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, 2023 is prepared as at February 13, 2024, and should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2023.

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", "would", "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.

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 COVID-19 or a potential new world health issue; increased regulation of or restrictions placed on our businesses; 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, including reduction or disruption in supply or demand for our products stemming from external factors; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability and cost of financing; level and volatility of price and liquidity of Toromont's common shares; potential environmental liabilities and changes to environmental regulation; information technology failures, including data or cybersecurity breaches; failure to attract and retain key employees as well as the general workforce; 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; increased insurance premiums; and risk related to integration of acquired operations including cost of integration and ability to achieve the expected benefits. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections 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, 2023, Toromont employed over 7,000 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. 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; and forestry. 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.

DISPOSITION AND DISCONTINUED OPERATIONS

On May 1, 2023, the Company completed the sale of AgWest Ltd., a wholly owned subsidiary, in a share and asset transaction. Total proceeds were paid in cash of approximately $41.6 million and are subject to customary post-closing adjustments. AgWest Ltd. was reported in the Equipment Group. This transaction is not expected to have a material impact on Toromont's overall future operations, revenue or earnings.

The results of operations from this business have been presented as a discontinued operation. See note 4 in the consolidated financial statements. This MD&A reflects the results of continuing operations, unless otherwise noted.

CONSOLIDATED ANNUAL OPERATING RESULTS

($ thousands, except per share amounts)	**2023**	2022	$ change	% change
REVENUE	**$ 4,622,301**	$ 4,115,347	$ 506,954	12 %
Cost of goods sold	**3,377,412**	2,996,831	380,581	13 %
Gross profit [(1)]	**1,244,889**	1,118,516	126,373	11 %
Selling and administrative expenses	**540,661**	499,418	41,243	8 %
OPERATING INCOME [(1)]	**704,228**	619,098	85,130	14 %
Interest expense	**28,098**	27,331	767	3 %
Interest and investment income	**(45,982)**	(21,717)	(24,265)	nm
Income before income taxes	**722,112**	613,484	108,628	18 %
Income taxes	**193,005**	163,384	29,621	18 %
Net income from continuing operations	**$ 529,107**	$ 450,100	$ 79,007	18 %
Net income from discontinued operations	**5,605**	4,098	1,507	37 %
NET EARNINGS	**$ 534,712**	$ 454,198	$ 80,514	18 %
BASIC EARNINGS PER SHARE				
Continuing operations	**$ 6.43**	$ 5.47	$ 0.96	18 %
Discontinued operations	**0.07**	0.05	0.02	40 %
	$ 6.50	$ 5.52	$ 0.98	18 %
KEY RATIOS:				
Gross profit margin [(1)]	**26.9%**	27.2%		
Selling and administrative expenses as a % of revenue	**11.7%**	12.1%		
Operating income margin [(1)]	**15.2%**	15.0%		
Income taxes as a % of income before income taxes	**26.7%**	26.6%		
Return on capital employed [(1)]	**30.1%**	32.1%		
Return on equity [(1)]	**22.8%**	23.3%		

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

The Company delivered strong bottom line results in 2023, reflecting good execution on strong opening backlog, customer demand for products and services, and favourable operating leverage. Higher revenue in both the Equipment Group and CIMCO, lower relative expenses and higher interest income on cash balances, were partially offset by lower gross margins. Rental and product support revenue increased on greater customer activity, utilization of the larger fleet and improved execution. General economic uncertainty and macroeconomic factors such as inflation, higher interest rates, geopolitical instability, and the Canadian dollar movements continue to challenge the business, as well as influence buying patterns, and are expected to continue to do so as we progress into 2024.

Revenue for the year increased 12% from prior year to $4.6 billion. Equipment Group revenue increased 12% compared to last year on higher equipment sales, product support revenue and rental activity. Used equipment sales were lower despite an increase in rental fleet dispositions of aged units, largely reflecting supply and demand of equipment. CIMCO revenue increased 13% versus last year, on higher package and product support activity levels. While we continue to see improvement in the inflow of inventory through the supply chain, challenges still exist in some product lines and parts, as well as customer delays.

Gross profit margin decreased 30 basis points ("bps") to 26.9% versus 27.2% for last year. The Equipment Group reported lower margins in most areas, coupled with an unfavourable sales mix, while CIMCO margins increased on good execution. Product support margins increased in both groups on higher volume and improved operating efficiencies.

Selling and administrative expenses for the year increased $41.2 million or 8% compared to the prior year. In 2023 property dispositions reduced expenses by $5.0 million (2022 – property related gains of $17.7 million). Excluding these items, expenses increased $28.6 million or 6% year over year, reflecting the higher activity levels. Compensation costs increased approximately $16.4 million, reflecting higher staffing levels, regular salary increases, and increased profit sharing accruals on the higher income, partially offset by lower defined benefit pension expense. 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 decreased $5.3 million compared to last year on improved aged receivables and good collections. A higher share price in the current period resulted in a $1.9 million mark-to-market expense on cash-settled DSUs, compared to a recovery of $3.2 million in 2022, a $6.1 million change. Selling and administrative expenses were 40 basis points lower as a percentage of revenue (11.7% versus 12.1% last year).

Operating income increased $85.1 million or 14% in the year on the higher revenue. Operating income margin increased 20 bps to 15.2%, reflecting the lower gross margins.

Interest expense was largely unchanged at $28.1 million due to our term debt and unused credit facility.

Interest and investment income increased $24.3 million or 112% in the year on higher average cash balances and higher interest rates on cash deposits.

The effective income tax rate for the year was up slightly to 26.7% compared to 26.6% last year, reflecting the lower capital gains rate on the property dispositions in both years.

Net earnings (including discontinued operations) for the year increased $80.5 million or 18% to $534.7 million from 2022. Basic earnings per share ("EPS") increased $0.98 or 18% to $6.50.

Other comprehensive loss of $17.4 million in the year (2022 – comprehensive income of $67.4 million) included an actuarial gain on post-employment benefit plans of $2.1 million (2022 – actuarial gain of $58.8 million). These gains reflect actuarial changes used in the valuation, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a unfavourable net change in the fair value of cash flow hedges of $19.0 million (2022 – favourable net change of $7.5 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.

The operating results below have been restated and reflect continuing operations, unless otherwise noted. AgWest Ltd. was previously reported in the Equipment Group results and now represent our discontinued operations results.

Equipment Group

($ thousands)	**2023**	2022	$ change	% change
Equipment sales and rentals				
New	**$ 1,647,757**	$ 1,377,446	$ 270,311	20 %
Used	**303,551**	315,140	(11,589)	(4)%
Rentals	**487,178**	452,039	35,139	8 %
Total equipment sales and rentals	**2,438,486**	2,144,625	293,861	14 %
Product support	**1,775,310**	1,609,330	165,980	10 %
Power generation	**11,326**	10,410	916	9 %
Total revenue	**$ 4,225,122**	$ 3,764,365	$ 460,757	12 %
Operating income	**$ 664,688**	$ 592,606	$ 72,082	12 %
KEY RATIOS:				
Product support revenue as a % of total revenue	**42.0%**	42.8%		
Operating income margin	**15.7%**	15.7%		
Group total revenue as a % of consolidated revenue	**91.4%**	91.5%		
Return on capital employed	**28.2%**	30.2%		

The Equipment Group delivered solid results in the year with good market activity driving higher revenue across most markets and regions, supported by a strong opening order backlog and gradually improving equipment availability. Rental and product support activity continued to increase, on higher utilization of the larger rental fleet and end customer demand, supported by the larger technician workforce. Lower gross margins and an unfavourable sales mix of higher equipment sales to total revenues were more than offset by lower relative expenses, resulting in improvements in operating income.

Total equipment revenue (new and used) increased $258.7 million or 15% compared to 2022, predominantly reflecting the inflow and delivery of equipment against the order backlog, coupled with end customer demand. New equipment sales increased 20% in the year, across all market segments and regions, as the supply of equipment improved. Used equipment sales decreased 4% during the year. Used equipment sales from trades and purchases have been lower in the current year as supply and demand dynamics shifted. Used equipment sales also include rental fleet dispositions, which have increased in the current year after a period of constraint, reflecting fleet management decisions (age of the fleet), as well as availability and cost of new equipment. Overall, equipment revenue by market segments was as follows for the year: construction markets higher +7%, mining up +42%, power systems up +17%, and material handling up +39%.

Rental revenue increased $35.1 million or 8% versus last year. All markets and most regions were up, reflecting higher market activity, strong execution and an expanded heavy and light equipment fleet. Revenue increases in each market were as follows: Light equipment rentals up +7%, heavy equipment rentals +11%, power systems +12%, and material handling +3%. As at December 31, 2023, the RPO fleet (rent with a purchase option) was $81.1 million versus $44.7 million at this time last year.

Product support revenue increased $166.0 million or 10% compared to last year with increases in both parts (up 10%) and service (up 12%). Activity was higher across all markets and in all regions on good end user activity as follows: construction markets +7%; mining +13%; power systems +17%; and material handling +8%.

Gross profit margin decreased 50 bps to 27.0% from 27.5% in 2022. Equipment margins were down 20 bps on improving availability in new equipment from suppliers. Rental margins were down 10 bps on lower fleet utilization, higher recent acquisition costs, in part due to a weaker Canadian dollar, and higher maintenance and repair costs. Product support margins increased 10 bps on continued focus on efficiency as well as higher activity levels. Sales mix, with a lower proportion of rental and product support revenues to total, decreased margin by 30 bps.

Selling and administrative expenses increased $34.7 million or 8% in 2023. In 2023 property dispositions reduced expenses by $5.0 million (2022 – property related gains of $17.7 million). Excluding these items, expenses increased $22.0 million or 5% year over year, reflecting the higher activity. Compensation costs were higher in both periods reflecting 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 in light of activity levels and inflationary pressures. Allowance for doubtful accounts decreased $7.3 million, reflecting good collection activity and improved aging of receivables. As a percentage of revenue, selling and administrative expenses were 40 bps lower at 11.3% in the current period versus 11.7% in the similar period last year.

Operating income increased $72.1 million or 12%. As a percentage of revenue, operating income was 15.7%, unchanged from the prior year, reflecting the higher revenue and lower expenses offset by the lower gross margins.

Capital expenditures

($ millions)	**2023**	2022	$ change	% change
Rental equipment				
Capital expenditures	**$ 221,650**	$ 214,693	$ 6,957	3 %
Proceeds on disposals	**60,707**	34,206	26,501	77 %
Net expenditure	**$ 160,943**	$ 180,487	$ (19,544)	(11)%
Property, plant and equipment				
Capital expenditures	**$ 115,256**	$ 61,089	$ 54,167	89 %

Investment in both the heavy and light equipment rental fleets across our territory continued in light of both improving market conditions and to support future growth initiatives. Fleet dispositions, as measured by proceeds, increased as aged units were disposed of, modernizing our fleet, and as equipment availability improved.

Property, plant and equipment additions increased in 2023, as business activity improved. Capital expenditures in 2023 included:

- $38.2 million related to the new, state-of-the art remanufacturing facility in Bradford, Ontario (planned opening in mid-2024);
- $19.0 million for upgraded facilities and locations across the business;
- $42.2 million for new and replacement service and delivery vehicles;
- $4.9 million for information technology infrastructure improvements and developments; and
- $12.0 million for other machinery and equipment for general operations.

Bookings and Backlog

($ millions)	**2023**	2022	$ change	% change
Bookings – years ended December 31	**$ 1,876.6**	$ 1,642.3	$ 234.3	14 %
Backlog – as at December 31	**$ 957.3**	$ 1,032.0	$ (74.7)	(7)%

New bookings increased $234.3 million or 14% in 2023, compared to 2022. Bookings in the following sectors were higher: construction (+1%), mining (+66%) and power systems (+23%), partially offset by lower orders in material handling (-21%).

Backlog of $957.3 million at December 31, 2023, was down $74.7 million or 7%, compared to the same time last year, reflecting improving equipment delivery from manufacturers as well as planned deliveries against customer orders. As at December 31, 2023, the breakdown of backlog by market was as follows: construction 26%; mining 38%; power systems 32%; and material handling 4%. Approximately 90% of the backlog is expected to be delivered over the next twelve months, however this is subject to timing of vendor supply and customer delivery schedules.

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.

CIMCO

($ thousands)	**2023**	2022	$ change	% change
Package sales	**$ 187,573**	$ 173,273	$ 14,300	8 %
Product support	**209,606**	177,710	31,896	18 %
Total revenue	**$ 397,179**	$ 350,983	$ 46,196	13 %
Operating income	**$ 39,540**	$ 26,492	$ 13,048	49 %
KEY RATIOS:				
Product support revenue as a % of total revenue	**52.8%**	50.6%		
Operating income margin	**10.0%**	7.5%		
Group total revenue as a % of consolidated revenue	**8.6%**	8.5%		
Return on capital employed	**60.4%**	41.9%		

CIMCO delivered improved results for 2023, with the advancement on construction schedules against a strong order backlog and improved execution. Product support activity continued to demonstrate strong growth, supported by the larger technician workforce. Operating income increased on the higher revenues, improved gross margins, and favourable sales mix (a higher proportion of product support revenues to total), partially offset by higher expenses.

Package sales increased $14.3 million or 8% versus 2022, with increases in both markets. Industrial market revenue was up 12%, with higher activity in the US (up 173%) offset by lower revenue in Canada (down 10%). Recreational market revenue increased 2%, as higher revenue in Canada (up 27%) was largely offset by lower US revenue (down 28%). 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 $31.9 million or 18% versus 2022 on higher activity levels in both Canada (up 12%) and the US (up 38%). Activity levels continued to improve on good customer demand and the increased technician base.

Gross profit margin increased 220 basis points versus last year to 26.0%. Package margins were up 120 bps, on good execution and the nature of projects in process. Product support margins increased 80 bps on improved execution and higher volume of market activity. A favourable sales mix, with a higher proportion of product support revenue to total revenue, accounted for 20 bps of the increase.

Selling and administrative expenses increased $6.5 million or 11% versus last year. Allowance for doubtful accounts increased $2.0 million on a larger balance of aged receivables and slower collections. Compensation costs increased reflecting staff levels, annual salary increases and higher profit sharing accruals on the higher earnings. Other expenditures such as travel and training expenses increased to support activity and staffing levels. Foreign exchange translation on US operations increased expenses by $0.4 million in the year. As a percentage of revenue, selling and administrative expenses improved to 16.0% in 2023 versus 16.3% in 2022, reflecting continued focus on expense controls.

Operating income increased by $13.0 million or 49% in 2023, reflecting improved gross margins and higher revenue. Operating income as percentage of revenue increased 250 bps to 10.0% compared to last year.

Capital expenditures

($ millions)	**2023**	2022	$ change	% change
Property, plant and equipment	**$ 6,573**	$ 9,206	$ (2,633)	(29)%

Capital expenditures in 2023 included final renovations at the new head office facility in Canada. Other expenditures included new and replacement service vehicles ($3.7 million), other machinery and equipment for general operations ($0.8 million) and information technology enhancements and upgrades ($0.6 million).

Bookings and Backlog

($ millions)	**2023**	2022	$ change	% change
Bookings – years ended December 31	**$ 245.9**	$ 206.9	$ 39.0	19 %
Backlog – as at December 31	**$ 255.2**	$ 198.4	$ 56.8	29 %

Bookings increased $39.0 million or 19% to $245.9 million in 2023. Industrial bookings were up 58% with an increase in both Canada (+50%) and in the US (+100%), with good market activity in our Western Canada and Quebec regions. Recreational bookings were down 30%, with lower orders in the US, down 62%, slightly offset by higher orders in Canada, up 2%.

Backlog of $255.2 million increased $56.8 million or 29% compared to 2022, with an increase in the industrial market being partially offset by a decrease in the recreational market. Industrial backlog increased 55%, with an increase in Canada (+68%), offset by a decrease in the US (-15% on a tough comparable). Recreational backlog was down 2%, as marginally higher backlog in Canada (+7%) was offset by lower backlog in the US (-9%). Approximately 85% of the backlog is expected to be realized as revenue over the next twelve months, however this is subject to construction schedules and potential changes stemming from supply chain dynamics.

CONSOLIDATED FINANCIAL CONDITION

The Company's strong financial position continued. At December 31, 2023, the ratio of net debt to total capitalization decreased to -17% (cash and cash equivalents exceeded debt) compared to -14% at December 31, 2022.

Non-cash Working Capital

The Company's investment in non-cash working capital was $704.0 million at December 31, 2023. The major components, along with the changes from prior year, are identified in the following table.

			Change	
($ thousands)	**2023**	2022	$	%
Accounts receivable	**$ 627,243**	$ 579,682	$ 47,561	8 %
Inventories	**1,119,071**	1,025,759	93,312	9 %
Other current assets	**23,733**	17,444	6,289	36 %
Accounts payable and accrued liabilities	**(619,318)**	(658,980)	39,662	(6)%
Provisions	**(30,269)**	(27,653)	(2,616)	9 %
Income tax payable	**(7,006)**	(28,653)	21,647	(76)%
Derivative financial instruments	**(13,946)**	18,530	(32,476)	nm
Dividends payable	**(35,383)**	(32,104)	(3,279)	10 %
Deferred revenue and contract liabilities	**(360,143)**	(309,349)	(50,794)	16 %
Total non-cash working capital	**$ 703,982**	$ 584,676	$ 119,306	20 %

Accounts receivable increased 8% from December 31, 2022, largely reflecting the higher trailing revenue (Q4 2023 revenue was 9% higher than Q4 2022). Days sales outstanding ("DSOs") were unchanged at 42 days, with a slight decrease in the Equipment Group (down 1 day) being offset by an increase in CIMCO (up 3 days). Collection activity and credit metrics are closely monitored, with added focus considering the current economic environment.

Inventories at December 31, 2023 were 9% higher compared to December 31, 2022, with increases in both Groups:

- Equipment Group inventories were up $87.7 million or 9% higher with increases in equipment (up $73.4 million or 13%) and work-in-progress (up $19.3 million or 21%), partly offset by lower parts inventories (down $5.0 million or 2%). Inventory levels are typically lowest at the end of the year due to seasonality, with inventories building during the year in advance of the busier selling period. Economic and other factors including supply chain issues have altered this pattern over the past two years. AgWest inventory at December 31, 2022 totalled $21.9 million.
- CIMCO inventories were up $5.6 million or 16%, predominantly led by higher work-in-process levels (up $6.5 million or 22%), slightly offset by lower parts inventories (down $0.8 million or 14%) reflecting the progression of construction schedules.

Other current assets are comprised of prepaid expenses and vendor deposits. These vary over time based on timing of ordering, receipt of invoice, vendor terms and payment.

Accounts payable and accrued liabilities at December 31, 2023, were 6% lower than at December 31, 2022, largely reflecting the timing of purchases and payment for inventory and other supplies. This was partly offset by higher cash-settled DSU liability (higher share price) and higher profit sharing accruals on the higher earnings.

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 loss of $13.9 million as at December 31, 2023. This is not expected to affect net earnings as the unrealized losses will offset future gains 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, 2023 payment, the quarterly dividend rate was increased 10.3% from $0.39 per share to $0.43 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; long-term product support maintenance contracts; and, customer deposits for equipment to be delivered in the future. These balances increased $33.7 million or 12.2%, in 2023, generally on timing of progress billings under long-term maintenance contracts, as well as customer deposits for future equipment deliveries, largely for the mining industry.
- 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 $17.1 million or 51.2%, 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, 2023, as outlined in note 9 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, 2023, 1.8 million options to purchase common shares were outstanding, of which 1.0 million were exercisable. Directors do not participate in the option program.

Long-Term Incentive Program

Amendments to the LTIP were effective in early 2022, the Company introduced performance share units ("PSUs"), restricted share units ("RSUs") and executive deferred share units ("EDSUs"). The Company has the ability to grant options and awards under each of these 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 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 under the LTIP is in aggregate 750,000.

A total of 14,396 restricted share units ("RSUs") and 56,784 performance share units ("PSUs") were outstanding under the LTIP as at December 31, 2023, including reinvested dividends.

LTIP expense of $3.6 million (2022 – $0.6 million) was included in selling and administrative expenses with a credit to contributed surplus during the year.

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 $4.4 million in 2023 (2022 – $3.8 million) were charged to selling and administrative expense when paid. Approximately 3,200 employees participate in the plan (2022 - 2,800) 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. 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 were issued under a cash-settled plan, while units elected or granted after that date will be issued under a share-settled plan.

As at December 31, 2023, 191,320 cash-settled DSUs were outstanding with a total value of $22.1 million (2022 – 190,128 units at a value of $18.5 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, 2023, 33,360 share-settled DSUs were outstanding (2022 – 7,534 units). 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.

<u>Defined Contribution Plans</u>

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, 2023, approximately 4,600 employees participated in Company-sponsored defined contribution plans.

<u>Defined Benefit Pension Plans</u>

The Company sponsors defined benefit plans, which provide pension benefits for approximately 1,100 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 $6.1 million during 2023 (a reduction in post employment obligations). Actuarial gains, largely related to a higher discount rate reduced the defined benefit obligation by $12.7 million. Stronger capital markets resulted in a positive return on plan assets, increasing the funded position by $13.7 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, 2023, the Company has posted letters of credit in the amount of $11.8 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.

<u>Post-employment Benefit Plans</u>

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 21 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 in September 2023. The current issuer bid allows the Company to purchase up to 8.2 million common shares during the 12-month period ending September 18, 2024. All shares purchased under the bid will be cancelled.

The Company purchased and cancelled 353,000 common shares for $37.5 million (average cost of $106.35 per share, including transaction costs) during the year ended December 31, 2023.

The Company maintains 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 are determined by the broker based on share price and maximum volume parameters established by the Company prior to the commencement of each blackout period. As at December 31, 2023, an obligation for the repurchase of shares of $12.5 million was recognized 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) during the year ended December 31, 2022. As at December 31, 2022, there was no obligation for the repurchase of shares under the ASPP.

Shareholder Rights Plan ("SRP")

The Company has a shareholder rights plan, which is designed to encourage the fair treatment of shareholders in connection with any takeover offer. 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.

Outstanding Share Data

As at the date of this MD&A, the Company had 82,306,297 common shares and 1,783,993 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 over the business cycle.

In February 2023, the quarterly dividend was increased by 10.3% or 4 cents per share, to 43 cents per common share, effective with the April payment. In 2023, the Company declared dividends of $1.72 per common share (2022 – $1.56 per common share).

Considering the Company's strong financial position and positive long-term outlook, the Board of Directors increased the quarterly dividend by 11.6% to 48 cents per share effective with the dividend payable on April 4, 2024, to shareholders on record on March 8, 2024. Toromont has paid dividends every year since 1968 and this is the 35th 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, 2023 or 2022. Standby letters of credit issued utilized $40.3 million of the facility as at December 31, 2023 (2022 – $28.9 million).

The Company's credit arrangements include covenants, restrictions and events of default usually present in arrangements of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants at December 31, 2023 and 2022.

The Company expects that continued cash flows from operations in 2024, together with cash and cash equivalents on hand (2023 – $1,040.8 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)		**2023**		2022
Cash and cash equivalents, beginning of year	**$**	**927,780**	$	916,830
Cash, provided by (used in):				
Operating activities				
Operations		**701,421**		597,303
Change in non-cash working capital and other		**(177,021)**		(212,720)
Net rental fleet additions		**(171,192)**		(171,213)
		353,208		213,370
Investing activities		**(104,313)**		(44,162)
Financing activities		**(164,451)**		(162,014)
Effect of foreign exchange on cash and cash equivalents balances		**(210)**		489
Increase in cash and cash equivalents during the year from continuing operations	**$**	**84,234**	$	7,683
Discontinued operations	**$**	**28,743**	$	3,267
Cash and cash equivalents, end of year	**$**	**1,040,757**	$	927,780

Cash Flows from Operating Activities

Operating activities provided cash in both 2023 and 2022.

Cash generated from operations increased 17% from 2022 primarily on the higher net earnings, which increased 18%.

Non-cash working capital and other used cash in 2023, as working capital levels increased on higher activity levels. Accounts receivable and inventory both increased reflective of activity, while accounts payable reduced on timing of payment to vendors. This was partially offset by higher customer deposits received on future order delivery.

Non-cash working capital also used cash in 2022, as higher inventory and account receivables, were only partially offset by higher account payables and customer deposits.

Net rental fleet additions (purchases less proceeds of dispositions) were relatively unchanged compared to 2022. The Company continued to investment in both the heavy and light equipment rental fleets across Eastern Canada reflective of market conditions and growth strategies. Dispositions increased year over year as new equipment supply improved and aged units were able to be rolled out.

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 $104.3 million in 2023 compared to $44.2 million in 2022.

Toromont invested $114.5 million in 2023 in property, plant and equipment (2022 – $68.6 million), as follows:

- $53.2 million additions for land, buildings and construction in process for new and upgraded facilities across the business (2022 – $22.3 million);
- $44.6 million for normal replacement of service and delivery vehicles (2022 – $34.3 million);
- $5.8 million for upgrades and enhancements to information technology infrastructure and office furniture (2022 – $3.7 million); and
- $10.9 million for machinery and equipment replacements and upgrades (2022 – $8.3 million).

In 2023, the Company sold excess properties for gross proceeds of $9.2 million (2022 – $24 million) resulting in a capital gains of $5.0 million (2022 – $17.7 million) or $4.5 million (2022 – $15.4 million) after-tax. Total disposition proceeds for 2023 were $10.3 million (2022 – $24.6 million).

Cash Flows from Financing Activities

For the year ended December 31, 2023, financing activities used $164.5 million (2022 – used $162.0 million) in cash, major uses and sources of cash during the year included:

- Dividends paid to common shareholders of $138.6 million or $1.68 per share (2022 – $125.2 million or $1.52 per share);
- Cash received on exercise of share options of $21.0 million (2022 – $20.6 million);
- Purchase of shares under the NCIB program used $37.5 million (2022 – $48.5 million); and
- Lease liability payments of $9.4 million (2022 – $8.9 million).

Cash Flows from Discontinued Operations

Net cash provided in 2023 from discontinued operations, AgWest Ltd., was $28.7 million, including $26.6 million in proceeds of disposition. See note 4 to the interim condensed financial statements for further information on this transaction.

OUTLOOK

We are closely monitoring regional, national and global economic factors, in particular, inflationary pressures from price and wage increases, interest rate changes, and general economic health of the industries we serve.

While the global supply chain continues to improve, certain lines and components remain challenged. We continue to actively manage supply chain challenges by taking appropriate mitigation steps.

We continue to enhance and leverage the use of technology to efficiently and effectively engage with customers, employees and other partners, while improving our operational efficiency.

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. Mining customers and our operations that support them continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine investment and 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 the markets they serve. In industrial markets, CIMCO's proven track record and strong geographical coverage provides growth opportunities. Current backlog is supportive of future activity.

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)	2024	2025	2026	2027	2028	Thereafter	Total
Long-term debt							
Principal	$ —	$ 150,000	$ —	$ 500,000	$ —	$ —	**$ 650,000**
Interest	24,765	23,374	19,200	16,000	—	—	**83,339**
Accounts payable and accrued liabilities	645,490	—	—	—	—	—	**645,490**
Lease liabilities	9,211	6,764	4,405	3,402	2,730	7,777	**34,289**
	$ 679,466	$ 180,138	$ 23,605	$ 519,402	$ 2,730	$ 7,777	**$1,413,118**

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 are reset with new actuarial funding valuations at least every three years. Contributions in 2023 totaled $11.2 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 $7.6 million in 2024.

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. Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

Years ended December 31	2023	2022	2021	2020	2019
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**12.3%**	8.7%	11.6%	(5.5)%	5.5%
Revenue per employee (thousands)	**$ 668**	$ 628	$ 617	$ 548	$ 1,113
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**11.1%**	15.6%	5.4%	(4.5)%	10.2%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions)	**$ 36.4**	$ 35.6	$ 34.7	$ 37.4	$ 34.4
Return on capital employed (1)	**30.1%**	32.5%	27.0%	20.7%	23.7%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) (1)	**$ 704.0**	$ 584.7	$ 377.9	$ 486.8	$ 463.7
Net debt to total capitalization (1)	**(17)%**	(14)%	(16)%	3%	15%
Book value (shareholders' equity) per share	**$ 32.61**	$ 28.25	$ 23.69	$ 20.60	$ 18.70
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**17.6%**	36.4%	30.2%	(13.5)%	14.8%
Growth in dividends declared per share	**10.3%**	14.7%	9.7%	14.8%	17.4%
Return on equity (1)	**22.8%**	23.3%	19.6%	16.4%	21.7%

(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 through a challenging period which included the pandemic in 2020, delivered good operating performance, financial results, cash generation and financial position.

Since 2019, revenue increased at an average annual rate of 6.5%, with product support growing at 7.6% annually. Over this period, growth in revenue has resulted from:

- Optimizing operations and go-to-market strategies to increase market share, particularly in acquired territories;
- 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 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;
- Geopolitical developments;
- 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 2019, the average annual exchange rate of the Canadian dollar against the US dollar has varied from $0.74 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 -17% at the end of 2023 compared to -14% at the end of 2022. Since 2019, strong cash generation has allowed the Company to invest in the business, reduce debt levels while building cash balances.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 35 years. The Company declared dividends of $1.72 per common share in 2023, or $0.43 per quarter (2022 – $1.56 per common share (increase of 10.3%).

CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

	Three months ended December 31			
($ thousands, except per share amounts)	**2023**	2022	$ change	% change
REVENUE	**$ 1,226,937**	$ 1,128,528	$ 98,409	9 %
Cost of goods sold	**897,994**	808,849	89,145	11 %
Gross profit	**328,943**	319,679	9,264	3 %
Selling and administrative expenses	**124,388**	109,265	15,123	14 %
OPERATING INCOME	**204,555**	210,414	(5,859)	(3)%
Interest expense	**7,122**	6,784	338	5 %
Interest and investment income	**(13,132)**	(8,652)	(4,480)	52 %
Income before income taxes	**210,565**	212,282	(1,717)	(1)%
Income taxes	**56,513**	54,015	2,498	5 %
Net income from continuing operations	**$ 154,052**	$ 158,267	$ (4,215)	(3)%
Net income from discontinued operations	**$ —**	$ 1,595	$ (1,595)	(100)%
NET EARNINGS	**$ 154,052**	$ 159,862	$ (5,810)	(4)%
BASIC EARNINGS PER SHARE				
Continuing operations	**$ 1.87**	$ 1.92	$ (0.05)	(3)%
Discontinued operations	**$ —**	$ 0.02	$ (0.02)	(100)%
	$ 1.87	$ 1.94	$ (0.07)	(4)%
KEY RATIOS:				
Gross profit margin	**26.8%**	28.3%		
Selling and administrative expenses as a % of revenue	**10.1%**	9.7%		
Operating income margin	**16.7%**	18.6%		
Income taxes as a % of income before income taxes	**26.8%**	25.4%		

Net earnings in the fourth quarter of 2022 included a $15.4 million after-tax gain related to a property disposition versus a $1.2 million gain in 2023. Excluding these gains, net earnings from continuing operations increased $9.9 million, or 7% in the fourth quarter of 2023 from the same period last year. Higher revenues were largely offset by reduced gross margins and higher relative expenses due to the higher activity levels. Supply chain and economic factors continue to influence normal seasonal trends.

Revenue increased 9% to $1.2 billion, with the Equipment Group up 9% and CIMCO up 2%. Rental and product support revenue continued to increase on good customer market activity and larger rental fleets. Equipment sales delivery improved slightly on good year-end demand as well as deliveries against order backlog as scheduled. Package sales decreased in the fourth quarter of 2023 as delays in equipment delivery and project schedules by customers have delayed progression.

Gross profit margins decreased 150 bps to 26.8% in the quarter, with lower gross margins in both the Equipment Group (-150 bps) and CIMCO (-100 bps) against tough comparatives. Overall sales mix was unfavourable, down 40 bps with lower product support and rental revenue to total.

Selling and administrative expenses increased $15.1 million or 14% in the fourth quarter compared to the prior year. Gains on property dispositions reduced expenses by $1.5 million in the fourth quarter of 2023 and $17.7 million in the fourth quarter of 2022. Excluding these items, expenses were down $1.1 million or 1% in the quarter. Compensation and other costs were largely unchanged, with good cost control focus offsetting costs in support of higher activity levels and inflationary pressures. Allowance for doubtful accounts decreased $1.0 million in the quarter, reflecting good collections. Selling and administrative expenses were 40 basis points higher as a percentage of revenue (10.1% versus 9.7% last year) largely due to the significant difference in property gains year-over-year.

Operating income decreased $5.9 million or 3% reflecting the lower property gains and lower gross margins, partially offset by higher revenue. Operating income margin decreased 190 bps to 16.7%, reflecting the property gain in the prior year.

Interest expense increased $0.3 million in the quarter largely unchanged from 2022.

Interest income increased $4.5 million on higher interest rates and higher average cash balances.

The effective income tax rate for the fourth quarter was 26.8% compared to 25.4% in 2022, mainly as a result of the lower capital gains rate on the property dispositions.

Net earnings (including discontinued operations) in the quarter decreased $5.8 million or 4% to $154.1 million. Basic EPS decreased $0.07 or 4% to $1.87 versus $1.94 in 2022.

BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

Equipment Group

	Three months ended December 31			
($ thousands, except as noted)	**2023**	2022	$ change	% change
Equipment sales and rentals				
New	**$ 480,556**	$ 405,402	$ 75,154	19 %
Used	**70,461**	75,500	(5,039)	(7)%
Rentals	**133,346**	124,470	8,876	7 %
Total equipment sales and rentals	**684,363**	605,372	78,991	13 %
Product support	**441,732**	424,989	16,743	4 %
Power generation	**2,812**	2,489	323	13 %
Total revenue	**$ 1,128,907**	$ 1,032,850	$ 96,057	9 %
Operating income	**$ 192,368**	$ 196,495	$ (4,127)	(2)%
Bookings ($ millions)	**$ 537.2**	$ 351.5	$ 185.7	53 %
KEY RATIOS:				
Product support revenue as a % of total revenue	**39.1%**	41.1%		
Operating income margin	**17.0%**	19.0%		
Group total revenue as a % of consolidated revenue	**92.0%**	91.5%		

Results in the fourth quarter of 2022 included a $17.7 million pre-tax gain related to a property disposition versus a $1.5 million gain in 2023. Excluding these gains, operating income for the Equipment Group increased $12.1 million, or 7% in the fourth quarter of 2023 from the same period last year.

The Equipment Group delivered good results in the quarter, with some delays in equipment delivery from earlier in the year and stronger year-end customer demand. Rental revenue increased on a larger fleet and product support activity continued. Lower gross margins largely offset higher revenues.

Total equipment sales (new and used) increased $70.1 million or 15%. New equipment sales increased 19% on good deliveries in the construction, mining and power systems markets. Used equipment sales were 7%, lower reflecting shifting supply and demand of equipment. Overall, revenue change by market segment was as follows for the quarter: construction +15%, mining +13%, power systems +22%, offset by material handling -8%.

Rental revenue increased $8.9 million or 7%. Most markets and regions were higher, reflecting a larger fleet and good market activity. Revenue increased 6% in the quarter in light equipment rentals and 16% in power systems rentals. Heavy equipment rentals and material handling markets were down 7% and 12% respectively in the quarter.

Product support revenue increased $16.7 million or 4% on higher parts (up 3%) and service (up 7%). Activity levels were good across all market segments and regions, which changes by market in the quarter as follows: mining +7%; power systems +10%; material handling +8% and construction was unchanged compared to the same period last year.

Gross margins decreased 150 bps in the quarter versus last year. Equipment margins were down 100 bps, mainly reflecting competitive market conditions after a period of constrained supply, coupled with an unfavourable sales mix (higher proportion of new equipment versus used equipment). Product support margins decreased 10 bps, reflecting higher input costs. Rental gross margins were up 20 bps, reflecting improved activity and fleet utilization. Sales mix was unfavourable (down 60 bps) with a higher proportion of equipment sales to total revenue.

Selling and administrative expenses increased $13.7 million or 15%. Gains on property dispositions reduced expenses by $1.5 million in the fourth quarter of 2023 and $17.7 million in the fourth quarter of 2022. Excluding these gains, expenses decreased $2.5 million or 3% in the quarter, reflecting good focus on cost controls. Compensation and other costs were largely unchanged, with good cost control focus offsetting costs in support of higher activity levels and inflationary pressures. Allowance for doubtful accounts decreased $1.7 million in the quarter, reflecting a focus on collection efforts.

Operating income decreased $4.1 million or 2% in the quarter. Operating income was 17.0% as a percentage of revenue, a decrease of 200 bps versus the comparable period last year, mainly reflecting the property gain in the prior year, along with lower gross margins in the current period.

Bookings increased $185.7 million or 53% to $537.2 million. Bookings improved late in the quarter mainly in the construction sector, which had been relatively lower comparatively throughout the year, with an increase in customer demand. Bookings for the fourth quarter were up in construction (+94%), power systems (+32%), and mining (+14%) , partially offset by lower orders in material handling (-12%).

CIMCO

	Three months ended December 31			
($ thousands, except as noted)	**2023**	2022	$ change	% change
Package sales	**$ 44,924**	$ 48,889	$ (3,965)	(8)%
Product support	**53,106**	46,789	6,317	14 %
Total revenue	**$ 98,030**	$ 95,678	$ 2,352	2 %
Operating income	**$ 12,187**	$ 13,919	$ (1,732)	(12)%
Bookings ($ millions)	**$ 56.2**	$ 45.5	$ 10.7	24 %
KEY RATIOS:				
Product support revenue as a % of total revenue	**54.2%**	48.9%		
Operating income margin	**12.4%**	14.5%		
Group total revenue as a % of consolidated revenue	**8.0%**	8.5%		

Revenue in the fourth quarter increased on the continued stronger product support activity levels. Package sales were dampened by delays in equipment deliveries and project schedule delays by customers deferring projects into 2024. Operating income decreased as lower gross margins and higher expenses reduced the higher revenue contribution.

Package revenue decreased $4.0 million or 8% in the quarter compared to last year, as equipment supply issues and customer delays have deferred some projects into 2024. Recreational revenues were up 25%, but were more than offset by lower industrial market revenues down 25%, against a strong comparative. In Canada revenue was down 6%, with stronger recreational activity (+80%) being offset by weaker industrial activity (-31%). In the US, package sales were down 14% mainly on lower recreational activity (-28%), which was only slightly offset by marginally higher industrial activity (+7%).

Product support revenue increased $6.3 million or 14% from last year in both Canada (+10%) and the US (+26%). Activity levels continue to improve, supported by increased winter seasonal activities. The increased technician base continues to support activity levels.

Gross margins decreased 100 bps in the quarter versus the comparable period in 2022. Product support margins were 170 bps lower against a tough comparable. Package margins were up 30 bps, due to good execution on projects, while sales mix was favourable with a higher proportion of product support revenue to total revenue (up 40 bps).

Selling and administrative expenses increased $1.4 million or 9%. Allowance for doubtful accounts decreased $0.7 million from the similar period last year reflecting focused efforts on collections. Compensation costs increased reflecting, higher staffing levels, annual salary increases and higher profit sharing accruals on the higher activity levels. All other expenses such as, travel and training, insurance and information technology spend increased to support growth in activity levels.

Operating income decreased $1.7 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 12.4% in 2023, from 14.5% in 2022.

Bookings increased $10.7 million or 24% to $56.2 million on higher orders in Canada, slightly offset by weaker bookings in the US. Timing of decisions by customers and receipt of orders can vary from period to period. Bookings were up 40% in Canada in both markets and down 13% in the US in both markets, following similar trends as the full year basis.

QUARTERLY RESULTS

The following table summarizes quarterly consolidated financial data for the eight most recently completed quarters on a continuing operations basis. 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 2023**	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
REVENUE								
Equipment Group	**$1,128,907**	$1,065,615	$1,070,194	$ 960,406	$1,032,850	$ 992,401	$ 966,015	$ 773,098
CIMCO	**98,030**	108,430	104,762	85,957	95,678	94,106	87,683	73,516
Revenue - continuing operations	**$1,226,937**	$1,174,045	$1,174,956	$1,046,363	$1,128,528	$1,086,507	$1,053,698	$ 846,614
NET EARNINGS - continuing operations	**$ 154,052**	$ 145,619	$ 133,317	$ 96,119	$ 158,267	$ 120,555	$ 111,010	$ 60,268
PER SHARE INFORMATION:								
Basic earnings per share	**$ 1.87**	$ 1.77	$ 1.62	$ 1.17	$ 1.92	$ 1.47	$ 1.34	$ 0.73
Diluted earnings per share	**$ 1.86**	$ 1.76	$ 1.61	$ 1.16	$ 1.91	$ 1.46	$ 1.33	$ 0.72
Dividends paid per share	**$ 0.43**	$ 0.43	$ 0.43	$ 0.39	$ 0.39	$ 0.39	$ 0.39	$ 0.35
Weighted average common shares outstanding – basic (in thousands)	**82,315**	82,282	82,294	82,333	82,279	82,183	82,433	82,467

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 2022, patterns were disrupted by supply chain pressures impacting the timing of receipt and delivery of products and services to final customers. In 2023, we saw gradual improvements to supply chain availability across most of our product offerings, although constraints in some areas still exist.

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, 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

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 31, 2023, 2022 and 2021. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period.

Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

($ thousands, except per share amounts)	**2023**	2022	2021
Revenue	**$ 4,622,301**	$ 4,115,347	$ 3,786,060
Net earnings	**$ 529,107**	$ 450,100	$ 331,400
Earnings per share ("EPS")			
Basic	**$ 6.43**	$ 5.47	$ 4.01
Diluted	**$ 6.38**	$ 5.42	$ 3.98
Dividends declared per share	**$ 1.72**	$ 1.56	$ 1.36
Total assets	**$ 4,571,847**	$ 4,182,125	$ 3,583,796
Total long-term debt	**$ 647,784**	$ 647,060	$ 646,337
Weighted average common shares outstanding - basic (in millions)	**82.3**	82.3	82.5

Revenue increased 12% in 2023 versus the prior year. Equipment Group revenue increased 12% on growth in equipment sales, rental revenue and product support activity, reflecting the increase in inflow and delivery of equipment, along with end customer demand. CIMCO revenue increased 13% versus a tough comparable, with the advancement on construction schedules against a strong order backlog and improved execution, while product support activity continued to increase year over year with the hiring of more technicians and increased customer demand. General macroeconomic factors such as inflation, higher interest rates, geopolitical developments and Canadian dollar movements continued to challenge the business, as well as influence buying patterns.

Revenue increased 9% in 2022 compared to 2021. 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.

Net earnings increased 18% in 2023, mainly reflecting the 12% increase in revenue, partially offset by higher selling and administrative expenses on increased activity. Net financing costs were significantly lower, due to the higher interest earned on cash balances year over year.

Net earnings increased 36% 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.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate increased: in 2021 by 12.9% to $0.35 per share; in 2022 by 11.4% to $0.39; and in 2023 by 10.3% to $0.43 per share. The Company has paid dividends every year since 1968.

Total assets increased 9% in 2023, largely on higher cash balances and increased other working capital and investment levels in support of elevated activity levels. Although supply constraints have improved on most product lines, inventory levels increased due to demand signals, as well as recent input price increases and inflationary impacts. Accounts receivable increased on the higher trailing revenue. Investments in capital assets have been made to support growth initiatives and expand the rental fleets. In 2022, total assets increased 17% compared to 2021, reflecting higher working capital and other investment levels in support of increased activity levels. Inventory levels increased in light of strengthened demand signals and a tight supply environment. Accounts receivable increased on higher activity and weaker collection activity, which lead to an increase in DSO. Increased investment in capital assets were also made to support market share expansion and rental fleets.

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.

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 designed to identify, mitigate and report on these risks.

We maintain a strong risk management culture to protect and enhance shareholder value. The Board reviews all material risks on an annual basis. The Audit Committee and Board also reviews the adequacy of disclosures of key risks in our AIF, MD&A and financial statements on a quarterly and annual basis, as applicable.

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 1,100 employees. Of the 21 agreements in place, 9 are scheduled for negotiation during 2024.

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 thermal heating and cooling 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$0.74 in 2023 and US$0.77 in 2022.

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

A pandemic can create significant volatility, uncertainty and economic disruption. A pandemic 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 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.

A Critical Incident Executive Response Team monitors and assesses developments in our markets and operations, and develops appropriate plans in response. Communication and safety protocols are in place.

MATERIAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING 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 material 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 following amendments to accounting standards were adopted by the Company on January 1, 2023:

IAS 1, *Presentation of Financial Statements* and *IFRS Practice Statement 2: Making materiality judgements* – the IASB issued narrow-scope amendments to IAS 1 in February 2021, the amendments require the disclosure of material accounting policy information rather than significant accounting policies. The Company has adopted these amendments in its consolidated financial statements for the period ended on December 31, 2023.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – these amendments introduce a definition of "accounting estimates" and clarify the difference between changes in accounting policies and changes in accounting estimates.

IAS 12, *Income Taxes* – these amendments clarify how companies should account for deferred taxes related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrowed 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, recognition of a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability is required.

The implementation of these standard amendments did not have a significant impact on the Company's consolidated financial statements. The Company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Amendments Issued but Not Effective

A number of amendments to standards and interpretations have been issued but are not yet effective up to the date of authorization of these consolidated financial statements, for the financial year ended December 31, 2023, 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 the Company's current facts and circumstances, it does not expect its financial performance or disclosures to be materially affected by the application of the amended standards.

Amendments to IAS 1 – *Presentation of Financial Statements* (effective January 1, 2024):

- Clarify the classification of liabilities as current or non-current based on contractual rights that are in existence at the end of the reporting period and are unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next 12 months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of "settlement" to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.
- Clarify that only covenants with which an entity is obliged to comply with on or before the reporting date will affect a liability's classification as current or non-current. Further, disclosure is required for any information that enables users of financial statements to comprehend the possibility that non-current liabilities with covenants may become payable within 12 months.

Amendments to IFRS 16 – *Lease Liability in a Sale and Leaseback* (effective January 1, 2024):

- Specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

Amendments to IAS 7 and IFRS 7 - *Supplier Finance Arrangements* (effective January 1, 2024):

- Specific disclosure requirements should be presented to enhance current disclosure requirements, which are intended to assist users of the financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO") are 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 by others and is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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, 2023.

Internal Control over Financial Reporting

The CEO and CFO, together with management, are 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, 2023, 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, 2023.

There have been no changes in the design of the Company's internal control over financial reporting during 2023 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 income from continuing operations 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		Year ended December 31	
($ thousands)	**2023**	2022	**2023**	2022
Net income from continuing operations	**$ 154,052**	$ 158,267	**$ 529,107**	$ 450,100
plus: Interest expense	**7,122**	6,784	**28,098**	27,331
less: Interest and investment income	**(13,132)**	(8,652)	**(45,982)**	(21,717)
plus: Income taxes	**56,513**	54,015	**193,005**	163,384
Operating income	**$ 204,555**	$ 210,414	**$ 704,228**	$ 619,098
Total revenue	**$ 1,226,937**	$ 1,128,528	**$ 4,622,301**	$ 4,115,347
Operating income margin	**16.7%**	18.6%	**15.2%**	15.0%

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)	**2023**	2022
Long-term debt	**$ 647,784**	$ 647,060
less: Cash and cash equivalents	**1,040,757**	927,780
Net debt	**(392,973)**	(280,720)
Shareholders' equity	**2,683,852**	2,325,359
Total capitalization	**$ 2,290,879**	2,044,639
Net debt to total capitalization	**(17)%**	(14)%
Net debt to equity	**(0.15):1**	(0.12):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)	**2023**	2022
Total current assets	**$ 2,810,804**	$ 2,569,195
less: Total current liabilities	**1,066,065**	1,056,739
Working capital	**$ 1,744,739**	$ 1,512,456

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)	**2023**	2022
Total current assets	**$ 2,810,804**	$ 2,569,195
less: Cash and cash equivalents	**1,040,757**	927,780
	1,770,047	1,641,415
Total current liabilities	**1,066,065**	1,056,739
Non-cash working capital	**$ 703,982**	$ 584,676

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)	**2023**	2022
Outstanding common shares	**82,297,341**	82,318,159
times: Ending share price	**$ 116.10**	$ 97.71
Market capitalization	**$ 9,554,721**	$ 8,043,307
Long-term debt	**$ 647,784**	$ 647,060
less: Cash and cash equivalents	**1,040,757**	927,780
Net debt	**$ (392,973)**	$ (280,720)
Total enterprise value	**$ 9,161,748**	$ 7,762,587

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 from continuing operations 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, adjusted for discontinued operations.

($ thousands)	**2023**	2022
Net earnings from continuing operations	**$ 529,107**	$ 450,100
plus: Interest expense	**28,098**	27,331
less: Interest and investment income	**(45,982)**	(21,717)
plus: Interest income – rental conversions	**3,348**	4,760
plus: Income taxes	**193,005**	163,384
Adjusted net earnings	**$ 707,576**	$ 623,858
Average capital employed	**$ 2,347,864**	$ 1,944,501
Return on capital employed	**30.1%**	32.1%

Return on Equity ("ROE")

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

($ thousands)	**2023**	2022
Net earnings from continuing operations	**$ 529,107**	$ 450,096
Opening shareholder's equity (net of adjustments)	**$ 2,317,906**	$ 1,935,365
Return on equity	**22.8%**	23.3%