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.

(signed) Scott J. Medhurst

Scott J. Medhurst
President and
Chief Executive Officer

(signed) Paul R. Jewer

Paul R. Jewer
Executive Vice President and
Chief Financial Officer

February 22, 2018
Toronto, Canada

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Toromont Industries Ltd.

We have audited the accompanying consolidated financial statements of Toromont Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated income statements, and consolidated statements of comprehensive income, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toromont Industries Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

(signed) Ernst & Young LLP

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 22, 2018
Toronto, Canada

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 ($ thousands)	**Note**	**2017**	2016
Assets			
Current assets			
Cash		**$ 160,507**	$ 188,735
Accounts receivable	4	**528,748**	260,691
Inventories	5	**780,024**	435,757
Derivative financial instruments	12	**-**	1,197
Other current assets		**8,386**	5,236
Total current assets		**1,477,665**	891,616
Property, plant and equipment	6	**413,178**	181,827
Rental equipment	6	**469,342**	272,277
Other assets	7	**17,206**	15,381
Deferred tax assets	15	**411**	5,610
Goodwill and intangible assets	8	**480,107**	27,501
Total assets		**$ 2,857,909**	$ 1,394,212
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 537,321**	$ 245,856
Provisions	9	**17,436**	16,094
Deferred revenues		**137,129**	51,211
Current portion of long-term debt	10	**1,941**	1,811
Derivative financial instruments	12	**5,260**	-
Income taxes payable		**204**	1,262
Total current liabilities		**699,291**	316,234
Deferred revenues		**18,750**	19,259
Long-term debt	10	**893,806**	150,717
Net post-employment obligations	19	**121,335**	22,570
Shareholders' equity			
Share capital	11	**444,427**	315,078
Contributed surplus		**10,290**	8,166
Retained earnings		**669,813**	559,252
Accumulated other comprehensive income		**197**	2,936
Shareholders' equity		**1,124,727**	885,432
Total liabilities and shareholders' equity		**$ 2,857,909**	$ 1,394,212

Commitments - see note 22

See accompanying notes

Approved by the Board:

(signed) Robert M. Ogilvie

Robert M. Ogilvie, Director

(signed) Wayne S. Hill

Wayne S. Hill, Director

TOROMONT INDUSTRIES LTD.
CONSOLIDATED INCOME STATEMENTS

Years ended December 31 ($ thousands, except share amounts)	**Note**	**2017**	2016
Revenues	23	**$ 2,350,162**	$ 1,912,040
Cost of goods sold	5, 6	**1,794,213**	1,443,978
Gross profit		**555,949**	468,062
Selling and administrative expenses		**306,367**	256,438
Gain on sale of internally-developed software		**-**	(4,939)
Operating income		**249,582**	216,563
Interest expense	14	**12,277**	7,242
Interest and investment income	14	**(4,659)**	(4,006)
Income before income taxes		**241,964**	213,327
Income taxes	15	**65,994**	57,579
Net earnings		**$ 175,970**	$ 155,748
Earnings per share			
Basic	16	**$ 2.22**	$ 1.99
Diluted	16	**$ 2.20**	$ 1.98
Weighted average number of shares outstanding			
Basic		**79,091,706**	78,127,400
Diluted		**79,907,470**	78,674,297

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 ($ thousands)	**2017**	2016
Net earnings	**$ 175,970**	$ 155,748
Other comprehensive (loss) income, net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	**(716)**	(277)
Unrealized loss on derivatives designated as cash flow hedges	(5,946)	(948)
Income tax recovery	1,548	248
Unrealized loss on cash flow hedges, net of income taxes	**(4,398)**	(700)
Realized loss on derivatives designated as cash flow hedges	3,211	644
Income tax recovery	(836)	(169)
Realized loss on cash flow hedges, net of income taxes	**2,375**	475
Items that will not be reclassified subsequently to net earnings:		
Actuarial losses	(6,765)	(1,465)
Income tax recovery	1,758	389
Actuarial losses, net of income taxes	**(5,007)**	(1,076)
Other comprehensive loss	**(7,746)**	(1,578)
Total comprehensive income	**$ 168,224**	$ 154,170

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	**Note**	**2017**	2016
Operating activities			
Net earnings		**$ 175,970**	$ 155,748
Items not requiring cash:			
Depreciation and amortization	6,8,10	89,705	76,726
Stock-based compensation	17	3,502	3,261
Post-employment benefit expense		448	10
Deferred income taxes		10,287	2,960
Gain on sale of rental equipment and property, plant and equipment		(21,590)	(17,971)
Gain on sale of internally-developed software		-	(4,939)
		258,322	215,795
Net change in non-cash working capital and other	21	70,010	34,744
Additions to rental equipment		(102,343)	(98,668)
Proceeds on disposal of rental equipment		35,521	36,942
Cash provided by operating activities		**261,510**	188,813
Investing activities			
Additions to property, plant and equipment		(37,317)	(24,826)
Proceeds on disposal of property, plant and equipment		3,185	1,521
Proceeds on disposal of internally-developed software		-	4,939
Increase in other assets	3	(42,950)	(209)
Business acquisition	3	(902,896)	-
Cash used in investing activities		**(979,978)**	(18,575)
Financing activities			
Issue of senior debentures	10	500,000	-
Issue of term bank debt	10	250,000	-
Repayment of senior debentures		(1,811)	(1,690)
Debt issuance costs	10	(5,597)	-
Dividends	11	(58,858)	(55,422)
Cash received on exercise of stock options		6,758	11,574
Shares purchased for cancellation	11	-	(2,574)
Cash provided by (used in) financing activities		**690,492**	(48,112)
Effect of currency translation on cash balances		(252)	(71)
(Decrease) increase in cash		**(28,228)**	122,055
Cash, at beginning of year		**188,735**	66,680
Cash, at end of year		**$ 160,507**	$ 188,735

Supplemental cash flow information (note 21)

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital				Accumulated other comprehensive income			
($ thousands)	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2016	**77,905,821**	**$ 301,413**	**$ 7,236**	**$ 463,194**	**$ 2,904**	**$ 534**	**$ 3,438**	**$ 775,281**
Net earnings	-	-	-	155,748	-	-	-	155,748
Other comprehensive loss	-	-	-	(1,076)	(277)	(225)	(502)	(1,578)
Total comprehensive income	-	-	-	154,672	(277)	(225)	(502)	154,170
Exercise of stock options	581,879	14,009	-	-	-	-	-	14,009
Stock-based compensation expense	-	-	3,261	-	-	-	-	3,261
Stock options exercised	-	-	(2,331)	-	-	-	-	(2,331)
Effect of stock compensation plans	581,879	14,009	930	-	-	-	-	14,939
Shares purchased for cancellation	(89,244)	(344)	-	(2,334)	-	-	-	(2,678)
Dividends	-	-	-	(56,280)	-	-	-	(56,280)
At December 31, 2016	**78,398,456**	**$ 315,078**	**$ 8,166**	**$ 559,252**	**$ 2,627**	**$ 309**	**$ 2,936**	**$ 885,432**
Net earnings	-	-	-	175,970	-	-	-	175,970
Other comprehensive loss	-	-	-	(5,007)	(716)	(2,023)	(2,739)	(7,746)
Total comprehensive income	-	-	-	170,963	(716)	(2,023)	(2,739)	168,224
Exercise of stock options	301,885	8,136	-	-	-	-	-	8,136
Stock-based compensation expense	-	-	3,502	-	-	-	-	3,502
Stock options exercised	-	-	(1,378)	-	-	-	-	(1,378)
Effect of stock compensation plans	301,885	8,136	2,124	-	-	-	-	10,260
Business acquisition	2,249,478	121,213	-	-	-	-	-	121,213
Dividends	-	-	-	(60,402)	-	-	-	(60,402)
At December 31, 2017	**80,949,819**	**444,427**	**10,290**	**669,813**	**1,911**	**(1,714)**	**197**	**1,124,727**

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017
($ 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.

Toromont operates through two reportable segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations and an expanding 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 approximately 6,000 people in 146 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 22, 2018.

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. Certain balances in the comparative numbers in the consolidated income statements and statements of financial position have been reclassified from statements previously presented to conform to the presentation of the 2017 consolidated financial statements.

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 statements.

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

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.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Selling and administrative expenses" in the consolidated income statements.

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 inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, 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 and lease inducements 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 of patent, 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 be 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

The Company determines the classification of its financial assets and liabilities at initial recognition. 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 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 statements of financial position date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial Liabilities

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

- Accounts payable and accrued liabilities are classified as financial liabilities and as such are measured at amortized cost. The Company has not designated any financial liability at fair value through profit or loss.

- Long-term debt is classified as loans and borrowings and as such is subsequently measured at amortized cost using the effective interest rate method. Discounts, premiums and fees on acquisition are taken into account in determining amortized cost.

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 other comprehensive income.

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.

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 other comprehensive income. 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income remains in other

comprehensive income 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 other comprehensive income 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 Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes and duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenues from the sale of equipment are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on shipment of the goods and/or invoicing.

- The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at predetermined residual values and dates, are accounted for as operating leases. Revenues are recognized over the period extending to the date of the residual value guarantee.
- Revenues from the sale of equipment systems involving design, manufacture, installation and start-up are recorded using the percentage-of-completion method. Percentage-of-completion is normally measured by reference to costs incurred to date as a percentage of total estimated cost for each contract. Periodically, amounts are received from customers in advance of the associated contract work being performed. These amounts are recorded as deferred revenues. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer, generally on a straight-line basis over the term of the agreement.
- Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized when the part is shipped to the customer. For servicing of equipment, revenues are recognized on completion of the service work.
- Revenues from long-term maintenance contracts and separately priced extended warranty contracts are recognized on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Any losses estimated during the term of the contract are recognized when identified. At the completion of the contract, any remaining profit on the contract is recognized as revenue.
- Deferred revenues represent billings to customers in excess of revenue recognized and arise as a result of:
    a. Sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements as well as on progress billings on long-term construction contracts; and
    b. Progress billings in advance of revenue recognition.
- Interest income is recognized using the effective interest rate method.

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 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 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 statements 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 pro-rated 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 the taxation authorities.

Deferred 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.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. Leases that transfer substantially all of the benefits and risks of ownership of the property to the lessee are classified as finance leases; all other leases are classified as operating leases. Classification is re-assessed if the terms of the lease are changed.

Toromont as Lessee

Operating lease payments are recognized as an operating expense in the consolidated income statements on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are deferred and amortized on a straight-line basis over the term of the lease.

Toromont as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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.

Amendments to Standard Adopted in 2017

The following amendments were adopted on January 1, 2017.

Statement of Cash flows

Amendments to IAS 7 - *Statement of Cash Flows,* require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities; including both changes arising from cash flows and non-cash flows. The required disclosures have been included in note 21 herein.

Standards Issued But Not Effective

The following new standards and amendments to standards have been issued but are not effective for the financial year ended December 31, 2017 and, accordingly, have not been applied in preparing these consolidated financial statements.

a) Revenue Recognition

IFRS 15 – *Revenue from Contracts with Customers,* establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. Additionally, IFRS 15 will increase disclosures related to revenue recognition.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Entities choose either a full retrospective approach with some limited relief provided or a modified retrospective approach for annual periods beginning on or after January 1, 2018. Management evaluated the new standard and assessed the impact, including a review of revenue contracts with customers. Management has determined that the new standard will not have a material impact on the amount or timing of revenue recognition.

b) Share-based Payment

Amendments to IFRS 2 – *Share-based payment,* clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018. Adoption of this standard has no impact on the Company's financial position or net earnings.

c) Financial Instruments

In July 2014, the IASB completed the three-part project to replace IAS 39 - *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, *Financial instruments*. IFRS 9 includes classification and measurement of financial assets and financial liabilities, a forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

IFRS 9 also introduced a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

Lastly, IFRS 9 introduced a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their consolidated financial statements.

IFRS 9 will be effective for the Company's fiscal year beginning on January 1, 2018. The Company's analysis has not identified significant differences resulting from the adoption of this standard.

d) Foreign Currency Transactions and Advance Consideration

IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*, clarifies the appropriate exchange rate to use on initial recognition of an asset, expense or income when advance consideration is paid or received in a foreign currency.

The new interpretation is effective for annual periods beginning on or after January 1, 2018. Management has determined that the new standard will not have a material impact on the Company's financial position.

e) Leases

IFRS 16 – *Leases,* introduces new requirements for the classification and measurement of lessees. For lessors, there is little change to the existing accounting in IAS 17 - *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements, however expects that IFRS 16 will result in higher non-current assets and non-current liabilities recorded on the consolidated statements of financial position.

f) Uncertainty over Income Tax Treatments

IFRIC 23 - *Uncertainty over Income Tax Treatments*, provides guidance when there is uncertainty over income tax treatments including (but not limited to) whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances.

The new interpretation is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

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 revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

Acquisitions - In a business combination, the Company may acquire certain assets and assume certain liabilities of an acquired entity. The estimate of fair values for these transactions involves judgment to determine the fair values assigned to the tangible and intangible assets (i.e., backlog, client relationships, and distribution networks) acquired and the liabilities assumed on the acquisition. Determining fair value involves a variety of assumptions, including revenue growth rates, expected operating income, and discount rates. During a measurement period, not to exceed one year, adjustments of the initial estimates may be required to finalize the fair value of assets acquired and liabilities assumed. After the measurement period, a revision of fair value may impact the Company's net income.

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 8.

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

Revenue Recognition - Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method, requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

The Company also generates revenue from long-term maintenance and repair contracts whereby it is obligated to maintain equipment for its customers. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized using the percentage-of-completion method based on work completed. This method requires management to make 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 contract management process.

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 other comprehensive income.

3. BUSINESS ACQUISITION

Hewitt Group of Companies ("Hewitt")

On October 27, 2017, the Company acquired the businesses and net operating assets of Hewitt and became the approved Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Quebec and most of Ontario and the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States, from Maine to Virginia. Additional distribution rights were also acquired in this transaction. The acquisition expands the Company's Eastern operations into a contiguous territory covering all of Eastern and Central Canada extending into the far North and provides a platform for long-term growth opportunities and diversification into new markets.

The Company acquired the businesses and net operating assets of Hewitt in exchange for consideration of $902.9 million cash (net of a preliminary closing working capital adjustment) plus the issuance of 2.25 million Toromont common shares ($121.2 million) for a total consideration of $1.02 billion. Toromont funded the cash portion of the acquisition through cash on hand, the issuance of long-term senior debentures and drawings on an unsecured term credit facility (see note 10 for further details).

The acquisition has been accounted for using the purchase method of accounting. Revenues of $242.6 million and net income of $7.8 million were included in the consolidated income statements and statements of comprehensive income from the date of acquisition. Results from the acquired businesses were included in the Equipment Group reportable segment.

Purchase price		
Cash consideration	$	902,896
Issuance of Toromont common shares		121,213
Total	**$**	**1,024,109**

Purchase price allocation

Final valuations of certain items are not yet complete due to the inherent complexity associated with valuations and the timing of the acquisition. Therefore, the purchase price allocation is preliminary and subject to adjustment on completion of the valuation process. The Company determined the preliminary fair values based on discounted cash flows, market information, independent valuations and management's estimates.

Accounts receivable	$	159,539
Inventories		291,035
Property, plant and equipment		216,755
Rental equipment		169,993
Deferred tax asset		2,617
Intangible assets with an indefinite life:		
Distribution network		345,989
Intangible assets with a finite life:		
ERP systems		10,000
Customer relationships		14,731
Other		4,243
Accounts payable and accrued liabilities		(127,124)
Provisions		(1,045)
Deferred revenues		(51,503)
Post-employment benefit obligations		(91,555)
Net identifiable assets		**943,675**
Residual purchase price allocated to goodwill		80,434
Total	**$**	**1,024,109**

Accounts receivable represents gross contractual amounts receivable of $166.1 million less management's best estimate of the allowance for doubtful accounts of $6.6 million.

Goodwill arises principally from the ability to leverage the larger base of operations, the assembled workforce, future growth and the potential to realize synergies in the form of cost savings. The amount assigned to goodwill is expected to be deductible for tax purposes.

Acquisition-related costs, primarily for advisory services, were approximately $6.0 million and were included in selling and administrative expenses for the year ended December 31, 2017.

Pro-forma disclosures

The following pro-forma supplemental information presents certain results of operations as if the acquisition had been completed at the beginning of the fiscal period presented.

		As reported		Pro-forma (unaudited)
Revenues	$	2,350,162	$	3,235,043
Net earnings	$	175,970	$	199,330

The pro-forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro-forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that would have been realized had the business acquisition been completed at the beginning of the period presented. The pro-forma supplemental information excludes business integration costs and opportunities.

4. ACCOUNTS RECEIVABLE

		2017		2016
Trade receivables	**$**	**479,832**	$	256,985
Less: allowance for doubtful accounts		**(10,573)**		(9,700)
Trade receivables - net		**469,259**		247,285
Other receivables		**59,489**		13,406
Trade and other receivables	**$**	**528,748**	$	260,691

Other receivables at December 31, 2017 included $42.7 million related to amounts owing to the Company from the seller with respect to the purchase price of the acquisition (see note 3).

The aging of gross trade receivables at each reporting date was as follows:

		2017		2016
Current to 90 days	**$**	**448,115**	$	240,418
Over 90 days		**31,717**		16,567
	$	**479,832**	$	256,985

The following table presents the movement in the Company's allowance for doubtful accounts:

		2017		2016
Balance, beginning of year	**$**	**9,700**	$	9,168
Provisions and revisions, net		**873**		532
Balance, end of year	**$**	**10,573**	$	9,700

5. INVENTORIES

		2017		2016
Equipment	**$**	**497,033**	$	300,344
Repair and distribution parts		**199,283**		99,297
Direct materials		**4,048**		4,001
Work-in-process		**79,660**		32,115
Total inventories	**$**	**780,024**	$	435,757

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2017 was $1.4 billion (2016 - $1.1 billion). Cost of goods sold included inventory write-downs pertaining to obsolescence and aging, together with recoveries of past write-downs upon disposition. A net reversal of write-downs of $0.8 million was recorded in 2017 (2016 – net write-down of $0.3 million).

6. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2017	**$ 50,151**	**$ 148,030**	**$ 158,646**	**$ 38,827**	**$ 395,654**	**$ 479,554**
Additions	4,493	12,800	22,920	73	40,286	104,996
Additions - acquisition	73,266	124,341	19,148	-	216,755	169,993
Disposals	(193)	(3,931)	(10,394)	-	(14,518)	(57,112)
Currency translation effects	(11)	(183)	(280)	-	(474)	-
December 31, 2017	**$ 127,706**	**$ 281,057**	**$ 190,040**	**$ 38,900**	**$ 637,703**	**$ 697,431**
Accumulated depreciation						
January 1, 2017	**$ -**	**$ 73,782**	**$ 112,063**	**$ 27,982**	**$ 213,827**	**$ 207,277**
Depreciation charge	-	6,870	16,529	1,554	24,953	61,334
Depreciation of disposals	-	(3,681)	(10,374)	-	(14,055)	(40,522)
Currency translation effects	-	(18)	(182)	-	(200)	-
December 31, 2017	**$ -**	**$ 76,953**	**$ 118,036**	**$ 29,536**	**$ 224,525**	**$ 228,089**
Net book value - December 31, 2017	**$ 127,706**	**$ 204,104**	**$ 72,004**	**$ 9,364**	**$ 413,178**	**$ 469,342**

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2016	$ 49,988	$ 143,223	$ 154,924	$ 38,771	$ 386,906	$ 438,607
Additions	539	4,912	16,850	56	22,357	98,696
Disposals	(371)	(20)	(13,030)	-	(13,421)	(57,749)
Currency translation effects	(5)	(85)	(98)	-	(188)	-
December 31, 2016	$ 50,151	$ 148,030	$ 158,646	$ 38,827	$ 395,654	$ 479,554
Accumulated depreciation						
January 1, 2016	$ -	$ 67,923	$ 108,413	$ 26,416	$ 202,752	$ 192,937
Depreciation charge	-	5,884	16,321	1,566	23,771	52,476
Depreciation of disposals	-	(18)	(12,604)	-	(12,622)	(38,136)
Currency translation effects	-	(7)	(67)	-	(74)	-
December 31, 2016	$ -	$ 73,782	$ 112,063	$ 27,982	$ 213,827	$ 207,277
Net book value - December 31, 2016	$ 50,151	$ 74,248	$ 46,583	$ 10,845	$ 181,827	$ 272,277

During 2017, depreciation expense of $76.9 million was charged to cost of goods sold (2016 - $69.4 million) and $9.4 million was charged to selling and administrative expenses (2016 - $6.8 million).

Operating income from rental operations for the year ended December 31, 2017, was $38.1 million (2016 - $28.4 million).

7. OTHER ASSETS

	2017	2016
Equipment sold with guaranteed residual values	**$ 12,464**	$ 13,147
Other	**4,742**	2,234
	$ 17,206	$ 15,381

8. GOODWILL AND INTANGIBLE ASSETS

	Patents and Licenses	Customer Order Backlog	ERP System	Customer Relationships	Distribution Network	Goodwill	Total
Cost							
At January 1, 2016							
and December 31, 2016	$ 500	$ -	$ -	$ -	$ 13,669	$ 13,450	$ 27,619
Acquisitions	-	4,243	10,000	14,731	345,989	80,434	455,397
At December 31, 2017	**$ 500**	**$ 4,243**	**$ 10,000**	**$ 14,731**	**$ 359,658**	**$ 93,884**	**$ 483,016**
Accumulated amortization							
At January 1, 2016	$ 88	$ -	$ -	$ -	$ -	$ -	$ 88
Amortization	30	-	-	-	-	-	30
At December 31, 2016	118	-	-	-	-	-	118
Amortization	29	2,122	333	307	-	-	2,791
At December 31, 2017	**$ 147**	**$ 2,122**	**$ 333**	**$ 307**	**$ -**	**$ -**	**$ 2,909**
Net book value							
- At December 31, 2016	$ 382	$ -	$ -	$ -	$ 13,669	$ 13,450	$ 27,501
- At December 31, 2017	**$ 353**	**$ 2,121**	**$ 9,667**	**$ 14,424**	**$ 359,658**	**$ 93,884**	**$ 480,107**

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 Network**	
	December 31 2017	December 31 2016	**December 31 2017**	December 31 2016
Equipment Group				
- Toromont Quebec/Maritimes	$ 76,374	$ -	$ 340,541	$ -
- Toromont CAT dealership	13,000	13,000	13,669	13,669
- Battlefield Equipment	4,060	-	5,448	-
	$ 93,434	$ 13,000	**$ 359,658**	$ 13,669
CIMCO	**450**	450	**-**	-
	$ 93,884	$ 13,450	**$ 359,658**	$ 13,669

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2017. The test for impairment is to compare the recoverable amount of the CGU or group of CGUs to their carrying value. 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 2.0% 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 discount rate ranged from 10.0% – 13.0%. 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.

9. PROVISIONS

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at January 1, 2016	$ 8,016	$ 8,806	$ 16,822
New provisions	17,420	1,290	18,710
Charges/credits against provisions	(14,636)	(4,802)	(19,438)
Balance as at December 31, 2016	$ 10,800	$ 5,294	$ 16,094
Acquisitions	1,045	-	1,045
New provisions	21,940	1,145	23,085
Charges/credits against provisions	(20,554)	(2,234)	(22,788)
Balance as at December 31, 2017	**$ 13,231**	**$ 4,205**	**$ 17,436**

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 and insurance claims and potential onerous contracts. No one claim is significant.

10. LONG-TERM DEBT

All debt is unsecured.

	2017	2016
7.06%, $15.0 million, due March 29, 2019 [1]	$ 2,963	$ 4,774
3.71%, $150.0 million, due September 30, 2025 [2]	150,000	150,000
3.84%, $500.0 million, due October 27, 2027 [2]	500,000	-
Senior debentures	652,963	154,774
$250.0 million term credit facility due on October 27, 2022[3]	250,000	-
	902,963	154,774
Debt issuance costs, net of amortization	(7,216)	(2,246)
Total long-term debt	$ 895,747	$ 152,528
Less: current portion of long-term debt	(1,941)	(1,811)
Non-current portion of long-term debt	$ 893,806	$ 150,717

[1] Blended principal and interest payments payable semi-annually through to maturity.
[2] Interest payable semi-annually, principal due on maturity.
[3] Interest payable monthly, principal due on maturity.

On October 27, 2017, the Company issued senior unsecured debentures in an aggregate principal amount of $500.0 million (the “Debentures”) to partially fund the Hewitt acquisition (see note 3 for further details). The Debentures mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually. The Debentures are unsecured, unsubordinated and rank pari passu with debt outstanding under Toromont’s existing debentures.

On October 27, 2017, the Company also expanded and extended its committed unsecured credit facility. The facility provides a term facility of $250.0 million and a revolving facility of $500.0 million, maturing in October 2022. Debt incurred under the facility is unsecured and ranks pari passu with debt outstanding under Toromont’s other outstanding debt. Interest is based on a floating rate, primarily bankers’ acceptances and prime, plus applicable margins and fees based on the terms of the credit facility. Debt under either facility may be repaid at any time. To partially fund the aforementioned acquisition, $250.0 million was drawn on the term facility. At December 31, 2017, the interest rate on these drawings was 2.42%.

At December 31, 2017, standby letters of credit issued utilized $26.7 million of the credit lines (2016 - $21.7 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, 2017 and 2016.

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

	Principal	Interest
2018	$ 1,941	$ 30,825
2019	1,022	30,825
2020	-	30,825
2021	-	30,825
2022	250,000	29,748
Thereafter	650,000	111,342
	$ 902,963	$ 264,390

Interest expense includes interest on debt initially incurred for a term greater than one year of $11.8 million (2016 - $7.1 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, 2017 and 2016.

A continuity of the shares issued and outstanding for the years ended December 31, 2017 and 2016 is presented in the consolidated statements of changes in equity.

Shareholder Rights Plan

The Shareholder Rights Plan 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 20.0% 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 50.0% discount to the market price at that time. The Plan expires in April 2018.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2017. The current issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares in the 12-month period ending August 30, 2018, representing 10.0% 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.

There were no shares purchased under the NCIB program for the year ended December 31, 2017. During the year ended December 31, 2016, the Company purchased and cancelled 89,244 common shares for $2.6 million (average cost of $28.84 per share, including transaction costs) under its NCIB program.

Dividends

The Company paid dividends of $58.9 million ($0.75 per share) for the year ended December 31, 2017, and $55.4 million ($0.71 per share) for the year ended December 31, 2016.

Subsequent to the year ended December 31, 2017, the Board of Directors approved a quarterly dividend of $0.23 per share payable on April 2, 2018, to shareholders on record at the close of business on March 9, 2018.

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:

	2017	2016
Other financial liabilities:		
Current portion of long-term debt	**$ 1,941**	$ 1,811
Long-term debt	**893,806**	150,717
Derivative financial instruments:		
Foreign exchange forward contracts	**$ (5,260)**	$ 1,197

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 which 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	**2017**	2016
Fair value	**$ 917,583**	$ 154,929
Carrying value	**902,963**	154,774

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 which 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, 2017 and 2016, 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, 2017, the Company was committed to US dollar purchase contracts with a notional amount of $276.6 million at an average exchange rate of $1.2737, maturing between January 2018 and February 2019.

Management estimates that a loss of $5.3 million (2016 – gain of $1.2 million) would be realized if the contracts were terminated on December 31, 2017. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized loss of $2.3 million (2016 – unrealized gain of $0.4 million) has been included in other comprehensive income. 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. 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 $3.0 million (2016 – gain of $0.8 million) on these forward contracts is included in net earnings, which offsets gains recorded on the foreign-denominated items, namely accounts payable.

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 derivative financial instruments.

As at December 31, 2017, a 5.0% weakening/(strengthening) of the Canadian dollar against the US dollar would result in a $0.4 million (decrease)/increase in OCI for financial instruments held in foreign operations, and a $1.4 million increase (decrease) in net earnings and $5.4 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 statement 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, 2017 or 2016.

The Company had a floating rate debt of $250.0 million as at December 31, 2017 (2016 - $nil).

Sensitivity Analysis
An increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would increase interest expense by $2.5 million (decrease net income after tax by $1.8 million).

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2017, the Company had unutilized lines of credit of $473.3 million (2016 - $228.3 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 2018, together with currently available 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:

		2017		2016
Credit facilities	$	2,381	$	820
Senior debentures		9,896		6,422
	$	12,277	$	7,242

The components of interest and investment income were as follows:

		2017		2016
Interest income on rental conversions	$	2,308	$	2,811
Other		2,351		1,195
	$	4,659	$	4,006

15. INCOME TAXES

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

		2017		2016
Current income tax expense	$	55,699	$	54,846
Deferred income tax expense		10,295		2,733
Total income tax expense	$	65,994	$	57,579

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

		2017		2016
Statutory Canadian federal and provincial income tax rates		26.50%		26.50%
Expected taxes on income	$	64,120	$	56,532
Increase (decrease) in income taxes resulting from:				
Higher effective tax rates in other jurisdictions		973		490
Manufacturing and processing rate reduction		(171)		(330)
Expenses not deductible for tax purposes		1,565		1,539
Non-taxable gains		(655)		(853)
Effect of change in future income tax rate		249		13
Other		(87)		188
Provision for income taxes	$	65,994	$	57,579
Effective income tax rate		27.3%		27.0%

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

The source of deferred income taxes was as follows:

	2017	2016
Accrued liabilities	**$ 16,857**	$ 15,267
Deferred revenues	**1,869**	1,960
Accounts receivable	**2,241**	2,072
Inventories	**5,216**	5,245
Capital assets	**(36,375)**	(24,740)
Intangible assets and goodwill	**1,428**	(791)
Net post-employment obligations	**7,645**	5,759
Other	**926**	946
Cash flow hedges in other comprehensive income	**604**	(108)
Deferred tax assets	**$ 411**	$ 5,610

The movement in net deferred tax assets was as follows:

	2017	2016
Balance, January 1	**$ 5,610**	$ 8,102
Tax expense recognized in income	**(10,295)**	(2,733)
Acquisition	**2,617**	-
Tax recovery recognized in other comprehensive income	**2,479**	241
Balance, December 31	**$ 411**	$ 5,610

The aggregate amount of unremitted earnings in the Company's subsidiaries was $19.4 million (2016 - $17.3 million). These earnings can be remitted with no tax consequences.

16. EARNINGS PER SHARE

	2017	2016
Net earnings available to common shareholders	**$ 175,970**	$ 155,748
Weighted average common shares outstanding	**79,091,706**	78,127,400
Dilutive effect of stock option conversions	**815,764**	546,897
Diluted weighted average common shares outstanding	**79,907,470**	78,674,297
Earnings per share:		
Basic	**$ 2.22**	$ 1.99
Diluted	**$ 2.20**	$ 1.98

For the calculation of diluted earnings per share for the year ended December 31, 2017, 514,550 (2016 – 513,500) outstanding stock options with a weighted average exercise price of $53.88 (2016 - $39.79) 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

		2017		2016
Wages and salaries	$	368,497	$	315,050
Other employment benefit expenses		57,937		54,125
Share options granted to directors and employees		3,502		3,261
Pension costs		17,321		13,276
	$	447,257	$	385,712

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 1.0% of the outstanding shares as of the beginning of the year in which a grant is made (2017 - 783,985). Stock options vest 20.0% 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. Stock options granted in 2013 and after have a 10-year term while those granted prior to 2013 have a seven-year term. 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, 2017 and 2016, was as follows:

	2017			2016		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Options outstanding, January 1	2,430,871	$	29.25	2,512,250	$	24.91
Granted	514,550		53.88	517,500		39.79
Exercised [1]	(301,885)		22.39	(581,879)		19.89
Forfeited	(15,500)		31.63	(17,000)		29.06
Options outstanding, December 31	2,628,036	$	34.85	2,430,871	$	29.25
Options exercisable, December 31	1,123,236	$	26.15	931,056	$	23.12

[1] The weighted average share price at date of exercise for the year ended December 31, 2017 was $51.65 (2016 - $37.36).

The following table summarizes stock options outstanding and exercisable as at December 31, 2017.

Range of Exercise Prices	Options Outstanding Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Options Exercisable Number	Weighted Average Exercise Price
$17.10 - $23.40	701,366	3.3	$ 21.17	614,476	$ 20.85
$23.41 - $26.79	427,240	6.6	$ 26.52	235,400	$ 26.52
$36.65	482,540	7.6	$ 36.65	179,420	$ 36.65
$39.79	502,340	8.6	$ 39.79	93,940	$ 39.79
$53.88	514,550	9.7	$ 53.88	-	$ -
	2,628,036	**6.9**	**$ 34.85**	**1,123,236**	**$ 26.15**

The fair value of the stock options granted during 2017 and 2016 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2017	2016
Fair value price per option	**$ 12.28**	$ 7.61
Share price	**$ 53.88**	$ 39.79
Expected life of options (years)	**8.06**	8.25
Expected stock price volatility	**22.0%**	22.0%
Expected dividend yield	**1.41%**	1.81%
Risk-free interest rate	**1.75%**	0.96%

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 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:

	2017		2016	
	Number of DSUs	**Value**	Number of DSUs	Value
Outstanding, January 1	**407,731**	**$ 17,265**	377,311	$ 12,000
Units taken or taken in lieu and dividends	**35,937**	**1,722**	47,240	1,661
Redemptions	**(17,389)**	**(778)**	(16,820)	(683)
Fair market value adjustment	**-**	**5,208**	-	4,287
Outstanding, December 31	**426,279**	**$ 23,417**	407,731	$ 17,265

Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan ("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 the greater of 2.5% of an employee's base salary or $1,000 per annum. Company contributions amounting to $2.0 million in 2017 (2016 - $1.8 million)

were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

19. EMPLOYEE FUTURE BENEFITS

Defined Contribution Plans

The Company sponsors pension arrangements for approximately 3,000 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.

Pension expense recognized in net earnings for these plans was as follows:

	2017	2016
Defined contribution plans	**$ 11,765**	$ 11,140
401(k) matched savings plans	**281**	248
Net pension expense	**$ 12,046**	$ 11,388

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,900 qualifying employees. The plans described in d) and e) below are plans which were assumed on acquisition of the Hewitt operations (note 3):

a) Powell Pension Plan – This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The 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 plan is registered with the Province of Manitoba. Manitoba's minimum funding regulations require special payments for Toromont to amortize any shortfalls of plan assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payments of an equivalent lump sum value (solvency funding basis). Security in the form of letters of credit is permitted in lieu of some or all of these solvency special payments. If the fair value of defined benefit assets were to exceed 105.0% of this solvency funding target, the excess can be applied to the cost of the defined benefits and defined contributions in future periods. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled for December 31, 2017.

b) Executive Pension Plan – The plan is a supplemental pension plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. At December 31, 2017, the Company has posted letters of credit in the amount of $18.4 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2017, with the next valuation scheduled for December 31, 2018.

c) Other pension 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 separated from the Company. The most recent actuarial valuation was completed on January 1, 2017, with the next valuation scheduled for January 1, 2020.

d) Quebec/Maritimes Pension Plan – The Company sponsors six contributory plans that provide pension benefits based on length of service and career average earnings. The plans are now 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, 2017.

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, 2017, with the next valuation scheduled as at December 31, 2018.

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 interest rates will increase the plan liability; however, this will be partially offset by an increase in the plan's holdings in debt instruments
- Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
- 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.

The significant weighted average actuarial assumptions adopted in measuring the Company's benefit obligations were as follows:

	2017	2016
Discount rate	**3.40%**	3.60%
Expected rate of salary increase	**3.47%**	3.50%

Pension and other post-retirement benefit expense recognized in net earnings were as follows:

	2017	2016
Service cost	$ 3,955	$ 1,055
Net interest expense	1,320	833
Components of defined benefit costs recognized in net earnings	$ 5,275	$ 1,888

Pre-tax amounts recognized in other comprehensive income were as follows:

	2017	2016
Actuarial gains arising from experience adjustments	$ (664)	$ (551)
Actuarial losses arising from changes in demographic assumptions	99	-
Actuarial losses arising from changes in financial assumptions	8,152	3,096
Return on plan assets (excluding amounts included in net interest expense)	(822)	(1,080)
Components of defined benefit costs recognized in other comprehensive income	$ 6,765	$ 1,465

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
	2017	2016	2017
Defined benefit obligations:			
Balance, January 1	$ 83,370	$ 81,778	$ -
Business acquisition	401,986	-	24,740
Current service cost	3,814	1,055	141
Interest cost	5,274	3,116	140
Remeasurement (gains) losses:			
Actuarial (gains) losses arising from experience adjustments	(699)	(551)	35
Actuarial losses arising from demographic adjustments	99	-	-
Actuarial losses arising from changes in financial assumptions	8,152	3,096	-
Benefits paid	(9,375)	(5,435)	(198)
Contributions by plan participants	1,124	311	-
Balance, December 31	493,745	83,370	24,858
Plan assets:			
Fair value, January 1	60,800	60,683	-
Business acquisition	335,171	-	-
Interest income on plan assets	4,094	2,283	-
Return on plan assets (excluding amounts included in net interest expense)	822	1,080	-
Contributions from the Company	4,632	1,878	198
Contributions from plan participants	1,124	311	-
Benefits paid	(9,375)	(5,435)	(198)
Fair value, December 31	397,268	60,800	-
Net post-employment obligations	$ 96,477	$ 22,570	$ 24,858

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

	2017			2016		
	Defined benefit obligations	**Plan assets**	**Net post-employment obligations**	Defined benefit obligations	Plan assets	Net post-employment obligations
Powell Plan	**$ 57,660**	**$ 56,245**	**$ (1,415)**	$ 56,723	$ 55,234	$ (1,489)
Executive Plan	**18,368**	**-**	**(18,368)**	18,377	-	(18,377)
Quebec/Maritimes Plan	**410,451**	**335,526**	**(74,925)**	-	-	-
Quebec/Maritimes other post-employment benefits	**24,858**	**-**	**(24,858)**	-	-	-
Other plan assets and obligations	**7,266**	**5,497**	**(1,769)**	8,270	5,566	(2,704)
	$ 518,603	**$ 397,268**	**$ (121,335)**	$ 83,370	$ 60,800	$ (22,570)

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

	2017	2016
Equity securities	**53.9%**	43.9%
Debt securities	**42.5%**	38.2%
Real estate assets	**2.8%**	17.8%
Cash and cash equivalents	**0.8%**	0.1%

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 was $4.9 million (2016 - $3.4 million).

The Company expects to contribute $27.0 million to pension and other benefit plans in 2018, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligation at December 31, 2017, was 14.5 years (2016 - 13.4 years).

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are the discount rate and the 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, 2017, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation ("DBO"):

Actuarial Assumption	Sensitivity	Increase (decrease) in DBO Pension Benefit Plans	Other post-retirement benefit plans	Total
Period end discount rate	1% increase	$ (71,202)	$ (1,865)	$ (73,067)
	1% decrease	$ 83,426	$ 2,121	$ 85,547
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 10,725	$ (479)	$ 10,246

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 33.0%, 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:

	2017	2016
Long-term debt	**$ 893,806**	$ 150,717
Current portion of long-term debt	**1,941**	1,811
Less: Cash	**160,507**	188,735
Net debt	**735,240**	(36,207)
Shareholders' equity	**1,124,727**	885,432
Total capitalization	**$ 1,859,967**	$ 849,225
Net debt as a % of total capitalization	**40%**	-4%
Net debt to equity ratio	**0.65:1**	-0.04:1

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, 2017 and 2016.

There were no changes in the Company's approach to capital management during the years ended December 31, 2017 and 2016.

21. SUPPLEMENTAL CASH FLOW INFORMATION

		2017		2016
Net change in non-cash working capital and other				
Accounts receivable	$	**(65,840)**	$	1,832
Inventories		**(53,232)**		27,453
Accounts payable and accrued liabilities		**162,797**		8,364
Provisions		**297**		(728)
Deferred revenues		**33,906**		1,046
Income taxes receivable		**(1,058)**		(1,790)
Other		**(6,860)**		(1,433)
	$	**70,010**	$	34,744
Cash paid during the year for:				
Interest	$	**7,863**	$	6,587
Income taxes	$	**57,686**	$	57,328
Cash received during the year for:				
Interest	$	**4,130**	$	3,599
Income taxes	$	**1,705**	$	1,845

Reconciliation of liabilities arising from financing activities was as follows:

		Current portion of long-term debt		Long-term debt		Total
Balance, January 1, 2017	$	1,811	$	150,717	$	**152,528**
Cash flow provided by financing activities		130		743,089		**743,219**
Balance, December 31, 2017	**$**	**1,941**	**$**	**893,806**	**$**	**895,747**

22. COMMITMENTS

The Company has entered into leases on buildings, vehicles and office equipment. The vehicle and office equipment leases generally have an average life between three and five years with no renewal options. The building leases have a maximum lease term of 20 years including renewal options. Some of the contracts include a lease escalation clause, which is usually based on the Consumer Price Index.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2017, were as follows:

2018	$	10,725
2019		9,097
2020		5,083
2021		3,488
2022		2,171
Thereafter		1,642
	$	32,206

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

CIMCO

Provider of design, engineering, fabrication, installation, and product support of industrial and recreational refrigeration systems.

Corporate Office

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

The following table sets forth information by segment for the years ended December 31:

	Equipment Group		CIMCO		Consolidated	
	2017	2016	**2017**	2016	**2017**	2016
Equipment/package sales	**$ 1,012,208**	$ 764,377	**$ 189,212**	$ 161,614	**$ 1,201,420**	$ 925,991
Rentals	**261,641**	221,009	**-**	-	**261,641**	221,009
Product support	**746,832**	634,018	**128,999**	118,780	**875,831**	752,798
Power generation	**11,270**	12,242	**-**	-	**11,270**	12,242
Total revenues	**$ 2,031,951**	$ 1,631,646	**$ 318,211**	$ 280,394	**$ 2,350,162**	$ 1,912,040
Operating income	**$ 219,814**	$ 196,124	**$ 29,768**	$ 20,439	**$ 249,582**	$ 216,563
Interest expense					**12,277**	7,242
Interest and investment income					**(4,659)**	(4,006)
Income taxes					**65,994**	57,579
Net earnings					**$ 175,970**	$ 155,748

Selected statements of financial position information:

	Equipment Group		CIMCO		Consolidated	
As at December 31	**2017**	2016	**2017**	2016	**2017**	2016
Identifiable assets	**$ 2,551,574**	$ 1,109,223	**$ 101,719**	$ 77,079	**$ 2,653,293**	$ 1,186,302
Corporate assets					**204,616**	207,910
Total assets					**$ 2,857,909**	$ 1,394,212
Identifiable liabilities	**$ 602,694**	$ 243,410	**$ 76,323**	$ 53,176	**$ 679,017**	$ 296,586
Corporate liabilities					**1,054,165**	212,194
Total liabilities					**$ 1,733,182**	$ 508,780
Capital expenditures	**$ 138,231**	$ 121,606	**$ 1,429**	$ 1,888	**$ 139,660**	$ 123,494
Depreciation	**$ 84,922**	$ 74,812	**$ 1,365**	$ 1,435	**$ 86,287**	$ 76,247

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

	2017	2016
Revenues		
Canada	**$ 2,252,343**	$ 1,822,196
United States	**96,666**	88,523
International	**1,153**	1,321
	$ 2,350,162	$ 1,912,040

	2017	2016
Capital Assets and Goodwill		
Canada	**$ 972,086**	$ 462,937
United States	**4,318**	4,617
	$ 976,404	$ 467,554

24. RELATED PARTY DISCLOSURES

Key management personnel and director compensation comprised:

	2017	2016
Salaries	$ 3,271	$ 3,273
Stock options and DSU awards	2,169	1,912
Annual non-equity incentive based plan compensation	2,733	2,799
Pension	647	607
All other compensation	148	118
	$ 8,968	$ 8,709

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 Caterpillar products account for the major portion of the Equipment Group's operations. Toromont has had a strong relationship with Caterpillar since inception in 1993.