MANAGEMENT’S REPORT TO THE SHAREHOLDERS

The preparation and presentation of the Company’s consolidated financial statements is the responsibility of management. The consolidated 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 auditor 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 auditor for appointment by the shareholders. It meets regularly with financial management and the internal and external auditor to discuss internal controls, auditing matters and financial reporting issues. The independent auditor has unrestricted access to the Audit Committee. The consolidated financial statements and Management’s Discussion and Analysis have been approved by the Board of Directors, based on the review and recommendation of the Audit Committee.

/s/ S.J. Medhurst

Scott J. Medhurst
President and
Chief Executive Officer

/s/ M.S. McMillan

Michael S. McMillan
Executive Vice President and
Chief Financial Officer

February 10, 2021
Toronto, Canada

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Toromont Industries Ltd.,

Opinion

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, 2020 and 2019, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' 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, 2020 and 2019, 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.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition for long-term refrigeration packages

Key audit matter	How our audit addressed the key audit matter
The Group sells industrial and recreational refrigeration packages, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and can span from	For long-term refrigeration package contracts that were open as of December 31, 2020, our audit procedures included the following, among others:

three months to one year. Revenue is recognized progressively based on the percentage-of-completion method. This method is measured by reference to costs incurred to date as a percentage of the total estimated costs. The Group's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in notes 1 and 2 of the consolidated financial statements. The Group recognized $161.1 million of revenues for the year ended December 31, 2020 related to these contracts. The determination of the estimated costs to complete projects that are open at period end is a significant judgement that can have a material impact on the amount of revenue and profit recognized in the period. These significant judgements include those related to estimated future labour, materials and overhead costs for contracts. Given the variation in the types of refrigeration projects, these judgements related to the estimation of future costs are subjective in nature and dependent on the complexity and status of the related contract as of the period end date.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to the Group's estimation processes (including the approval of the initial budget, and the monitoring and assessment of contract activities and estimated costs to complete), and the recording of revenue in the consolidated financial statements; We reviewed contractual arrangements, including pricing and billing terms, change orders and terms and conditions impacting revenue recognition, if any, had discussions with operational personnel and assessed whether appropriate approvals were obtained in accordance with the Company's authorization matrix for a sample of projects. Once a project commenced, we also obtained and reviewed a sample of meeting minutes and observed a sample of project update calls where management and project managers discussed the status of each project; We compared prior period cost estimates to actual contract costs incurred in the current period to assess management's ability to estimate the costs to complete a contract; We obtained management's initial cost estimates and tested a sample of actual material and labour costs incurred to assess the measurement of the estimated costs to complete at period end; and We assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving revenue recognition for projects that are open at period end.

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 and 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paula J. Smith.

/s/ Ernst & Young LLP

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 10, 2021
Toronto, Canada

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 ($ thousands)	Note	2020	2019
Assets			
Current assets			
Cash		**$ 591,128**	$ 365,589
Accounts receivable	3	**541,580**	525,052
Inventories	4	**728,404**	912,186
Income taxes recoverable		**135**	9,364
Other current assets		**10,897**	12,063
Total current assets		**1,872,144**	1,824,254
Property, plant and equipment	5	**423,282**	428,527
Rental equipment	5	**539,412**	592,403
Other assets	6	**33,263**	42,105
Deferred tax assets	15	**504**	1,217
Goodwill and intangible assets	7	**478,187**	482,831
Total assets		**$ 3,346,792**	$ 3,371,337
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6, 18	**$ 584,003**	$ 819,946
Provisions	8	**26,645**	23,680
Deferred revenues and contract liabilities	9	**149,109**	140,898
Derivative financial instruments	12	**11,043**	10,366
Income taxes payable		**23,416**	89
Total current liabilities		**794,216**	994,979
Deferred revenues and contract liabilities	9	**16,383**	16,407
Long-term lease liabilities	6	**16,565**	21,734
Long-term debt	10, 12	**646,299**	645,471
Post-employment obligations	19	**149,451**	125,705
Deferred tax liabilities	15	**25,226**	33,150
Total liabilities		**1,648,140**	1,837,446
Shareholders' equity			
Share capital	11	**516,591**	490,047
Contributed surplus		**14,243**	13,088
Retained earnings		**1,169,239**	1,031,097
Accumulated other comprehensive loss		**(1,421)**	(341)
Total shareholders' equity		**1,698,652**	1,533,891
Total liabilities and shareholders' equity		**$ 3,346,792**	$ 3,371,337

Commitments - see note 22

See accompanying notes

Approved by the Board:

(signed) R. M. Ogilvie

Robert M. Ogilvie
Director

(signed) C. E. Cranston

Cathy E. Cranston
Director

TOROMONT INDUSTRIES LTD.
CONSOLIDATED INCOME STATEMENTS

Years ended December 31 ($ thousands, except share amounts)	Note	2020	2019
Revenues	23	**$ 3,478,897**	$ 3,678,705
Cost of goods sold	4, 5	**2,643,151**	2,772,583
Gross profit		**835,746**	906,122
Selling and administrative expenses		**463,312**	493,627
Operating income		**372,434**	412,495
Interest expense	14	**29,981**	27,707
Interest and investment income	14	**(9,083)**	(9,752)
Income before income taxes		**351,536**	394,540
Income taxes	15	**96,621**	107,740
Net earnings		**$ 254,915**	$ 286,800
Earnings per share			
Basic	16	**$ 3.10**	$ 3.52
Diluted	16	**$ 3.09**	$ 3.49
Weighted average number of shares outstanding			
Basic	16	**82,152,788**	81,590,392
Diluted	16	**82,620,461**	82,076,248

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 ($ thousands)	2020	2019
Net earnings	**$ 254,915**	$ 286,800
Other comprehensive loss, net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	**(339)**	(481)
Unrealized losses on derivatives designated as cash flow hedges	**(2,911)**	(12,232)
Income tax recovery	**744**	3,180
Unrealized losses on cash flow hedges, net of income taxes	**(2,167)**	(9,052)
Realized losses on derivatives designated as cash flow hedges	**1,909**	4,380
Income tax recovery	**(483)**	(1,139)
Realized losses on cash flow hedges, net of income taxes	**1,426**	3,241
Items that will not be reclassified subsequently to net earnings:		
Actuarial and other losses	**(15,213)**	(25,252)
Income tax recovery	**4,031**	6,692
Actuarial and other losses, net of income taxes	**(11,182)**	(18,560)
Other comprehensive loss	**(12,262)**	(24,852)
Total comprehensive income	**$ 242,653**	$ 261,948

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	Note	2020	2019
Operating activities			
Net earnings		**$ 254,915**	$ 286,800
Items not requiring cash:			
Depreciation and amortization	5,6,7,10	**166,307**	162,962
Stock-based compensation		**5,731**	5,730
Post-employment obligations		**8,530**	(3,889)
Deferred income taxes		**(2,919)**	26,757
Gain on sale of rental equipment and property, plant and equipment		**(22,380)**	(22,120)
		410,184	456,240
Net change in non-cash working capital and other	21	**(10,096)**	(156,820)
Additions to rental equipment		**(103,515)**	(212,176)
Proceeds on disposal of rental equipment		**52,455**	58,786
Cash provided by operating activities		**349,028**	146,030
Investing activities			
Additions to property, plant and equipment		**(43,290)**	(57,202)
Proceeds on disposal of property, plant and equipment		**10,924**	737
Increase in other assets		**(187)**	(93)
Cash used in investing activities		**(32,553)**	(56,558)
Financing activities			
Repayment of senior debentures		**-**	(1,022)
Debt issuance costs		**(338)**	-
Dividends paid	11	**(98,531)**	(84,790)
Cash received on exercise of stock options		**22,373**	26,726
Shares purchased for cancellation	11	**(4,043)**	-
Payment of lease liabilities		**(10,339)**	(10,087)
Cash used in financing activities		**(90,878)**	(69,173)
Effect of currency translation on cash balances		**(58)**	(144)
Increase in cash during the year		**225,539**	20,155
Cash, at beginning of year		**365,589**	345,434
Cash, at end of year		**$ 591,128**	$ 365,589

Supplemental cash flow information (note 21)

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($ thousands, except share numbers)	Share capital				Accumulated other comprehensive income (loss)			
	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total shareholders' equity
As at January 1, 2019	81,226,383	$ 457,800	$ 12,879	$ 851,049	$ 2,700	$ 3,251	$ 5,951	$ 1,327,679
Net earnings	-	-	-	286,800	-	-	-	286,800
Other comprehensive loss	-	-	-	(18,560)	(481)	(5,811)	(6,292)	(24,852)
Total comprehensive income (loss)	-	-	-	268,240	(481)	(5,811)	(6,292)	261,948
Exercise of stock options	786,065	32,247	(5,521)	-	-	-	-	26,726
Stock-based compensation expense	-	-	5,730	-	-	-	-	5,730
Effect of stock compensation plans	786,065	32,247	209	-	-	-	-	32,456
Dividends declared	-	-	-	(88,192)	-	-	-	(88,192)
As at December 31, 2019	82,012,448	$ 490,047	$ 13,088	$1,031,097	$ 2,219	$ (2,560)	$ (341)	$ 1,533,891
Net earnings	**-**	**-**	**-**	**254,915**	**-**	**-**	**-**	**254,915**
Other comprehensive loss	**-**	**-**	**-**	**(11,182)**	**(339)**	**(741)**	**(1,080)**	**(12,262)**
Total comprehensive income (loss)	**-**	**-**	**-**	**243,733**	**(339)**	**(741)**	**(1,080)**	**242,653**
Exercise of stock options	**530,010**	**26,949**	**(4,576)**	**-**	**-**	**-**	**-**	**22,373**
Stock-based compensation expense	**-**	**-**	**5,731**	**-**	**-**	**-**	**-**	**5,731**
Effect of stock compensation plans	**530,010**	**26,949**	**1,155**	**-**	**-**	**-**	**-**	**28,104**
Shares purchased for cancellation	**(67,800)**	**(405)**	**-**	**(3,638)**	**-**	**-**	**-**	**(4,043)**
Dividends declared	**-**	**-**	**-**	**(101,953)**	**-**	**-**	**-**	**(101,953)**
As at December 31, 2020	**82,474,658**	**$ 516,591**	**$ 14,243**	**$1,169,239**	**$ 1,880**	**$ (3,301)**	**$ (1,421)**	**$ 1,698,652**

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 and Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario and Manitoba, in addition to most of the territory of Nunavut. The Equipment Group includes industry-leading rental operations, a complementary material handling business and an agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 6,000 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 Board of Directors on February 10, 2021 on the recommendation of the Audit Committee.

Basis of Preparation

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

Basis of Consolidation

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

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

Business Combinations and Goodwill

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

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

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable

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

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

Inventories

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Rental Equipment

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

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

Intangible Assets

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

Intangible assets with a finite useful life are amortized over their estimated useful lives and are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at the end of each reporting period.

Amortization is recorded as follows:

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

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

Provisions

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

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

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Claims under income-related government grants are reported in the consolidated income statements as other income included in selling and administrative expenses. Government grants receivable are recorded in accounts receivable on the consolidated statements of financial position.

Financial Instruments

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

<u>Financial Assets</u>

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

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

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

Financial Liabilities

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

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

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

Derivatives

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

Fair Value of Financial Instruments

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

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

Impairment of Financial Assets

Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses. Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis.

A financial asset is considered in default when contractual payments are 90 days past due. A financial asset may also be considered to be in default if internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking

into account any credit enhancements held. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derivative Financial Instruments and Hedge Accounting

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

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

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

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

Impairment of Non-financial Assets

The Company assesses whether goodwill or intangible assets with indefinite lives may be impaired annually during the fourth quarter, or when indicators of impairment are present. For the purpose of impairment testing, goodwill arising from acquisitions is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes, and is not higher than an operating segment. Intangible assets with indefinite lives that do not have separate identifiable cash flows are also allocated to CGUs or a group of CGUs. Any potential impairment of goodwill or intangible assets is identified by comparing the recoverable amount of a CGU or a group of CGUs to its carrying value. The recoverable amount is the higher of its fair value less costs to sell and its value-in-use. If the recoverable amount is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statements.

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

Revenue from Contracts with Customers

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

- *Sale of Equipment* – Revenue is recognized when control of the equipment has been transferred to the customer. This usually occurs when the equipment is delivered or picked-up by the customer. The transaction price is documented on the sales invoice and agreed to by the customer. Payment is generally due at the time of delivery, as such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. In certain situations, control transfers to the customer through a bill and hold arrangement when the following criteria are met: (i) there is a substantive reason for the arrangement; (ii) the equipment is separately identified as belonging to the customer; (iii) Toromont is no longer able to use the equipment or direct it to another customer; and (iv) the equipment is currently ready for physical transfer to the customer.
- *Sale of Equipment with a Guaranteed Residual Value or Repurchase Commitment* – The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at a predetermined residual value and date is accounted for as an operating lease in accordance with IFRS 16 – *Leases* ("IFRS 16"). Revenue is therefore recognized over the period extending to the date of the residual guarantee.
- *Sale of Systems* – The Company sells systems, including power and energy facilities and industrial and recreational refrigeration systems, which involve the design, manufacture, installation and commissioning of longer-term projects under the customer's control and can span from three months to one year. Revenue is recognized progressively based on the percentage-of-completion method. This method is normally measured by reference to costs incurred to date as a percentage of the total estimated costs as outlined in the contract. Payment terms are usually based on set milestones outlined in the contract. Periodically: (i) amounts are received in advance of the associated contract work being performed - these amounts are recorded as deferred revenues and contract liabilities; and (ii) revenue is recognized without issuing an invoice – this entitlement to consideration is recognized as unbilled receivables. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- *Equipment Rentals* – Revenue is accounted for in accordance with IFRS 16. Revenue is recognized on a straight-line basis over the term of the agreement. Payment terms are generally 30 days from invoicing.
- *Product Support Services* – Revenue from product support services includes the sale of parts and performance of service work on equipment. For the sale of parts, revenue is

recognized when the part is shipped or picked-up by the customer. For the servicing of equipment, revenue on both the labour and parts used in performing the work is recognized when the job is completed. Payment terms are generally 30 days from invoicing.

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

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

Leases

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

Toromont as Lessee

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

Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (i.e., the date the underlying asset is available for use) and are measured at cost, less any accumulated depreciation and impairment losses. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Company is reasonably certain to obtain

ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, which ranges from three to five years for vehicles and 1 to 15 years for properties. Right-of-use assets are subject to impairment.

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

Toromont as Lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is recognized on a straight-line basis over the lease terms and is included in the consolidated income statement. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Foreign Currency Translation

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

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

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

equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity is recognized in the consolidated income statements.

Share-based Payment Transactions

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

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

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

Employee Future Benefits

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

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

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

Income Taxes

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

Deferred income taxes are provided for, using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the consolidated income

statements in the period that includes the date of substantive enactment. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the Company considers probable to be realized.

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

Borrowing Costs

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

Standards Adopted in 2020

The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments Issued but Not Effective

A number of amendments to standards have been issued but are not yet effective for the financial year ended December 31, 2020, and accordingly, have not been applied in preparing these consolidated financial statements. The Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The outbreak of COVID-19 as a pandemic has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of the pandemic is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of the pandemic will have on the financial results and the condition of the Company in future periods.

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

Sale of Power and Energy Systems and Refrigeration Packages

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

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

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

Long-term Maintenance Contracts

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

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

Property, Plant and Equipment and Rental Equipment

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

Impairment of Non-financial Assets

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the CGUs to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets.

Income Taxes

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

Inventories

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

Allowance for Doubtful Accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit worthiness, current economic conditions, expectation of bankruptcies and the economic volatility in the markets/locations of customers. COVID-19 has increased the measurement uncertainty with respect to the determination of the allowance for doubtful accounts.

Share-based Compensation

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

Post-employment Benefit Plans

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

Leases

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

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

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

3. ACCOUNTS RECEIVABLE

	2020	2019
Trade receivables	$ 485,429	$ 491,683
Less: Allowance for doubtful accounts	(20,661)	(19,941)
Trade receivables, net	464,768	471,742
Unbilled receivables	53,671	26,844
Other receivables	23,141	26,466
	$ 541,580	$ 525,052

The aging of gross trade receivables was as follows:

	2020	2019
Current to 90 days	$ 461,908	$ 458,332
Over 90 days	23,521	33,351
Trade receivables	$ 485,429	$ 491,683

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

	2020	2019
Balance, January 1	$ 19,941	$ 19,484
Provisions and revisions, net	720	457
Balance, December 31	$ 20,661	$ 19,941

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

	2020	2019
Balance, January 1	$ 26,844	$ 28,738
Transfer from opening balance to trade receivables	(23,597)	(27,523)
Increase as a result of changes in the measure of progress	50,424	25,629
Balance, December 31	$ 53,671	$ 26,844

4. INVENTORIES

	2020	2019
Equipment	$ 407,240	$ 571,134
Repair and distribution parts	230,877	253,077
Direct materials	5,055	5,057
Work-in-process	53,398	69,915
Work-in-process (contracts)	31,834	13,003
	$ 728,404	$ 912,186

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2020 was $2.2 billion (2019 - $2.2 billion). In 2020 cost of goods sold included a net reversal of write-downs of $4.0 million. In 2019 cost of goods sold included inventory write-downs pertaining to obsolescence and aging, net of reversal of write-downs of $1.4 million.

5. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2020	**$ 147,701**	**$ 292,553**	**$ 239,134**	**$ 39,140**	**$ 718,528**	**$ 940,708**
Additions	11,084	8,570	23,493	542	43,689	88,942
Disposals	(3,450)	(3,803)	(17,480)	-	(24,733)	(96,671)
Currency translation effects	(3)	(54)	(122)	-	(179)	-
December 31, 2020	**$ 155,332**	**$ 297,266**	**$ 245,025**	**$ 39,682**	**$ 737,305**	**$ 932,979**
Accumulated depreciation						
January 1, 2020	**$ -**	**$ 102,140**	**$ 155,098**	**$ 32,763**	**$ 290,001**	**$ 348,305**
Depreciation expense	-	13,326	27,707	1,630	42,663	107,122
Depreciation of disposals	-	(1,231)	(17,314)	-	(18,545)	(61,860)
Currency translation effects	-	(9)	(87)	-	(96)	-
December 31, 2020	**$ -**	**$ 114,226**	**$ 165,404**	**$ 34,393**	**$ 314,023**	**$ 393,567**
Net book value - December 31, 2020	**$ 155,332**	**$ 183,040**	**$ 79,621**	**$ 5,289**	**$ 423,282**	**$ 539,412**

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

During 2020, depreciation expense of $128.6 million was charged to cost of goods sold (2019 - $125.7 million) and $21.2 million was charged to selling and administrative expenses (2019 - $22.4 million).

Property, plant and equipment as at December 31, 2020 included $0.5 million (2019 - $5.2 million) related to properties that are available-for-sale.

Operating income from rental operations for the year ended December 31, 2020, was $38.4 million (2019 - $53.3 million).

6. OTHER ASSETS AND LEASE LIABILITIES

		2020		2019
Right-of-use assets	**$**	**24,967**	$	30,975
Equipment sold with guaranteed residual values		**5,304**		8,325
Other		**2,992**		2,805
Other assets	**$**	**33,263**	$	42,105

Right-of-use Assets and Lease Liabilities

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

	Right-of-use Assets						Lease	
	Properties		Vehicles		Total		Liabilities	
January 1, 2020	**$**	**15,655**	**$**	**15,320**	**$**	**30,975**	**$**	**31,423**
Additions and remeasurements		6,017		230		6,247		6,247
Depreciation expense		(4,957)		(5,711)		(10,668)		-
Disposals and expirations		(1,437)		(150)		(1,587)		(1,615)
Payments		-		-		-		(10,339)
December 31, 2020	**$**	**15,278**	**$**	**9,689**	**$**	**24,967**	**$**	**25,716**

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

The current portion of lease liabilities as at December 31, 2020 of $9.2 million (2019 - $9.7 million) is included in accounts payable and accrued liabilities on the consolidated statement of financial position.

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

		2020		2019
Depreciation expense of right-of-use assets	**$**	**10,668**	$	10,535
Interest expense on lease liabilities		**905**		991
Expense relating to short-term leases and leases of low-value assets		**176**		223
	$	**11,749**	$	11,749

Cash outflows for leases in 2020 were $10.3 million (2019 - $10.1 million).

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

7. GOODWILL AND INTANGIBLE ASSETS

	Patents and Licenses	Customer Order Backlog	ERP System	Customer Relationships	Distribution Networks	Goodwill	Total
Cost							
January 1, 2019	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
December 31, 2019	$ 500	$ 8,691	$ 5,000	$ 15,137	$ 371,551	$ 93,780	$ 494,659
December 31, 2020	**$ 500**	**$ 8,691**	**$ 5,000**	**$ 15,137**	**$ 371,551**	**$ 93,780**	**$ 494,659**
Accumulated amortization							
January 1, 2019	$ 176	$ 4,642	$ 1,333	$ 2,199	$ -	$ -	$ 8,350
Amortization expense	30	556	1,000	1,892	-	-	3,478
December 31, 2019	$ 206	$ 5,198	$ 2,333	$ 4,091	$ -	$ -	$ 11,828
Amortization expense	30	722	2,000	1,892	-	-	4,644
December 31, 2020	**$ 236**	**$ 5,920**	**$ 4,333**	**$ 5,983**	**$ -**	**$ -**	**$ 16,472**
Net book value -							
December 31, 2019	$ 294	$ 3,493	$ 2,667	$ 11,046	$ 371,551	$ 93,780	$ 482,831
December 31, 2020	**$ 264**	**$ 2,771**	**$ 667**	**$ 9,154**	**$ 371,551**	**$ 93,780**	**$ 478,187**

Goodwill

The carrying amount of goodwill has been allocated as follows:

	2020	2019
Equipment Group		
Toromont Cat	**$ 89,270**	$ 89,270
Battlefield Equipment Rentals	**4,060**	4,060
CIMCO	**450**	450
	$ 93,780	$ 93,780

The Company performed the annual impairment test as at December 31, 2020. The recoverable amounts have been determined based on the fair value less costs to sell (FVLCS) based on a range of relevant historical company and current market multiples of earnings, applied to current earnings. As a result of the analysis, management determined there was no impairment of goodwill.

Intangible Assets with Indefinite Lives – Distribution Networks

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

	2020	2019
Equipment Group		
Toromont Cat - Quebec/Maritimes	**$ 352,434**	$ 352,434
Toromont Cat - all other locations	**13,669**	13,669
Battlefield Equipment Rentals - Quebec/Maritimes	**5,448**	5,448
	$ 371,551	$ 371,551

The Company performed the annual impairment test of intangible assets as at December 31, 2020. The recoverable amounts have been determined based on FVLCS based on a range of relevant historical company and current market multiples of earnings, applied to current earnings, adjusted

for current economic conditions. Based on the analysis, management determined there was no impairment of indefinite-lived intangible assets.

These valuations are determined using Level 2 inputs, which are observable inputs or inputs that can be corroborated by observable market data. The calculation of FVLCS for impairment testing is most sensitive to the earnings multiplier. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any cash generating unit or group of cash generating units to exceed its recoverable amount.

8. PROVISIONS

Activities related to provisions were as follows:

		Warranty		Other		Total
Balance, January 1, 2019	$	13,784	$	10,598	$	24,382
New provisions		22,332		1,626		23,958
Charges against provisions		(22,999)		(1,661)		(24,660)
Balance, December 31, 2019	**$**	**13,117**	**$**	**10,563**	**$**	**23,680**
New provisions		**28,640**		**4,542**		**33,182**
Charges against provisions		**(27,877)**		**(2,340)**		**(30,217)**
Balance, December 31, 2020	**$**	**13,880**	**$**	**12,765**	**$**	**26,645**

Warranty

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

Other

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

9. DEFERRED REVENUES AND CONTRACT LIABILITIES

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

During the year ended December 31, 2020, the Company recognized as revenue, $135.1 million (2019 - $133.9 million) of the deferred revenues and contract liabilities balance at January 1, 2020.

Management expects that 90% of the transaction price allocated to unsatisfied performance obligations as at December 31, 2020 will be recognized as revenue during the year ended December 31, 2021 and the remaining 10% between the years ended December 31, 2022 and 2027.

10. LONG-TERM DEBT

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

		2020		2019
Senior Debentures:				
3.71%, $150.0 million, due September 30, 2025 [(1)]	**$**	**150,000**	$	150,000
3.84%, $500.0 million, due October 27, 2027 [(1)]		**500,000**		500,000
		650,000		650,000
Debt issuance costs, net of amortization		**(3,701)**		(4,529)
Total long-term debt	**$**	**646,299**	$	645,471

[(1)] Interest payable semi-annually, principal due on maturity.

The Company maintains a $500.0 million committed revolving credit facility that matures in October 2022. On April 17, 2020, the Company entered into an additional $250.0 million committed revolving credit facility maturing in April 2021. Debt under these facilities is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

No amounts were drawn on these revolving credit facilities as at December 31, 2020 or 2019. Standby letters of credit issued utilized $30.8 million of the facility as at December 31, 2020 (2019 – $33.1 million).

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

The Company was in compliance with all covenants as at December 31, 2020 and 2019.

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

		Principal		**Interest**
2021	$	-	$	24,765
2022		-		24,765
2023		-		24,765
2024		-		24,765
2025		150,000		23,374
Thereafter		500,000		35,200
	$	650,000	$	157,634

Interest expense includes interest on debt initially incurred for a term of one year or greater of $29.1 million (2019 - $26.7 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, 2020 and 2019.

A continuity of the shares issued and outstanding for the years ended December 31, 2020 and 2019, is presented in the consolidated statements of changes in shareholders' equity.

Shareholder Rights Plan ("SRP")

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

Normal Course Issuer Bid ("NCIB")

During the year, the Company purchased and cancelled 67,800 common shares for $4.0 million (average cost of $59.62 per share, including transaction costs) under the NCIB program. No shares were purchased and cancelled during the comparative period in 2019.

The Company's NCIB program expired in August 2020 and was not renewed.

Dividends Paid

The Company paid dividends of $98.5 million ($1.20 per share) for the year ended December 31, 2020, and $84.8 million ($1.04 per share) for the year ended December 31, 2019.

Subsequent to the year ended December 31, 2020, the Board of Directors approved a quarterly dividend of $0.31 per share payable on April 1, 2021, to shareholders on record at the close of business on March 9, 2021.

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:

	2020	2019
Other financial liabilities:		
Long-term debt	**$ 646,299**	$ 645,471
Derivative financial instruments liabilities, net:		
Foreign exchange forward contracts	**$ (11,043)**	$ (10,366)

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

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

Long-term debt	**2020**	2019
Fair value	**$ 726,871**	$ 683,092
Carrying value	**$ 650,000**	$ 650,000

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.

During the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency-denominated obligations related to purchases of inventory and sales of products. As at December 31, 2020, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $330.4 million at an average exchange rate of $1.3076, maturing between January 2021 and October 2022; and (ii) US dollar sale contracts with a notional amount of $7.5 million at an average exchange rate of $1.3247, maturing during January 2021.

Management estimates that a net loss of $11.0 million (2019 – loss of $10.4 million) would be realized if the contracts were terminated on December 31, 2020. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized loss of $4.4 million (2019 – unrealized loss of $2.8 million) has been included in OCI. These losses will be reclassified to net earnings within the next 12 months and will offset gains recorded on the underlying hedged items, namely foreign-denominated accounts payable and accrued liabilities. Certain of these forward contracts are not designated as cash flow hedges but are entered into for periods consistent

with foreign currency exposure of the underlying transactions. A loss of $6.6 million (2019 – loss of $7.6 million) on these forward contracts is included in net earnings, which offsets gains recorded on the foreign-denominated items, namely accounts payable and accrued liabilities.

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

13. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

Currency Risk

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

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

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

Sensitivity Analysis

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

As at December 31, 2020, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $0.4 million (decrease) increase in OCI for financial instruments held in foreign operations, and a $0.1 million (decrease) increase in net earnings and $9.1 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, 2020 or 2019.

The Company had no floating-rate debt outstanding as at December 31, 2020 or 2019.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2020, the Company had unutilized lines of credit of $719.2 million (2019 - $466.9 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 2021, 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:

		2020		2019
Credit facilities	**$**	**3,833**	$	1,495
Senior debentures		**25,243**		25,221
Interest on lease liabilities		**905**		991
	$	**29,981**	$	27,707

The components of interest and investment income were as follows:

	2020	2019
Interest on conversion of rental equipment	**$ 3,529**	$ 4,283
Other	**5,554**	5,469
	$ 9,083	$ 9,752

15. INCOME TAXES

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

	2020	2019
Current income tax expense	**$ 99,700**	$ 81,731
Deferred income tax (recovery) expense	**(3,079)**	26,009
Total income tax expense	**$ 96,621**	$ 107,740

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

	2020	2019
Statutory Canadian federal and provincial income tax rates	**26.5%**	26.5%
Expected taxes on income	**$ 93,157**	$ 104,553
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	**848**	1,525
Manufacturing and processing rate reduction	**(65)**	(71)
Expenses not deductible for tax purposes	**1,961**	2,291
Non-taxable gains	**(1,242)**	(837)
Effect of change in future income tax rate	**21**	517
Other	**1,941**	(238)
Provision for income taxes	**$ 96,621**	$ 107,740
Effective income tax rate	**27.5%**	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:

		2020		2019
Accrued liabilities	**$**	**28,308**	$	21,615
Deferred revenues and contract liabilities		**4,151**		4,439
Accounts receivable		**5,070**		4,277
Inventories		**6,557**		5,850
Deferred tax assets on current assets and current liabilities	**$**	**44,086**	$	36,181
Capital assets	**$**	**(78,110)**	$	(73,060)
Goodwill and intangible assets		**(18,617)**		(13,204)
Tax loss carryforward		**411**		774
Other		**2,466**		1,095
Cash flow hedges in OCI		**1,160**		900
Post-employment obligations		**23,882**		15,381
Deferred tax (liabilities) on non-current assets and non-current liabilities	**$**	**(68,808)**	$	(68,114)
Net deferred tax liabilities	**$**	**(24,722)**	$	(31,933)

The movement in net deferred income taxes were as follows:

		2020		2019
Balance January 1	**$**	**(31,933)**	$	(13,919)
Tax expense (recovery) recognized in income		**3,079**		(26,009)
Foreign exchange and others		**(160)**		(738)
Tax recovery recognized in OCI		**4,292**		8,733
Balance December 31	**$**	**(24,722)**	$	(31,933)

The aggregate amount of unremitted earnings in the Company's subsidiaries was $30.4 million (2019 - $21.7 million). These earnings can be remitted with no tax consequences.

16. EARNINGS PER SHARE

		2020		2019
Net earnings available to common shareholders	**$**	**254,915**	$	286,800
Weighted average common shares outstanding		**82,152,788**		81,590,392
Dilutive effect of stock option conversions		**467,673**		485,856
Diluted weighted average common shares outstanding		**82,620,461**		82,076,248
Earnings per share:				
Basic	**$**	**3.10**	$	3.52
Diluted	**$**	**3.09**	$	3.49

There were no anti-dilutive options for the calculation of diluted earnings per share for the year ended December 31, 2020. For the comparative period in 2019, 1,030,260 outstanding stock options with a weighted average exercise price of $65.98 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

	2020	2019
Wages and salaries	$ 563,043	$ 595,502
Other employment benefit expenses	81,000	89,219
Stock-based compensation expense	5,731	5,730
Pension costs	37,419	25,931
	$ 687,193	$ 716,382

18. STOCK-BASED COMPENSATION

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company's policy that the aggregate number of options that may be granted in any one calendar year shall not exceed 1% of the outstanding shares as of the beginning of the year in which a grant is made (2020 – 820,124; 2019 – 812,264).

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

A reconciliation of the outstanding options for the years ended December 31, 2020 and 2019, was as follows:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,329,705	$ 51.68	2,636,070	$ 43.78
Granted	532,443	72.95	495,200	65.72
Exercised [1]	(530,010)	42.21	(786,065)	34.00
Forfeited	(4,100)	65.95	(15,500)	53.33
Options outstanding, December 31	2,328,038	$ 58.67	2,329,705	$ 51.68
Options exercisable, December 31	855,675	$ 46.61	896,115	$ 39.88

[1] The weighted average share price at date of exercise for the year ended December 31, 2020 was $76.58 (2019 - $67.45).

The following table summarizes stock options outstanding and exercisable as at December 31, 2020.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$23.40 - $26.52	120,430	3.2	$ 25.38	120,430	$ 25.38
$36.65 - $39.79	436,620	5.2	$ 38.63	355,360	$ 38.37
$53.88 - $66.22	1,238,545	7.7	$ 62.83	379,885	$ 61.05
$72.95	532,443	9.6	$ 72.95	-	$ -
	2,328,038	7.4	$ 58.67	855,675	$ 46.61

The fair value of the stock options granted during 2020 and 2019 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2020	2019
Fair value price per option	**$ 11.14**	$ 11.68
Share price	**$ 72.95**	$ 65.72
Expected life of options (years)	**5.76**	5.90
Expected stock price volatility	**21.0%**	21.0%
Expected dividend yield	**1.70%**	1.64%
Risk-free interest rate	**0.34%**	1.40%

Deferred Share Unit Plan

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

The following table summarizes information related to DSU activity:

	2020		2019	
	Number of DSUs	**Value**	Number of DSUs	Value
Outstanding, January 1	**388,547**	**$ 27,392**	358,151	$ 19,005
Units taken and dividends	**29,084**	**2,066**	32,414	2,114
Redemptions	**(23,477)**	**(1,527)**	(2,018)	(127)
Fair market value adjustment	**-**	**7,624**	-	6,400
Outstanding, December 31	**394,154**	**$ 35,555**	388,547	$ 27,392

Employee Share Ownership Plan ("ESOP")

The Company offers an ESOP whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match at the rate of $1 for every $3 contributed, to a maximum of 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards will vest in five years from date of contribution. Company contributions amounting to $2.9 million in 2020 (2019 - $2.7 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

19. POST-EMPLOYMENT OBLIGATIONS

Defined Contribution Plans

The Company sponsors pension arrangements for more than 4,100 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:

		2020		2019
Defined contribution plans	**$**	**15,686**	$	15,082
401(k) matched savings plans		**306**		312
	$	**15,992**	$	15,394

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,600 qualifying employees. In late 2020, a plan merger of all seven funded defined benefit pension plans was announced effective December 31, 2020. The plan merger is not expected to gain regulatory approval for 18 to 24 months, in which time the plans will continue to be valued separately.

a) Defined Benefit Pension Plans – The Company sponsors six plans that provide pension benefits based on length of service and career average earnings, five of which are contributory. The funded plans are currently registered with various provincial regulators and are subject to provincial pension legislation as well as the Income Tax Act (Canada). The plans are administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. In addition, the Company has posted a letter of credit in the amount of $7.2 million to secure obligations under one of the plans. Actuarial valuations were completed for each plan at dates ranging from October 31, 2018 to December 31, 2019. As a result of the plan merger, actuarial valuations will be performed for all plans as of December 31, 2020.

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, 2020, the Company has posted letters of credit in the amount of $15.6 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2020, with the next valuation scheduled as at December 31, 2021.

c) Other Plan Assets and Obligations – This plan provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan at that time, that, in accordance with the plan provisions, had elected to receive a pension directly from the plan. The most recent actuarial valuation was completed as at January 1, 2018 with the next valuation scheduled for December 31, 2020 along with all the other funded plans.

d) 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 January 1, 2020, with the next valuation scheduled as at January 1, 2023.

Risks

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

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

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

	Pension Benefit Plans		**Other Post-employment Benefit Plans**	
	2020	2019	**2020**	2019
Defined benefit obligations:				
Balance, January 1	**$ 551,250**	$ 474,549	**$ 18,346**	$ 23,726
Curtailment gain	**-**	-	**-**	(5,000)
Current service cost	**15,575**	11,424	**1,959**	588
Interest cost	**17,023**	18,158	**586**	597
Actuarial remeasurement (gains) losses arising from:				
Experience adjustments	**3,695**	(464)	**1,096**	(2,121)
Demographic assumptions	**(4,965)**	-	**(184)**	-
Changes in financial assumptions	**49,159**	65,808	**1,254**	1,943
Benefits paid	**(21,652)**	(22,581)	**(1,428)**	(1,387)
Contributions by plan participants	**4,098**	4,356	**-**	-
Balance, December 31	**614,183**	551,250	**21,629**	18,346
Plan assets:				
Fair value, January 1	**443,891**	393,933	**-**	-
Interest income on plan assets	**13,716**	15,230	**-**	-
Return on plan assets (excluding amounts included in net interest expense)	**34,842**	39,914	**-**	-
Contributions by the Company	**11,466**	13,039	**1,432**	1,387
Contributions by plan participants	**4,098**	4,356	**-**	-
Benefits paid	**(21,652)**	(22,581)	**(1,432)**	(1,387)
Fair value, December 31	**486,361**	443,891	**-**	-
Net post-employment obligations	**$ 127,822**	$ 107,359	**$ 21,629**	$ 18,346

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

	2020			2019		
	Defined Benefit Obligations	**Plan Assets**	**Net Post-employment Obligations**	Defined Benefit Obligations	Plan Assets	Net Post-employment Obligations
Defined Benefit Pension Plans	**$ 589,393**	**$ 482,705**	**$ (106,688)**	$ 527,252	$ 439,524	$ (87,728)
Executive Pension Plan	**18,712**	**-**	**(18,712)**	18,114	-	(18,114)
Other Plan Assets and Obligations	**6,078**	**3,656**	**(2,422)**	5,884	4,367	(1,517)
Post-employment Benefit Plans	**21,629**	**-**	**(21,629)**	18,346	-	(18,346)
	$ 635,812	**$ 486,361**	**$ (149,451)**	$ 569,596	$ 443,891	$ (125,705)

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

	2020	2019
Discount rate	**2.56%**	3.10%
Expected rate of salary increase	**3.00%**	3.00%

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

	2020	2019
Service cost	**$ 17,534**	$ 12,012
Net interest expense	**3,893**	3,525
Curtailment gain	**-**	(5,000)
	$ 21,427	$ 10,537

Pre-tax amounts recognized in OCI were as follows:

	2020	2019
Actuarial gains arising from experience adjustments	**$ 4,791**	$ (2,585)
Actuarial losses (gains) arising from demographic assumptions	**(5,149)**	-
Actuarial losses (gains) arising from changes in financial assumptions	**50,413**	67,751
Return on plan assets (excluding amounts included in net interest expense)	**(34,842)**	(39,914)
	$ 15,213	$ 25,252

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

	2020	2019
Debt securities	**48.2%**	57.2%
Equity securities	**42.7%**	39.5%
Real estate assets	**9.1%**	3.3%
Cash and cash equivalents	**0.0%**	0.0%

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, 2020, was $48.6 million (2019 - $55.1 million).

The Company expects to contribute $28 million to pension and other benefit plans in 2021, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations at December 31, 2020 was 17.3 years (2019 - 17.3 years).

Sensitivity Analysis

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

As at December 31, 2020, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the DBO:

		Increase (Decrease) in DBO		
Actuarial Assumption	**Sensitivity**	**Pension Benefit Plans**	**Other Post-retirement Benefit Plans**	**Total**
Period- end discount rate	1% increase	$ (90,739)	$ (2,112)	$ (92,851)
	1% decrease	$ 106,755	$ 2,553	$ 109,308
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 13,206	$ (365)	$ 12,841

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

20. CAPITAL MANAGEMENT

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

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

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

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

	2020	2019
Long-term debt	**$ 646,299**	$ 645,471
Less: Cash	**591,128**	365,589
Net debt	**55,171**	279,882
Shareholders' equity	**1,698,652**	1,533,891
Total capitalization	**$ 1,753,823**	$ 1,813,773
Net debt as a % of total capitalization	**3%**	15%
Net debt to equity ratio	**0.03:1**	0.18:1

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, 2020 and 2019.

There were no changes in the Company's approach to capital management during the years ended December 31, 2020 and 2019.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2020	2019
Net change in non-cash working capital and other		
Accounts receivable	**$ (16,528)**	$ (2,590)
Inventories	**183,782**	(38,679)
Accounts payable and accrued liabilities	**(224,655)**	(111,068)
Provisions	**2,965**	(702)
Deferred revenues and contract liabilities	**8,187**	3,814
Income taxes	**32,556**	(37,644)
Derivative financial instruments	**(325)**	30,129
Other	**3,922**	(80)
	$ (10,096)	$ (156,820)
Cash paid during the year for:		
Interest	**$ 26,085**	$ 24,811
Income taxes	**$ 75,812**	$ 120,009
Cash received during the year for:		
Interest	**$ 8,515**	$ 9,291
Income taxes	**$ 9,494**	$ 1,711

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

	Current Portion of Long-term	Long-term Debt	Total
Balance, January 1, 2019	$ 1,022	$ 644,540	$ 645,562
Cash flows	(1,022)	-	(1,022)
Other	-	931	931
Balance, December 31, 2019	$ -	$ 645,471	$ 645,471
Cash flows	-	-	-
Other	-	828	828
Balance, December 31, 2020	**$ -**	**$ 646,299**	**$ 646,299**

Government Grants

During the year ended December 31, 2020, the Company recognized a $12.7 million government grant under the Canada Emergency Wage Subsidy (“CEWS”) program.

22. COMMITMENTS

Future minimum lease payments under non-cancellable leases as at December 31, 2020, were $9.2 million within one year, $15.7 million within two and five years and $0.8 million thereafter.

23. SEGMENTED INFORMATION

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

of each of the reportable segments are the same as the significant accounting policies described in note 1.

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

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

No reportable segment is reliant on any single external customer.

Equipment Group

The Equipment Group comprises the following:

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

CIMCO

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

Corporate Office

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

The following table sets forth information by segment:

Years ended December 31	Equipment Group 2020	Equipment Group 2019	CIMCO 2020	CIMCO 2019	Consolidated 2020	Consolidated 2019
Equipment/package sales	**$1,469,377**	$1,524,185	**$ 161,144**	$ 177,974	**$1,630,521**	$1,702,159
Rentals	**358,266**	418,818	**-**	-	**358,266**	418,818
Product support	**1,327,478**	1,390,340	**151,654**	156,781	**1,479,132**	1,547,121
Power generation	**10,978**	10,607	**-**	-	**10,978**	10,607
Total revenues	**$3,166,099**	$3,343,950	**$ 312,798**	$ 334,755	**$3,478,897**	$3,678,705
Operating income	**$ 345,953**	$ 384,077	**$ 26,481**	$ 28,418	**$ 372,434**	$ 412,495
Interest expense					**29,981**	27,707
Interest and investment income					**(9,083)**	(9,752)
Income taxes					**96,621**	107,740
Net earnings					**$ 254,915**	$ 286,800

Selected consolidated statements of financial position information:

As at December 31	Equipment Group 2020	Equipment Group 2019	CIMCO 2020	CIMCO 2019	Consolidated 2020	Consolidated 2019
Identifiable assets	**$2,563,391**	$2,829,147	**$ 151,526**	$ 119,600	**$2,714,917**	$2,948,747
Corporate assets					**631,875**	422,590
Total assets					**$3,346,792**	$3,371,337
Identifiable liabilities	**$ 742,550**	$ 991,950	**$ 107,143**	$ 81,712	**$ 849,693**	$1,073,662
Corporate liabilities					**798,447**	763,784
Total liabilities					**$1,648,140**	$1,837,446
Capital expenditures, net	**$ 68,691**	$ 207,520	**$ 14,735**	$ 2,335	**$ 83,426**	$ 209,855
Depreciation expense	**$ 154,011**	$ 152,900	**$ 6,486**	$ 5,660	**$ 160,497**	$ 158,560

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

Years ended December 31	2020	2019
Canada	**$ 3,396,536**	$ 3,581,029
United States	**80,710**	95,731
International	**1,651**	1,945
Revenues	**$ 3,478,897**	$ 3,678,705

As at December 31	2020	2019
Canada	**$ 1,051,965**	$ 1,109,961
United States	**4,509**	4,749
Capital assets and goodwill	**$ 1,056,474**	$ 1,114,710

24. RELATED PARTY DISCLOSURES

Key management personnel and director compensation comprised:

		2020		2019
Salaries	$	3,029	$	3,315
Stock options and DSU awards		2,508		2,524
Annual non-equity incentive based plan compensation		1,713		3,271
Pension costs		684		740
All other compensation		132		151
	$	8,066	$	10,001

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

25. ECONOMIC RELATIONSHIP

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