BUILDING TOGETHER

TOROMONT

TOROMONT INDUSTRIES LTD.
2019 ANNUAL REPORT

Toromont is a company of 6,500 empowered people working across seven different business units with a variety of product and service offerings, but we do not define ourselves in individual terms. No matter what job we perform or what territory we serve, our success is based on our ability to work collaboratively with each other and our partners in creating value for our customers, shareholders, communities and each other. We are, quite literally, Building Together for an exciting future.

Contents

One Toromont

Toromont Industries Ltd. (TSX: TIH) is a diversified growth company employing 6,500 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

Toromont is one of the largest Caterpillar dealers in the world with 48 branches across seven provinces and one territory. Through Toromont Cat, we serve the specialized heavy equipment, power generation, heavy rent 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.

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.

Battlefield – The Cat Rental Store

From 68 stores in our Cat dealer territories, supported by a rapid equipment delivery-to-site system, Battlefield addresses the full rental service and purchase needs of contractors, specialty trades and do-it-yourself customers through its line-up of brand-name machines, tools and supplies.

SITECH Mid-Canada Ltd.

SITECH specializes in providing machine control, site positioning and asset management technologies as well as professional support services as a Trimble and Cat AccuGrade® dealer across eastern Canada.

Jobsite Industrial Rental Services

Across seven locations, Jobsite Industrial Rental Services meets the specialized tool crib rental equipment needs of contractors working in refinery industries, healthcare, automotive, steel and pulp and paper.

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.

Toromont Material Handling

From 19 locations across 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. This specialized equipment is used by ports and terminals, paper producers, automotive parts manufacturers, beverage companies, hardware retailers and other customers to safely move, store and protect critical inventories.

Fellow Shareholders

Toromont embarked on an ambitious journey two years ago to integrate the largest acquisition in its history. The objective was not simply to combine operations and apply business-model discipline; it was to build a new team capable of capitalizing on every strength and every advantage every day for the benefit of customers and shareholders. The journey is far from over but the mile markers of progress in 2019 were unmistakable. Strategically, operationally and financially, this was a good year.

Toromont earned $3.45 per diluted share, net of a non-recurring gain, on relatively broad-based growth in revenue and disciplined expense management. In a year peppered by complex and time-consuming integration projects, and marked by weaker activity in some markets, bottom-line results attest to the advantage of Toromont's larger geographic footprint, broader customer base and the diligent efforts of all employees. The increasing proportion of product support and rental revenues to total revenues added to profitability.

Continuous re-investment also contributed. In addition to significant investments in employees and technologies, over $896 million was allocated to rental fleets, branches and plants over the past five years including $252 million in 2019. Strategic increases in inventory levels provided better penetration of Toromont's expanded markets.

We view these funds as seed capital that is put to work to grow and nurture Toromont's competitive advantages. A favoured metaphor is that we are planting an orchard that bears fruit annually, not a wheat field. We do, however, expect to achieve hurdle-rate returns. In 2019, return on opening shareholders' equity was 21.4%.

Another year of strong cash generation supported a 17.4% increase in the common share dividend in 2019. With the most recent increase of 14.8% announced in February 2020, Toromont has grown dividends every year since 1989. Payments have been made consistently for 52 years. Toromont's strong financial position supports continued growth and investment.

Integration Progress

In 2019 (year two of integrating QM operations), the disciplines associated with Toromont's operating approach began to take hold. Toromont's branch model was introduced in Québec after a successful roll out in Atlantic Canada in 2018 and provided a solid foundation for decentralized management.

Local empowerment, a pre-requisite for the achievement of operational excellence, led to decision-making that was better aligned with customer and market needs and more attuned to the key performance indicators used to manage the business. Well-deserved promotions added to esprit de corps and were consistent with our objective of building a new, energized team. Collaboration within business units contributed to the effective fulfillment of complex customer assignments. New locations were opened, sales resources were added and our first large technology integration was successfully completed. Progress with our journey also allowed all business units to bring greater focus to their digital strategies, a catch-all phrase for how they employ the wealth of data we collect to improve customer service and enhance marketing and sales. We upgraded our approach to used inventory acquisition and sales given that the unit volume of used equipment sales in some territories can be two to three times higher than new unit sales. Collectively, these activities structured Toromont to more efficiently and effectively pursue growth opportunities across our expanded territories.

Proven Steady Growth

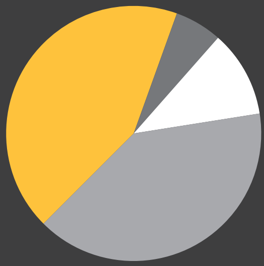
Toromont's performance is driven by the actions of our business units. These empowered enterprises serve diverse end-use markets and customers under their own brand names, pursue unique growth and development opportunities and thrive on different levels of capital. However, without exception, our businesses are aligned to Toromont's model of selling specialized equipment and lifetime product support. They also adhere to our management principles:

- Continuous improvement in all activities to seize and sustain market leadership
- Preservation of our strong financial position and corporate reputation for honest and fair dealing
- Alignment with world-leading business partners
- Accountability for results realized including employee safety, environmental compliance, revenue growth, customer satisfaction and loyalty, market share and pre-tax return on capital employed

Our business model, management principles and five core strategies – expand markets, strengthen product support, broaden product offerings, invest in resources and people, maintain a strong financial position – serve as Toromont's "true north." As such, they are constant. What changes are the activities energetically undertaken by our businesses to grow and improve.

Our Results

2019 Revenues



- **New & used equipment – 42%**
- **Refrigeration equipment – 5%**
- **Rentals – 11%**
- **Product support – 42%**

Core Strategies

Expand markets

Strengthen product support

Broaden product offerings

Invest in resources & people

Maintain a strong financial position

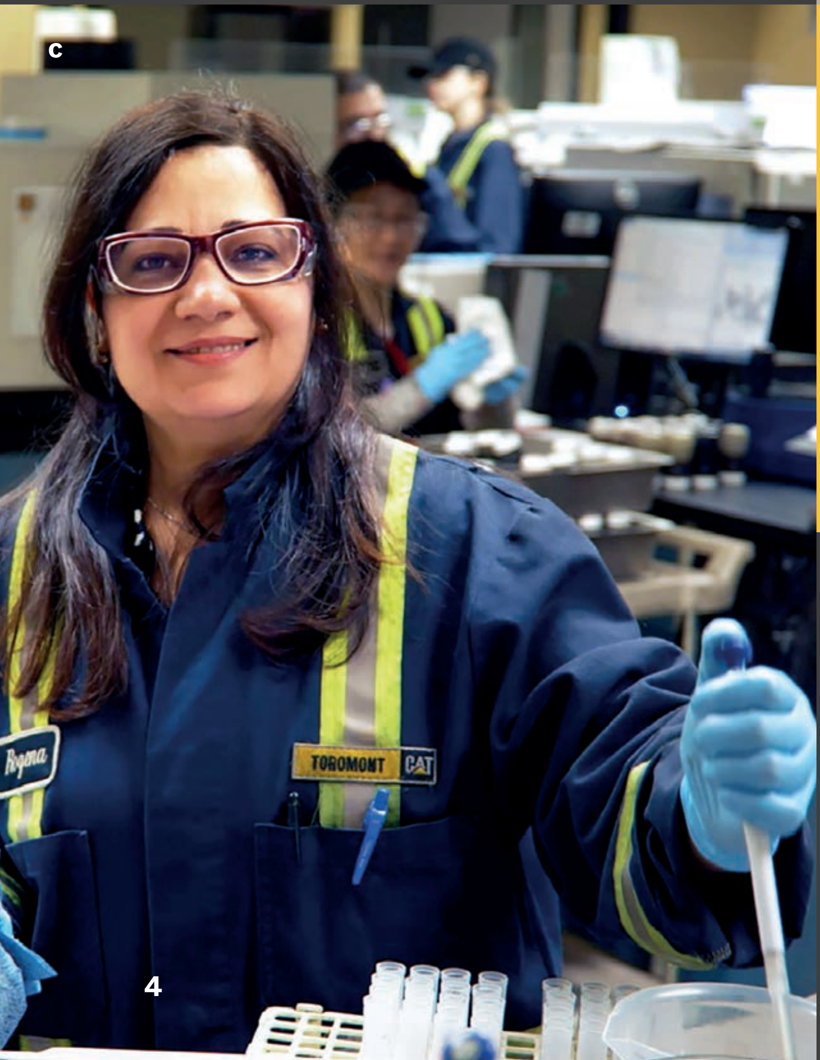
Net debt to total capitalization

18% 2018 → **15%** 2019

a. Jobsite technician Paul Hyatt prepares a diesel welder for use during a refinery turnaround. Jobsite recently opened its first facility in New Brunswick.

b. Brock University recently updated its highly efficient district energy plant with the help of Toromont Power Systems and four Cat G3516H generator sets.

c. Toromont Cat's Rogéna Aboud tests a fluid sample at our recently consolidated, ISO-certified laboratory in Pointe-Claire.



21.4%

Return on opening shareholders' equity, on higher earnings

150+

Locations

Toromont Cat encountered a cautious new capital spending environment in some core markets in 2019, but took advantage of its diversified platform and customer demand for product support to deliver positive results. The adoption of the traditional branch business model in acquired territories, alongside investments in the heavy equipment rental fleet led to improved market penetration and greater participation in customer projects. Standardization of best practices across construction, power systems and mining groups contributed to the goal of achieving a consistent "One Toromont" experience for customers. To align with a Caterpillar growth initiative, product support operations introduced Customer Value Agreements to bring additional focus to lifecycle support beginning at the point of sale. Customer receptivity to pre-packaged kits containing filters, belts and seals was positive. New warehouse management systems were installed in Thunder Bay and Ottawa branches to enable more-efficient parts retrieval and inventory tracking while alleviating the need for physical expansion to meet the needs of growth. Toromont's four remanufacturing facilities implemented common operating procedures, documentation, testing and warranties and improved coordination of inventory and capacity while increasing Cat® Certified Rebuild volumes by 15%. To serve demand, we recruited more than 300 technicians and apprentices. Fluid analysis for the entire dealership was consolidated at our ISO-certified laboratory in Pointe-Claire to optimize results for customers. These activities contributed to product support growth on our larger installed base and greater efficiencies.

Battlefield Equipment Rentals finished year two of its journey to install its full rental services model in Québec and the Maritimes with good results. One feature of this formative period has been a significant expansion and diversification of rental inventory including elevated work platforms, telehandlers, heaters, pumps, generators, small excavators and tools to address the needs of customers. While returns per dollar invested reflected the immature state of the inventory aging and product disposition cycle, Battlefield Equipment Rentals' market penetration improved significantly. Battlefield Equipment Rentals also made progress in leveraging its supply chain. Perhaps the biggest advancement was the June 2019 integration of Battlefield Equipment Rentals' fleet management and reporting system in QM territories. This system serves as the technological backbone of the business, enabling full line-of-sight on inventory location and status. It also powers our TRAC technology, which supports efficient equipment pickup and delivery, enables customers to use their smartphones to manage their rentals and request maintenance and provides real-time machine utilization data. The financial payback from this investment will be quick at 1.5 years and the positive impact on business efficiency and competitiveness will be long lasting.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a. This Genie S 85XC lift is one of many specialized units Battlefield Equipment Rentals provided to Montréal's Réseau Express Métropolitain (REM) transit project in 2019. By broadening its product offering, Battlefield Equipment Rentals has positioned itself to serve large scale infrastructure projects in the province.

b. Toromont Cat's branch in Hamilton, Ontario, working with our Remanufacturing operations and field service team, delivered the first-ever Cat Certified rebuild of a 992K loader. The project involved engine and torque rebuilds, the installation of a remanufactured transmission, cleaning and painting of the disassembled frame, cab and boom, reassembly of 7,000 parts and the latest Caterpillar software upgrades.

Toromont Material Handling ("TMH"), a business unit serving over 6,000 users of brand-name lift trucks and other specialized equipment, made several important moves. Among them, it invested in its rental inventory, created a rental operations team in Ontario, improved its field product support services and added Nordco's Shuttlewagon mobile railcar movers to the MCFA, Cat, Jungheinrich and Nilfisk brands it sells. As a result of broader representation, TMH is now Eastern Canada's one-stop shop for all five classes of lift trucks with capacities ranging from 680 to 104,000 kilograms. A consolidated regional parts centre, centralized technical and administration operations, a new Winnipeg facility for the Manitoba market and the formation of a major accounts team supported better customer service, efficiencies and expense control. Demonstrating its focus on good execution, MCFA presented TMH with a Dealer of Excellence award and Kalmar Ottawa named TMH a Premium Partner.

Toromont's other Equipment Group businesses were also active. **Jobsite** Industrial Rental Services improved its market coverage by opening a facility in Saint John, New Brunswick (its first outside Ontario) and delivered tool cribs to refineries, hospitals and a number of other institutional customers. **SITECH** found success in selling data services and technology support and acquired Silver Top Supply, a distributor of weigh-scale systems for loaders and dump trucks used in SITECH's core construction, aggregate, demolition and waste management markets. **AgWest** intensified its focus on equipment monitoring and proactive parts sales to grow product support in a weak market environment for new machine sales.

CIMCO delivered healthy gains in profitability following a reset on project bidding and warranty management. Product support revenues increased for the 8th consecutive year despite lower package sales compared to the record set in 2018. With 34 new technicians added, CIMCO was better able to serve customers throughout Canada and the continental US. High-profile assignments were awarded by customers including an ammonia refrigeration package for the New York Islanders arena on Long Island. CIMCO's reputation as an innovator was advanced with the continued development of SMART products. The newest product, SMART Transfer, is a patent-pending technology that monitors for system leaks and transfers refrigerant to a storage vessel when required. For customers, CIMCO's ECO CHILL® branded equipment and family of automated SMART rink technologies reduce energy usage, enhance safety and enable faster troubleshooting. These competitive advantages are bolstered by CIMCO's ability to harness natural refrigerants like CO_2. CO_2 systems accounted for 16% of CIMCO's order bookings in 2019 compared to 8% in 2018; a clear sign of the growing popularity of this climate-safe alternative to Freon and its synthetic derivatives.

Safety

Toromont's most important objective is to create a workplace free of injury. In 2019, we did not meet this objective, although total recordable injury frequency rate has declined over the past five years. Our Environmental, Social and Governance report documents our efforts. We are committed to continuous improvement in 2020.

A Tribute to Robert Franklin

In February 2020, we were saddened by the sudden passing of Mr. Robert Franklin after a courageous battle with cancer. Rob's contributions over his 26 year tenure as a Director were foundational to the Toromont that you see today; leveraging his extensive business experience and connections throughout the business community to assist and guide Toromont. Over the years, Rob served on the Audit Committee and had been the Chair of our Human Resources and Compensation Committee from 2003 up until the time of his passing. We will miss him.

Governance and Succession

Your Board operates with a disciplined and proactive succession protocol that has enabled us to recruit four new Directors in the past five years, each with relevant experience and expertise to ensure continuity of approach, continuous improvement and independence.

At the senior leadership level, 2019 saw the retirement of Randall B. Casson as President of Battlefield Equipment Rentals. Mr. Casson joined Toromont in 1977 and successfully led Battlefield Equipment Rentals from 2001. We thank Mr. Casson for his leadership and for preparing Colin Goheen who assumed the role of Battlefield Equipment Rentals' President in September 2019. Mr. Goheen is a 21-year Toromont veteran.

In the near term, Toromont will see the retirement of Paul R. Jewer Executive Vice President and Chief Financial Officer. Mr. Jewer has served Toromont with distinction for over 14 years and was frequently recognized as one of Canada's top CFOs. We thank Mr. Jewer for his many contributions including his leadership on several transformative, value-creating M&A transactions. After an extensive search, we announced the appointment of Michael McMillan as Executive Vice President and Chief Financial Officer, effective March 1, 2020. Mr. McMillan is an accomplished CFO with more than 25 years of financial experience, including controllership, planning, M&A and investor relations. Mr. McMillan is a Chartered Professional Accountant and holds an MBA from the University of Calgary.

A New Team for a New World

The widespread improvements made in our operations in 2019 are a signal that Toromont's team is working well together. Entering 2020, each business unit introduced new three-year plans with aggressive new performance targets that will challenge, and we hope reward, every stakeholder.

The Barbara Ann Scott Ice Trail at Toronto's College Park opened in late 2019 with a CIMCO package – the world's first transcritical CO_2 system used in an outdoor ice rink. Pumping CO_2 directly to the ice undersurface not only reduced horsepower needs, it eliminated temperature changes that degrade ice quality. The City of Toronto rejected Freon-based options and chose CIMCO's solution to achieve significant annual operational and maintenance cost savings and a 70% reduction in greenhouse gas emissions.

Our plans recognize that we are operating in a rapidly changing environment. Technology is redefining how customers wish to be served and placing greater emphasis on collecting, interpreting and harnessing data right down to the machine level. Climate change is bringing focus to energy efficiency and alternative energy sources. Customer consolidation is heightening the importance of supplier scale, geographic reach and consistent service. Shortage of skilled trades represents a pinch point for industry growth.

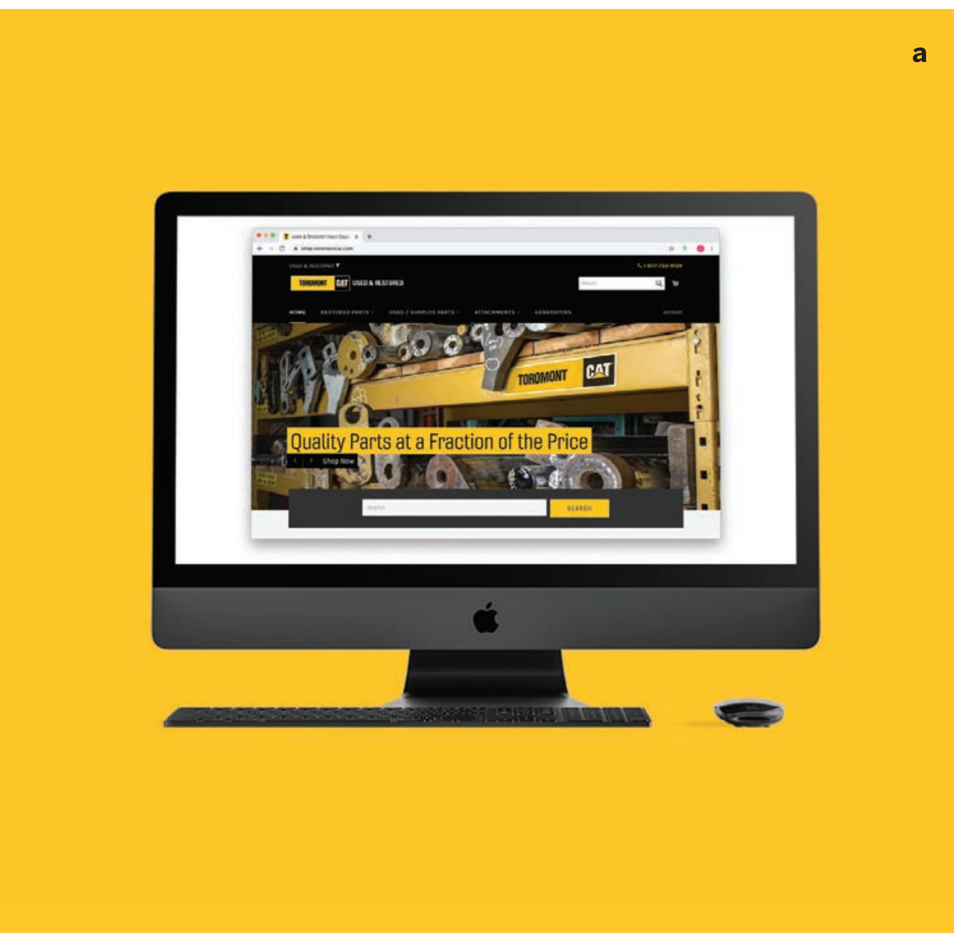
The acquisition of QM territories, investments in employee recruitment and training, homegrown innovation and transformative product developments by our partners, most especially Caterpillar, position Toromont to compete in this new world. In the final analysis, however, staying ahead of the curve will require something old-fashioned: teamwork.

We thank our team of employees, Directors and business partners for the mighty efforts they made to deliver good results in 2019. We are excited by what the future holds in store and grateful to our customers and shareholders for their participation in our journey.

Yours sincerely,

Robert M. Ogilvie
Chairman of the Board

Scott J. Medhurst
President and Chief Executive Officer



a. Used equipment sales benefited from the launch of an upgraded Toromont Cat website that allows customers to search inventory across all territories and receive a quote online.

b. Toromont Material Handling's Peter Lambropoulos services a lift truck at our Concord shop. As part of its focus on operational excellence, TMH made several changes and investments in 2019.

Environmental, Social and Governance Report

Across our territories and around the clock, Toromont commits to operating in a safe, efficient and responsible manner. Our sustainability efforts are guided by our Board of Directors, led by our empowered executives and business leaders and made manifest by our team of 6,500 dedicated individuals. Together, we stand accountable to our customers, shareholders and neighbours for responsible stewardship every day.

ESG Priorities & Approach

Toromont's Core Principles reflect what we value as an organization and serve to guide us in the performance of our duties:

- safe and respectful workplace
- social responsibility
- uncompromising integrity
- empowerment at all levels
- growth of the individual and enterprise
- returns to all stakeholders

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a. Toromont Cat sponsored the 2019 Skills Canada National Competition in Halifax. Several members of the team participated including Michael Gaetz from Dartmouth branch (pictured above). Toromont's Technical Instructor from Dartmouth also assisted in the World Competition held in Russia.

b. On a daily basis, Toromont technicians always engage in stretching exercises to limber up before tackling their assignments.

Toromont's Board sets the tone for responsible management and behaviours that are aligned to our Core Principles by providing guidance and active oversight of the key priority areas set forth in this report. In each area, the Board ensures we operate with specific objectives, structured programs and monitoring/compliance systems to measure progress, evaluate outcomes and address areas for improvement. Through their actions, our Directors have built a strong governance framework that creates value for all stakeholders, enhances long-term corporate sustainability and reduces business risk. Please see our 2020 Management Information Circular for details at **toromont.com**.

Also consistent with our Core Principles, our executive team provides the leadership to embed our values across our operations and empowers Toromont's decentralized business units to take actions and make investments that are relevant to their operational realities. This approach not only ensures plans are specific to the needs of our diversified businesses and appropriate for Toromont as a responsible organization, it breeds a broad, deep and abiding sense of ownership and accountability.

Safety Policies and Governance

Creating the safest possible workplace is Toromont's paramount objective. To protect employees, those we work with and our neighbours, we have invested to create a strong safety culture and an extensive safety program. Our commitment begins at the Board level – where our policies are set and regularly reviewed for effectiveness – and cascades throughout our organization. Quite literally, everyone at Toromont is accountable for compliance to safe operating practices (see Five Cardinal Safety Rules). The variable compensation of our senior leaders is tied to safety outcomes measured by Total Recordable Injury Rate "TRIR," as well as a consistent demonstration of proper leadership practices. It's these behaviours, executed consistently, that define and mold a safety culture. Dedicated business unit personnel, supported by external subject-matter experts when needed, ensure safety programs are well designed and functioning, deliver educational programs for employees, monitor for compliance and, with the full support of our Board and senior leaders, drive continuous improvements so that safety is not just top of mind at work but a way of life. Our Safety Outside Work intranet site, replete with safety tips and strategies, is available to all employees and their families as part of our corporate commitment.

2019 Safety Actions and Outcomes

Toromont invested heavily in employee safety including over 170,000 hours of training in 2019, as well as investments in safety equipment specific to the hazards encountered in each working environment.

However, training alone does not embed safety as a cultural norm. To model the right behaviours, Toromont Cat and Toromont Material Handling introduced Supervisor Training in Accountability and Recognition Techniques ("START"). During the year, 400 leaders participated in START's role-playing exercises and were coached on setting clear safety expectations and improving communications. START was instrumental in improving accountability and led to the introduction of monthly leadership meetings where participants discussed safety challenges, set expectations and scrutinized results. Toromont Cat safety specialists saw their roles adjusted to increase shop floor coaching time. Additional support was provided to branch safety committees to increase their effectiveness.

To raise employee awareness, enhance safety compliance and support additional training, CIMCO invested in additional full time health and safety resources in 2019.

Discipline and enabling technology play important roles. Toromont Cat branches are evaluated monthly as part of a formal safety recognition program. Marks are assigned for completion of safety training, hazard identification reporting, timely incident investigations and field spot audits. At CIMCO, third-party safety audits of all branches were completed in 2019 to validate best practices and identify opportunities for improvement. Velocity EHS, Toromont's technology platform, was enhanced and expanded such that Toromont Cat safety activities are now recorded online, including the risk assessments performed by all technicians before they start any project. Managers are notified in real time when a near miss occurs. Data and information are tracked and used to take immediate corrective actions and to shape future training. Velocity EHS was introduced at Battlefield Equipment Rentals in 2019 with CIMCO scheduled to onboard it in 2020.

We have also found success in recognizing great performance by our employees through the Safety Bucket and the Maurice De Stéphano awards given each year to the Toromont Cat branches that surpass all others in safety indicators. Battlefield Equipment Rentals provided quarterly and annual awards for safe driving and clean inspections.

Ownership of safety outcomes is a responsibility of every Toromont employee. To reflect our uncompromising approach, we introduced Five Cardinal Safety Rules in 2015, and deployed them across all operations in Québec and the Maritimes including at Toromont Material Handling in 2019. These rules are modelled on the best practices used by leading corporations in key industries.

As a result of greater awareness and focus, Total Recordable Injury Frequency rate has declined 16% over the past five years, even though exposure hours (the total number of hours worked by all employees) increased 77%. While good, this is not good enough. We will continue to focus on keeping all eyes on task, refining and refreshing our approach and holding each other accountable at all levels for creating and sustaining a safe workplace.

Workforce Development Policies and Governance

We value employee empowerment and believe our culture of authority with accountability has contributed significantly to Toromont's long-term success. To foster an empowered culture, attract and retain the industry's best people and ensure the sustainability and competitiveness of our workforce, Toromont employs comprehensive human resources strategies and programs. The Human Resources and Compensation Committee of our Board of Directors oversees our policies and practices including short- and long-term incentive plans and is responsible for executive officer appointments and overseeing succession planning and leadership development. In turn, our corporate executives provide guidance and support to our business units to ensure that workforce development and succession programs are in place and functioning. Our business units design and deliver programs that best reflect their needs with a focus on improving employee knowledge, skills, productivity and effectiveness. The long running Toromont Employee Share Purchase Plan (see below) serves to align the interests of employees and shareholders.

2019 Training and Development Actions and Outcomes

Toromont Cat employees set personal goals for performance and skills development aligned to our business plan objectives and collectively completed 285,000 training hours. Instruction was provided in workshops and delivered through Leaders@Work, a platform that gives managers and aspiring leaders the ability to study online and in live virtual classrooms – a key benefit for our dispersed workforce. Leaders@Work resides within Toromont University, a constantly evolving learning portal that offers access to thousands of technical, sales and personal development tools.

Significant attention was paid to adopting and embedding the best training programs and practices of both legacy Toromont and Québec and Maritimes operations so that a consistent standard of excellence applies across the enterprise. The recent adoption of the Red Seal as the standard all apprentices must meet is one example of best-practice standardization. For 2020, we will align our programs towards this standard across Toromont Cat.

Battlefield has developed many in-house training programs over the years within their BERC program (Battlefield Equipment Rental College). The BERC program for Rental Coordinators was developed over a decade ago and provides newer front-line counter staff with insights into customer service as well as systems and equipment training, and imparts product knowledge. Additionally, there is now a BERC Driver program focused on G-class drivers to give them the necessary skill sets and experience to deliver and pickup equipment.

At CIMCO, a new structure was implemented to support on-the-job service technician development through coaching and to provide a more formal pathway for advancement. In the U.S., where the refrigeration industry does not have a recognized technician training and licensing regimen, CIMCO designed and introduced an apprenticeship program and attracted its first cohort of trainees. The program is based on best practices used in Canada and will assist recruiting efforts and improve the skillsets and advancement prospects of U.S. technicians while enhancing industry professionalism.

Reflecting our teamwork focus, and commitment to building the best team in our industry, we hosted the largest-ever leadership conference. A total of 65 new and high-potential leaders from all Toromont businesses gathered in Montreal to analyze topics relevant to Toromont's improvement initiatives including digital transformation, data analytics and critical leadership behaviours required to enable ongoing success.

Employee wellness goes together with the development of a high-performing workforce. We promote wellness through training and awareness programs and our leaders are coached to recognize and support employee wellbeing. In 2019, Toromont Cat supported employees in managing mental wellness challenges by offering a Mental Health Certification for leaders.

Working at Toromont is demanding, but there are rewards. One is the Toromont Employee Share Purchase Plan which makes it easier for all salaried employees to own a piece of the Company they are building. Approximately 33% of eligible employees were enrolled in our ESPP at the end of 2019 after it was made available in Québec and the Maritimes.

2019 Recruitment & Retention Actions and Outcomes

Toromont's ability to grow is, in large part, determined by our ability to recruit and retain highly skilled workers. The dearth of such workers in Canada has caused us to become more assertive and thoughtful in our recruitment efforts – with positive results. During the year:

- 303 technicians were recruited to achieve our growth targets
- 208 student apprenticeship positions were created
- 19 vocational institutions worked with Toromont as we shared ideas with teachers to keep training current and introduced our Company as a future employer to students
- 4th-year students in the engineering faculty at Queen's and McMaster universities were invited to participate in a centralized tool crib automation and redesign project under the auspices of a new Toromont Cat partnership
- our Québec operations created an Honourable Journey Award to encourage diversity by supporting skilled trades students, ideally from a designated group who achieve impressive academic standing despite hardship circumstances.

Overall, our workforce grew approximately 8% in 2019 reflecting successful recruitment and onboarding and a retention rate that is superior to external benchmarks.

Workforce Diversity Policies and Governance

Our ability to understand, embrace and operate in a culturally and gender-diverse environment is critical to our long-term sustainability. Consequently, we operate with a Diversity Policy (updated by the Board this year to include specific references to our leadership team) and related objectives. The benefits of a diverse workforce are fully acknowledged, and diversity is considered in promotions and new hires consistent with our Employment Equity Policy. Our Board, together with its Nominating and Corporate Governance Committee and senior management, regularly review the outcomes of our diversity strategies and look for new opportunities to foster a culture of inclusion. Like all business pursuits at Toromont, we track the results of our diversity policies and efforts as part of disciplined management and to encourage continuous improvement.

2019 Diversity Actions and Outcomes

We began the year with an independent audit of our efforts to recruit and promote individuals from four groups that are underrepresented in our industry: women, aboriginals, visible minorities and disabled persons. The audit found Toromont to be compliant with the Federal Contractors Program (enabling it to bid for government projects) and provided a clear indication of where improvements have been made since our last audit and where additional focus is needed.

Recruiting and promoting women to positions of leadership are areas of progress and opportunity.

Four women now serve in senior management positions and represent 22% of our leadership team.

Three members of our 10-member Board of Directors are women.

In 2019, women were promoted to serve as Branch Managers at Toromont Cat Concord and at Battlefield Equipment Rentals in Québec and the Maritimes. Women also serve in supervisory positions in various Toromont Cat locations as well as our recently established data analytics team. Even in traditionally male-dominated roles such as engineering at CIMCO, parts and service at Toromont Cat and small engine repair at Battlefield Equipment Rentals, women excelled in 2019.

To build on this success and ensure we continue to encourage women to enter our workforce, our recruiters presented Toromont as a career destination to hundreds of young women in 2019 and developed A Let's Celebrate Women's Day video posted across social media.

Growth in our employment of Canada's indigenous peoples, visible minorities and disabled persons was also demonstrated in our audit, although progress in each area was slower than desired. Accordingly, we continue to refine our programs. In 2019, greater focus allowed us to recruit 10 apprentice technicians, five licensed technicians, two co-op students, two managers and four administrators from aboriginal communities. Members of these communities achieved success in leadership roles within our mining division and at Battlefield Equipment Rentals. Those with disabilities were welcomed into important roles including account management and product support. Engagement with COSTI Immigration Services continued to diversify our workforce.

While maintaining our principle of promoting the best candidates regardless of race, gender or physical ability, we identify members of under-represented groups during our succession planning process to ensure career development opportunities are equal and the candidate pipeline is diverse.

Toromont's THINK BIG scholarships and Management Trainee Program reflect our desire to build our talent pipeline with excellent candidates while diversifying our workforce. In 2019:

- 60% of our scholarship recipients not only excelled academically, they belonged to diverse groups
- three of eight new Management Trainees were from a designated group
- three new Management Trainee recruits were bilingual as befitting an organization with significant operations in French-speaking parts of Canada

Environmental Policies and Governance

Respect for the environment is a Toromont Core Principle. To show respect, our Board of Directors and executive team provide oversight of our environmental performance and take

Toromont Codes of Conduct

Toromont's Code of Conduct is available at toromont.com. Among Code provisions are requirements to uphold all laws including international anti-corruption and trade regulations. The Code specifically prohibits employees from giving or receiving entertainment, gifts or benefits that could improperly influence business decisions. Toromont's Supplier Code of Conduct commits suppliers to, among other items, ensuring the safety of our employees, the community and the environment. Toromont Cat's online Contractor Compliance system allows our branches to confirm that a contractor has appropriate certifications and credentials.

responsibility for compliance with all environmental regulations in the markets we serve. Beyond basic compliance, we recognize that climate change and government policy responses are having an impact on our customers, suppliers and our business. As responsible, market-driven operators, we work along with our customers and supply partners to reduce greenhouse gas emissions and more generally eliminate waste and use technology to build a more efficient, sustainable future.

As a matter of strategy, we track our environmental impact and set goals for continuous improvement as part of annual business planning. A dedicated Toromont Cat environmental team is responsible for developing annual priorities, educating and training the workforce, as well as performing compliance and audit functions under the auspices of a formal Environmental Management Program. Initiatives developed by this team are incorporated into the Company's corporate strategic planning process. The Board receives reports from this team on compliance and progress on a quarterly basis.

2019 Environmental Actions and Outcomes

Toromont Cat's Environmental Management Program was extended to all operations in Québec and the Maritimes in 2019 and was supported by training and an online tracking tools. Once again, a key area of focus was reducing greenhouse gas ("GHG") emissions. Toromont's largest source of GHGs is our fleet and to reduce emissions we:

- operate with an anti-idling policy for all Company vehicles and vehicles on our properties
- use telematics to track idling time and monitor for hard accelerations and speeding that are unsafe for our team and hard on the environment
- employ Auxiliary Power Units on our service vehicles, alleviating the need to idle engines and needlessly burn fuel
- assess fleet additions on total cost of ownership including fuel economy, which has led to the acquisition of smaller field-service vehicles wherever possible that are 20% more fuel efficient than larger vehicles.

Within the Equipment Group, energy intensity in our buildings is monitored and improved through ongoing investments in energy-efficient HVAC systems, lighting, overhead doors and compressed air tools. Emission abatement is assisted by selective catalytic reduction equipment that minimizes the release of nitrogen oxide and sulphur during generator testing at Toromont Power Systems in Ontario.

Over the past three years, GHG emission carbon intensity was reduced by over 10% in our legacy operations due to these ongoing initiatives. To provide a baseline for action, GHG assessments were completed for Québec and the Maritimes operations in 2019.

Reducing GHG emissions is important for our customers and we are playing our part:

- at seven landfills in Ontario and one in New Brunswick, Toromont-supplied generators capture harmful methane to transform it into electricity
- in mining, we recruited our first battery electric machine (BEM) specialist to prepare Toromont's strategy for the future launch of new technology

In refrigeration, CIMCO works closely with customers to advise them on the environmental impact of various refrigerants and employs integrated building design to offset GHG emissions. For customers, selecting a refrigerant is increasingly complex due to the evolution of environmental regulations, the introduction of new synthetic solutions and the phase-out of others. The alternative is natural refrigerants, such as ammonia and CO_2. CIMCO helps customers opt for the best refrigerant choice based on factors including lifecycle costs, safety and environmental impact. Customers also use CIMCO's unique design methodology to lower their carbon footprint. More specifically, the byproduct of refrigeration is heat, which is traditionally wasted through atmospheric release. CIMCO's ECO CHILL® employs a patented system to recover heat and apply it elsewhere. This offsets operating costs, reduces GHG emissions and lowers natural gas usage – without compromising performance. ECO CHILL® has cumulatively offset 966,000 CO_2-equivalent tonnes (the same amount produced by 215,000 cars operating for one year) compared to traditional refrigeration and saved 17.6 billion cubic feet of natural gas over the past 15 years.

Reducing water consumption is an ongoing priority. Multiple Battlefield Equipment Rental stores now operate specialized wash bay systems that recycle water. The largest, in our Stoney Creek, Ontario store, reduces water usage by over 1.4 million liters per year. Toromont Cat conserves water and reduces chemical usage during component cleaning through steam and pressure washers. During the year, we upgraded water/oil interceptor systems at three branches. These systems capture oil, sediment and water runoff in service bays and separate the ingredients for safe disposal.

We continue to foster zero-waste behaviour in our branches by drawing attention to day-to-day habits that improve landfill diversion rates. In legacy operations, landfill diversion increased by more than 25% over the past three years. In Québec and the Maritimes operations, we introduced waste diversion programs in 2019. Recycling is also a key feature of Toromont Cat's four remanufacturing operations where used and highly worn hydraulic cylinders, engines and other components are rebuilt as many as four times. Battlefield Equipment Rentals participates in waste diversion through battery recycling.

Community Impact Policies and Governance

From our Board, through our leadership ranks and across our workforce, we believe Toromont has a role to play in the health and wellbeing of the communities where we live and work. In line with our values and focus on social responsibility, Toromont encourages community volunteerism through our Day of Caring program. It provides all employees with paid time off to volunteer for a charitable cause of their choice. Corporately, Toromont's official charity is the United Way, an organization chosen because it reaches all communities connected to our business units and provides opportunities for our employees to work together, in an enjoyable way, to focus fundraising efforts for the biggest community impact. We also encourage our business units to contribute to philanthropic causes that resonate with them.

2019 Community Impact Actions and Outcomes

In 2019, employees from across all Toromont Cat territories joined together during our annual campaign to raise funds for United Way through payroll deductions and cash pledges made during BBQs, raffles, bake sales, a baseball tournament and other grassroots events. This year's campaign – and numerous other charity drives in support of organizations such as Feed Nova Scotia, CHUM City Christmas Wish and the Sporting Life run/walk in support of Camp Ooch – fostered a remarkable team spirit and proved once again that we are building together for a better future.

As an inspiring reminder of the importance of caring for the environment, Toromont Cat held its first ever Earth Day photo competition in 2019. All employee photos were shared across our intranet site.

a. Martin Cadieux, Sales System Specialist, Pointe-Claire, QC

b. Bruce Darling, Senior Business Analyst, Concord, ON

c. Dominique Lavoie, Credit Manager, Pointe-Claire, QC

d. Hélène Lebreux, Administrative Assistant, Sept-Îles, QC

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, 2020, prepared in connection with the Corporation's 2020 Annual Meeting of Shareholders and available on our website at **toromont.com**.

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

Committee Structure and Mandates

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

The Nominating and Corporate Governance Committee

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

The Audit Committee

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

The Human Resources and Compensation Committee

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

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
Business Development Advisor

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 Equipment Rentals in 2001. He is a graduate of Toromont's Management Trainee Program. Mr. Casson retired as President of Battlefield Equipment Rentals in September 2019.

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

Mr. Jewer joined Toromont in 2005 as Chief Financial Officer. Prior to joining Toromont, he served for five years as chief financial officer for another Canadian publicly listed company. He is a Fellow of CPA Ontario (FCPA, FCA), a member of CPA Newfoundland and Labrador and holds the ICD.D designation as a member of the institute of Corporate Directors. Mr. Jewer stepped down as Chief Financial Officer as of March 1, 2020, as part of his planned retirement.

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 joined Toromont in 1999 and was appointed President of CIMCO in 2015. 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, 2019, compared to the preceding year. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2019.

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 11, 2020.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2019 Annual Report and 2020 Annual Information Form. These filings are available on SEDAR at sedar.com and on the Company's website at toromont.com.

Advisory

Information in this MD&A that is not a historical fact is "forward-looking information". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "likely", "should", "could", "will", "may" and similar expressions are intended to identify statements containing forward-looking information. Forward-looking information in this MD&A reflects 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 its registered funded defined benefit pension plans, post-employment benefits plan or the multi-employer pension plan obligations in excess of those currently contemplated. 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 Profile and Business Segmentation

As at December 31, 2019, Toromont employed over 6,500 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 – The Cat Rental Store, an industry-leading rental operation, SITECH, providing Trimble technology products and services, AgWest, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers' products. The Company is the exclusive Caterpillar dealer for a contiguous geographical territory in Canada that covers Manitoba, Ontario, Quebec, Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island and most of Nunavut. Additionally, the Company is 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 products and services 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)	2019	2018	$ Change	% Change
Revenues	$ 3,678,705	$ 3,504,236	$ 174,469	5%
Cost of goods sold	2,772,583	2,640,835	131,748	5%
Gross profit (1)	906,122	863,401	42,721	5%
Selling and administrative expenses	493,627	493,827	(200)	—
Operating income (1)	412,495	369,574	42,921	12%
Interest expense	27,707	30,643	(2,936)	(10%)
Interest and investment income	(9,752)	(8,918)	(834)	9%
Income before income taxes	394,540	347,849	46,691	13%
Income taxes	107,740	95,865	11,875	12%
Net earnings	$ 286,800	$ 251,984	$ 34,816	14%
Basic earnings per share	$ 3.52	$ 3.10	$ 0.42	14%
Key ratios:				
Gross profit margin (1)	24.6%	24.6%		
Selling and administrative expenses as a % of revenues	13.4%	14.1%		
Operating income margin (1)	11.2%	10.5%		
Income taxes as a % of income before income taxes	27.3%	27.6%		
Return on capital employed (1)	22.9%	21.7%		
Return on equity (1)	21.4%	22.3%		

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

The Company delivered solid results in the year with double-digit growth in operating income in both the Equipment Group and CIMCO. Within the Equipment Group, the core dealership business saw significant growth in key performance metrics, largely reflective of continued success in business integration and market penetration. The rental services business was unable to fully absorb the past two years' significant rate of fleet expansion, expectedly leading to reduced profitability on higher depreciation and branch expansion costs. The agricultural equipment business created a $4.9 million drag on operating income year-over-year, as ongoing adverse market conditions led to a revaluation of inventory late in the year, on top of weak equipment sales. CIMCO generated improved profitability year-over-year on improved project execution and an inventory write-down recorded in the prior year that was not repeated. Even with the headwinds, the strength of the Equipment Group and CIMCO led net earnings to increase 14% versus a year ago on a 5% increase in revenues.

Revenues increased $174.5 million or 5% for the year with a 6% growth in the Equipment Group and a 2% decline at CIMCO. Product support across the enterprise grew 10% with similar increases in both Groups.

Gross profit margin was unchanged at 24.6% versus last year. The Equipment Group reported lower margins on continued competitive pressures and lower fleet utilization. Margins at CIMCO were higher on broad-based improved execution. Both Groups benefitted from a favorable sales mix of higher product support revenues to total revenues which in total were up to 42.1% in 2019 compared to 40.1% in 2018.

Selling and administrative expenses were largely unchanged year-over-year despite the 5% increase in revenues. Mark-to-market adjustments on Deferred Share Units ("DSUs") increased expenses $6.7 million year-over-year reflective of the 30% increase in share price. A post-employment benefit plan curtailment gain of $5.0 million was recorded in the first quarter of 2019, and is further described in note 19 of the notes to the consolidated financial statements. All other compensation expenses were lower than a year ago on the alignment of benefit programs, partially offset by increased headcount and annual wage increases. Information technology expenses increased $3.3 million primarily on system enhancement and upgrades. Allowance for doubtful accounts were $4.3 million lower on improved collections and accounts receivable aging profile. Certain other expenses categories such as customer allowances, travel, insurance and training were higher in support of the growth and continued integration efforts across the territories.

Operating income increased $42.9 million reflecting the higher revenues and lower expense levels. Both Groups reported strong improvements. Operating income margin increased 70 basis points ("bps") to 11.2%.

Interest expense decreased $2.9 million on lower average debt balances.

Interest income increased $0.8 million, mainly as a result of interest income earned on equipment on rent with a purchase option ("RPO") and investment income resulting from higher average cash balances held throughout the year.

The effective income tax rate for 2019 was 27.3% compared to 27.6% in 2018. The decrease is substantially due to the continued phase in of corporate tax rate reductions in Quebec.

Net earnings in 2019 of $286.8 million were up $34.8 million or 14% from 2018. Earnings per share ("EPS") tracked the increase, up $0.42 or 14% to $3.52.

Other comprehensive loss of $24.9 million in 2019 arose on actuarial losses on defined benefit pension and other post-employment benefit plans and a net loss on cash flow hedges. Other comprehensive income of $21.0 million in 2018, included actuarial gains on defined benefit pension and other post-employment benefit plans and a net gain on 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)	2019	2018	$ Change	% Change
Equipment sales and rentals				
New	$ 1,195,646	$ 1,190,000	$ 5,646	—
Used	328,539	306,575	21,964	7%
Rentals	418,818	389,572	29,246	8%
Total equipment sales and rentals	1,943,003	1,886,147	56,856	3%
Product support	1,390,340	1,264,295	126,045	10%
Power generation	10,607	10,645	(38)	—
Total revenues	$ 3,343,950	$ 3,161,087	$ 182,863	6%
Operating income	$ 384,077	$ 348,876	$ 35,201	10%
Capital expenditures (net)				
Rental	$ 153,390	$ 125,148	$ 28,242	23%
Other	54,130	37,546	16,584	44%
Total	$ 207,520	$ 162,694	$ 44,826	28%
Key ratios:				
Product support revenues as a % of total revenues	41.6%	40.0%		
Operating income margin	11.5%	11.0%		
Group total revenues as a % of consolidated revenues	90.9%	90.2%		
Return on capital employed	19.0%	21.4%		

The Equipment Group performed well on the strength of results at the core dealership business, partially offset by performance in the rental services business (with expected challenges associated with absorbing the increased fleet investment) and weakness in the agricultural sector leading to inventory write-downs and reduced profitability.

Total equipment sales (new and used) increased $27.6 million or 2%. Construction markets increased $82.0 million or 9%. In Quebec and Ontario, construction markets were strong with good activity levels and increased market penetration while deliveries into Atlantic Canada were lower on certain project activity in the prior year which did not repeat. Power systems sales were up $2.6 million or 1%. Sales into mining markets were down $37.2 million or 19% against a tough prior year comparator, which included large deliveries. Material handling and agriculture markets were also softer compared to the prior year.

Rental revenues increased $29.2 million or 8% versus last year, mainly on higher utilization and larger fleets. Rental rates have increased marginally relative to 2018. Heavy equipment rentals were down 7% across all regions, except for Quebec which reported growth on the larger fleet. Power rentals were unchanged from the prior year. Light equipment rentals increased 9% with all regions reporting growth on good market penetration based on the strategic focus on growing and diversifying the fleet to address demand signals year round and across the wider market base. Rental revenues from equipment on rent with a purchase option ("RPO") were up 27% on a larger average fleet versus 2018. At December 31, 2019, the RPO fleet across the business was up $7.9 million from a year ago to $82.5 million.

Product support revenues increased $126.0 million or 10% with similar increases in both parts and service across all markets. The growing installed base of equipment in the field and customer activity levels resulted in good growth. Product support revenues also benefitted from good rebuild activity and a growing technician base.

Power generation revenues were $10.6 million in 2019 and 2018.

Gross profit margin decreased 40 bps versus last year. Equipment margins declined slightly year-over-year on competitive pricing pressures combined with softness in certain market segments. Rental margins decreased modestly on lower fleet utilization, reflecting the time required to absorb the recent increased investment in the fleets. The largest component of cost of sales on rentals is depreciation, which, at Toromont, is straight-line, regardless of utilization levels. Product support margins were lower, a result of a higher portion of parts to service volumes. The overall sales mix of product support revenues to total revenues had a favourable impact of 50 bps on margins.

Selling and administrative expenses decreased $2.8 million or 1%, due to the previously noted post-employment benefit curtailment gain and a $4.4 million reduction in the allowance for doubtful accounts resulting from good collection activity. All other expenses increased $6.6 million or 1%. Higher compensation costs and information technology costs in support of growth and integration were partially offset by reductions in other areas.

Operating income was up $35.2 million or 10% and was 50 bps higher as a percentage of revenues (11.5% versus 11.0% last year).

Capital expenditures, net of dispositions, increased $44.8 million, largely due to investments in new facilities and service vehicles to increase efficiencies and accommodate growth and continued investments to expand the rental fleets across all territories. Net rental fleet additions increased $28.2 million to $153.4 million while other capital expenditures increased $16.6 million.

Bookings and Backlogs

($ millions)	2019	2018	$ Change	% Change
Bookings – year ended December 31	$ 1,468.2	$ 1,536.7	$ (68.5)	(4%)
Backlogs – as at December 31	$ 272.3	$ 341.8	$ (69.5)	(20%)

Bookings decreased $68.5 million or 4%. Higher construction orders (+12%) were more than offset by lower mining (41%), power systems (27%), material handling lift truck (23%) and agriculture orders (18%).

Backlogs decreased $69.5 million or 20% to $272.3 million. At December 31, 2019, the total backlog related to power systems (42%), construction (33%), mining (11%), agriculture (7%) and lift trucks (7%), most of which is expected to be delivered in 2020.

Bookings and 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)	2019	2018	$ Change	% Change
Package sales	$ 177,974	$ 202,367	$ (24,393)	(12%)
Product support	156,781	140,782	15,999	11%
Total revenues	$ 334,755	$ 343,149	$ (8,394)	(2%)
Operating income	$ 28,418	$ 20,698	$ 7,720	37%
Capital expenditures (net)	$ 2,335	$ 2,452	$ (117)	(5%)
Key ratios:				
Product support revenues as a % of total revenues	46.8%	41.0%		
Operating income margin	8.5%	6.0%		
Group total revenues as a % of consolidated revenues	9.1%	9.8%		
Return on capital employed	75.9%	64.1%		

CIMCO results for 2018 included a $6.0 million write-down of inventory stemming from a review of work-in-process costing and aging. Excluding this item in the comparator, results in 2019 improved despite the lower revenues, on better project execution. The translation of financial results at the US operations did not have a significant impact on results year-over-year.

In Canada, package revenues were down $9.2 million or 6%, reflecting lower sales into industrial markets (down $20.3 million or 17%), partially offset by higher recreational revenues (up $11.1 million or 27%). In the US, package revenues decreased $15.2 million or 36% as lower sales into industrial markets (down $19.4 million or 69%) were partially offset by higher recreational revenues (up $4.2 million or 30%).

Product support revenues increased $16.0 million or 11% versus last year on growth in both Canada (up 10%) and the US (up 16%). The increased installed base continues to provide a solid growth platform as product support revenues have increased every year since 2009. Hiring of technicians continues in order to address demand signals.

Gross profit margin improved 190 basis points after excluding the aforementioned inventory write-down on improved project execution and a favourable sales mix of higher product support revenues to total revenues.

Selling and administrative expenses increased $2.6 million versus last year, largely on higher compensation costs. Most other expense categories were unchanged or lower as expense management remains critical to mitigating margin pressures broadly.

Operating income was up by $7.7 million or 37% in 2019 reflecting the one-time charge last year not repeated and improved project gross profit margins.

Capital expenditures, net of dispositions, were down $0.1 million or 5% to $2.3 million with the majority of expenditures in 2019 related to information technology infrastructure enhancements and upgrades ($1.2 million), additional service vehicles ($0.7 million), and machinery and equipment ($0.2 million).

Bookings and Backlogs

($ millions)	2019	2018	$ Change	% Change
Bookings – year ended December 31	$ 193.6	$ 184.7	$ 8.9	5%
Backlogs – as at December 31	$ 122.5	$ 112.7	$ 9.8	9%

Bookings of $193.6 million were up $8.9 million or 5%, with higher recreational orders (+15%) offsetting lower industrial orders (2%). In Canada, both market segments were up, while in the US, higher recreational orders served to offset lower industrial orders.

Backlogs of $122.5 million were higher by $9.8 million or 9% versus last year. Industrial backlogs were in line with last year with an increase in Canada offsetting a decrease in the US. Recreational backlogs were up 25% on higher levels in the US (+75%). The backlog levels provide a good base entering 2020, with substantially all expected to be realized as revenue in 2020.

Consolidated Financial Condition

The Company's strong financial position continued. At December 31, 2019, the ratio of net debt to total capitalization decreased to 15% versus 18% at December 31, 2018.

Non-cash Working Capital

The Company's investment in non-cash working capital was $463.7 million at December 31, 2019. The major components, along with the changes from December 31, 2018, are identified in the following table.

($ thousands)	2019	2018	$ Change	% Change
Accounts receivable	$ 525,052	$ 522,462	$ 2,590	—
Inventories	912,186	873,507	38,679	4%
Other current assets	12,063	9,932	2,131	21%
Accounts payable and accrued liabilities	(797,807)	(916,300)	118,493	(13%)
Provisions	(23,680)	(24,382)	702	(3%)
Income taxes receivable (payable)	9,275	(28,368)	37,643	nm
Derivative financial instruments	(10,366)	27,624	(37,990)	nm
Dividends payable	(22,139)	(18,737)	(3,402)	18%
Deferred revenues and contract liabilities	(140,898)	(136,244)	(4,654)	3%
Total non-cash working capital	$ 463,686	$ 309,494	$ 154,192	50%

Accounts receivable were largely unchanged from last year. Trade accounts receivable were down slightly on improved collections within the Equipment Group. Other receivables, largely credits and claims from suppliers increased on timing of payment. Days sales outstanding ("DSOs") was 43 days, unchanged from last year.

Inventories increased $38.7 million or 4% with increases in both Groups:

- Equipment Group inventories were $37.3 million or 4% higher with increases in equipment (up $22.2 million or 4%) and parts (up $15.9 million or 7%). The higher inventory levels were mainly attributable to improved availability from suppliers, positioning for better penetration in the expanded territories, transitional terms from suppliers, and on higher RPO levels. Service work-in-process was down $0.8 million or 1% with improvement in invoicing cycle and timing of project completion.
- CIMCO inventories were up $1.3 million or 6% on higher work-in-process levels and parts.

Other current assets include prepaid expenses, which vary year-over-year on the timing of payments and the realization of expense.

Accounts payable and accrued liabilities decreased $118.5 million or 13% on the timing of inventory purchases. Certain transitional terms provided in conjunction with the 2017 acquisition are expected to end mid-year 2020, at which time accounts payable will begin to revert to more normal levels. The adoption of IFRS 16 – *Leases* in the current year resulted in the recognition of current lease liabilities of $9.7 million at December 31, 2019 (refer to note 6 of the notes to the consolidated financial statements).

Income taxes receivable (payable) reflects the difference between tax installments and current income tax expense.

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net loss of $10.4 million as at December 31, 2019. This is not expected to affect net earnings as the unrealized losses will offset future gains on the related hedged items.

Higher dividends payable year-over-year reflect the higher dividend rate. Early in 2019, the quarterly dividend rate was increased from $0.23 per share to $0.27 per share, a 17.4% increase.

Deferred revenues and contract liabilities represent billings to customers in excess of revenue recognized.

- In the Equipment Group, these balances arise mainly due to progress billings from the sale of power and energy systems, product support maintenance contracts, sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. In 2019, these increased $1.3 million or 1% largely related to progress billings and customer deposits for deliveries in 2020.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages and were up $3.4 million or 17%, reflecting activity levels, and customers' construction needs.

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, 2019 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.

1. An Executive Stock Option Plan for its senior employees. Stock options have a 10-year life, 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. At December 31, 2019, 2.3 million options to purchase common shares were outstanding, of which 0.9 million were exercisable.
2. An Employee Share Purchase Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, which is designed to incentivize long-term share ownership, 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 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards will vest in five years from date of contribution. Company contributions amounting to $2.7 million in 2019 (2018 – $2.4 million) were charged to selling and administrative expense when paid. Approximately 33% (2018 – 32%) of employees participate in the plan, which is administered by an independent third party.
3. 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. Non-employee directors also receive a portion of their compensation 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, 2019, 388,547 DSUs were outstanding with a total value of $27.4 million (2018 – 358,151 units at a value of $19.0 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;
- 401(k) matched savings plans for employees in the US; and
- Other post-employment benefit plans for certain grandfathered 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, 2019, approximately 3,900 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 1,700 qualifying employees. All plans are administered by a separate Fund that is legally separate from the Company, with the exception of the Executive Plan described below.

The funded status of these plans changed by $21.4 million (an increase in the accrued pension liability) during 2019.

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 $16.1 million as at December 31, 2019.

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.

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 2019. 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, 2020. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

No shares were purchased and cancelled under the NCIB program in 2019. In 2018 common shares of 237,952 were purchased and cancelled for $12.8 million (average cost of $53.83 per share, including transaction costs).

Outstanding Share Data

As at the date of this MD&A, the Company had 82,012,448 common shares and 2,329,705 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 2019, the Company declared dividends of $1.08 per common share, $0.27 per quarter (2018 – $0.92 per common share or $0.23 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 31 cents per share effective with the dividend payable on April 2, 2020. This represents a 14.8% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 31st 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 on par with each other.

The Company maintains a $500.0 million revolving credit facility, maturing in October 2022. No amounts were drawn on this facility at December 31, 2019 and 2018. A $250.0 million term facility drawn in 2017 to partially fund the acquisition was repaid in full during 2018. Standby letters of credit utilized $33.1 million of the revolving facility (2018 – $29.9 million).

The Company's credit arrangements include covenants, restrictions and events of default usually present in arrangements 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, 2019 and 2018.

Cash at December 31, 2019, was $365.6 million, compared to $345.5 million at December 31, 2018.

The Company expects that continued cash flows from operations in 2020, 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.

Principal Components of Cash Flow

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

($ thousands)	2019	2018
Cash, beginning of year	$ 345,434	$ 160,507
Cash, provided by (used in):		
Operating activities		
Operations	456,240	395,281
Change in non-cash working capital and other	(156,820)	236,050
Net rental fleet additions	(153,390)	(125,148)
	146,030	506,183
Investing activities	(56,558)	2,475
Financing activities	(69,173)	(323,985)
Effect of foreign exchange on cash balances	(144)	254
Increase in cash in the year	20,155	184,927
Cash, end of year	$ 365,589	$ 345,434

Cash Flows from Operating Activities

Operating activities provided $146.0 million in 2019 compared to $506.2 million in 2018.

Cash generated from operations increased as a result of the higher net earnings generated by the business.

Non-cash working capital and other utilized cash in 2019. Transitional terms offered by suppliers in conjunction with the 2017 acquisition resulted in a significant increase in accounts payable in 2018 as the program was fully implemented. Accounts payable was a use of funds in 2019 as deferred payments on inventory purchases became due on reduced ordering levels. Income tax installments exceeded final amounts owing resulting in a use of cash in 2019. Accounts receivable and inventories increased at a lower rate than in 2018, with good focus on collections and inventory investment levels.

Net rental fleet additions (purchases less proceeds of dispositions) were higher by $28.2 million, reflecting ongoing investment in the fleets across the expanded territories, with a focus on growing and optimizing to adequately address retail demand signals year round.

The adoption of IFRS 16 – *Leases* on January 1, 2019, results in higher cash from operating activities as lease payments (2019 – $10.1 million) are presented under financing activities (refer to note 6 of the notes to the consolidated financial statements).

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 utilized $56.6 million in 2019 compared to generating $2.5 million in 2018.

In 2018, a final adjustment payment related to the acquisition in 2017 was collected from the vendor.

Investments in property, plant and equipment, net of disposition proceeds, were $56.5 million in 2019 versus $40.0 million in 2018 as follows:

- $25.5 million for land and buildings for new and expanded branches (2018 – $5.2 million);
- $15.7 million for service vehicles (2018 – $18.5 million);
- $7.7 million for upgrades and enhancements to information technology infrastructure and furniture and fixtures (2018 – $4.9 million); and
- $7.6 million for machinery and equipment (2018 – $11.4 million).

Cash Flows from Financing Activities

Financing activities used $69.2 million in 2019 versus $324.0 million in 2018.

In 2018, the $250.0 term facility drawn to partially fund the acquisition in 2017 was repaid. Also in 2018, the Company purchased and cancelled 237,952 common shares at an average cost of $53.83 (including transaction costs) for $12.8 million.

Other significant sources and uses of cash from financing activities included:

- Dividends paid to common shareholders of $84.8 million or $1.04 per share (2018 – $71.4 million or $0.88 per share);
- Cash received on exercise of share options of $26.7 million (2018 – $12.2 million); and
- Principal portion of lease liability payments resulting from the adoption of IFRS 16 – *Leases*, on January 1, 2019 of $10.1 million (2018 – $nil).

Outlook

On October 27th, Toromont passed the two-year mark following the significant acquisition in 2017. The expansion of our territories to include Quebec and the Maritimes presents a great opportunity for the long-term performance of Toromont. The focus on a measured and steady pace of integration, has already delivered tangible improvements in operating results. Effective execution of operational initiatives will be required to continue to realize on this significant potential for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems. Additionally, rental services, product support and material handling markets present significant growth opportunities over the longer-term. Our focus continues to be on the safety of our people, customer deliverables, business integration, operational efficiencies and asset management initiatives 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.

A disciplined investment in rental fleets together with the inclusion of equipment lines utilized in the weaker shoulder and winter seasons, present the opportunities to grow and to stabilize seasonality. Assessment of the rental footprint is an aging process.

Production at existing mine sites is generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion, although industry equipment investment has slowed in an uncertain global economic environment. Our substantially increased base of installed equipment is a good bell-weather 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 CO_2 solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provide continued growth opportunities. Market activity is tighter, reflecting a cautious environment in the near term, although booking activity improved in the year and quoting activity remains solid.

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 year ($ thousands)	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**	**Total**
Long-term debt							
Principal	$ —	$ —	$ —	$ —	$ —	$ 650,000	$ 650,000
Interest	24,765	24,765	24,765	24,765	24,765	58,574	182,399
Accounts payable and accrued liabilities	819,946	—	—	—	—	—	819,946
Lease liabilities	9,694	7,717	5,701	4,077	2,490	1,744	31,423
	$ 854,405	$ 32,482	$ 30,466	$ 28,842	$ 27,255	$ 710,318	$ 1,683,768

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	2019	2018	2017	2016	2015
Expanding markets and broadening product offerings					
Revenue growth	5.0%	49.1%	22.9%	3.5%	11.2%
Revenue per employee (thousands)	$ 575	$ 573	$ 487	$ 533	$ 537
Strengthening product support					
Product support revenue growth	10.1%	60.4%	16.3%	7.6%	24.2%
Investing in our resources					
Investment in information technology (millions)	$ 34.8	$ 27.4	$ 15.0	$ 15.2	$ 14.0
Return on capital employed (1)	22.9%	21.7%	21.5%	24.5%	24.3%
Strong financial position					
Non-cash working capital (millions) (1)	$ 463.7	$ 309.5	$ 608.8	$ 388.5	$ 421.3
Net debt to total capitalization (1)	15%	18%	40%	-4%	10%
Book value (shareholders' equity) per share	$ 18.70	$ 16.35	$ 13.89	$ 11.29	$ 9.95
Build shareholder value					
Basic earnings per share growth	13.5%	39.4%	11.6%	6.3%	8.5%
Dividends per share growth	17.4%	21.1%	5.6%	5.9%	13.3%
Return on equity (1)	21.4%	22.3%	19.3%	20.0%	21.6%

(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 the Quebec and Maritimes territories in October 2017, bolstered these key performance measures and provides a larger platform for continued growth.

The 2018 amounts shown above include one full year of operations in the acquired territories, and are fully comparable to 2019. Results for 2017 include the two months of operations under Toromont's ownership, thereby affecting the comparability of results versus the prior years.

Since 2015, revenues increased at an average annual rate of 18.4%, with product support growing at 23.7% annually. Over this period, revenue growth has been mainly a result of:

- In 2017 and 2018, the acquisition of the Hewitt Group of Companies, which contributed $242.6 million and $1.3 billion to revenue respectively;
- Increased customer demand in certain market segments, most notably construction and mining;
- Organic growth through increased rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Additional product offerings over the years from Caterpillar and other suppliers; and
- Governmental funding programs such as the RinC program which provided support for recreational spending.

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;
- Volatility in commodity prices;
- Competitive conditions;
- Inability to source equipment and parts from suppliers to meet customer demand or delivery schedules;
- Declines in underlying market conditions such as depressed US industrial markets and Manitoba agricultural markets; and,
- Recent political trade wars between the USA and China which have created uncertainty and adversely impacted several industries, including steel and agriculture.

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 2015 there have been fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar, during which time it has ranged between US$0.75 and US$0.78 and averaged US$0.77.

Toromont has generated a significant competitive advantage 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 15% at the end of 2019 versus 18% at the end of 2018. No additional debt finance was obtained in 2019, the decrease in ratio represents repayment on existing debt, as well as increased cash generation from operations.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 31 years. The regular quarterly dividend rate was increased 17.4% from $0.23 per share to $0.27 per share in 2019 and a further 14.8% to $0.31 per share in 2020, evidencing our commitment to delivering exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31 ($ thousands, except per share amounts)	2019	2018	$ Change	% Change
Revenues	$ 1,025,190	$ 966,047	$ 59,143	6%
Cost of goods sold	770,016	722,581	47,435	7%
Gross profit	255,174	243,466	11,708	5%
Selling and administrative expenses	126,976	121,837	5,139	4%
Operating income	128,198	121,629	6,569	5%
Interest expense	6,854	6,550	304	5%
Interest and investment income	(3,166)	(2,488)	(678)	27%
Income before income taxes	124,510	117,567	6,943	6%
Income taxes	34,056	32,669	1,387	4%
Net earnings	$ 90,454	$ 84,898	$ 5,556	7%
Basic earnings per share	$ 1.10	$ 1.04	$ 0.06	6%
Key ratios:				
Gross profit margin	24.9%	25.2%		
Selling and administrative expenses as a % of revenues	12.4%	12.6%		
Operating income margin	12.5%	12.6%		
Income taxes as a % of income before income taxes	27.4%	27.8%		

Fourth quarter results reflect variables in the Equipment Group similar to those described for the year:

- Significant year-over-year improvement in profit at the dealership;
- Declines in earnings from the rental services business, as it works through the absorption of significant capital investments; and
- Challenges in agricultural equipment markets leading to underperformance and a charge to used equipment values recognizing market conditions.

In addition, CIMCO earnings improved as increased product support and reduced inventory charges were partially offset by reduced project activity (albeit at improved margins on better execution).

Revenues grew $59.1 million or 6% on growth in the Equipment Group (up 7%), while revenues at CIMCO were largely unchanged.

Gross profit margin decreased 30 bps to 24.9% in the quarter. The Equipment Group reported lower gross margins while CIMCO's margins increased.

Selling and administrative expenses increased $5.1 million or 4%. Mark-to-market adjustments on DSUs increased expenses by $7.4 million. Allowance for doubtful accounts was $3.1 million lower on improved collections. All other expenses increased $2.6 million in support of the revenue growth. As a percentage of revenues, expenses were 20 bps lower than last year at 12.4%.

Operating income increased $6.6 million reflecting the higher activity levels in the Equipment Group and increased operating income at CIMCO. Operating income margin decreased 10 bps to 12.5%.

Interest expense increased $0.3 million in the quarter due to financing costs related to the adoption of IFRS 16 – *Leases*.

Interest income increased $0.7 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 27.4% compared to 27.8% in 2018. The decrease is substantially due to the continued phase in of corporate tax rate reductions in Quebec.

Net earnings in the quarter were up $5.6 million or 7% to $90.5 million with basic EPS closely tracking the increase, up $0.06 or 6% to $1.10.

Business Segment Fourth Quarter Operating Results

EQUIPMENT GROUP

Three months ended December 31 ($ thousands)	2019	2018	$ Change	% Change
Equipment sales and rentals				
New	$ 363,660	$ 333,209	$ 30,451	9%
Used	99,589	100,015	(426)	—
Rentals	114,729	113,139	1,590	1%
Total equipment sales and rentals	577,978	546,363	31,615	6%
Product support	352,243	324,641	27,602	9%
Power generation	2,910	2,864	46	2%
Total revenues	$ 933,131	$ 873,868	$ 59,263	7%
Operating income	$ 117,728	$ 115,741	$ 1,987	2%
Bookings ($ millions)	$ 415.1	$ 423.0	$ (7.9)	(2%)
Key ratios:				
Product support revenues as a % of total revenues	37.7%	37.1%		
Operating income margin	12.6%	13.2%		
Group total revenues as a % of consolidated revenues	91.0%	90.5%		

The Equipment Group reported good results for the fourth quarter on revenue growth.

Total equipment sales (new and used) increased $30.0 million or 7%. Higher sales into construction (up 8%), mining (up 7%) and power systems (up 23%), were partially offset by lower sales into material handling (down 17%) and agricultural markets (down 32%).

Rental revenues increased $1.6 million or 1%. Most rental segments reported growth, led by light equipment rentals (up 3%), equipment on rent with a purchase option (up 13%) and material handling rentals (up 4%), partially offset by lower power systems (down 6%) and heavy equipment rentals (down 12%).

Product support revenues increased $27.6 million or 9% on higher parts (up 8%) and service (up 10%). Activity levels were good across most market segments.

Power generation revenues were $2.9 million in 2019 and 2018.

Gross margins decreased 120 bps in the quarter versus last year principally due to lower equipment margins on continued competitive pressures and a tight pricing environment.

Selling and administrative expenses increased $2.4 million or 2%, largely reflecting higher compensation and information technology costs, offset by lower allowance for doubtful accounts. As a percentage of revenues, selling and administrative expenses were down 60 bps to 12.1%.

Operating income increased $2.0 million in the quarter but was lower by 60 bps as a percentage of revenues at 12.6%, largely reflecting the lower equipment margins.

Bookings decreased $7.9 million or 2% to $415.1 million reflecting lower mining, construction and agriculture orders, partially offset by higher power systems and material handling lift truck orders.

CIMCO

Three months ended December 31 ($ thousands)	2019	2018	$ Change	% Change
Package sales	$ 50,780	$ 50,931	$ (151)	—
Product support	41,279	41,248	31	—
Total revenues	$ 92,059	$ 92,179	$ (120)	—
Operating income	$ 10,470	$ 5,888	$ 4,582	78%
Bookings ($ millions)	$ 44.4	$ 36.9	$ 7.5	20%
Key ratios:				
Product support revenues as a % of total revenues	44.8%	44.7%		
Operating income margin	11.4%	6.4%		
Group total revenues as a % of consolidated revenues	9.0%	9.5%		

CIMCO's results in the fourth quarter of 2018 included a $6.0 million charge for inventory write-down described earlier. Excluding this item, CIMCO's results in the fourth quarter were lower as higher expenses were only partially offset by improved gross margins. Translation of US operations did not have a significant impact on results.

Package revenues were largely unchanged in the quarter compared to the similar period last year. Revenues in Canada were higher by 2%, with strong recreational sales and relatively unchanged industrial activity. In the US, revenues were down 12% with lower industrial sales more than offsetting strong recreational activity.

Product support revenues were in line with the record fourth quarter last year as growth in the US was offset by a slight decrease in Canada.

Gross margins, excluding the one-time item, increased 150 bps in the quarter on improved project execution, partially offset by lower product support margins.

Selling and administrative expenses increased $2.7 million or 26%, mainly reflecting higher compensation costs and as a result were up 300 bps to 14.9% as a percentage of revenues.

Operating income increased $4.6 million in the quarter as reduced inventory write-downs and improved gross margins on better project execution were partially offset by higher expense levels.

Bookings increased $7.5 million or 20% to $44.4 million on strong orders in both Canada and the US. Recreational orders were up in the US (59%) but down in Canada (46%), while industrial orders increased in Canada (80%) but were down in the US (35%).

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 2019 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Revenues				
Equipment Group	$ 633,875	$ 895,457	$ 881,487	$ 933,131
CIMCO	66,099	82,863	93,734	92,059
Total revenues	$ 699,974	$ 978,320	$ 975,221	$ 1,025,190
Net earnings	$ 39,261	$ 77,398	$ 79,687	$ 90,454
Per share information:				
Basic earnings per share	$ 0.48	$ 0.95	$ 0.98	$ 1.10
Diluted earnings per share	$ 0.48	$ 0.94	$ 0.97	$ 1.10
Dividends paid per share	$ 0.23	$ 0.27	$ 0.27	$ 0.27
Weighted average common shares outstanding – basic (in thousands)	81,326	81,510	81,622	81,897

($ 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

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

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter 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.

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)	2019	2018	2017
Revenues	$3,678,705	$3,504,236	$2,350,162
Net earnings	$ 286,800	$ 251,984	$ 175,970
Earnings per share ("EPS")			
Basic	$ 3.52	$ 3.10	$ 2.22
Diluted	$ 3.49	$ 3.07	$ 2.20
Dividends declared per share	$ 1.08	$ 0.92	$ 0.76
Total assets	$3,371,337	$3,234,531	$2,866,945
Total long-term debt	$ 645,471	$ 645,562	$ 895,747
Weighted average common shares outstanding – basic (in millions)	81.6	81.2	79.1

The acquisition of the Hewitt Group of Companies in October 2017 impacts the comparability of financial results and performance between 2018 and 2017, with only two months of operations in 2017 under Toromont's ownership.

Revenues grew 5% in 2019. Equipment Group revenues increased 6% on growth in product support, total new and used equipment sales and rentals resulting from good market activity and increased investment in the rental fleets. CIMCO revenues were down 2% as continued growth in product support activity was offset by lower package sales. Revenues grew 49% in 2018 with the acquired businesses contributing $1.3 billion in its first full year of operations, compared to $242.6 million in 2017 for two months. The legacy businesses revenues increased 6% on good growth in both Groups, buoyed in part by continued product support growth.

Net earnings increased 14% in 2019. Equipment Group delivered good results on the higher revenues and a lower relative expense ratio, while CIMCO's results improved on better project execution and a one-time inventory write-down in 2018 which did not repeat. Net interest expense was lower in 2019 as strong cash inflows resulted in lower net debt levels. Net earnings increased 43% in 2018. In addition to the incremental net earnings at the acquired businesses, the Equipment Group delivered good results, 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.

EPS growth has generally tracked growth in net earnings, with basic EPS increasing 14% in 2019 and 39% in 2018.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate continues to increase – in 2017 by 5.6% to $0.19 per share, in 2018 by 21.1% to $0.23 per share, in 2019 by 17.4% to $0.27 per share and in 2020 by 14.8% to $0.31. The Company has paid dividends every year since 1968.

Total assets increased 4% in 2019 and 13% in 2018 on continued investments in the rental fleets and capital assets, as well as higher inventory levels held generally in support of the expanded business territory and volumes.

Long-term debt was largely unchanged from 2018. In 2018, certain amounts drawn on the term credit facility to finance the 2017 acquisition were repaid, in light of strong cash balances and inflows.

Risks and Risk Management

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

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

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

Toromont is dependent on the continued market acceptance of Caterpillar Inc.'s products. It is believed that Caterpillar Inc. 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 Inc. will be able to maintain its reputation and market position in the future. Any resulting decrease in the demand for Caterpillar Inc. products could have a material adverse impact on the Company's business, results of operations and future prospects.

Toromont is also dependent on Caterpillar Inc. for timely supply of equipment and parts. From time to time during periods of intense demand, Caterpillar Inc. 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 Inc. 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 expected 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$0.75 and US$0.77, in 2019 and 2018, respectively. 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, 2019, the Company's outstanding debt of $650.0 million was entirely fixed-rate and matures between 2025 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 does not intend to settle or refinance any existing fixed-rate debt before maturity.

The Company's revolving credit facility of $500.0 million is 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, 2019, no amounts were drawn on this facility while standby letters of credit utilized $33.1 million.

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. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

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, 2019, the Company adopted IFRS 16 – *Leases*, the interpretation of IFRIC 23 – *Uncertainty over Income Tax Treatments*, and amendments to IAS 19 – *Employee Benefits*.

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

Pending Accounting Changes

A number of amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2019, and accordingly, have not been applied. The Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

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, 2019.

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, 2019, 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, 2019.

There have been no changes in the design of the Company's internal control over financial reporting during 2019 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)	**2019**	**2018**	**2019**	**2018**
Net earnings	$ 90,454	$ 84,898	$ 286,800	$ 251,984
plus: Interest expense	6,854	6,550	27,707	30,643
less: Interest and investment income	(3,166)	(2,488)	(9,752)	(8,918)
plus: Income taxes	34,056	32,669	107,740	95,865
Operating income	$ 128,198	$ 121,629	$ 412,495	$ 369,574

Net Debt to Total Capitalization and Net Debt to Total Equity
Net debt to total capitalization and net debt to total 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)	**2019**	**2018**
Long-term debt	$ 645,471	$ 644,540
Current portion of long-term debt	—	1,022
less: Cash	365,589	345,434
Net debt	$ 279,882	$ 300,128
Shareholders' equity	1,533,891	1,327,679
Total capitalization	$ 1,813,773	$ 1,627,807
Net debt to total capitalization	15%	18%
Net debt to equity	0.18:1	0.23:1

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)	2019	2018
Total current assets	$1,824,254	$1,779,100
less: Total current liabilities	994,979	1,125,194
Working capital	$ 829,275	$ 653,906

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)	2019	2018
Total current assets	$1,824,254	$1,779,100
less: Cash	365,589	345,434
	1,458,665	1,433,666
Total current liabilities	994,979	1,125,194
less: Current portion of long-term debt	—	1,022
	994,979	1,124,172
Non-cash working capital	$ 463,686	$ 309,494

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)	2019	2018
Outstanding common shares	$ 82,012	$ 81,226
times: Ending share price at December 31	70.59	54.26
Market capitalization	$5,789,258	$4,407,344
Long-term debt	$ 645,471	$ 644,540
Current portion of long-term debt	—	1,022
less: Cash	365,589	345,434
Net debt	$ 279,882	$ 300,128
Total enterprise value	$6,069,140	$4,707,472

Key Performance Indicators ("KPIs")

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

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

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

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

Return on Capital Employed ("ROCE")
ROCE is utilized to assess both current operating performance and prospective investments. The 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)	2019	2018
Net earnings	$ 286,800	$ 251,984
plus: Interest expense	27,707	30,643
less: Interest and investment income	(9,752)	(8,918)
plus: Interest income – rental conversions (see note 14)	4,283	3,461
plus: Income taxes	107,740	95,865
Adjusted net earnings	$ 416,778	$ 373,035
Average capital employed	$ 1,823,420	$ 1,720,921
Return on capital employed	22.9%	21.7%

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)	2019	2018
Net earnings	$ 286,800	$ 251,984
Opening shareholders' equity (net of adjustments)	$ 1,338,468	$ 1,130,947
Return on equity	21.4%	22.3%

Management's Report to the Shareholders

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 fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets regularly with financial management and the internal and external auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors have unrestricted access to the Audit Committee. The consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors, 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 11, 2020
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, 2019 and 2018, 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, 2019 and 2018, 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 the 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 11, 2020
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 ($ thousands)	Note	2019	2018
Assets			
Current assets			
Cash		$ 365,589	$ 345,434
Accounts receivable	3	525,052	522,462
Inventories	4	912,186	873,507
Income taxes receivable		9,364	118
Derivative financial instruments	12	—	27,647
Other current assets		12,063	9,932
Total current assets		1,824,254	1,779,100
Property, plant and equipment	5	428,527	412,776
Rental equipment	5	592,403	541,530
Other assets	6	42,105	13,206
Deferred tax assets	15	1,217	1,610
Goodwill and intangible assets	7	482,831	486,309
Total assets		$3,371,337	$3,234,531
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6,18	$ 819,946	$ 935,037
Provisions	8	23,680	24,382
Deferred revenues and contract liabilities	9	140,898	136,244
Current portion of long-term debt	10	—	1,022
Derivative financial instruments	12	10,366	23
Income taxes payable		89	28,486
Total current liabilities		994,979	1,125,194
Deferred revenues and contract liabilities	9	16,407	17,247
Long-term lease liabilities	6	21,734	—
Long-term debt	10	645,471	644,540
Post-employment obligations	19	125,705	104,342
Deferred tax liabilities	15	33,150	15,529
Total liabilities		1,837,446	1,906,852
Shareholders' equity			
Share capital	11	490,047	457,800
Contributed surplus		13,088	12,879
Retained earnings		1,031,097	851,049
Accumulated other comprehensive (loss) income		(341)	5,951
Shareholders' equity		1,533,891	1,327,679
Total liabilities and shareholders' equity		$3,371,337	$3,234,531

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	2019	2018
Revenues	23	$ 3,678,705	$ 3,504,236
Cost of goods sold	4,5	2,772,583	2,640,835
Gross profit		906,122	863,401
Selling and administrative expenses		493,627	493,827
Operating income		412,495	369,574
Interest expense	14	27,707	30,643
Interest and investment income	14	(9,752)	(8,918)
Income before income taxes		394,540	347,849
Income taxes	15	107,740	95,865
Net earnings		$ 286,800	$ 251,984
Earnings per share			
Basic	16	$ 3.52	$ 3.10
Diluted	16	$ 3.49	$ 3.07
Weighted average number of shares outstanding			
Basic	16	81,590,392	81,231,282
Diluted	16	82,076,248	81,975,310

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 ($ thousands)	2019	2018
Net earnings	$ 286,800	$ 251,984
Other comprehensive (loss) income, net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	(481)	789
Unrealized (losses) gains on derivatives designated as cash flow hedges	(12,232)	8,239
Income tax recovery (expense)	3,180	(2,144)
Unrealized (losses) gains on cash flow hedges, net of income taxes	(9,052)	6,095
Realized losses (gains) on derivatives designated as cash flow hedges	4,380	(1,528)
Income tax (recovery) expense	(1,139)	398
Realized losses (gains) on cash flow hedges, net of income taxes	3,241	(1,130)
Items that will not be reclassified subsequently to net earnings:		
Actuarial and other (losses) gains	(25,252)	20,652
Income tax recovery (expense)	6,692	(5,413)
Actuarial and other (losses) gains, net of income taxes	(18,560)	15,239
Other comprehensive (loss) income	(24,852)	20,993
Total comprehensive income	$ 261,948	$ 272,977

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 ($ thousands)	Note	2019	2018
Operating activities			
Net earnings		$ 286,800	$ 251,984
Items not requiring cash:			
Depreciation and amortization	5,6,7,10	162,962	141,535
Stock-based compensation		5,730	5,101
Post-employment obligations		(3,889)	3,659
Deferred income taxes		26,757	7,171
Interest accretion on repayment of term credit facility		—	821
Gain on sale of rental equipment and property, plant and equipment		(22,120)	(14,990)
		456,240	395,281
Net change in non-cash working capital and other	21	(156,820)	236,050
Additions to rental equipment		(212,176)	(149,650)
Proceeds on disposal of rental equipment		58,786	24,502
Cash provided by operating activities		146,030	506,183
Investing activities			
Additions to property, plant and equipment		(57,202)	(49,504)
Proceeds on disposal of property, plant and equipment		737	9,506
(Increase) decrease in other assets		(93)	42,473
Cash (used in) provided by investing activities		(56,558)	2,475
Financing activities			
Repayment of term credit facility		—	(250,000)
Repayment of senior debentures		(1,022)	(1,941)
Dividends paid	11	(84,790)	(71,434)
Cash received on exercise of stock options		26,726	12,198
Shares purchased for cancellation	11	—	(12,808)
Payment of lease liabilities		(10,087)	—
Cash used in financing activities		(69,173)	(323,985)
Effect of currency translation on cash balances		(144)	254
Increase in cash		20,155	184,927
Cash, at beginning of year		345,434	160,507
Cash, at end of year		$ 365,589	$ 345,434

Supplemental cash flow information (note 21)
See accompanying notes

Consolidated Statements of Changes in Equity

($ thousands, except share numbers)	Share Capital				Accumulated Other Comprehensive Income (Loss)			
	Number	Amount	Contributed Surplus	Retained Earnings	Foreign Currency Translation Adjustments	Cash Flow Hedges	Total	Total
At January 1, 2018	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	(2,512)	—	—	—	—	12,198
Stock-based compensation expense	—	—	5,101	—	—	—	—	5,101
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 declared	—	—	—	(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
Net earnings	—	—	—	286,800	—	—	—	286,800
Other comprehensive loss	—	—	—	(18,560)	(481)	(5,811)	(6,292)	(24,852)
Total comprehensive income (loss)	—	—	—	268,240	(481)	(5,811)	(6,292)	261,948
Exercise of stock options	786,065	32,247	(5,521)	—	—	—	—	26,726
Stock-based compensation expense	—	—	5,730	—	—	—	—	5,730
Effect of stock compensation plans	786,065	32,247	209	—	—	—	—	32,456
Dividends declared	—	—	—	(88,192)	—	—	—	(88,192)
At December 31, 2019	82,012,448	$ 490,047	$ 13,088	$1,031,097	$ 2,219	$(2,560)	$ (341)	$1,533,891

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2019
($ 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 Equipment 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 6,500 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 11, 2020.

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.

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 (loss), 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 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 (loss); or (iii) fair value through profit usually, or 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 rate 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 (loss) ("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 rate 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 OCI.

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
Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses. Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis.

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 OCI. 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 OCI 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 OCI 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 OCI remains in OCI 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 OCI 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 is 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 IFRS 16 – *Leases* ("IFRS 16"). 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 contract liabilities; 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 IFRS 16. 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 generally 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 revenues and contract liabilities. 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 three to five years. Extended warranty is normally invoiced at time of purchase and payment is expected at time of invoicing. These billings are included in deferred revenues and contract liabilities. 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.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease; that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Toromont as Lessee

A single recognition and measurement approach is applied for all leases, except for short-term leases and leases of low-value assets. Right-of-use assets representing the right to use the underlying assets and lease liabilities representing lease payments are recognized.

Right-of-use Assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, which ranges from three to five years for vehicles and 1 to 15 years for properties. Right-of-use assets are subject to impairment.

Lease Liabilities

At the commencement date of the lease, lease liabilities are recognized and measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The interest rate implicit in the lease is used, if readily determinable, to calculate the present value of lease payments. If not readily determinable, the Company's incremental borrowing rate at the lease commencement date is used in the present value calculation. After the commencement date, the amount of lease liabilities is reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-Term Leases and Leases of Low-Value Assets

The short-term lease recognition exemption is applied to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Toromont as Lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is recognized on a straight-line basis over the lease terms and is included in the consolidated income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount off the leased asset and recognized over the lease term on the same basis as rental income.

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 as 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 (loss) 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 prorated 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 taxation authorities.

Deferred income 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.

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 2019
The following standard and interpretation to standards were adopted on January 1, 2019.

a) Leases
IFRS 16 – *Leases* ("IFRS 16"), supersedes IAS 17 – *Leases* ("IAS 17"), IFRIC 4 – *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4"), SIC 15 – *Operating Leases – Incentives* and SIC 27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on–balance sheet model.

Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where Toromont is the lessor.

IFRS 16 was applied using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments.

The practical expedient was used on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application. The recognition exemptions were also elected for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

Impact on the Consolidated Financial Statements on Transition
On transition to IFRS 16 at January 1, 2019, right-of-use assets and lease liabilities of $33.8 million were recognized, respectively (refer to note 6 herein). There was no impact on retained earnings.

Lease liabilities for leases that were previously classified as operating leases were discounted using the incremental borrowing rate ("IBR") at January 1, 2019. The weighted average rate applied was 2.9%.

b) Income Taxes
The interpretation contained in IFRIC 23 – *Uncertainty over Income Tax Treatment*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 – *Income Taxes*, specifically:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The adoption of this interpretation did not have an impact on the consolidated financial statements.

c) Employee Benefits
The amendments to IAS 19 – *Employee Benefits*, address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The adoption of these amendments did not have an impact on the consolidated financial statements.

Amendments Issued but Not Effective
A number of amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2019, and accordingly, have not been applied in preparing these consolidated financial statements. The Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

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 revenue, 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 that 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. Revenue is 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 that 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 OCI.

Leases
The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. All relevant factors that create an economic incentive for it to exercise the renewal are considered. After the commencement date, the lease term is reassessed if there is a significant event or change in circumstances that is within the Company's control and affects its ability to exercise (or not to exercise) the option to renew.

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is a rate of interest that the Company would have to pay to borrow funds, over a similar term and with similar security, in order to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable market interest rates and adjusts for entity-specific estimates, such as credit rating.

3. Accounts Receivable

	2019	2018
Trade receivables	$ 491,683	$ 495,615
Less: Allowance for doubtful accounts	(19,941)	(19,484)
Trade receivables, net	471,742	476,131
Unbilled receivables	26,844	28,738
Other receivables	26,466	17,593
	$ 525,052	$ 522,462

The aging of gross trade receivables was as follows:

	2019	2018
Current to 90 days	$ 458,332	$ 465,183
Over 90 days	33,351	30,432
Trade receivables	$ 491,683	$ 495,615

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

	2019	2018
Balance, January 1	$ 19,484	$ 10,573
Provisions and revisions, net	457	8,911
Balance, December 31	$ 19,941	$ 19,484

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

	2019	2018
Balance, January 1	$ 28,738	$ 18,886
Transfer from opening balance to trade receivables	(27,523)	(14,512)
Increase as a result of changes in the measure of progress	25,629	24,364
Balance, December 31	$ 26,844	$ 28,738

4. Inventories

	2019	2018
Equipment	$ 571,134	$ 548,934
Repair and distribution parts	253,077	237,843
Direct materials	5,057	3,931
Work-in-process	69,915	71,560
Work-in-process (contracts)	13,003	11,239
	$ 912,186	$ 873,507

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2019 was $2.2 billion (2018 – $2.1 billion). Cost of goods sold included inventory write-downs pertaining to obsolescence and aging, together with recoveries of past write-downs upon disposition and during 2019 amounted to $1.4 million. A net reversal of write-downs of $4.8 million was recorded in 2018.

5. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2019	$ 129,699	$ 285,795	$ 216,679	$ 39,054	$ 671,227	$ 836,035
Additions	18,071	7,304	30,791	86	56,252	196,011
Disposals	(61)	(411)	(8,047)	—	(8,519)	(91,338)
Currency translation effects	(8)	(135)	(289)	—	(432)	—
December 31, 2019	$ 147,701	$ 292,553	$ 239,134	$ 39,140	$ 718,528	$ 940,708
Accumulated depreciation						
January 1, 2019	$ —	$ 89,655	$ 137,646	$ 31,150	$ 258,451	$ 294,505
Depreciation expense	—	12,796	25,344	1,613	39,753	108,265
Depreciation of disposals	—	(290)	(7,697)	—	(7,987)	(54,465)
Currency translation effects	—	(21)	(195)	—	(216)	—
December 31, 2019	$ —	$ 102,140	$ 155,098	$ 32,763	$ 290,001	$ 348,305
Net book value – December 31, 2019	$ 147,701	$ 190,413	$ 84,036	$ 6,377	$ 428,527	$ 592,403

	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 expense	—	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

During 2019, depreciation expense of $125.7 million was charged to cost of goods sold (2018 – $112.6 million) and $22.4 million was charged to selling and administrative expenses (2018 – $22.6 million).

Property, plant and equipment as at December 31, 2019 included $5.2 million related to a property that is available-for-sale.

Operating income from rental operations for the year ended December 31, 2019, was $53.3 million (2018 – $50.2 million).

6. Other Assets and Lease Liabilities

	2019	2018
Right-of-use assets	$ 30,975	$ —
Equipment sold with guaranteed residual values	8,325	10,493
Other	2,805	2,713
Other assets	$ 42,105	$ 13,206

Right-of-use Assets and Lease Liabilities

Activity within right-of-use assets and lease liabilities during the year was as follows:

	Right-of-use Assets			
	Properties	Vehicles	Total	Lease Liabilities
January 1, 2019	$ 18,025	$ 15,740	$ 33,765	$ 33,765
Additions	2,279	5,466	7,745	7,745
Depreciation expense	(4,649)	(5,886)	(10,535)	—
Payments	—	—	—	(10,087)
December 31, 2019	$ 15,655	$ 15,320	$ 30,975	$ 31,423

The current portion of lease liabilities as at December 31, 2019 of $9.7 million is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

The operating lease commitments as at December 31, 2018 included short-term and low-value leases, which are not included in the lease liabilities as at January 1, 2019 as shown above under IFRS 16.

The following amounts were recognized in the consolidated income statement during the year:

	2019
Depreciation expense of right-of-use assets	$ 10,535
Interest expense on lease liabilities	991
Expense relating to short-term leases and leases of low-value assets	223
	$ 11,749

Cash outflows for leases in 2019 were $10.1 million.

The future cash outflows relating to leases are disclosed in note 22.

7. Goodwill and Intangible Assets

	Patents and Licenses	Customer Order Backlog	ERP System	Customer Relationships	Distribution Networks	Goodwill	Total
Cost							
January 1, 2018	$ 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
December 31, 2019	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
Accumulated amortization							
January 1, 2018	$ 147	$ 2,122	$ 333	$ 307	$ —	$ —	$ 2,909
Amortization expense	29	2,520	1,000	1,892	—	—	5,441
December 31, 2018	$ 176	$ 4,642	$ 1,333	$ 2,199	$ —	$ —	$ 8,350
Amortization expense	30	556	1,000	1,892	—	—	3,478
December 31, 2019	$ 206	$ 5,198	$ 2,333	$ 4,091	$ —	$ —	$ 11,828
Net book value – December 31, 2018	$ 324	$ 4,049	$ 3,667	$ 12,938	$ 371,551	$ 93,780	$ 486,309
December 31, 2019	$ 294	$ 3,493	$ 2,667	$ 11,046	$ 371,551	$ 93,780	$ 482,831

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	
	2019	**2018**	**2019**	**2018**
Equipment Group				
Toromont Quebec/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, 2019. 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 1.7% 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 6.3% – 7.4% (2018: 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; and
- Growth rate to extrapolate cash flows beyond the budget period.

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

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

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

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

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, 2018	$ 13,231	$ 9,205	$ 22,436
New provisions	24,563	1,915	26,478
Charges against provisions	(24,010)	(522)	(24,532)
Balance, December 31, 2018	$ 13,784	$ 10,598	$ 24,382
New provisions	22,332	1,626	23,958
Charges against provisions	(22,999)	(1,661)	(24,660)
Balance, December 31, 2019	$ 13,117	$ 10,563	$ 23,680

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 and 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, 2019, the Company recognized as revenue, $133.9 million (2018 – $137.1 million) of the deferred revenues and contract liabilities balance as at January 1, 2019.

Management expects that 90% of the transaction price allocated to unsatisfied performance obligations as at December 31, 2019 will be recognized as revenue during the year ended December 31, 2020 and the remaining 10% between the years ended December 31, 2021 and 2026.

10. Long-term Debt

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

	2019	2018
7.06%, $15.0 million, due March 29, 2019 (1)	$ —	$ 1,022
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	650,000	651,022
Debt issuance costs, net of amortization	(4,529)	(5,460)
Total long-term debt	$ 645,471	$ 645,562
Less: Current portion of long-term debt	—	(1,022)
Non-current portion of long-term debt	$ 645,471	$ 644,540

(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 as at December 31, 2019 or 2018. Standby letters of credit issued utilized $33.1 million (2018 – $29.9 million).

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

The Company was in compliance with all covenants as at December 31, 2019 and 2018.

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

	Principal	Interest
2020	$ —	$ 24,765
2021	—	24,765
2022	—	24,765
2023	—	24,765
2024	—	24,765
Thereafter	650,000	58,574
	$ 650,000	$ 182,399

Interest expense includes interest on debt initially incurred for a term greater than one year of $26.7 million (2018 – $30.6 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, 2019 and 2018.

A continuity of the shares issued and outstanding for the years ended December 31, 2019 and 2018, is presented in the consolidated statements of changes in equity.

Shareholder Rights Plan ("SRP")
The SRP 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% or more of the Company's outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company's Board of Directors. Should such an acquisition occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The SRP expires at the end of the annual meeting of shareholders in 2021.

Normal Course Issuer Bid ("NCIB")
The Company's NCIB program was renewed in 2019. The current issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares in the 12-month period ending August 30, 2020, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

No shares were purchased and cancelled in 2019. 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.

Dividends Paid
The Company paid dividends of $84.8 million ($1.04 per share) for the year ended December 31, 2019, and $71.4 million ($0.88 per share) for the year ended December 31, 2018.

Subsequent to the year ended December 31, 2019, the Board of Directors approved a quarterly dividend of $0.31 per share payable on April 2, 2020, to shareholders on record at the close of business on March 9, 2020.

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:

	2019	2018
Other financial liabilities:		
Current portion of long-term debt	$ —	$ 1,022
Long-term debt	$ 645,471	$ 644,540
Derivative financial instruments (liabilities) assets:		
Foreign exchange forward contracts	$ (10,366)	$ 27,624

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 that 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 was as follows:

Long-term debt	2019	2018
Fair value	$ 683,092	$ 655,575
Carrying value	$ 650,000	$ 651,022

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, that 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, 2019 and 2018, 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, 2019, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $507.7 million at an average exchange rate of $1.3191, maturing between January 2020 and November 2020; and (ii) US dollar sale contracts with a notional amount of $3.3 million at an average exchange rate of $1.3060, maturing between January 2020 and April 2020.

Management estimates that a net loss of $10.4 million (2018 – gain of $27.6 million) would be realized if the contracts were terminated on December 31, 2019. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized loss of $2.8 million (2018 – unrealized gain of $4.4 million) has been included in OCI. These losses will be reclassified to net earnings within the next 12 months and will offset gains recorded on the underlying hedged items, namely foreign-denominated accounts payable and accrued liabilities. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A loss of $7.6 million (2018 – gain of $23.2 million) on these forward contracts is included in net earnings, which offsets gains recorded on the foreign-denominated items, namely accounts payable and accrued liabilities.

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 accrued liabilities and derivative financial instruments.

As at December 31, 2019, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $0.3 million (decrease) increase in OCI for financial instruments held in foreign operations, and a $1.5 million increase (decrease) in net earnings and $6.2 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, 2019 or 2018.

The Company had no floating-rate debt outstanding as at December 31, 2019 or 2018.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2019, the Company had unutilized lines of credit of $466.9 million (2018 – $470.1 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 2020, 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:

	2019	2018
Credit facilities	$ 1,495	$ 4,553
Senior debentures	25,221	25,269
Interest on lease liabilities	991	—
Interest accretion on repayment of term credit facility	—	821
	$ 27,707	$ 30,643

The components of interest and investment income were as follows:

	2019	2018
Interest on conversion of rental equipment	$ 4,283	$ 3,461
Other	5,469	5,457
	$ 9,752	$ 8,918

15. Income Taxes

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

	2019	2018
Current income tax expense	$ 81,731	$ 88,196
Deferred income tax expense	26,009	7,669
Total income tax expense	$ 107,740	$ 95,865

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

	2019	2018
Statutory Canadian federal and provincial income tax rates	26.5%	26.5%
Expected taxes on income	$ 104,553	$ 92,180
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	1,525	1,619
Manufacturing and processing rate reduction	(71)	(65)
Expenses not deductible for tax purposes	2,291	2,286
Non-taxable gains	(837)	(1,267)
Effect of change in future income tax rate	517	200
Other	(238)	912
Provision for income taxes	$ 107,740	$ 95,865
Effective income tax rate	27.3%	27.6%

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:

	2019	2018
Accrued liabilities	$ 21,615	$ 16,656
Deferred revenues and contract liabilities	4,439	3,503
Accounts receivable	4,277	4,157
Inventories	5,850	5,392
Deferred tax assets on current assets and current liabilities	36,181	29,708
Capital assets	(73,060)	(44,139)
Goodwill and intangible assets	(13,204)	(6,375)
Tax loss carryforward	774	—
Other	1,095	1,119
Cash flow hedges in OCI	900	(1,141)
Post-employment obligations	15,381	6,909
Deferred tax (liabilities) on non-current assets and non-current liabilities	(68,114)	(43,627)
Net deferred tax liabilities	$ (31,933)	$ (13,919)

The movement in net deferred income taxes was as follows:

	2019	2018
Balance, January 1	$ (13,919)	$ 411
Tax expense recognized in income	(26,009)	(7,669)
Foreign exchange and others	(738)	498
Tax recovery (expense) recognized in OCI	8,733	(7,159)
Balance, December 31	$ (31,933)	$ (13,919)

The aggregate amount of unremitted earnings in the Company's subsidiaries was $21.7 million (2018 – $20.4 million). These earnings can be remitted with no tax consequences.

16. Earnings Per Share

	2019	2018
Net earnings available to common shareholders	$ 286,800	$ 251,984
Weighted average common shares outstanding	81,590,392	81,231,282
Dilutive effect of stock option conversions	485,856	744,028
Diluted weighted average common shares outstanding	82,076,248	81,975,310
Earnings per share		
Basic	$ 3.52	$ 3.10
Diluted	$ 3.49	$ 3.07

For the calculation of diluted earnings per share for the year ended December 31, 2019, 1,030,260 (2018 – 584,250) outstanding stock options with a weighted average exercise price of $65.98 (2018 – $66.22) 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

	2019	2018
Wages and salaries	$ 595,502	$ 558,759
Other employment benefit expenses	89,219	74,094
Stock-based compensation expense	5,730	5,101
Pension costs	25,931	31,033
	$ 716,382	$ 668,987

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 (2019 – 812,264; 2018 – 809,498).

Stock options have a 10-year life, vest 20% per year on each anniversary date of the grant, and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. 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, 2019 and 2018, was as follows:

	2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,636,070	$ 43.78	2,628,036	$ 34.85
Granted	495,200	65.72	589,750	66.22
Exercised [1]	(786,065)	34.00	(514,516)	23.71
Forfeited	(15,500)	53.33	(67,200)	45.12
Options outstanding, December 31	2,329,705	$ 51.68	2,636,070	$ 43.78
Options exercisable, December 31	896,115	$ 39.88	1,093,480	$ 31.87

(1) The weighted average share price at date of exercise for the year ended December 31, 2019, was $67.45 (2018 – $60.49).

The following table summarizes stock options outstanding and exercisable as at December 31, 2019.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$23.40 – $26.52	285,000	4.3	$ 26.65	285,000	$ 25.65
$36.65 – $39.79	615,500	6.1	$ 38.36	365,260	$ 38.08
$53.88 – $66.22	1,429,205	8.7	$ 62.60	245,855	$ 59.06
	2,329,705	7.5	$ 51.68	896,115	$ 39.88

The fair value of the stock options granted during 2019 and 2018 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Fair value price per option	$ 11.68	$ 13.31
Share price	$ 65.72	$ 66.22
Expected life of options (years)	5.90	5.90
Expected stock price volatility	21.0%	21.0%
Expected dividend yield	1.64%	1.39%
Risk-free interest rate	1.40%	2.15%

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 of Directors 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:

	2019		2018	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	358,151	$ 19,005	426,279	$ 23,417
Units taken or taken in lieu and dividends	32,414	2,114	28,733	1,647
Redemptions	(2,018)	(127)	(96,861)	(5,716)
Fair market value adjustment	—	6,400	—	(343)
Outstanding, December 31	388,547	$ 27,392	358,151	$ 19,005

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 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards will vest in five years from date of contribution. Company contributions amounting to $2.7 million in 2019 (2018 – $2.4 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

19. Post-employment Obligations

Defined Contribution Plans
The Company sponsors pension arrangements for more than 3,900 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:

	2019	2018
Defined contribution plans	$ 15,082	$ 13,008
401(k) matched savings plans	312	305
	$ 15,394	$ 13,313

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,700 qualifying employees.

a) Quebec/Maritimes Pension Plans – The Company sponsors six plans that provide pension benefits based on length of service and career average earnings, five of which are contributory. The plans are 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. Actuarial valuations were completed for each plan at dates ranging from December 31, 2017 to December 31, 2018. The next actuarial valuation dates range from December 31, 2019 to December 31, 2021.

b) Manitoba Pension Plan – This 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 most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled as at December 31, 2019.

c) 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, 2019, the Company has posted letters of credit in the amount of $16.1 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2019, with the next valuation scheduled as at December 31, 2020.

d) Other 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 separate from the Company. The most recent actuarial valuation was completed as at January 1, 2018 with the next valuation scheduled for January 1, 2021.

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, 2016, 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 yields will increase the plan liability; however, this will be partially offset by higher market values of the plan's holdings in debt instruments.
- Longevity risk – An increase in the life expectancy of the plan participants will increase the plan's liability by lengthening the period in which benefits are paid.
- 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, was as follows:

	Pension Benefit Plans		Other Post-employment Benefit Plans	
	2019	2018	2019	2018
Defined benefit obligations:				
Balance, January 1	$ 474,549	$ 493,745	$ 23,726	$ 24,858
Curtailment gain	—	—	(5,000)	—
Current service cost	11,424	12,973	588	875
Interest cost	18,158	16,511	597	827
Actuarial remeasurement (gains) losses arising from:				
Experience adjustments	(464)	(963)	(2,121)	39
Changes in financial assumptions	65,808	(31,315)	1,943	(1,895)
Benefits paid	(22,581)	(21,365)	(1,387)	(978)
Contributions by plan participants	4,356	4,963	—	—
Balance, December 31	$ 551,250	$ 474,549	$ 18,346	$ 23,726
Plan assets:				
Fair value, January 1	$ 393,933	$ 397,268	$ —	$ —
Interest income on plan assets	15,230	13,466	—	—
Return on plan assets (excluding amounts included in net interest expense)	39,914	(13,482)	—	—
Contributions by the Company	13,039	13,083	1,387	978
Contributions by plan participants	4,356	4,963	—	—
Benefits paid	(22,581)	(21,365)	(1,387)	(978)
Fair value, December 31	$ 443,891	$ 393,933	$ —	$ —
Net post-employment obligations	$ 107,359	$ 80,616	$ 18,346	$ 23,726

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

	2019			2018		
	Defined Benefit Obligations	Plan Assets	Net Post-employment Obligations	Defined Benefit Obligations	Plan Assets	Net Post-employment Obligations
Quebec/Maritimes Plan	$ 464,770	$ 380,420	$ (84,350)	$ 395,818	$ 333,910	$ (61,908)
Manioba Pension Plan	62,482	59,104	(3,378)	54,975	55,342	367
Executive Pension Plan	18,114	—	(18,114)	17,575	—	(17,575)
Other Plan Assets and Obligations	5,884	4,367	(1,517)	6,181	4,681	(1,500)
Post-employment Benefit Plans	18,346	—	(18,346)	23,726	—	(23,726)
	$ 569,596	$ 443,891	$ (125,705)	$ 498,275	$ 393,933	$ (104,342)

The significant weighted average actuarial assumptions adopted in measuring the Company's defined benefit obligations are noted below. The mortality assumption is based upon the 2014 Private Sector Canadian Pensioners' Mortality Table, developed by the Canadian Institute of Actuaries, projected generationally using scale MI-2017.

	2019	2018
Discount rate	3.10%	3.89%
Expected rate of salary increase	3.00%	3.00%

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

	2019	2018
Service cost	$ 12,012	$ 13,848
Net interest expense	3,525	3,872
Curtailment gain	(5,000)	—
	$ 10,537	$ 17,720

The Company completed the alignment of benefit programs across the Equipment Group in 2019, which on the whole, led to improved benefits for most employees in the acquired businesses and to increased administrative efficiencies for the Company. A single component of the comprehensive alignment led to changes in the structure and elements of certain post-employment benefits plans, which resulted in a non-recurring curtailment gain of $5.0 million ($3.7 million after-tax).

Pre-tax amounts recognized in OCI were as follows:

	2019	2018
Actuarial gains arising from experience adjustments	$ (2,585)	$ (924)
Actuarial losses (gains) arising from changes in financial assumptions	67,751	(33,210)
Return on plan assets (excluding amounts included in net interest expense)	(39,914)	13,482
	$ 25,252	$ (20,652)

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

	2019	2018
Debt securities	57.2%	37.2%
Equity securities	39.5%	58.5%
Real estate assets	3.3%	3.7%
Cash and cash equivalents	—	0.6%

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, 2019, was $55.1 million (2018 – $nil).

The Company expects to contribute $28.8 million to pension and other benefit plans in 2020, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations at December 31, 2019 was 17.3 years (2018 – 16.6 years).

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined benefit obligations ("DBO") are discount rate and 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, 2019, 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	$ (81,351)	$ (2,617)	$ (83,968)
	1% decrease	$ 95,645	$ 2,972	$ 98,617
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 11,906	$ (328)	$ 11,578

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%, 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:

	2019	**2018**
Long-term debt	$ 645,471	$ 644,540
Current portion of long-term debt	—	1,022
Less: Cash	365,589	345,434
Net debt	279,882	300,128
Shareholders' equity	1,533,891	1,327,679
Total capitalization	$ 1,813,773	$ 1,627,807
Net debt as a % of total capitalization	15%	18%
Net debt to equity ratio	0.18:1	0.23:1

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, 2019 and 2018.

There were no changes in the Company's approach to capital management during the years ended December 31, 2019 and 2018.

21. Supplemental Cash Flow Information

	2019	2018
Net change in non-cash working capital and other		
Accounts receivable	$ (2,590)	$ (36,392)
Inventories	(38,679)	(95,983)
Accounts payable and accrued liabilities	(111,068)	364,019
Provisions	(702)	1,946
Deferred revenues and contract liabilities	3,814	(2,388)
Income taxes	(37,644)	28,164
Derivative financial instruments	30,129	(26,173)
Other	(80)	2,857
	$ (156,820)	$ 236,050
Cash paid during the year for:		
Interest	$ 24,811	$ 28,803
Income taxes	$ 120,009	$ 62,054
Cash received during the year for:		
Interest	$ 9,291	$ 8,703
Income taxes	$ 1,711	$ 2,562

A reconciliation of liabilities arising from financing activities was as follows:

	Current Portion of Long-term Debt	Long-term Debt	Total
Balance, January 1, 2018	$ 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
Cash flows	(1,022)	—	(1,022)
Other	—	931	931
Balance, December 31, 2019	$ —	$ 645,471	$ 645,471

22. Commitments

Future minimum lease payments under non-cancellable leases as at December 31, 2019, were $9.7 million within one year, $20.9 million within two and five years and $0.8 million thereafter.

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 product 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 provides product support services for material handling lift trucks.
- *AgWest* – supplies and provides product support services for specialized mobile equipment to the agriculture industry.
- *SITECH* – supplies control systems for specialized mobile equipment.
- *Toromont Energy* – develops distributed generators and combined heat and power projects using Caterpillar engines.

CIMCO
Provides design, engineering, fabrication, installation, and product support services 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:

	Equipment Group		**CIMCO**		**Consolidated**	
Years ended December 31	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Equipment/package sales	$1,524,185	$1,496,575	$ 177,974	$ 202,367	$1,702,159	$1,698,942
Rentals	418,818	389,572	—	—	418,818	389,572
Product support	1,390,340	1,264,295	156,781	140,782	1,547,121	1,405,077
Power generation	10,607	10,645	—	—	10,607	10,645
Total revenues	$3,343,950	$3,161,087	$ 334,755	$ 343,149	$3,678,705	$3,504,236
Operating income	$ 384,077	$ 348,876	$ 28,418	$ 20,698	$ 412,495	$ 369,574
Interest expense					27,707	30,643
Interest and investment income					(9,752)	(8,918)
Income taxes					107,740	95,865
Net earnings					$ 286,800	$ 251,984

Selected consolidated statements of financial position information:

	Equipment Group		**CIMCO**		**Consolidated**	
As at December 31	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Identifiable assets	$2,829,147	$2,755,039	$ 119,600	$ 104,498	$2,948,747	$2,859,537
Corporate assets					422,590	374,994
Total assets					3,371,337	$ 3,234,531
Identifiable liabilities	$ 991,950	$1,091,029	$ 81,712	$ 71,730	$1,073,662	$1,162,759
Corporate liabilities					763,784	744,093
Total liabilities					1,837,446	$1,906,852
Capital expenditures, net	$ 207,520	$ 162,694	$ 2,334	$ 2,452	$ 209,854	$ 165,146
Depreciation expense	$ 152,900	$ 133,323	$ 5,660	$ 1,836	$ 158,560	$ 135,159

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

Years ended December 31	2019	2018
Canada	$ 3,581,029	$ 3,387,552
United States	95,731	110,552
International	1,945	6,132
Revenues	$ 3,678,705	$ 3,504,236

As at December 31	2019	2018
Canada	$ 1,109,961	$ 1,043,007
United States	4,749	5,079
Capital assets and goodwill	$ 1,114,710	$ 1,048,086

24. Related Party Disclosures

Key management personnel and director compensation comprised:

	2019	2018
Salaries	$ 3,315	$ 3,068
Stock options and DSU awards	2,524	2,461
Annual non-equity incentive based plan compensation	3,271	3,400
Pension costs	740	648
All other compensation	151	135
	$ 10,001	$ 9,712

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

25. Economic Relationship

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

Ten-Year Financial Review

For the years ended December 31 ($ thousands, except ratios and share data)	2019	2018	2017[4]	2016
Operating Results				
Revenues	3,678,705	3,504,236	2,350,162	1,912,040
Net earnings	286,800	251,984	175,970	155,748
Net interest expense	17,955	21,725	7,618	3,236
Capital expenditures, net	209,854	165,146	100,954	85,031
Dividends declared	88,192	74,516	60,402	56,280
Financial Position				
Working capital	829,275	653,906	767,374	575,382
Capital assets	1,020,930	954,306	881,877	454,104
Total assets	3,371,337	3,234,531	2,866,945	1,394,212
Non-current portion of long-term debt	645,471	644,540	893,806	150,717
Shareholders' equity	1,533,891	1,327,679	1,124,727	885,432
Financial Ratios				
Working capital	1.8:1	1.6:1	2.1:1	2.8:1
Return on opening shareholders' equity (%)	21.4	22.3	19.3	20.0
Total debt, net of cash, to shareholders' equity	.18:1	.23:1	.65:1	(.04):1
Per Share Data ($)				
Basic earnings per share	3.52	3.10	2.22	1.99
Diluted earnings per share	3.49	3.07	2.20	1.98
Dividends declared	1.08	0.92	0.76	0.72
Book value (shareholders' equity)	18.70	16.35	13.89	11.29
Shares outstanding at year end	82,012,448	81,226,383	80,949,819	78,398,456
Price range				
High	71.15	68.11	58.44	44.44
Low	52.71	46.24	41.10	27.25
Close	70.59	54.26	55.10	42.35

(1) On June 1, 2011, Toromont completed the spinoff of Enerflex. Toromont shareholders received one share of Enerflex for each Toromont share held. ROE for 2011 was calculated excluding earnings and equity from discontinued operations.
(2) 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.
(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) 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. 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 for more information.

2015(3)	2014	2013	2012(2)	2011(1)	2010
1,846,723	1,660,390	1,593,431	1,507,173	1,381,974	1,207,028
145,666	133,196	123,031	119,473	246,459	103,912
5,246	4,034	4,900	5,740	5,798	8,826
113,911	76,893	71,267	77,245	55,757	49,385
52,882	46,267	39,854	36,728	36,968	47,716
486,293	294,753	356,347	302,919	251,122	478,289
429,824	371,661	341,152	316,925	287,290	556,991
1,276,077	1,107,802	1,030,555	936,170	913,331	2,271,763
152,079	4,942	130,948	158,395	132,815	413,040
775,281	668,075	576,557	476,575	403,861	1,196,838
2.6:1	1.7:1	2.2:1	2.2:1	1.7:1	1.8:1
21.6	23.0	25.7	29.9	28.9	9.1
.11:1	.07:1	.11:1	.33:1	.15:1	.21:1
1.88	1.73	1.61	1.56	3.20	1.36
1.86	1.71	1.59	1.55	3.18	1.35
0.68	0.60	0.52	0.48	0.48	0.62
9.95	8.65	7.50	6.24	5.27	15.50
77,905,821	77,259,396	76,844,897	76,407,658	76,629,777	77,149,626
37.61	28.97	26.94	25.00	33.25	32.40
26.70	24.48	21.12	18.61	15.39	22.86
31.55	28.51	26.65	21.10	21.32	30.76

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 1, 2020.
Visit Toromont.com for more details.

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