# DRIVING FORWARD TOGETHER

**Toromont Industries Ltd.**
Annual Report 2022

TOROMONT

**Toromont Industries Ltd.** employs 6,800 empowered people across seven business units and 160+ locations. We are **driving forward together** as one Toromont aligned by our corporate values, core strategies and our business model of providing specialized equipment and lifecycle product support that our customers count on every day. Our company listed on the Toronto Stock Exchange (symbol TIH) in 1968 and is a member of the S&P/TSX Canadian Dividend Aristocrats®.

Please visit www.toromont.com for more information.

## Our business units

TOROMONT CAT

Toromont is one of the largest Caterpillar dealers in the world with Toromont Cat branches and field-service operations across seven provinces and one territory. We serve the specialized heavy equipment, power generation, heavy rent, used equipment, product support and component remanufacturing needs of thousands of public infrastructure, construction, demolition, paving, mining, aggregate, waste management, agriculture, forestry, trucking, shipping, transit and data centre customers.

TOROMONT Material Handling

Toromont serves ports and terminals, paper producers, automotive parts manufacturers, beverage companies, hardware retailers and government agencies through Toromont Material Handling, which sells, rents and supports brand name lift trucks, container handlers, industrial batteries, chargers and racking systems.

TOROMONT CIMCO

Tormont serves North American food, dairy, cold storage, beverage, pharmaceutical, automotive, chemical, petrochemical, mining and recreational ice rink markets through CIMCO Refrigeration, a leading supplier of refrigeration equipment, Net Zero Naturally technologies and product support services.

BATTLEFIELD CAT The Rental Store

Toromont rents brand-name machines, tools, supplies and provides product support to contractors, specialty trades and do-it-yourself customers through Battlefield Equipment Rentals – The Cat Rental Store locations.

JOBSITE

Toromont meets the specialized tool crib and rental equipment needs of contractors working in refinery industries, healthcare, automotive, steel and pulp and paper through Jobsite Industrial Rental Services in eastern and western Canada.

SITECH®

Toromont specializes in providing machine control, site positioning software and asset management technologies as well as professional support services through SITECH Eastern Canada Ltd., a Trimble and Cat AccuGrade® dealer.

AGWEST

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

# Fellow shareholders:

As 2022 began, economic activity exceeded the ability of global supply chains to respond. Equipment shortages persisted and a rapid rise in inflation followed. With the help of customers, partners and predictive analytics, the disciplined deployment of the balance sheet and creative sourcing of machines and skilled labour, Toromont adjusted accordingly. By **driving forward together**, our team produced good results and prepared for the next chapter.

Toromont earned $5.52 per share basic ($5.47 per share diluted), a 37% improvement over 2021 on revenue of $4.2 billion, 9% higher than the prior year. This was a favourable outcome, supported by backlog of $1.3 billion entering the year. Below those headline numbers, supply chain constraints, inflationary pressures, escalating interest rates, volatile foreign exchange rates and labour shortages made for a uniquely complex operating environment.

To secure new machines, we worked collaboratively with customers to identify their future resource needs and placed purchase orders with OEMs months earlier than normal. This effort helped, although with demand and extended deliveries, backlog remained relatively unchanged at $1.3 billion at December 31, 2022. Within that number, CIMCO's backlog increased by 23% over the prior year to $198.4 million, in part reflecting the deferral or delay in construction schedules resulting from supply chain constraints and as many customers returned to operations after prolonged pandemic closures.

Used equipment played a role in satisfying demand. Dollar sales of used machines increased 2% from the prior year as we sourced, consigned, rebuilt and moved more units. To enhance customer convenience, we created Toromont Equip, our ecommerce platform. Here, customers can purchase used equipment from us or market their own machines. We bring value to online transactions by giving buyers various options, including equipment inspections, warranties, purchase financing and maintenance agreements.

Recognizing that customers rely on rental equipment, we invested in our heavy and light rental fleets. We were rewarded with improved machine utilization, 17% year-over-year growth in rental revenues and modernized fleets for the future. That

**Scott J. Medhurst**
President and Chief Executive Officer

**Richard G. Roy**
Chair of the Board

**$171** **million**

investment (net) in the rental fleet

**$1.3** **billion**

order backlog

**34** **years**

of consecutive dividend increases

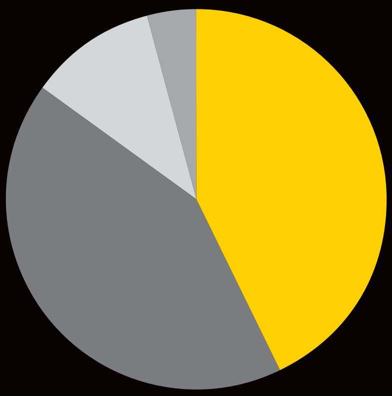
**23.5%**

5-year average return on opening shareholders' equity

said, our plan called for us to upload more new equipment earlier than supply constraints ultimately allowed. To fill the gap and ensure product availability for customers, we deferred the planned sale of older units at some cost to our long-term financial model.

Product support revenues increased 16% year over year with strong contributions from the Equipment Group and CIMCO due to active machine utilization by customers, and the success of various long-term strategies to provide comprehensive after-sales parts and services. Aided by machine-level connectivity and data analysis, these strategies helped us to forecast component replacement timing and proactively build inventory of needed parts. This helped to offset scarcity of supply, as did increased throughput from our component remanufacturing operations. During the year, we announced a $70 million investment to build an additional remanufacturing facility, slated for occupancy in 2024. This new 137,000 square foot, purpose-built plant in Bradford, Ontario, will increase our ability to contribute to the circular economy by enabling Toromont to preserve, through remanufacturing, more used machine components for customers.

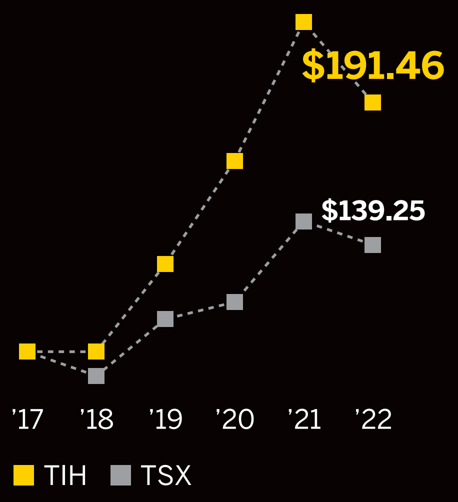
## 2022 Revenues



- **43%** Product support
- **42%** New & used equipment
- **11%** Rentals
- **4%** Refrigeration equipment

## Cumulative value of $100 invested

**(assuming reinvestment of dividends)**



## New and proven faces

In the face of strong demand and demographic changes in Canada, labour shortages were acute. In response, Toromont stepped up the pace of recruiting, including from farther afield. We added 271 technicians and apprentices to employ the largest technical workforce in our history.

The year also featured leadership appointments and promotions. We welcomed Isabelle Leclerc to our corporate team in the newly created role of Vice President, Human Resources. Stationed in Montréal, Isabelle is equipped with over 30 years of strategic talent development and transformation management experience. To lead and implement Toromont's real estate initiatives and optimize management of Toromont's properties, we recruited Garnet Peirson to the newly created role of Vice President, Real Estate Asset Management and Development. Garnet brings over 20 years of experience, most recently in a Canadian leadership role at a global real estate investment firm.

Recognizing the scope, scale and diversification of our largest business, we named Joel Couture to the newly created position of Chief Operating Officer of Toromont Cat. Joel was previously Vice President, Product Support for Toromont Cat. He joined in 2007 as a management trainee. In December, Adam Miller became Vice President of our Power Systems business. Adam is a 26-year Toromont veteran who previously served as Vice President of Toromont Cat's Central Region. These appointments are the result of a leadership succession plan. These Toromont Cat internal promotions, including the 2021 appointments of Miles Gregg and William Harvey to President, Construction and President, Mining, respectively, bode well for the future, bringing invaluable operational knowledge and strengthening customer relationships.

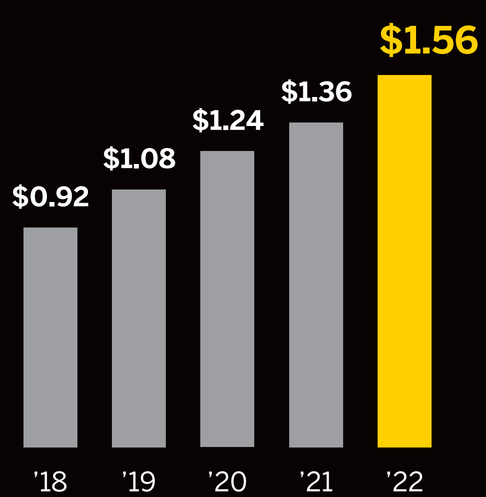
Well-executed management succession over the past few years means Toromont has proven, energized, next-generation leadership in place across our business units.

## Investing in the future while protecting our balance sheet

While equipment availability somewhat constrained capital deployment, Toromont's net reinvestment in rental fleets, branches, plants and other capital assets amounted to

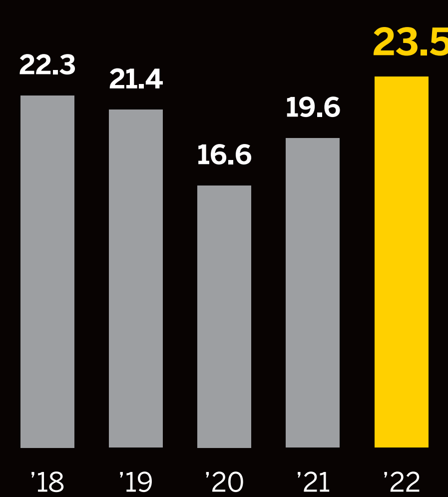
## Dividends per share

**5 year CAGR = 15.5%**




## Return on opening shareholders' equity

**%**



$215 million, $79 million or 37% higher than in 2021. Capital deployment was disciplined, measured and efficient. Return on opening shareholders' equity was 23.5% compared to Toromont's goal of 18% after-tax over a business cycle and 19.6% in 2021. Pre-tax return on capital employed was 32.3% compared to 26.6% in 2021.

Even with higher investment levels, Toromont ended 2022 with $928 million of cash on hand and $500 million of available credit on existing lines. Leverage, represented by net debt to total capitalization decreased to minus 14%, compared to minus 16% at December 2021. In other words, cash and equivalents exceeded debt.

## Celebrating 55 years of continuous dividend payments

Toromont's Board declared a quarterly dividend of $0.43 at its meeting in February 2023. With it, Toromont has now paid dividends every year since becoming a publicly traded company in 1968. Notably, the most recent announcement came with an increase of 10.3%. As such, 2023 marks our 34th consecutive year of higher dividend payouts. In 2022, dividends declared per share amounted to $1.56 compared to $1.36 a year earlier.

The Board also renewed the Normal Course Issuer Bid in September 2022. During 2022, we purchased 473,100 shares at a total cost of $48.5 million (average per-share cost of $102.52), helping to offset shares issued under the Executive Stock Option Plan.

## QM at the five-year mark

It has now been five years since we acquired the authorized Caterpillar dealer for Québec, Western Labrador and the Maritimes, along with the Caterpillar lift truck dealership for most of Ontario. QM, as we called it internally, has more than lived up to our expectations. With QM, Toromont has room to grow in key geographic and end markets including mining, construction, power and material handling, and access to great customers and employee talent. Since acquisition, enterprise-wide performance has improved, supported by branch-level benchmarking of KPIs using Toromont's Dealer Management System (TDMS). As pleased as we are to now operate together as one energized team with a consistent value proposition, we know there are additional advantages to be gained through scale and ongoing efforts to entrench best-practice disciplines. Toromont's belief in, and adherence to, the principles of continuous improvement mean we always have more to do and accomplish.

› Team Toromont assembled this Cat 994K at Côté Gold north of Sudbury, Ontario in 2022. One of three on site, it will load Cat 793F fully autonomous haul trucks, the first in our territories. When machine deliveries are complete, the Cat fleet will include two of the world's first Cat 6060 front shovels with twin electric motors. Toromont will maintain the equipment in the years to come.

## Driving forward together within an ESG mindset

The members of Toromont's Board, leadership team and workforce have always sought to be good stewards of our resources. A more formal focus on Environmental, Social and Governance (ESG) practices is therefore a natural and positive extension of our culture. Today, through its ESG Committee, our Board leads a structured, progressive effort with a continuous improvement mindset.

### ENVIRONMENT

- Operational footprint
- Sustainable products and services
- Circular economy

### SOCIAL

- Health and safety
- Building capacity
  - Recruitment
  - Learning and enablement
  - Retention
  - Diversity, equity and inclusion

### GOVERNANCE

- Accountability and executive compensation
- Code of conduct
- Cybersecurity and data privacy
- Paying our fair share of taxes

Our Sustainability Report (available on our website) discusses key risk and opportunity areas of focus. For readers of this report, we highlight the following:

**Safety:** At Toromont, safety is both a recognized corporate value and a responsibility shared by all. Our Board-reviewed safety program is designed to mitigate risk and create management, team and personal accountability for outcomes. With consistent focus and effort, 80% of our facilities achieved a Total Recordable Injury Rate (TRIR) of zero in 2022. Company-wide, TRIR was down 31% from 2021, a solid improvement. More progress is possible.

**Customer sustainability:** Products that enable customers to monitor and reduce their carbon footprints while maintaining high levels of productivity and safety are in demand and making their way into our territories. Toromont participates in the advancement of these products, and we are beginning to see green solutions become more significant contributors to revenue. In 2022, we were pleased to be part of the delivery of the first Caterpillar autonomous mining trucks in our territories. Now in use at the Côté Gold Project in northern Ontario, these innovative machines reduce carbon emissions by saving fuel. Elsewhere, through placements of Caterpillar battery electric vehicle (BEV) field-follow units, we are gaining valuable experience in BEV machine operation and maintenance. In all cases, our partnership with Caterpillar is a strategic advantage compounded by the significance of Cat's R&D investments. As a remanufacturer, Toromont renewed a record dollar volume of components for customers in 2022. As outlined earlier in this letter, we committed to building another remanufacturing facility to enhance our capacity and contribution to the circular economy and it will incorporate state-of-the-art tooling and contamination controls. As a manufacturer of refrigeration equipment, Toromont is at the leading edge of bringing net-zero solutions to customers throughout North America.

**Environmental footprint:** We continued to take action to manage our footprint including investments in fuel efficient company vehicles, our largest source of emissions. We monitor our GHG emissions annually. Please see our Sustainability Report for further detail.

**Diversity, equity and inclusion:** We make a concerted, intentional effort to diversify our workforce, including outreach to those who may not have considered a career in our industry. Progress is being made at the highest levels and we are pleased that women make up 33% of our Board of Directors. In 2022, we made headway by recruiting more members of underrepresented groups to Toromont, including women, visible minorities, Indigenous peoples and persons with disabilities. Diversifying our workforce is an important work in progress.


› The Green Leaf initiative at Battlefield Equipment Rentals – The Cat Rental Store and Jobsite Industrial Rental Services promotes the use and availability of alternative energy products, from light towers powered by solar panels to electric drive and hybrid lift equipment such as this battery-operated scissor lift.

## Decentralization with alignment

Market diversification is a Toromont strength, and a risk management advantage in challenging times. Each of our business units is dialed in to the unique needs of their end markets and addresses those needs under the capable direction of empowered leaders who are granted authority with accountability. However, Toromont's central organizing principles – offering specialized equipment and follow-on product support services – and our core strategies, are identical across all Toromont companies. All are aligned in the application of Toromont's financial disciplines. Decentralization with alignment proved its worth again in 2022.

## Progress reports from the field

**Toromont Cat** experienced strong demand as customers invested to expand fleets to serve infrastructure needs across public works projects, site preparation and mine development. Large Caterpillar trucks and loading tools were delivered to several mining customers with more to come in 2023. The supply of large gensets to a remote Arctic mine site was another highlight. Just one sea shipment leaves for this mine each year, and Toromont ensured it carried all six units – a testament to teamwork and logistical execution. Utilization of our heavy equipment machine fleet grew and yet maintenance costs were contained through good fleet management. Used equipment availability was bolstered by an increase in machine sourcing outside our borders. This expansion should continue to provide benefits once supply constraints ease.

Customer Value Agreements or CVAs, the bedrock of our aftermarket strategies, reached a record level and provided the basis for us to proactively assist in the maintenance of customer equipment, reduce the total lifetime cost of their ownership and better plan resources. In particular, customer coverage and machine data inputs from connected assets enhanced our insights and allowed us to de-risk customers from parts availability challenges.

In-person training of our team of service technicians resumed after a pandemic pause. This training prepared the business to better meet the growing need for product support across our larger installed base in future years and gave technicians new skills to advance their careers. As customers experience skilled labour shortages, our technical capabilities and capacity have never been more essential.

**Battlefield Equipment Rentals – The Cat Rental Store** began to realize on the value of recent expansion and improvement strategies. Widespread customer demand for rental units across multiple applications, including road, transit, site preparation and landscaping contributed to higher utilization. Fleet uploads were targeted with emphasis on small compaction equipment and reflected a partial catch up from 2021. An aptly named Green Leaf initiative was introduced to promote the use and availability of products such as hybrid and electric drive lifts, as well as light towers powered by solar panels. Additions to our seasonal product lineup in Québec were well received and served to improve financial performance in winter months. Saint-Jérôme, Québec, became the site of our newest store. We also continued to execute our QM integration footprint strategy focused on customer deliverables and operating efficiencies with the sale of a property in Saint-Laurent, Québec. This also liberated capital for more productive pursuits. Recruitment of technicians and vehicle operators was aggressive.

**Jobsite Industrial Rental Services** gained momentum. New work was secured with petrochemical customers in its traditional eastern Canadian territories, and we will be able to serve these same customers in western Canada in future where a new hub location will be opened in Edmonton as well as two satellite locations in Fort McMurray, Alberta and Port Coquitlam, British Columbia in early 2023. In 2022, locations were added in Halifax and Montréal within Battlefield stores to bring services closer to regional industries, including shipbuilding and mining. Specialized tool cribs and electronic tracking of tools on assignment continue to be differentiators for this growing business.

**SITECH Eastern Canada Ltd.** implemented Battlefield's Systematics Rental Management system to enhance business performance and developed a new go-to-market strategy with Toromont Cat. Demand for 3D construction technology is expected to grow in future years and SITECH is ready.

**Toromont Material Handling** gained experience with the use of TDMS in managing its eight dedicated branches, work in process and the financial utilization of its rental fleet. The scope of that fleet widened with investments targeted to high-demand markets as well as emerging user groups. The arrival of more rental units in 2022 created future opportunity for more timely retirement of older units. Product support revenues and used machine sales improved over 2021. Standalone branches were opened in Lévis and Limoges, Québec and hubs were created to accelerate turnaround times in preparing used equipment for resale in Ontario and Québec. TMH expanded its footprint west as Mitsubishi Logisnext granted Toromont the opportunity to represent it in Saskatchewan. That gives us dual distribution for Unicarrier and Mitsubishi Cat lift solutions in both Saskatchewan and Manitoba. We responded with boots on the ground in sales and service. For demonstrating best-in-class expertise and superior customer service, Toromont Material Handling was honoured with a Mitsubishi Logisnext Dealer of Excellence Award. Kalmar, a world leader in cargo handling solutions for ports, terminals and heavy industry, named TMH a prime dealer in North American territories, another important 2022 highlight.

**AgWest** benefitted from a recovery in commodity prices and strong execution leading to higher market penetration and growth in combine and tractor market shares. Improved operational execution and added customer deliverables contributed to much improved overall performance.

**CIMCO Refrigeration** began a new era as it relocated from its original manufacturing plant, opened in 1917, to a modern headquarters in Burlington, Ontario. Floorspace is configured for efficient production. A packaging and assembly facility also opened in Edmonton, Alberta. A company-wide shared services model was adopted to enhance efficiency and the consistency of CIMCO's value proposition across North America. New project management technology provided the means to improve control over material and labour costs and enhance scalability for the future. Backlog finished the year at record levels. Bookings were diversified and included breakthrough assignments. The Columbus Blue Jackets became the first National Hockey League team to choose the natural refrigerant $CO_2$ (R744) for its arena and CIMCO to provide it. CIMCO secured a first order for its Net Zero Naturally heat pump system, which is four times more efficient than gas boilers. CIMCO was commissioned to conduct numerous feasibility studies to provide participating municipalities with a roadmap to guide their facility operations to dramatically reduce their carbon emissions. Similarly, a large food retailer engaged CIMCO for a net zero audit with a view to replacing synthetic refrigerants and natural gas in its operations. This is only the beginning. CIMCO is increasingly well positioned for the future with its growing intellectual property portfolio including Eco Chill heat recovery systems and new Thermal Force 1 products.


› One of the many specialized recreational equipment packages is readied for delivery to a CIMCO customer where it will support the customer's pathway to net zero.

## Driving forward together with technology to serve customers

Information technology plays a pivotal role in the management of Toromont's operations, fleets, inventories, warehouses and product support activity. It is also increasingly important in improving the product ownership experience for customers. Through telematics, we track machine location, hours of use and fuel burn, diagnose faults remotely and dispatch field service efficiently. Reducing time and fuel in making service calls benefits all parties and the environment. We believe technology and the market intelligence it enables can be put to even greater use in the years ahead to help us understand customers and identify and anticipate opportunity rather than react to it. To that end, we continue to enrich the data sets we collect across our installed base and use the insights to equip our customers and ourselves to be better operators. Together with low and no-carbon emission equipment, technology will energize our future.

## Governance and leadership

Through a special committee, our Board is actively engaged in selecting Toromont's next President and Chief Executive Officer. This committee was struck following the June 2, 2022 announcement that Scott Medhurst would retire from his post over the ensuing 12 to 18 months. This period provides our Board with the ability to conduct a thorough search for a successor and ensures leadership continuity for Toromont in between. Certainly, the breadth, depth and strength of our senior management team ensures we are ready for this important change.

## Driving forward together

We thank our customers, employees, business partners and shareholders for taking an active interest in Toromont and contributing to the company's success.

At the time of writing, macroeconomic factors that created a complex operating environment in 2022 remain. We will vigorously address and manage through these challenges to the very best of our ability using our strengths: our empowered workforce, innovative business partners, proven strategies and an effective business model fuelled by the power of scope, scale and financial flexibility.

Toromont is driving forward together – as one company with 6,800 energized employees – to deliver value. We invite you to drive along with us.

Yours sincerely,

**Richard G. Roy**
Chair of the Board

**Scott J. Medhurst**
President and Chief Executive Officer

February 14, 2023

# FINANCIAL REPORT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2022 is prepared as at February 14, 2023, and should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2022.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A is presented in thousands of Canadian dollars unless otherwise noted.

Additional information about Toromont is available online at www.sedar.com and Toromont's website www.toromont.com.

### Use of Non-IFRS Financial Measures

The MD&A presents certain financial and operating performance measures that management believes provide meaningful information in assessing Toromont's underlying performance. Readers are cautioned that these measures may not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Accordingly, non-IFRS or non-Generally Accepted Accounting Principles ("GAAP") measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Definitions and a reconciliations of the Company's non-IFRS or non-GAAP measures are included in the "Additional GAAP Measures", "Non-GAAP Measures" and "Key Performance Indicators" sections of this report.

### Forward-Looking Information

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; inflationary pressures; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of COVID-19; 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 and changes to environmental regulation; information technology failures, including data or cyber security breaches; 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; any requirement to make contributions or other payments in respect of registered defined benefit pension plans or postemployment benefit plans in excess of those currently contemplated; and increased insurance premiums. 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 of Toromont's most recent annual Management Discussion and Analysis, as filed with Canadian securities regulators at www.sedar.com or at our website www.toromont.com 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, 2022, Toromont employed over 6,800 people in more than 160 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, Toromont Material Handling, representing MCFA, Kalmar and other manufacturers' products, and 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, Québec, Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island and most of Nunavut. Additionally, the Company is the MaK engine dealer for the Eastern Seaboard of the United States, from Maine to Virginia. Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service.

CIMCO is a market leader in the design, engineering, fabrication, installation and after-sale support of refrigeration systems in industrial and recreational markets. Results of CIMCO are influenced by conditions in the primary market segments served: beverage and food processing; cold storage; food distribution; mining; and recreational ice rinks. CIMCO offers systems designed to optimize energy usage through proprietary products such as ECO CHILL®. CIMCO has manufacturing facilities in Canada and the United States and sells its 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 long-term potential for profitable expansion. Each operating group strives to achieve or maintain leading positions in markets served. Incremental revenue is 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 our 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 and other digital 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)* | 2022 | 2021 | $ change | % change |
|---|---|---|---|---|
| **REVENUE** | **$ 4,230,736** | $ 3,886,537 | $ 344,199 | 9 % |
| Cost of goods sold | **3,097,150** | 2,916,769 | 180,381 | 6 % |
| Gross profit [(1)] | **1,133,586** | 969,768 | 163,818 | 17 % |
| Selling and administrative expenses | **509,417** | 493,831 | 15,586 | 3 % |
| **OPERATING INCOME [(1)]** | **624,169** | 475,937 | 148,232 | 31 % |
| Interest expense | **27,338** | 28,161 | (823) | (3)% |
| Interest and investment income | **(22,232)** | (9,027) | (13,205) | nm |
| Income before income taxes | **619,063** | 456,803 | 162,260 | 36 % |
| Income taxes | **164,865** | 124,093 | 40,772 | 33 % |
| **NET EARNINGS** | **$ 454,198** | $ 332,710 | $ 121,488 | 37 % |
| **BASIC EARNINGS PER SHARE** | **$ 5.52** | $ 4.03 | $ 1.49 | 37 % |
| **KEY RATIOS:** | | | | |
| Gross profit margin [(1)] | **26.8 %** | 25.0 % | | |
| Selling and administrative expenses as a % of revenue | **12.0 %** | 12.7 % | | |
| Operating income margin [(1)] | **14.8 %** | 12.2 % | | |
| Income taxes as a % of income before income taxes | **26.6 %** | 27.2 % | | |
| Return on capital employed [(1)] | **32.3 %** | 26.6 % | | |
| Return on equity [(1)] | **23.5 %** | 19.6 % | | |

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

The Company delivered strong bottom line results in 2022, reflecting a favourable sales mix (higher rentals and product support revenue to total revenue), improved gross margins and higher interest income on cash balances. Rental and product support revenue increased on good market activity. Equipment revenue increased after a slow start to the year caused by delays in product delivery. Supply chain constraints and general macro-economic factors such as inflation, higher interest rates, and lingering pandemic concerns have challenged the business in 2022, as well as disrupted historical trends and seasonality patterns, and are expected to continue to do so for the near to mid-term as we progress into 2023.

Revenue for the year increased 9% from prior year to $4.2 billion. Equipment Group revenue increased 10% compared to last year on higher product support, rental activity and equipment sales. CIMCO revenue decreased 3% versus last year, on lower package revenue partially offset by higher product support activity levels. Supply chain challenges continued to dampen revenue in 2022 in both operating groups and have delayed some deliveries and project completion into 2023.

Gross profit margin increased 180 basis points ("bps") to 26.8% versus 25.0% last year. The Equipment Group reported higher margins mainly on tight equipment supply, improved rental fleet utilization, higher product support activity levels and operating leverage. CIMCO margins increased on higher package margins, reflecting good execution and mix of projects in process. Sales mix was also favourable in both Groups, contributing 80 bps to margin, with a higher proportion of product support revenue to total revenue.

Selling and administrative expenses for the year increased $15.6 million or 3% compared to the prior year. Three items affect the comparability of expenses year over year. First, property dispositions resulted in pre-tax gains in both periods, $17.7 million in 2022 and $3.8 million in 2021. Secondly, a lower share price gave rise to a mark-to-market pickup on DSUs in the current year of $2.9 million, compared to an expense of $7.0 million in 2021 (which saw a higher share price year over year), a swing of $9.9 million. Finally, 2021 included a $5.0 million charge related to the settlement of certain defined pension benefit obligations for certain retirees, completed through an annuity purchase. Excluding these three items, selling and administrative expenses increased $44.4 million or 9%. Compensation costs increased approximately $24.0 million, reflecting higher staffing levels, regular salary increases, and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased as a result of higher activity levels and inflationary pressures. Allowance for doubtful accounts increased $4.5 million compared to last year on higher aged receivables and heightened concern over the current economic environment. Selling and administrative expenses were 70 basis points lower as a percentage of revenue (12.0% versus 12.7% last year).

Operating income increased $148.2 million or 31% in the year. Operating income margin increased 260 bps to 14.8%, reflecting the higher revenue, higher gross margins, favourable sales mix and lower relative expense levels.

Interest expense decreased $0.8 million on lower cost borrowings, inclusive of fees on stand-by credit facilities.

Interest and investment income increased $13.2 million or 146% in the year on higher average cash balances, higher interest rates, as well as, higher interest income earned on conversion of equipment on rent with a purchase option ("RPO").

The effective income tax rate for the year was 26.6% compared to 27.2% last year, reflecting the lower capital gains rate on the property disposition in the current year.

Net earnings for the year increased $121.5 million or 37% to $454.2 million from 2021. Basic earnings per share ("EPS") increased $1.49 or 37% to $5.52 in line with growth in earnings.

Other comprehensive income of $67.4 million in the year (2021 – comprehensive income of $56.1 million) included an actuarial gain on defined benefit pension and other post-employment benefit plans of $58.8 million (2021 – actuarial gain of $49.9 million). These gains reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favourable net change in the fair value of cash flow hedges of $7.5 million (2021 – favourable net change of $6.2 million). These changes reflect mark to market differences in the value of foreign exchange derivative contracts designated as cash flow hedges and are largely a function of the underlying USD/CAD exchange rates at period end compared to the contract date.

## 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 revenue 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)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Equipment sales and rentals | | | | |
| New | **$ 1,433,779** | $ 1,366,681 | $ 67,098 | 5 % |
| Used | **361,476** | 354,701 | 6,775 | 2 % |
| Rentals | **452,140** | 387,755 | 64,385 | 17 % |
| Total equipment sales and rentals | **2,247,395** | 2,109,137 | 138,258 | 7 % |
| Product support | **1,621,948** | 1,405,128 | 216,820 | 15 % |
| Power generation | **10,410** | 11,019 | (609) | (6)% |
| **Total revenue** | **$ 3,879,753** | $ 3,525,284 | $ 354,469 | 10 % |
| **Operating income** | **$ 597,677** | $ 450,950 | $ 146,727 | 33 % |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **41.8 %** | 39.9 % | | |
| Operating income margin | **15.4 %** | 12.8 % | | |
| Group total revenue as a % of consolidated revenue | **91.7 %** | 90.7 % | | |
| Return on capital employed | **29.7 %** | 23.8 % | | |

The Equipment Group delivered solid results in the year with strong market activity driving higher rentals and product support services. New equipment and parts supply chains remained challenging through most of the year, affecting product availability, delaying deliveries and slowing work-in-process. Gross margin improvement and favourable sales mix (higher rental and product support revenue to total revenue), coupled with lower expense levels on two one-time items, drove improvements in operating income.

Total equipment revenue (new and used) increased $73.9 million or 4% compared to 2021, a tough comparable. New equipment sales increased 5% in the year, as inventory supply constraints continue to delay deliveries to customers. Used equipment sales increased 2% year over year, dampened on lower rental fleet dispositions. Used equipment sales vary based on availability, either from rental fleet, trades or purchases. Overall, revenue by market segments was as follows for the year: construction markets lower -5%, mining up +53%, power systems up +9%, material handling lower -12%, and agriculture up 15%.

Rental revenue increased $64.4 million or 17% versus last year. All markets and most segments were up, reflecting continued improvement utilization on higher market activity, as well as continued investment in the heavy and light equipment fleet. Year-over-year revenue changes in each market were as follows: Light equipment rentals +17%, power systems +15%, heavy equipment rentals +20% and material handling +10%. As at December 31, 2022, the RPO fleet (rent with a purchase option) was $44.7 million versus $46.1 million a year ago, which continues to trend below pre-pandemic levels.

Product support revenue increased $216.8 million or 15%, with increases in both parts (up 16%) and service (up 14%). Activity was higher across all markets and in most regions as follows: construction markets +16%; mining +17%; power systems +8%; material handling +9%; and agriculture +12%.

Gross profit margin increased 180 bps to 27.1% from 25.3% in 2021. Margins increased across all revenue streams coupled with a favourable sales mix (higher product support and rental revenue to total revenue). Equipment margins were up 40 bps reflecting strong demand, sales mix and tight supply. Rental margins were up 60 bps on higher fleet utilization, as well as fleet optimization over the last year. Product support margins increased 20 bps on continued focus on efficiency as well as higher activity levels. Sales mix increased margin by 60 bps.

Selling and administrative expenses increased $12.9 million or 3% in 2022. In 2022, a property disposition reduced expenses by $17.7 million (2021 – property related gains of $3.8 million). Expenses in 2021 included a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these two items, expenses increased $31.8 million or 7% year over year, reflecting the higher activity levels. Compensation costs increased on higher headcount, annual salary increases and higher profit sharing on the increased earnings, partially offset by the mark-to-market adjustment on DSUs. Certain expenses such as travel and training have increased compared to the prior year which experienced tighter restrictions. Allowance for doubtful accounts increased $5.6 million on a larger balance of aged receivables. As a percentage of revenue, selling and administrative expenses were lower at 11.7% in 2022 versus 12.5% last year, reflecting the higher revenue and the two noted items in the current period.

Operating income increased $146.7 million or 33% and was 260 bps higher as a percentage of revenue (15.4% versus 12.8% last year) reflecting the higher revenue and gross margins, gain on property disposal, and lower relative expense levels.

## Capital expenditures

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| **Rental equipment** | | | | |
| Capital expenditures | **$ 214,693** | $ 117,759 | $ 96,934 | 82 % |
| Proceeds on disposals | **34,206** | 50,840 | (16,634) | (33)% |
| **Net expenditure** | **$ 180,487** | $ 66,919 | $ 113,568 | nm |
| | | | | |
| **Property, plant and equipment** | | | | |
| Capital expenditures | **$ 61,869** | $ 50,201 | $ 11,668 | 23 % |

Rental fleet additions increased in 2022, in both the heavy and light equipment rental fleets across Eastern Canada after two years of deliberate reduced investment, reflective of market conditions. Fleet dispositions, as measured by proceeds, have been curtailed in light of tight equipment supply.

Property, plant and equipment additions increased in 2022, as business activity improved. Capital expenditures in 2022 included:

- $19.6 million for land and buildings associated with facilities and new rental locations;
- $32.0 million for new and replacement service and delivery vehicles;
- $2.7 million for information technology infrastructure improvements and developments; and
- $7.6 million for other machinery and equipment for general operations.

## Bookings and Backlog

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Bookings – years ended December 31 | **$ 1,752.2** | $ 2,478.8 | $ (726.6) | (29)% |
| Backlog – as at December 31 | **$ 1,087.3** | $ 1,130.4 | $ (43.1) | (4)% |

Bookings and backlog can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries with customers, which are in turn reflective of economic factors and general activity levels, and the availability of equipment from either inventory or suppliers.

New bookings decreased in 2022 by $726.6 million or 29%, reflecting the tough comparable, as several large mining and construction orders were received in the prior year, which was also elevated by higher orders following the downturn in 2020 during the height of the pandemic. Bookings in the following sectors were lower: construction (-34%), power systems (-11%), and mining (-41%), partially offset by higher orders in material handling (+28%) and agriculture (+10%). Bookings have increased 6% on a cumulative average annual growth rate since 2019, the pre-pandemic comparator.

Backlog of $1.1 billion was down by $43.1 million or 4%, reflecting slightly improved equipment delivery from manufacturers later in the year. At December 31, 2022, the breakdown of backlog by market was as follows: construction 39%; mining 30%; power systems 22%; agriculture 5%; and material handling 4%. Approximately 90% of the backlog is expected to be delivered in 2023, however this is subject to timing of vendor supply and customer delivery schedules.

## CIMCO

| *($ thousands)* | | **2022** | | 2021 | | $ change | % change |
|---|---|---|---|---|---|---|---|
| Package sales | **$** | **173,273** | $ | 208,854 | $ | (35,581) | (17)% |
| Product support | | **177,710** | | 152,399 | | 25,311 | 17 % |
| **Total revenue** | **$** | **350,983** | $ | 361,253 | $ | (10,270) | (3)% |
| **Operating income** | **$** | **26,492** | $ | 24,987 | $ | 1,505 | 6 % |
| **KEY RATIOS:** | | | | | | | |
| Product support revenue as a % of total revenue | | **50.6 %** | | 42.2 % | | | |
| Operating income margin | | **7.5 %** | | 6.9 % | | | |
| Group total revenue as a % of consolidated revenue | | **8.3 %** | | 9.3 % | | | |
| Return on capital employed | | **41.9 %** | | 61.7 % | | | |

CIMCO had a slow start to the year with delays in construction schedules dampening package sales, and against a tough comparable, which included several large projects in the prior year. Product support activity continued to increase with a larger technician workforce, and improving activity particularly in the recreational market. Operating income increased on higher gross margins and favourable sales mix of total product support revenue to total revenue, partially offset by higher expenses.

Package sales decreased $35.6 million or 17% versus 2021. Industrial market revenue was down 25% against a tough comparable that included several large projects in Canada in the prior year. Recreational market revenue remained relatively flat (up 3%) as an increase in the US (up 27%) was largely offset by a decrease in Canada (down 12%). Package revenue reflects the progress of project construction applying the percentage-of-completion method of accounting. This introduces a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers).

Product support revenue increased $25.3 million or 17% versus 2021 on higher activity levels in both Canada (up 19%) and the US (up 9%). Activity levels increased with the continued easing of pandemic restrictions, and a reopening of recreational centres after prolonged pandemic closure. Increased labour capacity including the increased technician base continues to support activity levels.

Gross profit margin increased 180 basis points versus last year to 23.8%. Package margins were up 120 bps, on improved execution and the nature of projects in process. Product support margins decreased 50 bps on execution and supply chain constraints. A favourable sales mix, with a higher proportion of product support revenue to total revenue, accounted for 110 bps of the increase.

Selling and administrative expenses increased $2.7 million or 5% versus last year. Allowance for doubtful accounts decreased $1.1 million reflecting focused collection activity. Travel and training expenses increased to support activity and staffing levels. Expenditure control measures on discretionary spend remained in effect. Occupancy costs increased during the year as a result of the relocation of the Canadian head office to Burlington along with other related branch changes. As a percentage of revenue, selling and administrative expenses were unchanged at 15.9% in 2022 and 2021.

Operating income increased by $1.5 million or 6% in 2022, reflecting improved gross margins, in part due to sales mix, partially offset by lower package revenue. Operating income as percentage of revenue increased 60 bps to 7.5% compared to last year.

### Capital expenditures

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| **Property, plant and equipment** | **$ 9,206** | $ 21,729 | $ (12,523) | (58)% |

Capital expenditures in 2022 included final renovations of property for the new head office facility in Canada ($3.4 million). Other expenditures included new and replacement service vehicles ($3.8 million), other machinery and equipment for general operations ($0.8 million) and information technology enhancements and upgrades ($1.2 million). Investment in 2021 included $16.8 million for acquisition of the head office facility.

### Bookings and Backlog

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Bookings – years ended December 31 | **$ 206.9** | $ 188.4 | $ 18.5 | 10 % |
| Backlog – as at December 31 | **$ 198.4** | $ 161.1 | $ 37.3 | 23 % |

Bookings increased $18.5 million or 10% to $206.9 million in 2022. Industrial bookings were up 10% with increases in both Canada (+9%) and the US (+18%), as overall activity continued to improve, following a slower start to the year, and with the ongoing easing of pandemic restrictions and stronger capital investment levels in some markets. Recreational bookings were up 9%, mainly on stronger bookings in the US, up 37%, which offset weaker bookings in Canada, down 9%, where investment is focused on return to operations after a period of prolonged closures.

Backlog of $198.4 million increased $37.3 million or 23% compared to 2021. Both the recreational and industrial backlog increased, in part reflecting the deferral or delay in construction schedules resulting from supply chain constraints. Recreational backlog increased in both Canada (up 30%) and the US (up 58%). Industrial backlog also increased in both Canada (up 5%) and the US (up 39%). Substantially all of the backlog is expected to be realized as revenue in 2023, however this is subject to construction schedules and potential changes stemming from supply chain constraints.

## CONSOLIDATED FINANCIAL CONDITION

The Company's strong financial position continued. At December 31, 2022, the ratio of net debt to total capitalization decreased to -14% (cash and cash equivalents exceeded debt) compared to -16% at December 31, 2021.

## Non-cash Working Capital

The Company's investment in non-cash working capital was $584.7 million at December 31, 2022. The major components, along with the changes from prior year, are identified in the following table.

| | | | Change | |
|---|---|---|---|---|
| *($ thousands)* | **2022** | 2021 | **$** | **%** |
| Accounts receivable | **$ 579,682** | $ 451,944 | $ 127,738 | 28 % |
| Inventories | **1,025,759** | 720,421 | 305,338 | 42 % |
| Other current assets | **17,444** | 13,994 | 3,450 | 25 % |
| Accounts payable and accrued liabilities | **(658,980)** | (544,512) | (114,468) | 21 % |
| Provisions | **(27,653)** | (25,404) | (2,249) | 9 % |
| Income tax payable | **(28,653)** | (15,239) | (13,414) | 88 % |
| Derivative financial instruments | **18,530** | 5,252 | 13,278 | nm |
| Dividends payable | **(32,104)** | (28,851) | (3,253) | 11 % |
| Deferred revenue and contract liabilities | **(309,349)** | (199,696) | (109,653) | 55 % |
| **Total non-cash working capital** | **$ 584,676** | $ 377,909 | $ 206,767 | 55 % |

Accounts receivable increased 28% from December 31, 2021, largely reflecting the higher trailing revenue (Q4 2022 was 20% higher than Q4 2021 revenue) and slightly slower collection activity. Days sales outstanding ("DSOs") increased 6 days to 42 days, with an increase in both the Equipment Group (up 7 days) and CIMCO (up 5 days). Collection activity and credit metrics are closely monitored, with added focus considering the current economic environment.

Inventories at December 31, 2022 were 42% higher compared to December 31, 2021, with increases in both Groups:

- Equipment Group inventories were up $290.6 million or 42% higher with increases in equipment (up $162.0 million or 40%), service work-in-progress (up $18.9 million or 27%), and parts inventories (up $109.8 million or 49%). Inventory levels are typically lowest at the end of a fiscal year due to seasonality, with inventories building during the year in advance of the typically busy selling period, however pandemic and economic factors have influenced customer buying patterns and overridden normal seasonality. Additionally, supply chain constraints have impacted the normal sales timeline as delays of equipment, parts and components delay final delivery to end customers. Increased orders in light of demand signals, as well as recent input price increases also serve to increase inventories.
- CIMCO inventories were up $14.7 million or 70% predominantly driven by higher work-in-process levels (up $12.8 million or 75%), along with parts inventories (up $1.9 million or 48%) reflecting higher service and project activity levels as well as delays in construction schedules.

Other current assets are comprised mainly of prepaid expenses, and vary over time based on timing of receipt of invoice and payment.

Accounts payable and accrued liabilities at December 31, 2022, were 21% higher than at December 31, 2021, reflecting higher activity levels and higher profit sharing accruals on higher earnings, partially offset by the lower DSU liability (lower number of units and lower share price).

Income tax 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 gain of $18.5 million as at December 31, 2022. This is not expected to affect net earnings as the unrealized gains will offset future losses on the related hedged items, either current accounts payable or future transactions.

Dividends payable increased year over year reflecting the increased dividend rate. Effective with the April 4, 2022 payment, the quarterly dividend rate was increased 11.4% from $0.35 per share to $0.39 per share.

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

- In the Equipment Group, these balances arise due to: progress billings from the sale of power and energy systems and long-term product support maintenance contracts; sales of equipment with residual value guarantees; and, customer deposits for equipment to be delivered in the future. These balances increased $98.2 million or 55.3%, in 2022, generally on timing of progress billings under long-term contracts, as well as customer deposits for future equipment deliveries.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages and vary depending on timing of billings compared to customer's construction schedules. These balances increased $11.4 million or 51.7%, reflecting the timing of billings compared to revenue recognized under the percentage-of-completion method.

**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 fair value less cost to sell valuation method. This assessment affirmed goodwill and intangibles values as at December 31, 2022, as outlined in note 8 of the notes to the annual consolidated financial statements.

**Employee Share Ownership**

The Company employs a variety of share-based compensation plans to align employees' interests with corporate objectives. Certain programs are offered to to all employees, while other programs are offered selectively to executives, senior managers and directors.

Executive Stock Option Plan

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. As at December 31, 2022, 2.0 million options to purchase common shares were outstanding, of which 0.9 million were exercisable. Directors do not participate in the option program.

Long-Term Incentive Program

On April 28, 2022, shareholders approved the adoption of certain changes to the Company's LTIP. There was no change to the Company's existing share option and cash-settled DSU plans, both of which remain in place. Under the LTIP, the Company introduced performance share units ("PSUs"), restricted share units ("RSUs"), executive deferred share units ("EDSUs") and equity-settled DSUs. The Company has the ability to grant options and awards under all of these respective plans. The Company intends that total incentive award grants will be based on historical share option grant levels at approximately a 50/50 split between share options and grants under the LTIP.

Details of each grant will be determined at the date of grant, including performance requirements, vesting and settlement method. PSUs and RSUs will settle upon vesting, while EDSUs and equity-settled DSUs will settle upon cessation of service to the Company. PSU vesting will be based upon the achievement of performance objectives established at the time of grant by the Board of Directors. The maximum number of common shares reserved for issuance, in aggregate, under the LTIP, will be 750,000, representing 0.9% of the issued and outstanding shares at February 26, 2022.

During the year, 7,134 RSUs and 28,024 PSUs were granted under the LTIP. Expense of $557 thousand is included in selling and administrative expenses with a credit to contributed surplus.

Employee Share Purchase Plan

Employees may purchase shares by way of payroll deductions. The Company matches employee 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 vest five years from date of contribution. Company contributions amounting to $3.8 million in 2022 (2021 – $3.3 million) were charged to selling and administrative expense when paid. Approximately 49% of employees participate in the plan (2021 – 41%), which is administered by an independent third party.

Deferred Share Units ("DSU")

A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs may be redeemed only on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. Executives and senior managers may elect, on an annual basis, to receive all or a portion of their performance incentive bonus in DSUs. Non-employee directors received 55% of their annual compensation in the form of DSUs and may also elect to receive some or all of their remainder compensation in DSUs. The Company records the cost of the DSU plan as compensation expense in selling and administrative expenses. Units credited prior to September 2022 will be cash-settled while units elected or granted after that date will be share-settled. As at December 31, 2022, 190,128 cash-settled DSUs were outstanding with a total value of $18.5 million (2021 – 202,969 units at a value of $23.1 million). The liability for cash-settled DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position. As at December 31, 2022, 7,534 share-settled DSUs were outstanding. Share-settled DSUs are credited to contributed surplus at time of grant.

## Employee Future Benefits

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

- Defined contribution plans, including 401(k) matched savings plans for employees in the US, covering the largest segment of employees, including all new hires;
- Defined benefit pension plans; and,
- Other post-employment benefit plans for certain grandfathered employees.

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. As at December 31, 2022, approximately 4,425 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Pension Plans

The Company sponsors defined benefit plans, which provide pension benefits for approximately 1,300 active 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 improved by $73.3 million during 2022 (a reduction in post employment obligations). Actuarial gains, largely related to a higher discount rate reduced the defined benefit obligation by $111.7 million. Declines in capital markets resulted in a negative return on plan assets, reducing the funded position by $42.8 million, net of the interest expense on the obligation.

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. At December 31, 2022, the Company has posted letters of credit in the amount of $13.6 million to secure the obligations under this plan.

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.

Post-employment Benefit Plans

The Company sponsors defined benefit plans, which 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 as they come due. The plan is closed to new entrants.

See notes 2, 3 and 20 to the audited consolidated financial statements for further information

## 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 financial position or results of operations.

## Normal Course Issuer Bid ("NCIB")

The Company's NCIB program was renewed on September 19, 2022. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 18, 2023, representing 10% of common shares in the public float, as estimated at the time of renewal. All shares purchased under the bid will be cancelled.

The Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker to enable the purchase of common shares under the NCIB, during regular trading blackout periods. The volume of the purchases is determined by the broker based on share price and maximum volume parameters established by the Company under the ASPP prior to the commencement of each blackout period. As at December 31, 2022 and 2021, there was no obligation for the repurchase of shares under the ASPP.

The Company purchased and cancelled 473,100 common shares for $48.5 million (average cost of $102.52 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2022.

The Company purchased and cancelled 470,600 common shares for $50.0 million (average cost of $106.25 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2021.

### Shareholder Rights Plan ("SRP")

The SRP is a 'new generation' shareholder rights plan, designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. The SRP was renewed at the annual meeting of shareholders in 2021 and expires at the end of the annual meeting of shareholders in 2024.

### Outstanding Share Data

As at the date of this MD&A, the Company had 82,318,159 common shares and 1,967,892 share options outstanding.

### Dividends

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

In February 2022, the quarterly dividend was increased by 11.4% or 4 cents per share, to 39 cents per common share, effective with the April payment. In 2022, the Company declared dividends of $1.56 per common share (2021 – $1.36 per common share).

Considering the Company's strong financial position and positive long-term outlook, the Board of Directors increased the quarterly dividend by 10.3% to 43 cents per share effective with the dividend payable on April 4, 2023, to shareholders on record on March 9, 2023. Toromont has paid dividends every year since 1968 and this is the 34$^{rd}$ consecutive year of dividend increases.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of Liquidity

Toromont's liquidity requirements can be met through a variety of sources, including cash on hand, 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 credit facilities.

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

The Company has a $500.0 million committed revolving credit facility, maturing in November 2026, with a syndicate of financial institutions. Debt under this facility is unsecured and ranks pari passu with debt outstanding under Toromont’s existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

No amounts were drawn on this revolving credit facility as at December 31, 2022 or 2021. Standby letters of credit issued utilized $28.9 million of the facility as at December 31, 2022 (2021 – $28.8 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, 2022 and 2021.

The Company expects that continued cash flows from operations in 2023, together with cash and cash equivalents on hand (2022 – $927.8 million) and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The Company's credit ratings will also continue to provide access to capital markets to facilitate future debt issuance. The Company also has a certain degree of flexibility in its operating and investing plans to mitigate fluctuations.

## Principal Components of Cash Flow

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| **Cash and cash equivalents, beginning of year** | **$ 916,830** | $ 591,128 |
| Cash, provided by (used in): | | |
| **Operating activities** | | |
| Operations | **601,927** | 480,745 |
| Change in non-cash working capital and other | **(213,760)** | 129,322 |
| Net rental fleet additions | **(171,214)** | (67,343) |
| | **216,953** | 542,724 |
| **Investing activities** | **(44,333)** | (68,869) |
| **Financing activities** | **(162,159)** | (148,143) |
| Effect of foreign exchange on cash and cash equivalents balances | **489** | (10) |
| **Increase in cash and cash equivalents during the year** | **10,950** | 325,702 |
| **Cash and cash equivalents, end of year** | **$ 927,780** | $ 916,830 |

Cash Flows from Operating Activities

Operating activities provided cash in both 2022 and 2021.

Cash generated from operations increased 25% from 2021 primarily on the higher net earnings.

Non-cash working capital and other used cash in 2022, as higher inventory and account receivables, were only partially offset by higher account payables and customer deposits. The remaining working capital accounts had a more modest overall impact, with lower income tax installments and higher derivative contracts. Inventory levels have increased on market activity, customer demand signals and supply chain constraints, while higher account receivables reflect the higher sales volume and slower collections experienced.

Non-cash working capital provided cash in 2021, largely on a reduction of inventory levels due to supply chain constraint limitations, lower account receivables on lower trailing sales coupled with good collection activity and higher deferred revenue including customer deposits.

Net rental fleet additions (purchases less proceeds of dispositions) increased by $103.9 million in 2022 compared to 2021. The Company increased investment in both the heavy and light equipment rental fleets across Eastern Canada after two years of deliberate reduced investment, reflective of market and supply conditions.

The components and changes in non-cash working capital are discussed in more detail in this MD&A under the heading "Consolidated Financial Condition".

Cash Flows from Investing Activities

Investing activities used $44.3 million in 2022 compared to $68.9 million in 2021.

Toromont invested $69.3 million in 2022 in property, plant and equipment (2021 – $71.2 million), as follows:

- $22.8 million additions for land, buildings and construction in process for new and upgraded facilities across the business (2021 – $37.4 million);
- $34.8 million for normal replacement of service and delivery vehicles (2021 – $24.7 million);
- $3.6 million for upgrades and enhancements to information technology infrastructure and office furniture (2021 – $4.0 million); and
- $8.1 million for machinery and equipment replacements and upgrades (2021 – $5.1 million).

In 2022, the Company sold a property for proceeds of $24.0 million resulting in a capital gain of $17.7 million or $15.4 million after-tax. Total disposition proceeds for 2022 were $25.2 million. Dispositions in 2021 generated $2.5 million in proceeds.

Cash Flows from Financing Activities

For the year ended December 31, 2022, financing activities used $162.2 million (2021 – used $148.1 million) in cash, major uses and sources of cash during the year included:

- Dividends paid to common shareholders of $125.2 million or $1.52 per share (2021 – $109.1 million or $1.32 per share);
- Cash received on exercise of share options of $20.6 million (2021 – $21.8 million);
- Purchase of shares under the NCIB program used $48.5 million (2021 – $50.0 million); and
- Lease liability payments of $9.1 million (2021 – $9.9 million).

## OUTLOOK

The health and safety of our employees and customers continues to be our top priority. We continue to monitor closely the developments and potential impacts related to the pandemic and follow closely public health authority recommendations.

We are also closely monitoring global economic factors, in particular, inflationary pressures from price and wage increases, including increases from our key suppliers. We strive to continuously improve our operations efficiency and learn from our experience over the last several years by leveraging the use of technology and innovative ways to engage with customers, employees and other partners with reduced discretionary spending.

The challenges in the global supply chain resulted in delivery date delays for equipment, components and parts. There has been improvement in specific model deliveries. and this is expected to continue. We continue to actively manage supply chain constraints by taking appropriate mitigation steps in collaboration with our key suppliers and our customers, such as actively sourcing used equipment, optimizing preparation time on equipment, and offering rebuilds and rental options. We expect a tight supply environment on certain models to persist for the near to mid term.

The Equipment Group's parts and service business provides stability supported by a large and diversified installed base of equipment. The long-term outlook for infrastructure projects and other construction activity is positive across most territories although tied somewhat to the general economic climate which is increasingly uncertain. Mining customers and our operations that support them continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion will remain dependent on global economic and financial conditions.

Investment continues in broadening product lines and service offerings, expanding and enhancing the branch network, optimizing rental fleets, and using technologies to create efficiency and effectiveness across the organization. Integration and alignment of operating processes and systems, best practices and culture, continues across our territory. Product support technologies, such as remote diagnostics, telematics and digital information models support and expand our strategic platform.

CIMCO's installed base supports current and future operations and 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 provides growth opportunities. Current backlog is supportive of future activity. Inflationary costs and competitive market conditions continue to challenge package revenue growth opportunities.

The diversity of the markets served, expanding product offering and services, strong financial position and disciplined operating culture position the Company well for continued positive results 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 and cash equivalents on hand, cash generated from operations and existing long-term financing facilities.

### Payments due by year

| *($ thousands)* | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt | | | | | | | |
| Principal | $ — | $ — | $ 150,000 | $ — | $ 500,000 | $ — | **$ 650,000** |
| Interest | 24,765 | 24,765 | 23,374 | 19,200 | 16,000 | — | **108,104** |
| Accounts payable and accrued liabilities | 691,084 | — | — | — | — | — | **691,084** |
| Lease liabilities | 7,721 | 5,949 | 3,161 | 2,192 | 1,374 | 3,484 | **23,881** |
| | $ 723,570 | $ 30,714 | $ 176,535 | $ 21,392 | $ 517,374 | $ 3,484 | **$1,473,069** |

The above table does not include obligations related to defined benefit pension plans. Regular contributions are made to registered defined benefit pension plans in order to fund the pension obligations as required. Funding levels are monitored regularly and reset with new actuarial funding valuations at least every three years. Contributions in 2022 totaled $10.8 million, including certain defined benefit pension payments, which are made directly by the Company. Based on the most recent valuations completed, funding contributions and pension payments are expected to be approximately $12.3 million in 2023.

## 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 | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS** | | | | | |
| Revenue growth | **8.9 %** | 11.7 % | (5.4)% | 5.0 % | 49.1 % |
| Revenue per employee (thousands) | **$ 637** | $ 625 | $ 554 | $ 575 | $ 573 |
| **STRENGTHENING PRODUCT SUPPORT** | | | | | |
| Product support revenue growth | **15.5 %** | 5.3 % | (4.4)% | 10.1 % | 60.4 % |
| **INVESTING IN OUR RESOURCES** | | | | | |
| Investment in information technology (millions) | **$ 36.0** | $ 35.2 | $ 37.7 | $ 34.8 | $ 27.4 |
| Return on capital employed [(1)] | **32.3 %** | 26.6 % | 20.4 % | 22.9 % | 21.7 % |
| **STRONG FINANCIAL POSITION** | | | | | |
| Non-cash working capital (millions) [(1)] | **$ 584.7** | $ 377.9 | $ 486.8 | $ 463.7 | $ 309.5 |
| Net debt to total capitalization [(1)] | **(14)%** | (16)% | 3 % | 15 % | 18 % |
| Book value (shareholders' equity) per share | **$ 28.25** | $ 23.69 | $ 20.60 | $ 18.70 | $ 16.35 |
| **BUILD SHAREHOLDER VALUE** | | | | | |
| Basic earnings per share growth | **37.0 %** | 30.0 % | (11.9)% | 13.5 % | 39.4 % |
| Growth in dividends declared per share | **14.7 %** | 9.7 % | 14.8 % | 17.4 % | 21.1 % |
| Return on equity [(1)] | **23.5 %** | 19.6 % | 16.6 % | 21.4 % | 22.3 % |

(1) Defined in the sections title "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 steady growth. Activity and results in 2022 and 2021 have seen a gradual improvement from the height of the pandemic. The Company delivered good operating performance, financial results, cash generation and financial position through a challenging and changing business environment. Results in 2020 reflect the pandemic which resulted in lower economic activity levels in our markets, negatively impacting many of the key performance measures. Through the pandemic, Toromont remained focused on three priorities, namely, safeguarding our employees, servicing our customers' needs and protecting our business for the future.

The addition of the Québec and Maritimes territories in October 2017, provided 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 from 2018 to 2022.

Since 2018, revenue increased at an average annual rate of 13.9%, with product support growing at 17.4% annually. Over this period, growth in revenue has resulted from:

- Optimizing acquired territories operations and go-to-market strategies to increase market share;
- 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 that provide support for infrastructure spending.

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

- The COVID-19 pandemic, declared in March 2020, which resulted in a significant downturn in economic activity and disruption of normal operations. Site restrictions and closures impacted the timing of construction and delivery schedules, as well as product supply and demand,
- Inability to source equipment and parts from suppliers to meet customer demand or delivery schedules, as a result of specific supplier issues or more recently due to global supply chain disruption caused by the pandemic;
- Economic weakness and uncertainty, both generally and in specific markets or sectors;
- Volatility in commodity prices;
- Competitive conditions;
- Inflationary pressures and rising interest rates; and
- Inability to hire necessary skilled technicians to service market demand.

Changes in the Canadian/US exchange rate also affect reported revenue as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2018, the average annual exchange rate of the Canadian dollar against the US dollar has varied from $0.75 to $0.80, however, there have been periods of higher volatility, with the dollar ranging from a low of $0.69 to a high of $0.83.

Toromont continues to invest in its resources, including investment in information technology, in part to increase productivity levels, as well as to maintain our systems to be relevant and secure in the ever-changing technological environment in which we operate.

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization, was -14% at the end of 2022 compared to -16% at the end of 2021. Since 2018, strong cash generation has allowed the Company to invest in the business while reducing debt levels.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 34 years. The Company declared dividends of $1.56 per common share in 2022, or $0.39 per quarter (2021 – $1.36 per common share (increase of 14.7%).

## CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

| *($ thousands, except per share amounts)* | Three months ended December 31 2022 | 2021 | $ change | % change |
|---|---|---|---|---|
| **REVENUE** | **$ 1,150,097** | $ 956,035 | $ 194,062 | 20 % |
| Cost of goods sold | **826,025** | 686,785 | 139,240 | 20 % |
| Gross profit | **324,072** | 269,250 | 54,822 | 20 % |
| Selling and administrative expenses | **111,590** | 120,480 | (8,890) | (7)% |
| **OPERATING INCOME** | **212,482** | 148,770 | 63,712 | 43 % |
| Interest expense | **6,786** | 6,889 | (103) | (1)% |
| Interest and investment income | **(8,799)** | (2,827) | (5,972) | nm |
| Income before income taxes | **214,495** | 144,708 | 69,787 | 48 % |
| Income taxes | **54,633** | 39,118 | 15,515 | 40 % |
| **NET EARNINGS** | **$ 159,862** | $ 105,590 | $ 54,272 | 51 % |
| **BASIC EARNINGS PER SHARE** | **$ 1.94** | $ 1.28 | $ 0.66 | 52 % |
| **KEY RATIOS:** | | | | |
| Gross profit margin | **28.2 %** | 28.2 % | | |
| Selling and administrative expenses as a % of revenue | **9.7 %** | 12.6 % | | |
| Operating income margin | **18.5 %** | 15.6 % | | |
| Income taxes as a % of income before income taxes | **25.5 %** | 27.0 % | | |

The Company ended the year with solid fourth quarter results on strong execution from our teams. Net earnings in the fourth quarter of 2022 included a $15.4 million gain related to a property disposition. Higher revenue and good expense control drove positive results in the Equipment Group. Results at CIMCO were unchanged from the similar period last year as higher revenue was largely offset by higher expenses.

Revenue increased 20% to $1.2 billion, with the Equipment Group up 22% and CIMCO up 7%. Rental and product support revenue continued to increase on good market activity. Equipment sales delivery improved slightly as equipment and parts were received from suppliers, however supply constraints remain in effect. Package sales increased in the fourth quarter as project schedules progressed.

Gross profit margin was unchanged at 28.2% in the quarter, with higher gross margins in the Equipment Group being offset by lower gross margins at CIMCO. Overall sales mix was unfavourable down 30 bps with lower product support and rental revenue to total.

Selling and administrative expenses decreased $8.9 million or 7% in the fourth quarter compared to the prior year. In 2022, a property disposition reduced expenses by $17.7 million. Expenses in 2021 include a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these items, expenses were up $13.9 million or 12% in the quarter. Compensation costs were higher reflecting increased staffing levels and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased in light of activity levels and inflationary pressures. Allowance for doubtful accounts increased $0.5 million in the quarter, reflecting a larger balance of aged receivables. Selling and administrative expenses were 290 basis points lower as a percentage of revenue (9.7% versus 12.6% last year) largely due to the impact of the two aforementioned items.

Operating income increased $63.7 million or 43% reflecting the higher revenue and property disposition gain. Operating income margin increased 290 bps to 18.5%.

Interest expense decreased $0.1 million in the quarter due to lower financing costs related to credit facilities.

Interest income increased $6.0 million resulting from higher interest earned on average cash and cash equivalents balances, reflective of market interest rates and on higher interest from conversions of RPOs.

The effective income tax rate for the fourth quarter was 25.5% compared to 27.0% in 2021, mainly as a result of the lower capital gains rate on the property disposition.

Net earnings in the quarter increased $54.3 million or 51% to $159.9 million. Basic EPS increased $0.66 or 52% to $1.94 versus $1.28 in 2021.

## BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

### Equipment Group

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except as noted)* | **2022** | 2021 | $ change | % change |
| Equipment sales and rentals | | | | |
| New | **$ 413,731** | $ 313,232 | $ 100,499 | 32 % |
| Used | **85,497** | 78,878 | 6,619 | 8 % |
| Rentals | **124,538** | 112,742 | 11,796 | 10 % |
| Total equipment sales and rentals | **623,766** | 504,852 | 118,914 | 24 % |
| Product support | **428,164** | 359,403 | 68,761 | 19 % |
| Power generation | **2,489** | 2,715 | (226) | (8)% |
| **Total revenue** | **$ 1,054,419** | $ 866,970 | $ 187,449 | 22 % |
| **Operating income** | **$ 198,563** | $ 135,302 | $ 63,261 | 47 % |
| | | | | |
| **Bookings ($ millions)** | **$ 405.5** | $ 618.9 | $ (213.4) | (34)% |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **40.6 %** | 41.5 % | | |
| Operating income margin | **18.8 %** | 15.6 % | | |
| Group total revenue as a % of consolidated revenue | **91.7 %** | 90.7 % | | |

The Equipment Group delivered solid results in the quarter, as equipment deliveries from suppliers allowed for the delivery against backlog orders. Rental and product support activity also increased. Higher revenue coupled with lower expense ratios drove improvements in operating income.

Total equipment sales (new and used) increased $107.1 million or 27%. New equipment sales increased 32% on good deliveries in the mining, power systems, material handling and agriculture markets, while on-going inventory supply constraints continued to dampen deliveries in the construction market. Used equipment sales were up 8%, dampened slightly by lower rental fleet dispositions. Overall, revenue change by market segment was as follows for the quarter: mining +275%, power systems +27%, material handling +38%, agricultural +24%, and construction -2%.

Rental revenue increased $11.8 million or 10%. Most markets and segments were higher reflecting improved utilization on higher market activity. The following markets resulted in revenue growth in the quarter: Light equipment rentals +13%, heavy rental in the construction market +41%, and material handling +6%. Power rentals were down 11% while rental revenue from RPO equipment was down 31%, both against a tough comparable last year.

Product support revenue increased $68.8 million or 19% on higher parts and service both up 19%. Activity levels were good across most market segments and regions. Activity was higher across all markets and in most regions as follows: construction markets +14%; mining +24%; power systems +28%; material handling +11%; and agriculture +44%.

Gross margins increased 10 bps in the quarter versus last year, across all revenue streams, largely offset by sales mix. Equipment margins were up 30 bps, mainly reflecting mix of equipment product lines sold. Product support margins increased 20 bps, reflecting improved efficiency on higher volumes. Rental gross margins were up 10 bps, reflecting improved activity and fleet utilization. Sales mix was unfavourable (down 50 bps) with a higher proportion of equipment sales to total revenue.

Selling and administrative expenses decreased $9.9 million or 9%. During the quarter a property was disposed leading to a gain of $17.7 million. Expenses in 2021 included a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these two items, expenses increased $16.6 million or 15% in the quarter, reflecting the higher activity levels. Compensation costs were higher reflecting increased staffing levels and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased in light of activity levels and inflationary pressures. Allowance for doubtful accounts increased $2.5 million in the quarter, reflecting a larger balance of aged receivables.

Operating income increased $63.3 million or 47% in the quarter. Operating income was 18.8% as a percentage of revenue, an increase of 320 bps versus the comparable period last year, mainly reflecting the lower related expenses inclusive of the property gain.

Bookings decreased $213.4 million or 34% to $405.5 million reflecting a strong prior year comparable that included several large mining and construction orders. Bookings in the prior year also reflected a general customer order preference given the supply constraints and economic environment expected at that time. Bookings for the fourth quarter were down in the construction (-60%) and power systems (-25%) sectors, partially offset by higher orders in mining (+45%), agriculture (+17%) and material handling (+6%).

## CIMCO

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except as noted)* | **2022** | 2021 | $ change | % change |
| Package sales | **$ 48,889** | $ 48,103 | $ 786 | 2 % |
| Product support | **46,789** | 40,962 | 5,827 | 14 % |
| **Total revenue** | **$ 95,678** | $ 89,065 | $ 6,613 | 7 % |
| **Operating income** | **$ 13,919** | $ 13,468 | $ 451 | 3 % |
| | | | | |
| **Bookings ($ millions)** | **$ 45.5** | $ 55.9 | $ (10.4) | (19)% |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **48.9 %** | 46.0 % | | |
| Operating income margin | **14.5 %** | 15.1 % | | |
| Group total revenue as a % of consolidated revenue | **8.3 %** | 9.3 % | | |

Revenue in the fourth quarter increased on the continued stronger product support activity levels. Package sales picked up slightly as project schedules progressed with good execution. Operating income increased due to the higher revenue, which was dampened by weaker gross margins and higher expenses.

Package revenue increased $0.8 million or 2% in the quarter compared to last year, on the progression of construction schedules. In Canada revenue was down 10%, in both the industrial (-9%) and recreational markets (-14%). Equipment supply issues and customer delays have deferred some projects to 2023. In the US, package sales were up 53% on strong market activity, in both the recreational (+45%) and industrial markets (+67%).

Product support revenue increased $5.8 million or 14% from last year in both Canada (+15%) and the US (+12%). Activity levels continued to improve with the easing of pandemic restrictions, and a reopening of recreational centres resuming winter activities after prolonged pandemic closure. The increased technician base continues to support activity levels.

Gross margins decreased 70 bps in the quarter, on inflationary factors and supply chain constraints. Product support margins were 50 bps lower while package margins were 40 bps lower, slightly offset by a favourable sales mix of a higher proportion of product support revenue to total revenue (up 20 bps).

Selling and administrative expenses increased $1.0 million or 7%. Allowance for doubtful accounts decreased $2.0 million from the similar period last year reflecting focused efforts on collections. All other expenses, including compensation, travel and training, on higher staffing levels and normal annual salary increases. Expenses in the fourth quarter of 2021 were lower reflecting accrual adjustments following the implementation of the new payroll and HRIS system last year, not repeated in the current year.

Operating income increased $0.5 million in the quarter versus a year ago, as higher revenue was dampened by lower gross margins and higher selling and administrative expenses. As a percentage of revenue, operating income decreased to 14.5% in 2022, from 15.1% in 2021.

Bookings decreased $10.4 million or 19% to $45.5 million on lower orders in both Canada and the US. Timing of decisions by customers and receipt of orders can vary from period to period. Bookings were down 12% in Canada and 31% in the US, however were up in both markets on a full year basis.

## QUARTERLY RESULTS

The following table summarizes 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 2022 annual audited consolidated financial statements.

| ($ thousands, except per share amounts) | Q4 2022 | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| Equipment Group | **$1,054,419** | $1,045,493 | $ 993,214 | $ 786,627 | $ 866,970 | $ 914,386 | $1,016,545 | $ 727,383 |
| CIMCO | **95,678** | 94,106 | 87,683 | 73,516 | 89,065 | 82,812 | 110,521 | 78,855 |
| Total revenue | **$1,150,097** | $1,139,599 | $1,080,897 | $ 860,143 | $ 956,035 | $ 997,198 | $1,127,066 | $ 806,238 |
| **NET EARNINGS** | **$ 159,862** | $ 123,123 | $ 111,681 | $ 59,532 | $ 105,590 | $ 93,764 | $ 85,400 | $ 47,956 |
| **PER SHARE INFORMATION:** | | | | | | | | |
| Basic earnings per share | **$ 1.94** | $ 1.50 | $ 1.35 | $ 0.72 | $ 1.28 | $ 1.13 | $ 1.03 | $ 0.58 |
| Diluted earnings per share | **$ 1.93** | $ 1.49 | $ 1.34 | $ 0.72 | $ 1.27 | $ 1.12 | $ 1.02 | $ 0.58 |
| Dividends paid per share | **$ 0.39** | $ 0.39 | $ 0.39 | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.31 | $ 0.31 |
| Weighted average common shares outstanding – basic (in thousands) | **82,279** | 82,183 | 82,433 | 82,467 | 82,401 | 82,705 | 82,587 | 82,499 |

Interim period revenue and earnings historically reflect variability from quarter to quarter due to seasonality. The pandemic and resulting impact on the economy, including global supply chains, has affected seasonal trends in recent periods shown and may result in continued variations to historically experienced trends.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenue is 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. This trend can also be impacted during periods of equipment supply constraints from suppliers.

CIMCO has also had a distinct seasonal trend in results historically, as the timing of construction activity impacts revenue recognition under percentage-of-completion accounting. Revenue is typically lower during the first quarter as winter weather slows down construction schedules. Revenue increases in subsequent quarters as construction schedules ramp up. This trend can be impacted by governmental funding initiatives, supply constraints and the customer's timing of significant industrial projects. Sequential comparisons are also impacted by CIMCO's relatively high fixed cost structure.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarter. This trend can be impacted by equipment and parts availability. These seasonal sales trends also typically lead to accounts receivable to be at their highest level at year-end.

In 2020 and 2021, these patterns were disrupted by the governmental and market response and reaction to COVID-19. In 2021, demand for equipment was stronger through the first nine months of the year, reflecting both delayed purchasing from 2020, as well as stronger order flow in light of global supply chain disruptions, thus impacting revenue in the fourth quarter. In 2022, patterns have been disrupted by supply chain pressures impacting the timing of receipt and delivery of products and services to final customers.

Net earnings have generally followed the trend in revenue. Cost reduction and containment strategies continue to be a focus, however, have a delayed effect on net earnings.

Market and economic factors including the COVID-19 pandemic, local and global economic factors, and supply chain issues have affected and may continue to impact these trends. There can be no certainty that this historical seasonal pattern will recur in the future.

## SELECTED ANNUAL INFORMATION

| *($ thousands, except per share amounts)* | | **2022** | | 2021 | | 2020 |
|---|---|---|---|---|---|---|
| Revenue | **$** | **4,230,736** | $ | 3,886,537 | $ | 3,478,897 |
| Net earnings | **$** | **454,198** | $ | 332,710 | $ | 254,915 |
| Earnings per share ("EPS") | | | | | | |
| Basic | **$** | **5.52** | $ | 4.03 | $ | 3.10 |
| Diluted | **$** | **5.47** | $ | 4.00 | $ | 3.09 |
| Dividends declared per share | **$** | **1.56** | $ | 1.36 | $ | 1.24 |
| Total assets | **$** | **4,182,125** | $ | 3,583,796 | $ | 3,346,792 |
| Total long-term debt | **$** | **647,060** | $ | 646,337 | $ | 646,299 |
| Weighted average common shares outstanding - basic (in millions) | | **82.3** | | 82.5 | | 82.2 |

Revenue increased 9% in 2022 versus the prior year. Equipment Group revenue increased 10% on growth in equipment sales, rental revenue and product support activity, reflecting the increase in demand as pandemic restrictions eased compared to 2021. CIMCO revenue decreased 3% versus a tough comparable, which included several large industrial construction projects, while product support activity increased year over year with the higher technician workforce. Supply chain challenges continued to constrain revenue in 2022 in both operating groups.

Revenue increased 12% in 2021 compared to 2020. Equipment Group revenue increased 11% on strong equipment sales, higher rental revenue and product support reflecting the improvement in demand as pandemic restrictions eased compared to 2020. CIMCO revenue increased 15% on execution of several large industrial construction projects while product support activity was unchanged year over year.

Net earnings increased 37% in 2022, mainly reflecting the 9% increase in revenue and improved gross margins in both the Equipment Group and CIMCO, partially offset by higher selling and administrative expenses. Net financing costs were lower on higher interest earned on cash balances year over year.

Net earnings increased 31% in 2021 compared to 2020, largely reflecting the 12% increase in revenue, improved gross margins in the Equipment Group, and a lower relative level of selling and administrative expenses to sales reflecting cost reductions implemented as a result of the pandemic. Financing costs were lower on a lower total value of committed credit facilities year over year.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate increased: in 2020 by 14.8% to $0.31 per share; in 2021 by 12.9% to $0.35; and in 2022 by 11.4% to $0.39 per share. The Company has paid dividends every year since 1968.

Total assets increased 17% in 2022, reflecting higher working capital and other investment levels in support of elevated activity levels. Inventory levels increased due to demand signals, a tight supply environment, as well as recent input price increases. Accounts receivable increased on the higher trailing revenue, and an increase in DSO. Investments in capital assets have been made to support growth initiatives and expand the rental fleets. In 2021, total assets increased 7% compared to 2020, largely on higher cash balances coupled with investments in capital assets to support growth, while focused collections on account receivables reduced DSO and inventory levels were constrained due to strong demand and supply chain delays.

Long-term debt was largely unchanged over the three year period noted. During 2021, the Company renewed and extended the $500 million revolving credit facility to mature in November 2026. A $250 million credit facility taken out in early 2020 at the start of the pandemic, was not renewed.

## RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to risks that may potentially impact its business, results of operations and financial condition. The Company and each operating segment employ risk management strategies with a view to identifying, mitigating, and reporting on these risks.

We maintain a strong risk management culture to protect and enhance shareholder value. The Board reviews all material risks in detail on an annual basis. The Audit Committee and Board also reviews the adequacy of disclosures of key risks on a quarterly and annual 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, inflation, geo-political factors impacting the economy, credit conditions and the availability of capital to finance purchases, and the level of government infrastructure spending. Toromont's customers are typically affected, to varying degrees, by these factors and trends in the general business cycle as well as within their respective markets on both a global and local level. 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 services. Lower commodity prices reduces short term demand as development of new and existing projects, along with production levels, may be curtailed or deferred, leading to less demand for heavy equipment, parts and service.

We rely on Caterpillar to supply financing to our customers. In periods of global credit market disruption, Caterpillar may tighten sources or terms of financing for our customers. In the current economic climate, our customers may have limited access to financing from Caterpillar or alternate sources such as financial institutions. Disruption in Caterpillar's or our customers' access to liquidity, due to the effects of the pandemic or otherwise, could have a material adverse impact on our business, results of operations and financial condition.

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. Product support activity has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle as it is typically subject to less volatility than equipment supply activities. We mitigate the economic risks associated with lower business volumes at a regional level through cost reduction initiatives and through constant evaluation of efficiency and process improvements. No assurances can be given that our mitigating steps will offset the impact of these economic risks.

### Product and Supply

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

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a quality manufacturer, with excellent brand recognition and customer support as well as strong market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving customer needs, including no/low carbon alternatives to support customer energy transition and net zero goals, is unable to maintain the quality of its products, or is unable to provide its products at competitive prices, market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

Toromont is also dependent on Caterpillar for timely supply of equipment and parts to meet our customers' demand for equipment deliveries and product support services. From time to time during periods of intense demand and/or supply chain disruptions, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment in the conduct of business. When supply constraints have occurred in the past, we have been able to lessen the impact by utilizing our rental assets, used equipment, remanufacturing capabilities, and other sources (such as the dealer network) to meet demand, but there can be no assurance of continued success in this area. We continue to monitor these issues as they could adversely affect our business, results of operations, and financial condition.

The general supply chain is also affected by other factors, including global demand and economic factors, more recently resulting in key component and parts shortages and longer order and shipment times for equipment and parts. We continue to monitor these issues as they could adversely affect our business, results of operations, and financial condition.

In addition, new digital and other technologies and advancements to equipment in the market, such as equipment electrification, can become disruptive to our operations, market share and business model. We scan continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In order to face this disruption risk, our digital and technology solutions initiatives are focused on investigating emerging digital technologies to determine how they can impact customers and our core business opportunities, improving the customer experience, and identifying and pursuing new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, our failure to meet these objectives could have an adverse impact on our business.

### 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 including digital performance solutions, 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.

We may encounter increased competition in the future through new entrants in the market and the expansion of suppliers' e-commerce channels for parts and equipment sales, which may also put pressure on prices. We may also encounter competition through the introduction of digitally enabled or digitally enhanced value-added services from third parties, including potential new non-traditional entrants into the market. In addition, pressure on prices may occur as a result of increased data in the marketplace, increasing price transparency and customers' pursuit of value-added services, which would put commoditization pressure on equipment, core physical parts and service sales.

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.

**Health and Safety**

Certain hazards and risks are inherent in the Company's operations, with the potential for serious injury, loss of life and damage to property, which could result in negative financial and/or reputational impacts.

To mitigate these risks, a comprehensive and standardized health and safety program is in place, which includes leadership walkthroughs, training, inspections, supervisory observations, safety standards for critical operations, safe work procedures, job hazard assessments, incident investigations, emergency preparedness, industrial hygiene assessments and other measures focused on maintaining a safe and healthy work environment. To make the application of the different safety processes easier for employees and enable data analysis, some of the key processes are supported by digital tools such as electronic job hazard assessments and vehicle monitoring systems. No assurance can be given that these mitigating steps will eliminate these risks and the potential for negative financial and/or reputational impacts.

Further information on the Company's health and safety practices and programs can be found in the Sustainability Report on our website at www.toromont.com.

**Key Personnel**

Our success in achieving our goals is largely dependent on the abilities and experience of our senior management team and other key personnel. Our future performance will also depend on our ability to attract, develop, motivate and retain highly qualified diverse and inclusive talent in all areas of our business and, as applicable, to successfully integrate employees transitioning to us from acquisitions. Competition for highly skilled management, sales and technical personnel is intense, particularly in certain geographic areas where we operate. 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. To help mitigate this risk, we have implemented a number of human resources initiatives, including training and career development programs, succession plans, employee experience surveys, performance management systems, compensation programs and recruiting strategies.

Although we actively manage our human resources risks, there can be no assurance we will be successful in our efforts. The loss of certain key employees, or failure to attract, retain and engage talent as needed, may have an adverse impact on our business, results of operations and future prospects.

Certain of our employees are represented by unions and we are party to a number of collective bargaining agreements, covering approximately 1,200 employees. Of the 23 agreements in place, 3 are scheduled for negotiation during 2023.

While we are committed to the collective bargaining process and to concluding a fair contract for us and for our employees, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. Generally, Toromont believes its labour relations are satisfactory and does not anticipate any difficulties in respect of upcoming negotiations. The failure to renew collective agreements with satisfactory terms and in a timely manner could have an adverse impact on our business, results of operations, and financial condition.

**Credit Risk**

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations and  arise principally in respect  of cash and 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's customers are engaged in various industries including construction, mining, food and beverage, and governmental agencies, predominately based in Canada. Toromont also maintains policies to manage credit risk, including establishing and reviewing credit limits for customers taking into account factors such as projected purchase values, credit worthiness of the customer, and payment performance.

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.

**Contract Execution, Including Product Warranty**

We enter into refrigeration and power systems contracts, which are engineered solutions involving the design, assembly and installation of large, complex systems. The length of these contracts varies but typically construction is completed in under two years. The contracts are generally at a fixed price over the term and provide for penalties payable by us if contractual milestones are not met.

We have developed processes and have controls in place to ensure contracts are bid appropriately, but due to the nature and complexity of these contracts, there is a risk that significant cost overruns may be incurred. If we miscalculate the extent of work required, or if costs increase beyond those anticipated, contract profitability may be adversely affected. We closely monitor these contracts for early warning signs of cost overruns, however, there can be no assurance that cost overruns will be avoided.

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 machine hours, with provisions for inflationary and foreign 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. Preventative measures such as condition monitoring and scheduled fluid sampling help identify problems in equipment early on and help reduce the risk of costly repair work. 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. There is no assurance that such measures will always address such risks. Our failure to effectively price and manage these contracts could have a material adverse impact on our business, results of operations and financial position.

Standard and extended warranties are provided for most of the equipment, parts and services sold. 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. There is a risk that product quality erosion or lack of skilled labor could increase warranty claims in the future, or that future warranty claims may be greater than we anticipate. If our liability in respect of such claims is greater than anticipated, it may have a material adverse impact on our business, results of operations and financial condition. To mitigate this risk, we regularly review our warranty offering to assess the experience with the product and endeavour to adequately manage the costs to service the product over its warranty period. Additionally, we work closely with Caterpillar on all product quality issues and have extensive product improvement, product support and pre-delivery inspection programs in place. No assurance can be given that these steps will fully mitigate these risks.

**Foreign Exchange**

Toromont's operating results are reported in Canadian dollars. While the majority of Toromont's sales are transacted in Canadian dollars, significant portions of its purchases are made in U.S. dollars. Changes in the U.S. dollar exchange rate can have a negative or positive impact on revenue, margins and working capital balances.

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.

The rate of exchange between the Canadian and US dollar can have an impact on revenue trends. 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. As a result, a stronger Canadian dollar can adversely affect revenue, while a weaker Canadian dollar can increase reported revenue. 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, revenue from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant. The Canadian dollar averaged US$0.77 in 2022 and US$0.80 in 2021.

As well, many of Toromont's customers export products to the U.S., or sell products based on the US dollar. A strengthening Canadian dollar can negatively impact their overall competitiveness and demand for their products, which in turn may reduce product purchases from Toromont.

### Interest Rate

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

The Company has exposure to changes in interest rates on interest-bearing financial liabilities, primarily from long-term debt. The Company has fixed-rate debt obligations outstanding with maturities in 2025 and 2027. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. The fair value of fixed-rate debt obligations fluctuates with changes in interest rates, 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 facilities bear interest at floating-rates and exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

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

The Company is exposed to changes in interest rates on interest bearing financial assets, primarily cash and cash equivalents. Due to the short-term nature of cash and cash equivalents, the impact of fluctuations in fair value is limited but interest income earned can be impacted.

### Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. The Company follows an active cash management program including continuous monitoring of actual and forecast cash flows. The Company also maintains syndicated credit facilities, and holds cash balances to provide added liquidity. Based on cash balances on hand, the availability of credit facilities, expected cash flow generation of operations, and the discretionary nature of some cash outflows, such as rental and capital expenditures, the Company expects to continue to have sufficient liquidity to meet operational needs.

The Company will also require capital to finance future growth and to refinance 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 financial market conditions, as well as the Company's current and expected future financial condition. Further, the Company's ability to increase its debt financing may be limited by existing financial covenants or 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.

### Growth Initiatives

The Company's Strategic Plan establishes priorities for growth, including organic growth and strategic acquisitions.

We have strategic initiatives underway, designed to improve our market competitiveness, and our operational and financial performance. These initiatives include enhancing our customers' experience including expanding our product offering; operational excellence and sharing of best practices across our decentralized organization; continuous investment and improvement in systems and processes to reduce cost-to-serve and provide value-added information; and, improving employee relations and engagement. Failure to effectively execute on these initiatives may result in the inability to obtain desired business results and could adversely affect our business, results of operations and financial condition.

**Climate Change**

Toromont is committed to monitoring, reporting and reducing greenhouse gas ("GHG") emissions of our operations. Further, we see ourselves as valuable partners to our customers to help them reduce their carbon emissions and build resilience into their own operations.

Our service facilities and fleets of vehicles, generate direct GHG emissions (Scope 1) from fuel combustion in our fleet, natural gas use for heating facilities, and diesel use for engine and transmission diagnostics. We also generate indirect GHG emissions (Scope 2) from purchased electricity. Our strategy to address the climate change challenge is to focus on monitoring and reducing our emissions and to offer and develop products and services that help our customers further decarbonize their operations. Focus in this area is viewed as a shared responsibility among our employees and is an important part of our corporate culture.

Our principal climate-related risks are categorized into risks related to the transition to a lower carbon economy (transition risks) and physical risks resulting from climate change (physical risks) which may impact our operations and facilities.

**Government and Other Regulation**

Our business and customers are subject to evolving law, regulation, and intervention by governments at the federal, provincial, state, and municipal levels in the countries where we and they conduct operations. The nature and magnitude of regulatory risks has the potential to change over time, and have the potential to impact our existing and planned projects as well as impose costs of compliance and increase capital expenditures and operating expenses. In addition, changes to laws and regulations may impact our customers in ways that affect their demand for our products. Amendments to, or more stringent implementation of current laws and regulations governing our operations, or the operations of our customers could have a material adverse effect on our business, operating results or financial position. In addition, noncompliance with laws and regulations could significantly damage, and require us to spend substantial amounts of money to rebuild, our reputation and negatively impact our business.

Our operations expose Toromont to liability for environmental contamination, which may render the Company 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. Toromont maintains an environmental management program that includes robust policies and procedures, training and audit and compliance processes. We retain environmental engineering consultants to conduct the following activities: environmental site assessments prior to the acquisition or occupation; ongoing monitoring of soil and groundwater contamination; and remediation of contaminated sites. There can be no assurance that any future incidents, emissions or spills will not result in a material adverse effect on Toromont’s results of operations or cash flows. Management is not aware of any material environmental concerns for which a provision has not been recorded.

We have in place, in each of our business units, programs for monitoring and compliance to ensure that we meet or exceed applicable laws and regulatory requirements. In addition, our Board has established and maintains the Human Resources and Health and Safety Committee, the Environment, Social and Governance Committee, and the Audit Committee to oversee, monitor, and report to the Board on compliance matters. More information about the mandates of these committees may be found in our most recent Management Proxy Circular, which can be found on our website www.toromont.com or under our profile on SEDAR at www.sedar.com. No assurance can be given that these steps will be successful in completely mitigating these risks and ensuring we meet all applicable laws and regulatory requirements.

**Information Technology**

The Company depends on information technology infrastructure and systems, hosted internally or outsourced, to conduct day-to-day operations and for the effective operation of our business. Our business also requires the appropriate and secure utilization of sensitive and confidential information belonging to third parties such as our customers and suppliers. While we strive to leverage technology to meet the growing needs of our customers and enhance the efficiency of our operations, it nevertheless comes with information risks.

The integrity, reliability and availability of technology and the data processed by that technology is an integral part of our business processes, including marketing of equipment and support services, inventory and logistics optimization, business intelligence and finance. Some of these systems are integrated with our suppliers and other partners' core processes and systems.

Toromont continues to invest in information systems to improve business performance through our internal transactional systems and install or upgrade various business process enablement and decision support systems as appropriate on a continuous basis. These system implementations often drive business process changes as well as technology changes.

Information systems, technology and business process changes, and related organizational change, often carry a risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of systems of internal control over financial reporting and disclosure controls and procedures. Benefits assessment, change management, risk and impact assessments, solution validation, strong project governance, communication and training have been identified as critical success factors in the successful implementation of new systems. Any disruptions to these systems or the failure of these systems to operate as expected, or any failure to appropriately adapt to business process changes, could adversely impact our operating results by limiting our ability to effectively monitor and control our operations.

In addition, new digital and other technologies and advancements to equipment in the market, such as equipment electrification, can become disruptive to our operations, market share and business model. We scan continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In order to face this disruption risk, our digital and technology solutions initiatives are focused on investigating emerging digital technologies to determine how they can impact customers and our core business opportunities, improving the customer experience, and identifying and pursuing new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, our failure to meet these objectives could have an adverse impact on our business.

A rigorous management process is followed to manage these risks and a great deal of the business processes and systems transformation program focus is on developing capabilities to reduce and mitigate these risks, however, there is no certainty that these risks can be sufficiently reduced or mitigated.

**Cybersecurity**

Cybersecurity incidents related to our information technology systems are a threat to the integrity, reliability, and availability of technology and data. Cybersecurity incidents may take the form of malware, computer viruses, cyber threats, cyber extortion, employee error, malfeasance, system errors and other types of security and data breaches and may arise from inside and outside of our organization. Cybersecurity incidents could also target customer data or the security, integrity and/or reliability of the hardware and software installed in products we sell or service. We rely heavily on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, including personally identifiable information, credit card payment data and other sensitive customer and employee information, and to manage or support a variety of critical business processes and activities.

The Company continues to monitor and enhance its defenses and procedures to prevent, detect, respond to and manage these threats, which are constantly evolving, however there can be no assurance these efforts and measures will be able to prevent all cybersecurity incidents. Disruption to information systems or breaches of security could result in a negative impact on the Company's financial results or result in reputational damage, including the following: disruption of our business operations and lost revenue; unauthorized access to, or destruction, loss, theft, misappropriation or release of, our proprietary, confidential, sensitive or otherwise valuable information or that of our customers, suppliers or employees, which could be used for disruptive or otherwise harmful purposes; disruptions in the functioning or operation of equipment, which could lead to property loss or damage or personal injury or death; damage to our reputation with our customers, partners, suppliers, investors and the general public; a disruption to the proper functioning of our information technology systems; potential significant expenditures related to remediation; investigations by regulatory agencies or litigation, claims and liability for breach of contract, damages or other penalties; inability to process customer transactions or service customers; and/or disruptions to inventory management.

To mitigate information security risks, the Company, through a dedicated, full-time team of cybersecurity professionals, undertakes preventative measures, including controlling access to its network and applications using secure firewalls and limiting access to an "as-needed" basis. To identify information security risks, the company uses various detection methods, including monitoring event logs for firewalls, server, mail systems, and applications. Third-party experts are utilized to perform testing and assessments. The Company provides regular and mandatory information security training to employees as applicable and appropriate. The Company maintains an insurance policy with coverage for information security risk.

The security of the Company's data and other information is one of the operational risks overseen by the Board. Three members of the Board have knowledge and experience in technology, including cyber risk. Management reports to the Board regularly on information technology and security matters.

Risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes, practices and training designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. To date, the Company has not experienced any material losses relating to cyber-attacks or other information security breaches; however, there can be no assurance that we will not incur such losses in the future.

**Business Continuity Risks**

The occurrence of one or more natural or man-made disasters, such as earthquakes, floods, hurricanes, unusually adverse weather, health pandemic outbreaks, boycotts, security breach, power loss, telecommunications failure, and geo-political events in countries in which we supply or sell goods, could materially adversely affect our business, people, customers and financial results. We maintain and continue to enhance our business continuity program to address and mitigate, to the extent possible, the impact of these risks. Our decentralized operations provides certain coverage in the case of localized issues. However, no such plan can eliminate the risks associated with events of this nature, which could still have a material adverse impact on our business, results of operations and financial condition.

**Pandemic Risk (Coronavirus COVID-19)**

A pandemic, including the COVID-19 pandemic, can create significant volatility and uncertainty and economic disruption.

COVID-19 is a persisting risk, the duration and impact of which remains uncertain at this time. Any estimate of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

A pandemic has and could exacerbate or amplify other risks and uncertainties facing the Company. Such risks include, but are not limited to:

- uncertainty associated with the costs and ability of resources, including technicians, required to provide the appropriate/required levels of service to our customers on site;
- a material reduction in demand for, or profitability of, our products or services;
- an increase in accounts receivable delinquencies from financial hardship for our customers;
- issues delivering the Company's products and services due to illness, Company or government imposed isolation programs, restrictions on the movement of personnel and other supply chain disruptions;
- increase in exposure to and reliance on networked systems and the internet increasing risk and frequency of cybersecurity incidents;
- the impact of additional legislation, regulation and other government interventions in response to the COVID-19 pandemic;
- the negative impact on global debt and equity capital markets, including the trading price of the Company's securities; and
- the ability to access capital markets at a reasonable cost.

Any of these risks, and others, could have a material adverse effect on our business, operations, capital resources and/or financial results of operations.

The Company continues to focus on ensuring the continued safety of our employees, while continuing to serve our customers' needs as an essential service, and protecting the business and organization for the long-term. The Critical Incident Executive Response Team remains in effect and focuses on monitoring and assessing developments in our markets and operations, and developing appropriate plans in response. Updates are provided to employees on a frequent basis, including general information as well as specific safety protocols in place. The Company continues to have an open dialogue with public safety and government officials at all levels, as well as customers, key suppliers and other partners.

## 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 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 judgments, estimates and assumptions, 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.

Toromont's significant accounting policies and significant accounting estimates, assumptions and judgments are described in the consolidated financial statements. Refer to notes 2 and 3 of the audited consolidated financial statements.

**Changes in Accounting Policies**

The Company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following standard amendment has been adopted by the Company on January 1, 2022:

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* – The IASB issued amendments to IAS 37 to clarify costs to be included when determining if a contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The implementation of this standard amendment did not have a significant impact on the Company's 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 ended December 31, 2022, and accordingly, have not been applied in preparing these consolidated financial statements. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments and interpretations to existing standards may have been issued but are not expected to have a material impact to the Company's consolidated financial statements. The Company is in the process of reviewing these amendments to determine the impact on the consolidated financial statements. Based upon our current facts and circumstances, we do not expect our financial performance or disclosure to be materially affected by the application of the amended standards.

IFRS 1, *Presentation of Financial Statements* – Effective for annual periods beginning on or after January 1, 2023, the IASB issued amendments to IFRS 1 to allow a more general approach in classification of liabilities as current and non-current.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – Effective for annual periods beginning on or after January 1, 2023, these amendments introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.

IAS 12, *Income Taxes* – Effective for annual periods beginning on or after January 1, 2023, these amendments clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability.

## 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, 2022.

### 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 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, 2022, using the criteria set forth in Internal Control – Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2022.

There have been no changes in the design of the Company's internal control over financial reporting during 2022 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 revenue 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)* | **2022** | 2021 | **2022** | 2021 |
| Net earnings | **$ 159,862** | $ 105,590 | **$ 454,198** | $ 332,710 |
| *plus:* Interest expense | **6,786** | 6,889 | **27,338** | 28,161 |
| *less:* Interest and investment income | **(8,799)** | (2,827) | **(22,232)** | (9,027) |
| *plus:* Income taxes | **54,633** | 39,118 | **164,865** | 124,093 |
| **Operating income** | **$ 212,482** | $ 148,770 | **$ 624,169** | $ 475,937 |
| | | | | |
| Total revenue | **$ 1,150,097** | $ 956,035 | **$ 4,230,736** | $ 3,886,537 |
| **Operating income margin** | **18.5 %** | 15.6 % | **14.8 %** | 12.2 % |

### Net Debt to Total Capitalization/Equity

Net debt to total capitalization/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 and cash equivalents. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

| ($ thousands) | | 2022 | | 2021 |
|---|---|---|---|---|
| Long-term debt | $ | **647,060** | $ | 646,337 |
| *less:* Cash and cash equivalents | | **927,780** | | 916,830 |
| Net debt | | **(280,720)** | | (270,493) |
| | | | | |
| Shareholders' equity | | **2,325,359** | | 1,953,329 |
| **Total capitalization** | $ | **2,044,639** | | 1,682,836 |
| | | | | |
| **Net debt to total capitalization** | | **(14)%** | | (16)% |
| **Net debt to equity** | | **(0.12):1** | | (0.14):1 |

## NON-GAAP MEASURES

Management believes that providing certain non-GAAP measures provides users of the Company's audited 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) | | 2022 | | 2021 |
|---|---|---|---|---|
| Total current assets | $ | **2,569,195** | $ | 2,108,441 |
| *less:* Total current liabilities | | **1,056,739** | | 813,702 |
| **Working capital** | $ | **1,512,456** | $ | 1,294,739 |

## Non-Cash Working Capital

Non-cash working capital is defined as total current assets, excluding cash and cash equivalents, less total current liabilities, excluding current portion of long-term debt, if applicable.

| *($ thousands)* | | **2022** | | 2021 |
|---|---|---|---|---|
| Total current assets | **$** | **2,569,195** | $ | 2,108,441 |
| *less:* Cash and cash equivalents | | **927,780** | | 916,830 |
| | | **1,641,415** | | 1,191,611 |
| Total current liabilities | | **1,056,739** | | 813,702 |
| **Non-cash working capital** | **$** | **584,676** | $ | 377,909 |

## Market Capitalization & Total Enterprise Value

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

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 debt/net debt (defined above) to market capitalization.

The calculations are as follows:

| *($ thousands, except for shares and share price)* | | **2022** | | 2021 |
|---|---|---|---|---|
| Outstanding common shares | | **82,318,159** | | 82,443,968 |
| *times:* Ending share price | **$** | **97.71** | $ | 114.36 |
| **Market capitalization** | **$** | **8,043,307** | $ | 9,428,292 |
| Long-term debt | **$** | **647,060** | $ | 646,337 |
| *less:* Cash and cash equivalents | | **927,780** | | 916,830 |
| **Net debt** | **$** | **(280,720)** | $ | (270,493) |
| **Total enterprise value** | **$** | **7,762,587** | $ | 9,157,799 |

## KEY PERFORMANCE INDICATORS ("KPIs")

Management uses key performance indicators to enable consistent measurement of performance across the organization. These KPIs are non-GAAP financial measures, do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other issuers.

### Gross Profit Margin

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

### Operating Income Margin

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

## Order Bookings and Backlog

Order bookings represent the retail value of firm equipment or project orders received during a period. Backlog is defined as the retail value of equipment units ordered by customers with future delivery, and the remaining retail value of package/project orders remaining to be recognized in revenue under the percentage of completion method. Management uses order backlog as a measure of projecting future equipment and project 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, also referred to as total capitalization.

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| Net earnings | **$ 454,198** | $ 332,710 |
| *plus:* Interest expense | **27,338** | 28,161 |
| *less:* Interest and investment income | **(22,232)** | (9,027) |
| *plus:* Interest income – rental conversions | **4,760** | 2,635 |
| *plus:* Income taxes | **164,865** | 124,093 |
| Adjusted net earnings | **$ 628,929** | $ 478,572 |
| Average capital employed | **$ 1,944,501** | $ 1,796,703 |
| **Return on capital employed** | **32.3 %** | 26.6 % |

## Return on Equity ("ROE")

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| Net earnings | **$ 454,198** | $ 332,710 |
| Opening shareholder's equity (net of adjustments) | **$ 1,935,365** | $ 1,695,008 |
| **Return on equity** | **23.5 %** | 19.6 % |

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of the management of Toromont Industries Ltd. (the "Company"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial Information presented in the Company's MD&A is consistent, where applicable, with that contained in the consolidated financial statements.

The consolidated financial statements reflect certain amounts which are, necessarily, based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to provide reasonable assurance that the consolidated financial statements are presented fairly in all material respects.

Management is also responsible for establishing and maintaining appropriate systems of internal control and procedures over the financial reporting process. 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 auditor 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 (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board carries out its responsibilities principally through its Audit Committee, which is composed solely of independent directors. The Audit Committee recommends the independent auditor for appointment by the shareholders. It meets regularly with management and the internal and external auditors to review internal accounting controls, internal and external audit matters and accounting principles and practices. Internal and external auditors have full and unrestricted access to the Audit Committee. The consolidated financial statements and MD&A have been approved by the Board of Directors, based on the review and recommendation of the Audit Committee.

*(signed) S.J. Medhurst*

**Scott J. Medhurst**
President and
Chief Executive Officer

*(signed) M.S. McMillan*

**Michael S. McMillan**
Executive Vice President and
Chief Financial Officer

February 14, 2023
Toronto, Canada

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Toromont Industries Ltd.,

### Opinion

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, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' 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, 2022 and 2021, 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 our 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.

### Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

***Revenue recognition for long-term refrigeration packages***

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| The Group sells industrial and recreational refrigeration packages, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and typically construction is completed in under two years.<br><br>Revenue is recognized progressively based on the percentage-of-completion method. This method is measured by reference to costs incurred to date as a percentage of the total estimated costs. The Group's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in notes 2 and 3 of the consolidated financial statements.<br><br>The Group recognized $173.3 million of revenues for the year ended December 31, 2022 related to these contracts. The determination of the estimated costs to complete projects that are open at period end is a significant judgement that can have a material impact on the amount of revenue and profit recognized in the period. These significant judgements include those related to estimated future labour, materials and overhead costs for contracts. Given the variation in the types of refrigeration projects, these judgements related to the estimation of future costs are subjective in nature and dependent on the complexity and status of the related contract as of the period end date. | For long-term refrigeration package contracts that were open as of December 31, 2022, our audit procedures included the following, among others:<br><br>We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to the Group's estimation processes (including the approval of the initial budget, and the monitoring and assessment of contract activities and estimated costs to complete), and the recording of revenue in the consolidated financial statements;<br><br>We reviewed contractual arrangements, including pricing and billing terms, change orders and terms and conditions impacting revenue recognition, if any, and had discussions with operational personnel and assessed whether appropriate approvals were obtained in accordance with the Group's authorization matrix for a sample of projects. Once a project commenced, we also obtained and reviewed a sample of meeting minutes and observed a sample of project update calls where management and project managers discussed the status of each project;<br><br>We compared prior period cost estimates to actual contract costs incurred in the current period to assess management's ability to estimate the costs to complete a contract;<br><br>We obtained management's initial cost estimates and tested a sample of actual material and labour costs incurred to assess the measurement of the estimated costs to complete at period end; and<br><br>We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition for projects that are open at period end. |

**Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and 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 and 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 the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paula J. Smith.

*(signed) Ernst & Young LLP*

**Ernst & Young LLP**
Chartered Professional Accountants
Licensed Public Accountants

February 14, 2023
Toronto, Canada

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
($ thousands)

| As at December 31 | Note | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ 927,780** | $ 916,830 |
| Accounts receivable | 4 | **579,682** | 451,944 |
| Inventories | 5 | **1,025,759** | 720,421 |
| Derivative financial instruments | 13 | **18,530** | 5,252 |
| Other current assets | | **17,444** | 13,994 |
| Total current assets | | **2,569,195** | 2,108,441 |
| | | | |
| Property, plant and equipment | 6 | **470,624** | 450,825 |
| Rental equipment | 6 | **616,289** | 525,521 |
| Other assets | 7, 20 | **52,527** | 23,735 |
| Deferred tax assets | 16 | **925** | 231 |
| Goodwill and intangible assets | 8 | **472,565** | 475,043 |
| **Total assets** | | **$ 4,182,125** | $ 3,583,796 |
| | | | |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 7, 19 | **$ 691,084** | $ 573,363 |
| Provisions | 9 | **27,653** | 25,404 |
| Deferred revenue and contract liabilities | 10 | **309,349** | 199,696 |
| Income taxes payable | | **28,653** | 15,239 |
| Total current liabilities | | **1,056,739** | 813,702 |
| | | | |
| Deferred revenue and contract liabilities | 10 | **23,276** | 27,254 |
| Long-term lease liabilities | 7 | **16,160** | 11,780 |
| Long-term debt | 11, 13 | **647,060** | 646,337 |
| Post-employment obligations | 20 | **30,592** | 82,712 |
| Deferred tax liabilities | 16 | **82,939** | 48,682 |
| **Total liabilities** | | **1,856,766** | 1,630,467 |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 12 | **561,078** | 539,677 |
| Contributed surplus | | **19,262** | 16,352 |
| Retained earnings | | **1,731,661** | 1,392,551 |
| Accumulated other comprehensive income | | **13,358** | 4,749 |
| **Total shareholders' equity** | | **2,325,359** | 1,953,329 |
| **Total liabilities and shareholders' equity** | | **$ 4,182,125** | $ 3,583,796 |

**Commitments (note 23)**

**See accompanying notes**

**Approved by the Board:**

*(signed) R. G. Roy*
Richard G. Roy
Director

*(signed) C. E. Cranston*
Cathy E. Cranston
Director

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF INCOME**
($ thousands, except share amounts)

| Years ended December 31 | Note | | 2022 | | 2021 |
|---|---|---|---|---|---|
| **Revenue** | 24 | **$** | **4,230,736** | $ | 3,886,537 |
| Cost of goods sold | 5, 6 | | **3,097,150** | | 2,916,769 |
| Gross profit | | | **1,133,586** | | 969,768 |
| Selling and administrative expenses | | | **509,417** | | 493,831 |
| **Operating income** | | | **624,169** | | 475,937 |
| Interest expense | 15 | | **27,338** | | 28,161 |
| Interest and investment income | 15 | | **(22,232)** | | (9,027) |
| Income before income taxes | | | **619,063** | | 456,803 |
| Income taxes | 16 | | **164,865** | | 124,093 |
| **Net earnings** | | **$** | **454,198** | $ | 332,710 |
| | | | | | |
| **Earnings per share** | | | | | |
| Basic | 17 | **$** | **5.52** | $ | 4.03 |
| Diluted | 17 | **$** | **5.47** | $ | 4.00 |
| | | | | | |
| **Weighted average number of shares outstanding** | | | | | |
| Basic | 17 | | **82,339,480** | | 82,547,961 |
| Diluted | 17 | | **82,978,324** | | 83,269,451 |

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
($ thousands)

| Years ended December 31 | 2022 | 2021 |
|---|---|---|
| **Net earnings** | **$ 454,198** | $ 332,710 |
| | | |
| **Other comprehensive income, net of income taxes:** | | |
| | | |
| *Items that may be reclassified subsequently to net earnings:* | | |
| Foreign currency translation adjustments | **1,124** | (12) |
| | | |
| Unrealized gains (losses) on derivatives designated as cash flow hedges | **46,623** | (1,124) |
| Income tax (expense) recovery | **(12,122)** | 300 |
| Unrealized gains (losses) on cash flow hedges, net of income taxes | **34,501** | (824) |
| Realized (gains) losses on derivatives designated as cash flow hedges | **(36,509)** | 9,478 |
| Income tax expense (recovery) | **9,493** | (2,472) |
| Realized (gains) losses on cash flow hedges, net of income taxes | **(27,016)** | 7,006 |
| | | |
| *Items that will not be reclassified subsequently to net earnings:* | | |
| Remeasurement gain on defined benefit plans | **79,941** | 67,914 |
| Income tax expense | **(21,184)** | (17,996) |
| Remeasurement gain on defined benefit plans, net of income taxes | **58,757** | 49,918 |
| | | |
| **Other comprehensive income** | **67,366** | 56,088 |
| | | |
| **Total comprehensive income** | **$ 521,564** | $ 388,798 |

**See accompanying notes**

# TOROMONT INDUSTRIES LTD.
# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
($ thousands, except share amounts)

| | Share capital | | | | Accumulated other comprehensive income (loss) | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Amount | Contributed surplus | Retained earnings | Foreign currency translation adjustments | Cash flow hedges | Total | Total shareholders' equity |
| **As at January 1, 2021** | 82,474,658 | $ 516,591 | $ 14,243 | $ 1,169,239 | $ 1,880 | $ (3,301) | $ (1,421) | $ 1,698,652 |
| Net earnings | — | — | — | 332,710 | — | — | — | 332,710 |
| Other comprehensive income | — | — | — | 49,918 | (12) | 6,182 | 6,170 | 56,088 |
| Total comprehensive income | — | — | — | 382,628 | (12) | 6,182 | 6,170 | 388,798 |
| Exercise of share options | 439,910 | 26,117 | (4,363) | — | — | — | — | 21,754 |
| Share-based compensation expense | — | — | 6,472 | — | — | — | — | 6,472 |
| Effect of share compensation plans | 439,910 | 26,117 | 2,109 | — | — | — | — | 28,226 |
| Shares purchased for cancellation | (470,600) | (3,031) | — | (46,972) | — | — | — | (50,003) |
| Dividends declared | — | — | — | (112,344) | — | — | — | (112,344) |
| **As at December 31, 2021** | 82,443,968 | $ 539,677 | $ 16,352 | $ 1,392,551 | $ 1,868 | $ 2,881 | $ 4,749 | $ 1,953,329 |
| Net earnings | **—** | **—** | **—** | **454,198** | **—** | **—** | **—** | **454,198** |
| Other comprehensive income | **—** | **—** | **—** | **58,757** | **1,124** | **7,485** | **8,609** | **67,366** |
| Total comprehensive income | **—** | **—** | **—** | **512,955** | **1,124** | **7,485** | **8,609** | **521,564** |
| Exercise of share options | **347,291** | **24,521** | **(3,889)** | **—** | **—** | **—** | **—** | **20,632** |
| Share-based compensation expense | **—** | **—** | **6,799** | **—** | **—** | **—** | **—** | **6,799** |
| Effect of share compensation plans | **347,291** | **24,521** | **2,910** | **—** | **—** | **—** | **—** | **27,431** |
| Shares purchased for cancellation | **(473,100)** | **(3,120)** | **—** | **(45,382)** | **—** | **—** | **—** | **(48,502)** |
| Dividends declared | **—** | **—** | **—** | **(128,463)** | **—** | **—** | **—** | **(128,463)** |
| **As at December 31, 2022** | **82,318,159** | **$ 561,078** | **$ 19,262** | **$ 1,731,661** | **$ 2,992** | **$ 10,366** | **$ 13,358** | **$ 2,325,359** |

**See accompanying notes**

## TOROMONT INDUSTRIES LTD.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
($ thousands)

| Years ended December 31 | Note | 2022 | 2021 |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings | | **$ 454,198** | $ 332,710 |
| Items not requiring cash: | | | |
| Depreciation and amortization | 6, 7, 8, 11 | **162,810** | 158,360 |
| Share-based compensation | | **6,799** | 6,472 |
| Post-employment obligations | | **2,733** | 1,176 |
| Deferred income taxes | | **9,750** | 3,560 |
| Gain on sale of rental equipment and property, plant and equipment | | **(34,363)** | (21,533) |
| | | **601,927** | 480,745 |
| Net change in non-cash working capital and other | 22 | **(213,760)** | 129,322 |
| Additions to rental equipment | 6 | **(205,420)** | (118,183) |
| Proceeds on disposal of rental equipment | | **34,206** | 50,840 |
| **Cash provided by operating activities** | | **216,953** | 542,724 |
| | | | |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 6 | **(69,334)** | (71,203) |
| Proceeds on disposal of property, plant and equipment | | **25,168** | 2,467 |
| Increase in other assets | | **(167)** | (133) |
| **Cash used in investing activities** | | **(44,333)** | (68,869) |
| | | | |
| **Financing activities** | | | |
| Financing fees | | **—** | (961) |
| Dividends paid | 12 | **(125,210)** | (109,053) |
| Cash received on exercise of share options | | **20,632** | 21,754 |
| Shares purchased for cancellation | 12 | **(48,502)** | (50,003) |
| Payment of lease liabilities | 7 | **(9,079)** | (9,880) |
| **Cash used in financing activities** | | **(162,159)** | (148,143) |
| | | | |
| Effect of currency translation on cash balances | | **489** | (10) |
| Increase in cash and cash equivalents during the year | | **10,950** | 325,702 |
| Cash and cash equivalents, at beginning of the year | | **916,830** | 591,128 |
| **Cash and cash equivalents, at end of the year** | | **$ 927,780** | $ 916,830 |

**Supplemental cash flow information (note 22)**

**See accompanying notes**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**As at and for the year ended December 31, 2022**
($ thousands, except where otherwise indicated)

## 1. DESCRIPTION OF BUSINESS

### 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 ("TSX") 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 and 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 6,800 people in more than 160 locations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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 Board of Directors on February 14, 2023 on the recommendation of the Audit Committee.

### Basis of Measurement

These consolidated financial statements were prepared on a historical cost basis, except for certain items recorded at fair value as detailed in the accounting policies disclosed below.

### Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is Toromont's functional currency. 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 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 statements of income.

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 and cash equivalents include cash on hand, cash in bank, and short-term deposits with an original maturity of three months or less, readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value.

### Accounts Receivable

Trade accounts receivable are amounts due from customers for products 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 statements of income.

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, direct labour and an allocation of overhead 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) ("OCI"), 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.

**Government Grants**

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Claims under income-related government grants are reported in the consolidated statements of income as other income included in selling and administrative expenses. Government grants receivable are recorded in accounts receivable on the consolidated statements of financial position.

**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 or loss ("FVTPL"). Initially, all financial assets and liabilities are recognized at fair value, net of transaction costs, except for financial instruments classified as FVTPL, where transaction costs are recognized immediately in profit or loss. Regular-way trades of financial assets and liabilities are recognized on the trade date.

Financial Assets

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

- Cash and cash equivalents, accounts receivable, unbilled receivables, supplier claims receivable, and installment and other notes receivable are classified as amortized cost and measured using the effective interest rate method less any impairment losses.
- Accounts receivable comprises amounts due from customers for goods or services transferred in the ordinary course of business and non-trade accounts. Unbilled receivables relate to the Company's right to consideration for goods or services transferred to a customer but not yet billed as at the reporting

date. Installment notes receivable represents amounts due from customers relating to the financing of equipment and parts and services sold.

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. The carrying amount of accounts receivable is reduced through the use of provisions for doubtful accounts.

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 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 statements of income. The remaining amount of change in the fair value of the liability is recognized in the consolidated statements of income. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to the consolidated statements of income; 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 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 statements of income. 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 statements of income 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 statements of income; 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 statements of income.

**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 statements of income.

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 statements of income.

**Revenue from Contracts with Customers**

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

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

<u>Toromont as Lessee</u>

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 their estimated useful life and the lease term, which ranges from 3 to 5 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. The Company also applies the recognition exemption for leases that are considered 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 statements of income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of 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 statements of income 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 statements of income.

### Share-based Payment Transactions

The Company has a stock option plan, a cash settled Deferred Share Unit ("DSU") plan, and a Long Term Incentive Plan with equity settled Performance Share Units ("PSU"), Restricted Share Units ("RSU") and/or equity settled DSUs. The cash settled DSU plan was closed to new grants/elections in 2022. Units under such plans may be awarded to certain employees and directors as part of their compensation package for services performed (excluding options in the case of directors).

*Stock options* – 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 at the time of grant and is recognized as share-compensation expense, net of estimated forfeitures, over its respective vesting period with a credit to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to share capital.

*Performance Share Units* – PSUs are awarded at no cost to the recipient and cliff vest over a three-year performance period. Vesting level is subject to performance condition achievement with respect to relative total shareholder return performance compared to the TSX index (a market condition) or return on capital employed (a non-market condition), and can range from 0% to 200%. PSUs are paid out in common shares, or if elected by the individual at time of grant are transferred to an equity settled DSU account (see description below). Additional PSUs are credited to the holder upon each dividend payment made by Toromont.

The fair market value of the award is determined at date of grant. The fair value of grants with a market condition are based on the expected payout as of the grant date. The fair value of grants with a non-market condition are initially based on the volume-weighted average trading price of Toromont's common shares for five days preceding the date of the grant and the probability of achieving performance conditions at date of grant. The fair value of awards with non-market conditions are adjusted over time based on actual performance and expected payout, while fair value of awards with market conditions are not adjusted. Share-based compensation expense is recognized over the vesting period with a related credit to contributed surplus.

*Restricted Share Units* – RSUs are awarded at no cost to the recipient and cliff vest over a three-year performance period. RSUs are paid out in common shares, or if elected by the individual at time of grant are transferred to an equity settled DSU account (see description below). Additional RSUs are credited to the holder upon each dividend payment made by Toromont.

The fair market value of the award is based on the volume-weighted average trading price of Toromont's common shares for five days preceding the date of the grant and expected performance condition payout. Share-based compensation expense is recognized over the vesting period with a related credit to contributed surplus.

*Deferred Share Units (equity settled)* – 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.

*Deferred Share Units (cash settled)* – 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 statements of income in selling and administrative expenses.

## Employee Future Benefits

For defined contribution plans, the pension expense recorded in the consolidated statements of income 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, changes in actuarial assumptions and changes in the effect of the asset ceiling are recognized in retained earnings and included in the consolidated statements of comprehensive income in the period in which they occur.

Defined benefit plan assets or liabilities recognized in the consolidated statements of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets. In the case of a surplus funded plan, these assets are limited at the lesser of the actuarial value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays.

## 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 statements of income 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 2022

The Company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following standard amendment has been adopted by the Company on January 1, 2022:

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* – The IASB issued amendments to IAS 37 to clarify costs to be included when determining if a contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The implementation of this standard amendment did not have a significant impact on the Company's 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 ended December 31, 2022, and accordingly, have not been applied in preparing these consolidated financial statements. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments and interpretations to existing standards may have been issued but are not expected to have a material impact to the Company's consolidated financial statements. The Company is in the process of reviewing these amendments to determine the impact on the consolidated financial statements. Based upon our current facts and circumstances, we do not expect our financial performance or disclosure to be materially affected by the application of the amended standards.

IFRS 1, *Presentation of Financial Statements* – Effective for annual periods beginning on or after January 1, 2023, the IASB issued amendments to IFRS 1 to allow a more general approach in classification of liabilities as current and non-current.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – Effective for annual periods beginning on or after January 1, 2023, these amendments introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.

IAS 12, *Income Taxes* – Effective for annual periods beginning on or after January 1, 2023, these amendments clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting periods. 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.

Management reviews its estimates and judgments on an ongoing basis, considering historical experience, external information and observable conditions where possible, supplemented by internal analysis as required. Revisions to estimates are recognized prospectively.

The effects of the COVID-19 pandemic have been considered in management's estimates and judgments described below. The Company will continue to monitor the impact of the development of the pandemic in future reporting periods.

The financial statement areas that require significant estimates and judgments are as follows:

**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 machine hours, 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.

### 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. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's creditworthiness, current economic conditions, expectation of bankruptcies and the economic volatility in the markets/locations of customers. The current economic environment has increased the measurement uncertainty with respect to the determination of the allowance for doubtful accounts.

### Share-based Compensation

The models used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields, expected life of the options granted and, in the case of PSUs, expected performance. 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.

($ thousands, except where otherwise indicated)

### 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 judgment 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.

If the Company cannot readily determine the interest rate implicit in the lease, the incremental borrowing rate ("IBR") is used 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.

## 4. ACCOUNTS RECEIVABLE

| | **2022** | 2021 |
|---|---|---|
| Trade receivables | **$ 556,281** | $ 409,222 |
| *Less: Allowance for doubtful accounts* | **(25,540)** | (20,315) |
| Trade receivables, net | **530,741** | 388,907 |
| Unbilled receivables | **30,738** | 49,516 |
| Other receivables | **18,203** | 13,521 |
| | **$ 579,682** | $ 451,944 |

The aging of gross trade receivables was as follows:

| | **2022** | 2021 |
|---|---|---|
| Current to 90 days | **$ 522,784** | $ 383,899 |
| Over 90 days | **33,497** | 25,323 |
| Trade receivables | **$ 556,281** | $ 409,222 |

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

| | **2022** | 2021 |
|---|---|---|
| Balance, January 1 | **$ 20,315** | $ 20,661 |
| Provisions and revisions, net | **5,225** | (346) |
| Balance, December 31 | **$ 25,540** | $ 20,315 |

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

| | **2022** | 2021 |
|---|---|---|
| Balance, January 1 | **$ 49,516** | $ 53,671 |
| Amounts received or recognised in revenue | **(38,162)** | (22,997) |
| Additions | **19,384** | 18,842 |
| Balance, December 31 | **$ 30,738** | $ 49,516 |

($ thousands, except where otherwise indicated)

## 5. INVENTORIES

| | 2022 | 2021 |
|---|---|---|
| Equipment | **$ 565,073** | $ 403,105 |
| Repair and distribution parts | **333,914** | 223,059 |
| Direct materials | **6,887** | 6,035 |
| Work-in-process | **86,556** | 68,943 |
| Work-in-process (contracts) | **33,329** | 19,279 |
| | **$ 1,025,759** | $ 720,421 |

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2022 was $2.6 billion (2021 – $2.4 billion). In 2022, cost of goods sold included inventory write-downs pertaining to obsolescence and aging, net of reversal of write-downs, of $15.6 million (2021 – $4.6 million).

## 6. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

| | Property, Plant and Equipment | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **Equipment** | **Power Generation** | **Total** | **Rental Equipment** |
| **Cost** | | | | | | |
| **January 1, 2022** | **$ 173,083** | **$ 315,055** | **$ 272,839** | **$ 39,944** | **$ 800,921** | **$ 969,841** |
| Additions | 8,319 | 14,160 | 48,447 | 150 | 71,076 | 214,693 |
| Disposals | (4,313) | (2,332) | (7,549) | — | (14,194) | (51,454) |
| Foreign currency translation adjustments | 10 | 184 | 477 | — | 671 | — |
| **December 31, 2022** | **$ 177,099** | **$ 327,067** | **$ 314,214** | **$ 40,094** | **$ 858,474** | **$ 1,133,080** |
| **Accumulated depreciation** | | | | | | |
| January 1, 2022 | **$ —** | **$ 125,321** | **$ 188,752** | **$ 36,023** | **$ 350,096** | **$ 444,320** |
| Depreciation expense | — | 13,435 | 30,472 | 1,160 | 45,067 | 105,385 |
| Depreciation of disposals | — | (475) | (7,247) | — | (7,722) | (32,914) |
| Foreign currency translation adjustments | — | 41 | 368 | — | 409 | — |
| **December 31, 2022** | **$ —** | **$ 138,322** | **$ 212,345** | **$ 37,183** | **$ 387,850** | **$ 516,791** |
| **Net book value — December 31, 2022** | **$ 177,099** | **$ 188,745** | **$ 101,869** | **$ 2,911** | **$ 470,624** | **$ 616,289** |

($ thousands, except where otherwise indicated)

| | Property, Plant and Equipment | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **Equipment** | **Power Generation** | **Total** | **Rental Equipment** |
| Cost | | | | | | |
| January 1, 2021 | $ 155,332 | $ 297,266 | $ 245,025 | $ 39,682 | $ 737,305 | $ 932,979 |
| Additions | 18,099 | 19,849 | 33,720 | 262 | 71,930 | 117,759 |
| Disposals | (348) | (2,048) | (5,871) | — | (8,267) | (80,897) |
| Foreign currency translation adjustments | — | (12) | (35) | — | (47) | — |
| December 31, 2021 | $ 173,083 | $ 315,055 | $ 272,839 | $ 39,944 | $ 800,921 | $ 969,841 |
| | | | | | | |
| Accumulated depreciation | | | | | | |
| January 1, 2021 | $ — | $ 114,226 | $ 165,404 | $ 34,393 | $ 314,023 | $ 393,567 |
| Depreciation | — | 13,054 | 28,917 | 1,630 | 43,601 | 100,647 |
| Disposals | — | (1,955) | (5,541) | — | (7,496) | (49,894) |
| Foreign currency translation adjustments | — | (4) | (28) | — | (32) | — |
| December 31, 2021 | $ — | $ 125,321 | $ 188,752 | $ 36,023 | $ 350,096 | $ 444,320 |
| Net book value — December 31, 2021 | $ 173,083 | $ 189,734 | $ 84,087 | $ 3,921 | $ 450,825 | $ 525,521 |

During 2022, depreciation expense of $132.5 million was charged to cost of goods sold (2021 – $126.4 million) and $18.0 million was charged to selling and administrative expenses (2021 – $17.8 million).

## 7. OTHER ASSETS AND LEASE LIABILITIES

| | **2022** | 2021 |
|---|---|---|
| Right-of-use assets | **$ 22,910** | $ 18,752 |
| Post-employment obligations surplus (note 20) | **25,088** | — |
| Equipment sold with guaranteed residual values | **1,237** | 1,857 |
| Other | **3,292** | 3,126 |
| **Other assets** | **$ 52,527** | $ 23,735 |

### 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, 2022** | **$ 13,565** | **$ 5,187** | **$ 18,752** | **$ 19,613** |
| Additions and remeasurements | **13,528** | **(63)** | **13,465** | **13,465** |
| Depreciation | **(6,478)** | **(2,725)** | **(9,203)** | **—** |
| Disposals and retirements | **(84)** | **(48)** | **(132)** | **(146)** |
| Foreign currency translation adjustments | **28** | **—** | **28** | **28** |
| Payments | **—** | **—** | **—** | **(9,079)** |
| **December 31, 2022** | **$ 20,559** | **$ 2,351** | **$ 22,910** | **$ 23,881** |

($ thousands, except where otherwise indicated)

| | Right-of-Use Assets | | | Lease Liabilities |
|---|---|---|---|---|
| | Properties | Vehicles | Total | |
| January 1, 2021 | $ 15,278 | $ 9,689 | $ 24,967 | $ 25,716 |
| Additions and remeasurements | 4,378 | (276) | 4,102 | 4,102 |
| Depreciation | (5,803) | (4,189) | (9,992) | — |
| Disposals and retirements | (285) | (37) | (322) | (322) |
| Foreign currency translation adjustments | (3) | — | (3) | (3) |
| Payments | — | — | — | (9,880) |
| December 31, 2021 | $ 13,565 | $ 5,187 | $ 18,752 | $ 19,613 |

The current portion of lease liabilities as at December 31, 2022 of $7.7 million (2021 – $7.8 million) is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

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

| | **2022** | 2021 |
|---|---|---|
| Depreciation expense of right-of-use assets | **$ 9,203** | $ 9,992 |
| Interest expense on lease liabilities | **651** | 662 |
| Expense relating to short-term leases and leases of low-value assets | **252** | 194 |
| | **$ 10,106** | $ 10,848 |

Cash outflows for leases in 2022 were $9.1 million (2021 – $9.9 million).

The future cash outflows relating to leases are disclosed in note 23.

## 8. GOODWILL AND INTANGIBLE ASSETS

| | Patents and Licenses | Customer Order Backlog | ERP System | Customer Relationships | Distribution Networks | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2021 | $ 500 | $ 8,691 | $ 5,000 | $ 15,137 | $ 371,551 | $ 93,780 | $ 494,659 |
| December 31, 2021 | $ 500 | $ 8,691 | $ 5,000 | $ 15,137 | $ 371,551 | $ 93,780 | $ 494,659 |
| Disposal | — | — | (5,000) | — | — | — | (5,000) |
| **December 31, 2022** | **$ 500** | **$ 8,691** | **$ —** | **$ 15,137** | **$ 371,551** | **$ 93,780** | **$ 489,659** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| January 1, 2021 | $ 236 | $ 5,920 | $ 4,333 | $ 5,983 | $ — | $ — | $ 16,472 |
| Amortization | 30 | 555 | 667 | 1,892 | — | — | 3,144 |
| December 31, 2021 | $ 266 | $ 6,475 | $ 5,000 | $ 7,875 | $ — | $ — | $ 19,616 |
| Amortization | 30 | 556 | — | 1,892 | — | — | 2,478 |
| Amortization of disposal | — | — | (5,000) | — | — | — | (5,000) |
| **December 31, 2022** | **$ 296** | **$ 7,031** | **$ —** | **$ 9,767** | **$ —** | **$ —** | **$ 17,094** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| December 31, 2021 | $ 234 | $ 2,216 | $ — | $ 7,262 | $ 371,551 | $ 93,780 | $ 475,043 |
| **December 31, 2022** | **$ 204** | **$ 1,660** | **$ —** | **$ 5,370** | **$ 371,551** | **$ 93,780** | **$ 472,565** |

($ thousands, except where otherwise indicated)

## Goodwill

The carrying amount of goodwill has been allocated as follows:

| | 2022 | 2021 |
|---|---|---|
| **Equipment Group** | | |
| Toromont Cat | **$ 89,270** | $ 89,270 |
| Battlefield Equipment Rentals | **4,060** | 4,060 |
| **CIMCO** | **450** | 450 |
| | **$ 93,780** | $ 93,780 |

The Company performed the annual impairment test as at December 31, 2022. The recoverable amounts have been determined based on the fair value less costs to sell ("FVLCS") based on a range of relevant historical company and current market multiples of earnings, applied to current earnings, adjusted for current economic conditions. As a result of the analysis, management determined there was no impairment of goodwill.

## Intangible Assets with Indefinite Lives – Distribution Networks

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

| | 2022 | 2021 |
|---|---|---|
| **Equipment Group** | | |
| Toromont Cat – Quebec/Maritimes | **$ 352,434** | $ 352,434 |
| Toromont Cat – all other locations | **13,669** | 13,669 |
| Battlefield Equipment Rentals – Quebec/Maritimes | **5,448** | 5,448 |
| | **$ 371,551** | $ 371,551 |

The Company performed the annual impairment test of intangible assets as at December 31, 2022. The recoverable amounts have been determined based on FVLCS based on a range of relevant historical company and current market multiples of earnings, applied to current earnings, adjusted for current economic conditions. Based on the analysis, management determined there was no impairment of indefinite-lived intangible assets.

These valuations are determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data. The calculation of FVLCS for impairment testing is most sensitive to the earnings multiplier. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any CGU or group of CGUs to exceed its recoverable amount.

($ thousands, except where otherwise indicated)

## 9. PROVISIONS

Activities related to provisions were as follows:

| | Warranty | Other | Total |
|---|---|---|---|
| Balance, January 1, 2021 | $ 13,880 | $ 12,765 | $ 26,645 |
| New provisions | 30,593 | 1,362 | 31,955 |
| Utilized or released | (30,509) | (2,687) | (33,196) |
| Balance, December 31, 2021 | $ 13,964 | $ 11,440 | $ 25,404 |
| New provisions | **29,014** | **1,864** | **30,878** |
| Utilized or released | **(25,414)** | **(3,215)** | **(28,629)** |
| **Balance, December 31, 2022** | **$ 17,564** | **$ 10,089** | **$ 27,653** |

### 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.

## 10. DEFERRED REVENUE AND CONTRACT LIABILITIES

Deferred revenue and contract liabilities represent billings to customers in excess of revenue recognized and arise on the sale of equipment with residual value guarantees, extended warranty contracts, long-term maintenance agreements, and the sale of power and energy systems and refrigeration packages recorded using the percentage-of-completion method.

The components of deferred revenue and contract liabilities were as follows:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | Current | Non-current | Total |
| Deposits from customers | **$ 146,889** | **$ 4,844** | **$ 151,733** | $ 47,319 | $ 11,845 | $ 59,164 |
| Product support service agreements | **88,367** | **—** | **88,367** | 78,421 | — | 78,421 |
| Sale of systems - contract liabilities | **64,892** | **—** | **64,892** | 66,267 | — | 66,267 |
| Extended warranty | **9,201** | **18,432** | **27,633** | 7,689 | 15,409 | 23,098 |
| | **$ 309,349** | **$ 23,276** | **$ 332,625** | $ 199,696 | $ 27,254 | $ 226,950 |

During the year ended December 31, 2022, the Company recognized as revenue $161.4 million (2021 –$140.6 million) of the deferred revenue and contract liabilities balance as at January 1, 2022.

Management expects that 93% of the transaction price allocated to unsatisfied performance obligations as at December 31, 2022 will be recognized as revenue during the year ended December 31, 2023 and the remaining 7% between the years ended December 31, 2024 and 2029.

($ thousands, except where otherwise indicated)

## 11. LONG-TERM DEBT

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Senior Debentures | | | | |
| 3.71%, $150.0 million, due September 30, 2025 [1] | **$** | **150,000** | $ | 150,000 |
| 3.84%, $500.0 million, due October 27, 2027 [1] | | **500,000** | | 500,000 |
| | | **650,000** | | 650,000 |
| Debt issuance costs, net of amortization | | **(2,940)** | | (3,663) |
| **Total long-term debt** | **$** | **647,060** | $ | 646,337 |

[1] Interest payable semi-annually, principal due on maturity.

The Company has a $500.0 million committed revolving credit facility, maturing in November 2026, with a syndicate of financial institutions. Debt under this facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

No amounts were drawn on this revolving credit facility as at December 31, 2022 or 2021. Standby letters of credit issued utilized $28.9 million of the facility as at December 31, 2022 (2021 – $28.8 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, 2022 and 2021.

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

| | | Principal | | Interest |
|---|---|---|---|---|
| 2023 | $ | — | $ | 24,765 |
| 2024 | | — | | 24,765 |
| 2025 | | 150,000 | | 23,374 |
| 2026 | | — | | 19,200 |
| 2027 | | 500,000 | | 16,000 |
| | $ | 650,000 | $ | 108,104 |

Interest expense includes interest on debt initially incurred for a term of one year or greater and was $26.7 million in 2022 (2021 – $27.5 million).

## 12. 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, 2022 and 2021.

A continuity of the shares issued and outstanding for the years ended December 31, 2022 and 2021 is presented in the consolidated statements of changes in shareholders' equity.

### Shareholder Rights Plan ("SRP")

The SRP is a "new generation" shareholder rights plan, 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 was renewed in April 2022, and expires at the end of the annual meeting of shareholders in 2024.

### Normal Course Issuer Bid ("NCIB")

The Company's NCIB program was renewed on September 19, 2022. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 18, 2023, representing 10% of common shares in the public float, as estimated at the time of renewal. All shares purchased under the bid will be cancelled.

The Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker to enable the purchase of common shares under the NCIB, during regular trading blackout periods. The volume of the purchases is determined by the broker based on share price and maximum volume parameters established by the Company under the ASPP prior to the commencement of each blackout period. As at December 31, 2022 and 2021, there was no obligation for the repurchase of shares under the ASPP.

The Company purchased and cancelled 473,100 common shares for $48.5 million (average cost of $102.52 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2022.

The Company purchased and cancelled 470,600 common shares for $50.0 million (average cost of $106.25 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2021.

### Dividends Paid

The Company paid dividends of $125.2 million ($1.52 per share) for the year ended December 31, 2022, and $109.1 million ($1.32 per share) for the year ended December 31, 2021.

### Dividends Declared

| | **2022** | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **Dividend** | **Record Date** | **Dividend Amount Per Share** | **Payment Date** | **Total Dividends Declared ($ millions)** | Record Date | Dividend Amount Per Share | Payment Date | Total Dividends Declared ($ millions) |
| Quarter 1 | **Mar. 9, 2022** | **$ 0.39** | **Apr. 4, 2022** | **$ 32.2** | Mar. 9, 2021 | $ 0.31 | Apr. 1, 2021 | $ 25.6 |
| Quarter 2 | **Jun. 9, 2022** | **0.39** | **Jul. 5, 2022** | **32.1** | Jun. 9, 2021 | 0.35 | Jul. 5, 2021 | 28.9 |
| Quarter 3 | **Sep. 8, 2022** | **0.39** | **Oct. 4, 2022** | **32.1** | Sep. 8, 2021 | 0.35 | Oct. 4, 2021 | 29.0 |
| Quarter 4 | **Dec. 8, 2022** | **0.39** | **Jan. 5, 2023** | **32.1** | Dec. 8, 2021 | 0.35 | Jan. 5, 2022 | 28.9 |
| | | **$ 1.56** | | **$ 128.5** | | $ 1.36 | | $ 112.4 |

($ thousands, except where otherwise indicated)

On February 14, 2023, the Board of Directors declared a quarterly dividend of $0.43 per common share, payable on April 4, 2023, to shareholders on record on March 9, 2023.

## 13. FINANCIAL INSTRUMENTS

### Financial Assets and Liabilities – Classification and Measurement

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

| | | **2022** | | 2021 |
|---|---|---|---|---|
| **Other financial liabilities:** | | | | |
| Long-term debt | **$** | **647,060** | $ | 646,337 |
| **Derivative financial instruments assets, net:** | | | | |
| Foreign exchange forward contracts | **$** | **18,530** | $ | 5,252 |

### Fair Value of Financial Instruments

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 as 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 are as follows:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| **Long-term debt:** | | | | |
| Fair value | **$** | **626,585** | $ | 695,285 |
| Carrying value | **$** | **650,000** | $ | 650,000 |

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.

During the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

### Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency-denominated obligations related to purchases of inventory and sales of products. As at December 31, 2022, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $664.0 million at an average exchange rate of $1.3247, maturing between January 2023 and December 2024; and (ii) US dollar sale contracts with a notional amount of $87.5 million at an average exchange rate of $1.3565, maturing between January 2023 and October 2023.

Management estimates that a gain of $18.5 million (2021 – gain of $5.3 million) would be realized if the contracts were terminated on December 31, 2022. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized gain of $13.3 million (2021 – unrealized gain of $3.9 million) has been included in OCI. These gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable 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 gain of $5.2 million (2021 – gain of $1.4 million) on forward contracts not designated as hedges is included in net earnings, which offsets losses recorded on the associated 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.

## 14. 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 and cash equivalents, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments.

As at December 31, 2022, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $1.0 million (decrease) increase in OCI for financial instruments held in foreign operations, and a

$4.0 million (decrease) increase in net earnings and $19.8 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 and cash equivalents, 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 and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from customers engaged in various industries including mining, construction, food and beverage, and governmental agencies. These specific customers may be affected by economic factors that may impact accounts receivable. 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, 2022 or 2021.

The Company had no floating-rate debt outstanding as at December 31, 2022 or 2021.

**Liquidity Risk**

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2022, the Company had unutilized lines of credit of $471.1 million (2021 – $471.2 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 2023, together with currently available cash and cash equivalents 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.

($ thousands, except where otherwise indicated)

## 15. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

| | 2022 | 2021 |
|---|---|---|
| Credit facilities | $ 1,521 | $ 2,253 |
| Senior debentures | 25,166 | 25,246 |
| Interest on lease liabilities | 651 | 662 |
| | $ 27,338 | $ 28,161 |

The components of interest and investment income were as follows:

| | 2022 | 2021 |
|---|---|---|
| Interest on conversion of rental equipment | $ 4,760 | $ 2,635 |
| Interest income | 17,472 | 6,392 |
| | $ 22,232 | $ 9,027 |

## 16. INCOME TAXES

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

| | 2022 | 2021 |
|---|---|---|
| Current income tax expense | $ 155,017 | $ 120,506 |
| Deferred income tax expense | 9,848 | 3,587 |
| **Total income tax expense** | $ 164,865 | $ 124,093 |

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

| | 2022 | 2021 |
|---|---|---|
| Statutory Canadian federal and provincial income tax rates | 26.5 % | 26.5 % |
| Expected taxes on income | $ 164,052 | $ 121,053 |
| Increase (decrease) in income taxes resulting from: | | |
| Higher effective tax rates in other jurisdictions | 1,323 | 1,139 |
| Manufacturing and processing rate reduction | (42) | (54) |
| Expenses not deductible for tax purposes | 2,433 | 2,165 |
| Non-taxable gains | (3,096) | (881) |
| Effect of change in future income tax rate | (223) | 61 |
| Other | 418 | 610 |
| **Provisions for income taxes** | $ 164,865 | $ 124,093 |
| **Effective income tax rate** | 26.6 % | 27.2 % |

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.

($ thousands, except where otherwise indicated)

The sources of deferred income taxes were as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Accrued liabilities | $ | **32,826** | $ | 29,157 |
| Deferred revenue and contract liabilities | | **5,822** | | 9,627 |
| Accounts receivable | | **6,336** | | 5,139 |
| Inventories | | **9,479** | | 6,741 |
| Deferred tax assets on current assets and current liabilities | $ | **54,463** | $ | 50,664 |
| Capital assets | $ | **(95,091)** | $ | (82,983) |
| Goodwill and intangible assets | | **(41,486)** | | (38,369) |
| Other | | **1,396** | | 946 |
| Cash flow hedges on OCI | | **(3,641)** | | (1,011) |
| Post-employment obligations | | **2,345** | | 22,302 |
| Deferred tax (liabilities) on non-current assets and non-current liabilities | $ | **(136,477)** | $ | (99,115) |
| **Net deferred tax liabilities** | $ | **(82,014)** | $ | (48,451) |

The movement in net deferred income taxes was as follows:

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Balance, January 1 | $ | **(48,451)** | $ | (24,722) |
| Tax (expense) recovery recognized in income | | **(9,848)** | | (3,587) |
| Foreign exchange and other | | **98** | | 26 |
| Tax (expense) recovery recognized in OCI | | **(23,813)** | | (20,168) |
| **Balance, December 31** | $ | **(82,014)** | $ | (48,451) |

The aggregate amount of unremitted earnings in the Company's subsidiaries was $44.7 million (2021 – $35.9 million). These earnings can be remitted with no tax consequences.

## 17. EARNINGS PER SHARE

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Net earnings available to common shareholders | $ | **454,198** | $ | 332,710 |
| Weighted average common shares outstanding | | **82,339,480** | | 82,547,961 |
| Effect of dilutive securities | | **638,844** | | 721,490 |
| Weighted average common shares outstanding ─ diluted | | **82,978,324** | | 83,269,451 |
| Earnings per share: | | | | |
| Basic | $ | **5.52** | $ | 4.03 |
| Diluted | $ | **5.47** | $ | 4.00 |

For the year ended December 31, 2022, 166,500 outstanding share options with a weighted average exercise price of $107.36 were considered anti-dilutive (exercise price in excess of average market price during the year) and, as such, were excluded from the calculation of diluted earnings per share. For the comparative period in 2021, 367,957 outstanding share options with a weighted average exercise price of $104.91 that were considered anti-dilutive.

($ thousands, except where otherwise indicated)

## 18. EMPLOYEE BENEFITS EXPENSE

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Wages and salaries | $ | 653,384 | $ | 608,989 |
| Other employment benefit expenses | | 84,558 | | 86,488 |
| Share-based compensation expense | | 6,800 | | 6,471 |
| Pension costs | | 32,577 | | 40,216 |
| | $ | 777,319 | $ | 742,164 |

## 19. SHARE-BASED COMPENSATION

### Share Option Plan

The Company maintains a share option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company's policy that the aggregate number of options that may be granted in any one calendar year shall not exceed 1% of the outstanding shares as of the beginning of the year in which a grant is made (2022 – 824,439; 2021 – 824,746).

Share 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, 2022 and 2021, was as follows:

| | | | 2022 | | | 2021 |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Options outstanding, January 1 | 2,167,025 | $ | 68.44 | 2,328,038 | $ | 58.67 |
| Granted | 166,500 | | 107.36 | 367,957 | | 104.91 |
| Exercised [1] | (347,291) | | 59.41 | (439,910) | | 49.45 |
| Forfeited | (18,342) | | 80.75 | (89,060) | | 57.59 |
| **Options outstanding, December 31** | 1,967,892 | $ | 73.21 | 2,167,025 | $ | 68.44 |
| **Options exercisable, December 31** | 922,681 | $ | 59.38 | 837,687 | $ | 52.76 |

[1] The weighted average share price at the date of exercise for the year ended December 31, 2022 was $107.31 (2021 – $105.62).

The following table summarizes share options outstanding and exercisable as at December 31, 2022:

| | 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 – $36.65** | **161,290** | **2.1** | **$** | **32.40** | **161,290** | **$** | **32.40** |
| **$36.66 – $53.88** | **247,950** | **4.2** | | **48.02** | **247,950** | | **48.02** |
| **$53.89 – $72.95** | **1,030,544** | **6.8** | | **69.02** | **441,123** | | **68.17** |
| **$72.96 – $107.36** | **528,108** | **8.8** | | **105.68** | **72,318** | | **104.91** |
| | **1,967,892** | **6.6** | **$** | **73.21** | **922,681** | **$** | **59.38** |

($ thousands, except where otherwise indicated)

The fair values of the share options granted during 2022 and 2021 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2022 | 2021 |
|---|---|---|
| Fair value price per option | **$ 22.27** | $ 18.23 |
| Share price | **$ 107.36** | $ 104.91 |
| Expected life of options (years) | **5.30** | 5.30 |
| Expected share price volatility | **21.5 %** | 21.5 % |
| Expected dividend yield | **1.45 %** | 1.33 % |
| Risk-free interest rate | **2.77 %** | 0.90 % |

## Deferred Share Unit ("DSU") Plans

The Company offers DSU plans 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.

A reconciliation of the cash-settled DSU plan was as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **Number of DSUs** | **Value** | Number of DSUs | Value |
| Outstanding, January 1 | **202,969** | **$ 23,074** | 394,154 | $ 35,555 |
| Units taken or taken in lieu and dividends | **20,307** | **2,231** | 26,748 | 2,653 |
| Redemptions | **(33,148)** | **(3,535)** | (217,933) | (21,751) |
| Fair market value adjustments | **—** | **(3,242)** | — | 6,617 |
| Outstanding, December 31 | **190,128** | **$ 18,528** | 202,969 | $ 23,074 |

The liability for cash-settled DSUs is recorded in accounts payable and accrued liabilities.

The Company introduced an equity-settled DSU plan during the year as part of the long-term incentive plan described below. A total of 7,534 units were taken in lieu, valued at $778 thousand, which is included in selling and administrative expenses with a credit to contributed surplus.

## Long-term Incentive Plan ("LTIP")

On April 28, 2022, shareholders approved the adoption of certain changes to the Company's LTIP. There was no change to the Company's existing share option and cash-settled DSU plans, both of which remain in place. Under the LTIP, the Company introduced performance share units ("PSUs"), restricted share units ("RSUs"), executive deferred share units ("EDSUs") and equity-settled DSUs. The Company has the ability to grant options and awards under all of these respective plans. The Company intends that total incentive award grants will be based on historical share option grant levels at approximately a 50/50 split between share options and grants under the LTIP.

Details of each grant will be determined at the date of grant, including performance requirements, vesting and settlement method. PSUs and RSUs will settle upon vesting, while EDSUs and equity-settled DSUs will settle upon cessation of service to the Company. PSU vesting will be based upon the achievement of performance objectives established at the time of grant by the Board of Directors. The maximum number of common shares reserved for issuance, in aggregate, under the LTIP, will be 750,000, representing 0.9% of the issued and outstanding shares at February 26, 2022.

($ thousands, except where otherwise indicated)

During the year, 7,134 RSUs and 28,024 PSUs were granted under the LTIP. Expense of $557 thousand is included in selling and administrative expenses with a credit to contributed surplus.

### 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 $3.8 million in 2022 (2021 – $3.3 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

## 20. POST-EMPLOYMENT OBLIGATIONS

### Defined Contribution Plans

The Company sponsors pension arrangements for more than 4,425 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:

| | 2022 | 2021 |
|---|---|---|
| Defined contribution plans | **$ 17,443** | $ 16,193 |
| 401(k) matched savings plans | **379** | 327 |
| | **$ 17,822** | $ 16,520 |

### Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,300 active employees. In late 2020, a plan merger of all seven funded defined benefit pension plans was announced effective December 31, 2020. Regulatory approval was received at various dates in 2021 and 2022, and as at December 31 2022, the transfer of assets and defined benefit obligations has been completed.

In October 2021, an annuity purchase transaction was entered into in which the defined benefit obligations associated with retired plan members were assumed by a third-party insurer.

a) Defined Benefit Pension Plans – The Company sponsors seven former plans. Six of these plans provide pension benefits based on length of service and career average earnings and five plans are contributory. The merged funded plan is registered with the Ontario provincial regulators and is subject to provincial pension legislation as well as the *Income Tax Act* (Canada). The plans 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 actuarial valuation for the merged plan was completed as of December 31, 2020, with the next valuation scheduled as at December 31, 2023.

b) Executive Pension Plan – The plan is a supplemental pension plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. As at December 31, 2022, the Company has posted letters of credit in the amount of $13.6 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2022. The next valuation is scheduled as at December 31, 2023.

c) Post-employment Benefit Plans – These plans provide supplementary post-employment health and life insurance coverage to certain employees as well as disability coverage for active employees. The post-employment health and life insurance coverage covers a closed group of approximately 450 retirees and no active employees will receive post-employment benefits. 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 January 1, 2020, with the next valuation scheduled as at January 1, 2023.

**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.

($ thousands, except where otherwise indicated)

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

| | Pension Benefit Plans | | Other Post-employment Benefit Plans | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Defined benefit obligations:** | | | | |
| Balance, January 1 | **$ 342,860** | $ 614,183 | **$ 20,475** | $ 21,629 |
| Settle due to buy-out annuity transactions | **1,548** | (215,881) | **—** | — |
| Current service cost | **12,427** | 14,662 | **1,098** | 1,111 |
| Interest cost | **10,343** | 14,258 | **550** | 483 |
| Actuarial remeasurement (gains) losses arising from: | | | | |
| Experience adjustments | **(1,582)** | (6,726) | **(465)** | (365) |
| Changes in financial assumptions | **(110,130)** | (51,514) | **(3,856)** | (1,158) |
| Benefits paid | **(15,971)** | (29,802) | **(1,203)** | (1,225) |
| Contributions by plan participants | **3,397** | 3,680 | **—** | — |
| **Balance, December 31** | **242,892** | 342,860 | **16,599** | 20,475 |
| | | | | |
| **Plan Assets** | | | | |
| Far value, January 1 | **286,622** | 486,361 | **—** | — |
| Purchase of buy-out annuities | **1,548** | (220,913) | **—** | — |
| Interest income on plan assets | **8,713** | 11,621 | **—** | — |
| Return on plan assets (excluding amounts include in net interest) | **(41,140)** | 14,379 | **—** | — |
| Contributions by the Company | **10,818** | 21,296 | **1,203** | 1,221 |
| Contributions by plan participants | **3,397** | 3,680 | **—** | — |
| Benefits paid | **(15,971)** | (29,802) | **(1,203)** | (1,221) |
| Fair value, December 31 | **253,987** | 286,622 | **—** | — |
| **Effect of asset ceiling limit** | **—** | (5,999) | **—** | — |
| **Fair value, December 31, net of asset ceiling limit** | **253,987** | 280,623 | **—** | — |
| | | | | |
| **Net post-employment obligations** | **$ (11,095)** | $ 62,237 | **$ 16,599** | $ 20,475 |

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

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Defined Benefit Obligations** | **Plan Assets** | **Net Post-Employment Obligations** | Defined Benefit Obligations | Plan Assets | Net Post-Employment Obligations |
| Defined Benefit Pension Plans | **$ 228,899** | **$ 253,987** | **$ 25,088** | $ 325,529 | $ 280,623 | $ (44,906) |
| Executive Pension Plan | **13,993** | **—** | **(13,993)** | 17,331 | — | (17,331) |
| Post-employment Benefit Plans | **16,599** | **—** | **(16,599)** | 20,475 | — | (20,475) |
| **Post-employment obligations, net** | **$ 259,491** | **$ 253,987** | **$ (5,504)** | $ 363,335 | $ 280,623 | $ (82,712) |

The plans with a net retirement surplus have been classified as non-current assets on the statement of financial position (note 7).

($ thousands, except where otherwise indicated)

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, and adjusted to reflect differences in each Plan.

| | **2022** | 2021 |
|---|---|---|
| Discount rate | **5.09 %** | 3.05 % |
| 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:

| | **2022** | 2021 |
|---|---|---|
| Service cost | **$ 13,525** | $ 15,773 |
| Net interest expense | **2,180** | 3,120 |
| Remeasurements | **(950)** | (229) |
| Settlement charges | **—** | 5,032 |
| | **$ 14,755** | $ 23,696 |

In October 2021, an annuity purchase transaction was entered into in which the defined benefit obligations associated with retired plan members were assumed by a third-party insurer, in exchange for a lump-sum payment of $221 million from plan assets. A settlement charge of $5.0 million in connection with this transaction was recorded in selling, general and administrative expenses. Toromont considers, for accounting purposes, that this buy-out transaction essentially eliminates any further legal or constructive obligations for benefits, and that a settlement has occurred. In November 2022, there were premium adjustments with insurers to reflect data adjustments. Following the transaction, benefits for plan participants are protected under Assuris, the life insurance compensation association designated under the *Insurance Companies Act* of Canada. Toromont considers the combined risk of a) the insurer going bankrupt and b) that Toromont would be responsible for paying the portion of pensions not covered by Assuris should the insurer go bankrupt, remote.

Pre-tax amounts recognized in OCI were as follows:

| | **2022** | 2021 |
|---|---|---|
| Actuarial (gains) losses arising from experience adjustments | **$ (2,047)** | $ (7,091) |
| Actuarial (gains) losses arising from changes in financial assumptions | **(113,035)** | (52,443) |
| Return on plan assets less (greater) than net interest recognized | **41,140** | (14,379) |
| Effect of asset ceiling limit | **(5,999)** | 5,999 |
| | **$ (79,941)** | $ (67,914) |

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

| | **2022** | 2021 |
|---|---|---|
| Debt securities | **34.0 %** | 38.5 % |
| Equity securities | **43.7 %** | 42.8 % |
| Real estate assets | **19.6 %** | 15.5 % |
| Cash and cash equivalents | **2.7 %** | 3.2 % |

($ thousands, except where otherwise indicated)

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 – infrastructure assets valued based on appraisals performed by a qualified external appraiser.
- Cash and cash equivalents – generally recorded at cost, which approximates fair value.

The actual return on plan assets for the year ended December 31, 2022 was a loss of $32.4 million (2021 – gain of $26.0 million).

The Company expects to contribute $29.0 million to pension and other benefit plans in 2023, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations as at December 31, 2022 was 15.9 years (2021 – 19.8 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, 2022, 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-employment Benefit Plans** | **Total** |
| Period-end discount rate | 1% increase | $ (35,081) | $ (1,312) | $ (36,393) |
| | 1% decrease | $ 44,835 | $ 1,536 | $ 46,371 |
| Mortality | Increase of 1 year in expected lifetime of plan participants | $ 4,849 | $ (248) | $ 4,601 |
| Trend rate | 1% increase | NA | $ 1,152 | $ 1,152 |

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.

## 21. CAPITAL MANAGEMENT

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

($ thousands, except where otherwise indicated)

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:

| | **2022** | 2021 |
|---|---|---|
| Long-term debt | **$ 647,060** | $ 646,337 |
| *Less:* Cash and cash equivalents | **927,780** | 916,830 |
| Net debt | **(280,720)** | (270,493) |
| Shareholders' equity | **2,325,359** | 1,953,329 |
| **Total capitalization** | **$ 2,044,639** | $ 1,682,836 |
| **Net debt as a % of total capitalization** | **(14)%** | (16)% |
| **Net debt to equity** | **(0.12):1** | (0.14):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, 2022 and 2021.

There were no changes in the Company's approach to capital management during the years ended December 31, 2022 and 2021.

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

| | **2022** | 2021 |
|---|---|---|
| Net change in non-cash working capital and other | | |
| Accounts receivable | **$ (127,738)** | $ 89,636 |
| Inventories | **(305,338)** | 7,983 |
| Accounts payable and accrued liabilities | **103,566** | (12,915) |
| Provisions | **2,249** | (1,241) |
| Deferred revenue and contract liabilities | **105,675** | 61,458 |
| Income taxes | **13,414** | (8,042) |
| Derivative financial instruments | **(3,165)** | (7,941) |
| Other | **(2,423)** | 384 |
| | **$ (213,760)** | $ 129,322 |
| Cash paid during the year for: | | |
| Interest | **$ 24,775** | $ 26,162 |
| Income taxes | **$ 144,446** | $ 132,109 |
| Cash received during the year for: | | |
| Interest | **$ 18,804** | $ 8,692 |
| Income taxes | **$ 2,708** | $ 3,712 |

($ thousands, except where otherwise indicated)

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

| | Long-term Debt | Total |
|---|---|---|
| Balance, January 1, 2021 | $ 646,299 | $ 646,299 |
| Financing costs paid | (961) | (961) |
| Deferred financing costs | 999 | 999 |
| Balance, December 31, 2021 | $ 646,337 | $ 646,337 |
| **Deferred financing costs** | **723** | **723** |
| **Balance, December 31, 2022** | **$ 647,060** | **$ 647,060** |

## 23. COMMITMENTS

Future minimum lease payments under non-cancellable leases as at December 31, 2022 were $7.7 million within one year, $12.7 million within two and five years and $3.5 million thereafter.

## 24. 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 2.

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 income taxes, deferred income 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.

($ thousands, except where otherwise indicated)

## 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 – The Cat Rental Store – 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 for the years ended December 31, 2022 and 2021:

| | Equipment Group | | CIMCO | | Consolidated | |
|---|---|---|---|---|---|---|
| **Years ended December 31** | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Equipment/package sales | **$ 1,795,255** | $ 1,721,382 | **$ 173,273** | $ 208,854 | **$ 1,968,528** | $ 1,930,236 |
| Rentals | **452,140** | 387,755 | **—** | — | **452,140** | 387,755 |
| Product support | **1,621,948** | 1,405,128 | **177,710** | 152,399 | **1,799,658** | 1,557,527 |
| Power generation | **10,410** | 11,019 | **—** | — | **10,410** | 11,019 |
| **Total revenue** | **$ 3,879,753** | $ 3,525,284 | **$ 350,983** | $ 361,253 | **$ 4,230,736** | $ 3,886,537 |
| **Operating income** | **$ 597,677** | $ 450,950 | **$ 26,492** | $ 24,987 | **$ 624,169** | $ 475,937 |
| Interest expense | | | | | **27,338** | 28,161 |
| Interest and investment income | | | | | **(22,232)** | (9,027) |
| Income taxes | | | | | **164,865** | 124,093 |
| **Net earnings** | | | | | **$ 454,198** | $ 332,710 |

Operating income from rental operations for the year ended December 31, 2022 was $90.0 million (2021 – $57.9 million).

($ thousands, except where otherwise indicated)

Selected consolidated statements of financial position information:

| | Equipment Group | | CIMCO | | Consolidated | |
|---|---|---|---|---|---|---|
| **As at December 31** | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Identifiable assets | **$ 3,008,818** | $ 2,489,821 | **$ 155,371** | $ 122,771 | **$ 3,164,189** | $ 2,612,592 |
| Corporate assets | | | | | **1,017,936** | 971,204 |
| **Total assets** | | | | | **$ 4,182,125** | $ 3,583,796 |
| Identifiable liabilities | **$ 916,632** | $ 780,072 | **$ 83,347** | $ 70,039 | **$ 999,979** | $ 850,111 |
| Corporate liabilities | | | | | **856,787** | 780,356 |
| **Total liabilities** | | | | | **$ 1,856,766** | $ 1,630,467 |
| **Capital expenditures, net** | **$ 217,262** | $ 114,653 | **$ 9,131** | $ 21,729 | **$ 226,393** | $ 136,382 |
| **Depreciation expense** | **$ 152,884** | $ 147,482 | **$ 6,725** | $ 6,736 | **$ 159,609** | $ 154,218 |

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** | **2022** | 2021 |
|---|---|---|
| Canada | **$ 4,120,007** | $ 3,795,634 |
| United States | **109,706** | 87,745 |
| International | **1,023** | 3,158 |
| **Revenue** | **$ 4,230,736** | $ 3,886,537 |

| **As at December 31** | **2022** | 2021 |
|---|---|---|
| Canada | **$ 1,175,207** | $ 1,065,798 |
| United States | **5,486** | 4,328 |
| **Capital assets and goodwill** | **$ 1,180,693** | $ 1,070,126 |

## 25. RELATED PARTY DISCLOSURES

### Key Management Personnel Compensation

Key management includes the Company's directors and named executive officers. The remuneration of key management is determined by the Human Resources and Health and Safety Committee, having regard to the performance of the individual and Company and market trends. The compensation paid or payable to key management for employee and director services is shown below:

| | **2022** | 2021 |
|---|---|---|
| Salaries | **$ 3,311** | $ 3,378 |
| Share options and DSU awards | **3,082** | 2,516 |
| Annual non-equity incentive based plan compensation | **3,495** | 3,200 |
| Pension costs | **754** | 640 |
| All other compensation | **131** | 150 |
| | **$ 10,773** | $ 9,884 |

## 26. ECONOMIC RELATIONSHIP

The Company, through its Equipment Group, sells and services heavy equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. The distribution and servicing of 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) | **2022** | 2021 | 2020 |
|---|---|---|---|
| **OPERATING RESULTS** | | | |
| Revenues | **4,230,736** | 3,886,537 | 3,478,897 |
| Net earnings | **454,198** | 332,710 | 254,915 |
| Net interest expense | **5,106** | 19,134 | 20,898 |
| Capital expenditures, net | **226,393** | 136,382 | 69,253 |
| Dividends declared | **128,463** | 112,344 | 101,953 |
| **FINANCIAL POSITION** | | | |
| Working capital | **1,512,456** | 1,294,739 | 1,077,928 |
| Capital assets | **1,086,913** | 976,346 | 962,694 |
| Total assets | **4,182,125** | 3,583,796 | 3,346,792 |
| Non-current portion of long-term debt | **647,060** | 646,337 | 646,299 |
| Shareholders' equity | **2,325,359** | 1,953,329 | 1,698,652 |
| **FINANCIAL RATIOS** | | | |
| Working capital | **2.4:1** | 2.6:1 | 2.4:1 |
| Return on opening shareholders' equity (%) | **23.5** | 19.6 | 16.6 |
| Total debt, net of cash, to shareholders' equity | **(.12):1** | (.14):1 | .03:1 |
| **PER SHARE DATA ($)** | | | |
| Basic earnings per share | **5.52** | 4.03 | 3.10 |
| Diluted earnings per share | **5.47** | 4.00 | 3.09 |
| Dividends declared | **1.56** | 1.36 | 1.24 |
| Book value (shareholders' equity) | **28.25** | 23.69 | 20.60 |
| Shares outstanding at year end | **82,318,159** | 82,443,968 | 82,474,658 |
| Price range | | | |
| High | **124.25** | 115.23 | 94.86 |
| Low | **93.25** | 84.61 | 52.36 |
| Close | **97.71** | 114.36 | 89.20 |

Notes

(1) 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.

(2) 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.

| 2019 | 2018 | 2017[2] | 2016 | 2015[1] | 2014 | 2013 |
|---|---|---|---|---|---|---|
| 3,678,705 | 3,504,236 | 2,350,162 | 1,912,040 | 1,846,723 | 1,660,390 | 1,593,431 |
| 286,800 | 251,984 | 175,970 | 155,748 | 145,666 | 133,196 | 123,031 |
| 17,955 | 21,725 | 7,618 | 3,236 | 5,246 | 4,034 | 4,900 |
| 209,855 | 165,146 | 100,954 | 85,031 | 113,911 | 76,893 | 71,267 |
| 88,192 | 74,516 | 60,402 | 56,280 | 52,882 | 46,267 | 39,854 |
| | | | | | | |
| 829,275 | 653,906 | 767,374 | 575,382 | 486,293 | 294,753 | 356,347 |
| 1,020,930 | 954,306 | 881,877 | 454,104 | 429,824 | 371,661 | 341,152 |
| 3,371,337 | 3,234,531 | 2,866,945 | 1,394,212 | 1,276,077 | 1,107,802 | 1,030,555 |
| 645,471 | 644,540 | 893,806 | 150,717 | 152,079 | 4,942 | 130,948 |
| 1,533,891 | 1,327,679 | 1,124,727 | 885,432 | 775,281 | 668,075 | 576,557 |
| | | | | | | |
| 1.8:1 | 1.6:1 | 2.1:1 | 2.8:1 | 2.6:1 | 1.7:1 | 2.2:1 |
| 21.4 | 22.3 | 19.3 | 20.0 | 21.6 | 23 | 25.7 |
| .18:1 | .23:1 | .65:1 | (.04):1 | .11:1 | .07:1 | .11:1 |
| | | | | | | |
| 3.52 | 3.10 | 2.22 | 1.99 | 1.88 | 1.73 | 1.61 |
| 3.49 | 3.07 | 2.20 | 1.98 | 1.86 | 1.71 | 1.59 |
| 1.08 | 0.92 | 0.76 | 0.72 | 0.68 | 0.60 | 0.52 |
| 18.70 | 16.35 | 13.89 | 11.29 | 9.95 | 8.65 | 7.50 |
| 82,012,448 | 81,226,383 | 80,949,819 | 78,398,456 | 77,905,821 | 77,259,396 | 76,844,897 |
| | | | | | | |
| 71.15 | 68.11 | 58.44 | 44.44 | 37.61 | 28.97 | 26.94 |
| 52.71 | 46.24 | 41.10 | 27.25 | 26.70 | 24.48 | 21.12 |
| 70.59 | 54.26 | 55.10 | 42.35 | 31.55 | 28.51 | 26.65 |

# Board of Directors

**Richard G. Roy**
Chair of the Board (Director since 2018)

**Peter J. Blake**‡*
Corporate Director (since 2019),
Chair of Environmental, Social and
Governance Committee

**Benjamin D. Cherniavsky***⁜
Corporate Director (since 2021)

**Jeffrey S. Chisholm**⁜‡
Corporate Director (since 2011),
Lead Director, Chair of Human Resources
and Health and Safety Committee

**Cathryn E. Cranston***‡
Corporate Director (since 2013),
Chair of Audit Committee

**Sharon L. Hodgson***⁜
Corporate Director (since 2019)

**Scott J. Medhurst**
President and Chief Executive Officer
(since 2012)

**Fredrick J. Mifflin***⁜
Corporate Director (since 2022)

**Katherine A. Rethy**⁜‡
Corporate Director (since 2013)

* Member of Audit Committee
⁜ Member of Human Resources and Health and Safety Committee
‡ Member of Environmental, Social and Governance Committee

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# Executive Team

## Corporate Executive

**Scott J. Medhurst**
President and Chief Executive Officer

**Michael McMillan**
Executive Vice President and Chief Financial Officer

**Michael P. Cuddy**
Vice President and Chief Information Officer

**Jennifer J. Cochrane**
Vice President, Finance

**Lynn M. Korbak**
General Counsel and Corporate Secretary

**Isabelle Leclerc**
Vice President, Human Resources

## Business Unit Leaders

**Joel Couture**
Chief Operating Officer, Toromont Cat

**Colin Goheen**
President, Battlefield Equipment Rentals

**David A. Malinauskas**
President, CIMCO Refrigeration

# Corporate Directory

**Toromont Cat**
3131 Highway 7 West
P.O. Box 5511
Concord, Ontario L4K 1B7
T: 416.667.5511 F: 416.667.5555

5001 Trans-Canada Highway
Pointe-Claire, Québec H9R 1B8
T: 514.630.3100  F: 514.630.9020

www.toromontcat.com

**Battlefield Equipment Rentals**
880 South Service Road
Stoney Creek, Ontario L8E 5M7
T: 905.643.9410  F: 905.643.6008

www.battlefieldequipment.ca

**Toromont Material Handling**
425 Millway Avenue
Concord, Ontario L4K 3V8
T: 905.669.6590  F: 416.661.1513

www.toromontmaterialhandling.com

**AgWest Ltd.**
Highway #1 West
P.O. Box 432
Elie, Manitoba R0H 0H0
T: 204.353.3850  F: 877.353.2486

www.agwest.com

**CIMCO Refrigeration**
1551 Corporate Drive
Burlington, Ontario L7L 6E9
T: 416.465.7581

www.cimcorefrigeration.com

**Annual meeting**
The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am (EDT) on Friday, April 28, 2023.

Visit www.toromont.com for more details.

**How to get in touch with us**
T: 416.667.5511  F: 416.667.5555
E-mail: investorrelations@toromont.com

**How to reach our transfer Agent and Registrar**
Investors are encouraged to contact TSX Trust Company (Canada) for information regarding their security holdings.

TSX Trust Company (Canada)
P.O. Box 700, Station B
Montréal, Québec H3B 3K3
Toll-Free North America: 1.800.387.0825
Local: 416.682.3860
E-mail: shareholderinquiries@tmx.com

www.tsxtrust.com

**Common shares**
Listed on the Toronto Stock Exchange
Stock Symbol – TIH


Toromont's 2022 Sustainability Report is available at:

**www.toromont.com/sustainability**

TOROMONT

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