TOROMONT

Third Quarter 2021 **November 4, 2021**

TOROMONT ANNOUNCES RESULTS FOR THE THIRD QUARTER OF 2021 AND QUARTERLY DIVIDEND

Toronto, Ontario (TSX: TIH) reported its financial results for the third quarter ended September 30, 2021.

	Three months ended September 30			Nine months ended September 30		
millions, except per share amounts	**2021**	2020	**% change**	**2021**	2020	**% change**
Revenues	**$ 997.2**	$ 921.7	**8%**	**$ 2,930.5**	$ 2,486.7	**18%**
Operating income	**$ 134.4**	$ 112.9	**19%**	**$ 327.2**	$ 245.3	**33%**
Net earnings	**$ 93.8**	$ 77.4	**21%**	**$ 227.1**	$ 166.0	**37%**
Basic earnings per share ("EPS")	**$ 1.13**	$ 0.94	**20%**	**$ 2.75**	$ 2.02	**36%**

We are pleased with our operating performance, financial results, cash generation and financial position through a challenging business environment. Overall end market activity levels remained solid with the easing of pandemic restrictions and shutdowns. Nonetheless, we continue to operate in a very fluid, complex and uncertain operating environment. The Equipment Group reported strong prime product deliveries and excellent order bookings. Rental activity and fleet utilization improved with more favourable markets. Tight supply of equipment from manufacturers coupled with stronger sales activity versus last year have resulted in lower equipment inventories. CIMCO revenues decreased in the quarter on timing of project construction schedules, while product support activity improved. Across the organization, we are continuing to leverage the learnings from the past year with respect to cost structures and new ways to do business.

Highlights:

Consolidated results

- Revenues increased 8% in the quarter reflecting solid activity levels in most markets, as well as good execution from our teams. Product support revenues were 4% higher and rental revenues were up 6% compared to the third quarter last year.

- Revenues increased 18% to $2.9 billion year-to-date on improved activity in end markets compared to 2020 hit by pandemic restrictions and shutdowns. Deliveries from healthy order backlogs and on strong demand generally, drove equipment and packages revenues 32% higher, while product support and rental revenues increased 6% and 7% respectively.

- Operating income increased 19% in the quarter and 33% year-to-date on the higher revenues. Operating income was 11.2% of revenues for the nine months ended September 30, 2021 compared to 9.9% in the similar period last year, improving on the higher activity levels, coupled with better margins and expense control.

- Backlogs were $1.1 billion at September 30, 2021, compared to $472.1 million at September 30, 2020, reflecting strong bookings(1) in the Equipment Group over the last four quarters. Production timing and tight supply of equipment from manufacturers is beginning to lengthen some delivery schedules to end customers.

- Net earnings increased $16.4 million or 21% in the quarter versus a year ago to $93.8 million and EPS (basic) was up 20% to $1.13 per share.

- Year-to-date, net earnings increased $61.2 million or 37% and EPS (basic) was up 36% to $2.75 per share.

<u>Equipment Group</u>

- Revenues increased $79.7 million or 10% to $914.4 million for the quarter on strong equipment sales (up $62.9 million). Product support and rental activity continues to increase.

- Revenues were up $389.1 million or 17% to $2.7 billion year-to-date with similar trends as the quarter.

- Operating income was up $26.0 million or 25% to $129.4 million reflecting higher revenues coupled with a lower expense ratio.

- Operating income was up $84.7 million or 37% to $315.6 million year-to-date, on the same reasons as noted for the quarter. Operating income margin increased 170 bps to 11.9%.

- Bookings increased $168.8 million or 45% to $539.9 million in the quarter and $853.1 million or 85% to $1.9 billion year-to-date. Most sectors reported higher orders, particularly mining and construction.

- Backlogs of $903.5 million at the end of September 2021 were up $647.4 million or 253% from the end of September 2020 across all sectors. Approximately 40% of the backlog is expected to be delivered this year; certain mining orders are scheduled for delivery in 2023 based on customer requirements.

<u>CIMCO</u>

- Revenues of $82.8 million decreased $4.1 million or 5% compared to the third quarter last year. Package revenues were down $7.8 million or 16%, in part due to delays in project schedules. Product support sales increased $3.7 million or 10%, on higher activity in the recreational segment with the easing of site restrictions and re-opening of recreational rinks for the upcoming winter season.

- Revenues increased $54.7 million or 25% to $272.2 million year-to-date. Package revenues increased $53.5 million or 50% on build of industrial projects in process. Product support sales increased $1.1 million or 1% versus 2020, with the aforementioned recovery in the third quarter.

- Operating income decreased 47% to $5.1 million in the quarter on the lower package revenues. Operating income was 6.1% as a percentage of revenues (Q3 2020 – 10.9%), reflecting lower gross margins on larger industrial projects, increased expenditure in support of higher expected activity levels and a cost of $0.9 million related to a forthcoming move of the head office facility.

- Operating income was down $2.8 million or 19% to $11.5 million year-to-date on higher package revenues, partially offset by lower package gross margins and increased expenses. Operating income margin decreased to 4.2% (2020 – 6.6%).

- Bookings were up $8.9 million or 22% in the quarter and down $71.2 million or 35% year-to-date, on lower industrial orders in Canada where the comparable 2020 period included large orders received in the first quarter.

- Backlogs of $153.8 million were lower by $62.2 million or 29%, against a very strong level last year, reflecting project build out of prior year bookings and lower bookings through September 2021. Subject to construction site access and schedules, approximately 52% of the backlog is estimated to be realized as revenue this year.

Financial Position

- Toromont's share price of $105.73 at the end of September 2021, translated to a market capitalization of $8.7 billion and a total enterprise value of $8.6 billion.

- The Company maintained a very strong financial position. Leverage as represented by the net debt to total capitalization(1) ratio was -5% at the end of September 2021 (net cash position), compared to 3% at December 2020 and 10% at September 2020.

- The Company commenced a Normal Course Issuer Bid in September 2021, and has repurchased and cancelled 230,000 common shares for $24.2 million (average cost of $105.31 per share, including transaction costs) through to September 30, 2021.

- The Board of Directors announced a quarterly dividend of 35 cents per common share, payable on January 5, 2022 to shareholders on record on December 8, 2021. The quarterly dividend was previously increased 12.9% to 35 cents per share effective with the dividend paid July 5, 2021.

- Return on opening shareholders' equity was 19.3% at September 30, 2021, on a trailing twelve-month basis, compared to 16.6% at December 2020, and 17.6% at September 2020. Trailing twelve month pre-tax return on capital employed was 25.3% at the end of September 2021, compared to 20.4% at December 2020, and 20.3% at September 2020.

We value our entire team's incredible effort and on-going commitment to adapt to changes in the business environment and focus on executing customer deliverables. Activity remained sound as demonstrated by new bookings and our current backlog levels, but production schedules and supply chains are challenged. This has restricted availability and is likely to result in delivery date extensions. We continue to monitor cost pressures, supply-demand dynamics and potential distribution disruptions as the pandemic unfolds. Technician hiring remains a priority to our product support offering and to meet growing demand. The diversity of our geographic landscape and markets served, extensive product and service offerings, technology investments and financial strength, together with our disciplined operating culture, continue to position us well. We are proud to continue to provide the essential services and solutions that our clients are looking for, while remaining diligently focused on safeguarding our employees, and protecting our business for the future.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the three and nine months ended September 30, 2021, compared to the preceding year. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2021, the annual MD&A contained in the 2020 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2020.

The unaudited interim condensed consolidated financial statements reported herein have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting,* and are reported in Canadian dollars. The information in this MD&A is current to November 4, 2021.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2020 Annual Report and the 2021 Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of

COVID-19; changes in foreign exchange rates, including the Cdn$/US$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities of the acquired businesses 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 of Toromont to make contributions to the registered funded defined benefit pension plans, postemployment benefits plan or the multi-employer pension plan obligations in which it participates and acquired 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.

CONSOLIDATED OPERATING RESULTS

	Three months ended September 30				Nine months ended September 30			
($ thousands, except per share amounts)	**2021**	2020	$ change	% change	**2021**	2020	$ change	% change
REVENUES	**$ 997,198**	$ 921,656	$ 75,542	8%	**$ 2,930,502**	$ 2,486,712	443,790	18%
Cost of goods sold	**738,764**	695,043	43,721	6%	**2,229,984**	1,895,454	334,530	18%
Gross profit (1)	**258,434**	226,613	31,821	14%	**700,518**	591,258	109,260	18%
Selling and administrative expenses	**123,991**	113,736	10,255	9%	**373,351**	346,006	27,345	8%
OPERATING INCOME (1)	**134,443**	112,877	21,566	19%	**327,167**	245,252	81,915	33%
Interest expense	**7,093**	7,874	(781)	(10%)	**21,272**	22,695	(1,423)	(6%)
Interest and investment income	**(1,936)**	(1,719)	(217)	13%	**(6,200)**	(6,008)	(192)	3%
Income before income taxes	**129,286**	106,722	22,564	21%	**312,095**	228,565	83,530	37%
Income taxes	**35,522**	29,363	6,159	21%	**84,975**	62,600	22,375	36%
NET EARNINGS	**93,764**	77,359	16,405	21%	**227,120**	165,965	61,155	37%
BASIC EARNINGS PER SHARE	**$ 1.13**	$ 0.94	$ 0.19	20%	**$ 2.75**	$ 2.02	$ 0.73	36%
KEY RATIOS:								
Gross profit margin (1)	**25.9%**	24.6%			**23.9%**	23.8%		
Selling and administrative expenses as a % of revenues	**12.4%**	12.3%			**12.7%**	13.9%		
Operating income margin (1)	**13.5%**	12.2%			**11.2%**	9.9%		
Income taxes as a % of income before income taxes	**27.5%**	27.5%			**27.2%**	27.4%		

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

Market activity remained healthy in most areas as COVID-related restrictions continue to ease. The equipment market recorded excellent orders and new machine deliveries. A strong backlog, tempered by tight equipment and parts supply supports future business results, Product support and rental activity increased on improving conditions. CIMCO continued to deliver on its order backlog, however, project schedule changes and deferrals, in part due to equipment delivery delays, impacted revenue. Recreational markets are beginning to improve as sites reopen, although industrial bookings lag. Improving operational efficiency and leveraging learnings from the past year are a focus across all businesses. We continue to operate with caution, monitoring the fluid nature of COVID-19 variants, maintaining disciplined protocols as well as evaluating economic factors flowing from the pandemic inclusive of supply chain disruptions and cost pressures.

Revenues increased $75.5 million or 8% for the quarter, Equipment Group revenues increased 10% on higher new equipment deliveries and improving rental and product support activity. CIMCO revenues decreased 5% in the quarter on lower project backlog and delays in project schedules, while product support activity improved.

Revenues increased $443.8 million or 18% year-to-date. Activity in the prior year was dampened by restrictions and closures related to the pandemic. Equipment Group revenues increased 17% year-to-date on higher new equipment deliveries, rental and product support activity. CIMCO revenues increased 25% year-to-date as the build out on industrial segment projects advanced.

Gross profit margin increased 130 basis points (“bps”) to 25.9% in the quarter and 10 bps year-to-date to 23.9%. The Equipment Group reported improved margins in both the quarter and year-to-date. Equipment margins improved on strong demand and tight product supply. Product support margins were higher on the increased activity, while rental fleet margins reflected higher utilization and fleet adjustments (selective dispositions and additions). Sales mix was less favourable, with a lower proportion of product support revenues to total, partially dampening gross margin. CIMCO’s margins were lower in both the quarter and year-to-date, on a less favourable sales mix of product support revenues to total revenues, and lower average margins on projects in process.

Selling and administrative expenses were $10.3 million (9%) higher in the third quarter compared to the prior year. No benefits were recorded under the Canada Emergency Wage Subsidy (“CEWS”) program in the third quarter of 2021 (2020 - $7.3 million). The mark-to-market adjustment on deferred share units (DSUs) was $4.3 million lower than the third quarter of 2020, changes in the share price for the two periods. Compensation increased year over year on increased staffing levels, salary increases and higher profit sharing accruals on the higher earnings. Other expenses increased in support of the higher sales activity.

On a year-to-date basis, selling and administrative expenses increased $27.3 million or 8%. No benefits were recorded under the CEWS program in the first nine months of 2021 ($8.1 million in 2020). The mark-to-market adjustment on DSUs was $2.7 million higher than last year reflective of the higher share price in the current year. Compensation costs and other selling and administrative expenses increased as noted above for the quarter. Bad debt expense decreased $2.4 million on good collections. Selling and administrative expenses were 12.7% of revenues, compared to 13.9% in 2020, reflecting higher revenues in the current period and expense containment on a relative basis.

Operating income increased 19% in the quarter to $134.4 million and 33% to $327.2 million year-to-date and was 130 bps higher as a percentage of revenues (11.2% versus 9.9% last year).

Revenue growth exceeded growth in expenses. The easing of COVID-19 restrictions has improved activity levels. Operations remain focused on leveraging learned cost containment strategies.

Interest expense decreased $0.8 million in the quarter and $1.4 million year-to-date, on lower debt levels. Drawings on a term credit facility taken in early 2020 at the onset of the pandemic were repaid in late 2020.

Interest income increased $0.2 million in both the quarter and year-to-date on higher cash balances.

The effective income tax rate was 27.5% for the quarter and remained flat compared to the same quarter in 2020. On a year-to-date basis it was 27.2%, and was lower than the comparable period last year, reflecting lower rates on capital gains and other items in the current year.

Net earnings were up $16.4 million or 21% to $93.8 million for the quarter and $61.2 million or 37% to $227.1 million year-to-date. Basic earnings per share ("EPS") increased 20% to $1.13 for the quarter and 36% to $2.75 year-to-date.

Comprehensive income in the quarter was $111.1 million (2020 – $84.4 million) and $289.8 million year-to-date (2020 – $156.3 million). Other comprehensive income included an actuarial gain on post-employment benefit plans of $10.3 million after-tax for the quarter (2020 – actuarial gain of $6.7 million) and year-to-date actuarial gain of $52.3 million (2020 – actuarial loss of $12.5 million). These gains/losses reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favorable net change in the fair value of cash flow hedges of $6.7 million after-tax for the quarter (2020 – favourable net change of $0.6 million) and year-to-date a favorable net change of $10.3 million after-tax (2020 – favourable net change of $2.6 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 contract date.

BUSINESS SEGMENT OPERATING RESULTS

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

Equipment Group

($ thousands)	Three months ended September 30 2021	2020	$ change	% change	Nine months ended September 30 2021	2020	$ change	% change
Equipment sales and rentals								
New	**$ 354,144**	$ 279,418	$ 74,726	27%	**$ 1,053,449**	$ 752,996	$ 300,453	40%
Used	**92,509**	104,346	(11,837)	(11%)	**275,823**	269,900	5,923	2%
Rentals	**111,252**	104,541	6,711	6%	**275,013**	257,818	17,195	7%
Total equipment sales and rentals	**557,905**	488,305	69,600	14%	**1,604,285**	1,280,714	323,571	25%
Product support	**353,642**	343,657	9,985	3%	**1,045,725**	980,325	65,400	7%
Power generation	**2,839**	2,754	85	3%	**8,304**	8,156	148	2%
Total revenues	**$ 914,386**	$ 834,716	$ 79,670	10%	**$ 2,658,314**	$ 2,269,195	$ 389,119	17%
Operating income	**$ 129,388**	$ 103,404	$ 25,984	25%	**$ 315,648**	$ 230,977	$ 84,671	37%
KEY RATIOS:								
Product support revenues as a % of total revenues	**38.7%**	41.2%			**39.3%**	43.2%		
Operating income margin	**14.2%**	12.4%			**11.9%**	10.2%		
Group total revenues as a % of consolidated revenues	**91.7%**	90.6%			**90.7%**	91.3%		

The Equipment Group delivered solid results in the third quarter as activity levels continued to improve with easing of pandemic restrictions, improved operating practices and expense discipline. Demand for equipment remained relatively strong, however increasingly tight supply chains have resulted in some delivery deferrals. Product support remains an opportunity for growth consistent with increased hiring of skilled technicians and maintaining parts supply.

Total equipment sales (new and used) increased $62.9 million or 16% in the quarter and $306.4 million or 30% year-to-date. Sales increased across all markets on a year-to-date basis against the prior year, which was hardest hit by the pandemic. Revenues in the third quarter were higher in most markets, however some were lower than prior year on timing of equipment delivery and customer specific orders. Year-over-year revenue changes for the quarter (and year-to-date) were as follows: construction markets +5% (+25%); power systems -3% (+10%); material handling -4% (+11%); agricultural -1% (+26%); and mining +141% (+118%).

Rental revenues were up $6.7 million (+6%) in the quarter and $17.2 million (+7%) year-to-date. Most markets and segments were higher, reflecting continued improvement in activity against a weak comparable last year. Year-over-year revenue changes in each market for the quarter (and year-to-date) were as follows: Light equipment rentals +9% (+8%), power systems +30% (+13%), heavy equipment rentals -2% (+22%) and material handling +36% (+21%). Revenues from equipment on rent with a purchase option (“RPO”) were down 28% in the quarter and 32% year-to-date on a smaller average fleet reflecting recent customer preference for purchase versus rental (RPO). As at September 30, 2021 the RPO fleet was $37.3 million versus $42.4 million at this time last year, well below historical levels for this period.

Product support revenues grew $10.0 million or 3% in the quarter and $65.4 million or 7% year-to-date, with increases in both parts and service. Activity was up in the majority of the markets and across all regions in both the quarter (and year-to-date): construction markets +1% (+8%), mining +2% (+4%) and material handling +16% (+22%). Agricultural activity was down for the quarter (-22%) and year-to-date (-9%).

Gross profit margins increased 170 bps in the quarter and 60 bps year-to-date compared to last year. Margins increased across all revenue streams, partially offset by unfavourable sales mixes. Equipment margins were up 130 bps in the quarter and 50 bps year-to date reflecting strong demand and tight supply. Product support margins were up 50 bps in the quarter and 20 bps year-to-date reflecting improved efficiency on higher volumes. Rental margins were higher in both periods (80 bps for the quarter and 100 bps year-to-date) reflecting higher utilization as well as fleet adjustments (selective dispositions and additions) over the last year. A shift in sales mix with a lower proportion of product support revenues to total revenues decreased margin by 100 bps in the quarter and 150 bps year-to-date. Product support revenues in both periods were lower as a percentage of total revenues compared to both the third quarter (down 250 bps to 38.7%) and year-to-date (down 390 bps to 39.3%) last year, mainly due to stronger comparative equipment sales in the current year.

Selling and administrative expenses were up $9.6 million or 9% in the quarter, $24.1 million or 8% for the first nine months of 2021. Excluding the benefits recorded under the CEWS program in 2020, expenses were up 3% in the quarter and 5% year-to-date reflecting strong cost control. Compensation costs increased on higher staffing levels, salary adjustments, and higher profit sharing accruals on the higher earnings, partially offset by a lower mark-to-market adjustment on DSUs. Other expenses such as travel and training increased in support of higher activity levels after a reduced spending period in 2020. Allowance for doubtful accounts decreased $1.0 million in the quarter and $0.9 million in the first nine months of the year, on good collection activity. Selling and administrative expenses were 110 basis points lower as a percentage of revenues (12.5% versus 13.6% last year), reflecting stronger sales and the continuation of expenditure controls implemented over the past year.

Operating income increased in both the quarter (up $26.0 million or 25% to $129.4 million) and year-to-date (up $84.7 million or 37% to $315.6 million), mainly reflecting the higher revenues coupled with a lower expense ratio to revenues.

Bookings and Backlogs

($ millions)	**2021**	2020	$ change	% change
Bookings - three months ended September 30	**$ 539.9**	$ 371.1	$ 168.8	45%
Bookings - nine months ended September 30	**$ 1,859.8**	$ 1,006.7	$ 853.1	85%
Backlogs - as at September 30	**$ 903.5**	$ 256.1	$ 647.4	253%

New bookings were up $168.8 million or 45% in the third quarter compared to the prior year on good end user demand. The majority of the sectors reported higher orders: construction (+25%), mining (+268%), power systems (+46%), and agriculture (+24%). Material handling orders were down 46% in the quarter, but up 12% year-to-date; timing of orders can be variable and were impacted by the pandemic in the prior year.

On a year-to-date basis, bookings increased $853.1 million or 85% to $1.9 billion, reflecting increases across all sectors.

Backlogs of $903.5 million were up $647.4 million or 253% across all sectors. At September 30, 2021, the total backlog related to construction markets represented 45%, power systems 19%, and mining 33%. Approximately 40% of order backlog is currently expected to be delivered this year however this is subject to customer schedules and equipment deliveries from vendors. Approximately 8% of the backlog is scheduled for delivery in 2023.

Bookings and backlogs can vary significantly from period to period on large project activities, particularly in mining and power systems, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

CIMCO

($ thousands)	Three months ended September 30 2021	2020	$ change	% change	Nine months ended September 30 2021	2020	$ change	% change
Package sales	**$ 40,650**	$ 48,490	$ (7,840)	(16%)	**$160,751**	$107,210	$ 53,541	50%
Product support	**42,162**	38,450	3,712	10%	**111,437**	110,307	1,130	1%
Total revenues	**$ 82,812**	$ 86,940	$ (4,128)	(5%)	**$272,188**	$217,517	$ 54,671	25%
Operating income	**$ 5,055**	$ 9,473	$ (4,418)	(47%)	**$ 11,519**	$ 14,275	$ (2,756)	(19%)
KEY RATIOS:								
Product support revenues as a % of total revenues	**50.9%**	44.2%			**40.9%**	50.7%		
Operating income margin	**6.1%**	10.9%			**4.2%**	6.6%		
Group total revenues as a % of consolidated revenues	**8.3%**	9.4%			**9.3%**	8.7%		

CIMCO's results for the third quarter were lower compared to the similar period in 2020. Customer specific construction schedules and supply chain restrictions affect timing of revenue recognition. Lower margins on large industrial projects in progress, coupled with lower current booking activity, dampened results. Product support activity improved in the recreational market as facilities prepare to reopen for the winter season. On a year-to-date basis revenue increased on progress on several significant larger industrial construction projects. Product support remains an essential service and improved activity levels are predicated on the continued reopening of recreational facilities. Operating income has been dampened by increased operating expenditures inline with increasing demand and in support of future growth.

Package revenues were down $7.8 million or 16% in the quarter, with a decrease in both the recreational (down 2%) and industrial (down 25%) markets. Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition. This results in a degree of variability of reported revenues and earnings as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers). In Canada, package revenues were down $11.9 million or 29% reflecting lower industrial revenues (principally on the build out of a major industrial project) and project delays resulting in part from supply chain issues. In the US, package revenues increased $4.1 million or 57% on a smaller activity base, with higher revenues in the industrial market and lower revenues in the recreational markets. Year-to-date, package sales in both market segments were $53.5 million or 50% higher than last year with build out of projects (industrial up 70% and recreational up 16%). Package sales increased in Canada (up $46.0 million or 53%) and the US (up $7.5 million or 37%), with increases in both the recreational and industrial markets.

Product support revenues increased in the third quarter (up $3.7 million or 10%) and year-to-date (up $1.1 million or 1%). Revenues in Canada increased 10% in the quarter, but were relatively flat year-to-date, reflecting improved economic activity as site restrictions in most areas ease and demand in the third quarter, particularly in recreational centres, increased in anticipation of re-openings for the winter season. In the US, the higher technician base continued to support activity levels resulting in 10% increase in the quarter and 6% increase year-to-date, albeit on a smaller base.

Gross profit margins decreased 320 bps in the quarter versus last year. The decrease in gross profit margins was due to lower package margins (down 290 bps) mainly on lower margins on certain larger projects and lower product support margins (down 60 bps), partially offset by a higher sales mix of product support revenues to total revenues (up 30 bps). Margins mainly reflect activity levels, nature of projects in process and variable construction schedules. Year-to-date, gross profit margins decreased 460 bps on lower package margin (down 350 bps) combined with unfavourable sales mix of product support revenues to total revenues (down 90 bps), as well as slightly lower product support margins (down 20 bps). Lower package margins were generally reflective of the nature of projects.

Selling and administrative expenses were up $0.6 million or 5% in the quarter reflecting spending to support current and future activity levels. Certain costs such as training were higher after a period of deferred spending. Compensation expenses increased on higher staffing levels while occupancy costs increased on facilities expansion, including a charge of $0.9 million related to the forthcoming move of the head office. On a year-to-date basis, selling and administrative expenses increased $3.2 million or 9% due to similar reasons as the quarter. The allowance for doubtful accounts decreased on good collections. In the third quarter of 2020, $0.8 million benefit under the CEWS program was recorded further affecting comparability of results year over year. As a percentage of revenues, selling and administrative expenses were lower at 14.8% in the first nine months of 2021 versus 17.0% for the similar period last year, reflecting the higher revenues.

Operating income decreased $4.4 million or 47% in the quarter reflecting lower package sales and lower margins, along with slightly higher expenses. Through the first nine months of 2021, operating income decreased $2.8 million or 19%, as higher package revenues, were more than offset by the lower gross margins and increased expenses.

Bookings and Backlogs

($ millions)	**2021**	2020	$ change	% change
Bookings - three months ended September 30	**$ 48.5**	$ 39.6	$ 8.9	22%
Bookings - nine months ended September 30	**$ 132.5**	$ 203.7	$ (71.2)	(35%)
Backlogs - as at September 30	**$ 153.8**	$ 216.0	$ (62.2)	(29%)

Bookings were up $8.9 million or 22% to $48.5 million in the quarter. Recreational bookings were 200% higher on increased market activity in both Canada (up 284%) and the US (up 135%), after a period of limited activity given pandemic closures and restrictions. Bookings in industrial markets were down 23% with reduced activity in both Canada (down 6%) and the US (down 68%).

On a year-to-date basis, bookings were down $71.2 million or 35% to $132.5 million. Several large industrial orders were received in Canada in the first quarter of 2020, resulting in a decrease in bookings compared to last year. Industrial orders were down 52% with a decrease in both Canada (down 54%) and the US (down 24%). Recreational orders increased 17% to $59.1 million, with increases in both the US (up 19%) and Canada (up 16%).

Backlogs of $153.8 million declined 29% versus September last year as revenues recognized on progress of construction exceeded new project orders. Approximately 52% of the backlog is expected to be realized as revenue this year, however this is subject to construction schedules, component availability and potential changes stemming from the COVID-19 pandemic.

CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At September 30, 2021, the ratio of net debt to total capitalization was -5% (net cash position), compared to 3% at December 31, 2020, and 10% at September 30, 2020. Cash balance was $732.6 million at September 30, 2021.

Non-cash Working Capital

Investment in non-cash working capital was $476.2 million at September 30, 2021. The major components, along with the changes from September 30 and December 31, 2020, are identified in the following table.

($ thousands)	**September 30 2021**	September 30 2020	Change $	Change %	December 31 2020	Change $	Change %
Accounts receivable	**$ 539,110**	$ 512,472	$ 26,638	5%	$ 541,580	$ (2,470)	-
Inventories	**685,239**	849,230	(163,991)	(19%)	728,404	(43,165)	(6%)
Other current assets	**18,087**	14,321	3,766	26%	10,897	7,190	66%
Accounts payable and accrued liabilities	**(533,468)**	(674,532)	141,064	(21%)	(558,443)	24,975	(4%)
Provisions	**(25,528)**	(25,710)	182	(1%)	(26,645)	1,117	(4%)
Income taxes (payable) recoverable	**(857)**	31,413	(32,270)	(103%)	(23,281)	22,424	(96%)
Derivative financial instruments	**11,456**	(6,283)	17,739	(282%)	(11,043)	22,499	(204%)
Dividends payable	**(28,977)**	(25,510)	(3,467)	14%	(25,560)	(3,417)	13%
Deferred revenues and contract liabilities	**(188,908)**	(141,761)	(47,147)	33%	(149,109)	(39,799)	27%
Total non-cash working capital	**$ 476,154**	$ 533,640	$ (57,486)	(11%)	$ 486,800	$ (10,646)	(2%)

Accounts receivable increased 5% compared to September 30, 2020, mainly reflecting the 8% increase in revenues in the quarter, offset by a continued focus on collection activity. Days sales outstanding ("DSO") remained flat at 46 days on an improvement in the Equipment Group (down 1 day), offset by an increase in CIMCO (up 9 days) off a smaller base.

In comparison to December 31, 2020, accounts receivable remained relatively unchanged. Trade receivables increased on a 5% increase in trailing revenues and a lag in collections. DSO was 41 days at December 31, 2020. Other miscellaneous receivables were lower (largely receipt of amounts claimed under the Canada Emergency Wage Subsidy program in 2020).

Inventories at September 30, 2021, were 19% lower compared to September 30, 2020:

- Equipment Group inventories were down $156.8 million or 19%, reflecting lower levels of equipment (down $131.3 million or 26%) and parts (down $29.2 million or 11%), offset by an increase in service work-in-process (up $3.7 million or 6%). Equipment inventories have reduced as a result of on-going and increasing supply constraints from manufacturers, coupled with recent high sales activity. Parts inventories were reduced throughout last year in light of lower market activity levels, and continued leveraging of the broader distribution network subsequent to systems conversion and alignment at Toromont Cat, the dealership. Higher work-in-process levels reflects higher activity.
- CIMCO inventories were down $7.2 million or 23%, mainly due to lower work-in-process levels (down 28%) on the advancement of larger industrial projects.

Inventories at September 30, 2021 were 6% lower compared to December 31, 2020:

- Equipment Group inventories were down $32.2 million or 5% on lower equipment inventory (down 10%) and parts inventory (down 3%), partially offset by higher work-in-progress (up 31%). While inventory levels are typically lowest at the end of a fiscal year due to seasonality, changes in supply chain availability has affected these trends.
- CIMCO inventories were down 31% on lower work-in-process (down 36%) reflecting project construction progress.

Other current assets are comprised mainly of prepaid expenses, and vary from period to period based on timing of receipt of invoice and payment.

Accounts payable and accrued liabilities at September 30, 2021, were 21% lower than at

September 30, 2020, principally due to the timing of purchases and payments for inventory. Accounts payable have reverted to normal levels as extended credit terms from suppliers have unwound.

In comparison to December 31, 2020, accounts payable and accrued liabilities were down 4%, mainly reflecting the timing of purchase and payment for inventory and other supplies.

Income taxes (payable)/recoverable reflects the difference between tax installments and current tax expense.

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar (stronger) led to a cumulative net gain of $11.5 million as at September 30, 2021. This is not expected to affect net earnings as the unrealized gains offset future losses on the related hedged items, either current accounts payable or future transactions.

Dividends payable increased compared to September 30 and December 31, 2020, reflecting the higher dividend rate and higher number of shares outstanding. The quarterly dividend rate was increased 12.9% from $0.31 per share to $0.35 per share, effective with the July 5, 2021 payment.

Deferred revenues 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 machinery to be delivered in the future. At September 30, 2021, these were up 46% versus September 30, 2020 and up 49% versus December 31, 2020, largely related to progress billings and customer deposits for future equipment deliveries.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages. As at September 30, 2021, these were down 4% versus September 30, 2020 and down 23% versus December 31, 2020, reflecting the timing of billings compared to customer's construction schedules.

Employee Future Benefits

Subsequent to the quarter end, in October 2021, an annuity purchase transaction was entered into where in the defined benefit obligations associated with retired plan members were assumed by a third party insurer, in exchange for a lump sum payment of $221 million from plan assets. A settlement charge of $5.0 million in connection with this transaction will be recorded in the fourth quarter of 2021.

Legal and Other Contingencies

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

Normal Course Issuer Bid ("NCIB")

The Company's NCIB program was renewed on September 15, 2021. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 14, 2022, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont, except for purchases designated under the Automatic Share Purchase Plan ("ASPP"). All shares purchased under this Bid will be cancelled.

Under this Bid, the Company purchased and cancelled 230,000 common shares for $24.2 million (average cost of $105.31 per share, including transaction costs) through to September 30, 2021.

The Company purchased and cancelled 67,800 common shares for $4.0 million (average cost of $59.62 per share, including transaction costs) during the nine months ended September 30, 2020, under the NCIB program in place at that time.

The Company entered into an ASPP with a broker that allows the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. As at September 30, 2021, an obligation of $25.8 million was recognized for the repurchase of shares under the ASPP.

Outstanding Share Data

As at the date of this MD&A, the Company had 82,327,174 common shares and 2,283,819 share options outstanding.

Dividends

The Company declared and paid the following dividends to common shareholders during the last eight quarters.

Record Date	Payment Date	Dividend Amount per Share	Dividends Paid in Total ($ millions)
December 9, 2019	January 3, 2020	$0.27	$22.0
March 9, 2020	April 2, 2020	$0.31	$25.4
June 9, 2020	July 3, 2020	$0.31	$25.4
September 8, 2020	October 2, 2020	$0.31	$25.5
December 9, 2020	January 5, 2021	$0.31	$25.6
March 9, 2021	April 1, 2021	$0.31	$25.6
June 9, 2021	July 5, 2021	$0.35	$28.9
September 8, 2021	October 4, 2021	$0.35	$29.0

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

Toromont’s liquidity requirements can be met through a variety of sources, including 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.

The Company maintains a $500.0 million committed revolving credit facility that matures in October 2022. Toromont's 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. Subsequent to quarter end, the Company extended this credit facility to November 2026, with no material changes to the terms and conditions.

No amounts were drawn on this facility as at September 30, 2021 (December 31, 2020 – $nil; September 30, 2020 – $nil). Standby letters of credit issued utilized $28.7 million of the facility as at September 30, 2021 (December 31, 2020 – $30.8 million and September 30, 2020 – $35.7 million).

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

The Company expects that continued cash flows from operations in 2021, together with cash on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets. 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:

	Three months ended September 30		Nine months ended September 30	
($ thousands)	**2021**	2020	**2021**	2020
Cash, beginning of period	**$ 660,771**	$ 537,175	**$ 591,128**	$ 365,589
Cash, provided by (used in):				
Operating activities				
Operations	**134,438**	124,757	**344,152**	306,272
Change in non-cash working capital and other	**23,068**	(61,044)	**8,693**	(70,010)
Net rental fleet additions	**(10,509)**	(5,375)	**(56,745)**	(35,348)
	146,997	58,338	**296,100**	200,914
Investing activities	**(27,048)**	(6,333)	**(58,102)**	(25,877)
Financing activities	**(48,248)**	(118,072)	**(96,577)**	(69,716)
Effect of foreign exchange on cash balances	**79**	(86)	**2**	112
Increase in cash in the period	**71,780**	(66,153)	**141,423**	105,433
Cash, end of period	**$ 732,551**	$ 471,022	**$ 732,551**	$ 471,022

Cash Flows from Operating Activities

Operating activities provided cash in both the third quarter and on a year-to-date basis for 2021.

Cash generated from operations increased for the quarter (up 7.8%) and year-to-date (up 12.4%) from the similar periods last year on the higher net earnings.

Non-cash working capital provided $23.1 million in the third quarter of 2021. Reductions in inventory levels and higher deferred revenues (including customer deposits) more than offset cash requirements for accounts payable and other accrued liabilities. Non-cash working capital used $61.0 million in the third quarter of 2020, largely on a reduction of accounts payable as extended terms from certain suppliers wound down. Income tax instalments were higher in the prior year due in part to governmental deferral programs.

On a year-to-date basis non-cash working capital provided $8.7 million in 2021. Reductions in inventory levels and higher deferred revenues (including customer deposits) more than offset cash requirements for accounts payable, DSU redemptions and income tax instalments. Non-cash working capital used $70.0 million in the nine month period ended September 30, 2020, largely on the reduction of accounts payable as certain vendor terms were unwound.

Net rental fleet additions (purchases less proceeds of dispositions) increased in both the third quarter and first nine months of 2021 compared to the similar periods last year. Additional investment in both the heavy and light equipment rental fleets reflect increased demand and improving market conditions, dampened somewhat by equipment availability. In some cases, fleet dispositions have been deferred, pending improved equipment supply.

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

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

Investments in property, plant and equipment totalled $27.3 million in the third quarter of 2021, related largely to expansion of branch and CIMCO head office facilities ($17.0 million) and normal replacement of service and delivery vehicles ($8.0 million). Capital expenditures in 2020 of $6.6 million largely related to an investment in land for potential branch expansion.

On a year-to-date basis, additions to property, plant and equipment totalled $60.3 million (2020 - $36.0 million), comprised of $34.5 million for facilities, inclusive of the new CIMCO head office and new rental locations and $19.7 million for service and delivery vehicles.

Disposition proceeds in the nine months ended September 30, 2021 were $1.6 million (2020 - $9.4 million), resulting in a capital gain of $1.2 million (2020 - $4.1 million), or $1.0 million after-tax (2020 - $3.5 million).

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

During the third quarter of 2021, the Company used $48.2 million (2020 – used $118.1 million) in cash in financing activities, major uses and sources of cash during the quarter included:

- Dividends paid to common shareholders of $28.9 million or $0.35 per share (2020 – $25.4 million or $0.31 per share);
- Cash received on exercise of share options of $7.3 million (2020 – $9.1 million);
- Repurchase of 230,000 common shares under the NCIB program for $24.2 million (see note 4 to the unaudited condensed interim financial statements for further details);
- Lease liability payments of $2.4 million (2020 - $1.7 million); and,
- In the third quarter of 2020, the Company repaid $100.0 million on a term credit facility.

For the nine months ended September 30, 2021, financing activities used $96.6 million (2020 – used $69.7 million) in cash, major uses and sources of cash during this period included:

- Dividends paid to common shareholders of $80.1 million or $0.97 per share (2020 – $73.0 million or $0.89 per share);
- Cash received on exercise of share options of $15.2 million (2020 – $15.5 million);

- Repurchase of shares under the NCIB program used $24.2 million (2020 – $4.0 million); and
- Lease liability payments of $7.5 million (2020 – $7.8 million);

OUTLOOK

The breadth, duration, impact and response to the COVID-19 pandemic are unknown and evolving. Staff shortages, reduced customer activity and demand, product availability and other supplier constraints, cost increases and increased government regulations or intervention, are some of the factors that have and may continue to negatively impact the business, consolidated financial results and conditions of the Company. It is not possible to reliably estimate the length and severity of these developments as well as the impact on the consolidated financial results and condition of the Company in future periods.

Vaccination programs are underway and generally restrictions are being eased or phased out across most of our territories. However, there is ongoing concern and uncertainty created by vaccine uptake levels and known and potential new COVID-19 variants. It is possible that emergency measures will be needed in the future based on local conditions.

Notwithstanding the pandemic related challenges during the past year and a half, we are very optimistic for prospects in the medium and long term.

The Equipment Group's parts and service business provides stability along with a large and diversified installed base of equipment, so long as it is working in the field. Prior to the pandemic, the long-term outlook for infrastructure projects and other construction activity was positive across most territories. Mining customers and jurisdictions they operate in continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion will remain dependent on global economic and financial conditions.

The protection and support of our people remains a priority. In particular, our technical workforce provide one of our most valuable service offerings for our customers. Workforce planning initiatives, including hiring, continue in light of current and expected activity levels.

Investment in broader product lines, branch network, rental equipment, and the development of product support technologies supporting remote diagnostics and telematics and digital information models to enhance CRM activity comprise our strategic platform aligned to longer-term growth once economic, financial and social environments return to a more normalized state.

CIMCO's installed base and product support levels provide a platform for 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 continued growth opportunities. Recreational markets have been slow due to pandemic restrictions, however longer term, opportunity exists. Current backlogs are supportive of future activity, although carry somewhat lower gross margins due to the nature of projects in process.

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

QUARTERLY RESULTS

The following table summarizes unaudited 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 2020 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q4 2020	Q1 2021	Q2 2021	**Q3 2021**
REVENUES				
Equipment Group	$ 896,904	$ 727,383	$ 1,016,545	**$ 914,386**
CIMCO	95,281	78,855	110,521	**82,812**
Total revenues	$ 992,185	$ 806,238	$ 1,127,066	**$ 997,198**
NET EARNINGS	$ 88,950	$ 47,956	$ 85,400	**$ 93,764**
PER SHARE INFORMATION:				
Basic earnings per share	$ 1.08	$ 0.58	$ 1.03	**$ 1.13**
Diluted earnings per share	$ 1.07	$ 0.58	$ 1.02	**$ 1.12**
Dividends paid per share	$ 0.31	$ 0.31	$ 0.35	**$ 0.35**
Weighted average common shares outstanding - basic (in thousands)	82,373	82,499	82,587	**82,705**

($ thousands, except per share amounts)	Q4 2019	Q1 2020	Q2 2020	Q3 2020
REVENUES				
Equipment Group	$ 933,131	$ 657,776	$ 776,703	$ 834,716
CIMCO	92,059	57,683	72,894	86,940
Total revenues	$ 1,025,190	$ 715,459	$ 849,597	$ 921,656
NET EARNINGS	$ 90,454	$ 37,396	$ 51,210	$ 77,359
PER SHARE INFORMATION:				
Basic earnings per share	$ 1.10	$ 0.46	$ 0.62	$ 0.94
Diluted earnings per share	$ 1.10	$ 0.45	$ 0.62	$ 0.94
Dividends paid per share	$ 0.27	$ 0.27	$ 0.31	$ 0.31
Weighted average common shares outstanding - basic (in thousands)	81,897	82,015	82,024	82,195

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The pandemic has affected seasonal trends and may result in variations to historically experienced trends.

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

CIMCO has also had a distinct seasonal trend in results historically, as the timing of construction activity impacts revenue recognition under percentage-of-completion accounting. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives, timing of significant industrial projects and product supply constraints. Quarter-over-quarter comparisons are also impacted by a 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 quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year-end.

In 2020 and 2021, these patterns were impacted by the governmental and market response and reaction to COVID-19. The second quarter of 2020 experienced the most significant slowdown in market activity. COVID-19 variants, vaccine roll-out and further governmental measures may continue to further alter the typical seasonal trend.

RISKS AND RISK MANAGEMENT

The significant risks and uncertainties affecting the Company and its business are discussed in the Company's MD&A for the year ended December 31, 2020 under "Risks and Risk Management". The following is an update to the changes in the risks or uncertainties facing the Company since that date.

Pandemic Risk (Coronavirus COVID-19)

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

Vaccination rates have increased and many provinces and territories are phasing in reduced restrictions. Variants of concern could still result in higher case counts and the resumption of shutdowns, which could continue to adversely impact the Company for a prolonged period.

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 developing plans, assessing developments and responding appropriately. The Company is updating employees on a frequent basis to provide information on the situation and on necessary precautions to take. The Company continues to have an open dialogue with public safety and government officials at all levels, as well as key suppliers, partners and customers.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Accounting Policies

The significant accounting policies used in the preparation of the accompanying unaudited interim condensed consolidated financial statements are consistent with those used in the Company's 2020 audited annual consolidated financial statements, and described in note 1 therein. Several amendments, apply for the first time in 2021, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Company for the three and nine month periods ending September 30, 2021.

Estimates

The preparation of financial statements in conformity with IFRS requires estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based upon historical experience, trends in the industry and information available from outside sources. Management reviews its estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material impact, positive or negative, on Toromont's financial position and results of operations. There have been no material changes to the critical accounting estimates as described in note 2 to the Company's 2020 audited annual consolidated financial statements, contained in the Company's 2020 Annual Report.

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 as designed were effective as at September 30, 2021.

Internal Control over Financial Reporting

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

There have been no changes in the design of the Company's internal control over financial reporting during the three and nine month periods ended September 30, 2021, that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADDITIONAL GAAP MEASURES

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

<u>Gross Profit</u>

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

<u>Operating Income</u>

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 September 30		**Nine months ended September 30**	
($ thousands)	**2021**	2020	**2021**	2020
Net earnings	**$ 93,764**	$ 77,359	**$ 227,120**	$ 165,965
plus: Interest expense	**7,093**	7,874	**21,272**	22,695
less: Interest and investment income	**(1,936)**	(1,719)	**(6,200)**	(6,008)
plus: Income taxes	**35,522**	29,363	**84,975**	62,600
Operating income	**$ 134,443**	$ 112,877	**$ 327,167**	$ 245,252
Total Revenues	**997,198**	921,656	**2,930,502**	2,486,712
Operating income margin	**13.5%**	12.2%	**11.2%**	9.9%

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. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

($ thousands)	**September 30 2021**	December 31 2020	September 30 2020
Long-term debt	**$ 647,099**	$ 646,299	$ 645,981
less: Cash	**732,551**	591,128	471,022
Net debt	**(85,452)**	55,171	174,959
Shareholders' equity	**1,875,154**	1,698,652	1,629,508
Total capitalization	**$ 1,789,702**	$ 1,753,823	$ 1,804,467
Net debt to total capitalization	**-5%**	3%	10%
Net debt to equity	**-0.05:1**	0.03:1	0.11:1

NON-GAAP MEASURES

Management believes that providing certain non-GAAP measures provides users of the Company's 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)	**September 30 2021**	December 31 2020	September 30 2020
Total current assets	**$ 1,986,443**	$ 1,872,144	$ 1,879,026
less: Total current liabilities	**777,738**	794,216	874,364
Working capital	**$ 1,208,705**	$ 1,077,928	$ 1,004,662

Non-Cash Working Capital

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

($ thousands)	September 30 2021	December 31 2020	September 30 2020
Total current assets	**$ 1,986,443**	$ 1,872,144	$ 1,879,026
less: Cash	**732,551**	591,128	471,022
	1,253,892	1,281,016	1,408,004
Total current liabilities	**777,738**	794,216	874,364
Non-cash working capital	**$ 476,154**	$ 486,800	$ 533,640

Market Capitalization & Total Enterprise Value

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

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

The calculations are as follows:

($ thousands, except for shares and share price)	September 30 2021	December 31 2020	September 30 2020
Outstanding common shares	**82,567,774**	82,474,658	82,313,138
times: Ending share price	**$ 105.73**	$ 89.20	$ 79.68
Market capitalization	**$ 8,729,891**	$ 7,356,739	$ 6,558,711
Long-term debt	**$ 647,099**	$ 646,299	$ 645,981
less: Cash	**732,551**	591,128	471,022
Net debt	**$ (85,452)**	$ 55,171	$ 174,959
Total enterprise value	**$ 8,644,439**	$ 7,411,910	$ 6,733,670

KEY PERFORMANCE INDICATORS ("KPIs")

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

The Company's order bookings represent equipment unit orders that management believes are firm. Backlogs are defined as the retail value of equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future equipment 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 trailing twelve months 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 or total capitalization.

	Trailing twelve months ended		
($ thousands)	**September 30 2021**	December 31 2020	September 30 2020
Net earnings	**$ 316,070**	$ 254,915	$ 256,419
plus: Interest expense	**28,558**	29,981	29,551
less: Interest and investment income	**(9,275)**	(9,083)	(9,175)
plus: Interest income - rental conversions	**3,482**	3,529	3,278
plus: Income taxes	**118,996**	96,621	96,656
Adjusted net earnings	**$ 457,831**	$ 375,963	$ 376,729
Average capital employed	**$ 1,812,402**	$ 1,838,533	$ 1,853,246
Return on capital employed	**25.3%**	20.4%	20.3%

Return on Equity ("ROE")

ROE is monitored to assess the profitability of the consolidated Company and is calculated by dividing trailing twelve months net earnings by opening shareholders' equity (adjusted for shares issued and redeemed during the period).

	Trailing twelve months ended		
($ thousands)	**September 30 2021**	December 31 2020	September 30 2020
Net earnings	**$ 316,070**	$ 254,915	$ 256,419
Opening shareholders' equity (net of adjustments)	**$ 1,639,080**	$ 1,538,817	$ 1,459,397
Return on equity	**19.3%**	16.6%	17.6%

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

($ thousands)	Note	**September 30 2021**	December 31 2020	September 30 2020
Assets				
Current assets				
Cash		**$ 732,551**	$ 591,128	471,022
Accounts receivable		**539,110**	541,580	512,472
Inventories		**685,239**	728,404	849,230
Income taxes recoverable		**-**	135	31,981
Derivative financial instruments	5	**11,456**	-	-
Other current assets		**18,087**	10,897	14,321
Total current assets		**1,986,443**	1,872,144	1,879,026
Property, plant and equipment	2	**450,469**	423,282	427,554
Rental equipment	2	**536,133**	539,412	559,010
Other assets		**25,821**	33,263	35,575
Deferred tax assets		**533**	504	1,246
Goodwill and intangible assets		**475,662**	478,187	480,246
Total assets		**$ 3,475,061**	$ 3,346,792	$ 3,382,657
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**$ 562,445**	$ 584,003	$ 700,042
Provisions		**25,528**	26,645	25,710
Deferred revenues and contract liabilities		**188,908**	149,109	141,761
Derivative financial instruments	5	**-**	11,043	6,283
Income taxes payable		**857**	23,416	568
Total current liabilities		**777,738**	794,216	874,364
Deferred revenues and contract liabilities		**25,589**	16,383	14,218
Long-term lease liabilities		**13,056**	16,565	17,336
Long-term debt	3, 5	**647,099**	646,299	645,981
Post-employment obligations	9	**82,025**	149,451	148,327
Deferred tax liabilities		**54,400**	25,226	52,923
Total liabilities		**1,599,907**	1,648,140	1,753,149
Shareholders' equity				
Share capital	4	**531,794**	516,591	508,369
Contributed surplus		**16,173**	14,243	14,121
Retained earnings		**1,318,216**	1,169,239	1,104,534
Accumulated other comprehensive income (loss)		**8,971**	(1,421)	2,484
Total shareholders' equity		**1,875,154**	1,698,652	1,629,508
Total liabilities and shareholders' equity		**$ 3,475,061**	$ 3,346,792	$ 3,382,657

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS
(Unaudited)

($ thousands, except share amounts)	Note	Three months ended September 30 **2021**	Three months ended September 30 2020	Nine months ended September 30 **2021**	Nine months ended September 30 2020
Revenues	11	**$ 997,198**	$ 921,656	**$ 2,930,502**	$ 2,486,712
Cost of goods sold		**738,764**	695,043	**2,229,984**	1,895,454
Gross profit		**258,434**	226,613	**700,518**	591,258
Selling and administrative expenses		**123,991**	113,736	**373,351**	346,006
Operating income		**134,443**	112,877	**327,167**	245,252
Interest expense	6	**7,093**	7,874	**21,272**	22,695
Interest and investment income	6	**(1,936)**	(1,719)	**(6,200)**	(6,008)
Income before income taxes		**129,286**	106,722	**312,095**	228,565
Income taxes		**35,522**	29,363	**84,975**	62,600
Net earnings		**$ 93,764**	$ 77,359	**$ 227,120**	$ 165,965
Earnings per share					
Basic	7	**$ 1.13**	$ 0.94	**$ 2.75**	$ 2.02
Diluted	7	**$ 1.12**	$ 0.94	**$ 2.73**	$ 2.01
Weighted average number of shares outstanding					
Basic	7	**82,704,637**	82,195,332	**82,597,423**	82,078,763
Diluted	7	**83,522,761**	82,724,575	**83,346,677**	82,513,989

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

($ thousands)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Net earnings	**$ 93,764**	$ 77,359	**$ 227,120**	$ 165,965
Other comprehensive income (loss), net of income taxes:				
Items that may be reclassified subsequently to net earnings:				
Foreign currency translation adjustments	**368**	(233)	**56**	244
Unrealized gains (losses) on derivatives designated as cash flow hedges	**11,350**	(2,939)	**2,061**	5,360
Income tax (expense) recovery	**(2,951)**	773	**(534)**	(1,405)
Unrealized gains (losses) on cash flow hedges, net of income taxes	**8,399**	(2,166)	**1,527**	3,955
Realized (gains) losses on derivatives designated as cash flow hedges	**(2,327)**	3,757	**11,906**	(1,873)
Income tax expense (recovery)	**606**	(993)	**(3,097)**	499
Realized (gains) losses on cash flow hedges, net of income taxes	**(1,721)**	2,764	**8,809**	(1,374)
Items that will not be reclassified subsequently to net earnings:				
Actuarial and other gains (losses)	**13,974**	9,113	**71,184**	(17,003)
Income tax (expense) recovery	**(3,702)**	(2,417)	**(18,863)**	4,505
Actuarial and other gains (losses), net of income taxes	**10,272**	6,696	**52,321**	(12,498)
Other comprehensive income (loss)	**17,318**	7,061	**62,713**	(9,673)
Total comprehensive income	**$ 111,082**	$ 84,420	**$ 289,833**	$ 156,292

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

($ thousands)	Note	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Operating activities					
Net earnings		**$ 93,764**	$ 77,359	**$ 227,120**	$ 165,965
Items not requiring cash:					
Depreciation and amortization		**40,096**	41,530	**118,787**	124,616
Stock-based compensation		**2,074**	1,410	**4,950**	4,230
Post-employment obligations		**1,456**	32	**3,758**	5,617
Deferred income taxes		**1,533**	10,042	**6,650**	23,355
Gain on sale of rental equipment and property, plant and equipment		**(4,485)**	(5,616)	**(17,113)**	(17,511)
		134,438	124,757	**344,152**	306,272
Net change in non-cash working capital and other	10	**23,068**	(61,044)	**8,693**	(70,010)
Additions to rental equipment	2	**(19,142)**	(19,810)	**(97,483)**	(74,875)
Proceeds on disposal of rental equipment		**8,633**	14,435	**40,738**	39,527
Cash provided by operating activities		**146,997**	58,338	**296,100**	200,914
Investing activities					
Additions to property, plant and equipment	2	**(27,348)**	(6,562)	**(60,250)**	(36,014)
Proceeds on disposal of property, plant and equipment		**390**	253	**2,326**	10,277
Decrease in other assets		**(90)**	(24)	**(178)**	(140)
Cash used in investing activities		**(27,048)**	(6,333)	**(58,102)**	(25,877)
Financing activities					
Drawings on credit facility		**-**	(100,000)	**-**	-
Debt issuance costs		**-**	(57)	**-**	(338)
Dividends paid	4	**(28,929)**	(25,446)	**(80,076)**	(73,020)
Cash received on exercise of stock options		**7,337**	9,138	**15,214**	15,530
Shares purchased for cancellation	4	**(24,222)**	-	**(24,222)**	(4,043)
Payment of lease liabilities		**(2,434)**	(1,707)	**(7,493)**	(7,845)
Cash used in financing activities		**(48,248)**	(118,072)	**(96,577)**	(69,716)
Effect of currency translation on cash balances		**79**	(86)	**2**	112
Increase (decrease) in cash during the period		**71,780**	(66,153)	**141,423**	105,433
Cash, at beginning of the period		**660,771**	537,175	**591,128**	365,589
Cash, at end of the period		**$ 732,551**	$ 471,022	**$ 732,551**	$ 471,022

Supplemental cash flow information (note 10)

See accompanying notes

TOROMONT INDUSTRIES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Share capital				Accumulated other comprehensive income (loss)			
($ thousands, except share numbers)	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total shareholders' equity
At January 1, 2021	**82,474,658**	**$ 516,591**	**$ 14,243**	**$ 1,169,239**	**$ 1,880**	**$ (3,301)**	**$ (1,421)**	**$ 1,698,652**
Net earnings	**-**	**-**	**-**	**227,120**	**-**	**-**	**-**	**227,120**
Other comprehensive income	**-**	**-**	**-**	**52,321**	**56**	**10,336**	**10,392**	**62,713**
Total comprehensive income	**-**	**-**	**-**	**279,441**	**56**	**10,336**	**10,392**	**289,833**
Exercise of stock options	**323,116**	**18,234**	**(3,020)**	**-**	**-**	**-**	**-**	**15,214**
Stock-based compensation expense	**-**	**-**	**4,950**	**-**	**-**	**-**	**-**	**4,950**
Effect of stock compensation plans	**323,116**	**18,234**	**1,930**	**-**	**-**	**-**	**-**	**20,164**
Shares purchased for cancellation	**(230,000)**	**(1,481)**	**-**	**(22,741)**	**-**	**-**	**-**	**(24,222)**
Share repurchase commitment under NCIB	**-**	**(1,550)**	**-**	**(24,230)**	**-**	**-**	**-**	**(25,780)**
Dividends declared	**-**	**-**	**-**	**(83,493)**	**-**	**-**	**-**	**(83,493)**
At September 30, 2021	**82,567,774**	**$ 531,794**	**$ 16,173**	**$ 1,318,216**	**$ 1,936**	**$ 7,035**	**$ 8,971**	**$ 1,875,154**
At January 1, 2020	82,012,448	$ 490,047	$ 13,088	$ 1,031,097	$ 2,219	$ (2,560)	$ (341)	$ 1,533,891
Net earnings	-	-	-	165,965	-	-	-	165,965
Other comprehensive loss	-	-	-	(12,498)	244	2,581	2,825	(9,673)
Total comprehensive income	-	-	-	153,467	244	2,581	2,825	156,292
Exercise of stock options	368,490	18,727	(3,197)	-	-	-	-	15,530
Stock-based compensation expense	-	-	4,230	-	-	-	-	4,230
Effect of stock compensation plans	368,490	18,727	1,033	-	-	-	-	19,760
Shares purchased for cancellation	(67,800)	(405)	-	(3,638)	-	-	-	(4,043)
Dividends declared	-	-	-	(76,392)	-	-	-	(76,392)
At September 30, 2020	82,313,138	$ 508,369	$ 14,121	$ 1,104,534	$ 2,463	$ 21	$ 2,484	$ 1,629,508

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three and nine months ended September 30, 2021
(Unaudited)
($ thousands, except where otherwise indicated)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

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

Toromont operates through two reportable segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry-leading rental operations and an agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities.

Basis of Preparation

These interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard (“IAS”) 34 — *Interim Financial Reporting* (“IAS 34”). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the year ended December 31, 2020.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements, were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2020. Management also incorporated the potential impact of COVID-19 into its estimates and assumptions.

These interim condensed consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest thousands, except where otherwise indicated.

These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on November 4, 2021.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2020. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Company. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

Activity within property, plant and equipment and rental equipment during the period included:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Additions				
Rental equipment	**$ 19,142**	$ 19,810	**$ 97,483**	$ 74,875
Property, plant and equipment	**27,348**	6,562	**60,250**	36,014
Total additions	**$ 46,490**	$ 26,372	**$ 157,733**	$ 110,889
Disposals — Net book value ("NBV")				
Rental equipment	**$ 4,331**	$ 9,040	**$ 25,182**	$ 26,599
Property, plant and equipment	**206**	31	**769**	5,695
Total disposals - NBV	**$ 4,537**	$ 9,071	**$ 25,951**	$ 32,294
Depreciation				
Cost of goods sold	**$ 32,033**	$ 32,477	**$ 94,647**	$ 96,389
Selling and administrative expenses	**4,583**	5,223	**13,222**	16,707
Total depreciation	**$ 36,616**	$ 37,700	**$ 107,869**	$ 113,096

3. LONG-TERM DEBT

	September 30 2021	December 31 2020	September 30 2020
Senior debentures:			
3.71%, $150.0 million, due September 30, 2025 [(1)]	**$ 150,000**	$ 150,000	$ 150,000
3.84%, $500.0 million, due October 27, 2027 [(1)]	**500,000**	500,000	500,000
	650,000	650,000	650,000
Debt issuance costs, net of amortization	**(2,901)**	(3,701)	(4,019)
Total long-term debt	**$ 647,099**	$ 646,299	$ 645,981

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

All debt is unsecured.

The Company maintains a $500.0 million committed revolving credit facility that matures in October 2022. 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 facility as at September 30, 2021 (December 31, 2020 — $nil; September 30, 2020 — $nil). Standby letters of credit issued utilized $28.7 million of the facility as at September 30, 2021 (December 31, 2020 — $30.8 million and September 30, 2020 — $35.7 million).

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

Subsequent to quarter end, in November 2021, the Company extended the $500.0 million committed revolving credit facility to November 2026, with no material changes to the terms and conditions.

4. SHARE CAPITAL

Normal Course Issuer Bid (“NCIB”)

The Company’s NCIB program commenced on September 15, 2021. The current issuer bid allows the Company to purchase up to approximately 8.2 million of its common shares in the 12-month period ending September 14, 2022, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont, except for purchases designated under the Automatic Share Purchase Plan ("ASPP"). All shares purchased under the bid will be cancelled.

Under this bid, the Company purchased and cancelled 230,000 common shares for $24.2 million (average cost of $105.31 per share, including transaction costs) through to September 30, 2021.

The Company purchased and cancelled 67,800 common shares for $4.0 million (average cost of $59.62 per share, including transaction costs) during the nine months ended September 30, 2020, under the NCIB program in place at that time.

The Company entered into an ASPP with a broker that allows the purchase of common shares for cancellation under the NCIB at any time during predetermined trading blackout periods. As at September 30, 2021, an obligation for the repurchase of shares of $25.8 million was recognized under the ASPP.

Dividends

The Company paid dividends of $28.9 million or $0.35 per share during the three months ended September 30, 2021 (2020 — $25.5 million or $0.31 per share) and $80.1 million or $1.01 per share during the nine months ended September 30, 2021 (2020 — $73.0 million or $0.89 per share).

The quarterly dividend was increased on May 4, 2021, to $0.35 per share effective with the dividend paid on July 5, 2021.

5. FINANCIAL INSTRUMENTS

Financial Assets and Liabilities – Classification and Measurement

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

	September 30 2021	December 31 2020	September 30 2020
Other financial liabilities:			
Long-term debt	**$ 647,099**	$ 646,299	$ 645,981
Derivative financial instruments assets (liabilities), net:			
Foreign exchange forward contracts	**$ 11,456**	$ (11,043)	$ (6,283)

Fair Value of Financial Instruments

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

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

Long-term debt	September 30 2021	December 31 2020	September 30 2020
Fair value	**$ 705,051**	$ 726,871	$ 721,910
Carrying value	**$ 650,000**	$ 650,000	$ 650,000

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company does not plan to prepay these instruments prior to maturity.

During the nine months ended September 30, 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency-denominated obligations related to purchases of inventory and sales of products. As at September 30, 2021, the Company was committed to USD purchase contracts with a notional amount of $575.0 million at an average exchange rate of $1.2541, maturing between October 2021 and March 2023. The Company was also committed to USD sell contracts with a notional amount of $7.8 million at an average exchange rate of $1.2327, maturing between October 2021 and June 2022.

Management estimates that a net gain of $11.4 million (December 31, 2020 — loss of $11.0 million; September 30, 2020 — loss of $6.3 million) would be realized if the contracts were terminated on September 30, 2021. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized net gain of $9.5 million (December 31, 2020 — unrealized loss of $4.4 million; September 30, 2020 — unrealized gain of $0.1 million) has been included in other comprehensive income (loss). These gains/losses are not expected to affect net earnings as the amounts will be reclassified to net earnings within the next 11 months and will offset losses recorded on the underlying hedged items, namely foreign currency-denominated accounts payable and accrued liabilities. Certain of those forward contracts are not designated as cash flow hedges, but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A net gain of $2.0 million (December 31, 2020 — loss of $6.6 million; September 30, 2020 — loss of $6.4 million) on forward contracts not designated as hedges is included in net earnings, which offsets losses recorded on the foreign currency-denominated items, namely accounts payable and accrued liabilities.

6. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Credit facilities	**$ 575**	$ 1,326	**$ 1,867**	$ 3,118
Senior debentures	**6,357**	6,330	**18,889**	18,871
Interest on lease liabilities	**161**	218	**516**	706
	$ 7,093	$ 7,874	**$ 21,272**	$ 22,695

The components of interest and investment income were as follows:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Interest on conversion of rental equipment	**$ 282**	$ 432	**$ 1,588**	$ 1,635
Other	**1,654**	1,287	**4,612**	4,373
	$ 1,936	$ 1,719	**$ 6,200**	$ 6,008

7. EARNINGS PER SHARE

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Net earnings available to common shareholders	**$ 93,764**	$ 77,359	**$ 227,120**	$ 165,965
Weighted average common shares outstanding	**82,704,637**	82,195,332	**82,597,423**	82,078,763
Dilutive effect of stock option conversions	**818,124**	529,243	**749,254**	435,226
Diluted weighted average common shares outstanding	**83,522,761**	82,724,575	**83,346,677**	82,513,989
Earnings per share:				
Basic	**$ 1.13**	$ 0.94	**$ 2.75**	$ 2.02
Diluted	**$ 1.12**	$ 0.94	**$ 2.73**	$ 2.01

For the three-month period ended September 30, 2021 and for the comparative period in 2020, there were no anti-dilutive options.

For the nine-month period ended September 30, 2021, 367,957 outstanding share options with an average exercise price of $104.91 were considered anti-dilutive (exercise price in excess of average market price) and were excluded from the calculation (2020 — 532,443 anti-dilutive options with an average exercise price of $72.95).

8. STOCK-BASED COMPENSATION

A reconciliation of the outstanding options was as follows:

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, January 1	**2,328,038**	**$**	**58.67**	2,329,705	$	51.68
Granted	**367,957**		**104.91**	532,443		72.95
Exercised [1]	**(323,116)**		**47.09**	(368,490)		42.41
Forfeited	**(89,060)**		**57.59**	(2,000)		65.97
Options outstanding, September 30	**2,283,819**	**$**	**67.80**	2,491,658	$	57.62
Options exercisable, September 30	**954,481**	**$**	**53.16**	1,017,195	$	45.94

[1] The weighted average share price at date of exercise for the nine months ended September 30, 2021 was $103.30 (2020 – $71.03).

The following table summarizes stock options outstanding and exercisable as at September 30, 2021.

	Options outstanding				**Options exercisable**		
Range of exercise prices	**Number**	**Weighted average remaining life (years)**		**Weighted average exercise price**	**Number**		**Weighted average exercise price**
$23.40 – $26.52	**112,590**	**2.5**	**$**	**25.41**	**112,590**	**$**	**25.41**
$36.65 – $39.79	**229,350**	**4.4**	**$**	**38.43**	**229,350**	**$**	**38.43**
$53.88 – $66.22	**1,054,345**	**7.0**	**$**	**63.23**	**516,935**	**$**	**62.07**
$66.23 – $72.95	**519,577**	**8.9**	**$**	**72.95**	**95,606**	**$**	**72.95**
$104.91	**367,957**	**9.7**	**$**	**104.91**	**-**	**$**	**-**
	2,283,819	**7.4**	**$**	**67.80**	**954,481**	**$**	**53.16**

The fair value of the stock options granted during the nine-month period ended September 30, 2021 and 2020 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	September 30 2021		September 30 2020	
Fair value price per option	**$**	**18.23**	$	11.14
Share price	**$**	**104.91**	$	72.95
Expected life of options (years)		**5.30**		5.76
Expected stock price volatility		**21.5%**		21.0%
Expected dividend yield		**1.33%**		1.70%
Risk-free interest rate		**0.90%**		0.34%

Deferred Share Unit ("DSU") Plan

A reconciliation of the DSU plan was as follows:

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
	Number of DSUs		**Value**	Number of DSUs		Value
Outstanding, January 1	**394,154**	**$**	**35,555**	388,547	$	27,392
Units taken or taken in lieu and dividends	**22,539**		**2,185**	24,169		1,641
Redemptions	**(217,933)**		**(21,751)**	(23,477)		(1,527)
Fair market value adjustment	**-**		**5,233**	-		2,501
Outstanding, September 30	**198,760**	**$**	**21,222**	389,239	$	30,007

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

9. EMPLOYEE FUTURE BENEFITS

Employee future benefits expense included the following components:

	Three months ended September 30				**Nine months ended September 30**			
		2021		2020		**2021**		2020
Defined benefit plans	**$**	**4,875**	$	4,914	**$**	**14,372**	$	14,741
Defined contribution plans		**4,149**		3,743		**12,221**		11,381
401(k) matched savings plans		**63**		68		**193**		206
	$	**9,087**	$	8,725	**$**	**26,786**	$	26,328

Subsequent to the quarter-end, in October 2021, an annuity purchase transaction was entered into in which the defined benefit obligations associated with retired plan members were assumed by a third-party insurer, in exchange for a lump sum payment of $221 million from plan assets. A settlement charge of $5.0 million in connection with this transaction will be recorded in the fourth quarter of 2021.

10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Net change in non-cash working capital and other				
Accounts receivable	**$ (7,580)**	$ (54,095)	**$ 2,470**	$ 12,580
Inventories	**27,629**	83,446	**43,165**	62,956
Accounts payable and accrued liabilities	**(8,113)**	(65,915)	**(50,036)**	(122,632)
Provisions	**(1,196)**	1,127	**(1,117)**	2,030
Deferred revenues and contract liabilities	**9,781**	1,906	**49,005**	(1,326)
Income taxes	**9,473**	(27,858)	**(22,424)**	(22,138)
Derivative financial instruments	**(3,066)**	2,955	**(8,532)**	(606)
Other	**(3,860)**	(2,610)	**(3,838)**	(874)
	$ 23,068	$ (61,044)	**$ 8,693**	$ (70,010)
Cash paid during the period for:				
Interest	**$ -**	$ 2,783	**$ 12,388**	$ 16,480
Income taxes	**$ 26,682**	$ 47,972	**$ 104,403**	$ 61,922
Cash received during the period for:				
Interest	**$ 1,781**	$ 1,563	**$ 5,923**	$ 5,575
Income taxes	**$ 2,251**	$ 457	**$ 3,712**	$ 623

Government Grants

No amounts were recognized under the Canada Emergency Wage Subsidy (“CEWS”) program in 2021. During the quarter ended September 30, 2020, the Company recognized a $7.3 million government grant ($8.1 million in the first nine months of 2020).

11. SEGMENTED INFORMATION

The Company has two reportable segments: the Equipment Group and CIMCO, as described in note 1, each supported by the corporate office. These segments are strategic business units that offer different products and services, and each is managed separately. The corporate office provides finance, treasury, legal, human resources and other administrative support to the segments and does not meet the definition of a reportable operating segment as defined in International Financial Reporting Standards (“IFRS”) 8 — *Operating Segments*, as it does not earn revenue.

The accounting policies of each of the reportable segments are the same as the significant accounting policies described in the most recent annual audited consolidated financial statements.

Segment performance is assessed based on operating income, which is measured differently than income from operations in the interim condensed consolidated financial statements. Corporate overheads are allocated to the segments based on revenue. Income taxes, interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current income taxes, deferred income taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.

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

No reportable segment is reliant on any single external customer.

The following table sets forth information by segment for the three and nine months ended September 30, 2021 and 2020:

	Equipment Group		CIMCO		Consolidated	
Three months ended September 30	**2021**	2020	**2021**	2020	**2021**	2020
Equipment/package sales	**$ 446,653**	$ 383,764	**$ 40,650**	$ 48,490	**$ 487,303**	$ 432,254
Rentals	**111,252**	104,541	**-**	-	**111,252**	104,541
Product support	**353,642**	343,657	**42,162**	38,450	**395,804**	382,107
Power generation	**2,839**	2,754	**-**	-	**2,839**	2,754
Total revenues	**$ 914,386**	$ 834,716	**$ 82,812**	$ 86,940	**$ 997,198**	$ 921,656
Operating income	**$ 129,388**	$ 103,404	**$ 5,055**	$ 9,473	**$ 134,443**	$ 112,877
Interest expense					**7,093**	7,874
Interest and investment income					**(1,936)**	(1,719)
Income taxes					**35,522**	29,363
Net earnings					**$ 93,764**	$ 77,359

	Equipment Group		CIMCO		Consolidated	
Nine months ended September 30	**2021**	2020	**2021**	2020	**2021**	2020
Equipment/package sales	**$ 1,329,272**	$ 1,022,896	**$ 160,751**	$ 107,210	**$ 1,490,023**	$ 1,130,106
Rentals	**275,013**	257,818	**-**	-	**275,013**	257,818
Product support	**1,045,725**	980,325	**111,437**	110,307	**1,157,162**	1,090,632
Power generation	**8,304**	8,156	**-**	-	**8,304**	8,156
Total revenues	**$ 2,658,314**	$ 2,269,195	**$ 272,188**	$ 217,517	**$ 2,930,502**	$ 2,486,712
Operating income	**$ 315,648**	$ 230,977	**$ 11,519**	$ 14,275	**$ 327,167**	$ 245,252
Interest expense					**21,272**	22,695
Interest and investment income					**(6,200)**	(6,008)
Income taxes					**84,975**	62,600
Net earnings					**$ 227,120**	$ 165,965

Operating income from rental operations was $23.3 million for the three months ended September 30, 2021 (2020 — operating income of $13.7 million) and $37.8 million for the nine months ended September 30, 2021 (2020 — $19.6 million).

12. BUSINESS SEASONALITY

Interim period revenues and earnings historically reflect seasonality. For the Equipment Group, the first quarter is typically the weakest due to winter shutdowns in the construction industry while the fourth quarter has consistently been the strongest quarter due to higher conversions at the Caterpillar dealership 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. For CIMCO, the fourth quarter tends to be the strongest due to higher activity in recreational markets in advance of the winter recreational season. Across both the Equipment Group and CIMCO this trend can also be impacted during periods of equipment supply constraints from suppliers.

In 2020 and 2021, these patterns were impacted by the governmental and market response and reaction to COVID-19. The second quarter of 2020 experienced the most significant slowdown in market activity. COVID-19 variants, vaccine roll-out and further governmental measures may further alter the typical seasonal trend.

The breadth, duration, impact and response of this pandemic are unknown and evolving. Staff shortages, reduced customer activity and demand, supplier constraints, increased government regulations or intervention, are some of the factors that have and may continue to negatively impact the business, consolidated financial results and conditions of the Company. It is not possible to reliably estimate the length and severity of these developments as well as the impact on the consolidated financial results and condition of the Company in future periods.

How to get in touch with us

Tel: 416.667.5511
Fax: 416.667.5555
E-mail: investorrelations@toromont.com
www.toromont.com

How to reach our transfer agent and registrar

Investors are encouraged to contact AST Trust Company (Canada) for information regarding their security holdings.

AST Trust Company (Canada)
P.O. Box 700
Station B
Montreal, Quebec
H3B 3K3

Toll-Free North America: 1.800.387.0825
Local: 416.682.3860
E-mail: inquiries@astfinancial.com
www.astfinancial.com/ca-en

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

Toromont Industries Ltd.
Corporate Office
3131 Highway 7 West
P.O. Box 5511
Concord ON L4K 1B7