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) S.J. Medhurst	*(signed) P.R. Jewer*	
Scott J. Medhurst President and Chief Executive Officer	**Paul R. Jewer** Executive Vice President and Chief Financial Officer	February 14, 2019 Toronto, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Toromont Industries Ltd.,

We have audited the consolidated financial statements of Toromont Industries Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, the consolidated income statements, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

(signed) Ernst & Young LLP

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 14, 2019
Toronto, Canada

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 ($ thousands)	Note	2018	2017
Assets			
Current assets			
Cash		**$ 345,434**	$ 160,507
Accounts receivable	3	**522,462**	528,748
Inventories	4	**873,507**	777,524
Income taxes receivable		**118**	536
Derivative financial instruments	12	**27,647**	-
Other current assets		**9,932**	8,386
Total current assets		**1,779,100**	1,475,701
Property, plant and equipment	5	**412,776**	412,535
Rental equipment	5	**541,530**	469,342
Other assets	6	**13,206**	17,206
Deferred tax assets	15	**1,610**	411
Goodwill and intangible assets	7	**486,309**	491,750
Total assets		**$ 3,234,531**	$ 2,866,945
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 935,037**	$ 540,821
Provisions	8	**24,382**	22,436
Deferred revenues and contract liabilities	9	**136,244**	137,129
Current portion of long-term debt	10	**1,022**	1,941
Derivative financial instruments	12	**23**	5,260
Income taxes payable		**28,486**	740
Total current liabilities		**1,125,194**	708,327
Deferred revenues and contract liabilities	9	**17,247**	18,750
Long-term debt	10	**644,540**	893,806
Post-employment obligations	19	**104,342**	121,335
Deferred tax liabilities	15	**15,529**	-
Shareholders' equity			
Share capital	11	**457,800**	444,427
Contributed surplus		**12,879**	10,290
Retained earnings		**851,049**	669,813
Accumulated other comprehensive income		**5,951**	197
Shareholders' equity		**1,327,679**	1,124,727
Total liabilities and shareholders' equity		**$ 3,234,531**	$ 2,866,945

Commitments - see note 22

See accompanying notes

Approved by the Board:

(signed) R. M. Ogilvie | *(signed) W. S. Hill*

Robert M. Ogilvie
Director

Wayne S. Hill
Director

TORONTMONT INDUSTRIES LTD.
CONSOLIDATED INCOME STATEMENTS

Years ended December 31 ($ thousands, except share amounts)	Note	2018	2017
Revenues	23	**$ 3,504,236**	$ 2,350,162
Cost of goods sold	4,5	**2,640,835**	1,794,213
Gross profit		**863,401**	555,949
Selling and administrative expenses		**493,827**	306,367
Operating income		**369,574**	249,582
Interest expense	14	**30,643**	12,277
Interest and investment income	14	**(8,918)**	(4,659)
Income before income taxes		**347,849**	241,964
Income taxes	15	**95,865**	65,994
Net earnings		**$ 251,984**	$ 175,970
Earnings per share			
Basic	16	**$ 3.10**	$ 2.22
Diluted	16	**$ 3.07**	$ 2.20
Weighted average number of shares outstanding			
Basic	16	**81,231,282**	79,091,706
Diluted	16	**81,975,310**	79,907,470

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 ($ thousands)	**2018**	2017
Net earnings	**$ 251,984**	$ 175,970
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	**789**	(716)
Unrealized gains (losses) on derivatives designated as cash flow hedges	8,239	(5,946)
Income tax (expense) recovery	(2,144)	1,548
Unrealized gains (losses) on cash flow hedges, net of income taxes	**6,095**	(4,398)
Realized (gains) losses on derivatives designated as cash flow hedges	(1,528)	3,211
Income tax expense (recovery)	398	(836)
Realized (gains) losses on cash flow hedges, net of income taxes	**(1,130)**	2,375
Items that will not be reclassified subsequently to net earnings:		
Actuarial and other gains (losses)	20,652	(6,765)
Income tax (expense) recovery	(5,413)	1,758
Actuarial and other gains (losses), net of income taxes	**15,239**	(5,007)
Other comprehensive income (loss)	**20,993**	(7,746)
Total comprehensive income	**$ 272,977**	$ 168,224

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	Note	2018	2017
Operating activities			
Net earnings		**$ 251,984**	$ 175,970
Items not requiring cash:			
Depreciation and amortization	5,7,10	**141,535**	89,705
Stock-based compensation	18	**5,101**	3,502
Post-employment obligations		**3,659**	448
Deferred income taxes		**7,171**	10,287
Interest accretion on repayment of term credit facility	10	**821**	-
Gain on sale of rental equipment and property, plant and equipment		**(14,990)**	(21,590)
		395,281	258,322
Net change in non-cash working capital and other	21	**236,050**	70,010
Additions to rental equipment	5	**(149,650)**	(102,343)
Proceeds on disposal of rental equipment		**24,502**	35,521
Cash provided by operating activities		**506,183**	261,510
Investing activities			
Additions to property, plant and equipment	5	**(49,504)**	(37,317)
Proceeds on disposal of property, plant and equipment		**9,506**	3,185
Decrease (increase) in other assets		**42,473**	(42,950)
Business acquisition	25	**-**	(902,896)
Cash provided by (used in) investing activities		**2,475**	(979,978)
Financing activities			
Issue of senior debentures	10	**-**	500,000
Drawings on term credit facility	10	**-**	250,000
Repayment of term credit facility	10	**(250,000)**	-
Repayment of senior debentures		**(1,941)**	(1,811)
Debt issuance costs		**-**	(5,597)
Dividends	11	**(71,434)**	(58,858)
Cash received on exercise of stock options		**12,198**	6,758
Shares purchased for cancellation	11	**(12,808)**	-
Cash (used in) provided by financing activities		**(323,985)**	690,492
Effect of currency translation on cash balances		**254**	(252)
Increase (decrease) in cash		**184,927**	(28,228)
Cash, at beginning of year		**160,507**	188,735
Cash, at end of year		**$ 345,434**	$ 160,507

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, except share numbers)	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
At January 1, 2017	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
Net earnings	-	-	-	251,984	-	-	-	251,984
Other comprehensive income	-	-	-	15,239	789	4,965	5,754	20,993
Total comprehensive income	-	-	-	267,223	789	4,965	5,754	272,977
Exercise of stock options	514,516	14,710	-	-	-	-	-	14,710
Stock-based compensation expense	-	-	5,101	-	-	-	-	5,101
Stock options exercised	-	-	(2,512)	-	-	-	-	(2,512)
Effect of stock compensation plans	514,516	14,710	2,589	-	-	-	-	17,299
Shares purchased for cancellation	(237,952)	(1,337)	-	(11,471)	-	-	-	(12,808)
Dividends	-	-	-	(74,516)	-	-	-	(74,516)
At December 31, 2018	**81,226,383**	**$ 457,800**	**$ 12,879**	**$ 851,049**	**$ 2,700**	**$ 3,251**	**$ 5,951**	**$ 1,327,679**

See accompanying notes

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

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

The Company operates through two business segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory - spanning the Canadian provinces of Newfoundland & Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario and Manitoba, in addition to most of the territory of Nunavut. The Group includes industry leading rental operations, a complementary material handling business and an agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 6,000 people in more than 150 locations.

Statement of Compliance

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

These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on February 14, 2019.

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 of the statements of financial position have been reclassified from statements previously presented to conform to the presentation of the 2018 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 statement.

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

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

Cash and Cash Equivalents

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

Accounts Receivable

Trade accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade accounts receivable are recognized initially at amounts due, net of impairment for estimated expected credit loss (allowance for

doubtful accounts). The expense relating to expected credit loss is included within “Selling and administrative expenses” in the consolidated income statements.

Unbilled receivables represent contract assets related to the Company’s rights to consideration for work completed but not billed as at the reporting date on the sale of power and energy systems and refrigeration packages. These are transferred to receivables when the entitlement to payment becomes unconditional.

Inventories

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

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

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

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

Cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, 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, straight-line

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

Provisions

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

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

Financial Instruments

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

Financial Assets

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

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

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

Financial Liabilities

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

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

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

Derivatives

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

Impairment of Financial Assets

An allowance for expected credit losses ("ECL") is recognized for all debt instruments not held at fair value through profit or loss. The amount of ECL is updated at each reporting period to reflect changes in credit risk of the respective financial instrument.

As the Company's financial assets are substantially comprised of trade receivables, a simplified approach is used for measuring the loss allowance at an amount equal to lifetime ECL. The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECLs at all times. Lifetime ECL represents the ECL that would result from all possible default events over the expected life of a financial instrument.

The Company considers the following as constituting an event of a default for internal credit risk management purposes, as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

(i) when there is a breach of financial covenants by the customer; or
(ii) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(i) significant financial difficulty of the customer;
(ii) a breach of contract, such as a default discussed above; or
(iii) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

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

Derivative Financial Instruments and Hedge Accounting

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

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

The Company has designated certain derivatives as cash flow hedges. These are hedges of firm commitments and highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in 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 from Contracts with Customers

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

- *Sale of Equipment* - Revenue is recognized when control of the equipment has been transferred to the customer. This usually occurs when the equipment is delivered or picked up by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met: (i) there is a substantive reason for the arrangement; (ii) the equipment is separately identified as belonging to the customer; (iii) Toromont is no longer able to use the equipment or direct it to another customer; and (iv) the equipment is currently ready for physical transfer to the customer.
- *Sale of Equipment with a Guaranteed Residual Value or Repurchase Commitment* - The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at a predetermined residual value and date is accounted for as an operating lease in accordance with IAS 17 – *Leases*. Revenue is therefore recognized over the period extending to the date of the residual guarantee.
- *Sale of Systems* – The Company sells systems, including power and energy facilities and industrial and recreational refrigeration systems, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and can span from three months to one-year. Revenue is recognized progressively based on the percentage-of-completion method. This method is normally measured by reference to costs incurred to date as a percentage of the total estimated costs as outlined in the contract. Payment terms are usually based on set milestones outlined in the contract. Periodically: (i) amounts are received in advance of the associated contract work being performed - these amounts are recorded as deferred revenues; and (ii) revenue is recognized without issuing an invoice – this entitlement to consideration is recognized as unbilled receivables. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- *Equipment Rentals* - Revenue is accounted for in accordance with IAS 17. Revenue is recognized on a straight-line basis over the term of the agreement. Payment terms are generally 30 days from invoicing.
- *Product Support Services* - Revenue from product support services includes the sale of parts and performance of service work on equipment. For the sale of parts, revenue is recognized when the part is shipped or picked-up by the customer. For the servicing of equipment, revenue on both the labour and parts used in performing the work is recognized when the job is completed. Payment terms are generally 30 days from invoicing.

- *Long-term Maintenance Contracts* - Long-term maintenance contracts range from one to five years and are customer-specific. These contracts are sold either separately or bundled together with the sale of equipment to a customer. These arrangements cover a range of services from regular maintenance to major repairs. The Company has concluded that these are two separate performance obligations as each of the promises to transfer equipment and provide services is capable of being distinct and separately identifiable. If the sales are bundled, the Company allocates a portion of the transaction price based on the relative stand-alone selling price to each performance obligation. Customers are invoiced on a periodic basis reflecting the terms of the agreement, generally based on machine hours, with payment terms of 30 days from invoicing. These amounts are recognized as deferred revenue. Revenue is recognized as work is performed under the contract based on standard or contract rates. Revenue from maintenance services is recognized over time, using an input method to measure progress towards complete satisfaction of the service.
- *Extended Warranty* - Extended warranty may be purchased by a customer at time of purchase of a machine to provide additional warranty coverage beyond the initial one year standard warranty covered by the supplier. Extended warranty generally covers specified components for a term from 3 to 5 years. Extended warranty is normally invoiced at time of purchase and payment is expected at time of invoicing. These billings are included in deferred revenue. The Company recognizes revenue for extended warranty as work is performed under the extended warranty contract using standard rates.
- *Power Generation* - The Company owns and operates power generation plants that sell electricity and thermal power. Revenue is recognized monthly based on set rates as power is consumed. Payment is due within 30 days of invoicing.

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

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 statement is the amount of the contributions the Company is required to pay in accordance with the terms of the plans.

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

- The cost of future benefits earned by employees is actuarially determined using the projected unit credit method 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.

Standards Adopted in 2018

The following standards, amendments and interpretation to standards were adopted on January 1, 2018.

a) Revenue Recognition

IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), 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.

The transition to the new standard had no material impact on the measurement or recognition of revenue of prior periods, however, additional required disclosures have been added. The Company elected to apply the standard on a full retrospective basis, whereby the cumulative effect of adoption is applied to the earliest comparative period presented, which is January 1, 2017. The Company applied certain practical expedients, as permitted by the standard in determining the impact on transition.

The Company's accounting policy for revenue recognition is described above in the section titled "Revenue from Contracts with Customers" and is determined to be in compliance with the requirements of IFRS 15.

Disclosures relating to contract balances are included in note 3 – Accounts Receivables, note 4 - Inventories and note 9 – Deferred Revenues and Contract Liabilities, respectively. The disaggregation of the Company's revenues for each reportable segment is disclosed in note 23 – Segmented Information.

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.
Adoption of these amendments had no impact on the Company's financial position or net earnings.

c) Financial Instruments

IFRS 9 - *Financial Instruments* ("IFRS 9") replaces IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39"). 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. The Company applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures or note disclosures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date are to be recognized in the opening retained earnings of the current period. No adjustments to the carrying amounts of financial assets and liabilities were required upon adoption of IFRS 9.

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.

There was no significant impact on the Company's financial position.

Standard and Interpretation Issued But Not Effective

The following standard and interpretation have been issued but are not effective for the financial year ended December 31, 2018, and accordingly, have not been applied in preparing these consolidated financial statements.

a) 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. The new standard is effective for annual periods beginning on or after January 1, 2019.

The Company expects to recognize higher non-current assets and non-current liabilities recorded on the consolidated statements of financial position. The Company also expects to recognize an increase in depreciation, lower selling, general, and administrative expenses and higher finance costs under this new standard, as operating lease expenses are replaced by higher depreciation expense and higher interest expense and a reduction in selling and administrative expenses.

Toromont expects to adopt IFRS 16 using the modified retrospective approach, using practical expedients, which do not require the restatement of prior period financial information. The cumulative financial effect of the adoption will be recognized as an adjustment to opening retained earnings, with the standard applied prospectively.

The Company's implementation plan is currently on track having selected a software tool for calculating and maintaining lease arrangements, identifying the major types of operating leases - service vehicles and branch facilities, and determining the incremental borrowing rate. The current and final data quantification and implementation phases are underway and the Company is currently in the process of calculating the transition adjustments.

b) 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.

Sale of Power and Energy Systems and Refrigeration Packages

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

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

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

Long-term Maintenance Contracts

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

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

Property, Plant and Equipment and Rental Equipment

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

Impairment of Non-financial Assets

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

Income Taxes

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

Inventories

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

Allowance for Doubtful Accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified.

Share-based Compensation

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

Post-employment Benefit Plans

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

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. customer order 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.

3. ACCOUNTS RECEIVABLE

		2018		2017
Trade receivables	**$**	**495,615**	$	460,946
Less: allowance for doubtful accounts		**(19,484)**		(10,573)
Trade receivables - net		**476,131**		450,373
Unbilled receivables		**28,738**		18,886
Other receivables		**17,593**		59,489
	$	**522,462**	$	528,748

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 25) which was subsequently collected in full during the year ended December 31, 2018.

The aging of gross trade receivables were as follows:

		2018		2017
Current to 90 days	**$**	**465,183**	$	429,229
over 90 days		**30,432**		31,717
Trade receivables	**$**	**495,615**	$	460,946

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

		2018		2017
Balance, January 1	**$**	**10,573**	$	9,700
Provisions and revisions, net		**8,911**		873
Balance, December 31	**$**	**19,484**	$	10,573

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

		2018
Balance, January 1	**$**	**18,886**
Transfer from opening balance to receivables		**(14,512)**
Increase as a result of changes in the measure of progress		**24,364**
Balance, December 31	**$**	**28,738**

4. INVENTORIES

	2018	2017
Equipment	**$ 548,934**	$ 497,033
Repair and distribution parts	**237,843**	196,783
Direct materials	**3,931**	4,048
Work-in-process	**71,560**	70,139
Work-in-process (contracts)	**11,239**	9,521
	$ 873,507	$ 777,524

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2018 was $2.1 billion (2017 - $1.4 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 $4.8 million was recorded in 2018 (2017 – $0.8 million).

5. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

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

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2017	$ 50,148	$ 150,656	$ 157,407	$ 38,849	$ 397,060	$ 479,556
Additions	4,493	12,800	22,920	73	40,286	104,996
Additions - acquisition	73,266	123,698	19,148	-	216,112	169,993
Disposals	(193)	(3,931)	(10,394)	-	(14,518)	(57,112)
Currency translation effects	(11)	(183)	(280)	-	(474)	-
December 31, 2017	$ 127,703	$ 283,040	$ 188,801	$ 38,922	$ 638,466	$ 697,433
Accumulated depreciation						
January 1, 2017	$ -	$ 74,344	$ 112,884	$ 28,005	$ 215,233	$ 207,279
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	$ -	$ 77,515	$ 118,857	$ 29,559	$ 225,931	$ 228,091
Net book value - December 31, 2017	$ 127,703	$ 205,525	$ 69,944	$ 9,363	$ 412,535	$ 469,342

During 2018, depreciation expense of $112.6 million was charged to cost of goods sold (2017 - $76.9 million) and $22.6 million was charged to selling and administrative expenses (2017 - $9.4 million).

Operating income from rental operations for the year ended December 31, 2018, was $50.2 million (2017 - $38.2 million).

6. OTHER ASSETS

	2018	2017
Equipment sold with guaranteed residual values	**$ 10,493**	$ 12,464
Other	**2,713**	4,742
	$ 13,206	$ 17,206

7. GOODWILL AND INTANGIBLE ASSETS

	Patents and Licenses	**Customer Order Backlog**	**ERP System**	**Customer Relationships**	**Distribution Network**	**Goodwill**	**Total**
Cost							
At January 1, 2017	$ 500	$ -	$ -	$ -	$ 13,669	$ 13,450	$ 27,619
Business acquisition	-	8,691	5,000	15,137	357,882	80,330	467,040
At December 31, 2017	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
At December 31, 2018	**$ 500**	**$ 8,691**	**$ 5,000**	**$ 15,137**	**$ 371,551**	**$ 93,780**	**$ 494,659**
Accumulated amortization							
At January 1, 2017	$ 118	$ -	$ -	$ -	$ -	$ -	$ 118
Amortization	29	2,122	333	307	-	-	2,791
At December 31, 2017	$ 147	$ 2,122	$ 333	$ 307	$ -	$ -	$ 2,909
Amortization	29	2,520	1,000	1,892	-	-	5,441
At December 31, 2018	**$ 176**	**$ 4,642**	**$ 1,333**	**$ 2,199**	**$ -**	**$ -**	**$ 8,350**
Net book value:							
At December 31, 2017	$ 353	$ 6,569	$ 4,667	$ 14,830	$ 371,551	$ 93,780	$ 491,750
At December 31, 2018	**$ 324**	**$ 4,049**	**$ 3,667**	**$ 12,938**	**$ 371,551**	**$ 93,780**	**$ 486,309**

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**	
	2018	**2017**	**2018**	**2017**
Equipment Group				
- Toromont Quebec/Maritimes	**$ 76,270**	$ 76,270	**$ 352,434**	$ 352,434
- Toromont CAT dealership	**13,000**	13,000	**13,669**	13,669
- Battlefield Equipment	**4,060**	4,060	**5,448**	5,448
	$ 93,330	$ 93,330	**$ 371,551**	$ 371,551
CIMCO	**450**	450	**-**	-
	$ 93,780	$ 93,780	**$ 371,551**	$ 371,551

The Company performed the annual impairment test of goodwill and intangible assets as at December 31, 2018. The test for impairment is to compare the recoverable amount of the CGU or group of CGUs to their carrying value. Goodwill is tested at the group of CGUs that represent the lowest level within the entity at which goodwill is monitored for internal management purposes that is not larger than an operating segment. Intangible assets are assessed for impairment at the CGU level to which they are allocated. The recoverable amounts have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flows beyond the three-year period were extrapolated using a 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 pre-tax discount rate ranged from 5.9 – 6.3%. As a result of the analysis, management determined there was no impairment of goodwill or indefinite lived intangible assets.

Key Assumptions to Value-in-Use Calculations and Sensitivity Analysis

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

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

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

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

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

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

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

8. PROVISIONS

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance, January 1, 2017	$ 10,800	$ 5,294	$ 16,094
Business acquisition	1,045	5,000	6,045
New provisions	21,940	1,145	23,085
Charges/credits against provisions	(20,554)	(2,234)	(22,788)
Balance, December 31, 2017	$ 13,231	$ 9,205	$ 22,436
New provisions	24,563	1,915	26,478
Charges/credits against provisions	(24,010)	(522)	(24,532)
Balance, December 31, 2018	**$ 13,784**	**$ 10,598**	**$ 24,382**

Warranty

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

Other

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

9. DEFERRED REVENUES AND CONTRACT LIABILITIES

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

During the year ended December 31, 2018, the Company recognized as revenues, $137.1 million of the opening deferred revenues and contract liability balances at January 1, 2018.

The Company elected to use the practical expedient to not disclose the Company's remaining performance obligations as those obligations are part of contracts that have an original expected duration of one year or less.

10. LONG-TERM DEBT

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

		2018		2017
7.06%, $15.0 million, due March 29, 2019 [1]	**$**	**1,022**	$	2,963
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**		500,000
Senior debentures		**651,022**		652,963
$250.0 million term credit facility		**-**		250,000
		651,022		902,963
Debt issuance costs, net of amortization		**(5,460)**		(7,216)
Total long-term debt	**$**	**645,562**	$	895,747
Less: current portion of long-term debt		**(1,022)**		(1,941)
Non-current portion of long-term debt	**$**	**644,540**	$	893,806

[1] Blended principal and interest payments payable semi-annually through to maturity.

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

The Company has a committed revolving credit facility of $500.0 million, maturing in October 2022. Interest is based on a floating rate, primarily bankers' acceptances, plus applicable margins and fees based on the terms of the credit facility. No amounts were drawn on this facility at December 31, 2018 or 2017. Standby letters of credit issued utilized $29.9 million (2017 - $26.7 million).

To partially fund the business acquisition in 2017 (see note 25), the Company drew $250.0 million on a term credit facility which was subsequently repaid in full during the year ended December 31, 2018. Unamortized deferred financing costs of $0.8 million associated with this debt were expensed and recorded within interest expense on the consolidated income statement.

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, 2018 and 2017.

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

		Principal		Interest
2019	$	1,022	$	24,811
2020		-		24,775
2021		-		24,775
2022		-		24,775
2023		-		24,775
Thereafter		650,000		83,146
	$	651,022	$	207,057

Interest expense includes interest on debt initially incurred for a term greater than one year of $30.6 million (2017 - $11.8 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, 2018 and 2017.

A continuity of the shares issued and outstanding for the years ended December 31, 2018 and 2017 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 at the end of the annual meeting of shareholders in 2021.

Normal Course Issuer Bid ("NCIB")

Toromont renewed its NCIB program in 2018. The current issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares in the twelve-month period ending August 30, 2019, 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.

During the year ended December 31, 2018, the Company purchased and cancelled 237,952 common shares for $12.8 million (average cost of $53.83 per share, including transaction costs) under its NCIB program. No shares were purchased and cancelled in 2017.

Dividends

The Company paid dividends of $71.4 million ($0.88 per share) for the year ended December 31, 2018, and $58.9 million ($0.75 per share) for the year ended December 31, 2017.

Subsequent to the year ended December 31, 2018, the Board of Directors approved a quarterly dividend of $0.27 per share payable on April 3, 2019, to shareholders on record at the close of business on March 8, 2019.

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:

	2018	2017
Other financial liabilities:		
Current portion of long-term debt	**$ 1,022**	$ 1,941
Long-term debt	**644,540**	893,806
Derivative financial instruments assets:		
Foreign exchange forward contracts	**$ 27,624**	$ (5,260)

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	2018	2017
Fair value	**$ 655,575**	$ 917,583
Carrying value	**651,022**	902,963

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, 2018 and 2017, 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, 2018, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $553.8 million at an average exchange rate of $1.3084, maturing between January 2019 and February 2020; and (ii) US dollar sell contracts with a notional amount of $31.9 million at an average exchange rate of $1.3097, maturing between January 2019 and April 2020.

Management estimates that a net gain of $27.6 million (2017 – loss of $5.3 million) would be realized if the contracts were terminated on December 31, 2018. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized gain of $4.4 million (2017 – unrealized loss of $2.3 million) has been included in other comprehensive income. These gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A gain of $23.2 million (2017 – loss of $3.0 million) on these forward contracts is included in net earnings, which offsets losses 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, 2018, a 5.0% weakening/(strengthening) of the Canadian dollar against the US dollar would result in a $1.0 million (decrease)/increase in OCI for financial instruments held in foreign operations, and a $2.2 million increase (decrease) in net earnings and $4.1 million (decrease)/increase in OCI for financial instruments held in Canadian operations.

Credit Risk

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

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

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

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

Interest Rate Risk

The Company minimizes its interest rate risk by managing its portfolio of floating-and fixed-rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were no interest rate swap agreements outstanding as at December 31, 2018 or 2017.

The Company had no floating rate debt outstanding as at December 31, 2018 (2017 - $250.0 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, 2018, the Company had unutilized lines of credit of $470.1 million (2017 - $473.3 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 2019, together with currently available cash on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company's credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

14. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	2018	2017
Credit facilities	$ 4,553	$ 2,381
Senior debentures	25,269	9,896
Interest accretion on repayment of term credit facility	821	-
	$ 30,643	$ 12,277

The components of interest and investment income were as follows:

	2018	2017
Equipment on rent with purchase options	$ 3,461	$ 2,308
Other	5,457	2,351
	$ 8,918	$ 4,659

15. INCOME TAXES

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

	2018	2017
Current income tax expense	$ 88,196	$ 55,699
Deferred income tax expense	7,669	10,295
Total income tax expense	$ 95,865	$ 65,994

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

	2018	2017
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	$ 92,180	$ 64,120
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	1,619	973
Manufacturing and processing rate reduction	(65)	(171)
Expenses not deductible for tax purposes	2,286	1,565
Non-taxable gains	(1,267)	(655)
Effect of change in future income tax rate	200	249
Other	912	(87)
Provision for income taxes	$ 95,865	$ 65,994
Effective income tax rate	27.6%	27.3%

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

The sources of deferred income taxes were as follows:

		2018		2017
Accrued liabilities	$	16,656	$	16,857
Deferred revenues and contract liabilities		3,503		1,869
Accounts receivable		4,157		2,241
Inventories		5,392		5,216
Deferred tax assets on current assets and current liabilities	$	29,708	$	26,183
Capital assets	$	(44,139)	$	(36,375)
Goodwill and intangible assets		(6,375)		1,428
Other		1,119		926
Cash flow hedges in other comprehensive income		(1,141)		604
Post-employment obligations		6,909		7,645
Deferred tax (liabilities) on non-current assets and non-current liabilities	$	(43,627)	$	(25,772)
Net deferred tax (liabilities) assets	$	(13,919)	$	411

The movement in net deferred income taxes were as follows:

		2018		2017
Balance January 1	$	411	$	5,610
Tax expense recognized in income		(7,669)		(10,295)
Foreign exchange and others		498		2,626
Tax (expense) recovery recognized in other comprehensive income		(7,159)		2,470
Balance December 31	$	(13,919)	$	411

The aggregate amount of unremitted earnings in the Company's subsidiaries was $20.4 million (2017 - $19.4 million). These earnings can be remitted with no tax consequences.

16. EARNINGS PER SHARE

		2018		2017
Net earnings available to common shareholders	$	251,984	$	175,970
Weighted average common shares outstanding		81,231,282		79,091,706
Dilutive effect of stock option conversion		744,028		815,764
Diluted weighted average common shares outstanding		81,975,310		79,907,470
Earnings per share:				
Basic	$	3.10	$	2.22
Diluted	$	3.07	$	2.20

For the calculation of diluted earnings per share for the year ended December 31, 2018, 584,250 (2017 – 514,550) outstanding stock options with a weighted average exercise price of $66.22 (2017 - $53.88) 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

		2018		2017
Wages and salaries	$	558,759	$	368,497
Other employment benefit expenses		74,094		57,937
Stock-based compensation expense		5,101		3,502
Pension costs		31,033		17,321
	$	668,987	$	447,257

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 (2018 – 809,498).

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, 2018 and 2017, was as follows:

	2018			2017		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Options outstanding, January 1	2,628,036	$	34.85	2,430,871	$	29.25
Granted	589,750		66.22	514,550	$	53.88
Exercised [1]	(514,516)		23.71	(301,885)		22.39
Forfeited	(67,200)		45.12	(15,500)		31.63
Options outstanding, December 31	2,636,070	$	43.78	2,628,036	$	34.85
Options exercisable, December 31	1,093,480	$	31.87	1,123,236	$	26.15

[1] The weighted average share price at date of exercise for the year ended December 31, 2018 was $60.49 (2017 - $51.65).

The following table summarizes stock options outstanding and exercisable as at December 31, 2018.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$20.76	131,090	0.6	$ 20.76	131,090	$ 20.76
$23.40 - $26.79	559,600	5.2	$ 25.49	470,080	$ 25.29
$36.65 - $39.79	873,150	7.1	$ 38.29	395,570	$ 37.98
$53.88 - $66.22	1,072,230	9.2	$ 60.60	96,740	$ 53.88
	2,636,070	**7.2**	**$ 43.78**	**1,093,480**	**$ 31.87**

The fair value of the stock options granted during 2018 and 2017 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	2017
Fair value price per option	**$ 13.31**	$ 12.28
Share price	**$ 66.22**	$ 53.88
Expected life of options (years)	**5.90**	8.06
Expected stock price volatility	**21.0%**	22.0%
Expected dividend yield	**1.39%**	1.41%
Risk-free interest rate	**2.15%**	1.75%

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:

	2018		2017	
	Number of DSUs	**Value**	Number of DSUs	Value
Outstanding, January 1	**426,279**	**$ 23,417**	407,731	$ 17,265
Units taken or taken in lieu and dividends	**28,733**	**1,647**	35,937	1,722
Redemptions	**(96,861)**	**(5,716)**	(17,389)	(778)
Fair market value adjustment	**-**	**(343)**	-	5,208
Outstanding, December 31	**358,151**	**$ 19,005**	426,279	$ 23,417

Employee Share Ownership Plan ("ESOP")

The Company offers an ESOP whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match at the rate of $1 for every $3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or $1,000 per annum. Company contributions amounting to $2.4 million in 2018 (2017 - $2.0 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 more than 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.

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

	2018	2017
Defined contribution plans	**$ 13,008**	$ 11,765
401(k) matched savings plans	**305**	281
	$ 13,313	$ 12,046

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 2,181 qualifying employees. The plans described in d) and e) below are plans which were assumed as part of the business acquisition described in note 25.

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, 2017, with the next valuation scheduled for December 31, 2018.

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, 2018, the Company has posted letters of credit in the amount of $17.1 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2018, with the next valuation scheduled for December 31, 2019.

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

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, 2018, with the next valuation scheduled as at December 31, 2019.

<u>Risks</u>

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.

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	
	2018	2017	**2018**	2017
Defined benefit obligations:				
Balance, January 1	**$ 493,745**	$ 83,370	**$ 24,858**	$ -
Business acquisition	**-**	401,986	**-**	24,740
Current service cost	**12,973**	3,814	**875**	141
Interest cost	**16,511**	5,274	**827**	140
Actuarial remeasurement (gains) losses arising from:				
Experience adjustments	**(963)**	(699)	**39**	35
Demographic assumptions	**-**	99	**-**	-
Changes in financial assumptions	**(31,315)**	8,152	**(1,895)**	-
Benefits paid	**(21,365)**	(9,375)	**(978)**	(198)
Contributions by plan participants	**4,963**	1,124	**-**	-
Balance, December 31	**474,549**	493,745	**23,726**	24,858
Plan assets:				
Fair value, January 1	**397,268**	60,800	**-**	-
Business acquisition	**-**	335,171	**-**	-
Interest income on plan assets	**13,466**	4,094	**-**	-
Return on plan assets (excluding amounts included in net interest expense)	**(13,482)**	822	**-**	-
Contributions from the Company	**13,083**	4,632	**978**	198
Contributions from plan participants	**4,963**	1,124	**-**	-
Benefits paid	**(21,365)**	(9,375)	**(978)**	(198)
Fair value, December 31	**393,933**	397,268	**-**	-
Net post-employment obligations	**$ 80,616**	$ 96,477	**$ 23,726**	$ 24,858

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

	2018			2017		
	Defined benefit obligations	**Plan assets**	**Net post-employment obligations**	Defined benefit obligations	Plan assets	Net post-employment obligations
Powell Plan	**$ 54,975**	**$ 55,342**	**$ 367**	$ 57,660	$ 56,245	$ (1,415)
Executive Plan	**17,575**	**-**	**(17,575)**	18,368	-	(18,368)
Quebec/Maritimes Plan	**395,818**	**333,910**	**(61,908)**	410,451	335,526	(74,925)
Quebec/Maritimes other post-employment benefits	**23,726**	**-**	**(23,726)**	24,858	-	(24,858)
Other plan assets and obligations	**6,181**	**4,681**	**(1,500)**	7,266	5,497	(1,769)
	$ 498,275	**$ 393,933**	**$ (104,342)**	$ 518,603	$ 397,268	$ (121,335)

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

	2018	2017
Discount rate	**3.89%**	3.40%
Expected rate of salary increase	**3.00%**	3.47%

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

	2018	2017
Service cost	$ 13,848	$ 3,955
Net interest expense	3,872	1,320
	$ 17,720	$ 5,275

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

	2018	2017
Actuarial gains arising from experience adjustments	$ (924)	$ (664)
Actuarial losses arising from changes in demographic assumptions	-	99
Actuarial (gains) losses arising from changes in financial assumptions	(33,210)	8,152
Return on plan assets (excluding amounts included in net interest expense)	13,482	(822)
	$ (20,652)	$ 6,765

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

	2018	2017
Equity securities	58.5%	53.9%
Debt securities	37.2%	42.5%
Real estate assets	3.7%	2.8%
Cash and cash equivalents	0.6%	0.8%

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

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

The actual return on plan assets for the year ended December 31, 2018 was $nil (2017 - $4.9 million).

The Company expects to contribute $26.0 million to pension and other benefit plans in 2019, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations at December 31, 2018 and 2017 was 14.5 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, 2018, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation (“DBO”):

		Increase (decrease) in DBO		
Actuarial Assumption	Sensitivity	Pension Benefit Plans	Other Post-retirement Benefit Plans	Total
Period end discount rate	1% increase	$ (68,700)	$ (3,402)	$ (72,102)
	1% decrease	$ 80,526	$ 4,197	$ 84,723
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 10,301	$ (451)	$ 9,850

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:

	2018	2017
Long-term debt	**$ 644,540**	$ 893,806
Current portion of long-term debt	**1,022**	1,941
Less: Cash	**345,434**	160,507
Net debt	**300,128**	735,240
Shareholders' equity	**1,327,679**	1,124,727
Total capitalization	**$ 1,627,807**	$ 1,859,967
Net debt as a % of total capitalization	**18%**	40%
Net debt to equity ratio	**0.23:1**	0.65:1

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, 2018 and 2017.

There were no changes in the Company's approach to capital management during the years ended December 31, 2018 and 2017.

21. SUPPLEMENTAL CASH FLOW INFORMATION

		2018		2017
Net change in non-cash working capital and other				
Accounts receivable	**$**	**(36,392)**	$	(65,840)
Inventories		**(95,983)**		(53,232)
Accounts payable and accrued liabilities		**364,019**		162,797
Provisions		**1,946**		297
Deferred revenues and contract liabilities		**(2,388)**		33,906
Income taxes		**28,164**		(1,058)
Derivative financial instruments		**(26,173)**		3,722
Other		**2,857**		(10,582)
	$	**236,050**	$	70,010
Cash paid during the year for:				
Interest	**$**	**28,803**	$	7,863
Income taxes	**$**	**62,054**	$	57,686
Cash received during the year for:				
Interest	**$**	**8,703**	$	4,130
Income taxes	**$**	**2,562**	$	1,705

A reconciliation of liabilities arising from financing activities during the year, was as follows:

		Current portion of long-term debt		**Long-term debt**		**Total**
Balance, January 1, 2017	$	1,811	$	150,717	$	152,528
Cash flows		(1,811)		750,000		748,189
Other		1,941		(6,911)		(4,970)
Balance, December 31, 2017	$	1,941	$	893,806	$	895,747
Cash flows		(1,941)		(250,000)		(251,941)
Other		1,022		734		1,756
Balance, December 31, 2018	**$**	**1,022**	**$**	**644,540**	**$**	**645,562**

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, 2018, were as follows:

2019	$	12,895
2020		8,764
2021		5,325
2022		3,115
2023		4,285
Thereafter		1,166
	$	35,550

23. SEGMENTED INFORMATION

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

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

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

No reportable segment is reliant on any single external customer.

Equipment Group

The Equipment Group comprises the following:

- Toromont CAT – supplies, rents and provides 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

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

Corporate Office

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

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

	Equipment Group		CIMCO		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
Equipment/package sales	**$ 1,508,120**	$ 1,012,208	**$ 202,367**	$ 189,212	**$ 1,710,487**	$ 1,201,420
Rentals	**378,027**	261,641	**-**	-	**378,027**	261,641
Product support	**1,264,295**	746,832	**140,782**	128,999	**1,405,077**	875,831
Power generation	**10,645**	11,270	**-**	-	**10,645**	11,270
Total revenues	**$ 3,161,087**	$ 2,031,951	**$ 343,149**	$ 318,211	**$ 3,504,236**	$ 2,350,162
Operating income	**$ 348,876**	$ 219,814	**$ 20,698**	$ 29,768	**$ 369,574**	$ 249,582
Interest expense					**30,643**	12,277
Interest and investment income					**(8,918)**	(4,659)
Income taxes					**95,865**	65,994
Net earnings					**$ 251,984**	$ 175,970

Selected statements of financial position information:

	Equipment Group		CIMCO		Consolidated	
As at December 31	**2018**	2017	**2018**	2017	**2018**	2017
Identifiable assets	**$ 2,755,039**	$ 2,560,610	**$ 104,498**	$ 101,719	**$ 2,859,537**	$ 2,662,329
Corporate assets					**374,994**	204,616
Total assets					**$ 3,234,531**	$ 2,866,945
Identifiable liabilities	**$ 1,091,029**	$ 611,730	**$ 71,730**	$ 76,323	**$ 1,162,759**	$ 688,053
Corporate liabilities					**744,093**	1,054,165
Total liabilities					**$ 1,906,852**	$ 1,742,218
Capital expenditures (net)	**$ 162,694**	$ 99,532	**$ 2,452**	$ 1,422	**$ 165,146**	$ 100,954
Depreciation	**$ 133,323**	$ 84,922	**$ 1,836**	$ 1,365	**$ 135,159**	$ 86,287

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

Years ended December 31	2018	2017
Canada	**$ 3,387,552**	$ 2,252,343
United States	**110,552**	96,666
International	**6,132**	1,153
Revenues	**$ 3,504,236**	$ 2,350,162

As at December 31	2018	2017
Canada	**$ 1,043,007**	$ 971,339
United States	**5,079**	4,318
Capital Assets and Goodwill	**$ 1,048,086**	$ 975,657

24. RELATED PARTY DISCLOSURES

Key management personnel and director compensation comprised:

	2018	2017
Salaries	**$ 3,068**	$ 3,271
Stock options and DSU awards	**2,461**	2,169
Annual non-equity incentive based plan compensation	**3,400**	2,733
Pension	**648**	647
All other compensation	**135**	148
	$ 9,712	$ 8,968

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. BUSINESS ACQUISITION IN 2017

On October 27, 2017, the Company acquired the businesses and net operating assets of the Hewitt Group of Companies 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 expanded 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 in exchange for consideration of $902.9 million cash (net of a final 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.

The acquisition was accounted for using the purchase method of accounting.

The final allocation of the purchase price was as follows:

Accounts receivable	$	159,539
Inventories		288,535
Property, plant and equipment		216,112
Rental equipment		169,993
Deferred tax asset		2,617
Intangible asset with an indefinite life:		
Distribution network		357,882
Intangible assets with a finite life:		
ERP system		5,000
Customer relationships		15,137
Customer order backlog		8,691
Accounts payable and accrued liabilities		(130,624)
Provisions		(6,045)
Deferred revenues and contract liabilities		(51,503)
Post-employment benefit obligations		(91,555)
Net identifiable assets		**943,779**
Residual purchase price allocated to goodwill		80,330
Total	**$**	**1,024,109**

26. ECONOMIC RELATIONSHIP

The Company, through its Equipment Group, sells and services heavy equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. The distribution and servicing of 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.