## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the year ended December 31, 2022 is prepared as at February 14, 2023, and should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2022.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A is presented in thousands of Canadian dollars unless otherwise noted.

Additional information about Toromont is available online at www.sedar.com and Toromont's website www.toromont.com.

### Use of Non-IFRS Financial Measures

The MD&A presents certain financial and operating performance measures that management believes provide meaningful information in assessing Toromont's underlying performance. Readers are cautioned that these measures may not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Accordingly, non-IFRS or non-Generally Accepted Accounting Principles ("GAAP") measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Definitions and a reconciliations of the Company's non-IFRS or non-GAAP measures are included in the "Additional GAAP Measures", "Non-GAAP Measures" and "Key Performance Indicators" sections of this report.

### Forward-Looking Information

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; inflationary pressures; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of COVID-19; changes in foreign exchange rates, including the Cdn$/US$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities and changes to environmental regulation; information technology failures, including data or cyber

security breaches; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; any requirement to make contributions or other payments in respect of registered defined benefit pension plans or postemployment benefit plans in excess of those currently contemplated; and increased insurance premiums. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections of Toromont's most recent annual Management Discussion and Analysis, as filed with Canadian securities regulators at www.sedar.com or at our website www.toromont.com Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

## CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2022, Toromont employed over 6,800 people in more than 160 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

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

CIMCO is a market leader in the design, engineering, fabrication, installation and after-sale support of refrigeration systems in industrial and recreational markets. Results of CIMCO are influenced by conditions in the primary market segments served: beverage and food processing; cold storage; food distribution; mining; and recreational ice rinks. CIMCO offers systems designed to optimize energy usage through proprietary

products such as ECO CHILL®. CIMCO has manufacturing facilities in Canada and the United States and sells its products and services globally.

## PRIMARY OBJECTIVE AND MAJOR STRATEGIES

The primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading "Key Performance Measures" in this MD&A) and each of its operating groups consistently employs the following broad strategies:

### Expand Markets

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

### Strengthen Product Support

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

### Broaden Product Offerings

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

### Invest in Resources

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

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

## Maintain a Strong Financial Position

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

## CONSOLIDATED ANNUAL OPERATING RESULTS

| *($ thousands, except per share amounts)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| **REVENUE** | **$ 4,230,736** | $ 3,886,537 | $ 344,199 | 9 % |
| Cost of goods sold | **3,097,150** | 2,916,769 | 180,381 | 6 % |
| Gross profit [1] | **1,133,586** | 969,768 | 163,818 | 17 % |
| Selling and administrative expenses | **509,417** | 493,831 | 15,586 | 3 % |
| **OPERATING INCOME [1]** | **624,169** | 475,937 | 148,232 | 31 % |
| Interest expense | **27,338** | 28,161 | (823) | (3)% |
| Interest and investment income | **(22,232)** | (9,027) | (13,205) | nm |
| Income before income taxes | **619,063** | 456,803 | 162,260 | 36 % |
| Income taxes | **164,865** | 124,093 | 40,772 | 33 % |
| **NET EARNINGS** | **$ 454,198** | $ 332,710 | $ 121,488 | 37 % |
| **BASIC EARNINGS PER SHARE** | **$ 5.52** | $ 4.03 | $ 1.49 | 37 % |
| **KEY RATIOS:** | | | | |
| Gross profit margin [1] | **26.8 %** | 25.0 % | | |
| Selling and administrative expenses as a % of revenue | **12.0 %** | 12.7 % | | |
| Operating income margin [1] | **14.8 %** | 12.2 % | | |
| Income taxes as a % of income before income taxes | **26.6 %** | 27.2 % | | |
| Return on capital employed [1] | **32.3 %** | 26.6 % | | |
| Return on equity [1] | **23.5 %** | 19.6 % | | |

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

The Company delivered strong bottom line results in 2022, reflecting a favourable sales mix (higher rentals and product support revenue to total revenue), improved gross margins and higher interest income on cash balances. Rental and product support revenue increased on good market activity. Equipment revenue increased after a slow start to the year caused by delays in product delivery. Supply chain constraints and general macro-economic factors such as inflation, higher interest rates, and lingering pandemic concerns have challenged the business in 2022, as well as disrupted historical trends and seasonality patterns, and are expected to continue to do so for the near to mid-term as we progress into 2023.

Revenue for the year increased 9% from prior year to $4.2 billion. Equipment Group revenue increased 10% compared to last year on higher product support, rental activity and equipment sales. CIMCO revenue decreased 3% versus last year, on lower package revenue partially offset by higher product support activity levels. Supply chain challenges continued to dampen revenue in 2022 in both operating groups and have delayed some deliveries and project completion into 2023.

Gross profit margin increased 180 basis points ("bps") to 26.8% versus 25.0% last year. The Equipment Group reported higher margins mainly on tight equipment supply, improved rental fleet utilization, higher product support activity levels and operating leverage. CIMCO margins increased on higher package margins, reflecting good execution and mix of projects in process. Sales mix was also favourable in both Groups, contributing 80 bps to margin, with a higher proportion of product support revenue to total revenue.

Selling and administrative expenses for the year increased $15.6 million or 3% compared to the prior year. Three items affect the comparability of expenses year over year. First, property dispositions resulted in pre-tax gains in both periods, $17.7 million in 2022 and $3.8 million in 2021. Secondly, a lower share price gave rise to a mark-to-market pickup on DSUs in the current year of $2.9 million, compared to an expense of $7.0 million in 2021 (which saw a higher share price year over year), a swing of $9.9 million. Finally, 2021 included a $5.0 million charge related to the settlement of certain defined pension benefit obligations for certain retirees, completed through an annuity purchase. Excluding these three items, selling and administrative expenses increased $44.4 million or 9%. Compensation costs increased approximately $24.0 million, reflecting higher staffing levels, regular salary increases, and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased as a result of higher activity levels and inflationary pressures. Allowance for doubtful accounts increased $4.5 million compared to last year on higher aged receivables and heightened concern over the current economic environment. Selling and administrative expenses were 70 basis points lower as a percentage of revenue (12.0% versus 12.7% last year).

Operating income increased $148.2 million or 31% in the year. Operating income margin increased 260 bps to 14.8%, reflecting the higher revenue, higher gross margins, favourable sales mix and lower relative expense levels.

Interest expense decreased $0.8 million on lower cost borrowings, inclusive of fees on stand-by credit facilities.

Interest and investment income increased $13.2 million or 146% in the year on higher average cash balances, higher interest rates, as well as, higher interest income earned on conversion of equipment on rent with a purchase option ("RPO").

The effective income tax rate for the year was 26.6% compared to 27.2% last year, reflecting the lower capital gains rate on the property disposition in the current year.

Net earnings for the year increased $121.5 million or 37% to $454.2 million from 2021. Basic earnings per share ("EPS") increased $1.49 or 37% to $5.52 in line with growth in earnings.

Other comprehensive income of $67.4 million in the year (2021 – comprehensive income of $56.1 million) included an actuarial gain on defined benefit pension and other post-employment benefit plans of $58.8 million (2021 – actuarial gain of $49.9 million). These gains reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favourable net change in the fair value of cash flow hedges of $7.5 million (2021 – favourable net change of $6.2 million). These changes reflect mark to market differences in the value of foreign exchange derivative contracts designated as cash flow hedges and are largely a function of the underlying USD/CAD exchange rates at period end compared to the contract date.

## BUSINESS SEGMENT ANNUAL OPERATING RESULTS

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

## Equipment Group

| *($ thousands)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Equipment sales and rentals | | | | |
| New | **$ 1,433,779** | $ 1,366,681 | $ 67,098 | 5 % |
| Used | **361,476** | 354,701 | 6,775 | 2 % |
| Rentals | **452,140** | 387,755 | 64,385 | 17 % |
| Total equipment sales and rentals | **2,247,395** | 2,109,137 | 138,258 | 7 % |
| Product support | **1,621,948** | 1,405,128 | 216,820 | 15 % |
| Power generation | **10,410** | 11,019 | (609) | (6)% |
| **Total revenue** | **$ 3,879,753** | $ 3,525,284 | $ 354,469 | 10 % |
| **Operating income** | **$ 597,677** | $ 450,950 | $ 146,727 | 33 % |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **41.8 %** | 39.9 % | | |
| Operating income margin | **15.4 %** | 12.8 % | | |
| Group total revenue as a % of consolidated revenue | **91.7 %** | 90.7 % | | |
| Return on capital employed | **29.7 %** | 23.8 % | | |

The Equipment Group delivered solid results in the year with strong market activity driving higher rentals and product support services. New equipment and parts supply chains remained challenging through most of the year, affecting product availability, delaying deliveries and slowing work-in-process. Gross margin improvement and favourable sales mix (higher rental and product support revenue to total revenue), coupled with lower expense levels on two one-time items, drove improvements in operating income.

Total equipment revenue (new and used) increased $73.9 million or 4% compared to 2021, a tough comparable. New equipment sales increased 5% in the year, as inventory supply constraints continue to delay deliveries to customers. Used equipment sales increased 2% year over year, dampened on lower rental fleet dispositions. Used equipment sales vary based on availability, either from rental fleet, trades or purchases. Overall, revenue by market segments was as follows for the year: construction markets lower -5%, mining up +53%, power systems up +9%, material handling lower -12%, and agriculture up 15%.

Rental revenue increased $64.4 million or 17% versus last year. All markets and most segments were up, reflecting continued improvement utilization on higher market activity, as well as continued investment in the heavy and light equipment fleet. Year-over-year revenue changes in each market were as follows: Light equipment rentals +17%, power systems +15%, heavy equipment rentals +20% and material handling +10%. As at December 31, 2022, the RPO fleet (rent with a purchase option) was $44.7 million versus $46.1 million a year ago, which continues to trend below pre-pandemic levels.

Product support revenue increased $216.8 million or 15%, with increases in both parts (up 16%) and service (up 14%). Activity was higher across all markets and in most regions as follows: construction markets +16%; mining +17%; power systems +8%; material handling +9%; and agriculture +12%.

Gross profit margin increased 180 bps to 27.1% from 25.3% in 2021. Margins increased across all revenue streams coupled with a favourable sales mix (higher product support and rental revenue to total revenue). Equipment margins were up 40 bps reflecting strong demand, sales mix and tight supply. Rental margins were up 60 bps on higher fleet utilization, as well as fleet optimization over the last year. Product support margins increased 20 bps on continued focus on efficiency as well as higher activity levels. Sales mix increased margin by 60 bps.

Selling and administrative expenses increased $12.9 million or 3% in 2022. In 2022, a property disposition reduced expenses by $17.7 million (2021 – property related gains of $3.8 million). Expenses in 2021 included a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these two items, expenses increased $31.8 million or 7% year over year, reflecting the higher activity levels. Compensation costs increased on higher headcount, annual salary increases and higher profit sharing on the increased earnings, partially offset by the mark-to-market adjustment on DSUs. Certain expenses such as travel and training have increased compared to the prior year which experienced tighter restrictions. Allowance for doubtful accounts increased $5.6 million on a larger balance of aged receivables. As a percentage of revenue, selling and administrative expenses were lower at 11.7% in 2022 versus 12.5% last year, reflecting the higher revenue and the two noted items in the current period.

Operating income increased $146.7 million or 33% and was 260 bps higher as a percentage of revenue (15.4% versus 12.8% last year) reflecting the higher revenue and gross margins, gain on property disposal, and lower relative expense levels.

## Capital expenditures

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| **Rental equipment** | | | | |
| Capital expenditures | **$ 214,693** | $ 117,759 | $ 96,934 | 82 % |
| Proceeds on disposals | **34,206** | 50,840 | (16,634) | (33)% |
| **Net expenditure** | **$ 180,487** | $ 66,919 | $ 113,568 | nm |
| | | | | |
| **Property, plant and equipment** | | | | |
| Capital expenditures | **$ 61,869** | $ 50,201 | $ 11,668 | 23 % |

Rental fleet additions increased in 2022, in both the heavy and light equipment rental fleets across Eastern Canada after two years of deliberate reduced investment, reflective of market conditions. Fleet dispositions, as measured by proceeds, have been curtailed in light of tight equipment supply.

Property, plant and equipment additions increased in 2022, as business activity improved. Capital expenditures in 2022 included:

- $19.6 million for land and buildings associated with facilities and new rental locations;
- $32.0 million for new and replacement service and delivery vehicles;
- $2.7 million for information technology infrastructure improvements and developments; and
- $7.6 million for other machinery and equipment for general operations.

## Bookings and Backlog

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Bookings – years ended December 31 | **$ 1,752.2** | $ 2,478.8 | $ (726.6) | (29)% |
| Backlog – as at December 31 | **$ 1,087.3** | $ 1,130.4 | $ (43.1) | (4)% |

Bookings and backlog can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries with customers, which are in turn reflective of economic factors and general activity levels, and the availability of equipment from either inventory or suppliers.

New bookings decreased in 2022 by $726.6 million or 29%, reflecting the tough comparable, as several large mining and construction orders were received in the prior year, which was also elevated by higher orders

following the downturn in 2020 during the height of the pandemic. Bookings in the following sectors were lower: construction (-34%), power systems (-11%), and mining (-41%), partially offset by higher orders in material handling (+28%) and agriculture (+10%). Bookings have increased 6% on a cumulative average annual growth rate since 2019, the pre-pandemic comparator.

Backlog of $1.1 billion was down by $43.1 million or 4%, reflecting slightly improved equipment delivery from manufacturers later in the year. At December 31, 2022, the breakdown of backlog by market was as follows: construction 39%; mining 30%; power systems 22%; agriculture 5%; and material handling 4%. Approximately 90% of the backlog is expected to be delivered in 2023, however this is subject to timing of vendor supply and customer delivery schedules.

## CIMCO

| *($ thousands)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Package sales | **$ 173,273** | $ 208,854 | $ (35,581) | (17)% |
| Product support | **177,710** | 152,399 | 25,311 | 17 % |
| **Total revenue** | **$ 350,983** | $ 361,253 | $ (10,270) | (3)% |
| **Operating income** | **$ 26,492** | $ 24,987 | $ 1,505 | 6 % |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **50.6 %** | 42.2 % | | |
| Operating income margin | **7.5 %** | 6.9 % | | |
| Group total revenue as a % of consolidated revenue | **8.3 %** | 9.3 % | | |
| Return on capital employed | **41.9 %** | 61.7 % | | |

CIMCO had a slow start to the year with delays in construction schedules dampening package sales, and against a tough comparable, which included several large projects in the prior year. Product support activity continued to increase with a larger technician workforce, and improving activity particularly in the recreational market. Operating income increased on higher gross margins and favourable sales mix of total product support revenue to total revenue, partially offset by higher expenses.

Package sales decreased $35.6 million or 17% versus 2021. Industrial market revenue was down 25% against a tough comparable that included several large projects in Canada in the prior year. Recreational market revenue remained relatively flat (up 3%) as an increase in the US (up 27%) was largely offset by a decrease in Canada (down 12%). Package revenue reflects the progress of project construction applying the percentage-of-completion method of accounting. This introduces a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers).

Product support revenue increased $25.3 million or 17% versus 2021 on higher activity levels in both Canada (up 19%) and the US (up 9%). Activity levels increased with the continued easing of pandemic restrictions, and a reopening of recreational centres after prolonged pandemic closure. Increased labour capacity including the increased technician base continues to support activity levels.

Gross profit margin increased 180 basis points versus last year to 23.8%. Package margins were up 120 bps, on improved execution and the nature of projects in process. Product support margins decreased 50 bps on execution and supply chain constraints. A favourable sales mix, with a higher proportion of product support revenue to total revenue, accounted for 110 bps of the increase.

Selling and administrative expenses increased $2.7 million or 5% versus last year. Allowance for doubtful accounts decreased $1.1 million reflecting focused collection activity. Travel and training expenses increased

to support activity and staffing levels. Expenditure control measures on discretionary spend remained in effect. Occupancy costs increased during the year as a result of the relocation of the Canadian head office to Burlington along with other related branch changes. As a percentage of revenue, selling and administrative expenses were unchanged at 15.9% in 2022 and 2021.

Operating income increased by $1.5 million or 6% in 2022, reflecting improved gross margins, in part due to sales mix, partially offset by lower package revenue. Operating income as percentage of revenue increased 60 bps to 7.5% compared to last year.

### Capital expenditures

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| **Property, plant and equipment** | **$ 9,206** | $ 21,729 | $ (12,523) | (58)% |

Capital expenditures in 2022 included final renovations of property for the new head office facility in Canada ($3.4 million). Other expenditures included new and replacement service vehicles ($3.8 million), other machinery and equipment for general operations ($0.8 million) and information technology enhancements and upgrades ($1.2 million). Investment in 2021 included $16.8 million for acquisition of the head office facility.

### Bookings and Backlog

| *($ millions)* | **2022** | 2021 | $ change | % change |
|---|---|---|---|---|
| Bookings – years ended December 31 | **$ 206.9** | $ 188.4 | $ 18.5 | 10 % |
| Backlog – as at December 31 | **$ 198.4** | $ 161.1 | $ 37.3 | 23 % |

Bookings increased $18.5 million or 10% to $206.9 million in 2022. Industrial bookings were up 10% with increases in both Canada (+9%) and the US (+18%), as overall activity continued to improve, following a slower start to the year, and with the ongoing easing of pandemic restrictions and stronger capital investment levels in some markets. Recreational bookings were up 9%, mainly on stronger bookings in the US, up 37%, which offset weaker bookings in Canada, down 9%, where investment is focused on return to operations after a period of prolonged closures.

Backlog of $198.4 million increased $37.3 million or 23% compared to 2021. Both the recreational and industrial backlog increased, in part reflecting the deferral or delay in construction schedules resulting from supply chain constraints. Recreational backlog increased in both Canada (up 30%) and the US (up 58%). Industrial backlog also increased in both Canada (up 5%) and the US (up 39%). Substantially all of the backlog is expected to be realized as revenue in 2023, however this is subject to construction schedules and potential changes stemming from supply chain constraints.

## CONSOLIDATED FINANCIAL CONDITION

The Company's strong financial position continued. At December 31, 2022, the ratio of net debt to total capitalization decreased to -14% (cash and cash equivalents exceeded debt) compared to -16% at December 31, 2021.

## Non-cash Working Capital

The Company's investment in non-cash working capital was $584.7 million at December 31, 2022. The major components, along with the changes from prior year, are identified in the following table.

| | | | Change | |
|---|---|---|---|---|
| *($ thousands)* | **2022** | 2021 | **$** | **%** |
| Accounts receivable | **$ 579,682** | $ 451,944 | $ 127,738 | 28 % |
| Inventories | **1,025,759** | 720,421 | 305,338 | 42 % |
| Other current assets | **17,444** | 13,994 | 3,450 | 25 % |
| Accounts payable and accrued liabilities | **(658,980)** | (544,512) | (114,468) | 21 % |
| Provisions | **(27,653)** | (25,404) | (2,249) | 9 % |
| Income tax payable | **(28,653)** | (15,239) | (13,414) | 88 % |
| Derivative financial instruments | **18,530** | 5,252 | 13,278 | nm |
| Dividends payable | **(32,104)** | (28,851) | (3,253) | 11 % |
| Deferred revenue and contract liabilities | **(309,349)** | (199,696) | (109,653) | 55 % |
| **Total non-cash working capital** | **$ 584,676** | $ 377,909 | $ 206,767 | 55 % |

Accounts receivable increased 28% from December 31, 2021, largely reflecting the higher trailing revenue (Q4 2022 was 20% higher than Q4 2021 revenue) and slightly slower collection activity. Days sales outstanding ("DSOs") increased 6 days to 42 days, with an increase in both the Equipment Group (up 7 days) and CIMCO (up 5 days). Collection activity and credit metrics are closely monitored, with added focus considering the current economic environment.

Inventories at December 31, 2022 were 42% higher compared to December 31, 2021, with increases in both Groups:

- Equipment Group inventories were up $290.6 million or 42% higher with increases in equipment (up $162.0 million or 40%), service work-in-progress (up $18.9 million or 27%), and parts inventories (up $109.8 million or 49%). Inventory levels are typically lowest at the end of a fiscal year due to seasonality, with inventories building during the year in advance of the typically busy selling period, however pandemic and economic factors have influenced customer buying patterns and overridden normal seasonality. Additionally, supply chain constraints have impacted the normal sales timeline as delays of equipment, parts and components delay final delivery to end customers. Increased orders in light of demand signals, as well as recent input price increases also serve to increase inventories.
- CIMCO inventories were up $14.7 million or 70% predominantly driven by higher work-in-process levels (up $12.8 million or 75%), along with parts inventories (up $1.9 million or 48%) reflecting higher service and project activity levels as well as delays in construction schedules.

Other current assets are comprised mainly of prepaid expenses, and vary over time based on timing of receipt of invoice and payment.

Accounts payable and accrued liabilities at December 31, 2022, were 21% higher than at December 31, 2021, reflecting higher activity levels and higher profit sharing accruals on higher earnings, partially offset by the lower DSU liability (lower number of units and lower share price).

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

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net gain of $18.5 million as at December 31, 2022. This is not

expected to affect net earnings as the unrealized gains will offset future losses on the related hedged items, either current accounts payable or future transactions.

Dividends payable increased year over year reflecting the increased dividend rate. Effective with the April 4, 2022 payment, the quarterly dividend rate was increased 11.4% from $0.35 per share to $0.39 per share.

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

- In the Equipment Group, these balances arise due to: progress billings from the sale of power and energy systems and long-term product support maintenance contracts; sales of equipment with residual value guarantees; and, customer deposits for equipment to be delivered in the future. These balances increased $98.2 million or 55.3%, in 2022, generally on timing of progress billings under long-term contracts, as well as customer deposits for future equipment deliveries.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages and vary depending on timing of billings compared to customer's construction schedules. These balances increased $11.4 million or 51.7%, reflecting the timing of billings compared to revenue recognized under the percentage-of-completion method.

**Goodwill and Intangibles**

The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate using the fair value less cost to sell valuation method. This assessment affirmed goodwill and intangibles values as at December 31, 2022, as outlined in note 8 of the notes to the annual consolidated financial statements.

**Employee Share Ownership**

The Company employs a variety of share-based compensation plans to align employees' interests with corporate objectives. Certain programs are offered to to all employees, while other programs are offered selectively to executives, senior managers and directors.

<u>Executive Stock Option Plan</u>

Stock options have a 10-year life, vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. As at December 31, 2022, 2.0 million options to purchase common shares were outstanding, of which 0.9 million were exercisable. Directors do not participate in the option program.

<u>Long-Term Incentive Program</u>

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 Purchase Plan

Employees may purchase shares by way of payroll deductions. The Company matches employee contributions at a rate of $1 for every $3 contributed, to a maximum of 2.5% of an employee's base salary per annum. Company contributions prior to 2019 vested to the employee immediately, while contributions in 2019 onwards vest five years from date of contribution. Company contributions amounting to $3.8 million in 2022 (2021 – $3.3 million) were charged to selling and administrative expense when paid. Approximately 49% of employees participate in the plan (2021 – 41%), which is administered by an independent third party.

Deferred Share Units ("DSU")

A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs may be redeemed only on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. Executives and senior managers may elect, on an annual basis, to receive all or a portion of their performance incentive bonus in DSUs. Non-employee directors received 55% of their annual compensation in the form of DSUs and may also elect to receive some or all of their remainder compensation in DSUs. The Company records the cost of the DSU plan as compensation expense in selling and administrative expenses. Units credited prior to September 2022 will be cash-settled while units elected or granted after that date will be share-settled. As at December 31, 2022, 190,128 cash-settled DSUs were outstanding with a total value of $18.5 million (2021 – 202,969 units at a value of $23.1 million). The liability for cash-settled DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position. As at December 31, 2022, 7,534 share-settled DSUs were outstanding. Share-settled DSUs are credited to contributed surplus at time of grant.

**Employee Future Benefits**

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

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

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

Defined Contribution Plans

In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents. As at December 31, 2022, approximately 4,425 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Pension Plans

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

The funded status of these plans improved by $73.3 million during 2022 (a reduction in post employment obligations). Actuarial gains, largely related to a higher discount rate reduced the defined benefit obligation by $111.7 million. Declines in capital markets resulted in a negative return on plan assets, reducing the funded position by $42.8 million, net of the interest expense on the obligation.

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

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

Post-employment Benefit Plans

The Company sponsors defined benefit plans, which provide supplementary post-employment health and life insurance coverage to certain employees. The Company is not obligated to fund the plans but is obligated to pay benefits as they come due. The plan is closed to new entrants.

See notes 2, 3 and 20 to the audited consolidated financial statements for further information

## Legal and Other Contingencies

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

## 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.

### Shareholder Rights Plan ("SRP")

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

### Outstanding Share Data

As at the date of this MD&A, the Company had 82,318,159 common shares and 1,967,892 share options outstanding.

### Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate of approximately 30 - 40% of trailing earnings from continuing operations.

In February 2022, the quarterly dividend was increased by 11.4% or 4 cents per share, to 39 cents per common share, effective with the April payment. In 2022, the Company declared dividends of $1.56 per common share (2021 – $1.36 per common share).

Considering the Company's strong financial position and positive long-term outlook, the Board of Directors increased the quarterly dividend by 10.3% to 43 cents per share effective with the dividend payable on April 4, 2023, to shareholders on record on March 9, 2023. Toromont has paid dividends every year since 1968 and this is the 34rd consecutive year of dividend increases.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of Liquidity

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

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

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).

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

The Company expects that continued cash flows from operations in 2023, together with cash and cash equivalents on hand (2022 – $927.8 million) and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital, capital assets and dividend payments through the next 12 months. The Company's credit ratings will also continue to provide access to capital markets to facilitate future debt issuance. The Company also has a certain degree of flexibility in its operating and investing plans to mitigate fluctuations.

### Principal Components of Cash Flow

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| **Cash and cash equivalents, beginning of year** | **$ 916,830** | $ 591,128 |
| Cash, provided by (used in): | | |
| **Operating activities** | | |
| Operations | **601,927** | 480,745 |
| Change in non-cash working capital and other | **(213,760)** | 129,322 |
| Net rental fleet additions | **(171,214)** | (67,343) |
| | **216,953** | 542,724 |
| **Investing activities** | **(44,333)** | (68,869) |
| **Financing activities** | **(162,159)** | (148,143) |
| Effect of foreign exchange on cash and cash equivalents balances | **489** | (10) |
| **Increase in cash and cash equivalents during the year** | **10,950** | 325,702 |
| **Cash and cash equivalents, end of year** | **$ 927,780** | $ 916,830 |

<u>Cash Flows from Operating Activities</u>

Operating activities provided cash in both 2022 and 2021.

Cash generated from operations increased 25% from 2021 primarily on the higher net earnings.

Non-cash working capital and other used cash in 2022, as higher inventory and account receivables, were only partially offset by higher account payables and customer deposits. The remaining working capital accounts had a more modest overall impact, with lower income tax installments and higher derivative contracts. Inventory levels have increased on market activity, customer demand signals and supply chain constraints, while higher account receivables reflect the higher sales volume and slower collections experienced.

Non-cash working capital provided cash in 2021, largely on a reduction of inventory levels due to supply chain constraint limitations, lower account receivables on lower trailing sales coupled with good collection activity and higher deferred revenue including customer deposits.

Net rental fleet additions (purchases less proceeds of dispositions) increased by $103.9 million in 2022 compared to 2021. The Company increased investment in both the heavy and light equipment rental fleets across Eastern Canada after two years of deliberate reduced investment, reflective of market and supply conditions.

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

Cash Flows from Investing Activities

Investing activities used $44.3 million in 2022 compared to $68.9 million in 2021.

Toromont invested $69.3 million in 2022 in property, plant and equipment (2021 – $71.2 million), as follows:

- $22.8 million additions for land, buildings and construction in process for new and upgraded facilities across the business (2021 – $37.4 million);
- $34.8 million for normal replacement of service and delivery vehicles (2021 – $24.7 million);
- $3.6 million for upgrades and enhancements to information technology infrastructure and office furniture (2021 – $4.0 million); and
- $8.1 million for machinery and equipment replacements and upgrades (2021 – $5.1 million).

In 2022, the Company sold a property for proceeds of $24.0 million resulting in a capital gain of $17.7 million or $15.4 million after-tax. Total disposition proceeds for 2022 were $25.2 million. Dispositions in 2021 generated $2.5 million in proceeds.

Cash Flows from Financing Activities

For the year ended December 31, 2022, financing activities used $162.2 million (2021 – used $148.1 million) in cash, major uses and sources of cash during the year included:

- Dividends paid to common shareholders of $125.2 million or $1.52 per share (2021 – $109.1 million or $1.32 per share);
- Cash received on exercise of share options of $20.6 million (2021 – $21.8 million);
- Purchase of shares under the NCIB program used $48.5 million (2021 – $50.0 million); and
- Lease liability payments of $9.1 million (2021 – $9.9 million).

## OUTLOOK

The health and safety of our employees and customers continues to be our top priority. We continue to monitor closely the developments and potential impacts related to the pandemic and follow closely public health authority recommendations.

We are also closely monitoring global economic factors, in particular, inflationary pressures from price and wage increases, including increases from our key suppliers. We strive to continuously improve our operations efficiency and learn from our experience over the last several years by leveraging the use of technology and innovative ways to engage with customers, employees and other partners with reduced discretionary spending.

The challenges in the global supply chain resulted in delivery date delays for equipment, components and parts. There has been improvement in specific model deliveries. and this is expected to continue. We continue to actively manage supply chain constraints by taking appropriate mitigation steps in collaboration with our key suppliers and our customers, such as actively sourcing used equipment, optimizing preparation time on equipment, and offering rebuilds and rental options. We expect a tight supply environment on certain models to persist for the near to mid term.

The Equipment Group's parts and service business provides stability supported by a large and diversified installed base of equipment. The long-term outlook for infrastructure projects and other construction activity is positive across most territories although tied somewhat to the general economic climate which is increasingly uncertain. Mining customers and our operations that support them continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion will remain dependent on global economic and financial conditions.

Investment continues in broadening product lines and service offerings, expanding and enhancing the branch network, optimizing rental fleets, and using technologies to create efficiency and effectiveness across the organization. Integration and alignment of operating processes and systems, best practices and culture, continues across our territory. Product support technologies, such as remote diagnostics, telematics and digital information models support and expand our strategic platform.

CIMCO's installed base supports current and future operations and growth trends. CIMCO has a wide product offering using natural refrigerants including innovative $CO_2$ solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides growth opportunities. Current backlog is supportive of future activity. Inflationary costs and competitive market conditions continue to challenge package revenue growth opportunities.

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

## CONTRACTUAL OBLIGATIONS

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

### Payments due by year

| *($ thousands)* | 2023 | 2024 | 2025 | 2026 | 2027 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Long-term debt | | | | | | | |
| Principal | $ — | $ — | $ 150,000 | $ — | $ 500,000 | $ — | **$ 650,000** |
| Interest | 24,765 | 24,765 | 23,374 | 19,200 | 16,000 | — | **108,104** |
| Accounts payable and accrued liabilities | 691,084 | — | — | — | — | — | **691,084** |
| Lease liabilities | 7,721 | 5,949 | 3,161 | 2,192 | 1,374 | 3,484 | **23,881** |
| | $ 723,570 | $ 30,714 | $ 176,535 | $ 21,392 | $ 517,374 | $ 3,484 | **$1,473,069** |

The above table does not include obligations related to defined benefit pension plans. Regular contributions are made to registered defined benefit pension plans in order to fund the pension obligations as required. Funding levels are monitored regularly and reset with new actuarial funding valuations at least every three years. Contributions in 2022 totaled $10.8 million, including certain defined benefit pension payments, which are made directly by the Company. Based on the most recent valuations completed, funding contributions and pension payments are expected to be approximately $12.3 million in 2023.

## KEY PERFORMANCE MEASURES

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

| Years ended December 31 | **2022** | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS** | | | | | |
| Revenue growth | **8.9 %** | 11.7 % | (5.4)% | 5.0 % | 49.1 % |
| Revenue per employee (thousands) | **$ 637** | $ 625 | $ 554 | $ 575 | $ 573 |
| **STRENGTHENING PRODUCT SUPPORT** | | | | | |
| Product support revenue growth | **15.5 %** | 5.3 % | (4.4)% | 10.1 % | 60.4 % |
| **INVESTING IN OUR RESOURCES** | | | | | |
| Investment in information technology (millions) | **$ 36.0** | $ 35.2 | $ 37.7 | $ 34.8 | $ 27.4 |
| Return on capital employed [(1)] | **32.3 %** | 26.6 % | 20.4 % | 22.9 % | 21.7 % |
| **STRONG FINANCIAL POSITION** | | | | | |
| Non-cash working capital (millions) [(1)] | **$ 584.7** | $ 377.9 | $ 486.8 | $ 463.7 | $ 309.5 |
| Net debt to total capitalization [(1)] | **(14)%** | (16)% | 3 % | 15 % | 18 % |
| Book value (shareholders' equity) per share | **$ 28.25** | $ 23.69 | $ 20.60 | $ 18.70 | $ 16.35 |
| **BUILD SHAREHOLDER VALUE** | | | | | |
| Basic earnings per share growth | **37.0 %** | 30.0 % | (11.9)% | 13.5 % | 39.4 % |
| Growth in dividends declared per share | **14.7 %** | 9.7 % | 14.8 % | 17.4 % | 21.1 % |
| Return on equity [(1)] | **23.5 %** | 19.6 % | 16.6 % | 21.4 % | 22.3 % |

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

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has delivered steady growth. Activity and results in 2022 and 2021 have seen a gradual improvement from the height of the pandemic. The Company delivered good operating performance, financial results, cash generation and financial position through a challenging and changing business environment. Results in 2020 reflect the pandemic which resulted in lower economic activity levels in our markets, negatively impacting many of the key performance measures. Through the pandemic, Toromont remained focused on three priorities, namely, safeguarding our employees, servicing our customers' needs and protecting our business for the future.

The addition of the Québec and Maritimes territories in October 2017, provided a larger platform for continued growth. The 2018 amounts shown above include one full year of operations in the acquired territories, and are fully comparable from 2018 to 2022.

Since 2018, revenue increased at an average annual rate of 13.9%, with product support growing at 17.4% annually. Over this period, growth in revenue has resulted from:

- Optimizing acquired territories operations and go-to-market strategies to increase market share;
- Increased customer demand in certain market segments, most notably construction and mining;
- Organic growth through increased rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Additional product offerings over the years from Caterpillar and other suppliers; and
- Governmental funding programs that provide support for infrastructure spending.

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

- The COVID-19 pandemic, declared in March 2020, which resulted in a significant downturn in economic activity and disruption of normal operations. Site restrictions and closures impacted the timing of construction and delivery schedules, as well as product supply and demand,
- Inability to source equipment and parts from suppliers to meet customer demand or delivery schedules, as a result of specific supplier issues or more recently due to global supply chain disruption caused by the pandemic;
- Economic weakness and uncertainty, both generally and in specific markets or sectors;
- Volatility in commodity prices;
- Competitive conditions;
- Inflationary pressures and rising interest rates; and
- Inability to hire necessary skilled technicians to service market demand.

Changes in the Canadian/US exchange rate also affect reported revenue as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2018, the average annual exchange rate of the Canadian dollar against the US dollar has varied from $0.75 to $0.80, however, there have been periods of higher volatility, with the dollar ranging from a low of $0.69 to a high of $0.83.

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

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization, was -14% at the end of 2022 compared to -16% at the end of 2021. Since 2018, strong cash generation has allowed the Company to invest in the business while reducing debt levels.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 34 years. The Company declared dividends of $1.56 per common share in 2022, or $0.39 per quarter (2021 – $1.36 per common share (increase of 14.7%).

## CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except per share amounts)* | **2022** | 2021 | $ change | % change |
| **REVENUE** | **$ 1,150,097** | $ 956,035 | $ 194,062 | 20 % |
| Cost of goods sold | **826,025** | 686,785 | 139,240 | 20 % |
| Gross profit | **324,072** | 269,250 | 54,822 | 20 % |
| Selling and administrative expenses | **111,590** | 120,480 | (8,890) | (7)% |
| **OPERATING INCOME** | **212,482** | 148,770 | 63,712 | 43 % |
| Interest expense | **6,786** | 6,889 | (103) | (1)% |
| Interest and investment income | **(8,799)** | (2,827) | (5,972) | nm |
| Income before income taxes | **214,495** | 144,708 | 69,787 | 48 % |
| Income taxes | **54,633** | 39,118 | 15,515 | 40 % |
| **NET EARNINGS** | **$ 159,862** | $ 105,590 | $ 54,272 | 51 % |
| **BASIC EARNINGS PER SHARE** | **$ 1.94** | $ 1.28 | $ 0.66 | 52 % |
| **KEY RATIOS:** | | | | |
| Gross profit margin | **28.2 %** | 28.2 % | | |
| Selling and administrative expenses as a % of revenue | **9.7 %** | 12.6 % | | |
| Operating income margin | **18.5 %** | 15.6 % | | |
| Income taxes as a % of income before income taxes | **25.5 %** | 27.0 % | | |

The Company ended the year with solid fourth quarter results on strong execution from our teams. Net earnings in the fourth quarter of 2022 included a $15.4 million gain related to a property disposition. Higher revenue and good expense control drove positive results in the Equipment Group. Results at CIMCO were unchanged from the similar period last year as higher revenue was largely offset by higher expenses.

Revenue increased 20% to $1.2 billion, with the Equipment Group up 22% and CIMCO up 7%. Rental and product support revenue continued to increase on good market activity. Equipment sales delivery improved slightly as equipment and parts were received from suppliers, however supply constraints remain in effect. Package sales increased in the fourth quarter as project schedules progressed.

Gross profit margin was unchanged at 28.2% in the quarter, with higher gross margins in the Equipment Group being offset by lower gross margins at CIMCO. Overall sales mix was unfavourable down 30 bps with lower product support and rental revenue to total.

Selling and administrative expenses decreased $8.9 million or 7% in the fourth quarter compared to the prior year. In 2022, a property disposition reduced expenses by $17.7 million. Expenses in 2021 include a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these items, expenses were up $13.9 million or 12% in the quarter. Compensation costs were higher reflecting increased staffing levels and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased in light of activity levels and inflationary pressures. Allowance for doubtful accounts increased $0.5 million in the quarter, reflecting a larger balance of aged receivables. Selling and administrative expenses were 290 basis points lower as a percentage of revenue (9.7% versus 12.6% last year) largely due to the impact of the two aforementioned items.

Operating income increased $63.7 million or 43% reflecting the higher revenue and property disposition gain. Operating income margin increased 290 bps to 18.5%.

Interest expense decreased $0.1 million in the quarter due to lower financing costs related to credit facilities.

Interest income increased $6.0 million resulting from higher interest earned on average cash and cash equivalents balances, reflective of market interest rates and on higher interest from conversions of RPOs.

The effective income tax rate for the fourth quarter was 25.5% compared to 27.0% in 2021, mainly as a result of the lower capital gains rate on the property disposition.

Net earnings in the quarter increased $54.3 million or 51% to $159.9 million. Basic EPS increased $0.66 or 52% to $1.94 versus $1.28 in 2021.

## BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

### Equipment Group

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except as noted)* | **2022** | 2021 | $ change | % change |
| Equipment sales and rentals | | | | |
| New | **$ 413,731** | $ 313,232 | $ 100,499 | 32 % |
| Used | **85,497** | 78,878 | 6,619 | 8 % |
| Rentals | **124,538** | 112,742 | 11,796 | 10 % |
| Total equipment sales and rentals | **623,766** | 504,852 | 118,914 | 24 % |
| Product support | **428,164** | 359,403 | 68,761 | 19 % |
| Power generation | **2,489** | 2,715 | (226) | (8)% |
| **Total revenue** | **$ 1,054,419** | $ 866,970 | $ 187,449 | 22 % |
| **Operating income** | **$ 198,563** | $ 135,302 | $ 63,261 | 47 % |
| | | | | |
| **Bookings ($ millions)** | **$ 405.5** | $ 618.9 | $ (213.4) | (34)% |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **40.6 %** | 41.5 % | | |
| Operating income margin | **18.8 %** | 15.6 % | | |
| Group total revenue as a % of consolidated revenue | **91.7 %** | 90.7 % | | |

The Equipment Group delivered solid results in the quarter, as equipment deliveries from suppliers allowed for the delivery against backlog orders. Rental and product support activity also increased. Higher revenue coupled with lower expense ratios drove improvements in operating income.

Total equipment sales (new and used) increased $107.1 million or 27%. New equipment sales increased 32% on good deliveries in the mining, power systems, material handling and agriculture markets, while on-going inventory supply constraints continued to dampen deliveries in the construction market. Used equipment sales were up 8%, dampened slightly by lower rental fleet dispositions. Overall, revenue change by market segment was as follows for the quarter: mining +275%, power systems +27%, material handling +38%, agricultural +24%, and construction -2%.

Rental revenue increased $11.8 million or 10%. Most markets and segments were higher reflecting improved utilization on higher market activity. The following markets resulted in revenue growth in the quarter: Light equipment rentals +13%, heavy rental in the construction market +41%, and material handling +6%. Power rentals were down 11% while rental revenue from RPO equipment was down 31%, both against a tough comparable last year.

Product support revenue increased $68.8 million or 19% on higher parts and service both up 19%. Activity levels were good across most market segments and regions. Activity was higher across all markets and in most regions as follows: construction markets +14%; mining +24%; power systems +28%; material handling +11%; and agriculture +44%.

Gross margins increased 10 bps in the quarter versus last year, across all revenue streams, largely offset by sales mix. Equipment margins were up 30 bps, mainly reflecting mix of equipment product lines sold. Product support margins increased 20 bps, reflecting improved efficiency on higher volumes. Rental gross margins were up 10 bps, reflecting improved activity and fleet utilization. Sales mix was unfavourable (down 50 bps) with a higher proportion of equipment sales to total revenue.

Selling and administrative expenses decreased $9.9 million or 9%. During the quarter a property was disposed leading to a gain of $17.7 million. Expenses in 2021 included a $5.0 million charge for the settlement of defined benefit pension obligations for certain retirees. Excluding these two items, expenses increased $16.6 million or 15% in the quarter, reflecting the higher activity levels. Compensation costs were higher reflecting increased staffing levels and increased profit sharing accruals on the higher income. Other expenses such as training, travel and occupancy costs have increased in light of activity levels and inflationary pressures. Allowance for doubtful accounts increased $2.5 million in the quarter, reflecting a larger balance of aged receivables.

Operating income increased $63.3 million or 47% in the quarter. Operating income was 18.8% as a percentage of revenue, an increase of 320 bps versus the comparable period last year, mainly reflecting the lower related expenses inclusive of the property gain.

Bookings decreased $213.4 million or 34% to $405.5 million reflecting a strong prior year comparable that included several large mining and construction orders. Bookings in the prior year also reflected a general customer order preference given the supply constraints and economic environment expected at that time. Bookings for the fourth quarter were down in the construction (-60%) and power systems (-25%) sectors, partially offset by higher orders in mining (+45%), agriculture (+17%) and material handling (+6%).

## CIMCO

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except as noted)* | **2022** | 2021 | $ change | % change |
| Package sales | **$ 48,889** | $ 48,103 | $ 786 | 2 % |
| Product support | **46,789** | 40,962 | 5,827 | 14 % |
| **Total revenue** | **$ 95,678** | $ 89,065 | $ 6,613 | 7 % |
| **Operating income** | **$ 13,919** | $ 13,468 | $ 451 | 3 % |
| | | | | |
| **Bookings ($ millions)** | **$ 45.5** | $ 55.9 | $ (10.4) | (19)% |
| **KEY RATIOS:** | | | | |
| Product support revenue as a % of total revenue | **48.9 %** | 46.0 % | | |
| Operating income margin | **14.5 %** | 15.1 % | | |
| Group total revenue as a % of consolidated revenue | **8.3 %** | 9.3 % | | |

Revenue in the fourth quarter increased on the continued stronger product support activity levels. Package sales picked up slightly as project schedules progressed with good execution. Operating income increased due to the higher revenue, which was dampened by weaker gross margins and higher expenses.

Package revenue increased $0.8 million or 2% in the quarter compared to last year, on the progression of construction schedules. In Canada revenue was down 10%, in both the industrial (-9%) and recreational markets (-14%). Equipment supply issues and customer delays have deferred some projects to 2023. In the US, package sales were up 53% on strong market activity, in both the recreational (+45%) and industrial markets (+67%).

Product support revenue increased $5.8 million or 14% from last year in both Canada (+15%) and the US (+12%). Activity levels continued to improve with the easing of pandemic restrictions, and a reopening of recreational centres resuming winter activities after prolonged pandemic closure. The increased technician base continues to support activity levels.

Gross margins decreased 70 bps in the quarter, on inflationary factors and supply chain constraints. Product support margins were 50 bps lower while package margins were 40 bps lower, slightly offset by a favourable sales mix of a higher proportion of product support revenue to total revenue (up 20 bps).

Selling and administrative expenses increased $1.0 million or 7%. Allowance for doubtful accounts decreased $2.0 million from the similar period last year reflecting focused efforts on collections. All other expenses, including compensation, travel and training, on higher staffing levels and normal annual salary increases. Expenses in the fourth quarter of 2021 were lower reflecting accrual adjustments following the implementation of the new payroll and HRIS system last year, not repeated in the current year.

Operating income increased $0.5 million in the quarter versus a year ago, as higher revenue was dampened by lower gross margins and higher selling and administrative expenses. As a percentage of revenue, operating income decreased to 14.5% in 2022, from 15.1% in 2021.

Bookings decreased $10.4 million or 19% to $45.5 million on lower orders in both Canada and the US. Timing of decisions by customers and receipt of orders can vary from period to period. Bookings were down 12% in Canada and 31% in the US, however were up in both markets on a full year basis.

## QUARTERLY RESULTS

The following table summarizes quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2022 annual audited consolidated financial statements.

| *($ thousands, except per share amounts)* | **Q4 2022** | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 | Q1 2021 |
|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | |
| Equipment Group | **$1,054,419** | $1,045,493 | $ 993,214 | $ 786,627 | $ 866,970 | $ 914,386 | $1,016,545 | $ 727,383 |
| CIMCO | **95,678** | 94,106 | 87,683 | 73,516 | 89,065 | 82,812 | 110,521 | 78,855 |
| Total revenue | **$1,150,097** | $1,139,599 | $1,080,897 | $ 860,143 | $ 956,035 | $ 997,198 | $1,127,066 | $ 806,238 |
| **NET EARNINGS** | **$ 159,862** | $ 123,123 | $ 111,681 | $ 59,532 | $ 105,590 | $ 93,764 | $ 85,400 | $ 47,956 |
| **PER SHARE INFORMATION:** | | | | | | | | |
| Basic earnings per share | **$ 1.94** | $ 1.50 | $ 1.35 | $ 0.72 | $ 1.28 | $ 1.13 | $ 1.03 | $ 0.58 |
| Diluted earnings per share | **$ 1.93** | $ 1.49 | $ 1.34 | $ 0.72 | $ 1.27 | $ 1.12 | $ 1.02 | $ 0.58 |
| Dividends paid per share | **$ 0.39** | $ 0.39 | $ 0.39 | $ 0.35 | $ 0.35 | $ 0.35 | $ 0.31 | $ 0.31 |
| Weighted average common shares outstanding – basic (in thousands) | **82,279** | 82,183 | 82,433 | 82,467 | 82,401 | 82,705 | 82,587 | 82,499 |

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

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

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

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

In 2020 and 2021, these patterns were disrupted by the governmental and market response and reaction to COVID-19. In 2021, demand for equipment was stronger through the first nine months of the year, reflecting both delayed purchasing from 2020, as well as stronger order flow in light of global supply chain disruptions, thus impacting revenue in the fourth quarter. In 2022, patterns have been disrupted by supply chain pressures impacting the timing of receipt and delivery of products and services to final customers.

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

Market and economic factors including the COVID-19 pandemic, local and global economic factors, and supply chain issues have affected and may continue to impact these trends. There can be no certainty that this historical seasonal pattern will recur in the future.

## SELECTED ANNUAL INFORMATION

| *($ thousands, except per share amounts)* | | **2022** | | 2021 | | 2020 |
|---|---|---|---|---|---|---|
| Revenue | **$** | **4,230,736** | $ | 3,886,537 | $ | 3,478,897 |
| Net earnings | **$** | **454,198** | $ | 332,710 | $ | 254,915 |
| Earnings per share ("EPS") | | | | | | |
| Basic | **$** | **5.52** | $ | 4.03 | $ | 3.10 |
| Diluted | **$** | **5.47** | $ | 4.00 | $ | 3.09 |
| Dividends declared per share | **$** | **1.56** | $ | 1.36 | $ | 1.24 |
| Total assets | **$** | **4,182,125** | $ | 3,583,796 | $ | 3,346,792 |
| Total long-term debt | **$** | **647,060** | $ | 646,337 | $ | 646,299 |
| Weighted average common shares outstanding - basic (in millions) | | **82.3** | | 82.5 | | 82.2 |

Revenue increased 9% in 2022 versus the prior year. Equipment Group revenue increased 10% on growth in equipment sales, rental revenue and product support activity, reflecting the increase in demand as pandemic restrictions eased compared to 2021. CIMCO revenue decreased 3% versus a tough comparable, which included several large industrial construction projects, while product support activity increased year over year with the higher technician workforce. Supply chain challenges continued to constrain revenue in 2022 in both operating groups.

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

Net earnings increased 37% in 2022, mainly reflecting the 9% increase in revenue and improved gross margins in both the Equipment Group and CIMCO, partially offset by higher selling and administrative expenses. Net financing costs were lower on higher interest earned on cash balances year over year.

Net earnings increased 31% in 2021 compared to 2020, largely reflecting the 12% increase in revenue, improved gross margins in the Equipment Group, and a lower relative level of selling and administrative expenses to sales reflecting cost reductions implemented as a result of the pandemic. Financing costs were lower on a lower total value of committed credit facilities year over year.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate increased: in 2020 by 14.8% to $0.31 per share; in 2021 by 12.9% to $0.35; and in 2022 by 11.4% to $0.39 per share. The Company has paid dividends every year since 1968.

Total assets increased 17% in 2022, reflecting higher working capital and other investment levels in support of elevated activity levels. Inventory levels increased due to demand signals, a tight supply environment, as well as recent input price increases. Accounts receivable increased on the higher trailing revenue, and an increase in DSO. Investments in capital assets have been made to support growth initiatives and expand the rental fleets. In 2021, total assets increased 7% compared to 2020, largely on higher cash balances coupled with investments in capital assets to support growth, while focused collections on account receivables reduced DSO and inventory levels were constrained due to strong demand and supply chain delays.

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

## RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to risks that may potentially impact its business, results of operations and financial condition. The Company and each operating segment employ risk management strategies with a view to identifying, mitigating, and reporting on these risks.

We maintain a strong risk management culture to protect and enhance shareholder value. The Board reviews all material risks in detail on an annual basis. The Audit Committee and Board also reviews the adequacy of disclosures of key risks on a quarterly and annual basis.

### Business Cycle

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

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

We rely on Caterpillar to supply financing to our customers. In periods of global credit market disruption, Caterpillar may tighten sources or terms of financing for our customers. In the current economic climate, our customers may have limited access to financing from Caterpillar or alternate sources such as financial institutions. Disruption in Caterpillar's or our customers' access to liquidity, due to the effects of the pandemic or otherwise, could have a material adverse impact on our business, results of operations and financial condition.

The business of the Company is diversified across a wide range of industry market segments, serving to temper the effects of business cycles on consolidated results. Continued diversification strategies such as expanding the Company's customer base, broadening product offerings and geographic diversification are designed to moderate business cycle impacts. Product support activity has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle as it is typically subject to less volatility than equipment supply activities. We mitigate the economic risks associated with lower business volumes at a regional level through cost reduction initiatives and through constant evaluation of efficiency and process improvements. No assurances can be given that our mitigating steps will offset the impact of these economic risks.

## Product and Supply

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

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

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

The general supply chain is also affected by other factors, including global demand and economic factors, more recently resulting in key component and parts shortages and longer order and shipment times for equipment and parts. We continue to monitor these issues as they could adversely affect our business, results of operations, and financial condition.

In addition, new digital and other technologies and advancements to equipment in the market, such as equipment electrification, can become disruptive to our operations, market share and business model. We scan continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In order to face this disruption risk, our digital and technology solutions initiatives are focused on investigating emerging digital technologies to determine how they can impact customers and our core business opportunities, improving the customer experience, and identifying and pursuing new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, our failure to meet these objectives could have an adverse impact on our business.

## Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company's ability to compete throughout its market areas including the range and quality of products and services including digital performance solutions, ability to meet sophisticated customer requirements,

distribution capabilities including number and proximity of locations, financing offered by Caterpillar Finance, e-commerce solutions, reputation and financial strength.

We may encounter increased competition in the future through new entrants in the market and the expansion of suppliers' e-commerce channels for parts and equipment sales, which may also put pressure on prices. We may also encounter competition through the introduction of digitally enabled or digitally enhanced value-added services from third parties, including potential new non-traditional entrants into the market. In addition, pressure on prices may occur as a result of increased data in the marketplace, increasing price transparency and customers' pursuit of value-added services, which would put commoditization pressure on equipment, core physical parts and service sales.

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

**Health and Safety**

Certain hazards and risks are inherent in the Company's operations, with the potential for serious injury, loss of life and damage to property, which could result in negative financial and/or reputational impacts.

To mitigate these risks, a comprehensive and standardized health and safety program is in place, which includes leadership walkthroughs, training, inspections, supervisory observations, safety standards for critical operations, safe work procedures, job hazard assessments, incident investigations, emergency preparedness, industrial hygiene assessments and other measures focused on maintaining a safe and healthy work environment. To make the application of the different safety processes easier for employees and enable data analysis, some of the key processes are supported by digital tools such as electronic job hazard assessments and vehicle monitoring systems. No assurance can be given that these mitigating steps will eliminate these risks and the potential for negative financial and/or reputational impacts.

Further information on the Company's health and safety practices and programs can be found in the Sustainability Report on our website at www.toromont.com.

**Key Personnel**

Our success in achieving our goals is largely dependent on the abilities and experience of our senior management team and other key personnel. Our future performance will also depend on our ability to attract, develop, motivate and retain highly qualified diverse and inclusive talent in all areas of our business and, as applicable, to successfully integrate employees transitioning to us from acquisitions. Competition for highly skilled management, sales and technical personnel is intense, particularly in certain geographic areas where we operate. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations, which make attracting and retaining skilled individuals more difficult. To help mitigate this risk, we have implemented a number of human resources initiatives, including training and career development programs, succession plans, employee experience surveys, performance management systems, compensation programs and recruiting strategies.

Although we actively manage our human resources risks, there can be no assurance we will be successful in our efforts. The loss of certain key employees, or failure to attract, retain and engage talent as needed, may have an adverse impact on our business, results of operations and future prospects.

Certain of our employees are represented by unions and we are party to a number of collective bargaining agreements, covering approximately 1,200 employees. Of the 23 agreements in place, 3 are scheduled for negotiation during 2023.

While we are committed to the collective bargaining process and to concluding a fair contract for us and for our employees, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. Generally, Toromont believes its labour relations are satisfactory and does not anticipate any difficulties in respect of upcoming negotiations. The failure to renew collective agreements with satisfactory terms and in a timely manner could have an adverse impact on our business, results of operations, and financial condition.

**Credit Risk**

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arise principally in respect of cash and cash equivalents, accounts receivable and derivative financial instruments. The carrying amounts on the statement of financial position represent the maximum expected credit exposure.

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

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer or industry. The Company's customers are engaged in various industries including construction, mining, food and beverage, and governmental agencies, predominately based in Canada. Toromont also maintains policies to manage credit risk, including establishing and reviewing credit limits for customers taking into account factors such as projected purchase values, credit worthiness of the customer, and payment performance.

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.

**Contract Execution, Including Product Warranty**

We enter into refrigeration and power systems contracts, which are engineered solutions involving the design, assembly and installation of large, complex systems. The length of these contracts varies but typically construction is completed in under two years. The contracts are generally at a fixed price over the term and provide for penalties payable by us if contractual milestones are not met.

We have developed processes and have controls in place to ensure contracts are bid appropriately, but due to the nature and complexity of these contracts, there is a risk that significant cost overruns may be incurred. If we miscalculate the extent of work required, or if costs increase beyond those anticipated, contract profitability may be adversely affected. We closely monitor these contracts for early warning signs of cost overruns, however, there can be no assurance that cost overruns will be avoided.

The Company also enters into long-term maintenance and repair contracts, whereby it is obligated to maintain equipment for its customers. The length of these contracts varies generally from two to five years. The contracts are typically fixed price on machine hours, with provisions for inflationary and foreign exchange adjustments. Due to the long-term nature of these contracts, there is a risk that maintenance costs may exceed

the estimate, thereby resulting in a loss on the contract. Preventative measures such as condition monitoring and scheduled fluid sampling help identify problems in equipment early on and help reduce the risk of costly repair work. These contracts are closely monitored for early warning signs of cost overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold. There is no assurance that such measures will always address such risks. Our failure to effectively price and manage these contracts could have a material adverse impact on our business, results of operations and financial position.

Standard and extended warranties are provided for most of the equipment, parts and services sold. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled labor could increase warranty claims in the future, or that future warranty claims may be greater than we anticipate. If our liability in respect of such claims is greater than anticipated, it may have a material adverse impact on our business, results of operations and financial condition. To mitigate this risk, we regularly review our warranty offering to assess the experience with the product and endeavour to adequately manage the costs to service the product over its warranty period. Additionally, we work closely with Caterpillar on all product quality issues and have extensive product improvement, product support and pre-delivery inspection programs in place. No assurance can be given that these steps will fully mitigate these risks.

### Foreign Exchange

Toromont's operating results are reported in Canadian dollars. While the majority of Toromont's sales are transacted in Canadian dollars, significant portions of its purchases are made in U.S. dollars. Changes in the U.S. dollar exchange rate can have a negative or positive impact on revenue, margins and working capital balances.

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

The rate of exchange between the Canadian and US dollar can have an impact on revenue trends. Substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar. Sales prices generally reflect changes in the rate of exchange. As a result, a stronger Canadian dollar can adversely affect revenue, while a weaker Canadian dollar can increase reported revenue. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenue from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant. The Canadian dollar averaged US$0.77 in 2022 and US$0.80 in 2021.

As well, many of Toromont's customers export products to the U.S., or sell products based on the US dollar. A strengthening Canadian dollar can negatively impact their overall competitiveness and demand for their products, which in turn may reduce product purchases from Toromont.

### Interest Rate

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

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

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

The Company minimizes its interest rate risk by managing its portfolio of floating-and fixed-rate debt, as well as managing the term to maturity.

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

### Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. The Company follows an active cash management program including continuous monitoring of actual and forecast cash flows. The Company also maintains syndicated credit facilities, and holds cash balances to provide added liquidity. Based on cash balances on hand, the availability of credit facilities, expected cash flow generation of operations, and the discretionary nature of some cash outflows, such as rental and capital expenditures, the Company expects to continue to have sufficient liquidity to meet operational needs.

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

### Growth Initiatives

The Company's Strategic Plan establishes priorities for growth, including organic growth and strategic acquisitions.

We have strategic initiatives underway, designed to improve our market competitiveness, and our operational and financial performance. These initiatives include enhancing our customers' experience including expanding our product offering; operational excellence and sharing of best practices across our decentralized

organization; continuous investment and improvement in systems and processes to reduce cost-to-serve and provide value-added information; and, improving employee relations and engagement. Failure to effectively execute on these initiatives may result in the inability to obtain desired business results and could adversely affect our business, results of operations and financial condition.

**Climate Change**

Toromont is committed to monitoring, reporting and reducing greenhouse gas ("GHG") emissions of our operations. Further, we see ourselves as valuable partners to our customers to help them reduce their carbon emissions and build resilience into their own operations.

Our service facilities and fleets of vehicles, generate direct GHG emissions (Scope 1) from fuel combustion in our fleet, natural gas use for heating facilities, and diesel use for engine and transmission diagnostics. We also generate indirect GHG emissions (Scope 2) from purchased electricity. Our strategy to address the climate change challenge is to focus on monitoring and reducing our emissions and to offer and develop products and services that help our customers further decarbonize their operations. Focus in this area is viewed as a shared responsibility among our employees and is an important part of our corporate culture.

Our principal climate-related risks are categorized into risks related to the transition to a lower carbon economy (transition risks) and physical risks resulting from climate change (physical risks) which may impact our operations and facilities.

**Government and Other Regulation**

Our business and customers are subject to evolving law, regulation, and intervention by governments at the federal, provincial, state, and municipal levels in the countries where we and they conduct operations. The nature and magnitude of regulatory risks has the potential to change over time, and have the potential to impact our existing and planned projects as well as impose costs of compliance and increase capital expenditures and operating expenses. In addition, changes to laws and regulations may impact our customers in ways that affect their demand for our products. Amendments to, or more stringent implementation of current laws and regulations governing our operations, or the operations of our customers could have a material adverse effect on our business, operating results or financial position. In addition, noncompliance with laws and regulations could significantly damage, and require us to spend substantial amounts of money to rebuild, our reputation and negatively impact our business.

Our operations expose Toromont to liability for environmental contamination, which may render the Company liable for remediation costs, natural resource damages and other damages as a result of conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners, operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighbouring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Toromont maintains an environmental management program that includes robust policies and procedures, training and audit and compliance processes. We retain environmental engineering consultants to conduct the following activities: environmental site assessments prior to the acquisition or occupation; ongoing monitoring of soil and groundwater contamination; and remediation of contaminated sites. There can be no assurance that any future incidents, emissions or spills will not result in a material adverse effect on Toromont’s results of operations or cash flows. Management is not aware of any material environmental concerns for which a provision has not been recorded.

We have in place, in each of our business units, programs for monitoring and compliance to ensure that we meet or exceed applicable laws and regulatory requirements. In addition, our Board has established and

maintains the Human Resources and Health and Safety Committee, the Environment, Social and Governance Committee, and the Audit Committee to oversee, monitor, and report to the Board on compliance matters. More information about the mandates of these committees may be found in our most recent Management Proxy Circular, which can be found on our website www.toromont.com or under our profile on SEDAR at www.sedar.com. No assurance can be given that these steps will be successful in completely mitigating these risks and ensuring we meet all applicable laws and regulatory requirements.

**Information Technology**

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

The integrity, reliability and availability of technology and the data processed by that technology is an integral part of our business processes, including marketing of equipment and support services, inventory and logistics optimization, business intelligence and finance. Some of these systems are integrated with our suppliers and other partners' core processes and systems.

Toromont continues to invest in information systems to improve business performance through our internal transactional systems and install or upgrade various business process enablement and decision support systems as appropriate on a continuous basis. These system implementations often drive business process changes as well as technology changes.

Information systems, technology and business process changes, and related organizational change, often carry a risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of systems of internal control over financial reporting and disclosure controls and procedures. Benefits assessment, change management, risk and impact assessments, solution validation, strong project governance, communication and training have been identified as critical success factors in the successful implementation of new systems. Any disruptions to these systems or the failure of these systems to operate as expected, or any failure to appropriately adapt to business process changes, could adversely impact our operating results by limiting our ability to effectively monitor and control our operations.

In addition, new digital and other technologies and advancements to equipment in the market, such as equipment electrification, can become disruptive to our operations, market share and business model. We scan continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In order to face this disruption risk, our digital and technology solutions initiatives are focused on investigating emerging digital technologies to determine how they can impact customers and our core business opportunities, improving the customer experience, and identifying and pursuing new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, our failure to meet these objectives could have an adverse impact on our business.

A rigorous management process is followed to manage these risks and a great deal of the business processes and systems transformation program focus is on developing capabilities to reduce and mitigate these risks, however, there is no certainty that these risks can be sufficiently reduced or mitigated.

### Cybersecurity

Cybersecurity incidents related to our information technology systems are a threat to the integrity, reliability, and availability of technology and data. Cybersecurity incidents may take the form of malware, computer viruses, cyber threats, cyber extortion, employee error, malfeasance, system errors and other types of security and data breaches and may arise from inside and outside of our organization. Cybersecurity incidents could also target customer data or the security, integrity and/or reliability of the hardware and software installed in products we sell or service. We rely heavily on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, including personally identifiable information, credit card payment data and other sensitive customer and employee information, and to manage or support a variety of critical business processes and activities.

The Company continues to monitor and enhance its defenses and procedures to prevent, detect, respond to and manage these threats, which are constantly evolving, however there can be no assurance these efforts and measures will be able to prevent all cybersecurity incidents. Disruption to information systems or breaches of security could result in a negative impact on the Company's financial results or result in reputational damage, including the following: disruption of our business operations and lost revenue; unauthorized access to, or destruction, loss, theft, misappropriation or release of, our proprietary, confidential, sensitive or otherwise valuable information or that of our customers, suppliers or employees, which could be used for disruptive or otherwise harmful purposes; disruptions in the functioning or operation of equipment, which could lead to property loss or damage or personal injury or death; damage to our reputation with our customers, partners, suppliers, investors and the general public; a disruption to the proper functioning of our information technology systems; potential significant expenditures related to remediation; investigations by regulatory agencies or litigation, claims and liability for breach of contract, damages or other penalties; inability to process customer transactions or service customers; and/or disruptions to inventory management.

To mitigate information security risks, the Company, through a dedicated, full-time team of cybersecurity professionals, undertakes preventative measures, including controlling access to its network and applications using secure firewalls and limiting access to an "as-needed" basis. To identify information security risks, the company uses various detection methods, including monitoring event logs for firewalls, server, mail systems, and applications. Third-party experts are utilized to perform testing and assessments. The Company provides regular and mandatory information security training to employees as applicable and appropriate. The Company maintains an insurance policy with coverage for information security risk.

The security of the Company's data and other information is one of the operational risks overseen by the Board. Three members of the Board have knowledge and experience in technology, including cyber risk. Management reports to the Board regularly on information technology and security matters.

Risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes, practices and training designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. To date, the Company has not experienced any material losses relating to cyber-attacks or other information security breaches; however, there can be no assurance that we will not incur such losses in the future.

### Business Continuity Risks

The occurrence of one or more natural or man-made disasters, such as earthquakes, floods, hurricanes, unusually adverse weather, health pandemic outbreaks, boycotts, security breach, power loss, telecommunications failure, and geo-political events in countries in which we supply or sell goods, could

materially adversely affect our business, people, customers and financial results. We maintain and continue to enhance our business continuity program to address and mitigate, to the extent possible, the impact of these risks. Our decentralized operations provides certain coverage in the case of localized issues. However, no such plan can eliminate the risks associated with events of this nature, which could still have a material adverse impact on our business, results of operations and financial condition.

**Pandemic Risk (Coronavirus COVID-19)**

A pandemic, including the COVID-19 pandemic, can create significant volatility and uncertainty and economic disruption.

COVID-19 is a persisting risk, the duration and impact of which remains uncertain at this time. Any estimate of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

A pandemic has and could exacerbate or amplify other risks and uncertainties facing the Company. Such risks include, but are not limited to:

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

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

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

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue,

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

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

Toromont's significant accounting policies and significant accounting estimates, assumptions and judgments are described in the consolidated financial statements. Refer to notes 2 and 3 of the audited consolidated financial statements.

**Changes in Accounting Policies**

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.

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2022.

### Internal Control over Financial Reporting

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2022, using the criteria set forth in Internal Control – Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2022.

There have been no changes in the design of the Company's internal control over financial reporting during 2022 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

## ADDITIONAL GAAP MEASURES

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

### Gross Profit

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

### Operating Income

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

| | **Three months ended December 31** | | **Years ended December 31** | |
|---|---|---|---|---|
| *($ thousands)* | **2022** | 2021 | **2022** | 2021 |
| Net earnings | **$ 159,862** | $ 105,590 | **$ 454,198** | $ 332,710 |
| *plus:* Interest expense | **6,786** | 6,889 | **27,338** | 28,161 |
| *less:* Interest and investment income | **(8,799)** | (2,827) | **(22,232)** | (9,027) |
| *plus:* Income taxes | **54,633** | 39,118 | **164,865** | 124,093 |
| **Operating income** | **$ 212,482** | $ 148,770 | **$ 624,169** | $ 475,937 |
| | | | | |
| Total revenue | **$ 1,150,097** | $ 956,035 | **$ 4,230,736** | $ 3,886,537 |
| **Operating income margin** | **18.5 %** | 15.6 % | **14.8 %** | 12.2 % |

### Net Debt to Total Capitalization/Equity

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

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

The calculations are as follows:

| *($ thousands)* | **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 to total capitalization** | **(14)%** | (16)% |
| **Net debt to equity** | **(0.12):1** | (0.14):1 |

## NON-GAAP MEASURES

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

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

### Working Capital

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| Total current assets | **$ 2,569,195** | $ 2,108,441 |
| *less:* Total current liabilities | **1,056,739** | 813,702 |
| **Working capital** | **$ 1,512,456** | $ 1,294,739 |

### Non-Cash Working Capital

Non-cash working capital is defined as total current assets, excluding cash and cash equivalents, less total current liabilities, excluding current portion of long-term debt, if applicable.

| *($ thousands)* | | **2022** | | 2021 |
|---|---|---|---|---|
| Total current assets | **$** | **2,569,195** | $ | 2,108,441 |
| *less:* Cash and cash equivalents | | **927,780** | | 916,830 |
| | | **1,641,415** | | 1,191,611 |
| Total current liabilities | | **1,056,739** | | 813,702 |
| **Non-cash working capital** | **$** | **584,676** | $ | 377,909 |

### Market Capitalization & Total Enterprise Value

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

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

The calculations are as follows:

| *($ thousands, except for shares and share price)* | | **2022** | | 2021 |
|---|---|---|---|---|
| Outstanding common shares | | **82,318,159** | | 82,443,968 |
| *times:* Ending share price | **$** | **97.71** | $ | 114.36 |
| **Market capitalization** | **$** | **8,043,307** | $ | 9,428,292 |
| Long-term debt | **$** | **647,060** | $ | 646,337 |
| *less:* Cash and cash equivalents | | **927,780** | | 916,830 |
| **Net debt** | **$** | **(280,720)** | $ | (270,493) |
| **Total enterprise value** | **$** | **7,762,587** | $ | 9,157,799 |

## KEY PERFORMANCE INDICATORS ("KPIs")

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

### Gross Profit Margin

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

### Operating Income Margin

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

## Order Bookings and Backlog

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

## Return on Capital Employed ("ROCE")

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| Net earnings | **$ 454,198** | $ 332,710 |
| *plus:* Interest expense | **27,338** | 28,161 |
| *less:* Interest and investment income | **(22,232)** | (9,027) |
| *plus:* Interest income – rental conversions | **4,760** | 2,635 |
| *plus:* Income taxes | **164,865** | 124,093 |
| Adjusted net earnings | **$ 628,929** | $ 478,572 |
| Average capital employed | **$ 1,944,501** | $ 1,796,703 |
| **Return on capital employed** | **32.3 %** | 26.6 % |

## Return on Equity ("ROE")

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

| *($ thousands)* | **2022** | 2021 |
|---|---|---|
| Net earnings | **$ 454,198** | $ 332,710 |
| Opening shareholder's equity (net of adjustments) | **$ 1,935,365** | $ 1,695,008 |
| **Return on equity** | **23.5 %** | 19.6 % |