Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) comments on the operations, performance and financial condition of Toromont Industries Ltd. (“Toromont” or the “Company”) as at and for the year ended December 31, 2019, compared to the preceding year. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2019.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are reported in Canadian dollars. The information in this MD&A is current to February 11, 2020.

Advisory

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

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

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

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

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2019, Toromont employed over 6,500 people in more than 150 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

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

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

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

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

Expand Markets

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

Strengthen Product Support

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

Broaden Product Offerings

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

Invest in Resources

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

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

Maintain a Strong Financial Position

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

CONSOLIDATED ANNUAL OPERATING RESULTS

($ thousands, except per share amounts)	**2019**	2018	$ change	% change
REVENUES	**$ 3,678,705**	$ 3,504,236	$ 174,469	5%
Cost of goods sold	**2,772,583**	2,640,835	131,748	5%
Gross profit (1)	**906,122**	863,401	42,721	5%
Selling and administrative expenses	**493,627**	493,827	(200)	-
OPERATING INCOME (1)	**412,495**	369,574	42,921	12%
Interest expense	**27,707**	30,643	(2,936)	(10%)
Interest and investment income	**(9,752)**	(8,918)	(834)	9%
Income before income taxes	**394,540**	347,849	46,691	13%
Income taxes	**107,740**	95,865	11,875	12%
NET EARNINGS	**286,800**	251,984	34,816	14%
BASIC EARNINGS PER SHARE	**$ 3.52**	$ 3.10	$ 0.42	14%
KEY RATIOS:				
Gross profit margin (1)	**24.6%**	24.6%		
Selling and administrative expenses as a % of revenues	**13.4%**	14.1%		
Operating income margin (1)	**11.2%**	10.5%		
Income taxes as a % of income before income taxes	**27.3%**	27.6%		
Return on capital employed (1)	**22.9%**	21.7%		
Return on equity (1)	**21.4%**	22.3%		

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

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

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

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

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

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

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

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

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

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

Other comprehensive loss of $24.9 million in 2019 arose on actuarial losses on defined benefit pension and other post-employment benefit plans and a net loss on cash flow hedges. Other comprehensive income of $21.0 million in 2018, included actuarial gains on defined benefit pension and other post-employment benefit plans and a net gain on cash flow hedges.

BUSINESS SEGMENT ANNUAL OPERATING RESULTS

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

Equipment Group

($ thousands)	**2019**	2018	$ change	% change
Equipment sales and rentals				
New	**$ 1,195,646**	$ 1,190,000	$ 5,646	-
Used	**328,539**	306,575	21,964	7%
Rentals	**418,818**	389,572	29,246	8%
Total equipment sales and rentals	**1,943,003**	1,886,147	56,856	3%
Product support	**1,390,340**	1,264,295	126,045	10%
Power generation	**10,607**	10,645	(38)	-
Total revenues	**$ 3,343,950**	$ 3,161,087	$ 182,863	6%
Operating income	**$ 384,077**	$ 348,876	$ 35,201	10%
Capital expenditures (net)				
Rental	**$ 153,390**	$ 125,148	$ 28,242	23%
Other	**54,130**	37,546	16,584	44%
Total	**$ 207,520**	$ 162,694	$ 44,826	28%
KEY RATIOS:				
Product support revenues as a % of total revenues	**41.6%**	40.0%		
Operating income margin	**11.5%**	11.0%		
Group total revenues as a % of consolidated revenues	**90.9%**	90.2%		
Return on capital employed	**19.0%**	21.4%		

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

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

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

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

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

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

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

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

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

Bookings and Backlogs

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

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

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

Bookings and backlogs can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

CIMCO

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

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

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

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

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

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

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

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

Bookings and Backlogs

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

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

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

CONSOLIDATED FINANCIAL CONDITION

The Company's strong financial position continued.

At December 31, 2019, the ratio of net debt to total capitalization decreased to 15% versus 18% at December 31, 2018.

Non-cash Working Capital

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

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

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

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

- Equipment Group inventories were $37.3 million or 4% higher with increases in equipment (up $22.2 million or 4%) and parts (up $15.9 million or 7%) The higher inventory levels were mainly attributable to improved availability from suppliers, positioning for better

penetration in the expanded territories, transitional terms from suppliers, and on higher RPO levels. Service work-in-process was down $0.8 million or 1% with improvement in invoicing cycle and timing of project completion.
- CIMCO inventories were up $1.3 million or 6% on higher work-in-process levels and parts.

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

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

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

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

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

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

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2019 as outlined in note 7 of the notes to the consolidated financial statements.

Employee Share Ownership

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

1. An Executive Stock Option Plan for its senior employees. Stock options have a 10-year life, vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. At December 31, 2019, 2.3 million options to purchase common shares were outstanding, of which 0.9 million were exercisable.

2. An Employee Share Purchase Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, which is designed to incentivize long-term share ownership, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 contributed, to a maximum of 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards will vest in five years from date of contribution. Company contributions amounting to $2.7 million in 2019 (2018 – $2.4 million) were charged to selling and administrative expense when paid. Approximately 33% (2018 – 32%) of employees participate in the plan, which is administered by an independent third party.

3. A deferred share unit ("DSU") plan for executives, certain senior managers and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus (in the case of employees) or fees (in the case of directors) in DSUs. Non-employee directors also receive a portion of their compensation in DSUs. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs will be redeemed on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. The Company records the cost of the DSU plan as compensation expense in selling and administrative expenses. As at December 31, 2019, 388,547 DSUs were outstanding with a total value of $27.4 million (2018 – 358,151 units at a value of $19.0 million). The liability for DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Employee Future Benefits

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

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

Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to their retirement programs in accordance with the respective collective bargaining agreements.

Defined Contribution Plans

In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents. At December 31, 2019, approximately 3,900 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Plans

The Company sponsors defined benefit pension plans, which provide pension and other post-retirement benefits for approximately 1,700 qualifying employees. All Plans are administered by a separate Fund that is legally separate from the Company, with the exception of the Executive Plan described below.

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

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were $16.1 million as at December 31, 2019.

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

Legal and Other Contingencies

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Normal Course Issuer Bid ("NCIB")

Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the TSX was renewed in 2019. This issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares, representing 10.0% of common shares in the public float, in the twelve-month period ending August 30, 2020. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

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

Outstanding Share Data

As at the date of this MD&A, the Company had 82,012,448 common shares and 2,329,705 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30 - 40% of trailing earnings from continuing operations.
During 2019, the Company declared dividends of $1.08 per common share, $0.27 per quarter (2018 - $0.92 per common share or $0.23 per quarter).

Considering the Company's solid financial position and positive long-term outlook, the Board of Directors announced an increase to the quarterly dividend to 31 cents per share effective with the dividend payable on April 2, 2020. This represents a 14.8% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 31st consecutive year it has announced an increase.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Toromont's liquidity requirements can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

Toromont's debt portfolio is unsecured, unsubordinated and ranks on par with each other.

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

The Company's credit arrangements include covenants, restrictions and events of default usually present in arrangements of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants at December 31, 2019 and 2018.

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

The Company expects that continued cash flows from operations in 2020, together with currently available cash on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

Principal Components of Cash Flow

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

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

Cash Flows from Operating Activities

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

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

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

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

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

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

Cash Flows from Investing Activities

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

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

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

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

Cash Flows from Financing Activities

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

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

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

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

OUTLOOK

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

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

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

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

Production at existing mine sites is generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion, although industry equipment investment has slowed in an uncertain global economic environment. Our substantially increased base of installed equipment is a good bell-weather for future product support activity.

CIMCO's increasing installed base and long-term product support levels are positive signals for future growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO_2 solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides continued growth opportunities. Market activity is tighter, reflecting a cautious environment in the near term, although booking activity improved in the year and quoting activity remains solid.

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

CONTRACTUAL OBLIGATIONS

Contractual obligations are set out in the following table. Management believes that these obligations will be met comfortably through cash on hand, cash generated from operations and existing long-term financing facilities.

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

KEY PERFORMANCE MEASURES

Management reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the key financial performance measures are summarized in the following table. Others include, but are not limited to, measures such as market share, fleet utilization, customer and employee satisfaction, and employee health and safety.

Years ended December 31,	**2019**	2018	2017	2016	2015
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**5.0%**	49.1%	22.9%	3.5%	11.2%
Revenue per employee (thousands)	**$ 575**	$ 573	$ 487	$ 533	$ 537
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**10.1%**	60.4%	16.3%	7.6%	24.2%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions)	**$ 34.8**	$ 27.4	$ 15.0	$ 15.2	$ 14.0
Return on capital employed (1)	**22.9%**	21.7%	21.5%	24.5%	24.3%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) (1)	**$ 463.7**	$ 309.5	$ 608.8	$ 388.5	$ 421.3
Net debt to total capitalization (1)	**15%**	18%	40%	-4%	10%
Book value (shareholders' equity) per share	**$ 18.70**	$ 16.35	$ 13.89	$ 11.29	$ 9.95
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**13.5%**	39.4%	11.6%	6.3%	8.5%
Dividends per share growth	**17.4%**	21.1%	5.6%	5.9%	13.3%
Return on equity (1)	**21.4%**	22.3%	19.3%	20.0%	21.6%

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

Measuring Toromont’s results against these strategies over the past five years illustrates that the Company has delivered consistent, steady growth. The addition of the Quebec and Maritimes territories in October 2017, bolstered these key performance measures and provides a larger platform for continued growth.

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

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

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

recreational spending.

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

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

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2015 there have been fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar, during which time it has ranged between $0.75 and $0.78 and averaged US$0.77.

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

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization was 15% at the end of 2019 versus 18% at the end of 2018. No additional debt finance was obtained in 2019, the decrease in ratio represents repayment on existing debt, as well as increased cash generation from operations.

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

CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

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

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

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

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

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

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

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

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

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

Interest income increased $0.7 million on higher investment income resulting from higher average cash balances held throughout the year and higher interest from conversions of RPOs.

The effective income tax rate for the fourth quarter was 27.4% compared to 27.8% in 2018. The decrease is substantially due to the continued phase in of corporate tax rate reductions in Quebec.

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

BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

Equipment Group

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

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

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

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

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

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

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

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

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

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

CIMCO

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

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

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

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

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

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

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

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

QUARTERLY RESULTS

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2019 annual audited consolidated financial statements.

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

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

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

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules.

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

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

SELECTED ANNUAL INFORMATION

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

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

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

Net earnings increased 14% in 2019. Equipment Group delivered good results on the higher revenues and a lower relative expense ratio, while CIMCO's results improved on better project execution and a one-time inventory write-down in 2018 which did not repeat. Net interest expense was lower in 2019 as strong cash inflows resulted in lower net debt levels. Net earnings increased 43% in 2018. In addition to the incremental net earnings at the acquired businesses, the Equipment Group delivered good results, offset weaker results at CIMCO and the higher net interest expense as a result of the additional debt incurred to partially fund the acquisition in 2017. EPS growth has generally tracked growth in net earnings, with basic EPS increasing 14% in 2019 and 39% in 2018.

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

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

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

RISKS AND RISK MANAGEMENT

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

Business Cycle

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

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

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

Product and Supply

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

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

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

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including the range and quality of products and services, ability to meet sophisticated customer requirements, distribution capabilities including number and proximity of locations, financing offered by Caterpillar Finance, e-commerce solutions, reputation and financial strength.

Increased competitive pressures or the inability of the Company to maintain the factors that have enhanced its competitive position to date could adversely affect the Company's business, results of operations or financial condition.

The Company relies on the skills and availability of trained and experienced tradesmen and technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which make attracting and retaining skilled individuals more difficult.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable and derivative financial instruments. The carrying amounts on the statement of financial position represent the maximum expected credit exposure.

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

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

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

Warranties and Maintenance Contracts

Warranties are provided for most of the equipment sold, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

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

Foreign Exchange

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

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged US$0.75 and US$0.77, in 2019 and 2018, respectively. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

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

Interest Rate

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

At December 31, 2019, the Company's outstanding debt of $650.0 million was entirely fixed-rate and matures between 2025 and 2027. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Further, the fair value of the Company's fixed-rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing. The Company does not intend to settle or refinance any existing fixed-rate debt before maturity.

The Company's revolving credit facility of $500.0 million is floating-rate debt which exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary. At December 31, 2019, no amounts were drawn on this facility while standby letters of credit utilized $33.1 million.

Financing Arrangements

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

Environmental Regulation

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

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

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

Changes in Accounting Policies

Effective January 1, 2019, the Company adopted IFRS 16 – *Leases,* the interpretation of IFRIC 23 – *Uncertainty over Income Tax Treatments*, and amendments to *IAS 19 – Employee Benefits.*

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

Pending Accounting Changes

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2019.

Internal Control over Financial Reporting

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2019, using the criteria set forth in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2019.

There have been no changes in the design of the Company's internal control over financial reporting during 2019 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, a projection of the evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

ADDITIONAL GAAP MEASURES

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

Gross Profit

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

Operating Income

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

	Three months ended December 31		Years ended December 31	
($ thousands)	**2019**	2018	**2019**	2018
Net earnings	**$ 90,454**	$ 84,898	**$ 286,800**	$ 251,984
plus: Interest expense	**6,854**	6,550	**27,707**	30,643
less: Interest and investment income	**(3,166)**	(2,488)	**(9,752)**	(8,918)
plus: Income taxes	**34,056**	32,669	**107,740**	95,865
Operating income	**$ 128,198**	$ 121,629	**$ 412,495**	$ 369,574

Net Debt to Total Capitalization/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. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

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

NON-GAAP MEASURES

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

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

Working Capital

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

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

Non-Cash Working Capital

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

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

Market Capitalization & Total Enterprise Value

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

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

The calculations are as follows:

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

Key Performance Indicators ("KPIs")

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

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

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

Return on Capital Employed ("ROCE")

ROCE is utilized to assess both current operating performance and prospective investments. The adjusted earnings numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is the monthly average capital employed, which is defined as net debt plus shareholders' equity or total capitalization.

($ thousands)		**2019**		2018
Net earnings	**$**	**286,800**	$	251,984
plus: Interest expense		**27,707**		30,643
less: Interest and investment income		**(9,752)**		(8,918)
plus: Interest income - rental conversions (see note 14)		**4,283**		3,461
plus: Income taxes		**107,740**		95,865
Adjusted net earnings	**$**	**416,778**	$	373,035
Average capital employed	**$**	**1,823,420**	$	1,720,921
Return on capital employed		**22.9%**		21.7%

Return on Equity ("ROE")

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

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