

## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and necessarily include estimates. The consolidated financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management. Information contained in the Company's Management's Discussion and Analysis is consistent, where applicable, with that contained in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of the consolidated financial statements.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, were appointed by the shareholders as external auditors to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of independent directors, is responsible for determining that management fulfils its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets regularly with financial management and the internal and external auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors have unrestricted access to the Audit Committee. The consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors, based on the review and recommendation of the Audit Committee.

/s/ S.J. Medhurst

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

/s/ P.R. Jewer

**Paul R. Jewer**  
Executive Vice President and  
Chief Financial Officer

February 11, 2020  
Toronto, Canada

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Toromont Industries Ltd.,

We have audited the consolidated financial statements of Toromont Industries Ltd. and its subsidiaries (the Group) , which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, the consolidated income statements, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### **Basis for opinion**

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

### **Other information**

Management is responsible for the other information which comprises:

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

*/s/ Ernst & Young LLP*

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

February 11, 2020  
Toronto, Canada

**TOROMONT INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

**Commitments - see note 22**

**See accompanying notes**

**Approved by the Board:**

*(signed) R. M. Ogilvie*

*(signed) W. S. Hill*

5 **Robert M. Ogilvie**  
Director

**Wayne S. Hill**  
Director

**TOROMONT INDUSTRIES LTD.  
CONSOLIDATED INCOME STATEMENTS**

Years ended December 31 (\$ thousands, except share amounts)	Note	2019	2018
<b>Revenues</b>	23	<b>\$ 3,678,705</b>	\$ 3,504,236
Cost of goods sold	4,5	<b>2,772,583</b>	2,640,835
Gross profit		<b>906,122</b>	863,401
Selling and administrative expenses		<b>493,627</b>	493,827
<b>Operating income</b>		<b>412,495</b>	369,574
Interest expense	14	<b>27,707</b>	30,643
Interest and investment income	14	<b>(9,752)</b>	(8,918)
Income before income taxes		<b>394,540</b>	347,849
Income taxes	15	<b>107,740</b>	95,865
<b>Net earnings</b>		<b>\$ 286,800</b>	\$ 251,984
<b>Earnings per share</b>			
Basic	16	<b>\$ 3.52</b>	\$ 3.10
Diluted	16	<b>\$ 3.49</b>	\$ 3.07
<b>Weighted average number of shares outstanding</b>			
Basic	16	<b>81,590,392</b>	81,231,282
Diluted	16	<b>82,076,248</b>	81,975,310

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

**Supplemental cash flow information (note 21)**

**See accompanying notes**



**TOROMONT INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Share capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Total
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges	Total	
(\$ thousands, except share numbers)								
<b>At January 1, 2018</b>	80,949,819	\$ 444,427	\$ 10,290	\$ 669,813	\$ 1,911	\$ (1,714)	\$ 197	\$ 1,124,727
Net earnings	-	-	-	251,984	-	-	-	251,984
Other comprehensive income	-	-	-	15,239	789	4,965	5,754	20,993
Total comprehensive income	-	-	-	267,223	789	4,965	5,754	272,977
Exercise of stock options	514,516	14,710	(2,512)	-	-	-	-	12,198
Stock-based compensation expense	-	-	5,101	-	-	-	-	5,101
Effect of stock compensation plans	514,516	14,710	2,589	-	-	-	-	17,299
Shares purchased for cancellation	(237,952)	(1,337)	-	(11,471)	-	-	-	(12,808)
Dividends declared	-	-	-	(74,516)	-	-	-	(74,516)
<b>At December 31, 2018</b>	81,226,383	\$ 457,800	\$ 12,879	\$ 851,049	\$ 2,700	\$ 3,251	\$ 5,951	\$ 1,327,679
Net earnings	-	-	-	286,800	-	-	-	286,800
Other comprehensive loss	-	-	-	(18,560)	(481)	(5,811)	(6,292)	(24,852)
Total comprehensive income (loss)	-	-	-	268,240	(481)	(5,811)	(6,292)	261,948
Exercise of stock options	786,065	32,247	(5,521)	-	-	-	-	26,726
Stock-based compensation expense	-	-	5,730	-	-	-	-	5,730
Effect of stock compensation plans	786,065	32,247	209	-	-	-	-	32,456
Dividends declared	-	-	-	(88,192)	-	-	-	(88,192)
<b>At December 31, 2019</b>	82,012,448	\$ 490,047	\$ 13,088	\$ 1,031,097	\$ 2,219	\$ (2,560)	\$ (341)	\$ 1,533,891

See accompanying notes

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2019

(\$ thousands, except where otherwise indicated)

### **1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Corporate Information**

Toromont Industries Ltd. (the “Company” or “Toromont”) is a limited company incorporated and domiciled in Canada whose shares are publicly traded on the Toronto Stock Exchange under the symbol TIH. The registered office is located at 3131 Highway 7 West, Concord, Ontario, Canada.

The Company operates through two business segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory - spanning the Canadian provinces of Newfoundland & Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario and Manitoba, in addition to most of the territory of Nunavut. The Equipment Group includes industry leading rental operations, a complementary material handling business and an agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 6,500 people in more than 150 locations.

#### **Statement of Compliance**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on February 11, 2020.

#### **Basis of Preparation**

These consolidated financial statements were prepared on a historical cost basis, except for derivative instruments that have been measured at fair value. The consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand, except where otherwise indicated.

#### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full upon consolidation.

## **Business Combinations and Goodwill**

When determining the nature of an acquisition, as either a business combination or an asset acquisition, management defines a business as “an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.” An integrated set of activities and assets requires two essential elements - inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business need not include all of the inputs or processes that the seller used in operating that business if the Company is capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes. If the transaction does not meet the criteria of a business, it is accounted for as an asset acquisition.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value. Acquisition costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Company’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s cash-generating units (“CGUs”) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

## **Cash and Cash Equivalents**

Cash consists of petty cash and demand deposits. Cash equivalents, when applicable, consist of short-term deposits with an original maturity of three months or less.

## **Accounts Receivable**

Trade accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade accounts receivable are recognized initially at amounts due, net of impairment for estimated expected credit loss (allowance for doubtful accounts). The expense relating to expected credit loss is included within selling and administrative expenses in the consolidated income statements.

Unbilled receivables represent contract assets related to the Company’s rights to consideration for work completed but not billed as at the reporting date on the sale of power and energy systems and

refrigeration packages. These are transferred to receivables when the entitlement to payment becomes unconditional.

## **Inventories**

Inventories are valued at the lower of cost and net realizable value.

Cost of equipment, repair and distribution parts and direct materials include purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a specific-item basis. Non-serialized inventory is determined based on a weighted average actual cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

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

Cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income (loss), in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives range from 20 to 30 years for buildings, 3 to 10 years for equipment and 20 years for power generation assets. Leasehold improvements are amortized on a straight-line basis over the term of the lease. Land is not depreciated.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

## **Rental Equipment**

Rental equipment is recorded at cost, net of accumulated depreciation and any impairment losses. Cost is determined on a specific-item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis, which ranges from 1 to 10 years.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

## **Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets acquired as part of a business acquisition are initially recorded at the acquisition date fair value. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, as applicable.

Intangible assets with a finite useful life are amortized over their estimated useful lives and are assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

Amortization is recorded as follows:

- Customer Relationships – 8 years, straight-line
- ERP System – 5 years, straight-line
- Customer Order Backlog – specific basis
- Patents and Licenses – remaining life, straight-line

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or when indicators of impairment are present. Distribution networks are considered to have an indefinite life based on the terms of the distribution rights contracts. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

## **Provisions**

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for warranty costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience.

## **Financial Instruments**

Financial assets and liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets and liabilities at initial recognition or when reclassified on the consolidated statements of financial position. Financial assets and liabilities are classified in the following measurement categories: i) amortized cost; ii) fair value through other comprehensive income (loss); or iii) fair value through profit usually, or loss (“FVTPL”). Initially, all financial assets and liabilities are recognized at fair value. Regular-way trades of financial assets and liabilities are recognized on the trade date. Transaction costs are expensed as incurred, except for loans and receivables and loans and borrowings, in which case transaction costs are included in the initial cost.

### Financial Assets

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

- Cash is classified as held for trading and as such is measured at fair value, with changes in fair value being included in profit or loss.
- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method, less provisions for doubtful accounts.

The Company assesses, as at each consolidated statement of financial position date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

### Financial Liabilities

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

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

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

### Derivatives

Derivative assets and liabilities are classified as held for trading and are measured at fair value with changes in fair value being included in profit or loss, unless they are designated as hedging instruments, in which case changes in fair value are included in OCI.

### Fair Value of Financial Instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3 – techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

### Impairment of Financial Assets

Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses.

Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis.

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

### **Derivative Financial Instruments and Hedge Accounting**

Derivative financial arrangements are used to hedge exposure to fluctuations in exchange rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At inception, the Company designates and documents the hedge relationship, including identification of the transaction and the risk management objectives and strategy for undertaking the hedge. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The Company has designated certain derivatives as cash flow hedges. These are hedges of firm commitments and highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statements. Additionally:

- If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gains or losses that were recognized in OCI are included in the initial cost or other carrying amount of the asset;
- For cash flow hedges other than those identified above, amounts accumulated in OCI are recycled to the consolidated income statements in the period when the hedged item will affect earnings (for instance, when the forecast sale that is hedged takes place);
- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in OCI remains in OCI and is recognized when the forecast transaction is ultimately recognized in the consolidated income statements; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately recognized in the consolidated income statements.

### **Impairment of Non-financial Assets**

The Company assesses whether goodwill or intangible assets with indefinite lives may be impaired annually during the fourth quarter, or when indicators of impairment are present. For the purpose of impairment testing, goodwill arising from acquisitions is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes, and is not higher than an operating segment. Intangible assets with indefinite lives that do not have separate identifiable cash flows are also allocated to CGUs or a group of CGUs. Any potential

impairment of goodwill or intangible assets is identified by comparing the recoverable amount of a CGU or a group of CGUs to its carrying value. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statements.

The Company bases its impairment calculation on detailed three-year budgets and extrapolated long-term growth rate for periods beyond the third year.

For non-financial assets other than goodwill and intangible assets with indefinite lives, an assessment is made at each reporting date whether there is any indication of impairment, or that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statements.

### **Revenue from Contracts with Customers**

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

- *Sale of Equipment* - Revenue is recognized when control of the equipment has been transferred to the customer. This usually occurs when the equipment is delivered or picked-up by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met: (i) there is a substantive reason for the arrangement; (ii) the equipment is separately identified as belonging to the customer; (iii) Toromont is no longer able to use the equipment or direct it to another customer; and (iv) the equipment is currently ready for physical transfer to the customer.
- *Sale of Equipment with a Guaranteed Residual Value or Repurchase Commitment* - The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at a predetermined residual value and date is accounted for as an operating lease in accordance with IFRS 16 – *Leases* (“IFRS 16”). Revenue is therefore recognized over the period extending to the date of the residual guarantee.
- *Sale of Systems* – The Company sells systems, including power and energy facilities and industrial and recreational refrigeration systems, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and can span from three months to one year. Revenue is recognized progressively based on the percentage-of-completion method. This method is normally measured by reference to costs



incurred to date as a percentage of the total estimated costs as outlined in the contract. Payment terms are usually based on set milestones outlined in the contract. Periodically: (i) amounts are received in advance of the associated contract work being performed - these amounts are recorded as deferred revenues and contract liabilities; and (ii) revenue is recognized without issuing an invoice – this entitlement to consideration is recognized as unbilled receivables. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.

- *Equipment Rentals* - Revenue is accounted for in accordance with IFRS 16. Revenue is recognized on a straight-line basis over the term of the agreement. Payment terms are generally 30 days from invoicing.
- *Product Support Services* - Revenue from product support services includes the sale of parts and performance of service work on equipment. For the sale of parts, revenue is recognized when the part is shipped or picked-up by the customer. For the servicing of equipment, revenue on both the labour and parts used in performing the work is recognized when the job is completed. Payment terms are generally 30 days from invoicing.
- *Long-term Maintenance Contracts* - Long-term maintenance contracts generally range from one to five years and are customer-specific. These contracts are sold either separately or bundled together with the sale of equipment to a customer. These arrangements cover a range of services from regular maintenance to major repairs. The Company has concluded that these are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable. If the sales are bundled, the Company allocates a portion of the transaction price based on the relative stand-alone selling price to each performance obligation. Customers are invoiced on a periodic basis reflecting the terms of the agreement, generally based on machine hours, with payment terms of 30 days from invoicing. These amounts are recognized as deferred revenues and contract liabilities. Revenue is recognized as work is performed under the contract based on standard or contract rates. Revenue from maintenance services is recognized over time, using an input method to measure progress towards complete satisfaction of the service.
- *Extended Warranty* - Extended warranty may be purchased by a customer at time of purchase of a machine to provide additional warranty coverage beyond the initial one-year standard warranty covered by the supplier. Extended warranty generally covers specified components for a term from three to five years. Extended warranty is normally invoiced at time of purchase and payment is expected at time of invoicing. These billings are included in deferred revenues and contract liabilities. The Company recognizes revenue for extended warranty as work is performed under the extended warranty contract using standard rates.
- *Power Generation* - The Company owns and operates power generation plants that sell electricity and thermal power. Revenue is recognized monthly based on set rates as power is consumed. Payment is due within 30 days of invoicing.

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

## **Leases**

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

### *Toromont as Lessee*

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

#### *Right-of-use assets*

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

#### *Lease liabilities*

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

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

#### *Short-term leases and leases of low-value assets*

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

### *Toromont as Lessor*

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is recognized on a

straight-line basis over the lease terms and is included in the consolidated income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

### **Foreign Currency Translation**

The functional and presentation currency of the Company is the Canadian dollar. Each of the Company's subsidiaries determines its functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing as at the date of the transaction or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange as at the reporting date. All differences are taken directly to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations (having a functional currency other than the Canadian dollar) are translated into Canadian dollars at the rate of exchange prevailing at the consolidated statement of financial position dates and the consolidated income statements are translated at the average exchange rate for the period. The exchange differences arising on translation are recognized in accumulated other comprehensive income (loss) in shareholders' equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity is recognized in the consolidated income statements.

### **Share-based Payment Transactions**

The Company maintains both equity-settled and cash-settled share-based compensation plans under which the Company receives services from employees, including senior executives and directors, as consideration for equity instruments of the Company.

For equity-settled plans, expense is based on the fair value of the awards granted determined using the Black-Scholes option pricing model and the best estimate of the number of equity instruments that will ultimately vest. For awards with graded vesting, each tranche is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of the grant and is recognized as stock-based compensation expense, net of forfeiture estimate, over its respective vesting period.

For cash-settled plans, the expense is determined based on the fair value of the liability incurred at each award date. The fair value of the liability is measured by applying quoted market prices. Changes in fair value are recognized in the consolidated income statements in selling and administrative expenses.

### **Employee Future Benefits**

For defined contribution plans, the pension expense recorded in the consolidated income statement is the amount of the contributions the Company is required to pay in accordance with the terms of the plans.

For defined benefit pension plans and other post-employment benefit plans, the expense is determined separately for each plan using the following policies:

- The cost of future benefits earned by employees is actuarially determined using the projected unit credit method prorated on length of service and management's best estimate assumptions using a measurement date of December 31;
- Net interest is calculated by applying the discount rate to the net defined benefit liability or asset;
- Past service costs from plan amendments are recognized immediately in net earnings to the extent that the benefits have vested; otherwise, they are amortized on a straight-line basis over the vesting period; and
- Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in retained earnings and included in the consolidated statements of comprehensive income in the period in which they occur.

## **Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities.

Deferred income taxes are provided for, using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the consolidated income statements in the period that includes the date of substantive enactment. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the Company considers probable to be realized.

Current and deferred income taxes, relating to items recognized directly in shareholders' equity, are also recognized directly in shareholders' equity.

## **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur.

## **Standards Adopted in 2019**

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

### **a) Leases**

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

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

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

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

#### Impact on the Consolidated Financial Statements on Transition

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

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

#### **b) Income Taxes**

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

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

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

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

#### **c) Employee Benefits**

The amendments to IAS 19 – *Employee Benefits*, address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan

amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

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

### **Amendments Issued but Not Effective**

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

## **2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements.

### **Sale of Power and Energy Systems and Refrigeration Packages**

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

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

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

### **Long-term Maintenance Contracts**

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

Management makes a number of estimates and assumptions surrounding machine usage, machine performance, future parts and labour pricing, manufacturers' warranty coverage and other detailed factors. These factors are routinely reviewed as part of the project management process.

### **Property, Plant and Equipment and Rental Equipment**

Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

### **Impairment of Non-financial Assets**

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the CGUs to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in note 7.

### **Income Taxes**

Estimates and judgments are made for uncertainties that exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

### **Inventories**

Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

### **Allowance for Doubtful Accounts**

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for

groups of similar assets in respect of losses that may have been incurred but not yet specifically identified.

### Share-based Compensation

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

### Post-employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions, which include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in OCI.

### Leases

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

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

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

## 3. ACCOUNTS RECEIVABLE

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



The aging of gross trade receivables were as follows:

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

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

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

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

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

#### 4. INVENTORIES

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

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

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

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

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

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

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

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

## 6. OTHER ASSETS AND LEASE LIABILITIES

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

### Right-of-use Assets and Lease Liabilities

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

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

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

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

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

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

Cash outflows for leases in 2019 were \$10.1 million.

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

## 7. GOODWILL AND INTANGIBLE ASSETS

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

### Impairment Testing of Goodwill and Intangible Assets with Indefinite Lives

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

	Goodwill		Distribution Networks	
	2019	2018	2019	2018
<b>Equipment Group</b>				
- Toromont Quebec/Maritimes	\$ 76,270	\$ 76,270	\$ 352,434	\$ 352,434
- Toromont CAT dealership	13,000	13,000	13,669	13,669
- Battlefield Equipment Rentals - The CAT Rental Store	4,060	4,060	5,448	5,448
	<b>\$ 93,330</b>	<b>\$ 93,330</b>	<b>\$ 371,551</b>	<b>\$ 371,551</b>
<b>CIMCO</b>	450	450	-	-
	<b>\$ 93,780</b>	<b>\$ 93,780</b>	<b>\$ 371,551</b>	<b>\$ 371,551</b>

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2019. The test for impairment is to compare the recoverable amount of the CGU or group of CGUs to their carrying value. Goodwill is tested at the group of CGUs that represent the lowest level within the entity at which goodwill is monitored for internal management purposes that is not larger than an operating segment. Intangible assets are assessed for impairment at the CGU level to which they are allocated. The recoverable amounts have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flows beyond the three-year period were extrapolated using a 1.7% growth rate, which represents the expected growth in the Canadian economy. The discount rate applied to each CGU or group of CGUs to determine value-in-use, is a pre-tax rate that reflects an optimal debt-to-equity ratio and considers the risk-free rate, market equity risk premium, size premium and the risks specific to each asset or CGU's cash flow projections. The pre-tax discount rate ranged from 6.3% - 7.4% (2018: 5.9% - 6.3%). As a result of the analysis, management determined there was no impairment of goodwill or indefinite-lived intangible assets.

## Key Assumptions to Value-in-use Calculations and Sensitivity Analysis

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rates
- Growth rate to extrapolate cash flows beyond the budget period

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

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

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

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

Management believes that within reasonably possible changes to any of the above key assumptions, recoverable amounts exceed carrying values.

## 8. PROVISIONS

Activities related to provisions were as follows:

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

### Warranty

At the time of sale, a provision is recognized for expected warranty claims on products and services, based on past experience and known issues. It is expected that most of these costs will be incurred in the next financial year.

### Other

Other provisions relate largely to open legal, insurance and potential environmental claims, and potential onerous contracts. No one claim is significant.

## 9. DEFERRED REVENUES AND CONTRACT LIABILITIES

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

During the year ended December 31, 2019, the Company recognized as revenue, \$133.9 million (2018 - \$137.1 million) of the deferred revenues and contract liabilities balance at January 1, 2019.

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

## 10. LONG-TERM DEBT

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

	2019	2018
7.06%, \$15.0 million, due March 29, 2019 <sup>(1)</sup>	\$ -	\$ 1,022
3.71%, \$150.0 million, due September 30, 2025 <sup>(2)</sup>	150,000	150,000
3.84%, \$500.0 million, due October 27, 2027 <sup>(2)</sup>	500,000	500,000
Senior debentures	650,000	651,022
Debt issuance costs, net of amortization	(4,529)	(5,460)
<b>Total long-term debt</b>	<b>\$ 645,471</b>	<b>\$ 645,562</b>
Less: Current portion of long-term debt	-	(1,022)
<b>Non-current portion of long-term debt</b>	<b>\$ 645,471</b>	<b>\$ 644,540</b>

<sup>(1)</sup> Blended principal and interest payments payable semi-annually through to maturity.

<sup>(2)</sup> Interest payable semi-annually, principal due on maturity.

The Company has a committed revolving credit facility of \$500.0 million, maturing in October 2022. Interest is based on a floating rate, primarily bankers' acceptances, plus applicable margins and fees based on the terms of the credit facility. No amounts were drawn on this facility as at December 31, 2019 or 2018. Standby letters of credit issued utilized \$33.1 million (2018 - \$29.9 million).

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

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

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

	<b>Principal</b>	<b>Interest</b>
2020	\$ -	\$ 24,765
2021	-	24,765
2022	-	24,765
2023	-	24,765
2024	-	24,765
Thereafter	650,000	\$ 58,574
	<b>\$ 650,000</b>	<b>\$ 182,399</b>

Interest expense includes interest on debt initially incurred for a term greater than one year of \$26.7 million (2018 - \$30.6 million).

## **11. SHARE CAPITAL**

### **Authorized**

The Company is authorized to issue an unlimited number of common shares (no par value) and preferred shares. No preferred shares were issued or outstanding for the years ended December 31, 2019 and 2018.

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

### **Shareholder Rights Plan (“SRP”)**

The SRP is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person, and any related parties, acquires or commences a takeover bid to acquire 20% or more of the Company’s outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company’s Board of Directors. Should such an acquisition occur, each rights holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The SRP expires at the end of the annual meeting of shareholders in 2021.

### **Normal Course Issuer Bid (“NCIB”)**

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

No shares were purchased and cancelled in 2019. During the year ended December 31, 2018, the Company purchased and cancelled 237,952 common shares for \$12.8 million (average cost of \$53.83 per share, including transaction costs) under its NCIB program.

## Dividends Paid

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

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

## 12. FINANCIAL INSTRUMENTS

### Financial Assets and Liabilities – Classification and Measurement

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

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

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity, based on the contracted foreign exchange rate and the contract's value at maturity based on the comparable foreign exchange rate at period-end under the same conditions. The financial institution's credit risk is also taken into consideration in determining fair value. The valuation is determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data for substantially the full term of the asset or liability, most significantly foreign exchange spot and forward rates.

The fair value and carrying value of long-term debt is as follows:

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

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs, that are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of the asset or liability.

During the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements.



## **Derivative Financial Instruments and Hedge Accounting**

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency-denominated obligations related to purchases of inventory and sales of products. As at December 31, 2019, the Company was committed to: (i) US dollar purchase contracts with a notional amount of \$507.7 million at an average exchange rate of \$1.3191, maturing between January 2020 and November 2020; and (ii) US dollar sale contracts with a notional amount of \$3.3 million at an average exchange rate of \$1.3060, maturing between January 2020 and April 2020.

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

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

## **13. FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

In the normal course of business, Toromont is exposed to financial risks that may potentially impact its operating results in one or all of its reportable segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates. The Company does not enter into derivative financial agreements for speculative purposes.

### **Currency Risk**

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate. In addition, pricing to customers is customarily adjusted to reflect changes in the Canadian dollar landed cost of imported goods.

The Company also sells its products to certain customers in US currency. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cash inflows where appropriate.

The Company maintains a hedging policy whereby all significant transactional currency risks are identified and hedged.

### Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and comprehensive income. It is provided as a reasonably possible change in currency in a volatile environment. Financial instruments affected by currency risk include cash, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments.

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

### **Credit Risk**

Financial instruments that potentially subject the Company to credit risk consist of cash, accounts receivable and derivative financial instruments. The carrying amount of assets included on the consolidated statements of financial position represents the maximum credit exposure.

The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from customers engaged in various industries including mining, construction, food and beverage, and governmental agencies. These specific customers may be affected by economic factors that may impact accounts receivable. Management does not believe that any single customer represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company's large customer base.

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

### **Interest Rate Risk**

The Company minimizes its interest rate risk by managing its portfolio of floating-and fixed-rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2019 or 2018.

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

### **Liquidity Risk**

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

Accounts payable are primarily due within 90 days and will be satisfied from current working capital.

The Company expects that continued cash flows from operations in 2020, together with currently available cash on hand and credit facilities, will be more than sufficient to fund its requirements for

investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

#### 14. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

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

The components of interest and investment income were as follows:

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

#### 15. INCOME TAXES

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

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

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

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

The statutory income tax rate represents the combined Canadian federal and Ontario provincial income tax rates which are the relevant tax jurisdictions for the Company.

The sources of deferred income taxes were as follows:

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

The movement in net deferred income taxes were as follows:

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

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

## 16. EARNINGS PER SHARE

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

For the calculation of diluted earnings per share for the year ended December 31, 2019, 1,030,260 (2018 – 584,250) outstanding stock options with a weighted average exercise price of \$65.98 (2018 - \$66.22) were considered anti-dilutive (exercise price in excess of average market price during the year) and, as such, were excluded from the calculation.

## 17. EMPLOYEE BENEFITS EXPENSE

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

## 18. STOCK-BASED COMPENSATION

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company's policy that the aggregate number of options that may be granted in any one calendar year shall not exceed 1% of the outstanding shares as of the beginning of the year in which a grant is made (2019 – 812,264; 2018 – 809,498).

Stock options have a 10-year life, vest 20% per year on each anniversary date of the grant, and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Toromont accrues compensation cost over the vesting period based on the grant date fair value.

A reconciliation of the outstanding options for the years ended December 31, 2019 and 2018, was as follows:

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

<sup>(1)</sup> The weighted average share price at date of exercise for the year ended December 31, 2019 was \$67.45 (2018 - \$60.49).

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

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

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

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

### Deferred Share Unit Plan

The Company offers a deferred share unit (“DSU”) plan for executives and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus or fees, respectively, in DSUs. In addition, the Board of Directors may grant discretionary DSUs. Non-employee directors also receive a portion of their compensation in DSUs. The liability for DSUs is recorded in accounts payable and accrued liabilities.

The following table summarizes information related to DSU activity:

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

### Employee Share Ownership Plan (“ESOP”)

The Company offers an ESOP whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match at the rate of \$1 for every \$3 contributed, to a maximum of 2.5% of an employee’s base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards will vest in five years from date of contribution. Company contributions amounting to \$2.7 million in 2019 (2018 - \$2.4 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

## 19. POST-EMPLOYMENT OBLIGATIONS

### Defined Contribution Plans

The Company sponsors pension arrangements for more than 3,900 of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to these retirement programs in accordance with the respective collective

bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

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

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

### Defined Benefit Plans

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

a) Quebec/Maritimes Pension Plans – The Company sponsors six plans that provide pension benefits based on length of service and career average earnings, five of which are contributory. The plans are administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. Actuarial valuations were completed for each plan at dates ranging from December 31, 2017 to December 31, 2018. The next actuarial valuation dates range from December 31, 2019 to December 31, 2021.

b) Manitoba Pension Plan – This plan is a contributory plan that provides pension benefits based on length of service and career average earnings. The plan is administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled as at December 31, 2019.

c) Executive Pension Plan – The plan is a supplemental pension plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. At December 31, 2019, the Company has posted letters of credit in the amount of \$16.1 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2019, with the next valuation scheduled as at December 31, 2020.

d) Other Plan Assets and Obligations – This plan provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan at that time, that, in accordance with the plan provisions, had elected to receive a pension directly from the plan. The plan is administered by a fund that is legally separate from the Company. The most recent actuarial valuation was completed as at January 1, 2018 with the next valuation scheduled for January 1, 2021.

e) Post-employment Benefit Plans – These plans provide supplementary post-employment health and life insurance coverage to certain employees. The Company is not obligated to fund the plans but is obligated to pay benefits under the terms of the plan as they come due. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled as at December 31, 2019.

## Risks

Defined benefit pension plans and other post-employment benefit plans expose the Company to risks as described below:

- Investment risk - The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently, the plans have a relatively balanced investment in equity securities, debt instruments and real estate assets. The Toromont Pension Management Committee reviews the asset mix and performance of the plan assets on a quarterly basis with the balanced investment strategy intention.
- Interest rate risk - A decrease in the bond yields will increase the plan liability; however, this will be partially offset by higher market values of the plan's holdings in debt instruments.
- Longevity risk - An increase in the life expectancy of the plan participants will increase the plan's liability by lengthening the period in which benefits are paid.
- Salary risk - The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

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

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



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

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

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

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

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

	2019	2018
Service cost	\$ 12,012	\$ 13,848
Net interest expense	3,525	3,872
Curtailment gain	(5,000)	-
	<b>\$ 10,537</b>	<b>\$ 17,720</b>

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

Pre-tax amounts recognized in OCI were as follows:

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

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

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

The fair values of the plan assets were determined based on the following methods:

- Equity securities – generally quoted market prices in active markets.
- Debt securities – generally quoted market prices in active markets.
- Real estate assets – valued based on appraisals performed by a qualified external real estate appraiser. Real estate assets are located primarily in Canada.
- Cash and cash equivalents – generally recorded at cost, which approximates fair value.

The actual return on plan assets for the year ended December 31, 2019, was \$55.1 million (2018 - \$nil).

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

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

### Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined benefit obligations (“DBO”) are discount rate and life expectancy. The sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

As at December 31, 2019, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the DBO:

Actuarial Assumption	Sensitivity	Increase (Decrease) in DBO		
		Pension Benefit Plans	Other Post-retirement Benefit Plans	Total
Period- end discount rate	1% increase	\$ (81,351)	\$ (2,617)	\$ (83,968)
	1% decrease	\$ 95,645	\$ 2,972	\$ 98,617
Mortality	Increase of 1 year in expected lifetime of plan participants	\$ 11,906	\$ (328)	\$ 11,578

The sensitivity analysis presented above may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

## 20. CAPITAL MANAGEMENT

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

The Company's capital management framework is designed to maintain a flexible capital structure that allows for optimization of the cost of capital at acceptable risk while balancing the interests of both equity and debt holders.

The Company generally targets a net debt to total capitalization ratio of 33%, although there is a degree of variability associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

The Company's capital management criteria can be illustrated as follows:

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

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has met these minimum requirements during the years ended December 31, 2019 and 2018.

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

## 21. SUPPLEMENTAL CASH FLOW INFORMATION

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

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

	Current Portion of Long-term Debt	Long-term Debt	Total
Balance, January 1, 2018	\$ 1,941	\$ 893,806	\$ 895,747
Cash flows	(1,941)	(250,000)	(251,941)
Other	1,022	734	1,756
Balance, December 31, 2018	\$ 1,022	\$ 644,540	\$ 645,562
Cash flows	(1,022)	-	(1,022)
Other	-	931	931
<b>Balance, December 31, 2019</b>	<b>\$ -</b>	<b>\$ 645,471</b>	<b>\$ 645,471</b>

## 22. COMMITMENTS

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

## 23. SEGMENTED INFORMATION

The Company has two reportable segments: the Equipment Group and CIMCO, each supported by the corporate office. These segments are strategic business units that offer different products and services, and each is managed separately. The corporate office provides finance, treasury, legal, human resources and other administrative support to the segments. The accounting policies of each of the reportable segments are the same as the significant accounting policies described in note 1.

The operating segments are being reported based on the financial information provided to the Chief Executive Officer and Chief Financial Officer, who have been identified as the Chief Operating Decision Makers (“CODMs”) in monitoring segment performance and allocating resources between segments. The CODMs assess segment performance based on segment operating income, which is measured differently than income from operations in the consolidated financial statements. Corporate overheads are allocated to the segments based on revenue. Income taxes, interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.

The aggregation of the operating segments is based on the economic characteristics of the business units. These business units are considered to have similar economic characteristics including nature of products and services, class of customers and markets served and similar distribution models.

No reportable segment is reliant on any single external customer.

### **Equipment Group**

The Equipment Group comprises the following:

- Toromont CAT – supplies, rents and provides product support services for specialized mobile equipment and industrial engines.
- Battlefield Equipment Rentals – The CAT Rental Store – supplies and rents specialized mobile equipment as well as specialty supplies and tools.
- Toromont Material Handling – supplies, rents and provides product support services for material handling lift trucks.
- AgWest – supplies and provides product support services for specialized mobile equipment to the agriculture industry.
- SITECH – supplies control systems for specialized mobile equipment.
- Toromont Energy – develops distributed generators and combined heat and power projects using Caterpillar engines.

### **CIMCO**

Provides design, engineering, fabrication, installation, and product support services for industrial and recreational refrigeration systems.

### **Corporate Office**

The corporate office does not meet the definition of a reportable operating segment as defined in IFRS 8 – *Operating Segments*, as it does not earn revenue.

The following table sets forth information by segment:

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

Selected consolidated statements of financial position information:

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

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

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

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

## 24. RELATED PARTY DISCLOSURES

Key management personnel and director compensation comprised:

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

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

## 25. ECONOMIC RELATIONSHIP

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