Toromont Industries Ltd.
Annual Report 2021

Equipped for today and tomorrow

TOROMONT

Toromont Industries Ltd. employs 6,400 empowered people across seven business units and more than 160 locations. We are joined in a common purpose: **to create value through the provision of specialized brand-name equipment and lifecycle product support.** We are united as one Toromont team by the business model, corporate values and core strategies that fuel our performance.

Multiple Growth Platforms

Toromont Cat

Toromont is one of the largest Caterpillar dealers in the world with 46 branches across seven provinces and one territory. Through Toromont Cat, we serve the specialized heavy equipment, power generation, heavy rent, used equipment and product support needs of thousands of public infrastructure, construction, demolition, paving, mining, aggregate, waste management, agriculture, forestry, trucking, shipping, transit and data centre customers.

AgWest Ltd.

From six facilities, AgWest serves the year-round equipment and product support needs of Manitoba's agriculture industry as an official dealer of AGCO and CLAAS, two trusted brands for crop and livestock applications.

Battlefield Equipment Rentals – The Cat Rental Store

From 70 stores in our Cat dealer territories, supported by a rapid equipment delivery-to-site system, Battlefield Equipment Rentals addresses the full rental service, purchase and product support needs of contractors, specialty trades and do-it-yourself customers with brand-name machines, tools and supplies.

SITECH Mid-Canada Ltd.

We specialize in providing machine control, site positioning and asset management technologies as well as professional support services as a Trimble and Cat AccuGrade® dealer across eastern Canada.

Jobsite Industrial Rental Services

Across eight locations, Jobsite Industrial Rental Services meets the specialized tool crib rental equipment needs of contractors working in refinery industries, healthcare, automotive, steel and pulp and paper.

CIMCO Refrigeration

CIMCO serves the North American food, dairy, cold storage, beverage, pharmaceutical, automotive, chemical, petrochemical, mining and recreational ice rink markets as a leading supplier of refrigeration equipment and product support services.

Toromont Material Handling

From 15 locations across eastern Canada, Toromont Material Handling serves ports and terminals, paper producers, automotive parts manufacturers, beverage companies, hardware retailers and government agencies by selling, renting and supporting brand name lift trucks, container handlers, industrial batteries, chargers and racking systems.

Fellow Shareholders:

In 2021, as waves of the coronavirus passed over our markets, Toromont stood its ground. Relying on lessons learned from year one of the pandemic and in alignment with core operating disciplines, **we responded to business- and market-altering conditions with a clear sense of purpose and an unwavering focus on protecting the health, safety and livelihoods of our employees and customers.** The annual result was favourable; the longer-run implications of the year's advancements are encouraging; the impact COVID-19, supply-chain disruptions and macro-economic factors such as interest rates and inflation will have in 2022 is unknown.

Scott J. Medhurst
President and Chief Executive Officer

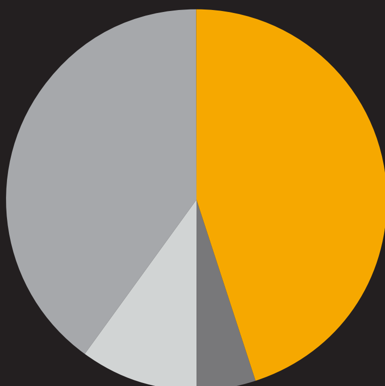
Richard G. Roy
Chair of the Board

For the year, Toromont earned $4.00 per diluted share, a 29% improvement over 2020 on revenue of $3.9 billion, 12% higher than the prior year.

Context is important. At the outset of the pandemic, customers displayed caution in committing to capital purchases. Provincial lockdowns through the spring of 2020 took a toll on equipment utilization and site access. Late in 2020 and through the early part of 2021 as local pandemic restrictions ebbed and flowed, equipment demand picked up as business confidence returned. In some cases, customers placed large orders for multi-year delivery. The popularity of rent with a purchase option declined in favour of outright buying. Rental activity snapped back. Product support grew on higher machine utilization and more open access to customer sites. However, progression was not of a straight-line variety. Neither was the path taken by COVID-19 and its Delta and Omicron variants.

In the fourth quarter of 2021, the journey to recovery took yet another turn. Global logistics bottlenecks and component shortages disrupted supply chains, somewhat inflating year-end order backlogs. Supply shortages led to a rise in the costs of some components. Toromont's countermeasures included

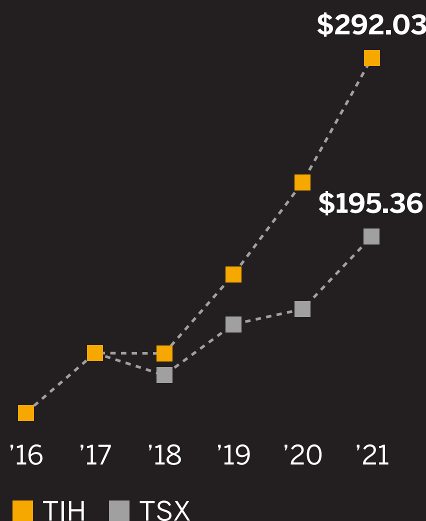
2021 Revenues



- New & used equipment – 45%
- Refrigeration equipment – 5%
- Rentals – 10%
- Product support – 40%

Cumulative Value of $100 Invested

(Assuming Reinvestment of Dividends)



advanced purchasing of long-lead items, proactive factory demand planning, as well as sourcing used equipment to augment customer fleets and remanufacturing components to extend machine life.

The strength of our balance sheet and willingness to deploy it made a difference. Net reinvestment in rental fleets, branches and other capital assets amounted to $136 million – $67 million (97%) higher than in 2020. Toromont ended 2021 with $917 million of cash on hand, over $470 million of available credit on existing lines, and leverage, represented by net debt to total capitalization ratio of minus 16%, compared to 3% at December 2020, and 40% at December 2017, the year we made the largest acquisition in our history. Our financial position bodes well for ongoing investments and provides stability in a volatile environment where industry-wide supply chain challenges and cost inflation have yet to normalize and may not for some time.

Shareholder Value

Capital deployment in the year was efficient. Return on opening shareholders' equity was 19.6% compared to Toromont's long-term goal of 18% after-tax over a business cycle. Pre-tax return on capital employed was 26.6% compared to 20.4% at year-end 2020.

In July 2021, Toromont increased the quarterly dividend by 12.9%, the 32nd consecutive year of increases. At its February 2022 meeting, our Board of Directors made it 33 years by increasing the dividend, effective with the April 2022 payment, by 4 cents to $0.39 per share per quarter or $1.56 annualized. With this latest declaration, Toromont will have paid dividends for 54 uninterrupted years.

A strong balance sheet allowed Toromont to introduce a Normal Course Issuer Bid in September 2021. Under this bid, the company purchased and cancelled 470,600 common shares. At an average price paid of $106.25 per share, including transaction costs, this represented an investment of $50.0 million.

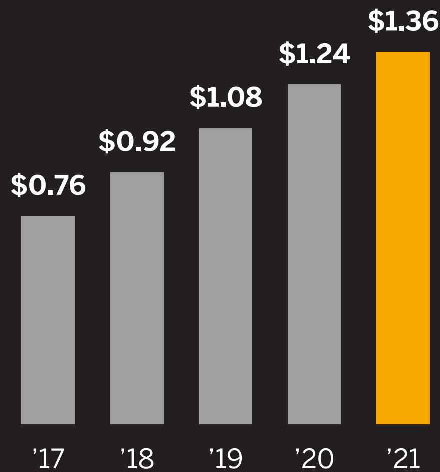
Lessons Learned

Responding to the pandemic taught us valuable lessons but also reinforced the importance of adhering to our long-term operating disciplines. In a year of significant and unpredictable change, Toromont's decentralized management approach was a decisive factor in allowing a quick and focused response. With local empowerment, our branches adjusted well to shifting customer priorities. Adapting to the year's unique challenges strengthened our team and allowed Toromont leaders to gain valuable experience.

Health and safety are the most critical components of our operating disciplines. Here, the pandemic taught us that it is possible to function effectively even while adding necessary layers to safety protocols. With the evolving threat posed by different variants, our Critical Incident Executive Response

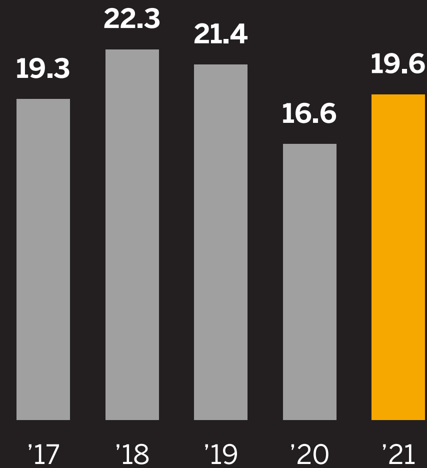
Dividends per Share

5 year CAGR = 13.6%



Return on Opening Shareholders' Equity

%



team provided real-time guidance to our operations. Ongoing vigilance meant Toromont branches and facilities stayed safe and open for employees and customers.

Focus on traditional safety fundamentals – including hazard identification, proper use of PPE (personal protective equipment), daily safety talks and branch safety audits – continued. Even here, lessons learned over the past year were valuable. In particular, the use of virtual inspections enabled our safety specialists to cover more territory, faster and will remain in our toolkit beyond COVID-19.

Virtual training (for customers and employees), online product demonstrations and roadshows, podcasts, social media advertising, interactive webinars and touchless purchasing and service demonstrated the importance of technology in overcoming pandemic restrictions. What we learned in each area will make Toromont more effective in the future.

Technology Integration: Speaking the Same Language

A cultural turning point was reached in 2021, as all Toromont Cat facilities operated with the Toromont Dealer Management System ("TDMS"). TDMS is an enabler of decentralization that brings real-time visibility to branch, department and product performance including indicators such as orders, inventory, work in process, accounts receivable and working capital. It is purpose built for management empowerment in our heavy equipment sales and service business.

Putting TDMS in the hands of the operators in our acquired territories was a key deliverable in Toromont's business integration plan and culminated with the onboarding of Toromont Material Handling's Ontario operations in November. (Battlefield Equipment Rentals achieved technology integration in 2019.) Now that we speak the same language using standardized data sets, our teams can more readily benchmark to spot variances and take targeted actions to improve performance. The stage is set to unlock more value over time through rigorously applied operating disciplines aided by TDMS.

Data Science in the Driver's Seat

Increasingly, competition for business will be fought with digital tools and artificial intelligence. Accordingly, Toromont operates with digital strategy goals that include increasing customer service, growing sales and market reach, improving efficiencies and using data predictively to plan and align resources. More than 150 skilled professionals, including an analytics and data science team, lead our concerted efforts.

Connectivity is a foundational component of our approach. In 2021, Toromont Cat established over 5,000 new equipment asset connections, including new deliveries and retrofits. What we do for customers with the resulting data is critical. Simply put, we must use the insights we capture wisely to add value to our offerings.

2 new stores

Battlefield is expanding

Ecommerce capabilities continued to advance with functionality upgrades and pilot programs such as Toromont Equip and Toromont Connect. At full flight, Toromont Equip will put all Equipment Group operations on the same end-to-end ecommerce process. In 2021, the site focused on used and restored inventory. Toromont Connect is designed to be our primary portal to engage with customers across many aspects of our business.

Strategies to Action: Operating Highlights

Applying Toromont's core strategies – expand markets, strengthen product support, broaden service offerings, invest in resources and maintain a strong financial position – led to profitable growth in 2021 and better positioning for the future.

Toromont Cat construction, mining, power systems and remanufacturing operations were more active in 2021 than in 2020. Construction and mining customers placed fleet orders to prepare for work now and in the future. Several mines will open in our territories in the next few years utilizing Cat production equipment and beforehand, earthmoving machines are on task for road and infrastructure construction.

Toromont continues to gain competitive advantage from Caterpillar's leadership in important areas such as autonomous vehicle technology, as well as battery electric systems that contribute to our customers' low carbon emissions goals. Power Systems was selected to supply new equipment to the Combined Heat and Power plant at Hamilton Health Sciences as part of actions the customer is taking to reduce its carbon dioxide emissions by 50%.

Organizational changes made at the beginning of 2021 brought together product support, heavy rents, used equipment and remanufacturing operations for better strategic coordination of these go-to-market services and product solutions. Utilization of heavy rental equipment was the highest in our history. A rental inventory review at midyear led to an enhanced product mix. Used equipment sales were strong, although trade-ins, a traditional source of supply, were lower.

Toromont Cat added dedicated branch managers in Val-d'Or and Chicoutimi, Québec to enhance asset management and sales and product support coverage in those resource-intensive markets. Product support improved as the year progressed on higher machine utilization. With greater focus on promoting the value of Customer Value Agreements ("CVAs"), two Québec-based construction customers attached CVAs to their fleet purchases. Measures taken to improve remanufacturing effectiveness included automated powertrain testing, redesign of a cylinder head workstream and centralized tool lockers.

Battlefield Equipment Rentals was busy helping customers across our territories with every-day projects including road building, bridge repair, factory maintenance and landscaping, augmented by special public transit construction projects in Montréal, Toronto and Ottawa. Two new Ontario stores opened in 2021 to serve Collingwood and Mississauga. Sales of Cat

Toromont provides specialized equipment for civil infrastructure projects and road building on customer mine sites.

Compact Construction Equipment (CCE) exceeded the record set in 2020, and all units were covered with CVAs for maintenance.

Efforts to grow our Québec customer base continued with a focus on small to medium-sized landscape, mechanical and electrical contractors. Rental fleet mix expanded to include additional light compaction, and concrete construction-related equipment used by these customer segments. Returning equipment to ready status following rental improved against the goal of having no more than 7% of the rental fleet in repair at any time. Faster turnaround means more optimal asset utilization.

Battlefield Equipment Rentals piloted scheduling technology to better manage in-shop repairs. An integrated account payment option was added to our customer-focused web and mobile technology known as *InsideTRAC*. In 2022, third-party carriers delivering our rental machines will use this app, creating a consistent customer experience.

Jobsite Industrial Rental Services outgrew its shared (with Battlefield Equipment Rentals) Sarnia location and opened a standalone facility to service local refineries. Multi-month provision of specialized tool cribs and rental services for plant turnarounds and maintenance shutdowns added to Jobsite's results.

SITECH launched *TPaaS*, a software as a service that enables customers to subscribe to Trimble machine control systems and automatically receive new technology releases. For customers, the offering eliminates the risk of obsolescence and reduces capital requirements.

Toromont Material Handling ("TMH") found success in growing and improving its rental business, a key opportunity area. Larger units (up to 72,000 pounds) were added to the rental fleet, low utilization units were sold and customer enquiry management processes were enhanced. Product support activities gradually recovered and TMH gained advantage by adopting an Eastern Canada-wide structure for service operations. Used equipment strategies were applied including value selling, increased promotion and work order cost controls. The late-year adoption of TDMS in Ontario required an all-hands-on-deck approach that resulted in a smooth transition for customer-facing activities and will provide greater visibility to KPIs across TMH's operations.

AgWest grew market shares for both CLAAS and AGCO brands, a key accomplishment that expands its future product support opportunity.

CIMCO continued to realize competitive advantage by providing natural refrigerants and energy-efficient packages. What began with the introduction of ECO CHILL® heat recovery systems for ice rinks in 2004 has evolved into a *Net Zero Naturally* line-up of refrigeration equipment for all markets – so named to reflect CIMCO's ability to help customers achieve their net zero goals by eliminating climate-polluting synthetic refrigerants and achieving optimal energy performance.

72,000 pound capacity

TMH is growing its rental fleet

Natural carbon dioxide (CO_2) refrigeration systems for industrial applications grew in popularity in 2021. The year's bookings included CO_2 projects for food, seafood, cold storage and distribution facilities, as well as a large natural refrigerant (ammonia) system for a plant-based consumer brand. Markham District Energy ordered a CIMCO ammonia heat pump that is nearly four times more energy efficient than a gas boiler and will remove tonnes of greenhouse gases in the process of heating over 8,500 residents and offices.

Although pandemic conditions dragged on in recreational markets, positioning for the future continued. The Federation of Canadian Municipalities named CIMCO an official Net Zero Solutions provider, a welcome endorsement as most ice rinks in Canada are municipally owned. CIMCO also secured its place on the *Sourcewell* ecommerce buying platform used by municipalities in their tendering processes.

Sales, engineering, project management and service operations were clustered together in Lancaster, Pennsylvania and Raleigh, North Carolina for more effective U.S. market coverage, with positive results.

In the first half of 2022, CIMCO's first Western Canadian packaging and assembly facility will open in Edmonton, Alberta followed by CIMCO's new main manufacturing plant in Burlington, Ontario. Mass standardization of components is an ongoing goal that will support manufacturing efficiency.

Sustainability Matters

Like Toromont, customers, shareholders, our employees and partners also care about Toromont's Environmental, Social and Governance ("ESG") practices.

In recognition of the importance of sustainability at all levels of our company as well as our desire to provide additional information on our ESG framework, strategies and outcomes, we produce an annual Sustainability Report. Our focus on sustainability remains unwavering and we are pleased to highlight some of our important focus areas. As this year's report notes, we view sustainability as a journey and work to continuously improve our approach to drive stakeholder returns and value. We believe this aligns well with the anticipated introduction of ESG reporting standards that will provide a reporting framework that is transparent and comparable.

Safety: Every year, Toromont invests heavily to build and maintain a safety-first culture and we are succeeding. In 2021, over 80% of our facilities achieved a Total Recordable Injury Rate ("TRIR") of zero. Over the past five years, TRIR declined by 36% and we noted a 50% reduction in lost workdays over the same period. While the trends are moving in the right direction, continuous improvement is a must for us to reach our zero-harm goal. To ensure this remains a strategic imperative, we continue to tie the variable compensation of our employees and in particular our senior leaders to safety outcomes.

CIMCO's powerful, energy-efficient refrigeration packages help customers meet their sustainability objectives.

Recruitment and Retention: Toromont needs to add skilled people to our team, particularly technicians who are in short supply, to maintain and grow the business. We use a variety of recruitment strategies that take us deep into our territories and beyond, promote technical careers with students, offer apprenticeships and create ongoing career development opportunities. We are pleased to note that 2021 was a record year for technician recruitment and we increased our technician apprenticeship positions by 31% from 2020. Retaining our skilled workforce is equally critical and here again we are making headway. Despite retirements, our average workforce tenure is greater than 10 years.

Equity, Diversity and Inclusion ("EDI"): Toromont's Code of Conduct, Employment Equity as well as Board and Leadership Diversity policies recognize the benefits of EDI and we follow through with actions that are aligned. Leading by example is important which is why women comprise 30% of our Board of Directors and 31% of our senior management team. Moreover, persons with disabilities and visible minorities represented 15% and 8% of our senior management team, respectively. We are also committed to our partnerships with Indigenous communities and businesses, which are described in our Sustainability Report.

Response to Climate Change: Under Toromont's Environmental Management program, Toromont seeks to continually improve its conservation of resources and responsibly manage our environmental footprint as we grow. However, we believe our greatest contribution to environmental sustainability is through the provision of products, services and technologies that help our customers achieve their goals for low carbon emissions and resource conservation. We are proud to work with Caterpillar to introduce battery electric and autonomous vehicles in our markets. Expertly reconditioning used equipment components, rather than scrapping them, is another area of contribution. Under the purview of Toromont remanufacturing, we rebuilt 90 machines and almost 4,400 components for customers in 2021. CIMCO Refrigeration also did its part. This past year, CIMCO eliminated the manufacture of ice rink packages that use high Global Warming Potential refrigerants, which puts our business at the leading edge of the refrigeration industry's efforts to align with the Montréal Protocol. With CIMCO's new Pathway to Net Zero program introduced in 2021, we help customers identify and implement opportunities to apply measures to eliminate refrigerant emissions, optimize energy consumption and harness green power including district energy sources.

Special Thanks to James Gill

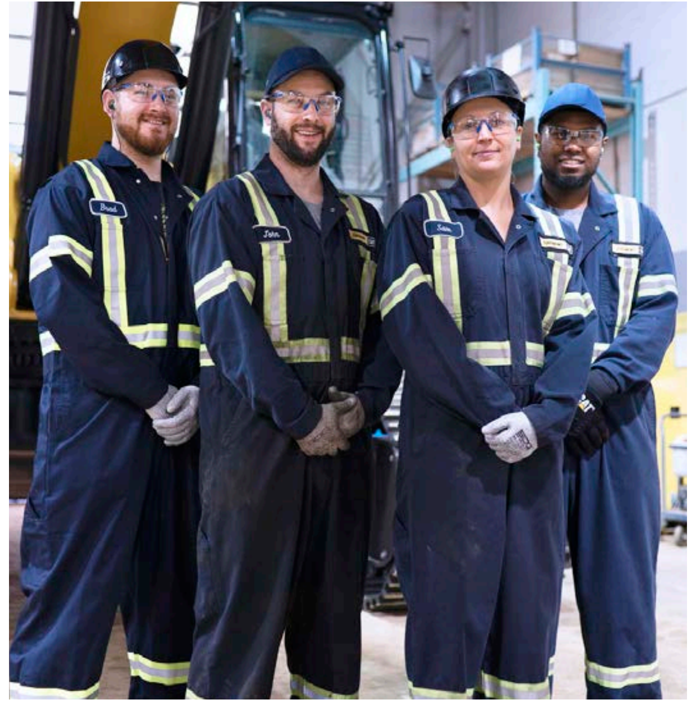
This spring will mark the retirement of Dr. James Gill from our Board of Directors as he has reached the age for retiring under our Board policy. Jim served with distinction for the past six years, generously sharing his sage advice, extensive knowledge, sound business philosophies and business acumen along with his Canadian Hall of Fame Mining expertise through general Board deliberations and as a member of two Board committees.

36%

Decrease in Total Recordable Injury Rate over last 5 years

50%

Reduction in lost work days over last 5 years



His leadership was beneficial to all Toromont businesses. We sincerely thank him for his dedication to helping build the Toromont business of today.

Special Thanks to Wayne Hill and Robert Ogilvie
This spring will also mark the retirement of Wayne Hill as a Director. Wayne joined our Board in 1988 but his contributions to our business run far deeper. He held the position of Toromont Chief Financial Officer from 1985 to 2005 and from 2006 to 2008, he was Toromont's Executive Vice President. Along with our past Chairman Robert Ogilvie, Mr. Hill created the Toromont business model that we rely on today and through his professional stewardship, played a leading role in organizational growth, continuous improvement and the pursuit of business excellence. His contributions to our long-term financial success cannot be understated.

It's true that a company this size is bigger than any one person but it's also true that Toromont owes much to Robert Ogilvie. Mr. Ogilvie retired in July 2021 after leading Toromont for 36 years, 34 years as Chair and the first 20 as Chief Executive Officer. During his impressive career, Robert not only forged many of the operating disciplines that serve us so well today, he was also an incredible leader and visionary. More than this, he taught generations of Toromont leaders the finer points of business as a mentor. We are better because of his guidance.

Working together, Robert and Wayne devoted their distinguished careers to building a market-leading business through strategic investments complemented by several acquisitions. Their legacies and the operating disciplines they embedded will be felt for years to come. Our entire organization wishes Robert and Wayne well in their retirement years and thanks them for their significant contributions to Toromont's success and steadfast commitment to our employees, customers and shareholders.

Equipped for Today and Tomorrow
No doubt, 2022 will bring new opportunities but also new challenges as COVID-19 follows an unpredictable path and as factors such as supply chain disruptions and macro-economic factors add operating complexities. However, we do feel that Toromont is equipped to perform. Our products and services are essential in our markets. Our people are capable problem solvers dedicated to customer success. Our technologies and those of our partners are enabling a more efficient, productive and cleaner future. Our balance sheet is strong. We pledge to use these advantages today and tomorrow.

We are grateful to the people of Toromont for meeting the pandemic's business and market-altering realities. We thank our customers for allowing Toromont to serve you while challenging us to do even better, and our shareholders for your support.

Yours sincerely,

Richard G. Roy
Chair of the Board

Scott J. Medhurst
President and Chief Executive Officer

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Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2021, compared to the preceding year. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2021.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The information in this MD&A is current to February 9, 2022.

Advisory

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of COVID-19; changes in foreign exchange rates, including the Cdn$/US$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities and changes to environmental regulation; information technology failures, including data or cyber security breaches; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; any requirement to make contributions to registered defined benefit pension plans or postemployment benefit plans in excess of those currently contemplated; and increased insurance premiums. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties

and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections herein. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2021, Toromont employed over 6,400 people in more than 160 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

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

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

PRIMARY OBJECTIVE AND MAJOR STRATEGIES

The primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading

"Key Performance Measures" in this MD&A) and each of its operating groups consistently employs the following broad strategies:

Expand Markets

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

Strengthen Product Support

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

Broaden Product Offerings

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

Invest in Resources

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

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

Maintain a Strong Financial Position

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

CONSOLIDATED ANNUAL OPERATING RESULTS

($ thousands, except per share amounts)	**2021**	2020	$ change	% change
REVENUES	**$ 3,886,537**	$ 3,478,897	407,640	12%
Cost of goods sold	**2,916,769**	2,643,151	273,618	10%
Gross profit [1]	**969,768**	835,746	134,022	16%
Selling and administrative expenses	**493,831**	463,312	30,519	7%
OPERATING INCOME [1]	**475,937**	372,434	103,503	28%
Interest expense	**28,161**	29,981	(1,820)	(6%)
Interest and investment income	**(9,027)**	(9,083)	56	(1%)
Income before income taxes	**456,803**	351,536	105,267	30%
Income taxes	**124,093**	96,621	27,472	28%
NET EARNINGS	**332,710**	254,915	77,795	31%
BASIC EARNINGS PER SHARE	**$ 4.03**	$ 3.10	$ 0.93	30%
KEY RATIOS:				
Gross profit margin [1]	**25.0%**	24.0%		
Selling and administrative expenses as a % of revenues	**12.7%**	13.3%		
Operating income margin [1]	**12.2%**	10.7%		
Income taxes as a % of income before income taxes	**27.2%**	27.5%		
Return on capital employed [1]	**26.6%**	20.4%		
Return on equity [1]	**19.6%**	16.6%		

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

The Company delivered strong results for 2021 reflecting improved market activity after the slow-down in 2020 stemming from the pandemic. Execution was solid in most areas as the operating teams continued to focus on keeping employees safe, serving customer needs and protecting the business for the long-term. Improved gross margins overall and favourable operating leverage resulted in strong growth in net earnings.

The Equipment Group reported strong results with steadily increased equipment orders as COVID-related restrictions continue to ease and improved economic conditions buoyed demand for our products and services. CIMCO revenues were up year-over-year on higher package sales, however tight margins and higher operational costs dampened bottom-line results. We continue to operate with caution, monitoring the fluid nature of COVID-19, maintaining disciplined protocols and evaluating economic factors flowing from the pandemic, inclusive of supply chain disruptions and inflationary pressures.

Revenues increased $407.6 million or 12% for the year, with an increase in both the Equipment Group and CIMCO. Equipment Group revenues increased 11% with strong new equipment sales, rental and product support activity. CIMCO revenues were 15% higher year-over-year on strong package deliveries, as construction on industrial projects progressed.

Gross profit margin increased 100 basis points (“bps”) to 25.0% versus last year. The Equipment Group reported higher margins mainly on tight equipment supply, improved rental fleet utilization, higher product support activity levels and operating leverage. Margins at CIMCO declined year-over-year on lower booked margins on certain larger projects. Sales mix was less favourable in both Groups, with a lower proportion of product support revenues to total revenues.

Selling and administrative expenses were $30.5 million (7%) higher for the year compared to the prior year reflecting operating leverage on the increased revenues. In 2020, governmental subsidies under the CEWS program reduced expenses by $12.8 million. Expenses in 2021 include a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees, completed through an annuity purchase. Excluding these two items, expenses increased $12.7 million or 3% year-over-year. Compensation costs increased $13.0 million on higher staffing levels, annual salary increases, and higher profit sharing accruals on the higher earnings. The mark-to-market adjustment on Deferred Share Units ("DSUs") was $1.1 million less in 2021 than the prior year and bad debt expense was $1.3 million lower. Sales related expenses, including travel and training expenses increased to support higher volumes.

Operating income increased $103.5 million or 28% reflecting the higher revenues, higher gross margins and lower relative expense levels. Operating income margin increased 150 bps to 12.2%. Revenue growth exceeded growth in expenses. The easing of COVID-19 restrictions has improved activity levels. Operations remain focused on efficient execution.

Interest expense decreased $1.8 million on lower debt levels. Drawings on a term credit facility taken in early 2020 at the onset of the pandemic were repaid in late 2020.

Interest income decreased $0.1 million on lower interest income earned on conversion of equipment on rent with a purchase option ("RPO").

The effective income tax rate for 2021 was 27.2% compared to 27.5% in 2020.

Net earnings in 2021 of $332.7 million were up $77.8 million or 31% from 2020. Basic earnings per share ("EPS") increased $0.93 or 30% to $4.03 mainly reflecting the higher revenues.

Other comprehensive income of $56.1 million in 2021 (2020 – comprehensive loss of $12.3 million) arose on actuarial gains on defined benefit pension and other post-employment benefit plans of $49.9 million (2020 – actuarial loss of $11.2 million). These gains/losses reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favorable net change in the fair value of cash flow hedges of $6.2 million (2020 – unfavorable net change of $0.7 million). These changes reflect mark to market differences in the value of foreign exchange derivative contracts designated as cash flow hedges and are largely a function of the underlying USD/CAD exchange rates at period end compared to the contract date.

BUSINESS SEGMENT ANNUAL OPERATING RESULTS

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

Equipment Group

($ thousands)	**2021**	2020	$ change	% change
Equipment sales and rentals				
New	**$ 1,366,681**	$ 1,088,031	$ 278,650	26%
Used	**354,701**	381,346	(26,645)	(7%)
Rentals	**387,755**	358,266	29,489	8%
Total equipment sales and rentals	**2,109,137**	1,827,643	281,494	15%
Product support	**1,405,128**	1,327,478	77,650	6%
Power generation	**11,019**	10,978	41	-
Total revenues	**$ 3,525,284**	$ 3,166,099	$ 359,185	11%
Operating income	**$ 450,950**	$ 345,953	$ 104,997	30%
KEY RATIOS:				
Product support revenues as a % of total revenues	**39.9%**	41.9%		
Operating income margin	**12.8%**	10.9%		
Group total revenues as a % of consolidated revenues	**90.7%**	91.0%		
Return on capital employed	**30.8%**	19.2%		

Strong demand for products and services, tight equipment supply and improved operating discipline served to deliver strong results in 2021. Economic activity increased from the lower level experienced in 2020, the first year of the pandemic.

Total equipment sales (new and used) increased $252.0 million or 17% compared to 2020. Revenues in 2020 were impacted by lower economic activity in light of restrictions and closures implemented in response to the pandemic, as well as a generally cautious market sentiment. Demand was stronger in 2021 as activity and confidence in end markets showed signs of improvement. Market segment revenue generally increased amidst group supply constrains: construction (up $152.0 million or 15%); mining (up $83.2 million or 70%); material handling (up $3.8 million or 7%); agriculture (up $15.4 million or 21%); and power systems sales (down $2.4 million or 1%). Used equipment revenues were lower compared to 2020, on availability constraints.

Rental revenues increased $29.5 million or 8% versus last year. All markets and most segments were higher, reflecting continued improvement in activity against weaker comparatives last year. Year-over-year revenue changes in each market were as follows: Light equipment rentals +9%, power systems +18%, heavy equipment rentals +17% and material handling +19%. Rental revenues from equipment on rent with a purchase option ("RPO") were down 22%, in part reflecting a smaller average fleet. As at December 31, 2021, the RPO fleet was $46.1 million versus $35.1 million a year ago.

Product support revenues increased $77.7 million or 6%, with increases in both parts and service. Activity was higher in most markets and across all regions as follows: construction markets +8%; mining +3%; power systems +2%; material handling +19%; and agricultural activity was down 9%.

Gross profit margin increased 130 bps to 25.3% from 24.0% in 2020. Margins increased across all revenue streams, partially offset by less favourable sales mix (higher equipment sales to rental and product support). Equipment margins were up 60 bps reflecting strong demand and tight supply. Rental margins were up 90 bps on higher fleet utilization, as well as fleet optimization over the last year. Product support margins were up 40 bps on continued focus on efficiency and higher activity levels. A shift in sales mix with a lower proportion of product support revenues to total

revenues decreased margin by 60 bps.

Selling and administrative expenses increased $25.0 million or 6%. Expenses in 2021 include a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. In 2020, governmental subsidies under the CEWS program reduced expenses by $11.4 million. Excluding these two items, expenses increased $8.6 million or 2% year-over-year, reflecting the higher activity levels. Compensation costs increased on higher headcount, annual salary increases and higher profit sharing on the increased earnings. Certain expenses such as travel and training have increased compared to the prior year which experienced tighter restrictions. Allowance for doubtful accounts decreased $1.2 million on good collection activity. Property dispositions and other related transactions resulted in gains in both years, with $3.8 million in 2021 and $4.1 million in 2020.

Operating income was up $105.0 million or 30% and was 190 bps higher as a percentage of revenues (12.8% versus 10.9% last year) reflecting the higher revenues and gross margins, coupled with lower relative expense levels.

Capital expenditures

($ millions)	**2021**	2020	$ change	% change
Rental				
Capital expenditures	**$ 117,759**	$ 88,942	$ 28,817	32%
Proceeds on disposals	**$ 50,840**	$ 52,455	$ (1,615)	(3%)
Net expenditure	**$ 66,919**	$ 36,487	$ 30,432	83%
Property, plant and equipment				
Capital expenditures	**$ 50,201**	$ 28,948	$ 21,253	73%

Additions in 2020 were managed lower given the economic activity levels at that time. Rental fleet additions increased in 2021, but remained constrained due to supply chain limitations. Fleet dispositions, as measured by proceeds, were curtailed in light of tight equipment supply.

Property, plant and equipment additions increased in 2021, as business activity improved. Capital expenditures in 2021 included:

- $21.1 million for land and buildings associated with facilities and new rental locations;
- $22.1 million for new and replacement service and delivery vehicles;
- $2.0 million for information technology infrastructure improvements and developments; and
- $5.0 million for other machinery and equipment for general operations.

Bookings and Backlogs

($ millions)	**2021**	2020	$ change	% change
Bookings - year ended December 31	**$ 2,478.8**	$ 1,570.0	$ 908.8	58%
Backlogs - as at December 31	**$ 1,130.4**	$ 373.0	$ 757.4	203%

Bookings and backlogs vary from period to period on large project activities, particularly in mining and power systems, the timing of orders from customers, required customer delivery schedules, and the availability of equipment from either inventory or suppliers.

Booking activity increased significantly compared to the lower activity reported in 2020. Higher orders resulted across all market segments: construction orders (+66%); mining (+228%), power systems (+55%), material handling lift trucks (+2%) and agriculture orders (+10%).

Backlogs increased reflecting both requested customer delivery schedules (2022 and 2023) and delays in delivery of equipment from vendors. As at December 31, 2021, the total backlog related to construction (46%), mining (31%), power systems (17%), agriculture (4%) and lift trucks (2%). Approximately 85% of the backlog is expected to be delivered in 2022.

CIMCO

($ thousands)	**2021**	2020	$ change	% change
Package sales	**$208,854**	$161,144	$ 47,710	30%
Product support	**152,399**	151,654	745	-
Total revenues	**$361,253**	$312,798	$ 48,455	15%
Operating income	**$ 24,987**	$ 26,481	$ (1,494)	(6%)
KEY RATIOS:				
Product support revenues as a % of total revenues	**42.2%**	48.5%		
Operating income margin	**6.9%**	8.5%		
Group total revenues as a % of consolidated revenues	**9.3%**	9.0%		
Return on capital employed	**61.7%**	78.0%		

A strong opening order backlog buoyed CIMCO's revenues in 2021 as construction progressed and projects were completed. Recreational activity was dampened with site restrictions and closures related to the pandemic, however as facilities reopened for the 2021-2022 winter season, activity improved later in the year. Operating income was lower despite the higher volume, given lower margins on large industrial projects and higher expense levels. The translation of financial results at the US operations did not have a significant impact on results year over year.

Package sales were up $47.7 million or 30% versus 2020, with strong deliveries in the industrial market (up 49%) on several large orders received in 2020. Recreational markets were down 1%, as lower activity continued from site restrictions and closures. Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition. This results in variability of reported revenues and earnings, as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers). Package revenues increased in both Canada (up 29%) and the US (up 31%, but on a smaller activity base).

Product support revenues were relatively unchanged year-over-year, however recreational activity improved late in the year. Activity continued for some market segments throughout the pandemic given the essential services nature of the business.

Gross profit margin decreased 210 basis points. Package margins were down 140 bps reflecting lower margins on certain larger projects completed in the year. Sales mix was less favourable with a lower percentage of product support revenues to total revenues (down 70 bps). Product support margins were unchanged year-over-year.

Selling and administrative expenses increased $5.5 million or 11% versus last year reflecting

spending to support current and future activity levels. In 2020, governmental subsidies under the CEWS program reduced expenses by $1.4 million. Excluding this, expenses were up 8%, on higher staffing levels. Certain costs such as training were higher after a period of deferred spending, and occupancy costs increased on expenditures related to the upcoming head office move.

Operating income was down by $1.5 million or 6% in 2021, as higher package revenues, were more than offset by the lower gross margins and increased expenses. Operating income as percentage of revenues decreased 160 bps to 6.9% compared to prior year.

Capital expenditures

($ millions)	**2021**	2020	$ change	% change
Property, plant and equipment	**$ 21,729**	$ 14,742	$ 6,987	47%

Capital expenditures in 2021 included acquisition of property for the new head office facility in Canada ($16.8 million). Other expenditures included new and replacement service vehicles ($2.7 million) and information technology enhancements and upgrades ($1.9 million).

Bookings and Backlogs

($ millions)	**2021**	2020	$ change	% change
Bookings - year ended December 31	**$ 188.4**	$ 228.3	$ (39.9)	(17%)
Backlogs - as at December 31	**$ 161.1**	$ 184.4	$ (23.3)	(13%)

Bookings were lower compared to 2020 which included several large industrial orders. Recreational bookings were 42% higher on increased market activity in both Canada (up 25%) and the US (up 81%), after a period of limited activity given pandemic closures and restrictions. Industrial orders were down 38%, with a decrease in both Canada (down 41% on a tough comparable) and the US (down 6%).

Backlogs of $161.1 million declined $23.3 million or 13% versus last year, which included several large orders. Recreational backlogs were 42% higher in both Canada (+38%) and the US (+45%) reflecting good order intake over the latter part of 2021. Industrial backlogs were 30% lower as the orders from 2020 were completed. Substantially all of the backlog is expected to be realized as revenue in 2022, however this is subject to construction schedules, component availability and potential changes stemming from the COVID-19 pandemic.

CONSOLIDATED FINANCIAL CONDITION

The Company's strong financial position continued.

At December 31, 2021, the ratio of net debt to total capitalization decreased to -16% (cash exceeded debt) versus 3% at December 31, 2020, reflecting our strong cash position.

Non-cash Working Capital

The major components, along with the changes from December 31, 2020, are identified in the following table.

($ thousands)	**2021**	2020	**$ change**	**% change**
Accounts receivable	**$ 451,944**	$ 541,580	$ (89,636)	(17%)
Inventories	**720,421**	728,404	(7,983)	(1%)
Other current assets	**13,994**	10,897	3,097	28%
Accounts payable and accrued liabilities	**(544,512)**	(558,443)	13,931	(2%)
Provisions	**(25,404)**	(26,645)	1,241	(5%)
Income taxes payable	**(15,239)**	(23,281)	8,042	(35%)
Derivative financial instruments	**5,252**	(11,043)	16,295	(148%)
Dividends payable	**(28,851)**	(25,560)	(3,291)	13%
Deferred revenues and contract liabilities	**(199,696)**	(149,109)	(50,587)	34%
Total non-cash working capital	**$ 377,909**	$ 486,800	$ (108,891)	(22%)

Accounts receivable decreased $89.6 million or 17% year over year largely reflecting continued focus on collection activity within both the Equipment Group and CIMCO. Days sales outstanding (“DSOs”) decreased 5 days to 36 days, on improvements in both the Equipment Group (down 4 days) and CIMCO (down 18 days). The decrease in accounts receivable is also attributable to lower trailing sales in the fourth quarter of 2021 compared to the same period of 2020.

Inventories decreased $8.0 million or 1%, largely due to a decrease in CIMCO, offset by an increase in the Equipment Group:

- Equipment Group inventories were up $6.4 million or 1%, with decreases in equipment (down $4.1 million or 1%), and parts (down $7.9 million or 3%), offset by higher service work-in-process (up $18.5 million or 35%). While inventory levels are typically lowest at the end of a fiscal year due to seasonality, changes in supply chain availability has further affected these trends, with inventory levels generally lower than desired levels in both 2020 and 2021. Service work-in-process levels reflect higher activity levels.
- CIMCO inventories were down $14.4 million or 41%, predominantly driven by lower work-in-process on the advancement of larger industrial projects, partially offset by increased parts inventories (up $1.1 million or 37%).

Other current assets mainly relate to prepaid expenses, which vary year-over-year on the timing of payments and the realization of expenses.

Accounts payable and accrued liabilities decreased $13.9 million or 2%. The DSU liability decreased $12.4 million on redemptions, offset in part by the higher share price. Other accounts payable and accrued liabilities were lower principally due to the timing of purchases and payments for inventory.

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

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net gain of $5.3 million

as at December 31, 2021. This is not expected to affect net earnings as the unrealized gains will offset future losses on the related hedged items.

Higher dividends payable year-over-year reflect the higher dividend rate. Effective with the July 5, 2021 payment, the quarterly dividend rate was increased 12.9% from $0.31 per share to $0.35 per share.

Deferred revenues and contract liabilities represent billings to customers in excess of revenue recognized:

- In the Equipment Group, these arise due to progress billings from the sale of power and energy systems, long-term product support maintenance contracts, sales of equipment with residual value guarantees, and, customer deposits for machinery to be delivered in the future. These balances were higher, up $74.7 million or 72.5%, in 2021, generally on timing of progress billings under long-term contracts, as well as customer deposits for future equipment deliveries.
- At CIMCO, these arise on progress billings from the sale of refrigeration packages, which were down $24.1 million or 52.2%, reflecting the timing of billings compared to revenue recognized under the percentage-of-completion method.

Goodwill and Intangibles

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate using the fair value less cost to sell valuation method. This assessment affirmed goodwill and intangibles values as at December 31, 2021, as outlined in note 7 of the notes to the annual consolidated financial statements.

Employee Share Ownership

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

1. An Executive Stock Option Plan for its senior employees. Stock options have a 10-year life, vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. As at December 31, 2021, 2.2 million options to purchase common shares were outstanding, of which 0.8 million were exercisable.

2. An Employee Share Purchase Plan whereby employees can purchase shares by way of payroll deductions. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 contributed, to a maximum of 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards vest five years from date of contribution. Company contributions amounting to $3.3 million in 2021 (2020 – $2.9 million) were charged to selling and administrative expense when paid. Approximately 40.9% of employees participate in the plan (2020 – 39.0%), which is administered by an independent third party.

3. A deferred share unit ("DSU") plan for executives, certain senior managers and non-employee directors. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs may be redeemed only on cessation of

employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. Executives and senior managers may elect, on an annual basis, to receive all or a portion of their performance incentive bonus in DSUs. Non-employee directors receive approximately 55% of their annual compensation in the form of DSUs and may also elect to receive some or all of their remainder annual compensation in DSUs. The Company records the cost of the DSU plan as compensation expense in selling and administrative expenses. As at December 31, 2021, 202,969 DSUs were outstanding with a total value of $23.1 million (2020 – 394,154 units at a value of $35.6 million). The liability for DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Employee Future Benefits

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

- Defined contribution plans, including 401(k) matched savings plans for employees in the US, covering the largest segment of employees, including all new hires;
- Defined benefit plans; and,
- Other post-employment benefit plans for certain grandfathered employees.

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

Defined Contribution Plans

In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents. As at December 31, 2021, approximately 4,400 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Plans

The Company sponsors defined benefit pension plans, which provide pension and other post-retirement benefits for approximately 1,300 active employees. All Plans are administered by a separate Fund that is legally separate from the Company, with the exception of the Executive Plan described below.

The funded status of these plans improved by $66.7 million during 2021 (a reduction in post employment obligations). Actuarial gains, largely related to a higher discount rate reduced the defined benefit obligation by $59.8 million. Return on plan assets was positive, and exceeded interest cost on the obligation by $11.3 million. Company contributions increased and exceeded current service cost by $6.7 million. Offsetting this was a charge of $5.0 million related to the annuity purchase transaction entered into in October 2021, whereby the defined benefit obligations associated with certain retired plan members were assumed by a third party insurer. Toromont considers, for accounting purposes, that this buy-out transaction essentially eliminates any further legal or constructive obligations for benefits, and that a settlement has occurred.

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters

of credit to secure the obligations under this plan, which were $14.8 million as at December 31, 2021.

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

See notes 1, 2 and 19 to the audited consolidated financial statements for further information

Legal and Other Contingencies

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

Normal Course Issuer Bid ("NCIB")

The Company's NCIB program commenced on September 15, 2021. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 14, 2022, representing 10% of common shares in the public float, as estimated at the time of renewal. All shares purchased under the bid will be cancelled.

In connection with the NCIB, the Company has entered into an Automatic Share Purchase Plan ("ASPP') with a broker that allows, in its sole discretion and based on parameters established by the Company, the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. At December 31, 2021, no liability was recorded in the Company's consolidated statements of financial position in connection with the ASPP.

Under this bid, the Company purchased and cancelled 470,600 common shares for $50.0 million (average cost of $106.25 per share, including transaction costs) through to December 31, 2021. During the year ended December 31, 2020, 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 in place at that time.

Shareholder Rights Plan ("SRP")

The SRP is a 'new generation' shareholder rights plan, designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. The SRP was renewed at the annual meeting of shareholders in 2021 and expires at the end of the annual meeting of shareholders in 2024.

Outstanding Share Data

As at the date of this MD&A, the Company had 82,444,168 common shares and 2,164,895 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically

targeted a dividend rate of approximately 30 - 40% of trailing earnings from continuing operations.

During 2021, the quarterly dividend was increased by 12.9% or 4 cents per share, to 35 cents per common share, effective with the second quarter. In 2021, the Company declared dividends of $1.36 per common share (2020 - $1.24 per common share).

Considering the Company's strong financial position and positive long-term outlook, the Board of Directors increased the quarterly dividend by 11.4% to 39 cents per share effective with that payable on April 4, 2022, to shareholders on record on March 9, 2022. Toromont has paid dividends every year since 1968 and this is the 33rd consecutive year of dividend increases.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

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

The Company maintains a $500.0 million committed revolving credit facility. This facility was extended in November 2021, maturing in November 2026. Debt under this facility 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 this revolving credit facility as at December 31, 2021 or 2020. Standby letters of credit issued utilized $28.8 million of the facility as at December 31, 2021 (2020 – $30.8 million).

The Company's credit arrangements include covenants, restrictions and events of default usually present in arrangements of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants at December 31, 2021 and 2020.

The Company expects that cash on hand (2021 - $916.8 million) together with cash flows from operations in 2022, 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 will continue to provide access to capital markets to facilitate future debt issuance.

Principal Components of Cash Flow

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

($ thousands)		**2021**		2020
Cash, beginning of year	**$**	**591,128**	$	365,589
Cash, provided by (used in):				
Operating activities				
Operations		**480,745**		410,184
Change in non-cash working capital and other		**129,322**		(10,096)
Net rental fleet additions		**(67,343)**		(51,060)
		542,724		349,028
Investing activities		**(68,869)**		(32,553)
Financing activities		**(148,143)**		(90,878)
Effect of foreign exchange on cash balances		**(10)**		(58)
Increase in cash in the year		**325,702**		225,539
Cash, end of the year	**$**	**916,830**	$	591,128

Cash Flows from Operating Activities

Operating activities provided $542.7 million in 2021 compared to $349.0 million in 2020.

Cash generated from operations increased 17% compared to prior year primarily on higher net earnings.

Non-cash working capital and other provided $129.3 million in 2021. Lower accounts receivable on lower trailing sales and good collection activity provided $89.6 million. An increase in deferred revenues including customer deposits provided $61.5 million. The remaining working capital accounts had a more modest impact overall, with higher income tax instalments and derivative contracts; inventory levels have been constrained due to supply chain limitations.

Non-cash working capital and other used $10.1 million in 2020. Reductions in inventory levels in light of market demand provided $183.8 million, while timing of income tax instalments provided $32.6 million. This was more than offset by reductions in accounts payable, largely due to the wind-down of certain vendor extended payment terms, utilizing $224.7 million.

Net rental fleet additions (purchases less proceeds of dispositions) were higher by $16.3 million compared to 2020. Additional investment in both the heavy and light equipment rental fleets reflect increased demand and improving market conditions, dampened slightly by equipment availability. In some cases, fleet dispositions have been deferred, pending improved equipment supply.

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

Cash Flows from Investing Activities

Investing activities utilized $68.9 million in 2021 compared to $32.6 million in 2020, an increase

of $36.3 million. Additional investments have been made in 2021 for new and expanded facilities and branches, including the new CIMCO head office, and two new rental locations (Collingwood and Mississauga, Ontario). In 2020, spending plans were adjusted to reflect weaker economic conditions.
Investments in property, plant and equipment included:

- $35.8 million for land and buildings for new and expanded branches (2020 - $9.2 million);
- $24.0 million for service vehicles (2020 - $15.0 million);
- $3.9 million for upgrades and enhancements to information technology infrastructure and furniture and fixtures (2020 - $3.6 million); and
- $5.0 million for machinery and equipment (2020 - $4.6 million).

Cash Flows from Financing Activities

Financing activities used $148.1 million in 2021 versus $90.9 million in 2020.

In 2021, the Company purchased and cancelled 470,600 common shares at an average cost of $106.25 (including transaction costs) for $50.0 million. In 2020, 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 in place at that time.

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

- Dividends paid to common shareholders of $109.1 million or $1.36 per share (2020 - $98.5 million or $1.20 per share);
- Cash received on exercise of share options of $21.8 million (2020 - $22.4 million); and
- Lease liability payments of $9.9 million (2020 - $10.3 million).

OUTLOOK

The emergency measures enacted in early 2020, to combat the spread of COVID-19 have affected economies and disrupted business operations around the world. Staff shortages, reduced customer activity and demand, product availability and other supplier constraints, cost increases and increased government regulations or intervention, are some of the factors that have and may continue to negatively impact our business, consolidated financial results and conditions of the Company. While vaccination programs are underway and generally restrictions are easing across most of our territories, there is ongoing concern and uncertainty regarding potential new COVID-19 variants. As a result it is not possible to reliably estimate the length and severity of these developments as well as the impact on the consolidated financial results and condition of the Company in future periods.

We are closely monitoring inflationary pressures from price and wage increases. Initiatives are underway across all of our operations to improve efficiency and leverage the learnings from the last two years, including use of technology and innovative ways to engage with customers, employees and other partners with reduced travel.

The ongoing challenges in the global supply chain have resulted in delivery date delays for equipment, components and parts and this is expected to continue. We continue to actively manage supply chain constraints by taking appropriate mitigation steps in collaboration with our key suppliers and our customers, such as actively sourcing used equipment, optimizing preparation time on equipment, and offering rebuilds and rental options. We expect a tight supply environment to continue.

The protection and support of our people remains a priority, particularly, our front-line technical workforce who provide valuable service to our customers. Workforce planning initiatives, including hiring and scheduling, continue in light of current and expected activity levels.

The Equipment Group's parts and service business provides stability supported by a large and diversified installed base of equipment. The on-going integration and alignment of operating systems, best practices and culture, continues across our territory. Prior to the outbreak, the long-term outlook for infrastructure projects and other construction activity was positive across most territories. Mining customers and jurisdictions they operate in continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion will remain dependent on global economic and financial conditions.

Investment continues in broadening product lines, the branch network, rental fleets, and technologies to create efficiency and effectiveness across the organization. Product support technologies, such as remote diagnostics, telematics and digital information models support and expand our strategic platform.

CIMCO's installed base and product support levels should underpin current and future operations and growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO_2 solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides growth opportunities. Recreational markets have been limited due to pandemic restrictions, however over the longer term, opportunity exists. Current backlogs are supportive of future activity.

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

CONTRACTUAL OBLIGATIONS

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

Payments due by year ($ thousands)	**2022**	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Long-term debt							
- principal	$ -	$ -	$ -	$ 150,000	$ -	$ 500,000	**$ 650,000**
- interest	24,765	24,765	24,765	23,374	19,200	16,000	**132,869**
Accounts payable and accrued liabilities	573,363	-	-	-	-	-	**573,363**
Lease liabilities	7,833	5,779	3,966	1,187	452	396	**19,613**
	$ 605,961	**$ 30,544**	**$ 28,731**	**$ 174,561**	**$ 19,652**	**$ 516,396**	**$ 1,375,845**

The above table does not include obligations related to defined benefit pension plans. Regular contributions are made to registered defined benefit pension plans in order to fund the pension obligations as required. Funding levels are monitored regularly and reset with new actuarial funding valuations at least every three years. Contributions in 2021 totaled $21.3 million, including certain defined benefit pension payments, which are made directly by the Company. Based on

the most recent valuations completed, funding contributions and pension payments are expected to be approximately $12.1 million in 2022.

KEY PERFORMANCE MEASURES

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

Years ended December 31,	**2021**	2020	2019	2018	2017
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**11.7%**	-5.4%	5.0%	49.1%	22.9%
Revenue per employee (thousands)	**$ 625**	$ 554	$ 575	$ 573	$ 487
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**5.3%**	-4.4%	10.1%	60.4%	16.3%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions)	**$ 35.2**	$ 37.7	$ 34.8	$ 27.4	$ 15.0
Return on capital employed (1)	**26.6%**	20.4%	22.9%	21.7%	21.5%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) (1)	**$ 377.9**	$ 486.8	$ 463.7	$ 309.5	$ 608.8
Net debt to total capitalization (1)	**-16%**	3%	15%	18%	40%
Book value (shareholders' equity) per share	**$ 23.69**	$ 20.60	$ 18.70	$ 16.35	$ 13.89
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**30.0%**	-11.9%	13.5%	39.4%	11.6%
Dividends per share growth	**9.7%**	14.8%	17.4%	21.1%	5.6%
Return on equity (1)	**19.6%**	16.6%	21.4%	22.3%	19.3%

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

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has delivered steady growth. 2021 has seen a gradual recovery to pre-pandemic comparative years with good operating performance, financial results, cash generation and financial position through a challenging business environment. Results in 2020 reflect the pandemic which resulted in lower economic activity levels in our markets, negatively impacting many of the key performance measures. Since the beginning of the pandemic, Toromont remained focused on three priorities, namely, safeguarding our employees, servicing our customers' needs and protecting our business for the future.

The addition of the Quebec and Maritimes territories in October 2017, provided a larger platform for continued growth. The 2018 amounts shown above include one full year of operations in the acquired territories, and are fully comparable from 2019 to 2021. Results for 2017 include the two months of operations under Toromont's ownership, thereby affecting the comparability of results.

Since 2017, revenues increased at an average annual rate of 16.7%, with product support

growing at 17.5% annually. Over this period, revenue growth has been mainly a result of:

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

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

- The COVID-19 pandemic, first identified in March 2020, which resulted in a significant downturn in economic activity and disrupting normal operations in part from site restrictions and closures which impacted the timing of delivery of project schedules
- Inability to source equipment and parts from suppliers to meet customer demand or delivery schedules, as a result of specific supplier issues or more recently due to global supply chain disruption caused by the pandemic;
- Economic weakness and uncertainty, both generally and in specific markets or sectors;
- Volatility in commodity prices;
- Competitive conditions;
- Ability to hire necessary skilled technicians to service market demand; and

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2017, the average annual exchange rate of the Canadian dollar against the US dollar has varied from $0.75 to $ 0.80, however, there have been periods of higher volatility, with the dollar ranging from a low of $0.69 to a high of $0.83.

Toromont continues to invest in its resources, including investment in information technology, in part to increase productivity levels, as well as to maintain our systems to be relevant in the ever-changing technological environment in which we operate.

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization, was -16% at the end of 2021 versus 3% at the end of 2020. Leverage of 40% at the end of 2017 reflects borrowings used to finance in part the acquisition of the Quebec/Maritimes Caterpillar dealership. Strong cash generation since that time has served to consistently decrease leverage on a sequential basis.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 33 years. The Company declared dividends of $1.36 per common share in 2021, $0.31 in the first quarter and $0.35 per each subsequent quarter of the year (2020 - $1.24 per common share or $0.31 per quarter). The regular quarterly dividend rate was increased 12.9% from $0.31 per share to $0.35 per share in the second quarter of 2021, evidencing our commitment to delivering exceptional shareholder value.

CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

Three months ended December 31 *($ thousands, except per share amounts)*	2021	2020	$ change	% change
REVENUES	**$ 956,035**	$ 992,185	$ (36,150)	(4%)
Cost of goods sold	**686,785**	747,697	(60,912)	(8%)
Gross profit	**269,250**	244,488	24,762	10%
Selling and administrative expenses	**120,480**	117,306	3,174	3%
OPERATING INCOME	**148,770**	127,182	21,588	17%
Interest expense	**6,889**	7,286	(397)	(5%)
Interest and investment income	**(2,827)**	(3,075)	248	(8%)
Income before income taxes	**144,708**	122,971	21,737	18%
Income taxes	**39,118**	34,021	5,097	15%
NET EARNINGS	**105,590**	88,950	16,640	19%
BASIC EARNINGS PER SHARE	**$ 1.28**	$ 1.08	$ 0.20	19%
KEY RATIOS:				
Gross profit margin	**28.2%**	24.6%		
Selling and administrative expenses as a % of revenues	**12.6%**	11.8%		
Operating income margin	**15.6%**	12.8%		
Income taxes as a % of income before income taxes	**27.0%**	27.7%		

Revenues in the fourth quarter were lower in both the Equipment Group and CIMCO, while improved gross margin on sales mix and market conditions resulted in higher net earnings.

The timing of customer orders in both 2020 and 2021 have been impacted by the pandemic, including lower economic activity, market uncertainty and global supply chain disruptions. For some customers, orders were accelerated earlier in 2021, while in other situations, ordering and/or delivery has been deferred into 2022. Rental activity increased with good market activity and constrained equipment supply. Product support activity continued in both Groups, supported by the essential nature of these services, up 3% in the quarter compared to last year.

Gross profit margin increased 360 bps to 28.2% in the quarter, with higher reported gross margins in both the Equipment Group and CIMCO. Strong demand, good execution and a favourable sales mix were all factors in the increase.

Selling and administrative expenses increased $3.2 million or 3% in the fourth quarter compared to the prior year. Expenses in 2021 include a $5.0 million charge related to an annuity purchase to settle defined benefit pension obligations for certain retirees. Benefits under the CEWS program in the fourth quarter of 2020 totalled $4.7 million (2021 - $nil). The mark-to-market expense on DSUs was $1.5 million in the fourth quarter of 2021 compared to $5.2 million in the fourth quarter of 2020. Excluding these three items, expenses were down $2.8 million or 2% in the quarter. Compensation costs increased on higher headcount, annual salary increases and higher profit sharing accruals on the higher earnings. Sales related and other travel and training expenses were $1.4 million lower in light of lower market activity and travel restrictions.

Operating income increased $21.6 million or 17% reflecting the higher gross margins, partially offset by higher expenses. Operating income margin increased 280 bps to 15.6%.

Interest expense decreased $0.4 million in the quarter due to lower financing costs related to the reduced debt levels.

Interest income decreased $0.2 million resulting from lower interest from conversions of RPOs offset by higher interest earned on average cash balances, reflective of market interest rates.

The effective income tax rate for the fourth quarter was 27.0% compared to 27.7% in 2020.

Net earnings in the quarter were up $16.6 million or 19% to $105.6 million. Basic EPS increased $0.20 or 19% to $1.28 versus $1.08 in 2020.

BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

Equipment Group

Three months ended December 31 *($ thousands)*	**2021**	2020	$ change	% change
Equipment sales and rentals				
New	**$ 313,232**	$ 335,035	$ (21,803)	(7%)
Used	**78,878**	111,446	(32,568)	(29%)
Rentals	**112,742**	100,448	12,294	12%
Total equipment sales and rentals	**504,852**	546,929	(42,077)	(8%)
Product support	**359,403**	347,153	12,250	4%
Power generation	**2,715**	2,822	(107)	(4%)
Total revenues	**$ 866,970**	$ 896,904	$ (29,934)	(3%)
Operating income	**$ 135,302**	$ 114,976	$ 20,326	18%
Bookings ($ millions)	**$ 618.9**	$ 563.3	$ 55.6	10%
KEY RATIOS:				
Product support revenues as a % of total revenues	**41.5%**	38.7%		
Operating income margin	**15.6%**	12.8%		
Group total revenues as a % of consolidated revenues	**90.7%**	90.4%		

The Equipment Group delivered results reflective of pandemic related factors that override normal seasonality in the quarter, with lower revenues and higher operating income. The last quarter of the year has historically been the strongest for the Equipment Group, however the impact of the pandemic over the past two years, and more recent supply chain disruptions has altered this trend. Delivery schedules have been altered based on customer requirements, with some pulled forward earlier in the year and some being deferred into 2022. Strong focus on cost containment strategies and improved margins based on market demand has served to improve operating income.

Total equipment sales (new and used) decreased $54.4 million or 12%. Sales decreased across most markets and regions, mainly due to timing of delivery and supply chain challenges. Sales declines were as follows: construction (-10%), mining (-18%), power systems (-23%), material handling (-7%) and agricultural markets (-1%).

Rental revenues increased $12.3 million or 12%. All markets and most segments were higher reflecting the continued improvement in market activity. Revenue growth in the quarter for each market was as follows: Light equipment rentals +11%, Power +28%, Heavy rental in the construction market +7% and Material Handling +15%. Rental revenues from RPO equipment were up 10%.

Product support revenues increased $12.3 million or 4% on high parts (up 3%) and service (up 6%). Activity levels were good across most market segments. Parts revenues in construction were up 14%, offset by lower mining (-6%) and power systems (-14%). Service revenues were up in mining (+29%) and material handling (+16), partially offset by decreases in construction (-6%) and power systems (-3%).

Gross margins increased 330 bps in the quarter versus last year. Equipment margins were up 100 bps, reflecting strong demand and tight supply. Product support margins increased 80 bps, reflecting improved efficiency on higher volumes. Rental gross margins were up 50 bps, reflective of higher utilization as well as fleet adjustments (selective dispositions and additions) over the last year. Sales mix was also favourable (up 100 bps) with a larger proportion of product support revenues to total revenues.

Selling and administrative expenses increased $0.9 million or 1%. Expenses in 2021 include a $5.0 million charge related to the annuity purchase in settlement of defined benefit pension obligations for certain retirees. Benefits under the CEWS program in the fourth quarter of 2020 totalled $4.1 million. Excluding these two items, expenses were down $8.3 million or 8% in the quarter reflecting the benefit of a continued focus on cost control. Compensation costs were lower on a reduction in mark-to-market expense on DSUs in the quarter and normal year-end adjustments to profit sharing accruals. Other compensation costs were higher on higher headcount and annual salary and wage increases. Certain costs such as travel and training have increased as activity returns and certain restrictions ease, and investments continue after a period of restrained spending.

Operating income increased $20.3 million or 18% in the quarter. Operating income was 15.6% as a percentage of revenues, 280 bps higher than the comparable period last year, mainly reflecting the higher gross margins.

Bookings increased $55.6 million or 10% to $618.9 million reflecting strong activity in construction (+12%) and power systems (+34%). This was partially offset by lower orders in material handling (-22%), mining (-3%), and agricultural (-2%).

CIMCO

Three months ended December 31 *($ thousands)*	**2021**	2020	$ change	% change
Package sales	**$ 48,103**	$ 53,934	$ (5,831)	(11%)
Product support	**40,962**	41,347	(385)	(1%)
Total revenues	**$ 89,065**	$ 95,281	$ (6,216)	(7%)
Operating income	**$ 13,468**	$ 12,206	$ 1,262	10%
Bookings ($ millions)	**$ 55.9**	$ 24.5	$ 31.4	128%
KEY RATIOS:				
Product support revenues as a % of total revenues	**46.0%**	43.4%		
Operating income margin	**15.1%**	12.8%		
Group total revenues as a % of consolidated revenues	**9.3%**	9.6%		

Revenues in the fourth quarter were lower reflecting timing of customers' construction schedules. Order bookings improved in the quarter versus the same quarter of 2020 and sequentially, a

positive sign of market activity. Operating income improved reflecting good execution and sales mix, offset by higher expenses.

Package revenues were down $5.8 million or 11% in the quarter compared to last year. In Canada revenues were down 15%, mainly due to a decrease in recreational markets (-42%), while the industrial segment remained flat. Equipment supply issues and customer delays have deferred some projects, and the recreational market was slow for most of the last year due to COVID-19 restrictions and closures. In the US, package sales were up 14% on strong industrial activity (+50%), while the recreational market was unchanged.

Product support revenues were down slightly from last year as growth in Canada (+4%) was more than offset by a decrease in the US (-13%). In Canada, economic activity has improved and site restrictions in most areas, including recreational facilities, easing late in the quarter.

Gross margins increased 580 bps in the quarter on good execution and sales mix. Package margins increased 480 bps while product support margins increased 60 bps. Sales mix was favourable, with a higher proportion of product support revenues to total revenues (up 40 bps).

Selling and administrative expenses increased $2.3 million or 19%. Bad debt expense increased $1.3 million from the similar period reflecting certain collection matters. In the fourth quarter of 2020, governmental subsidies under the CEWS program reduced expenses by $0.6 million (2021 – nil). All other expenses, including compensation increased $0.4 million or 3%, on higher staffing levels and normal annual salary increases, offset by year-end adjustments to certain payroll expense accruals following completion of a new payroll and HRIS system in the year.

Operating income increased $1.3 million in the quarter on improved gross margins, offset by higher selling and administrative expense. As a percentage of revenues, operating income improved to 15.1% in 2021, versus 12.8% in 2020.

Bookings increased $31.4 million or 128% to $55.9 million on stronger orders in both Canada and the US, after a period of slower activity given pandemic closures and restrictions. Recreational orders were up in Canada (+83%) and the US (+403%), along with industrial orders which were up in Canada (+102%) and the US (+57%).

QUARTERLY RESULTS

The following table summarizes quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2021 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2021	Q2 2021	Q3 2021	**Q4 2021**
REVENUES				
Equipment Group	$ 727,383	$ 1,016,545	$ 914,386	**$ 866,970**
CIMCO	78,855	110,521	82,812	**89,065**
Total revenues	$ 806,238	$ 1,127,066	$ 997,198	**$ 956,035**
NET EARNINGS	$ 47,956	$ 85,400	$ 93,764	**$ 105,590**
PER SHARE INFORMATION:				
Basic earnings per share	$ 0.58	$ 1.03	$ 1.13	**$ 1.28**
Diluted earnings per share	$ 0.58	$ 1.02	$ 1.12	**$ 1.27**
Dividends paid per share	$ 0.31	$ 0.35	$ 0.35	**$ 0.35**
Weighted average common shares outstanding - basic (in thousands)	82,499	82,587	82,705	**82,401**

($ thousands, except per share amounts)	Q1 2020	Q2 2020	Q3 2020	Q4 2020
REVENUES				
Equipment Group	$ 657,776	$ 776,703	$ 834,716	$ 896,904
CIMCO	57,683	72,894	86,940	95,281
Total revenues	$ 715,459	$ 849,597	$ 921,656	$ 992,185
NET EARNINGS	$ 37,396	$ 51,210	$ 77,359	$ 88,950
PER SHARE INFORMATION:				
Basic earnings per share	$ 0.46	$ 0.62	$ 0.94	$ 1.08
Diluted earnings per share	$ 0.45	$ 0.62	$ 0.94	$ 1.07
Dividends paid per share	$ 0.27	$ 0.31	$ 0.31	$ 0.31
Weighted average common shares outstanding - basic (in thousands)	82,015	82,024	82,195	82,373

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The pandemic and resulting impact on the economy, including global supply chains, has affected seasonal trends in 2021 and may result in continued variations to historically experienced trends.

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

CIMCO has also had a distinct seasonal trend in results historically, as the timing of construction activity impacts revenue recognition under percentage-of-completion accounting. Lower revenues are recorded during the first quarter as winter weather slows down construction schedules. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be impacted by governmental funding initiatives, supply constraints and customer timing of significant industrial projects. Sequential comparisons are also impacted by CIMCO's relatively

high fixed cost structure.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarter. This trend can be impacted by equipment and parts availability. This seasonal sales trend also typically leads to accounts receivable to be at their highest level at year-end.

In 2020 and 2021, these patterns were impacted by the governmental and market response and reaction to COVID-19. In 2021, demand for equipment was stronger through the first nine months of the year, on both delayed purchasing from 2020, as well as an acceleration of orders in light of global supply chain disruptions, thus impacting revenues in the fourth quarter. In 2020, the second quarter experienced the most significant slowdown in market activity.

Net earnings have generally followed the trend in revenues. Cost reduction and containment strategies continue to be a focus, however have a delayed effect on net earnings.

SELECTED ANNUAL INFORMATION

(in thousands, except per share amounts)	**2021**	2020	2019
Revenues	**$ 3,886,537**	$ 3,478,897	$ 3,678,705
Net earnings	**$ 332,710**	$ 254,915	$ 286,800
Earnings per share ("EPS")			
- Basic	**$ 4.03**	$ 3.10	$ 3.52
- Diluted	**$ 4.00**	$ 3.09	$ 3.49
Dividends declared per share	**$ 1.36**	$ 1.24	$ 1.08
Total assets	**$ 3,583,796**	$ 3,346,792	$ 3,371,337
Total long-term debt	**$ 646,337**	$ 646,299	$ 645,471
Weighted average common shares outstanding - basic (in millions)	**82.5**	82.2	81.6

Revenues increased 12% in 2021 versus the prior year. Equipment Group revenues increased 11% on strong equipment sales, higher rental revenue and product support reflecting the improvement in demand as pandemic restrictions eased compared to 2020. CIMCO revenues were up 15% on execution of several large industrial construction projects while product support activity was unchanged year-over-year.

Revenues decreased 5% in 2020 compared to 2019. Equipment Group revenues decreased 5% on lower new equipment sales, rentals and product support revenues, reflecting a downturn in economic activity as a result of the COVID-19 pandemic, slightly offset by higher used equipment sales. CIMCO revenues were down 7% on reduced construction and product support activity stemming in part from site restrictions and closures related to the pandemic.

Net earnings increased 31% in 2021, largely reflecting the 12% increase in revenues, improved gross margins in the Equipment Group, and a lower relative level of selling and administrative expenses to sales reflecting cost reductions implemented as a result of the pandemic. Financing costs were lower on a lower total value of committed credit facilities year-over-year.

Net earnings decreased 11% in 2020 compared to 2019, largely reflecting the 5% reduction in

revenues on lower economic activity resulting from the pandemic and governmental response. Selling and administrative expenses, while lower on the curtailment of non-essential expenditures, increased as a percentage of revenues. Financing costs increased on an additional committed credit facility and increased borrowings.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate continued to increase - in 2019 by 17.4% to $0.27 per share, in 2020, by 14.8% to $0.31 and in 2021 by 12.9% to $0.35 per share. The Company has paid dividends every year since 1968.

Total assets increased 7% in 2021, largely on good free cash flow. Focus on accounts receivable has resulted in a reduction in DSO, while inventory levels have been constrained as a result of strong demand and supply chain delays. Investments in capital assets have been made to support growth. In 2020, total assets decreased 1% compared to 2019, as equipment inventory was intentionally reduced in reflection of lower economic activity. Investments in light equipment rental fleet was also reduced due to prevailing market conditions, as well as in recognition of the time required to absorb recent significant investments to full utilization.

Long-term debt was largely unchanged over the three year period noted. During 2021, the Company renewed and extended the $500 million revolving credit facility to mature in November 2026. The additional credit facility of $250 million taken out in 2020 was not renewed.

RISKS AND RISK MANAGEMENT

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

Business Cycle

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

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

The business of the Company is diversified across a wide range of industry market segments, serving to temper the effects of business cycles on consolidated results. Continued diversification strategies such as expanding the Company's customer base, broadening product offerings and geographic diversification are designed to moderate business cycle impacts. The Company has focused on the sale of specialized equipment and ongoing support through parts distribution and

skilled service. Product support growth has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is typically subject to less volatility than equipment supply activities.

Product and Supply

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

Toromont is dependent on the continued market acceptance of Caterpillar's products. It is believed that Caterpillar has a solid reputation as a quality manufacturer, with excellent brand recognition and customer support as well as strong market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or is unable to provide its products at competitive prices, market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company's business, results of operations and future prospects.

Toromont is also dependent on Caterpillar for timely supply of equipment and parts to meet our customers' demand for equipment deliveries and product support services. From time to time during periods of intense demand and/or supply chain disruptions, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not in the past proven to be a significant impediment in the conduct of business. When supply constraints have occurred in the past, we have been able to lessen the impact by utilizing our rental assets, used equipment, and other sources (such as the dealer network) to meet demand, but there can be no assurance of continued success in this area. There can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by customers; a significant disruption to our supply chain could adversely affect our business, results of operations and financial condition.

Competition

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

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

Specialized Skills

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

The Company addresses this issue by attempting to become the “employer of choice” for technicians in the industries in which we operate, as well as encouraging and attracting young people to the trades, and investing in on-going training and development of the current workforce.

Credit Risk

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

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

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

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

Warranties and Maintenance Contracts

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

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

Foreign Exchange

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

The rate of exchange between the Canadian and US dollar can have an impact on revenue trends. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues, while a weaker Canadian dollar can increase reported revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant. The Canadian dollar averaged US$0.80 in 2021 and US$0.75 in 2020.

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

Interest Rate

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

The Company has exposure to changes in interest rates on interest-bearing financial liabilities, primarily from long-term debt. The Company has fixed-rate debt obligations outstanding with maturities between 2025 and 2027. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. The fair value of fixed-rate debt obligations fluctuates with changes in interest rates, exposing the Company to potential losses on early settlements or refinancing. The Company does not intend to settle or refinance any existing fixed-rate debt before maturity.

The Company's revolving credit facilities bear interest at floating-rates and exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

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 is exposed to changes in interest rates on interest bearing financial assets, primarily cash and cash equivalents. Due to the short-term nature of cash and cash equivalents, the impact of fluctuations in fair value is limited but interest income earned can be impacted.

Financing Arrangements

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

Environmental Regulation

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

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

Information Technology and Cybersecurity Risk

The Company depends on information technology infrastructure and systems, hosted internally or outsourced, to conduct day-to-day operations and for the effective operation of our business. Our business also requires the appropriate and secure utilization of sensitive and confidential information belonging to third parties such as our customers and suppliers. While we strive to leverage technology to meet the growing needs of our customers and enhance the efficiency of our operations, it nevertheless comes with information security and cybersecurity risks.

These risks include information technology system failures and non-availability, and cyber-attacks, including but not limited to hacking, malware, unauthorized access to confidential, proprietary or sensitive information or other breaches of network or Information Technology (IT) security. The Company continues to monitor and enhance its defences and procedures to prevent, detect, respond to and manage these threats, which are constantly evolving. Disruption to information systems or breaches of security could result in a negative impact on the Company's financial results or result in reputational damage.

Pandemic Risk (Coronavirus COVID-19)

COVID-19 is an evolving risk, the duration and impact of which remains uncertain at this time, as is the efficacy of the government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

The risks and uncertainties discussed above could be particularly exacerbated by extraordinary externalities such as the COVID-19 pandemic, including, risks described under "Business Cycle", "Product and Supply", "Specialized Skills", "Credit Risk", "Foreign Exchange", "Interest Rate", "Financing Arrangements" and "Environmental Regulation". Such risks include, but are not limited to:

a) uncertainty associated with the costs and ability of resources, including technicians, required to provide the appropriate/required levels of service to our customers on site;
b) a material reduction in demand for, or profitability of, our products or services;
c) an increase in accounts receivable delinquencies from financial hardship for our customers;
d) issues delivering the Company's products and services due to illness, Company or government imposed isolation programs, restrictions on the movement of personnel and other supply chain disruptions;
e) the impact of additional legislation, regulation and other government interventions in response to the COVID-19 pandemic;
f) the negative impact on global debt and equity capital markets, including the trading price of the Company's securities; and
g) the ability to access capital markets at a reasonable cost.

Any of these risks, and others, could have a material adverse effect on our business, operations, capital resources and/or financial results of operations.

The Company continues to focus on ensuring the continued safety of our employees, while continuing to serve our customers' needs as an essential service, and protecting the business and organization for the long-term. The Critical Incident Executive Response Team remains in effect and focuses on monitoring and assessing developments in our markets and operations, and developing appropriate plans in response. Updates are provided to employees on a frequent basis, including general information as well as specific safety protocols in place. Safety protocols (masking, social distancing, sanitization, etc.) are strictly enforced. The Company continues to have an open dialogue with public safety and government officials at all levels, as well as customers, key suppliers and other partners.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates

could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

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

Changes in Accounting Policies

No changes in accounting policies were adopted in 2021 as a result of new standards and interpretations which became effective during the year.

Pending Accounting Changes

A number of amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2021, and accordingly, have not been applied. The Company reviewed these amendments and concluded that there would be no impact on adoption given their nature and applicability.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2021.

Internal Control over Financial Reporting

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2021, using the criteria set forth in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2021.

There have been no changes in the design of the Company's internal control over financial reporting during 2021 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADDITIONAL GAAP MEASURES

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

Gross Profit

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

Operating Income

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

($ thousands)	Three months ended December 31		Years ended December 31	
	2021	2020	**2021**	2020
Net earnings	**$ 105,590**	$ 88,950	**$ 332,710**	$ 254,915
plus: Interest expense	**6,889**	7,286	**28,161**	29,981
less: Interest and investment income	**(2,827)**	(3,075)	**(9,027)**	(9,083)
plus: Income taxes	**39,118**	34,021	**124,093**	96,621
Operating income	**$ 148,770**	$ 127,182	**$ 475,937**	$ 372,434
Total Revenues	**956,035**	992,185	**3,886,537**	3,478,897
Operating income margin	**15.6%**	12.8%	**12.2%**	10.7%

Net Debt to Total Capitalization and Net Debt to Equity

Net debt to total capitalization/equity are calculated as net debt divided by total capitalization and shareholders' equity, respectively, as defined below, and are used by management as measures of the Company's financial leverage.

Net debt is calculated as long-term debt plus current portion of long-term debt less cash. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

($ thousands)	**2021**	2020
Long-term debt	**$ 646,337**	$ 646,299
less: Cash	**916,830**	591,128
Net debt	**(270,493)**	55,171
Shareholders' equity	**1,953,329**	1,698,652
Total capitalization	**$ 1,682,836**	$ 1,753,823
Net debt to total capitalization	**-16%**	3%
Net debt to equity	**-0.14:1**	0.03:1

NON-GAAP MEASURES

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

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

Working Capital

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

($ thousands)		**2021**		2020
Total current assets	**$**	**2,108,441**	$	1,872,144
less: Total current liabilities		**813,702**		794,216
Working capital	**$**	**1,294,739**	$	1,077,928

Non-Cash Working Capital

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

($ thousands)		**2021**		2020
Total current assets	**$**	**2,108,441**	$	1,872,144
less: Cash		**916,830**		591,128
		1,191,611		1,281,016
Total current liabilities		**813,702**		794,216
Non-cash working capital	**$**	**377,909**	$	486,800

Market Capitalization & Total Enterprise Value

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

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

The calculations are as follows:

($ thousands, except for shares and share price)		**2021**		2020
Outstanding common shares		**82,443,968**		82,474,658
times: Ending share price	**$**	**114.36**	$	89.20
Market capitalization	**$**	**9,428,292**	$	7,356,739
Long-term debt	**$**	**646,337**	$	646,299
less: Cash		**916,830**		591,128
Net debt	**$**	**(270,493)**	$	55,171
Total enterprise value	**$**	**9,157,799**	$	7,411,910

Key Performance Indicators ("KPIs")

Management uses key performance indicators to enable consistent measurement of performance across the organization. These KPIs are non-GAAP financial measures, do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other issuers.

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

Order bookings represent the retail value of firm equipment or project orders received during a period. Backlogs are defined as the retail value of equipment units ordered by customers with future delivery, and the remaining retail value of package/project orders remaining to be recognized in revenues under the percentage of completion method. Management uses order backlog as a measure of projecting future equipment and project deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

Return on Capital Employed ("ROCE")

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

($ thousands)	**2021**	2020
Net earnings	**$ 332,710**	$ 254,915
plus: Interest expense	**28,161**	29,981
less: Interest and investment income	**(9,027)**	(9,083)
plus: Interest income - rental conversions	**2,635**	3,529
plus: Income taxes	**124,093**	96,621
Adjusted net earnings	**$ 478,572**	$ 375,963
Average capital employed	**$ 1,796,703**	$ 1,838,533
Return on capital employed	**26.6%**	20.4%

Return on Equity ("ROE")

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

($ thousands)	**2021**	2020
Net earnings	**$ 332,710**	$ 254,915
Opening shareholders' equity (net of adjustments)	**$ 1,695,008**	$ 1,538,817
Return on equity	**19.6%**	16.6%

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying consolidated financial statements and Management's Discussion and Analysis ("MD&A") are the responsibility of the management of Toromont Industries Ltd. (the "Company"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which have been adopted in Canada. The consolidated financial statements reflect certain amounts which are, necessarily, based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to provide reasonable assurance that the consolidated financial statements are presented fairly in all material respects. The financial Information presented in the Company's MD&A is consistent, where applicable, with that contained in the consolidated financial statements.

Management is also responsible for establishing and maintaining appropriate systems of internal control and procedures over the financial reporting process. 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 (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board carries out its responsibilities principally through its Audit Committee, which is composed solely of independent directors. The Audit Committee recommends the independent auditor for appointment by the shareholders. It meets regularly with management and the internal and external auditors to review internal accounting controls, internal and external audit matters and accounting principles and practices. Internal and external auditors have full and unrestricted access to the Audit Committee. The consolidated financial statements and MD&A 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 9, 2022
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, 2021 and 2020, 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, 2021 and 2020, 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, 2021, 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 $208.9 million of revenues for the year ended December 31, 2021 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, and 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 9, 2022
Toronto, Canada

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 ($ thousands)	Note	2021	2020
Assets			
Current assets			
Cash		**$ 916,830**	$ 591,128
Accounts receivable	3	**451,944**	541,580
Inventories	4	**720,421**	728,404
Income taxes recoverable		**-**	135
Derivative financial instruments	12	**5,252**	-
Other current assets		**13,994**	10,897
Total current assets		**2,108,441**	1,872,144
Property, plant and equipment	5	**450,825**	423,282
Rental equipment	5	**525,521**	539,412
Other assets	6	**23,735**	33,263
Deferred tax assets	15	**231**	504
Goodwill and intangible assets	7	**475,043**	478,187
Total assets		**$ 3,583,796**	$ 3,346,792
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6, 18	**$ 573,363**	$ 584,003
Provisions	8	**25,404**	26,645
Deferred revenues and contract liabilities	9	**199,696**	149,109
Derivative financial instruments	12	**-**	11,043
Income taxes payable		**15,239**	23,416
Total current liabilities		**813,702**	794,216
Deferred revenues and contract liabilities	9	**27,254**	16,383
Long-term lease liabilities	6	**11,780**	16,565
Long-term debt	10, 12	**646,337**	646,299
Post-employment obligations	19	**82,712**	149,451
Deferred tax liabilities	15	**48,682**	25,226
Total liabilities		**1,630,467**	1,648,140
Shareholders' equity			
Share capital	11	**539,677**	516,591
Contributed surplus		**16,352**	14,243
Retained earnings		**1,392,551**	1,169,239
Accumulated other comprehensive income (loss)		**4,749**	(1,421)
Total shareholders' equity		**1,953,329**	1,698,652
Total liabilities and shareholders' equity		**$ 3,583,796**	$ 3,346,792

Commitments - see note 22

See accompanying notes

Approved by the Board:

(signed) R. G. Roy

Richard G. Roy
Director

(signed) C. E. Cranston

Cathy E. Cranston
Director

TOROMONT INDUSTRIES LTD.
CONSOLIDATED INCOME STATEMENTS

Years ended December 31 ($ thousands, except share amounts)	Note	2021	2020
Revenues	23	**$ 3,886,537**	$ 3,478,897
Cost of goods sold	4, 5	**2,916,769**	2,643,151
Gross profit		**969,768**	835,746
Selling and administrative expenses		**493,831**	463,312
Operating income		**475,937**	372,434
Interest expense	14	**28,161**	29,981
Interest and investment income	14	**(9,027)**	(9,083)
Income before income taxes		**456,803**	351,536
Income taxes	15	**124,093**	96,621
Net earnings		**$ 332,710**	$ 254,915
Earnings per share			
Basic	16	**$ 4.03**	$ 3.10
Diluted	16	**$ 4.00**	$ 3.09
Weighted average number of shares outstanding			
Basic	16	**82,547,961**	82,152,788
Diluted	16	**83,269,451**	82,620,461

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 ($ thousands)	2021	2020
Net earnings	**$ 332,710**	$ 254,915
Other comprehensive income (loss), net of income taxes:		
Items that may be reclassified subsequently to net earnings:		
Foreign currency translation adjustments	**(12)**	(339)
Unrealized losses on derivatives designated as cash flow hedges	**(1,124)**	(2,911)
Income tax recovery	**300**	744
Unrealized losses on cash flow hedges, net of income taxes	**(824)**	(2,167)
Realized losses on derivatives designated as cash flow hedges	**9,478**	1,909
Income tax recovery	**(2,472)**	(483)
Realized losses on cash flow hedges, net of income taxes	**7,006**	1,426
Items that will not be reclassified subsequently to net earnings:		
Actuarial and other gains (losses)	**67,914**	(15,213)
Income tax (expense) recovery	**(17,996)**	4,031
Actuarial and other gains (losses), net of income taxes	**49,918**	(11,182)
Other comprehensive income (loss)	**56,088**	(12,262)
Total comprehensive income	**$ 388,798**	$ 242,653

See accompanying notes

TOROMONT INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 ($ thousands)	Note	2021	2020
Operating activities			
Net earnings		**$ 332,710**	$ 254,915
Items not requiring cash:			
Depreciation and amortization	5, 6, 7, 10	**158,360**	166,307
Stock-based compensation		**6,472**	5,731
Post-employment obligations		**1,176**	8,530
Deferred income taxes		**3,560**	(2,919)
Gain on sale of rental equipment and property, plant and equipment		**(21,533)**	(22,380)
		480,745	410,184
Net change in non-cash working capital and other	21	**129,322**	(10,096)
Additions to rental equipment		**(118,183)**	(103,515)
Proceeds on disposal of rental equipment		**50,840**	52,455
Cash provided by operating activities		**542,724**	349,028
Investing activities			
Additions to property, plant and equipment		**(71,203)**	(43,290)
Proceeds on disposal of property, plant and equipment		**2,467**	10,924
Decrease in other assets		**(133)**	(187)
Cash used in investing activities		**(68,869)**	(32,553)
Financing activities			
Debt issuance costs		**(961)**	(338)
Dividends paid	11	**(109,053)**	(98,531)
Cash received on exercise of stock options		**21,754**	22,373
Shares purchased for cancellation	11	**(50,003)**	(4,043)
Payment of lease liabilities	6	**(9,880)**	(10,339)
Cash used in financing activities		**(148,143)**	(90,878)
Effect of currency translation on cash balances		**(10)**	(58)
Increase in cash during the year		**325,702**	225,539
Cash, at beginning of the year		**591,128**	365,589
Cash, at end of the year		**$ 916,830**	$ 591,128

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
At January 1, 2020	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	-	-	-	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)
At December 31, 2020	82,474,658	$ 516,591	$ 14,243	$ 1,169,239	$ 1,880	$ (3,301)	$ (1,421)	$ 1,698,652
Net earnings	**-**	**-**	**-**	**332,710**	**-**	**-**	**-**	**332,710**
Other comprehensive income	**-**	**-**	**-**	**49,918**	**(12)**	**6,182**	**6,170**	**56,088**
Total comprehensive income	**-**	**-**	**-**	**382,628**	**(12)**	**6,182**	**6,170**	**388,798**
Exercise of stock options	**439,910**	**26,117**	**(4,363)**	**-**	**-**	**-**	**-**	**21,754**
Stock-based compensation expense	**-**	**-**	**6,472**	**-**	**-**	**-**	**-**	**6,472**
Effect of stock compensation plans	**439,910**	**26,117**	**2,109**	**-**	**-**	**-**	**-**	**28,226**
Shares purchased for cancellation	**(470,600)**	**(3,031)**	**-**	**(46,972)**	**-**	**-**	**-**	**(50,003)**
Dividends declared	**-**	**-**	**-**	**(112,344)**	**-**	**-**	**-**	**(112,344)**
At December 31, 2021	**82,443,968**	**$ 539,677**	**$ 16,352**	**$ 1,392,551**	**$ 1,868**	**$ 2,881**	**$ 4,749**	**$ 1,953,329**

See accompanying notes

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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 6,400 people in approximately 160 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 9, 2022 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.

Financial Assets

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

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

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

Financial Liabilities

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

For financial liabilities that are designated as FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (loss) ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in the consolidated income statements. The remaining amount of change in the fair value of the 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. 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.

<u>Toromont as Lessee</u>

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 their 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. The Company 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 statements. 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 statements is the amount of the contributions the Company is required to pay in accordance with

the terms of the plans.

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

- The cost of future benefits earned by employees is actuarially determined using the projected unit credit method 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, changes in actuarial assumptions and changes in the effect of the asset ceiling are recognized in retained earnings and included in the consolidated statements of comprehensive income in the period in which they occur.

Defined benefit plan assets or liabilities recognized in the consolidated statements of financial position correspond to the difference between the present value of defined benefit obligations and the fair value of plan assets. In the case of a surplus funded plan, these assets are limited at the lesser of the actuarial value determined for accounting purposes or the value of the future economic benefit by way of surplus refunds or contribution holidays. (

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 2021

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, 2021, 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 financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting periods. 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.

Management evaluates its estimates and judgments on an ongoing basis, considering historical experience, external information and observable conditions where possible, supplemented by internal analysis as required. Revisions to estimates are recognized prospectively.

The uncertainties around the COVID-19 pandemic, the continuing resurgences and variants of COVID-19, and related restrictions to contain its spread have been considered in management's estimates and judgments described below at December 31, 2021; however, estimates and judgments made during periods of volatility are subject to a higher level of uncertainty and as a result, there may be prospective material impacts in future periods. The breadth, duration, impact and response of this pandemic are unknown and evolving. Staff shortages, reduced customer activity and demand, supplier constraints, increased government regulations or intervention, are some of the factors that have and may continue to negatively impact the business, consolidated financial results and conditions of the Company. It is not possible to reliably estimate the length and severity of these developments as well as the impact on the consolidated financial results and condition of the Company in future periods.

The financial statement areas that require significant estimates and judgments are as follows:

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 creditworthiness, 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

		2021		2020
Trade receivables	$	**409,222**	$	485,429
Less: Allowance for doubtful accounts		**(20,315)**		(20,661)
Trade receivables, net		**388,907**		464,768
Unbilled receivables		**49,516**		53,671
Other receivables		**13,521**		23,141
	$	**451,944**	$	541,580

The aging of gross trade receivables was as follows:

		2021		2020
Current to 90 days	$	**383,899**	$	461,908
Over 90 days		**25,323**		23,521
Trade receivables	$	**409,222**	$	485,429

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

		2021		2020
Balance, January 1	$	**20,661**	$	19,941
Provisions and revisions, net		**(346)**		720
Balance, December 31	$	**20,315**	$	20,661

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

		2021		2020
Balance, January 1	$	**53,671**	$	26,844
Transfer from opening balance to trade receivables		**(22,997)**		(23,597)
Increase as a result of changes in the measure of progress		**18,842**		50,424
Balance, December 31	$	**49,516**	$	53,671

4. INVENTORIES

		2021		2020
Equipment	$	**403,105**	$	407,240
Repair and distribution parts		**223,059**		230,877
Direct materials		**6,035**		5,055
Work-in-process		**68,943**		53,398
Work-in-process (contracts)		**19,279**		31,834
	$	**720,421**	$	728,404

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2021 was $2.4 billion (2020 - $2.2 billion). In 2021, cost of goods sold included inventory write-downs pertaining to obsolescence and aging, net of reversal of write-downs of $4.6 million. In 2020, cost of goods sold included a net reversal of write-downs of $4.0 million.

5. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2021	**$ 155,332**	**$ 297,266**	**$ 245,025**	**$ 39,682**	**$ 737,305**	**$ 932,979**
Additions	18,099	19,849	33,720	262	71,930	117,759
Disposals	(348)	(2,048)	(5,871)	-	(8,267)	(80,897)
Currency translation effects	-	(12)	(35)	-	(47)	-
December 31, 2021	**$ 173,083**	**$ 315,055**	**$ 272,839**	**$ 39,944**	**$ 800,921**	**$ 969,841**
Accumulated depreciation						
January 1, 2021	**$ -**	**$ 114,226**	**$ 165,404**	**$ 34,393**	**$ 314,023**	**$ 393,567**
Depreciation expense	-	13,054	28,917	1,630	43,601	100,647
Depreciation of disposals	-	(1,955)	(5,541)	-	(7,496)	(49,894)
Currency translation effects	-	(4)	(28)	-	(32)	-
December 31, 2021	**$ -**	**$ 125,321**	**$ 188,752**	**$ 36,023**	**$ 350,096**	**$ 444,320**
Net book value - December 31, 2021	**$ 173,083**	**$ 189,734**	**$ 84,087**	**$ 3,921**	**$ 450,825**	**$ 525,521**

	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

During 2021, depreciation expense of $126.4 million was charged to cost of goods sold (2020 - $128.6 million) and $17.8 million was charged to selling and administrative expenses (2020 - $21.2 million).

Operating income from rental operations for the year ended December 31, 2021 was $57.9 million (2020 - $38.4 million).

6. OTHER ASSETS AND LEASE LIABILITIES

		2021		2020
Right-of-use assets	**$**	**18,752**	$	24,967
Equipment sold with guaranteed residual values		**1,857**		5,304
Other		**3,126**		2,992
Other assets	**$**	**23,735**	$	33,263

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, 2021	**$**	**15,278**	**$**	**9,689**	**$**	**24,967**	**$**	**25,716**
Additions and remeasurements		4,378		(276)		4,102		4,102
Depreciation expense		(5,803)		(4,189)		(9,992)		-
Disposals and expirations		(285)		(37)		(322)		(322)
Currency translation effects		(3)		-		(3)		(3)
Payments		-		-		-		(9,880)
December 31, 2021	**$**	**13,565**	**$**	**5,187**	**$**	**18,752**	**$**	**19,613**

	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

The current portion of lease liabilities as at December 31, 2021 of $7.8 million (2020 - $9.2 million) is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

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

		2021		2020
Depreciation expense of right-of-use assets	**$**	**9,992**	$	10,668
Interest expense on lease liabilities		**662**		905
Expense relating to short-term leases and leases of low-value assets		**194**		176
	$	**10,848**	$	11,749

Cash outflows for leases in 2021 were $9.9 million (2020 - $10.3 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, 2020	$ 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
December 31, 2021	**$ 500**	**$ 8,691**	**$ 5,000**	**$ 15,137**	**$ 371,551**	**$ 93,780**	**$ 494,659**
Accumulated amortization							
January 1, 2020	$ 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
Amortization expense	30	555	667	1,892	-	-	3,144
December 31, 2021	**$ 266**	**$ 6,475**	**$ 5,000**	**$ 7,875**	**$ -**	**$ -**	**$ 19,616**
Net book value -							
December 31, 2020	$ 264	$ 2,771	$ 667	$ 9,154	$ 371,551	$ 93,780	$ 478,187
December 31, 2021	**$ 234**	**$ 2,216**	**$ -**	**$ 7,262**	**$ 371,551**	**$ 93,780**	**$ 475,043**

Goodwill

The carrying amount of goodwill has been allocated as follows:

	2021	2020
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, 2021. 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, adjusted for current economic conditions. As a result of the analysis, management determined there was no impairment of goodwill.

Intangible Assets with Indefinite Lives – Distribution Networks

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

	2021	2020
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, 2021. 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 CGU or group of CGUs to exceed its recoverable amount.

8. PROVISIONS

Activities related to provisions were as follows:

		Warranty		Other		Total
Balance, January 1, 2020	$	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
New provisions		**30,593**		**1,362**		**31,955**
Charges against provisions		**(30,509)**		**(2,687)**		**(33,196)**
Balance, December 31, 2021	**$**	**13,964**	**$**	**11,440**	**$**	**25,404**

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, 2021, the Company recognized as revenue $140.6 million (2020 - $135.1 million) of the deferred revenues and contract liabilities balance at January 1, 2021.

Management expects that 88% of the transaction price allocated to unsatisfied performance obligations as at December 31, 2021 will be recognized as revenue during the year ended December 31, 2022 and the remaining 12% between the years ended December 31, 2023 and 2028.

10. LONG-TERM DEBT

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

	2021	2020
Senior Debentures:		
3.71%, $150.0 million, due September 30, 2025 [1]	**$ 150,000**	$ 150,000
3.84%, $500.0 million, due October 27, 2027 [1]	**500,000**	500,000
	650,000	650,000
Debt issuance costs, net of amortization	**(3,663)**	(3,701)
Total long-term debt	**$ 646,337**	$ 646,299

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

The Company maintains a $500.0 million committed revolving credit facility. In November 2021, the Company extended this committed revolving credit facility to mature in November 2026, with no material changes to the terms and conditions. Debt under this facility 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 this revolving credit facility as at December 31, 2021 or 2020. Standby letters of credit issued utilized $28.8 million of the facility as at December 31, 2021 (2020 - $30.8 million).

The Company entered into an additional $250.0 million committed revolving credit facility on April 17, 2020 that matured in April 2021. This facility was never drawn and was not renewed at maturity.

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, 2021 and 2020.

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

	Principal	**Interest**
2022	$ -	$ 24,765
2023	-	24,765
2024	-	24,765
2025	150,000	23,374
2026	-	19,200
Thereafter	500,000	16,000
	$ 650,000	$ 132,869

Interest expense includes interest on debt initially incurred for a term of one year or greater of $27.5 million (2020 - $29.1 million).

11. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares (no par value) and preferred shares. No preferred shares were issued or outstanding for the years ended December 31, 2021 and 2020.

A continuity of the shares issued and outstanding for the years ended December 31, 2021 and 2020 is presented in the consolidated statements of changes in shareholders' equity.

Shareholder Rights Plan ("SRP")

The SRP is a "new generation" shareholder rights plan, 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 was renewed at the annual meeting of shareholders this year and expires at the end of the annual meeting of shareholders in 2024.

Normal Course Issuer Bid ("NCIB")

The Company's NCIB program commenced on September 15, 2021. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 14, 2022, representing 10% of common shares in the public float, as estimated at the time of renewal. All shares purchased under the bid will be cancelled.

In connection with the NCIB, the Company has entered into an Automatic Share Purchase Plan ("ASPP') with a broker that allows, in its sole discretion and based on parameters established by the Company, the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. At December 31, 2021, no liability was recorded in the Company's consolidated statements of financial position in connection with the ASPP.

Under this bid, the Company purchased and cancelled 470,600 common shares for $50.0 million (average cost of $106.25 per share, including transaction costs) through to December 31, 2021. During the year ended December 31, 2020, 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 in place at that time.

Dividends Paid

The Company paid dividends of $109.1 million ($1.32 per share) for the year ended December 31, 2021, and $98.5 million ($1.20 per share) for the year ended December 31, 2020.

Subsequent to the year ended December 31, 2021, the Board of Directors approved a quarterly dividend of $0.39 per share payable on April 4, 2022, to shareholders on record at the close of business on March 9, 2022.

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:

	2021	2020
Other financial liabilities:		
Long-term debt	**$ 646,337**	$ 646,299
Derivative financial instruments assets (liabilities), net:		
Foreign exchange forward contracts	**$ 5,252**	$ (11,043)

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 are as follows:

Long-term debt	2021	2020
Fair value	**$ 695,285**	$ 726,871
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, 2021 and 2020, 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, 2021, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $718.4 million at an average exchange rate of $1.2614, maturing between January 2022 and July 2023; and (ii) US dollar sale contracts with a notional amount of

$2.9 million at an average exchange rate of $1.2183, maturing between January 2022 and June 2022.

Management estimates that a net gain of $5.3 million (2020 - loss of $11.0 million) would be realized if the contracts were terminated on December 31, 2021. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized gain of $3.9 million (2020 - unrealized loss of $4.4 million) has been included in OCI. These gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable 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 gain of $1.4 million (2020 - loss of $6.6 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, 2021, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $0.6 million (decrease) increase in OCI for financial instruments held in foreign operations, and a $0.5 million (decrease) increase in net earnings and $29.0 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. 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, 2021 or 2020.

The Company had no floating-rate debt outstanding as at December 31, 2021 or 2020.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2021, the Company had unutilized lines of credit of $471.2 million (2020 - $719.2 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 2022, 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:

	2021	2020
Credit facilities	$ 2,253	$ 3,833
Senior debentures	25,246	25,243
Interest on lease liabilities	662	905
	$ 28,161	$ 29,981

The components of interest and investment income were as follows:

	2021	2020
Interest on conversion of rental equipment	$ 2,635	$ 3,529
Other	6,392	5,554
	$ 9,027	$ 9,083

15. INCOME TAXES

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

	2021	2020
Current income tax expense	$ 120,506	$ 99,700
Deferred income tax expense (recovery)	3,587	(3,079)
Total income tax expense	$ 124,093	$ 96,621

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

	2021	2020
Statutory Canadian federal and provincial income tax rates	26.5%	26.5%
Expected taxes on income	$ 121,053	$ 93,157
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	1,139	848
Manufacturing and processing rate reduction	(54)	(65)
Expenses not deductible for tax purposes	2,165	1,961
Non-taxable gains	(881)	(1,242)
Effect of change in future income tax rate	61	21
Other	610	1,941
Provision for income taxes	$ 124,093	$ 96,621
Effective income tax rate	27.2%	27.5%

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:

	2021	2020
Accrued liabilities	**$ 28,971**	$ 28,308
Deferred revenues and contract liabilities	**9,627**	4,151
Accounts receivable	**5,139**	5,070
Inventories	**6,741**	6,557
Deferred tax assets on current assets and current liabilities	**$ 50,478**	$ 44,086
Capital assets	**$ (82,983)**	$ (78,110)
Goodwill and intangible assets	**(24,503)**	(18,617)
Tax loss carryforward	**-**	411
Other	**1,132**	2,466
Cash flow hedges in OCI	**(1,011)**	1,160
Post-employment obligations	**8,436**	23,882
Deferred tax (liabilities) on non-current assets and non-current liabilities	**$ (98,929)**	$ (68,808)
Net deferred tax liabilities	**$ (48,451)**	$ (24,722)

The movement in net deferred income taxes was as follows:

	2021	2020
Balance January 1	**$ (24,722)**	$ (31,933)
Tax (expense) recovery recognized in income	**(3,587)**	3,079
Foreign exchange and others	**26**	(160)
Tax (expense) recovery recognized in OCI	**(20,168)**	4,292
Balance December 31	**$ (48,451)**	$ (24,722)

The aggregate amount of unremitted earnings in the Company's subsidiaries was $35.9 million (2020 - $30.4 million). These earnings can be remitted with no tax consequences.

16. EARNINGS PER SHARE

	2021	2020
Net earnings available to common shareholders	**$ 332,710**	$ 254,915
Weighted average common shares outstanding	**82,547,961**	82,152,788
Dilutive effect of stock option conversions	**721,490**	467,673
Diluted weighted average common shares outstanding	**83,269,451**	82,620,461
Earnings per share:		
Basic	**$ 4.03**	$ 3.10
Diluted	**$ 4.00**	$ 3.09

For the year ended December 31, 2021, 367,957 outstanding stock options with a weighted average exercise price of $104.91 were considered anti-dilutive (exercise price in excess of average market price during the year) and, as such, were excluded from the calculation of diluted earnings per share. For the comparative period in 2020, there were no anti-dilutive options for the calculation of diluted earnings per share.

17. EMPLOYEE BENEFITS EXPENSE

		2021		2020
Wages and salaries	**$**	**608,989**	$	563,043
Other employment benefit expenses		**86,488**		81,000
Stock-based compensation expense		**6,471**		5,731
Pension costs		**40,216**		37,419
	$	**742,164**	$	687,193

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 (2021 - 824,746; 2020 - 820,124).

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, 2021 and 2020, was as follows:

	2021			2020		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, January 1	**2,328,038**	**$**	**58.67**	2,329,705	$	51.68
Granted	**367,957**		**104.91**	532,443		72.95
Exercised [1]	**(439,910)**		**49.45**	(530,010)		42.21
Forfeited	**(89,060)**		**57.59**	(4,100)		65.95
Options outstanding, December 31	**2,167,025**	**$**	**68.44**	2,328,038	$	58.67
Options exercisable, December 31	**837,687**	**$**	**52.76**	855,675	$	46.61

[1] The weighted average share price at date of exercise for the year ended December 31, 2021 was $105.62 (2020 - $76.58).

The following table summarizes stock options outstanding and exercisable as at December 31, 2021.

	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 – $26.52	**102,240**	**2.2**	**$**	**25.45**	**102,240**	**$**	**25.45**
$36.65 – $39.79	**222,700**	**4.1**	**$**	**38.41**	**222,700**	**$**	**38.41**
$53.88 – $66.22	**965,945**	**6.8**	**$**	**63.65**	**428,535**	**$**	**62.77**
$66.23 – $72.95	**508,183**	**8.6**	**$**	**72.95**	**84,212**	**$**	**72.95**
$104.91	**367,957**	**9.4**	**$**	**104.91**	**-**	**$**	**-**
	2,167,025	**7.2**	**$**	**68.44**	**837,687**	**$**	**52.76**

The fair values of the stock options granted during 2021 and 2020 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

		2021		2020
Fair value price per option	**$**	**18.23**	$	11.14
Share price	**$**	**104.91**	$	72.95
Expected life of options (years)		**5.30**		5.76
Expected stock price volatility		**21.5%**		21.0%
Expected dividend yield		**1.33%**		1.70%
Risk-free interest rate		**0.90%**		0.34%

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:

	2021			2020		
	Number of DSUs		Value	Number of DSUs		Value
Outstanding, January 1	**394,154**	**$**	**35,555**	388,547	$	27,392
Units taken or taken in lieu and dividends	**26,748**		**2,653**	29,084		2,066
Redemptions	**(217,933)**		**(21,751)**	(23,477)		(1,527)
Fair market value adjustment	**-**		**6,617**	-		7,624
Outstanding, December 31	**202,969**	**$**	**23,074**	394,154	$	35,555

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 $3.3 million in 2021 (2020 - $2.9 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 4,400 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:

		2021		2020
Defined contribution plans	**$**	**16,193**	$	15,686
401(k) matched savings plans		**327**		306
	$	**16,520**	$	15,992

Defined Benefit Plans

The Company sponsors funded and unfunded defined benefit pension plans and post-employment benefit plans as described below with approximately 1,300 active 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 full regulatory approval for 18 to 24 months, in which time the plans will continue to be valued separately.

In October 2021, an annuity purchase transaction was entered into in which the defined benefit obligations associated with retired plan members were assumed by a third-party insurer.

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). Regulatory approval with respect to the plan merger has been received for two of the prior plans and their assets were transferred in November 2021. 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

$5.8 million to secure obligations under one of the plans. Actuarial valuations were completed for each prior plan as of December 31, 2020, with the next valuation scheduled as at December 31, 2023.

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, 2021, the Company has posted letters of credit in the amount of $14.8 million to secure the obligations under this plan. The most recent actuarial valuations were completed at varying dates from December 31, 2020 to December 31, 2021. The next valuation is scheduled as at December 31, 2022.

c) Post-employment Benefit Plans – These plans provide supplementary post-employment health and life insurance coverage to certain employees as well as disability coverage for active employees. The post-employment health and life insurance coverage covers a closed group of approximately 500 retirees and no active employees will receive post-employment benefits. 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	
	2021	2020	**2021**	2020
Defined benefit obligations:				
Balance, January 1	**$ 614,183**	$ 551,250	**$ 21,629**	$ 18,346
Settlement due to buy-out annuity transactions	**(215,881)**	-	**-**	-
Current service cost	**14,662**	15,575	**1,111**	1,023
Interest cost	**14,258**	17,023	**483**	586
Actuarial remeasurement (gains) losses arising from:				
Experience adjustments	**(6,726)**	3,695	**(365)**	1,746
Demographic assumptions	**-**	(4,965)	**-**	(184)
Changes in financial assumptions	**(51,514)**	49,159	**(1,158)**	1,541
Benefits paid	**(29,802)**	(21,652)	**(1,225)**	(1,429)
Contributions by plan participants	**3,680**	4,098	**-**	-
Balance, December 31	**342,860**	614,183	**20,475**	21,629
Plan assets:				
Fair value, January 1	**486,361**	443,891	**-**	-
Purchase of buy-out annuities	**(220,913)**	-	**-**	-
Interest income on plan assets	**11,621**	13,716	**-**	-
Return on plan assets (excluding amounts included in net interest expense)	**14,379**	34,842	**-**	-
Contributions by the Company	**21,296**	11,466	**1,221**	1,432
Contributions by plan participants	**3,680**	4,098	**-**	-
Benefits paid	**(29,802)**	(21,652)	**(1,221)**	(1,432)
Fair value, December 31	**286,622**	486,361	**-**	-
Effect of asset ceiling limit	**(5,999)**	-	**-**	-
Fair value, December 31, net of asset ceiling limit	**280,623**	486,361	**-**	-
Net post-employment obligations	**$ 62,237**	$ 127,822	**$ 20,475**	$ 21,629

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

	2021			2020		
	Defined Benefit Obligations	**Plan Assets**	**Net Post-employment Obligations**	Defined Benefit Obligations	Plan Assets	Net Post-employment Obligations
Defined Benefit Pension Plans	**$ 325,529**	**$ 280,623**	**$ (44,906)**	$ 595,471	$ 486,361	$ (109,110)
Executive Pension Plan	**17,331**	**-**	**(17,331)**	18,712	-	(18,712)
Post-employment Benefit Plans	**20,475**	**-**	**(20,475)**	21,629	-	(21,629)
	$ 363,335	**$ 280,623**	**$ (82,712)**	$ 635,812	$ 486,361	$ (149,451)

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.

	2021	2020
Discount rate	**3.05%**	2.56%
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:

	2021	2020
Service cost	**$ 15,773**	$ 16,598
Net interest expense	**3,120**	3,893
Remeasurements	**(229)**	936
Settlement charge	**5,032**	-
	$ 23,696	$ 21,427

In October 2021, an annuity purchase transaction was entered into in which the defined benefit obligations associated with retired plan members were assumed by a third-party insurer, in exchange for a lump-sum payment of $221 million from plan assets. A settlement charge of $5.0 million in connection with this transaction was recorded in selling, general and administrative expenses. Toromont considers, for accounting purposes, that this buy-out transaction essentially eliminates any further legal or constructive obligations for benefits, and that a settlement has occurred. Following the transaction, benefits for plan participants are protected under Assuris, the life insurance compensation association designated under the Insurance Companies Act of Canada. Toromont considers the combined risk of a) the insurer going bankrupt and b) that Toromont would be responsible for paying the portion of pensions not covered by Assuris should the insurer go bankrupt, remote.

Pre-tax amounts recognized in OCI were as follows:

	2021	2020
Actuarial (losses) gains arising from experience adjustments	**$ (7,091)**	$ 4,791
Actuarial gains arising from demographic assumptions	**-**	(5,149)
Actuarial (gains) losses arising from changes in financial assumptions	**(52,443)**	50,413
Return on plan assets (excluding amounts included in net interest expense)	**(14,379)**	(34,842)
Effect of asset ceiling limit	**5,999**	-
	$ (67,914)	$ 15,213

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

	2021	2020
Debt securities	**38.5%**	48.2%
Equity securities	**42.8%**	42.7%
Real estate assets	**15.5%**	9.1%
Cash and cash equivalents	**3.2%**	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 – infrastructure valued based on appraisals performed by a qualified external appraiser.
- Cash and cash equivalents – generally recorded at cost, which approximates fair value.

The actual return on plan assets for the year ended December 31, 2021 was $26.0 million (2020 - $48.6 million).

The Company expects to contribute $28.0 million to pension and other benefit plans in 2022, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations at December 31, 2021 was 19.8 years (2020 - 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, 2021, 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	$ (68,748)	$ (1,976)	$ (70,724)
	1% decrease	$ 78,345	$ 2,384	$ 80,729
Mortality	Increase of 1 year in expected lifetime of plan participants	$ 6,871	$ (327)	$ 6,544
Trend rate	1% increase	NA	$ 1,413	$ 1,413

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:

	2021	2020
Long-term debt	**$ 646,337**	$ 646,299
Less: Cash	**916,830**	591,128
Net debt	**(270,493)**	55,171
Shareholders' equity	**1,953,329**	1,698,652
Total capitalization	**$ 1,682,836**	$ 1,753,823
Net debt as a % of total capitalization	**-16%**	3%
Net debt to equity ratio	**-0.14:1**	0.03:1

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, 2021 and 2020.

There were no changes in the Company's approach to capital management during the years ended December 31, 2021 and 2020.

21. SUPPLEMENTAL CASH FLOW INFORMATION

	2021	2020
Net change in non-cash working capital and other		
Accounts receivable	**$ 89,636**	$ (16,528)
Inventories	**7,983**	183,782
Accounts payable and accrued liabilities	**(12,915)**	(224,655)
Provisions	**(1,241)**	2,965
Deferred revenues and contract liabilities	**61,458**	8,187
Income taxes	**(8,042)**	32,556
Derivative financial instruments	**(7,941)**	(325)
Other	**384**	3,922
	$ 129,322	$ (10,096)
Cash paid during the year for:		
Interest	**$ 26,162**	$ 26,085
Income taxes	**$ 132,109**	$ 75,812
Cash received during the year for:		
Interest	**$ 8,692**	$ 8,515
Income taxes	**$ 3,712**	$ 9,494

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

	Long-term Debt	Total
Balance, January 1, 2020	$ 645,471	$ 645,471
Other	828	828
Balance, December 31, 2020	$ 646,299	$ 646,299
Other	38	38
Balance, December 31, 2021	**$ 646,337**	**$ 646,337**

Government Grants

No amounts were recognized under the Canada Emergency Wage Subsidy ("CEWS") program in 2021. During the year ended December 31, 2020, the Company recognized a $12.7 million government grant under the CEWS program.

22. COMMITMENTS

Future minimum lease payments under non-cancellable leases as at December 31, 2021 were $7.8 million within one year, $11.4 million within two and five years and $0.4 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:

	Equipment Group		**CIMCO**		**Consolidated**	
Years ended December 31	**2021**	2020	**2021**	2020	**2021**	2020
Equipment/package sales	**$1,721,382**	$1,469,377	**$ 208,854**	$ 161,144	**$1,930,236**	$ 1,630,521
Rentals	**387,755**	358,266	**-**	-	**387,755**	358,266
Product support	**1,405,128**	1,327,478	**152,399**	151,654	**1,557,527**	1,479,132
Power generation	**11,019**	10,978	**-**	-	**11,019**	10,978
Total revenues	**$3,525,284**	$3,166,099	**$ 361,253**	$ 312,798	**$3,886,537**	$ 3,478,897
Operating income	**$ 450,950**	$ 345,953	**$ 24,987**	$ 26,481	**$ 475,937**	$ 372,434
Interest expense					**28,161**	29,981
Interest and investment income					**(9,027)**	(9,083)
Income taxes					**124,093**	96,621
Net earnings					**$ 332,710**	$ 254,915

Selected consolidated statements of financial position information:

As at December 31	Equipment Group 2021	Equipment Group 2020	CIMCO 2021	CIMCO 2020	Consolidated 2021	Consolidated 2020
Identifiable assets	**$2,489,821**	$2,563,391	**$ 122,771**	$ 151,526	**$2,612,592**	$2,714,917
Corporate assets					**971,204**	631,875
Total assets					**$3,583,796**	$3,346,792
Identifiable liabilities	**$ 780,072**	$ 742,550	**$ 70,039**	$ 107,143	**$ 850,111**	$ 849,693
Corporate liabilities					**780,356**	798,447
Total liabilities					**$1,630,467**	$1,648,140
Capital expenditures, net	**$ 114,653**	$ 54,518	**$ 21,729**	$ 14,735	**$ 136,382**	$ 69,253
Depreciation expense	**$ 147,482**	$ 154,011	**$ 6,736**	$ 6,486	**$ 154,218**	$ 160,497

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	2021	2020
Canada	**$ 3,795,634**	$ 3,396,536
United States	**87,745**	80,710
International	**3,158**	1,651
Revenues	**$ 3,886,537**	$ 3,478,897

As at December 31	2021	2020
Canada	**$ 1,065,798**	$ 1,051,965
United States	**4,328**	4,509
Capital assets and goodwill	**$ 1,070,126**	$ 1,056,474

24. RELATED PARTY DISCLOSURES

Key Management Personnel Compensation

Key management includes the Company's directors and named executive officers. The remuneration of key management is determined by the Human Resources and Health and Safety Committee, having regard to the performance of the individual and Company and market trends. The compensation paid or payable to key management for employee and director services is shown below:

	2021	2020
Salaries	**$ 3,378**	$ 3,029
Stock options and DSU awards	**2,516**	2,508
Annual non-equity incentive based plan compensation	**3,200**	1,713
Pension costs	**640**	684
All other compensation	**150**	132
	$ 9,884	$ 8,066

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.

Five-Year Financial Review

For the years ended December 31 ($ thousands, except ratios and share data)	**2021**	2020	2019	2018	2017[1]
OPERATING RESULTS					
Revenues	**3,886,537**	3,478,897	3,678,705	3,504,236	2,350,162
Net earnings	**332,710**	254,915	286,800	251,984	175,970
Net interest expense	**19,134**	20,898	17,955	21,725	7,618
Capital expenditures, net	**136,382**	69,253	209,855	165,146	100,954
Dividends declared	**112,344**	101,953	88,192	74,516	60,402
FINANCIAL POSITION					
Working capital	**1,294,739**	1,077,928	829,275	653,906	767,374
Capital assets	**976,346**	962,694	1,020,930	954,306	881,877
Total assets	**3,583,796**	3,346,792	3,371,337	3,234,531	2,866,945
Non-current portion of long-term debt	**646,337**	646,299	645,471	644,540	893,806
Shareholders' equity	**1,953,329**	1,698,652	1,533,891	1,327,679	1,124,727
FINANCIAL RATIOS					
Working capital	**2.6:1**	2.4:1	1.8:1	1.6:1	2.1:1
Return on opening shareholders' equity (%)	**19.6**	16.6	21.4	22.3	19.3
Total debt, net of cash, to shareholders' equity	**(.14):1**	.03:1	.18:1	.23:1	.65:1
PER SHARE DATA ($)					
Basic earnings per share	**4.03**	3.10	3.52	3.10	2.22
Diluted earnings per share	**4.00**	3.09	3.49	3.07	2.20
Dividends declared	**1.36**	1.24	1.08	0.92	0.76
Book value (shareholders' equity)	**23.69**	20.60	18.70	16.35	13.89
Shares outstanding at year end	**82,443,968**	82,474,658	82,012,448	81,226,383	80,949,819
Price range					
High	**115.23**	94.86	71.15	68.11	58.44
Low	**84.61**	52.36	52.71	46.24	41.10
Close	**114.36**	89.20	70.59	54.26	55.10

Notes

(1) The Company completed the acquisition of the businesses and net operating assets of the Hewitt Group of Companies on October 27, 2017 for $1.02 billion. Long-term debt and common shares were issued on October 27, 2017, to partially fund the aforementioned acquisition. Refer to note 25 of the 2018 audited financial statements for more information.

Our Board of Directors

Richard G. Roy
Chair of the Board
(Director since 2018)

Peter J. Blake‡*⁜
Corporate Director
(Director since 2019),
Chair, Environmental, Social and Governance Committee

Ben D. Cherniavsky*
Corporate Director
(Director since 2021)

Jeffrey S. Chisholm⁜‡
Corporate Director
(Director since 2011),
Chair, Human Resources and Health and Safety Committee

Cathryn E. Cranston*‡
Corporate Director
(Director since 2013),
Chair, Audit Committee

James W. Gill ‡⁜
Corporate Director
(Director since 2015)

Wayne S. Hill*⁜
Corporate Director
(Director since 1988)

Sharon L. Hodgson*⁜
Corporate Director
(Director since 2019)

Scott J. Medhurst
President and Chief Executive Officer
(Director since 2012)

Katherine A. Rethy⁜‡
Corporate Director
(Director since 2013)

* Member of Audit Committee
⁜ Member of Human Resources and Health and Safety Committee
‡ Member of Environmental, Social and Governance Committee

Our Executive Operating Team

Scott J. Medhurst
President and Chief Executive Officer

Michael McMillan
Executive Vice President and Chief Financial Officer

David A. Malinauskas
President, CIMCO Refrigeration

Michael P. Cuddy
Vice President and Chief Information Officer

Lynn M. Korbak
General Counsel and Corporate Secretary

Jennifer J. Cochrane
Vice President, Finance

Corporate Directory

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www.agwest.com

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Annual Meeting
The Annual and Special Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am (EDT) on Thursday, April 28, 2022.
Visit www.toromont.com for more details.

How to Get in Touch With Us
T: 416.667.5511 F: 416.667.5555
E-mail: investorrelations@toromont.com

How to Reach Our Transfer Agent and Registrar
Investors are encouraged to contact TSX Trust Company (Canada) for information regarding their security holdings.
TSX Trust Company (Canada)
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Toll-Free North America: 1.800.387.0825
Local: 416.682.3860
E-mail: shareholderinquiries@tmx.com
www.tsxtrust.com

Common Shares
Listed on the Toronto Stock Exchange
Stock Symbol – TIH

Toromont's 2021 Sustainability Report is available at:

www.toromont.com/sustainability

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