruments	12	23	5,260
Income taxes payable		28,486	740
Total current liabilities		1,125,194	708,327
Deferred revenues and contract liabilities	9	17,247	18,750
Long-term debt	10	644,540	893,806
Post-employment obligations	19	104,342	121,335
Deferred tax liabilities	15	15,529	—
Shareholders' equity			
Share capital	11	457,800	444,427
Contributed surplus		12,879	10,290
Retained earnings		851,049	669,813
Accumulated other comprehensive income		5,951	197
Shareholders' equity		1,327,679	1,124,727
Total liabilities and shareholders' equity		$3,234,531	$2,866,945

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	2018	2017
Revenues	23	$3,504,236	$2,350,162
Cost of goods sold	4,5	2,640,835	1,794,213
Gross profit		863,401	555,949
Selling and administrative expenses		493,827	306,367
Operating income		369,574	249,582
Interest expense	14	30,643	12,277
Interest and investment income	14	(8,918)	(4,659)
Income before income taxes		347,849	241,964
Income taxes	15	95,865	65,994
Net earnings		$ 251,984	$ 175,970
Earnings per share			
Basic	16	$ 3.10	$ 2.22
Diluted	16	$ 3.07	$ 2.20
Weighted average number of shares outstanding			
Basic	16	81,231,282	79,091,706
Diluted	16	81,975,310	79,907,470

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2018	2017
Net earnings	$ 251,984	$ 175,970
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	789	(716)
Unrealized gains (losses) on derivatives designated as cash flow hedges	8,239	(5,946)
Income tax (expense) recovery	(2,144)	1,548
Unrealized gains (losses) on cash flow hedges, net of income taxes	6,095	(4,398)
Realized (gains) losses on derivatives designated as cash flow hedges	(1,528)	3,211
Income tax expense (recovery)	398	(836)
Realized (gains) losses on cash flow hedges, net of income taxes	(1,130)	2,375
Items that will not be reclassified subsequently to net earnings:		
Actuarial and other gains (losses)	20,652	(6,765)
Income tax expense (recovery)	(5,413)	1,758
Actuarial and other gains (losses), net of income taxes	15,239	(5,007)
Other comprehensive income (loss)	20,993	(7,746)
Total comprehensive income	$ 272,977	$ 168,224

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	Note	2018	2017
Operating activities			
Net earnings		$ 251,984	$ 175,970
Items not requiring cash:			
Depreciation and amortization	5,7,10	141,535	89,705
Stock-based compensation	18	5,101	3,502
Post-employment obligations		3,659	448
Deferred income taxes		7,171	10,287
Interest accretion on repayment of term credit facility	10	821	—
Gain on sale of rental equipment and property, plant and equipment		(14,990)	(21,590)
		395,281	258,322
Net change in non-cash working capital and other	21	236,050	70,010
Additions to rental equipment	5	(149,650)	(102,343)
Proceeds on disposal of rental equipment		24,502	35,521
Cash provided by operating activities		506,183	261,510
Investing activities			
Additions to property, plant and equipment	5	(49,504)	(37,317)
Proceeds on disposal of property, plant and equipment		9,506	3,185
Decrease (increase) in other assets		42,473	(42,950)
Business acquisition	25	—	(902,896)
Cash provided by (used in) investing activities		2,475	(979,978)
Financing activities			
Issue of senior debentures	10	—	500,000
Drawings on term credit facility	10	—	250,000
Repayment of term credit facility	10	(250,000)	—
Repayment of senior debentures		(1,941)	(1,811)
Debt issuance costs		—	(5,597)
Dividends	11	(71,434)	(58,858)
Cash received on exercise of stock options		12,198	6,758
Shares purchased for cancellation	11	(12,808)	—
Cash (used in) provided by financing activities		(323,985)	690,492
Effect of currency translation on cash balances		254	(252)
Increase (decrease) in cash		184,927	(28,228)
Cash, at beginning of year		160,507	188,735
Cash, at end of year		$ 345,434	$ 160,507

Supplemental cash flow information (note 21)

See accompanying notes

Consolidated Statements of Changes in Equity

	Share Capital				Accumulated other comprehensive income			
($ thousands, except share numbers)	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2017	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
Net earnings	—	—	—	251,984	—			251,984
Other comprehensive income	—	—	—	15,239	789	4,965	5,754	20,993
Total comprehensive income	—	—	—	267,223	789	4,965	5,754	272,977
Exercise of stock options	514,516	14,710	—	—	—	—	—	14,710
Stock-based compensation expense	—	—	5,101	—	—	—	—	5,101
Stock options exercised	—	—	(2,512)	—	—	—	—	(2,512)
Effect of stock compensation plans	514,516	14,710	2,589	—	—	—	—	17,299
Shares purchased for cancellation	(237,952)	(1,337)	—	(11,471)	—	—	—	(12,808)
Dividends	—	—	—	(74,516)	—	—	—	(74,516)
At December 31, 2018	81,226,383	$ 457,800	$ 12,879	$ 851,049	$ 2,700	$ 3,251	$ 5,951	$1,327,679

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2018
($ 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.

The Company operates through two business segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory - spanning the Canadian provinces of Newfoundland & Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario and Manitoba, in addition to most of the territory of Nunavut. The Group includes industry leading rental operations, a complementary material handling business and an 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 over 6,000 people in more than 150 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 14, 2019.

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 of the statements of financial position have been reclassified from statements previously presented to conform to the presentation of the 2018 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 statement.

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
Trade 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. Trade accounts receivable are recognized initially at amounts due, net of impairment for estimated expected credit loss (allowance for doubtful accounts). The expense relating to expected credit loss is included within "Selling and administrative expenses" in the consolidated income statements.

Unbilled receivables represent contract assets related to the Company's rights to consideration for work completed but not billed as at the reporting date on the sale of power and energy systems and refrigeration packages. These are transferred to receivables when the entitlement to payment becomes unconditional.

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 work-in-process (contracts) are costs specifically chargeable to customers that are deferred in inventories and are probable of recovery.

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
Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition or when reclassified on the consolidated statements of financial position. Financial assets and

liabilities are classified in the following measurement categories: i) amortized cost; ii) fair value through other comprehensive income ("FVTOCI"); or iii) fair value through profit and loss ("FVTPL"). 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 the 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

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as FVTPL when the financial liability is: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) it is designated as FVTPL.

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in the consolidated income statements. The remaining amount of change in the fair value of liability is recognized in the consolidated income statements. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to the consolidated income statements; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities that are not: (i) contingent consideration of an acquirer in a business combination; (ii) held for trading; or (iii) are designated as FVTPL, are subsequently measured at amortized cost using the effective interest method.

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.

Impairment of Financial Assets

An allowance for expected credit losses ("ECL") is recognized for all debt instruments not held at fair value through profit or loss. The amount of ECL is updated at each reporting period to reflect changes in credit risk of the respective financial instrument.

As the Company's financial assets are substantially comprised of trade receivables, a simplified approach is used for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument.

The Company considers the following as constituting an event of a default for internal credit risk management purposes, as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

(i) when there is a breach of financial covenants by the customer; or
(ii) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(i) significant financial difficulty of the customer;
(ii) a breach of contract, such as a default discussed above; or
(iii) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

A financial asset is considered in default when contractual payments are 90 days past due. A financial asset may also be considered to be in default if internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 from Contracts with Customers

Revenue from contracts with customers, is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

- *Sale of Equipment* – Revenue is recognized when control of the equipment has been transferred to the customer. This usually occurs when the equipment is delivered or picked up by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met: (i) there is a substantive reason for the arrangement; (ii) the equipment is separately identified as belonging to the customer; (iii) Toromont is no longer able to use the equipment or direct it to another customer; and (iv) the equipment is currently ready for physical transfer to the customer.
- *Sale of Equipment with a Guaranteed Residual Value or Repurchase*

Commitment – The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at a predetermined residual value and date is accounted for as an operating lease in accordance with IAS 17 – *Leases*. Revenue is therefore recognized over the period extending to the date of the residual guarantee.

- *Sale of Systems* – The Company sells systems, including power and energy facilities and industrial and recreational refrigeration systems, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and can span from three months to one year. Revenue is recognized progressively based on the percentage-of-completion method. This method is normally measured by reference to costs incurred to date as a percentage of the total estimated costs as outlined in the contract. Payment terms are usually based on set milestones outlined in the contract. Periodically: (i) amounts are received in advance of the associated contract work being performed - these amounts are recorded as deferred revenues; and (ii) revenue is recognized without issuing an invoice – this entitlement to consideration is recognized as unbilled receivables. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- *Equipment Rentals* – Revenue is accounted for in accordance with IAS 17. Revenue is recognized on a straight-line basis over the term of the agreement. Payment terms are generally 30 days from invoicing.
- *Product Support Services* – Revenue from product support services includes the sale of parts and performance of service work on equipment. For the sale of parts, revenue is recognized when the part is shipped or picked-up by the customer. For the servicing of equipment, revenue on both the labour and parts used in performing the work is recognized when the job is completed. Payment terms are generally 30 days from invoicing.
- *Long-term Maintenance Contracts* – Long-term maintenance contracts range from one to five years and are customer-specific. These contracts are sold either separately or bundled together with the sale of equipment to a customer. These arrangements cover a range of services from regular maintenance to major repairs. The Company has concluded that these are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable. If the sales are bundled, the Company allocates a portion of the transaction price based on the relative stand-alone selling price to each performance obligation. Customers are invoiced on a periodic basis reflecting the terms of the agreement, generally based on machine hours, with payment terms of 30 days from invoicing. These amounts are recognized as deferred revenue. Revenue is recognized as work is performed under the contract based on standard or contract rates. Revenue from maintenance services is recognized over time, using an input method to measure progress towards complete satisfaction of the service.
- *Extended Warranty* – Extended warranty may be purchased by a customer at time of purchase of a machine to provide additional warranty coverage beyond the initial one-year standard warranty covered by the supplier. Extended warranty generally covers specified components for a term from 3 to 5 years. Extended warranty is normally invoiced at time of purchase and payment is expected at time of invoicing. These billings are included in deferred revenue. The Company recognizes revenue for extended warranty as work is performed under the extended warranty contract using standard rates.
- *Power Generation* – The Company owns and operates power generation plants that sell electricity and thermal power. Revenue is recognized monthly based on set rates as power is consumed. Payment is due within 30 days of invoicing.

Consideration is given whether there are other promises in a contract with a customer that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any) are considered.

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 statement 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.

Standards Adopted in 2018

The following standards, amendments and interpretation to standards were adopted on January 1, 2018.

a) Revenue Recognition

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

The transition to the new standard had no material impact on the measurement or recognition of revenue of prior periods, however, additional required disclosures have been added. The Company elected to apply the standard on a full retrospective basis, whereby the cumulative effect of adoption is applied to the earliest comparative period presented, which is January 1, 2017. The Company applied certain practical expedients, as permitted by the standard in determining the impact on transition.

The Company's accounting policy for revenue recognition is described above in the section titled "Revenue from Contracts

with Customers" and is determined to be in compliance with the requirements of IFRS 15.

Disclosures relating to contract balances are included in note 3 – Accounts Receivables, note 4 - Inventories and note 9 – Deferred Revenues and Contract Liabilities, respectively. The disaggregation of the Company's revenues for each reportable segment is disclosed in note 23 – Segmented Information.

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.

Adoption of these amendments had no impact on the Company's financial position or net earnings.

c) Financial Instruments

IFRS 9 - *Financial Instruments* ("IFRS 9") replaces IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). 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. The Company applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period.

No adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

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.

There was no significant impact on the Company's financial position.

Standard and Interpretation Issued But Not Effective

The following standard and interpretation have been issued but are not effective for the financial year ended December 31, 2018, and accordingly, have not been applied in preparing these consolidated financial statements.

a) Leases

IFRS 16 – *Leases*, introduces new requirements for the classification and measurement of leases. For lessors, there is little change to the existing accounting in IAS 17. The new standard is effective for annual periods beginning on or after January 1, 2019.

The Company expects to recognize higher non-current assets and non-current liabilities recorded on the consolidated statements of financial position. The Company also expects to recognize an increase in depreciation, lower selling, general, and administrative expenses and higher finance costs under this new standard, as operating lease expenses are replaced by higher depreciation expense and higher interest expense and a reduction in selling and administrative expenses.

Toromont expects to adopt IFRS 16 using the modified retrospective approach, using practical expedients, which do not require the restatement of prior period financial information. The cumulative financial effect of the adoption will be recognized as an adjustment to opening retained earnings, with the standard applied prospectively.

The Company's implementation plan is currently on track having selected a software tool for calculating and maintaining lease arrangements, identifying the major types of operating leases - service vehicles and branch facilities, and determining the incremental borrowing rate. The current and final data quantification and implementation phases are underway and the Company is currently in the process of calculating the transition adjustments.

b) 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.

Sale of Power and Energy Systems and Refrigeration Packages
Revenue is recognized over time for the sale of power and energy systems and refrigeration packages. Because of the control transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products and services to be provided.

The percentage-of-completion method is used as the measure of progress for these contracts as it best depicts the transfer of assets to the customer, which occurs as costs are incurred on the contracts. Under the percentage-of-completion method, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs of completion of the performance obligation. Revenues are recorded proportionally as costs are incurred. Costs to fulfill include labour, materials and subcontractors' costs, other direct costs, and an allocation of indirect costs.

This method requires management to make a number of estimates and assumptions about the expected profitability of the contract. These factors are routinely reviewed as part of the project management process.

Long-term Maintenance Contracts
These contracts typically have fixed prices based on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized as work is performed under the contract based on standard or contract rates. Revenue from maintenance services is recognized over time, using an input method to measure progress towards complete satisfaction of the service.

Management makes 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 project management process.

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 7.

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.

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.

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. customer order 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.

3. Accounts Receivable

	2018	2017
Trade receivables	$ 495,615	$ 460,946
Less: Allowance for doubtful accounts	(19,484)	(10,573)
Trade receivables – net	476,131	450,373
Unbilled receivables	28,738	18,886
Other receivables	17,593	59,489
	$ 522,462	$ 528,748

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 25) which was subsequently collected in full during the year ended December 31, 2018.

The aging of gross trade receivables were as follows:

	2018	2017
Current to 90 days	$ 465,183	$ 429,229
Over 90 days	30,432	31,717
Trade receivables	$ 495,615	$ 460,946

The movement in the Company's allowance for doubtful accounts were as follows:

	2018	2017
Balance, January 1	$ 10,573	$ 9,700
Provisions and revisions, net	8,911	873
Balance, December 31	$ 19,484	$ 10,573

The movement in the Company's unbilled receivables were as follows:

	2018
Balance, January 1	$ 18,886
Transfer from opening balance to trade receivables	(14,512)
Increase as a result of changes in the measure of progress	24,364
Balance, December 31	$ 28,738

4. Inventories

	2018	2017
Equipment	$ 548,934	$ 497,033
Repair and distribution parts	237,843	196,783
Direct materials	3,931	4,048
Work-in-process	71,560	70,139
Work-in-process (contracts)	11,239	9,521
	$ 873,507	$ 777,524

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2018 was $2.1 billion (2017 - $1.4 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 $4.8 million was recorded in 2018 (2017 – $0.8 million).

5. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2018	$ 127,703	$ 283,040	$ 188,801	$ 38,922	$ 638,466	$ 697,433
Additions	4,094	6,330	36,661	132	47,217	179,052
Disposals	(2,112)	(3,801)	(9,197)	—	(15,110)	(40,450)
Currency translation effects	14	226	414	—	654	—
December 31, 2018	$ 129,699	$ 285,795	$ 216,679	$ 39,054	$ 671,227	$ 836,035
Accumulated depreciation						
January 1, 2018	$ —	$ 77,515	$ 118,857	$ 29,559	$ 225,931	$ 228,091
Depreciation charge	—	12,388	26,054	1,592	40,034	95,125
Depreciation of disposals	—	(278)	(7,553)	—	(7,831)	(28,711)
Currency translation effects	—	30	288	(1)	317	—
December 31, 2018	$ —	$ 89,655	$ 137,646	$ 31,150	$ 258,451	$ 294,505
Net book value – December 31, 2018	$ 129,699	$ 196,140	$ 79,033	$ 7,904	$ 412,776	$ 541,530

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2017	$ 50,148	$ 150,656	$ 157,407	$ 38,849	$ 397,060	$ 479,556
Additions	4,493	12,800	22,920	73	40,286	104,996
Business acquisition	73,266	123,698	19,148	—	216,112	169,993
Disposals	(193)	(3,931)	(10,394)	—	(14,518)	(57,112)
Currency translation effects	(11)	(183)	(280)	—	(474)	—
December 31, 2017	$ 127,703	$ 283,040	$ 188,801	$ 38,922	$ 638,466	$ 697,433
Accumulated depreciation						
January 1, 2017	$ —	$ 74,344	$ 112,884	$ 28,005	$ 215,233	$ 207,279
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	$ —	$ 77,515	$ 118,857	$ 29,559	$ 225,931	$ 228,091
Net book value – December 31, 2017	$ 127,703	$ 205,525	$ 69,944	$ 9,363	$ 412,535	$ 469,342

During 2018, depreciation expense of $112.6 million was charged to cost of goods sold (2017 - $76.9 million) and $22.6 million was charged to selling and administrative expenses (2017 - $9.4 million).

Operating income from rental operations for the year ended December 31, 2018, was $50.2 million (2017 - $38.2 million).

6. Other Assets

	2018	2017
Equipment sold with guaranteed residual values	$ 10,493	$ 12,464
Other	2,713	4,742
	$ 13,206	$ 17,206

7. Goodwill and Intangible Assets

	Patents and Licenses	Customer Order Backlog	ERP System	Customer Relationships	Distribution Networks	Goodwill	Total
Cost							
January 1, 2017	$ 500	$ —	$ —	$ —	$ 13,669	$ 13,450	$ 27,619
Business acquisition	—	8,691	5,000	15,137	357,882	80,330	467,040
December 31, 2017	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
December 31, 2018	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
Accumulated amortization							
January 1, 2017	$ 118	$ —	$ —	$ —	$ —	$ —	$ 118
Amortization	29	2,122	333	307	—	—	2,791
December 31, 2017	$ 147	$ 2,122	$ 333	$ 307	$ —	$ —	$ 2,909
Amortization	29	2,520	1,000	1,892	—	—	5,441
December 31, 2018	$ 176	$ 4,642	$ 1,333	$ 2,199	$ —	$ —	$ 8,350
Net book value – December 31, 2017	$ 353	$ 6,569	$ 4,667	$ 14,830	$ 371,551	$ 93,780	$ 491,750
December 31, 2018	$ 324	$ 4,049	$ 3,667	$ 12,938	$ 371,551	$ 93,780	$ 486,309

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 Networks	
	2018	2017	2018	2017
Equipment Group				
Toromont Québec/Maritimes	$ 76,270	$ 76,270	$ 352,434	$ 352,434
Toromont Cat dealership	13,000	13,000	13,669	13,669
Battlefield Equipment Rentals	4,060	4,060	5,448	5,448
	$ 93,330	$ 93,330	$ 371,551	$ 371,551
CIMCO	450	450	—	—
	$ 93,780	$ 93,780	$ 371,551	$ 371,551

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2018. The test for impairment is to compare the recoverable amount of the CGU or group of CGUs to their carrying value. Goodwill is tested at the group of CGUs that represent the lowest level within the entity at which goodwill is monitored for internal management purposes that is not larger than an operating segment. Intangible assets are assessed for impairment at the CGU level to which they are allocated. 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 pre-tax discount rate ranged from 5.9 – 6.3%. 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.

8. Provisions

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance, January 1, 2017	$ 10,800	$ 5,294	$ 16,094
Business acquisition	1,045	5,000	6,045
New provisions	21,940	1,145	23,085
Charges/credits against provisions	(20,554)	(2,234)	(22,788)
Balance, December 31, 2017	$ 13,231	$ 9,205	$ 22,436
New provisions	24,563	1,915	26,478
Charges/credits against provisions	(24,010)	(522)	(24,532)
Balance, December 31, 2018	$ 13,784	$ 10,598	$ 24,382

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, insurance and potential environmental claims, and potential onerous contracts. No one claim is significant.

9. Deferred Revenues and Contract Liabilities

Deferred revenues or contract liabilities represent billings to customers in excess of revenue recognized and arise as a result of the sale of equipment with residual guarantees, extended warranty contracts and progress billings on long-term maintenance agreements, sale of power and energy systems and refrigeration packages.

During the year ended December 31, 2018, the Company recognized as revenues, $137.1 million of the opening deferred revenues and contract liability balances at January 1, 2018.

The Company elected to use the practical expedient to not disclose the Company's remaining performance obligations as those obligations are part of contracts that have an original expected duration of one year or less.

10. Long-term Debt

The Company's debt portfolio is unsecured, unsubordinated and ranks pari passu.

	2018	2017
7.06%, $15.0 million, due March 29, 2019 (1)	$ 1,022	$ 2,963
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	500,000
Senior debentures	651,022	652,963
$250.0 million term credit facility	—	250,000
	651,022	902,963
Debt issuance costs, net of amortization	(5,460)	(7,216)
Total long-term debt	$ 645,562	$ 895,747
Less: Current portion of long-term debt	(1,022)	(1,941)
Non-current portion of long-term debt	$ 644,540	$ 893,806

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

The Company has a committed revolving credit facility of $500.0 million, maturing in October 2022. Interest is based on a floating rate, primarily bankers' acceptances, plus applicable margins and fees based on the terms of the credit facility. No amounts were drawn on this facility at December 31, 2018 or 2017. Standby letters of credit issued utilized $29.9 million (2017 - $26.7 million).

To partially fund the business acquisition in 2017 (see note 25), the Company drew $250.0 million on a term credit facility which was subsequently repaid in full during the year ended December 31, 2018. Unamortized deferred financing costs of $0.8 million associated with this debt were expensed and recorded within interest expense on the consolidated income statement.

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, 2018 and 2017.

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

	Principal	Interest
2019	$ 1,022	$ 24,811
2020	—	24,775
2021	—	24,775
2022	—	24,775
2023	—	24,775
Thereafter	650,000	83,146
	$ 651,022	$ 207,057

Interest expense includes interest on debt initially incurred for a term greater than one year of $30.6 million (2017 - $11.8 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, 2018 and 2017.

A continuity of the shares issued and outstanding for the years ended December 31, 2018 and 2017, 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 at the end of the annual meeting of shareholders in 2021.

Normal Course Issuer Bid ("NCIB")
Toromont renewed its NCIB program in 2018. The current issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares in the twelve-month period ending August 30, 2019, 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.

During the year ended December 31, 2018, the Company purchased and cancelled 237,952 common shares for $12.8 million (average cost of $53.83 per share, including transaction costs) under its NCIB program. No shares were purchased and cancelled in 2017.

Dividends
The Company paid dividends of $71.4 million ($0.88 per share) for the year ended December 31, 2018, and $58.9 million ($0.75 per share) for the year ended December 31, 2017.

Subsequent to the year ended December 31, 2018, the Board of Directors approved a quarterly dividend of $0.27 per share payable on April 3, 2019, to shareholders on record at the close of business on March 8, 2019.

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:

	2018	2017
Other financial liabilities:		
Current portion of long-term debt	$ 1,022	$ 1,941
Long-term debt	$ 644,540	$ 893,806
Derivative financial instruments assets:		
Foreign exchange forward contracts	$ 27,624	$ (5,260)

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	2018	2017
Fair value	$ 655,575	$ 917,583
Carrying value	$ 651,022	$ 902,963

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, 2018 and 2017, 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, 2018, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $553.8 million at an average exchange rate of $1.3084, maturing between January 2019 and February 2020; and (ii) US dollar sell contracts with a notional amount of $31.9 million at an average exchange rate of $1.3097, maturing between January 2019 and April 2020.

Management estimates that a net gain of $27.6 million (2017 – loss of $5.3 million) would be realized if the contracts were terminated on December 31, 2018. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized gain of $4.4 million (2017 – unrealized loss of $2.3 million) has been included in other comprehensive income. These gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A gain of $23.2 million (2017 – loss of $3.0 million) on these forward contracts is included in net earnings, which offsets losses recorded on the foreign-denominated items, namely accounts payable.

All hedging relationships are formally documented, including the risk management objective and strategy. On an 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, 2018, a 5.0% weakening/(strengthening) of the Canadian dollar against the US dollar would result in a $1.0 million (decrease)/increase in OCI for financial instruments held in foreign operations, and a $2.2 million increase/(decrease) in net earnings and $4.1 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 statements 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, 2018 or 2017.

The Company had no floating rate debt outstanding as at December 31, 2018 (2017 - $250.0 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, 2018, the Company had unutilized lines of credit of $470.1 million (2017 - $473.3 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 2019, together with currently available cash on hand and 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:

	2018	2017
Credit facilities	$ 4,553	$ 2,381
Senior debentures	25,269	9,896
Interest accretion on repayment of term credit facility	821	—
	$ 30,643	$ 12,277

The components of interest and investment income were as follows:

	2018	2017
Equipment on rent with purchase options	$ 3,461	$ 2,308
Other	5,457	2,351
	$ 8,918	$ 4,659

15. Income Taxes

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

	2018	2017
Current income tax expense	$ 88,196	$ 55,699
Deferred income tax expense	7,669	10,295
Total income tax expense	$ 95,865	$ 65,994

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

	2018	2017
Statutory Canadian federal and provincial income tax rates	26.5%	26.5%
Expected taxes on income	$ 92,180	$ 64,120
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	1,619	973
Manufacturing and processing rate reduction	(65)	(171)
Expenses not deductible for tax purposes	2,286	1,565
Non-taxable gains	(1,267)	(655)
Effect of change in future income tax rate	200	249
Other	912	(87)
Provision for income taxes	$ 95,865	$ 65,994
Effective income tax rate	27.6%	27.3%

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 sources of deferred income taxes were as follows:

	2018	2017
Accrued liabilities	$ 16,656	$ 16,857
Deferred revenues and contract liabilities	3,503	1,869
Accounts receivable	4,157	2,241
Inventories	5,392	5,216
Deferred tax assets on current assets and current liabilities	29,708	26,183
Capital assets	(44,139)	(36,375)
Goodwill and intangible assets	(6,375)	1,428
Other	1,119	926
Cash flow hedges in other comprehensive income	(1,141)	604
Post-employment obligations	6,909	7,645
Deferred tax (liabilities) on non-current assets and non-current liabilities	(43,627)	(25,772)
Net deferred tax (liabilities) assets	$ (13,919)	$ 411

The movement in net deferred income taxes were as follows:

	2018	2017
Balance, January 1	$ 411	$ 5,610
Tax expense recognized in income	(7,669)	(10,295)
Foreign exchange and others	498	2,626
Tax (expense) recovery recognized in other comprehensive income	(7,159)	2,470
Balance, December 31	$ (13,919)	$ 411

The aggregate amount of unremitted earnings in the Company's subsidiaries was $20.4 million (2017 - $19.4 million). These earnings can be remitted with no tax consequences.

16. Earnings Per Share

	2018	2017
Net earnings available to common shareholders	$ 251,984	$ 175,970
Weighted average common shares outstanding	81,231,282	79,091,706
Dilutive effect of stock option conversions	744,028	815,764
Diluted weighted average common shares outstanding	81,975,310	79,907,470
Earnings per share		
Basic	$ 3.10	$ 2.22
Diluted	$ 3.07	$ 2.20

For the calculation of diluted earnings per share for the year ended December 31, 2018, 584,250 (2017 – 514,550) outstanding stock options with a weighted average exercise price of $66.22 (2017 - $53.88) 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

	2018	2017
Wages and salaries	$ 558,759	$ 368,497
Other employment benefit expenses	74,094	57,937
Stock-based compensation expense	5,101	3,502
Pension costs	31,033	17,321
	$ 668,987	$ 447,257

18. Stock-based Compensation

The Company maintains a stock option program for certain employees. Under the plan, up to 7.0 million 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 (2018 – 809,498).

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, 2018 and 2017, was as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,628,036	$ 34.85	2,430,871	$ 29.25
Granted	589,750	66.22	514,550	53.88
Exercised [1]	(514,516)	23.71	(301,885)	22.39
Forfeited	(67,200)	45.12	(15,500)	31.63
Options outstanding, December 31	2,636,070	$ 43.78	2,628,036	$ 34.85
Options exercisable, December 31	1,093,480	$ 31.87	1,123,236	$ 26.15

(1) The weighted average share price at date of exercise for the year ended December 31, 2018, was $60.49 (2017 – $51.65).

The following table summarizes stock options outstanding and exercisable as at December 31, 2018.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$20.76	131,090	0.6	$ 20.76	131,090	$ 20.76
$23.40 – $26.79	559,600	5.2	25.49	470,080	25.29
$36.65 – $39.79	873,150	7.1	38.29	395,570	37.98
$53.88 – $66.22	1,072,230	9.2	60.60	96,740	53.88
	2,636,070	7.2	$ 43.78	1,093,480	$ 31.87

The fair value of the stock options granted during 2018 and 2017 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	2017
Fair value price per option	$ 13.31	$ 12.28
Share price	$ 66.22	$ 53.88
Expected life of options (years)	5.90	8.06
Expected stock price volatility	21.0%	22.0%
Expected dividend yield	1.39%	1.41%
Risk-free interest rate	2.15%	1.75%

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:

	2018		2017	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	426,279	$ 23,417	407,731	$ 17,265
Units taken or taken in lieu and dividends	28,733	1,647	35,937	1,722
Redemptions	(96,861)	(5,716)	(17,389)	(778)
Fair market value adjustment	—	(343)	—	5,208
Outstanding, December 31	358,151	$ 19,005	426,279	$ 23,417

Employee Share Ownership Plan ("ESOP")

The Company offers an 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 $2.4 million in 2018 (2017 - $2.0 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 more than 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.

Pre-tax pension expenses recognized in net earnings were as follows:

	2018	2017
Defined contribution plans	$ 13,008	$ 11,765
401(k) matched savings plans	305	281
	$ 13,313	$ 12,046

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 2,181 qualifying employees. The plans described in d) and e) below are plans which were assumed as part of the business acquisition described in note 25.

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, 2017, with the next valuation scheduled for December 31, 2018.

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, 2018, the Company has posted letters of credit in the amount of $17.1 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2018, with the next valuation scheduled for December 31, 2019.

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) Québec/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, 2017, with the next valuation scheduled as at December 31, 2018.

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, 2018, with the next valuation scheduled as at December 31, 2019.

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.

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	
	2018	**2017**	**2018**	**2017**
Defined benefit obligations:				
Balance, January 1	$ 493,745	$ 83,370	$ 24,858	$ —
Business acquisition	—	401,986	—	24,740
Current service cost	12,973	3,814	875	141
Interest cost	16,511	5,274	827	140
Actuarial remeasurement (gains) losses arising from:				
Experience adjustments	(963)	(699)	39	35
Demographic assumptions	—	99	—	—
Changes in financial assumptions	(31,315)	8,152	(1,895)	—
Benefits paid	(21,365)	(9,375)	(978)	(198)
Contributions by plan participants	4,963	1,124	—	—
Balance, December 31	$ 474,549	$ 493,745	$ 23,726	$ 24,858
Plan assets:				
Fair value, January 1	$ 397,268	$ 60,800	$ —	$ —
Business acquisition	—	335,171	—	—
Interest income on plan assets	13,466	4,094	—	—
Return on plan assets (excluding amounts included in net interest expense)	(13,482)	822	—	—
Contributions from the Company	13,083	4,632	978	198
Contributions from plan participants	4,963	1,124	—	—
Benefits paid	(21,365)	(9,375)	(978)	(198)
Fair value, December 31	$ 393,933	$ 397,268	$ —	$ —
Net post-employment obligations	$ 80,616	$ 96,477	$ 23,726	$ 24,858

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

	2018			2017		
	Defined Benefit Obligations	**Plan Assets**	**Net Post-employment Obligations**	**Defined Benefit Obligations**	**Plan Assets**	**Net Post-employment Obligations**
Powell Plan	$ 54,975	$ 55,342	$ 367	$ 57,660	$ 56,245	$ (1,415)
Executive Plan	17,575	—	(17,575)	18,368	—	(18,368)
Québec/Maritimes Plan	395,818	333,910	(61,908)	410,451	335,526	(74,925)
Québec/Maritimes other post-employment benefits	23,726	—	(23,726)	24,858	—	(24,858)
Other plan assets and obligations	6,181	4,681	(1,500)	7,266	5,497	(1,769)
	$ 498,275	$ 393,933	$ (104,342)	$ 518,603	$ 397,268	$ (121,335)

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

	2018	**2017**
Discount rate	3.89%	3.40%
Expected rate of salary increase	3.00%	3.47%

Pre-tax pension and other post-retirement benefit expenses recognized in net earnings were as follows:

	2018	2017
Service cost	$ 13,848	$ 3,955
Net interest expense	3,872	1,320
	$ 17,720	$ 5,275

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

	2018	2017
Actuarial gains arising from experience adjustments	$ (924)	$ (664)
Actuarial losses arising from changes in demographic assumptions	—	99
Actuarial (gains) losses arising from changes in financial assumptions	(33,210)	8,152
Return on plan assets (excluding amounts included in net interest expense)	13,482	(822)
	$ (20,652)	$ 6,765

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

	2018	2017
Equity securities	58.5%	53.9%
Debt securities	37.2%	42.5%
Real estate assets	3.7%	2.8%
Cash and cash equivalents	0.6%	0.8%

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 for the year ended December 31, 2018, was $nil (2017 - $4.9 million).

The Company expects to contribute $26.0 million to pension and other benefit plans in 2019, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations at December 31, 2018 and 2017, was 14.5 years.

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined benefit obligations ("DBO") 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, 2018, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the DBO:

		Increase (decrease) in DBO		
Actuarial Assumption	**Sensitivity**	**Pension Benefit Plans**	**Other Post-retirement Benefit Plans**	**Total**
Period end discount rate	1% increase	$ (68,700)	$ (3,402)	$ (72,102)
	1% decrease	$ 80,526	$ 4,197	$ 84,723
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 10,301	$ (451)	$ 9,850

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:

	2018	2017
Long-term debt	$ 644,540	$ 893,806
Current portion of long-term debt	1,022	1,941
Less: Cash	345,434	160,507
Net debt	300,128	735,240
Shareholders' equity	1,327,679	1,124,727
Total capitalization	$ 1,627,807	$ 1,859,967
Net debt as a % of total capitalization	18%	40%
Net debt to equity ratio	0.23:1	0.65:1

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, 2018 and 2017. There were no changes in the Company's approach to capital management during the years ended December 31, 2018 and 2017.

21. Supplemental Cash Flow Information

	2018	2017
Net change in non-cash working capital and other		
Accounts receivable	$ (36,392)	$ (65,840)
Inventories	(95,983)	(53,232)
Accounts payable and accrued liabilities	364,019	162,797
Provisions	1,946	297
Deferred revenues and contract liabilities	(2,388)	33,906
Income taxes	28,164	(1,058)
Derivative financial instruments	(26,173)	3,722
Other	2,857	(10,582)
	$ 236,050	$ 70,010
Cash paid during the year for:		
Interest	$ 28,803	$ 7,863
Income taxes	$ 62,054	$ 57,686
Cash received during the year for:		
Interest	$ 8,703	$ 4,130
Income taxes	$ 2,562	$ 1,705

A reconciliation of liabilities arising from financing activities during the year, was as follows:

	Current Portion of Long-term Debt	Long-term Debt	Total
Balance, January 1, 2017	$ 1,811	$ 150,717	$ 152,528
Cash flows	(1,811)	750,000	748,189
Other	1,941	(6,911)	(4,970)
Balance, December 31, 2017	$ 1,941	$ 893,806	$ 895,747
Cash flows	(1,941)	(250,000)	(251,941)
Other	1,022	734	1,756
Balance, December 31, 2018	$ 1,022	$ 644,540	$ 645,562

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, 2018, were as follows:

2019	$ 12,895
2020	8,764
2021	5,325
2022	3,115
2023	4,285
Thereafter	1,166
	$ 35,550

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 Equipment Rentals* – supplies and rents specialized mobile equipment as well as specialty supplies and tools.
- *Toromont Material Handling* – supplies, rents and services material handling 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
Provides design, engineering, fabrication, installation, and product support for 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	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Equipment/package sales	$1,508,120	$1,012,208	$ 202,367	$ 189,212	$1,710,487	$1,201,420
Rentals	378,027	261,641	—	—	378,027	261,641
Product support	1,264,295	746,832	140,782	128,999	1,405,077	875,831
Power generation	10,645	11,270	—	—	10,645	11,270
Total revenues	$3,161,087	$2,031,951	$ 343,149	$ 318,211	$3,504,236	$2,350,162
Operating income	$ 348,876	$ 219,814	$ 20,698	$ 29,768	$ 369,574	$ 249,582
Interest expense					30,643	12,277
Interest and investment income					(8,918)	(4,659)
Income taxes					95,865	65,994
Net earnings					$ 251,984	$ 175,970

Selected statements of financial position information:

	Equipment Group		CIMCO		Consolidated	
As at December 31	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Identifiable assets	$2,755,039	$2,560,610	$ 104,498	$ 101,719	$2,859,537	$2,662,329
Corporate assets					374,994	204,616
Total assets					$ 3,234,531	$2,866,945
Identifiable liabilities	$1,091,029	$ 611,730	$ 71,730	$ 76,323	$1,162,759	$ 688,053
Corporate liabilities					744,093	1,054,165
Total liabilities					$1,906,852	$1,742,218
Capital expenditures (net)	$ 162,694	$ 99,532	$ 2,452	$ 1,422	$ 165,146	$ 100,954
Depreciation	$ 133,323	$ 84,922	$ 1,836	$ 1,365	$ 135,159	$ 86,287

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

Years ended December 31	**2018**	**2017**
Canada	$3,387,552	$2,252,343
United States	110,552	96,666
International	6,132	1,153
Revenues	$3,504,236	$2,350,162

As at December 31	**2018**	**2017**
Canada	$1,043,007	$ 971,339
United States	5,079	4,318
Capital Assets and Goodwill	$1,048,086	$ 975,657

24. Related Party Disclosures

Key management personnel and director compensation comprised:

	2018	2017
Salaries	$ 3,068	$ 3,271
Stock options and DSU awards	2,461	2,169
Annual non-equity incentive based plan compensation	3,400	2,733
Pension	648	647
All other compensation	135	148
	$ 9,712	$ 8,968

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

25. Business Acquisition in 2017

On October 27, 2017, the Company acquired the businesses and net operating assets of the Hewitt Group of Companies 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 Québec 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 expanded 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 in exchange for consideration of $902.9 million cash (net of a final 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.

The acquisition was accounted for using the purchase method of accounting.

The final allocation of the purchase price was as follows:

Accounts receivable	$ 159,539
Inventories	288,535
Property, plant and equipment	216,112
Rental equipment	169,993
Deferred tax asset	2,617
Intangible asset with an indefinite life:	
Distribution network	357,882
Intangible assets with a finite life:	
ERP system	5,000
Customer relationships	15,137
Customer order backlog	8,691
Accounts payable and accrued liabilities	(130,624)
Provisions	(6,045)
Deferred revenues and contract liabilities	(51,503)
Post-employment benefit obligations	(91,555)
Net identifiable assets	943,779
Residual purchase price allocated to goodwill	80,330
Total	**$ 1,024,109**

26. Economic Relationship

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

Ten-Year Financial Review[1]

For the years ended December 31 ($ thousands, except ratios and share data)	2018	2017[7][8]	2016	2015
Operating Results				
Revenues	3,504,236	2,350,162	1,912,040	1,846,723
Net earnings	251,984	175,970	155,748	145,666
Net interest expense[2]	21,725	7,618	3,236	5,246
Capital expenditures (net)[2]	165,146	100,954	85,031	113,911
Dividends declared	74,516	60,402	56,280	52,882
Financial Position				
Working capital	653,906	767,374	575,382	486,293
Capital assets	954,306	881,877	454,104	429,824
Total assets	3,234,531	2,866,945	1,394,212	1,276,077
Non-current portion of long-term debt[3][8][9]	644,540	893,806	150,717	152,079
Shareholders' equity	1,327,679	1,124,727	885,432	775,281
Financial Ratios				
Working capital	1.6:1	2.1:1	2.8:1	2.6:1
Return on opening shareholders' equity (%)[4]	22.3	19.3	20.0	21.6
Total debt, net of cash, to shareholders' equity	.23:1	.65:1	(.04):1	.11:1
Per Share Data ($)				
Basic earnings per share	3.10	2.22	1.99	1.88
Diluted earnings per share	3.07	2.20	1.98	1.86
Dividends declared	0.92	0.76	0.72	0.68
Book value (shareholders' equity)	16.35	13.89	11.29	9.95
Shares outstanding at year end[8]	81,226,383	80,949,819	78,398,456	77,905,821
Price range[5]				
High	68.11	58.44	44.44	37.61
Low	46.24	41.10	27.25	26.70
Close	54.26	55.10	42.35	31.55

(1) 2010 - 2017 results were prepared in accordance with IFRS. Results for 2009 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 working capital 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 25 of the 2018 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 25 of the 2018 audited financial statements.
(9) $250.0 million drawn on a term credit facility to partially fund the acquisition in 2017 was fully repaid during the year ended December 31, 2018.

2014	2013	2012[6]	2011	2010	2009
1,660,390	1,593,431	1,507,173	1,381,974	1,207,028	1,824,592
133,196	123,031	119,473	246,459	103,912	120,516
4,034	4,900	5,740	5,798	8,826	2,460
76,893	71,267	77,245	55,757	49,385	25,835
46,267	39,854	36,728	36,968	47,716	38,848
294,753	356,347	302,919	251,122	478,289	539,264
371,661	341,152	316,925	287,290	556,991	369,666
1,107,802	1,030,555	936,170	913,331	2,271,763	1,364,667
4,942	130,948	158,395	132,815	413,040	144,051
668,075	576,557	476,575	403,861	1,196,838	854,063
1.7:1	2.2:1	2.2:1	1.7:1	1.8:1	2.6:1
23.0	25.7	29.9	28.9	9.1	15.5
.07:1	.11:1	.33:1	.15:1	.21:1	(.06):1
1.73	1.61	1.56	3.20	1.36	1.86
1.71	1.59	1.55	3.18	1.35	1.86
0.60	0.52	0.48	0.48	0.62	0.60
8.65	7.50	6.24	5.27	15.50	13.17
77,259,396	76,844,897	76,407,658	76,629,777	77,149,626	64,867,467
28.97	26.94	25.00	33.25	32.40	27.80
24.48	21.12	18.61	15.39	22.86	19.26
28.51	26.65	21.10	21.32	30.76	27.79

Corporate Information

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Annual Meeting

The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am (EST) on Friday, May 3, 2019 at the Toromont Cat offices at 5001 Trans-Canada Highway, Pointe-Claire, Québec H9R 1B8.

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Common Shares

Listed on the Toronto Stock Exchange
Stock Symbol – TIH

This annual report was printed in Canada
on stock manufactured chlorine-free
with 10% post-consumer fibre.

Design and Coordination: Ove Design & Communications www.ovedesign.com Editorial: Fundamental Creative Inc.

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