## 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. The financial Information presented in the Company's MD&A is consistent, where applicable, with that contained in the consolidated financial statements.

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.

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.

*(signed) S.J. Medhurst*

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

*(signed) M.S. McMillan*

**Michael S. McMillan**
Executive Vice President and
Chief Financial Office

February 14, 2023
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, 2022 and 2021, and the consolidated statements of income, 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, 2022 and 2021, 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 typically construction is completed in under two years.<br><br>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 2 and 3 of the consolidated financial statements.<br><br>The Group recognized $173.3 million of revenues for the year ended December 31, 2022 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. | For long-term refrigeration package contracts that were open as of December 31, 2022, our audit procedures included the following, among others:<br><br>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;<br><br>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 Group'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;<br><br>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;<br><br>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<br><br>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.

*(signed) Ernst & Young LLP*

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

February 14, 2023
Toronto, Canada

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
($ thousands)

| As at December 31 | Note | 2022 | 2021 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ 927,780** | $ 916,830 |
| Accounts receivable | 4 | **579,682** | 451,944 |
| Inventories | 5 | **1,025,759** | 720,421 |
| Derivative financial instruments | 13 | **18,530** | 5,252 |
| Other current assets | | **17,444** | 13,994 |
| Total current assets | | **2,569,195** | 2,108,441 |
| | | | |
| Property, plant and equipment | 6 | **470,624** | 450,825 |
| Rental equipment | 6 | **616,289** | 525,521 |
| Other assets | 7, 20 | **52,527** | 23,735 |
| Deferred tax assets | 16 | **925** | 231 |
| Goodwill and intangible assets | 8 | **472,565** | 475,043 |
| **Total assets** | | **$ 4,182,125** | $ 3,583,796 |
| | | | |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 7, 19 | **$ 691,084** | $ 573,363 |
| Provisions | 9 | **27,653** | 25,404 |
| Deferred revenue and contract liabilities | 10 | **309,349** | 199,696 |
| Income taxes payable | | **28,653** | 15,239 |
| Total current liabilities | | **1,056,739** | 813,702 |
| | | | |
| Deferred revenue and contract liabilities | 10 | **23,276** | 27,254 |
| Long-term lease liabilities | 7 | **16,160** | 11,780 |
| Long-term debt | 11, 13 | **647,060** | 646,337 |
| Post-employment obligations | 20 | **30,592** | 82,712 |
| Deferred tax liabilities | 16 | **82,939** | 48,682 |
| **Total liabilities** | | **1,856,766** | 1,630,467 |
| | | | |
| **Shareholders' equity** | | | |
| Share capital | 12 | **561,078** | 539,677 |
| Contributed surplus | | **19,262** | 16,352 |
| Retained earnings | | **1,731,661** | 1,392,551 |
| Accumulated other comprehensive income | | **13,358** | 4,749 |
| **Total shareholders' equity** | | **2,325,359** | 1,953,329 |
| **Total liabilities and shareholders' equity** | | **$ 4,182,125** | $ 3,583,796 |

**Commitments (note 23)**

**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 STATEMENTS OF INCOME**
($ thousands, except share amounts)

| Years ended December 31 | Note | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | 24 | **$ 4,230,736** | $ 3,886,537 |
| Cost of goods sold | 5, 6 | **3,097,150** | 2,916,769 |
| Gross profit | | **1,133,586** | 969,768 |
| Selling and administrative expenses | | **509,417** | 493,831 |
| **Operating income** | | **624,169** | 475,937 |
| Interest expense | 15 | **27,338** | 28,161 |
| Interest and investment income | 15 | **(22,232)** | (9,027) |
| Income before income taxes | | **619,063** | 456,803 |
| Income taxes | 16 | **164,865** | 124,093 |
| **Net earnings** | | **$ 454,198** | $ 332,710 |
| | | | |
| **Earnings per share** | | | |
| Basic | 17 | **$ 5.52** | $ 4.03 |
| Diluted | 17 | **$ 5.47** | $ 4.00 |
| | | | |
| **Weighted average number of shares outstanding** | | | |
| Basic | 17 | **82,339,480** | 82,547,961 |
| Diluted | 17 | **82,978,324** | 83,269,451 |

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
($ thousands)

| Years ended December 31 | 2022 | 2021 |
|---|---|---|
| **Net earnings** | **$ 454,198** | $ 332,710 |
| **Other comprehensive income, net of income taxes:** | | |
| *Items that may be reclassified subsequently to net earnings:* | | |
| Foreign currency translation adjustments | **1,124** | (12) |
| Unrealized gains (losses) on derivatives designated as cash flow hedges | **46,623** | (1,124) |
| Income tax (expense) recovery | **(12,122)** | 300 |
| Unrealized gains (losses) on cash flow hedges, net of income taxes | **34,501** | (824) |
| Realized (gains) losses on derivatives designated as cash flow hedges | **(36,509)** | 9,478 |
| Income tax expense (recovery) | **9,493** | (2,472) |
| Realized (gains) losses on cash flow hedges, net of income taxes | **(27,016)** | 7,006 |
| *Items that will not be reclassified subsequently to net earnings:* | | |
| Remeasurement gain on defined benefit plans | **79,941** | 67,914 |
| Income tax expense | **(21,184)** | (17,996) |
| Remeasurement gain on defined benefit plans, net of income taxes | **58,757** | 49,918 |
| **Other comprehensive income** | **67,366** | 56,088 |
| **Total comprehensive income** | **$ 521,564** | $ 388,798 |

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
($ thousands, except share amounts)

| | Share capital | | | | Accumulated other comprehensive income (loss) | | | |
|---|---|---|---|---|---|---|---|---|
| | **Number** | **Amount** | **Contributed surplus** | **Retained earnings** | **Foreign currency translation adjustments** | **Cash flow hedges** | **Total** | **Total shareholders' equity** |
| **As at January 1, 2021** | 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 share options | 439,910 | 26,117 | (4,363) | — | — | — | — | 21,754 |
| Share-based compensation expense | — | — | 6,472 | — | — | — | — | 6,472 |
| Effect of share 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) |
| **As at December 31, 2021** | 82,443,968 | $ 539,677 | $ 16,352 | $ 1,392,551 | $ 1,868 | $ 2,881 | $ 4,749 | $ 1,953,329 |
| Net earnings | **—** | **—** | **—** | **454,198** | **—** | **—** | **—** | **454,198** |
| Other comprehensive income | **—** | **—** | **—** | **58,757** | **1,124** | **7,485** | **8,609** | **67,366** |
| Total comprehensive income | **—** | **—** | **—** | **512,955** | **1,124** | **7,485** | **8,609** | **521,564** |
| Exercise of share options | **347,291** | **24,521** | **(3,889)** | **—** | **—** | **—** | **—** | **20,632** |
| Share-based compensation expense | **—** | **—** | **6,799** | **—** | **—** | **—** | **—** | **6,799** |
| Effect of share compensation plans | **347,291** | **24,521** | **2,910** | **—** | **—** | **—** | **—** | **27,431** |
| Shares purchased for cancellation | **(473,100)** | **(3,120)** | **—** | **(45,382)** | **—** | **—** | **—** | **(48,502)** |
| Dividends declared | **—** | **—** | **—** | **(128,463)** | **—** | **—** | **—** | **(128,463)** |
| **As at December 31, 2022** | **82,318,159** | **$ 561,078** | **$ 19,262** | **$ 1,731,661** | **$ 2,992** | **$ 10,366** | **$ 13,358** | **$ 2,325,359** |

**See accompanying notes**

## TOROMONT INDUSTRIES LTD.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
($ thousands)

| Years ended December 31 | Note | 2022 | 2021 |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings | | **$ 454,198** | $ 332,710 |
| Items not requiring cash: | | | |
| Depreciation and amortization | 6, 7, 8, 11 | **162,810** | 158,360 |
| Share-based compensation | | **6,799** | 6,472 |
| Post-employment obligations | | **2,733** | 1,176 |
| Deferred income taxes | | **9,750** | 3,560 |
| Gain on sale of rental equipment and property, plant and equipment | | **(34,363)** | (21,533) |
| | | **601,927** | 480,745 |
| Net change in non-cash working capital and other | 22 | **(213,760)** | 129,322 |
| Additions to rental equipment | 6 | **(205,420)** | (118,183) |
| Proceeds on disposal of rental equipment | | **34,206** | 50,840 |
| **Cash provided by operating activities** | | **216,953** | 542,724 |
| | | | |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 6 | **(69,334)** | (71,203) |
| Proceeds on disposal of property, plant and equipment | | **25,168** | 2,467 |
| Increase in other assets | | **(167)** | (133) |
| **Cash used in investing activities** | | **(44,333)** | (68,869) |
| | | | |
| **Financing activities** | | | |
| Financing fees | | **—** | (961) |
| Dividends paid | 12 | **(125,210)** | (109,053) |
| Cash received on exercise of share options | | **20,632** | 21,754 |
| Shares purchased for cancellation | 12 | **(48,502)** | (50,003) |
| Payment of lease liabilities | 7 | **(9,079)** | (9,880) |
| **Cash used in financing activities** | | **(162,159)** | (148,143) |
| | | | |
| Effect of currency translation on cash balances | | **489** | (10) |
| Increase in cash and cash equivalents during the year | | **10,950** | 325,702 |
| Cash and cash equivalents, at beginning of the year | | **916,830** | 591,128 |
| **Cash and cash equivalents, at end of the year** | | **$ 927,780** | $ 916,830 |

**Supplemental cash flow information (note 22)**

**See accompanying notes**

## 1. DESCRIPTION OF BUSINESS

### 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 ("TSX") 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 6,800 people in more than 160 locations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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 14, 2023 on the recommendation of the Audit Committee.

### Basis of Measurement

These consolidated financial statements were prepared on a historical cost basis, except for certain items recorded at fair value as detailed in the accounting policies disclosed below.

### Presentation and Functional Currency

The consolidated financial statements are presented in Canadian dollars, which is Toromont's functional currency. 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 statements of income.

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 and cash equivalents include cash on hand, cash in bank, and short-term deposits with an original maturity of three months or less, readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value.

**Accounts Receivable**

Trade accounts receivable are amounts due from customers for products 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 statements of income.

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, direct labour and an allocation of overhead 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) ("OCI"), 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 statements of income 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 or loss ("FVTPL"). Initially, all financial assets and liabilities are recognized at fair value, net of transaction costs, except for financial instruments classified as FVTPL, where transaction costs are recognized immediately in profit or loss. Regular-way trades of financial assets and liabilities are recognized on the trade date.

Financial Assets

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

- Cash and cash equivalents, accounts receivable, unbilled receivables, supplier claims receivable, and installment and other notes receivable are classified as amortized cost and measured using the effective interest rate method less any impairment losses.
- Accounts receivable comprises amounts due from customers for goods or services transferred in the ordinary course of business and non-trade accounts. Unbilled receivables relate to the Company's right to consideration for goods or services transferred to a customer but not yet billed as at the reporting

date. Installment notes receivable represents amounts due from customers relating to the financing of equipment and parts and services sold.

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. The carrying amount of accounts receivable is reduced through the use of provisions for doubtful accounts.

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 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 statements of income. The remaining amount of change in the fair value of the liability is recognized in the consolidated statements of income. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to the consolidated statements of income; 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 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 statements of income. 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 statements of income 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 statements of income; 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 statements of income.

**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 statements of income.

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 statements of income.

**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 typically construction is completed in under two years. 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 revenue 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 revenue 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 revenue 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 3 to 5 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 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 statements of income. 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 statements of income 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 statements of income.

**Share-based Payment Transactions**

The Company has a stock option plan, a cash settled Deferred Share Unit ("DSU") plan, and a Long Term Incentive Plan with equity settled Performance Share Units ("PSU"), Restricted Share Units ("RSU") and/or equity settled DSUs. The cash settled DSU plan was closed to new grants/elections in 2022. Units under such plans may be awarded to certain employees and directors as part of their compensation package for services performed (excluding options in the case of directors).

*Stock options* – 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 at the time of grant and is recognized as share-compensation expense, net of estimated forfeitures, over its respective vesting period with a credit to contributed surplus. When options are exercised, the proceeds, together with the amount recorded in contributed surplus, are transferred to share capital.

*Performance Share Units* – PSUs are awarded at no cost to the recipient and cliff vest over a three-year performance period. Vesting level is subject to performance condition achievement with respect to relative total shareholder return performance compared to the TSX index (a market condition) or return on capital employed (a non-market condition), and can range from 0% to 200%. PSUs are paid out in common shares, or if elected by the individual at time of grant are transferred to an equity settled DSU account (see description below). Additional PSUs are credited to the holder upon each dividend payment made by Toromont.

The fair market value of the award is determined at date of grant. The fair value of grants with a market condition are based on the expected payout as of the grant date. The fair value of grants with a non-market condition are initially based on the volume-weighted average trading price of Toromont's common shares for five days preceding the date of the grant and the probability of achieving performance conditions at date of grant. The fair value of awards with non-market conditions are adjusted over time based on actual performance and expected payout, while fair value of awards with market conditions are not adjusted. Share-based compensation expense is recognized over the vesting period with a related credit to contributed surplus.

*Restricted Share Units* – RSUs are awarded at no cost to the recipient and cliff vest over a three-year performance period. RSUs are paid out in common shares, or if elected by the individual at time of grant are transferred to an equity settled DSU account (see description below). Additional RSUs are credited to the holder upon each dividend payment made by Toromont.

The fair market value of the award is based on the volume-weighted average trading price of Toromont's common shares for five days preceding the date of the grant and expected performance condition payout. Share-based compensation expense is recognized over the vesting period with a related credit to contributed surplus.

*Deferred Share Units (equity settled)* – 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.

*Deferred Share Units (cash settled)* – 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 statements of income in selling and administrative expenses.

**Employee Future Benefits**

For defined contribution plans, the pension expense recorded in the consolidated statements of income 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 statements of income 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 2022**

The Company has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following standard amendment has been adopted by the Company on January 1, 2022:

IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* – The IASB issued amendments to IAS 37 to clarify costs to be included when determining if a contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The implementation of this standard amendment did not have a significant impact on the Company's consolidated financial statements.

**Amendments Issued but Not Effective**

A number of amendments to standards have been issued but are not yet effective for the financial year ended December 31, 2022, and accordingly, have not been applied in preparing these consolidated financial statements. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards, amendments and interpretations to existing standards may have been issued but are not expected to have a material impact to the Company's consolidated financial statements. The Company is in the process of reviewing these amendments to determine the impact on the consolidated financial statements. Based upon our current facts and circumstances, we do not expect our financial performance or disclosure to be materially affected by the application of the amended standards.

IFRS 1, *Presentation of Financial Statements* – Effective for annual periods beginning on or after January 1, 2023, the IASB issued amendments to IFRS 1 to allow a more general approach in classification of liabilities as current and non-current.

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* – Effective for annual periods beginning on or after January 1, 2023, these amendments introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.

IAS 12, *Income Taxes* – Effective for annual periods beginning on or after January 1, 2023, these amendments clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability.

## 3. 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 reviews 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 effects of the COVID-19 pandemic have been considered in management's estimates and judgments described below. The Company will continue to monitor the impact of the development of the pandemic in future reporting 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 machine hours, 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. The current economic environment has increased the measurement uncertainty with respect to the determination of the allowance for doubtful accounts.

### Share-based Compensation

The models used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields, expected life of the options granted and, in the case of PSUs, expected performance. 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.

If the Company cannot readily determine the interest rate implicit in the lease, the incremental borrowing rate ("IBR") is used 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.

## 4. ACCOUNTS RECEIVABLE

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Trade receivables | **$** | **556,281** | $ | 409,222 |
| *Less: Allowance for doubtful accounts* | | **(25,540)** | | (20,315) |
| Trade receivables, net | | **530,741** | | 388,907 |
| Unbilled receivables | | **30,738** | | 49,516 |
| Other receivables | | **18,203** | | 13,521 |
| | **$** | **579,682** | $ | 451,944 |

The aging of gross trade receivables was as follows:

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Current to 90 days | **$** | **522,784** | $ | 383,899 |
| Over 90 days | | **33,497** | | 25,323 |
| Trade receivables | **$** | **556,281** | $ | 409,222 |

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

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Balance, January 1 | **$** | **20,315** | $ | 20,661 |
| Provisions and revisions, net | | **5,225** | | (346) |
| Balance, December 31 | **$** | **25,540** | $ | 20,315 |

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

| | | **2022** | | 2021 |
|---|---|---|---|---|
| Balance, January 1 | **$** | **49,516** | $ | 53,671 |
| Amounts received or recognised in revenue | | **(38,162)** | | (22,997) |
| Additions | | **19,384** | | 18,842 |
| Balance, December 31 | **$** | **30,738** | $ | 49,516 |

## 5. INVENTORIES

| | | 2022 | | 2021 |
|---|---|---|---|---|
| Equipment | $ | 565,073 | $ | 403,105 |
| Repair and distribution parts | | 333,914 | | 223,059 |
| Direct materials | | 6,887 | | 6,035 |
| Work-in-process | | 86,556 | | 68,943 |
| Work-in-process (contracts) | | 33,329 | | 19,279 |
| | $ | 1,025,759 | $ | 720,421 |

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2022 was $2.6 billion (2021 – $2.4 billion). In 2022, cost of goods sold included inventory write-downs pertaining to obsolescence and aging, net of reversal of write-downs, of $15.6 million (2021 – $4.6 million).

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

| | Property, Plant and Equipment | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Buildings** | **Equipment** | **Power Generation** | **Total** | **Rental Equipment** |
| **Cost** | | | | | | |
| **January 1, 2022** | **$ 173,083** | **$ 315,055** | **$ 272,839** | **$ 39,944** | **$ 800,921** | **$ 969,841** |
| Additions | 8,319 | 14,160 | 48,447 | 150 | 71,076 | 214,693 |
| Disposals | (4,313) | (2,332) | (7,549) | — | (14,194) | (51,454) |
| Foreign currency translation adjustments | 10 | 184 | 477 | — | 671 | — |
| **December 31, 2022** | **$ 177,099** | **$ 327,067** | **$ 314,214** | **$ 40,094** | **$ 858,474** | **$ 1,133,080** |
| **Accumulated depreciation** | | | | | | |
| January 1, 2022 | $ — | $ 125,321 | $ 188,752 | $ 36,023 | $ 350,096 | $ 444,320 |
| Depreciation expense | — | 13,435 | 30,472 | 1,160 | 45,067 | 105,385 |
| Depreciation of disposals | — | (475) | (7,247) | — | (7,722) | (32,914) |
| Foreign currency translation adjustments | — | 41 | 368 | — | 409 | — |
| **December 31, 2022** | **$ —** | **$ 138,322** | **$ 212,345** | **$ 37,183** | **$ 387,850** | **$ 516,791** |
| **Net book value ─ December 31, 2022** | **$ 177,099** | **$ 188,745** | **$ 101,869** | **$ 2,911** | **$ 470,624** | **$ 616,289** |

| | Property, Plant and Equipment | | | | | |
|---|---|---|---|---|---|---|
| | Land | Buildings | Equipment | Power Generation | Total | 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) |
| Foreign currency translation adjustments | — | (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 | — | 13,054 | 28,917 | 1,630 | 43,601 | 100,647 |
| Disposals | — | (1,955) | (5,541) | — | (7,496) | (49,894) |
| Foreign currency translation adjustments | — | (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 |

During 2022, depreciation expense of $132.5 million was charged to cost of goods sold (2021 – $126.4 million) and $18.0 million was charged to selling and administrative expenses (2021 – $17.8 million).

## 7. OTHER ASSETS AND LEASE LIABILITIES

| | **2022** | 2021 |
|---|---|---|
| Right-of-use assets | **$ 22,910** | $ 18,752 |
| Post-employment obligations surplus (note 20) | **25,088** | — |
| Equipment sold with guaranteed residual values | **1,237** | 1,857 |
| Other | **3,292** | 3,126 |
| **Other assets** | **$ 52,527** | $ 23,735 |

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

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

| | Right-of-Use Assets | | | Lease Liabilities |
|---|---|---|---|---|
| | Properties | Vehicles | Total | |
| **January 1, 2022** | **$ 13,565** | **$ 5,187** | **$ 18,752** | **$ 19,613** |
| Additions and remeasurements | **13,528** | **(63)** | **13,465** | **13,465** |
| Depreciation | **(6,478)** | **(2,725)** | **(9,203)** | **—** |
| Disposals and retirements | **(84)** | **(48)** | **(132)** | **(146)** |
| Foreign currency translation adjustments | **28** | **—** | **28** | **28** |
| Payments | **—** | **—** | **—** | **(9,079)** |
| **December 31, 2022** | **$ 20,559** | **$ 2,351** | **$ 22,910** | **$ 23,881** |

| | Right-of-Use Assets | | | Lease Liabilities |
|---|---|---|---|---|
| | Properties | Vehicles | Total | |
| January 1, 2021 | $ 15,278 | $ 9,689 | $ 24,967 | $ 25,716 |
| Additions and remeasurements | 4,378 | (276) | 4,102 | 4,102 |
| Depreciation | (5,803) | (4,189) | (9,992) | — |
| Disposals and retirements | (285) | (37) | (322) | (322) |
| Foreign currency translation adjustments | (3) | — | (3) | (3) |
| Payments | — | — | — | (9,880) |
| December 31, 2021 | $ 13,565 | $ 5,187 | $ 18,752 | $ 19,613 |

The current portion of lease liabilities as at December 31, 2022 of $7.7 million (2021 – $7.8 million) is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

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

| | **2022** | 2021 |
|---|---|---|
| Depreciation expense of right-of-use assets | **$ 9,203** | $ 9,992 |
| Interest expense on lease liabilities | **651** | 662 |
| Expense relating to short-term leases and leases of low-value assets | **252** | 194 |
| | **$ 10,106** | $ 10,848 |

Cash outflows for leases in 2022 were $9.1 million (2021 – $9.9 million).

The future cash outflows relating to leases are disclosed in note 23.

## 8. GOODWILL AND INTANGIBLE ASSETS

| | Patents and Licenses | Customer Order Backlog | ERP System | Customer Relationships | Distribution Networks | Goodwill | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2021 | $ 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 |
| Disposal | — | — | (5,000) | — | — | — | (5,000) |
| **December 31, 2022** | **$ 500** | **$ 8,691** | **$ —** | **$ 15,137** | **$ 371,551** | **$ 93,780** | **$ 489,659** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| January 1, 2021 | $ 236 | $ 5,920 | $ 4,333 | $ 5,983 | $ — | $ — | $ 16,472 |
| Amortization | 30 | 555 | 667 | 1,892 | — | — | 3,144 |
| December 31, 2021 | $ 266 | $ 6,475 | $ 5,000 | $ 7,875 | $ — | $ — | $ 19,616 |
| Amortization | 30 | 556 | — | 1,892 | — | — | 2,478 |
| Amortization of disposal | — | — | (5,000) | — | — | — | (5,000) |
| **December 31, 2022** | **$ 296** | **$ 7,031** | **$ —** | **$ 9,767** | **$ —** | **$ —** | **$ 17,094** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| December 31, 2021 | $ 234 | $ 2,216 | $ — | $ 7,262 | $ 371,551 | $ 93,780 | $ 475,043 |
| **December 31, 2022** | **$ 204** | **$ 1,660** | **$ —** | **$ 5,370** | **$ 371,551** | **$ 93,780** | **$ 472,565** |

### Goodwill

The carrying amount of goodwill has been allocated as follows:

| | 2022 | 2021 |
|---|---|---|
| **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, 2022. 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:

| | 2022 | 2021 |
|---|---|---|
| **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, 2022. 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.

## 9. PROVISIONS

Activities related to provisions were as follows:

| | Warranty | Other | Total |
|---|---|---|---|
| Balance, January 1, 2021 | $ 13,880 | $ 12,765 | $ 26,645 |
| New provisions | 30,593 | 1,362 | 31,955 |
| Utilized or released | (30,509) | (2,687) | (33,196) |
| Balance, December 31, 2021 | $ 13,964 | $ 11,440 | $ 25,404 |
| New provisions | **29,014** | **1,864** | **30,878** |
| Utilized or released | **(25,414)** | **(3,215)** | **(28,629)** |
| **Balance, December 31, 2022** | **$ 17,564** | **$ 10,089** | **$ 27,653** |

### 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.

## 10. DEFERRED REVENUE AND CONTRACT LIABILITIES

Deferred revenue and contract liabilities represent billings to customers in excess of revenue recognized and arise on the sale of equipment with residual value 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.

The components of deferred revenue and contract liabilities were as follows:

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | Current | Non-current | Total |
| Deposits from customers | **$ 146,889** | **$ 4,844** | **$ 151,733** | $ 47,319 | $ 11,845 | $ 59,164 |
| Product support service agreements | **88,367** | **—** | **88,367** | 78,421 | — | 78,421 |
| Sale of systems - contract liabilities | **64,892** | **—** | **64,892** | 66,267 | — | 66,267 |
| Extended warranty | **9,201** | **18,432** | **27,633** | 7,689 | 15,409 | 23,098 |
| | **$ 309,349** | **$ 23,276** | **$ 332,625** | $ 199,696 | $ 27,254 | $ 226,950 |

During the year ended December 31, 2022, the Company recognized as revenue $161.4 million (2021 –$140.6 million) of the deferred revenue and contract liabilities balance as at January 1, 2022.

Management expects that 93% of the transaction price allocated to unsatisfied performance obligations as at December 31, 2022 will be recognized as revenue during the year ended December 31, 2023 and the remaining 7% between the years ended December 31, 2024 and 2029.

## 11. LONG-TERM DEBT

| | 2022 | 2021 |
|---|---|---|
| Senior Debentures | | |
| 3.71%, $150.0 million, due September 30, 2025 [1] | **$ 150,000** | $ 150,000 |
| 3.84%, $500.0 million, due October 27, 2027 [1] | **500,000** | 500,000 |
| | **650,000** | 650,000 |
| Debt issuance costs, net of amortization | **(2,940)** | (3,663) |
| **Total long-term debt** | **$ 647,060** | $ 646,337 |

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

The Company has a $500.0 million committed revolving credit facility, maturing in November 2026, with a syndicate of financial institutions. 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, 2022 or 2021. Standby letters of credit issued utilized $28.9 million of the facility as at December 31, 2022 (2021 – $28.8 million).

These credit arrangements include covenants, restrictions and events of default usually present in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants as at December 31, 2022 and 2021.

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

| | Principal | Interest |
|---|---|---|
| 2023 | $ — | $ 24,765 |
| 2024 | — | 24,765 |
| 2025 | 150,000 | 23,374 |
| 2026 | — | 19,200 |
| 2027 | 500,000 | 16,000 |
| | $ 650,000 | $ 108,104 |

Interest expense includes interest on debt initially incurred for a term of one year or greater and was $26.7 million in 2022 (2021 – $27.5 million).

## 12. 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, 2022 and 2021.

A continuity of the shares issued and outstanding for the years ended December 31, 2022 and 2021 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 in April 2022, and expires at the end of the annual meeting of shareholders in 2024.

## Normal Course Issuer Bid ("NCIB")

The Company's NCIB program was renewed on September 19, 2022. 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 18, 2023, 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.

The Company entered into an Automatic Share Purchase Plan ("ASPP") with a broker to enable the purchase of common shares under the NCIB, during regular trading blackout periods. The volume of the purchases is determined by the broker based on share price and maximum volume parameters established by the Company under the ASPP prior to the commencement of each blackout period. As at December 31, 2022 and 2021, there was no obligation for the repurchase of shares under the ASPP.

The Company purchased and cancelled 473,100 common shares for $48.5 million (average cost of $102.52 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2022.

The Company purchased and cancelled 470,600 common shares for $50.0 million (average cost of $106.25 per share, including transaction costs) under the previous NCIB program during the year ended December 31, 2021.

## Dividends Paid

The Company paid dividends of $125.2 million ($1.52 per share) for the year ended December 31, 2022, and $109.1 million ($1.32 per share) for the year ended December 31, 2021.

## Dividends Declared

| | **2022** | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| **Dividend** | **Record Date** | **Dividend Amount Per Share** | **Payment Date** | **Total Dividends Declared ($ millions)** | Record Date | Dividend Amount Per Share | Payment Date | Total Dividends Declared ($ millions) |
| Quarter 1 | **Mar. 9, 2022** | **$ 0.39** | **Apr. 4, 2022** | **$ 32.2** | Mar. 9, 2021 | $ 0.31 | Apr. 1, 2021 | $ 25.6 |
| Quarter 2 | **Jun. 9, 2022** | **0.39** | **Jul. 5, 2022** | **32.1** | Jun. 9, 2021 | 0.35 | Jul. 5, 2021 | 28.9 |
| Quarter 3 | **Sep. 8, 2022** | **0.39** | **Oct. 4, 2022** | **32.1** | Sep. 8, 2021 | 0.35 | Oct. 4, 2021 | 29.0 |
| Quarter 4 | **Dec. 8, 2022** | **0.39** | **Jan. 5, 2023** | **32.1** | Dec. 8, 2021 | 0.35 | Jan. 5, 2022 | 28.9 |
| | | **$ 1.56** | | **$ 128.5** | | $ 1.36 | | $ 112.4 |

On February 14, 2023, the Board of Directors declared a quarterly dividend of $0.43 per common share, payable on April 4, 2023, to shareholders on record on March 9, 2023.

## 13. FINANCIAL INSTRUMENTS

### Financial Assets and Liabilities – Classification and Measurement

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

| | **2022** | 2021 |
|---|---|---|
| **Other financial liabilities:** | | |
| Long-term debt | **$ 647,060** | $ 646,337 |
| **Derivative financial instruments assets, net:** | | |
| Foreign exchange forward contracts | **$ 18,530** | $ 5,252 |

### Fair Value of Financial Instruments

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 as 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:

| | **2022** | 2021 |
|---|---|---|
| **Long-term debt:** | | |
| Fair value | **$ 626,585** | $ 695,285 |
| 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, 2022 and 2021, 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, 2022, the Company was committed to: (i) US dollar purchase contracts with a notional amount of $664.0 million at an average exchange rate of $1.3247, maturing between January 2023 and December 2024; and (ii) US dollar sale contracts with a notional amount of $87.5 million at an average exchange rate of $1.3565, maturing between January 2023 and October 2023.

Management estimates that a gain of $18.5 million (2021 – gain of $5.3 million) would be realized if the contracts were terminated on December 31, 2022. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized gain of $13.3 million (2021 – unrealized gain of $3.9 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 $5.2 million (2021 – gain of $1.4 million) on forward contracts not designated as hedges is included in net earnings, which offsets losses recorded on the associated 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.

## 14. 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 and cash equivalents, accounts receivable, accounts payable and accrued liabilities and derivative financial instruments.

As at December 31, 2022, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a $1.0 million (decrease) increase in OCI for financial instruments held in foreign operations, and a

$4.0 million (decrease) increase in net earnings and $19.8 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 and cash equivalents, 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 and cash equivalents 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, 2022 or 2021.

The Company had no floating-rate debt outstanding as at December 31, 2022 or 2021.

**Liquidity Risk**

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2022, the Company had unutilized lines of credit of $471.1 million (2021 – $471.2 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 2023, together with currently available cash and cash equivalents 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.

## 15. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

| | **2022** | 2021 |
|---|---|---|
| Credit facilities | **$ 1,521** | $ 2,253 |
| Senior debentures | **25,166** | 25,246 |
| Interest on lease liabilities | **651** | 662 |
| | **$ 27,338** | $ 28,161 |

The components of interest and investment income were as follows:

| | **2022** | 2021 |
|---|---|---|
| Interest on conversion of rental equipment | **$ 4,760** | $ 2,635 |
| Interest income | **17,472** | 6,392 |
| | **$ 22,232** | $ 9,027 |

## 16. INCOME TAXES

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

| | **2022** | 2021 |
|---|---|---|
| Current income tax expense | **$ 155,017** | $ 120,506 |
| Deferred income tax expense | **9,848** | 3,587 |
| **Total income tax expense** | **$ 164,865** | $ 124,093 |

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

| | **2022** | 2021 |
|---|---|---|
| Statutory Canadian federal and provincial income tax rates | **26.5 %** | 26.5 % |
| Expected taxes on income | **$ 164,052** | $ 121,053 |
| Increase (decrease) in income taxes resulting from: | | |
| Higher effective tax rates in other jurisdictions | **1,323** | 1,139 |
| Manufacturing and processing rate reduction | **(42)** | (54) |
| Expenses not deductible for tax purposes | **2,433** | 2,165 |
| Non-taxable gains | **(3,096)** | (881) |
| Effect of change in future income tax rate | **(223)** | 61 |
| Other | **418** | 610 |
| **Provisions for income taxes** | **$ 164,865** | $ 124,093 |
| **Effective income tax rate** | **26.6 %** | 27.2 % |

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:

| | 2022 | 2021 |
|---|---|---|
| Accrued liabilities | **$ 32,826** | $ 29,157 |
| Deferred revenue and contract liabilities | **5,822** | 9,627 |
| Accounts receivable | **6,336** | 5,139 |
| Inventories | **9,479** | 6,741 |
| Deferred tax assets on current assets and current liabilities | **$ 54,463** | $ 50,664 |
| Capital assets | **$ (95,091)** | $ (82,983) |
| Goodwill and intangible assets | **(41,486)** | (38,369) |
| Other | **1,396** | 946 |
| Cash flow hedges on OCI | **(3,641)** | (1,011) |
| Post-employment obligations | **2,345** | 22,302 |
| Deferred tax (liabilities) on non-current assets and non-current liabilities | **$ (136,477)** | $ (99,115) |
| **Net deferred tax liabilities** | **$ (82,014)** | $ (48,451) |

The movement in net deferred income taxes was as follows:

| | 2022 | 2021 |
|---|---|---|
| Balance, January 1 | **$ (48,451)** | $ (24,722) |
| Tax (expense) recovery recognized in income | **(9,848)** | (3,587) |
| Foreign exchange and other | **98** | 26 |
| Tax (expense) recovery recognized in OCI | **(23,813)** | (20,168) |
| **Balance, December 31** | **$ (82,014)** | $ (48,451) |

The aggregate amount of unremitted earnings in the Company's subsidiaries was $44.7 million (2021 – $35.9 million). These earnings can be remitted with no tax consequences.

## 17. EARNINGS PER SHARE

| | 2022 | 2021 |
|---|---|---|
| Net earnings available to common shareholders | **$ 454,198** | $ 332,710 |
| Weighted average common shares outstanding | **82,339,480** | 82,547,961 |
| Effect of dilutive securities | **638,844** | 721,490 |
| Weighted average common shares outstanding ─ diluted | **82,978,324** | 83,269,451 |
| Earnings per share: | | |
| Basic | **$ 5.52** | $ 4.03 |
| Diluted | **$ 5.47** | $ 4.00 |

For the year ended December 31, 2022, 166,500 outstanding share options with a weighted average exercise price of $107.36 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 2021, 367,957 outstanding share options with a weighted average exercise price of $104.91 that were considered anti-dilutive.

## 18. EMPLOYEE BENEFITS EXPENSE

| | 2022 | 2021 |
|---|---|---|
| Wages and salaries | $ 653,384 | $ 608,989 |
| Other employment benefit expenses | 84,558 | 86,488 |
| Share-based compensation expense | 6,800 | 6,471 |
| Pension costs | 32,577 | 40,216 |
| | $ 777,319 | $ 742,164 |

## 19. SHARE-BASED COMPENSATION

### Share Option Plan

The Company maintains a share 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 (2022 – 824,439; 2021 – 824,746).

Share 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, 2022 and 2021, was as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, January 1 | 2,167,025 | $ 68.44 | 2,328,038 | $ 58.67 |
| Granted | 166,500 | 107.36 | 367,957 | 104.91 |
| Exercised [(1)] | (347,291) | 59.41 | (439,910) | 49.45 |
| Forfeited | (18,342) | 80.75 | (89,060) | 57.59 |
| **Options outstanding, December 31** | 1,967,892 | $ 73.21 | 2,167,025 | $ 68.44 |
| **Options exercisable, December 31** | 922,681 | $ 59.38 | 837,687 | $ 52.76 |

[(1)] The weighted average share price at the date of exercise for the year ended December 31, 2022 was $107.31 (2021 – $105.62).

The following table summarizes share options outstanding and exercisable as at December 31, 2022:

| | 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 – $36.65** | **161,290** | **2.1** | **$ 32.40** | **161,290** | **$ 32.40** |
| **$36.66 – $53.88** | **247,950** | **4.2** | **48.02** | **247,950** | **48.02** |
| **$53.89 – $72.95** | **1,030,544** | **6.8** | **69.02** | **441,123** | **68.17** |
| **$72.96 – $107.36** | **528,108** | **8.8** | **105.68** | **72,318** | **104.91** |
| | **1,967,892** | **6.6** | **$ 73.21** | **922,681** | **$ 59.38** |

The fair values of the share options granted during 2022 and 2021 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | **2022** | 2021 |
|---|---|---|
| Fair value price per option | **$ 22.27** | $ 18.23 |
| Share price | **$ 107.36** | $ 104.91 |
| Expected life of options (years) | **5.30** | 5.30 |
| Expected share price volatility | **21.5 %** | 21.5 % |
| Expected dividend yield | **1.45 %** | 1.33 % |
| Risk-free interest rate | **2.77 %** | 0.90 % |

**Deferred Share Unit ("DSU") Plans**

The Company offers DSU plans 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.

A reconciliation of the cash-settled DSU plan was as follows:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Number of DSUs** | **Value** | Number of DSUs | Value |
| Outstanding, January 1 | **202,969** | **$ 23,074** | 394,154 | $ 35,555 |
| Units taken or taken in lieu and dividends | **20,307** | **2,231** | 26,748 | 2,653 |
| Redemptions | **(33,148)** | **(3,535)** | (217,933) | (21,751) |
| Fair market value adjustments | **—** | **(3,242)** | — | 6,617 |
| Outstanding, December 31 | **190,128** | **$ 18,528** | 202,969 | $ 23,074 |

The liability for cash-settled DSUs is recorded in accounts payable and accrued liabilities.

The Company introduced an equity-settled DSU plan during the year as part of the long-term incentive plan described below. A total of 7,534 units were taken in lieu, valued at $778 thousand, which is included in selling and administrative expenses with a credit to contributed surplus.

**Long-term Incentive Plan ("LTIP")**

On April 28, 2022, shareholders approved the adoption of certain changes to the Company's LTIP. There was no change to the Company's existing share option and cash-settled DSU plans, both of which remain in place. Under the LTIP, the Company introduced performance share units ("PSUs"), restricted share units ("RSUs"), executive deferred share units ("EDSUs") and equity-settled DSUs. The Company has the ability to grant options and awards under all of these respective plans. The Company intends that total incentive award grants will be based on historical share option grant levels at approximately a 50/50 split between share options and grants under the LTIP.

Details of each grant will be determined at the date of grant, including performance requirements, vesting and settlement method. PSUs and RSUs will settle upon vesting, while EDSUs and equity-settled DSUs will settle upon cessation of service to the Company. PSU vesting will be based upon the achievement of performance objectives established at the time of grant by the Board of Directors. The maximum number of common shares

reserved for issuance, in aggregate, under the LTIP, will be 750,000, representing 0.9% of the issued and outstanding shares at February 26, 2022.

During the year, 7,134 RSUs and 28,024 PSUs were granted under the LTIP. Expense of $557 thousand is included in selling and administrative expenses with a credit to contributed surplus.

**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 $3.8 million in 2022 (2021 – $3.3 million) were charged to selling and administrative expenses when paid. The ESOP is administered by a third party.

## 20. POST-EMPLOYMENT OBLIGATIONS

### Defined Contribution Plans

The Company sponsors pension arrangements for more than 4,425 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:

| | **2022** | 2021 |
|---|---|---|
| Defined contribution plans | **$ 17,443** | $ 16,193 |
| 401(k) matched savings plans | **379** | 327 |
| | **$ 17,822** | $ 16,520 |

### 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. Regulatory approval was received at various dates in 2021 and 2022, and as at December 31 2022, the transfer of assets and defined benefit obligations has been completed.

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 seven former plans. Six of these plans provide pension benefits based on length of service and career average earnings and five plans are contributory. The merged funded plan is registered with the Ontario provincial regulators and is subject to provincial pension legislation as well as the *Income Tax Act* (Canada). The plans is administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and

cannot be used for any purpose other than payment of pension benefits and related administrative fees. the actuarial valuation for the merged plan was completed 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. As at December 31, 2022, the Company has posted letters of credit in the amount of $13.6 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2022. The next valuation is scheduled as at December 31, 2023.

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 450 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 | |
|---|---|---|---|---|
| | **2022** | 2021 | **2022** | 2021 |
| **Defined benefit obligations:** | | | | |
| Balance, January 1 | **$ 342,860** | $ 614,183 | **$ 20,475** | $ 21,629 |
| Settle due to buy-out annuity transactions | **1,548** | (215,881) | **—** | — |
| Current service cost | **12,427** | 14,662 | **1,098** | 1,111 |
| Interest cost | **10,343** | 14,258 | **550** | 483 |
| Actuarial remeasurement (gains) losses arising from: | | | | |
| Experience adjustments | **(1,582)** | (6,726) | **(465)** | (365) |
| Changes in financial assumptions | **(110,130)** | (51,514) | **(3,856)** | (1,158) |
| Benefits paid | **(15,971)** | (29,802) | **(1,203)** | (1,225) |
| Contributions by plan participants | **3,397** | 3,680 | **—** | — |
| **Balance, December 31** | **242,892** | 342,860 | **16,599** | 20,475 |
| | | | | |
| **Plan Assets** | | | | |
| Far value, January 1 | **286,622** | 486,361 | **—** | — |
| Purchase of buy-out annuities | **1,548** | (220,913) | **—** | — |
| Interest income on plan assets | **8,713** | 11,621 | **—** | — |
| Return on plan assets (excluding amounts include in net interest) | **(41,140)** | 14,379 | **—** | — |
| Contributions by the Company | **10,818** | 21,296 | **1,203** | 1,221 |
| Contributions by plan participants | **3,397** | 3,680 | **—** | — |
| Benefits paid | **(15,971)** | (29,802) | **(1,203)** | (1,221) |
| Fair value, December 31 | **253,987** | 286,622 | **—** | — |
| **Effect of asset ceiling limit** | **—** | (5,999) | **—** | — |
| **Fair value, December 31, net of asset ceiling limit** | **253,987** | 280,623 | **—** | — |
| | | | | |
| **Net post-employment obligations** | **$ (11,095)** | $ 62,237 | **$ 16,599** | $ 20,475 |

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

| | **2022** | | | 2021 | | |
|---|---|---|---|---|---|---|
| | **Defined Benefit Obligations** | **Plan Assets** | **Net Post-Employment Obligations** | Defined Benefit Obligations | Plan Assets | Net Post-Employment Obligations |
| Defined Benefit Pension Plans | **$ 228,899** | **$ 253,987** | **$ 25,088** | $ 325,529 | $ 280,623 | $ (44,906) |
| Executive Pension Plan | **13,993** | **—** | **(13,993)** | 17,331 | — | (17,331) |
| Post-employment Benefit Plans | **16,599** | **—** | **(16,599)** | 20,475 | — | (20,475) |
| **Post-employment obligations, net** | **$ 259,491** | **$ 253,987** | **$ (5,504)** | $ 363,335 | $ 280,623 | $ (82,712) |

The plans with a net retirement surplus have been classified as non-current assets on the statement of financial position (note 7).

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.

| | **2022** | 2021 |
|---|---|---|
| Discount rate | **5.09 %** | 3.05 % |
| 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:

| | **2022** | 2021 |
|---|---|---|
| Service cost | **$ 13,525** | $ 15,773 |
| Net interest expense | **2,180** | 3,120 |
| Remeasurements | **(950)** | (229) |
| Settlement charges | **—** | 5,032 |
| | **$ 14,755** | $ 23,696 |

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. In November 2022, there were premium adjustments with insurers to reflect data adjustments. 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:

| | **2022** | 2021 |
|---|---|---|
| Actuarial (gains) losses arising from experience adjustments | **$ (2,047)** | $ (7,091) |
| Actuarial (gains) losses arising from changes in financial assumptions | **(113,035)** | (52,443) |
| Return on plan assets less (greater) than net interest recognized | **41,140** | (14,379) |
| Effect of asset ceiling limit | **(5,999)** | 5,999 |
| | **$ (79,941)** | $ (67,914) |

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

| | **2022** | 2021 |
|---|---|---|
| Debt securities | **34.0 %** | 38.5 % |
| Equity securities | **43.7 %** | 42.8 % |
| Real estate assets | **19.6 %** | 15.5 % |
| Cash and cash equivalents | **2.7 %** | 3.2 % |

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 assets 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, 2022 was a loss of $32.4 million (2021 – gain of $26.0 million).

The Company expects to contribute $29.0 million to pension and other benefit plans in 2023, inclusive of defined contribution plans.

The weighted average duration of the defined benefit plan obligations as at December 31, 2022 was 15.9 years (2021 – 19.8 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, 2022, 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-employment Benefit Plans** | **Total** |
| Period-end discount rate | 1% increase | $ (35,081) | $ (1,312) | $ (36,393) |
| | 1% decrease | $ 44,835 | $ 1,536 | $ 46,371 |
| Mortality | Increase of 1 year in expected lifetime of plan participants | $ 4,849 | $ (248) | $ 4,601 |
| Trend rate | 1% increase | NA | $ 1,152 | $ 1,152 |

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.

## 21. CAPITAL MANAGEMENT

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

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:

| | **2022** | 2021 |
|---|---|---|
| Long-term debt | **$ 647,060** | $ 646,337 |
| *Less:* Cash and cash equivalents | **927,780** | 916,830 |
| Net debt | **(280,720)** | (270,493) |
| | | |
| Shareholders' equity | **2,325,359** | 1,953,329 |
| **Total capitalization** | **$ 2,044,639** | $ 1,682,836 |
| | | |
| **Net debt as a % of total capitalization** | **(14)%** | (16)% |
| **Net debt to equity** | **(0.12):1** | (0.14):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, 2022 and 2021.

There were no changes in the Company's approach to capital management during the years ended December 31, 2022 and 2021.

## 22. SUPPLEMENTAL CASH FLOW INFORMATION

| | **2022** | 2021 |
|---|---|---|
| Net change in non-cash working capital and other | | |
| Accounts receivable | **$ (127,738)** | $ 89,636 |
| Inventories | **(305,338)** | 7,983 |
| Accounts payable and accrued liabilities | **103,566** | (12,915) |
| Provisions | **2,249** | (1,241) |
| Deferred revenue and contract liabilities | **105,675** | 61,458 |
| Income taxes | **13,414** | (8,042) |
| Derivative financial instruments | **(3,165)** | (7,941) |
| Other | **(2,423)** | 384 |
| | **$ (213,760)** | $ 129,322 |
| | | |
| Cash paid during the year for: | | |
| Interest | **$ 24,775** | $ 26,162 |
| Income taxes | **$ 144,446** | $ 132,109 |
| | | |
| Cash received during the year for: | | |
| Interest | **$ 18,804** | $ 8,692 |
| Income taxes | **$ 2,708** | $ 3,712 |

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

| | Long-term Debt | Total |
|---|---|---|
| Balance, January 1, 2021 | $ 646,299 | $ 646,299 |
| Financing costs paid | (961) | (961) |
| Deferred financing costs | 999 | 999 |
| Balance, December 31, 2021 | $ 646,337 | $ 646,337 |
| **Deferred financing costs** | **723** | **723** |
| **Balance, December 31, 2022** | **$ 647,060** | **$ 647,060** |

## 23. COMMITMENTS

Future minimum lease payments under non-cancellable leases as at December 31, 2022 were $7.7 million within one year, $12.7 million within two and five years and $3.5 million thereafter.

## 24. 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 2.

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 for the years ended December 31, 2022 and 2021:

| | Equipment Group | | CIMCO | | Consolidated | |
|---|---|---|---|---|---|---|
| **Years ended December 31** | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Equipment/package sales | **$ 1,795,255** | $ 1,721,382 | **$ 173,273** | $ 208,854 | **$ 1,968,528** | $ 1,930,236 |
| Rentals | **452,140** | 387,755 | **—** | — | **452,140** | 387,755 |
| Product support | **1,621,948** | 1,405,128 | **177,710** | 152,399 | **1,799,658** | 1,557,527 |
| Power generation | **10,410** | 11,019 | **—** | — | **10,410** | 11,019 |
| **Total revenue** | **$ 3,879,753** | $ 3,525,284 | **$ 350,983** | $ 361,253 | **$ 4,230,736** | $ 3,886,537 |
| **Operating income** | **$ 597,677** | $ 450,950 | **$ 26,492** | $ 24,987 | **$ 624,169** | $ 475,937 |
| Interest expense | | | | | **27,338** | 28,161 |
| Interest and investment income | | | | | **(22,232)** | (9,027) |
| Income taxes | | | | | **164,865** | 124,093 |
| **Net earnings** | | | | | **$ 454,198** | $ 332,710 |

Operating income from rental operations for the year ended December 31, 2022 was $90.0 million (2021 – $57.9 million).

Selected consolidated statements of financial position information:

| | Equipment Group | | CIMCO | | Consolidated | |
|---|---|---|---|---|---|---|
| **As at December 31** | **2022** | 2021 | **2022** | 2021 | **2022** | 2021 |
| Identifiable assets | **$ 3,008,818** | $ 2,489,821 | **$ 155,371** | $ 122,771 | **$ 3,164,189** | $ 2,612,592 |
| Corporate assets | | | | | **1,017,936** | 971,204 |
| **Total assets** | | | | | **$ 4,182,125** | $ 3,583,796 |
| Identifiable liabilities | **$ 916,632** | $ 780,072 | **$ 83,347** | $ 70,039 | **$ 999,979** | $ 850,111 |
| Corporate liabilities | | | | | **856,787** | 780,356 |
| **Total liabilities** | | | | | **$ 1,856,766** | $ 1,630,467 |
| **Capital expenditures, net** | **$ 217,262** | $ 114,653 | **$ 9,131** | $ 21,729 | **$ 226,393** | $ 136,382 |
| **Depreciation expense** | **$ 152,884** | $ 147,482 | **$ 6,725** | $ 6,736 | **$ 159,609** | $ 154,218 |

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** | **2022** | 2021 |
|---|---|---|
| Canada | **$ 4,120,007** | $ 3,795,634 |
| United States | **109,706** | 87,745 |
| International | **1,023** | 3,158 |
| **Revenue** | **$ 4,230,736** | $ 3,886,537 |

| **As at December 31** | **2022** | 2021 |
|---|---|---|
| Canada | **$ 1,175,207** | $ 1,065,798 |
| United States | **5,486** | 4,328 |
| **Capital assets and goodwill** | **$ 1,180,693** | $ 1,070,126 |

## 25. 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:

| | **2022** | 2021 |
|---|---|---|
| Salaries | **$ 3,311** | $ 3,378 |
| Share options and DSU awards | **3,082** | 2,516 |
| Annual non-equity incentive based plan compensation | **3,495** | 3,200 |
| Pension costs | **754** | 640 |
| All other compensation | **131** | 150 |
| | **$ 10,773** | $ 9,884 |

## 26. ECONOMIC RELATIONSHIP

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