**First Quarter 2020** **April 30, 2020**

# TOROMONT ANNOUNCES RESULTS FOR THE FIRST QUARTER OF 2020 AND QUARTERLY DIVIDEND

Toromont Industries Ltd. (TSX:TIH) reported financial results for the first quarter ended March 31, 2020.

| | Three months ended March 31 | | |
|---|---|---|---|
| *millions, except per share amounts* | **2020** | 2019 | **% change** |
| Revenues | **$ 715.5** | $ 700.0 | **2%** |
| Operating income | **$ 55.2** | $ 58.8 | **(6%)** |
| Net earnings | **$ 37.4** | $ 39.3 | **(5%)** |
| Basic earnings per share ("EPS") | **$ 0.46** | $ 0.48 | **(4%)** |

The recent outbreak of COVID-19 puts the Company in an unprecedented environment. While Toromont's businesses have, to date, been declared essential services in all jurisdictions in which it operate, Toromont is not insulated from the broader economic, financial and market impacts. Lower earnings were experienced in the quarter and reduced activity. Actions have been taken and are on-going across three areas of focus: protecting our employees, serving our customers' needs and protecting our business for the future. The effort and commitment of our entire team to support our customers during this challenging time is appreciated.

Results in the quarter were dampened by higher expense levels compared to revenue growth. The first quarter of the year is typically softer, given seasonality and the impact of winter weather conditions in most segments of the business. This was exacerbated towards the end of the quarter with reductions in activity, most notably mine and construction shutdowns.

**Highlights:**

Consolidated results

- Revenues increased 2% in the quarter versus last year, however this was dampened by the onset of COVID-19 in the latter part of the quarter. Product support and rental revenues were trending 5% and 7% higher respectively through February, but reduced activity in March largely offset this growth. It is difficult to quantify the impact of COVID-19 on equipment revenues.

- Operating income was 6% lower on reduced gross margins (tight pricing and lower rental fleet utilization) combined with increased expense associated with fleet investment strategy and an increase in the allowance for doubtful accounts.

- Backlogs were $567.0 million at March 31, 2020, compared to $544.9 million at March 31, 2019, with a new record set at CIMCO.

- Net earnings decreased $1.9 million or 5% in the quarter versus a year ago to $37.4 million or $0.46 EPS.

Equipment Group

- Revenues were up $23.9 million or 4% to $657.8 million for the quarter on strong used equipment sales and product support growth.

- Operating income was down $2.6 million or 5% reflecting lower margins and higher expense levels.

- Bookings in the first quarter of $337.7 million were 15% higher. Construction orders, power systems and material handling were higher while mining and agricultural orders were lower than the comparable period last year.

- Backlogs of $353.1 million at the end of March 2020 were down $42.0 million or 11% from the end of March 2019. Inventory levels and equipment availability factored into the decrease. Substantially all of the backlog is expected to be delivered this year.

CIMCO

- Revenues of $57.7 million decreased $8.4 million or 13% compared to the first quarter last year. Record package sales for the first quarter last year did not repeat, project construction work was slower to start in the quarter, however booking activity and backlogs were very strong.

- Operating income of $0.2 million reflects the lower sales in addition to higher allowance for doubtful accounts.

- Bookings were up $42.5 million or 61% to a record of $112.2 million, on several large industrial orders received in Canada.

- Backlogs of $213.9 million were up $64.1 million, setting a new record. Approximately 70% of the backlog is estimated to be realized as revenue this year, however this is subject to construction schedules.

Financial Position

- Toromont's share price of $61.65 at the end of March 2020, translated to a market capitalization of $5.1 billion and a total enterprise value of $5.4 billion.

- The Company maintained a very strong financial position. Leverage as represented by the net debt to total capitalization ratio was 18% at the end March 2020, compared to 15% at the end of December 2019 and 26% at the end of March 2019.

- The Board of Directors announced a quarterly dividend of 31 cents per common share, payable on July 3, 2020 to shareholders on record on June 9, 2020. The quarterly dividend was previously increased 14.8% to 31 cents per share effective with the dividend paid April 2, 2020.

- The Company's return on opening shareholders' equity was 21.2% at the end of March 2020, on a trailing twelve-month basis, compared to 21.4% at the end of December 2019 and 22.5% at the end of March 2019. Trailing twelve month pre-tax return on capital employed was 22.0%

at the end of March 2020, compared to 22.9% at the end of December 2019 and 22.4% at the end of March 2019.

- On April 17, 2020, Toromont closed a $250 million one-year syndicated facility on substantially similar terms to the existing revolving credit facility, to provide additional liquidity in this era of economic uncertainty. This brings total bank lines to $750 million.

As governments around the world enact measures to combat the spread of COVID-19, Toromont is proud to take part as an essential service. Toromont's businesses serve critical, essential services including but not limited to food production, storage and distribution networks, power generation including back-up power, critical infrastructure, transportation and emergency response. A Critical Incident Executive Response Team was activated at an early stage and focuses on developing plans, assessing developments and responding appropriately. The collective management and leadership teams continue to monitor the situation closely and are implementing responsible measures to manage and protect the long-term health of the business, including voluntary compensation reductions by the executive team and the Board of Directors. The diversity of our geographical landscape and markets served, extensive product and service offerings and financial strength together with a disciplined operating culture, position us well to weather this situation for the long term.

On a different note, the entire Toromont team extends its congratulations to Caterpillar, which celebrated its 95th anniversary in April 2020. We are proud to be Caterpillar's partner and representative in Eastern Canada.

## 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 months ended March 31, 2020, 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 months ended March 31, 2020, the annual MD&A contained in the 2019 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2019.

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 April 30, 2020.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2019 Annual Report and the 2020 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; 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

| *($ thousands, except per share amounts)* | Three months ended March 31 **2020** | 2019 | $ change | % change |
|---|---|---|---|---|
| **REVENUES** | **$ 715,459** | $ 699,974 | $ 15,485 | 2% |
| Cost of goods sold | **544,601** | 529,313 | 15,288 | 3% |
| Gross profit [1] | **170,858** | 170,661 | 197 | - |
| Selling and administrative expenses | **115,617** | 111,878 | 3,739 | 3% |
| **OPERATING INCOME [1]** | **55,241** | 58,783 | (3,542) | (6%) |
| Interest expense | **6,931** | 6,919 | 12 | - |
| Interest and investment income | **(2,726)** | (2,572) | (154) | 6% |
| Income before income taxes | **51,036** | 54,436 | (3,400) | (6%) |
| Income taxes | **13,640** | 15,175 | (1,535) | (10%) |
| **NET EARNINGS** | **37,396** | 39,261 | (1,865) | (5%) |
| **BASIC EARNINGS PER SHARE** | **$ 0.46** | $ 0.48 | $ (0.02) | (4%) |
| **KEY RATIOS:** | | | | |
| Gross profit margin [1] | **23.9%** | 24.4% | | |
| Selling and administrative expenses as a % of revenues | **16.2%** | 16.0% | | |
| Operating income margin [1] | **7.7%** | 8.4% | | |
| Income taxes as a % of income before income taxes | **26.7%** | 27.9% | | |

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

Results for the quarter were lower as the COVID-19 pandemic reduced activity in several sectors. While Toromont's businesses have, to date, been declared essential services in all jurisdictions in which we operate, we are not insulated from the broader economic, financial and market impacts. Activity reductions of several mine sites and construction projects reduced demand for our products and services in the latter part of the quarter.

Revenues increased $15.5 million or 2% for the quarter. Equipment Group revenues increased 4% on good equipment and product support sales. CIMCO revenues declined 13% mainly on timing of construction schedules and winter slowdowns; however booking activity was very strong. Product support revenues increased 3% with growth in both Groups. Revenues were dampened by the onset of COVID-19 in the latter part of the quarter. Product support and rental revenues were trending 5% and 7% higher respectively through February, however reduced activity in March largely offset this growth. It is difficult to quantify the impact of COVID-19 on equipment revenues.

Gross profit margin decreased 50 basis points ("bps") to 23.9% versus the first quarter last year. Equipment Group margins decreased on competitive market conditions and under-absorption of the larger rental fleet reflective of the substantial investment made in 2019 and the use of a straight-line depreciation method. At CIMCO, both package and product support margins were higher on good execution as well as a favourable sales mix of product support revenues to total revenues.

Selling and administrative expenses in the first quarter of 2020 included a $4.1 million gain on sale of a property, while the first quarter of 2019 included a $5.0 million curtailment gain. Other selling and administrative expenses were up $2.8 million or 2%. The mark-to-market adjustment on deferred share units reduced expenses $3.9 million in the first quarter of 2020 on the lower share price, whereas in the first quarter of 2019, an increase in the share price led to an expense of $5.2 million. All other compensation increased $6.3 million on normal salary increases and increased headcount. Allowance for doubtful accounts increased $3.1 million on delayed collections and aging receivables. Customer support costs on the higher volume and information technology costs related to system integration and improvements were also higher.

Operating income decreased $3.5 million or 6% in the quarter and was 70 bps lower as a percentage of revenues (7.7% versus 8.4% last year), reflecting lower gross margins and higher relative expense levels.

Interest expense was largely unchanged on similar average debt balances period over period.

Interest income increased $0.2 million in the quarter on higher average cash balances held through the quarter.

The effective income tax rate for the quarter was 26.7% compared to 27.9% in the first quarter last year, lower on the impact of the gain on sale of property which is taxed at a lower rate.

Net earnings for the quarter were down $1.9 million or 5% to $37.4 million with basic earnings per share ("EPS") decreasing 4% to $0.46.

Comprehensive income in the quarter was $68.0 million (2019 – $22.1 million). Other comprehensive income included an actuarial gain on post-employment benefit plans of $17.8 million after-tax (2019 – actuarial loss of $14.1 million). These gains and losses largely 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 $11.9 million after-tax (2019 – unfavourable net change of $2.9 million). These changes reflect mark-to-market differences in 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 March 31 **2020** | 2019 | $ change | % change |
|---|---|---|---|---|
| Equipment sales and rentals | | | | |
| New | **$ 186,773** | $ 185,237 | $ 1,536 | 1% |
| Used | **64,962** | 53,472 | 11,490 | 21% |
| Rentals | **80,978** | 81,082 | (104) | - |
| Total equipment sales and rentals | **332,713** | 319,791 | 12,922 | 4% |
| Product support | **322,351** | 311,560 | 10,791 | 3% |
| Power generation | **2,712** | 2,524 | 188 | 7% |
| **Total revenues** | **$ 657,776** | $ 633,875 | $ 23,901 | 4% |
| **Operating income** | **$ 55,076** | $ 57,673 | $ (2,597) | (5%) |
| **KEY RATIOS:** | | | | |
| Product support revenues as a % of total revenues | **49.0%** | 49.2% | | |
| Operating income margin | **8.4%** | 9.1% | | |
| Group total revenues as a % of consolidated revenues | **91.9%** | 90.6% | | |

Results for the first quarter in the Equipment Group have historically been lower than other quarters of the year due to seasonality, with revenues accounting for on average less than 20% of the full year's revenues.

Total equipment sales (new and used) increased $13.0 million or 5%. Sales into construction markets increased 10%, with good growth in Ontario and Quebec. Sales into mining markets were down 5% while power system sales decreased 7%. Material handling equipment sales increased 11% while agricultural sales were down 13%.

Rental revenues were largely unchanged year-over-year as revenue declines in March from COVID-19 largely offset revenue growth from the early part of the quarter. Heavy equipment rentals decreased 16%, power rentals were 11% lower and material handling rentals were down 4%. Light equipment rentals reflected a moderate increase of 2%, with good activity in Central Canada partially offset by lower activity in Quebec. Rental revenues from equipment on rent with a purchase option ("RPO") were up 22% on a larger average fleet over the period, however at March 31, 2020, the RPO fleet was $62.1 million versus $76.9 million at this time last year, reflecting conversion activity as well as inventory returns.

Product support revenues grew $10.8 million or 3% on higher parts (up 4%) and service revenues (up 3%). Activity within construction markets was healthy, up 4% with increases in most regions. Power systems activity increased 21% reflecting the larger installed base and timing of larger rebuild projects. Mining activity increased 1%, as early revenue growth was dampened by mine shut-downs in March 2020, as a result of COVID-19.

Gross profit margins decreased 100 bps in the quarter versus last year. Equipment margins were 70 bps lower on the continued tight pricing environment. Rental margins were 10 bps lower reflecting lower fleet utilization. Product support margins were down 20 bps. Sales mix was neutral year-over-year. Product support revenues were 49.0% as a percentage of total revenues compared to 49.2% in the first quarter last year.

Selling and administrative expenses in the first quarter of 2020 included a $4.1 million gain on sale of a property, while the first quarter of 2019 included a $5.0 million curtailment gain. Other selling and administrative expenses were up $1.4 million or 1%. Allowances for doubtful accounts increased $1.6 million on aging of accounts receivable and delayed collections. Compensation costs were lower as annual salary increases and higher headcount were more than offset by mark-to-market recovery of expense on deferred share units. Information technology related costs were higher in support of system integration efforts. Selling and administrative expenses were 20 basis points lower as a percentage of revenues (15.7% versus 15.9% last year).

Operating income decreased $2.6 million (5%) to $55.1 million, reflecting the higher revenues, offset by lower margins and higher expenses.

**Bookings and Backlogs**

| *($ millions)* | **2020** | 2019 | $ change | % change |
|---|---|---|---|---|
| Bookings - three months ended March 31 | **$ 337.7** | $ 293.1 | $ 44.6 | 15% |
| Backlogs - as at March 31 | **$ 353.1** | $ 395.1 | $ (42.0) | (11%) |

Bookings increased $44.6 million or 15%. Higher construction (+19%), power systems (+50%) and material handling orders (+17%), were offset by lower mining (down 35%) and agriculture orders (down 31%).

Backlogs of $353.1 million were down $42.0 million or 11% across all sectors except construction. At March 31, 2020, the total backlog related to construction (47%), power systems (34%), mining (8%), agriculture (6%) and material handling (6%), substantially all of which are currently expected to be delivered this year but subject to timing differences depending on vendor supply and customer delivery schedules.

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

**CIMCO**

| | **Three months ended March 31** | | | |
|---|---|---|---|---|
| *($ thousands)* | **2020** | 2019 | $ change | % change |
| Package sales | **$ 22,609** | $ 31,527 | $ (8,918) | (28%) |
| Product support | **35,074** | 34,572 | 502 | 1% |
| **Total revenues** | **$ 57,683** | $ 66,099 | $ (8,416) | (13%) |
| **Operating income** | **$ 165** | $ 1,110 | $ (945) | (85%) |
| | | | | |
| **KEY RATIOS:** | | | | |
| Product support revenues as a % of total revenues | **60.8%** | 52.3% | | |
| Operating income margin | **0.3%** | 1.7% | | |
| Group total revenues as a % of consolidated revenues | **8.1%** | 9.4% | | |

The first quarter is seasonally the slowest period for CIMCO due to winter shutdowns which negatively impact construction schedules and result in package revenues in the first quarter to account for less than 20% of the total year's package revenue. Against a smaller base, this can create larger variances.

Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition. This introduces a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers). In Canada, package revenues were down $7.8 million or 28% reflecting lower industrial revenues (down $9.8 million or 43%), partially offset by higher recreational revenues (up

$2.0 million or 42%). Ontario reported strong activity levels while all other regions were lower. In the US, package revenues decreased $1.1 million or 29%, as lower industrial revenues (down $1.7 million or 66%), were partially offset by higher recreational revenues (up $0.6 million or 49%).

Product support revenues increased $0.5 million or 1% versus the first quarter last year on growth in the US (up 6%) while revenues in Canada were largely unchanged. The increased technician base and essential services designation continues to support activity levels. Activity slowed through the latter part of the quarter on the impact of the pandemic, dampening revenue growth for the quarter after a healthy start to the year.

Gross profit margins increased 360 bps in the quarter versus last year. The increase in gross profit margins was due to higher package (up 170 bps) and product support margins (up 40 bps) combined with a favorable sales mix of product support revenues to total revenues (up 150 bps). The growing proportion of product support revenues to total revenues (60.8% versus 52.3% last year) continues to mitigate the impact of margin pressures due to increased competition in the market.

Selling and administrative expenses were up $1.5 million or 13% on a higher allowance for doubtful accounts on delayed collection activity. Excluding this item, selling and administrative expenses were unchanged from the similar period last year. As a percentage of revenues, selling and administrative expenses were higher by 500 bps (21.9% versus 16.9% last year) reflecting the lower revenues.

Operating income was $0.2 million in the first quarter, down from $1.1 million in the comparable period last year, reflecting lower package revenues and an increase in allowance for doubtful accounts.

### Bookings and Backlogs

| *($ millions)* | **2020** | 2019 | $ change | % change |
|---|---|---|---|---|
| Bookings - three months ended March 31 | **$ 112.2** | $ 69.7 | $ 42.5 | 61% |
| Backlogs - as at March 31 | **$ 213.9** | $ 149.8 | $ 64.1 | 43% |

Bookings were up $42.5 million or 61% to $112.2 million. Several large industrial orders were received in Canada while recreational orders were lower. Overall bookings in the US were 19% lower, but on a smaller base.

Backlogs of $213.9 million were up $64.1 million or 43% versus March last year. Industrial backlogs (up 86%) were higher in Canada (+99%) and lower in the US (-30%), while recreational backlogs (down 5%) were higher in the US (+42%) and lower in Canada (-27%). Approximately 70% of the backlog is expected to be realized as revenue this year, however this is subject to construction schedules and potential changes stemming from the COVID-19 pandemic.

## CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At March 31, 2020, the ratio of net debt to total capitalization was 18%, compared to 15% at December 31, 2019 and 26% at March 31, 2019.

### Non-cash Working Capital

The Company's investment in non-cash working capital was $571.4 million at March 31, 2020. The major components, along with the changes from March 31 and December 31, 2019, are identified in the following table.

| ($ thousands) | March 31 2020 | March 31 2019 | Change $ | Change % | December 31 2019 | Change $ | Change % |
|---|---|---|---|---|---|---|---|
| Accounts receivable | **$ 454,148** | $ 466,219 | $ (12,071) | (3%) | $ 525,052 | $ (70,904) | (14%) |
| Inventories | **976,401** | 1,014,915 | (38,514) | (4%) | 912,186 | 64,215 | 7% |
| Other current assets | **16,547** | 13,521 | 3,026 | 22% | 12,063 | 4,484 | 37% |
| Accounts payable and accrued liabilities | **(726,082)** | (851,791) | 125,709 | (15%) | (797,807) | 71,725 | (9%) |
| Provisions | **(24,287)** | (24,087) | (200) | 1% | (23,680) | (607) | 3% |
| Income taxes receivable | **16,651** | 9,678 | 6,973 | 72% | 9,275 | 7,376 | 80% |
| Derivative financial instruments | **36,916** | 7,054 | 29,862 | nm | (10,366) | 47,282 | nm |
| Dividends payable | **(25,435)** | (21,998) | (3,437) | 16% | (22,139) | (3,296) | 15% |
| Deferred revenues and contract liabilities | **(153,483)** | (149,442) | (4,041) | 3% | (140,898) | (12,585) | 9% |
| **Total non-cash working capital** | **$ 571,376** | $ 464,069 | $ 107,307 | 23% | $ 463,686 | $ 107,690 | 23% |

Accounts receivable decreased 3% compared to March 31, 2019, reflecting good collection activity. Days sales outstanding ("DSOs") decreased 3 days to 50 days on an improvement in the Equipment Group (down 5 days).

In comparison to December 31, 2019, accounts receivable decreased 14% on lower trailing revenues (Q1 2020 revenues were 30% lower than Q4 2019 revenues), partially offset by slower collections. DSOs were 43 days at December 31, 2019.

Inventories at March 31, 2020, were 4% lower compared to March 31, 2019:

- Equipment Group inventories were down $42.8 million or 4%, with lower equipment (down $42.1 million or 6%) and service work-in-process (down $6.2 million or 8%) while parts were up by $5.5 million or 2%. Equipment inventory was intentionally reduced through the end of 2019 from the previous high levels. The higher parts inventory levels reflect higher input costs, including foreign exchange, and positioning for better penetration in the expanded territories. The lower service work-in-process levels reflects reduced hours worked through the latter part of the quarter as activity was reduced in the field and in the shops.
- CIMCO inventories were up $4.3 million or 20%, mainly on higher work-in-process levels (up 21%), reflecting good orders in process and timing of project construction schedules. Parts inventories were also up 13% reflecting continued growth in product support demand.

Inventories at March 31, 2020 were 7% higher compared to December 31, 2019 with increases in both Groups:

- Equipment Group inventories were 7% higher as is typical in the first quarter with increases in equipment (up 9%) and work-in-progress (up 18%), offset by a slight decrease in parts inventories. Inventory levels are typically lowest at the end of a fiscal year due to seasonality, with inventories building during the year in advance of the busy selling period.
- CIMCO inventories were up 16% on higher work-in-process (up 19%) reflecting order backlogs.

The increase in other current assets compared to March 31 and December 31, 2019, mainly related to higher prepaid expenses for property taxes and software licenses.

Accounts payable and accrued liabilities at March 31, 2020 were 15% lower than at March 31, 2019, principally due to the timing of purchases and payments for inventory. Certain transitional terms provided in conjunction with the 2017 acquisition are expected to end mid-year 2020, at which time accounts payable will begin to revert to normal levels.

In comparison to December 31, 2019, accounts payable and accrued liabilities were down 9%, mainly reflecting the timing of purchase and payment for inventory and other supplies, the payout of annual performance incentive bonuses, and a lower DSU liability on the lower relative closing share price.

Income taxes receivable 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 (weaker) led to a cumulative net gain of $36.9 million as at March 31, 2020. 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 March 31 and December 31, 2019, reflective of the higher dividend rate. The quarterly dividend rate was increased 14.8% from $0.27 per share to $0.31 per share, effective with the April 2, 2020 payment.

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

- In the Equipment Group, these balances arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. At March 31, 2020, these were down 5% versus March 31, 2019 and up 1% versus December 31, 2019, largely related to progress billings and customer deposits for deliveries later in the year.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages. At March 31, 2020, these were up 44% versus March 31, 2019 and up 49% versus December 31, 2019, reflecting the higher activity levels seen in Canada and the US, and timing of billings compared to customer’s construction schedules.

**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.

**Outstanding Share Data**

As at the date of this MD&A, the Company had 82,015,440 common shares and 2,291,725 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) |
|---|---|---|---|
| June 8, 2018 | July 3, 2018 | $0.23 | $18.7 |
| September 7, 2018 | October 2, 2018 | $0.23 | $18.7 |
| December 7, 2018 | January 3, 2019 | $0.23 | $18.7 |
| March 8, 2019 | April 3, 2019 | $0.27 | $22.0 |
| June 7, 2019 | July 3, 2019 | $0.27 | $22.0 |
| September 6, 2019 | October 2, 2019 | $0.27 | $22.0 |
| December 9, 2019 | January 3, 2020 | $0.27 | $22.0 |
| March 9, 2020 | April 2, 2020 | $0.31 | $22.1 |

## 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 short- and long-term credit facilities.

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

The Company maintains a $500.0 million revolving credit facility, maturing in October 2022. As at March 31, 2020, $100.0 million was drawn on the facility. No amounts were drawn on the facility at December 31, 2019 or March 31, 2019. Standby letters of credit utilized $34.0 million of the facility at March 31, 2020, $33.1 million at December 31, 2019 and $30.2 million at March 31, 2019.

On April 17, 2020, Toromont closed a $250 million one-year syndicated facility on substantially similar terms to the existing revolving credit facility, to provide additional liquidity should the COVID-19 pandemic impacts persist for an extended period.

While the direct impacts of COVID-19 are not determinable at this time, the Company expects that continued cash flows from operations in 2020, 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:

| ($ thousands) | Three months ended March 31 2020 | 2019 |
|---|---|---|
| **Cash, beginning of period** | **$ 365,589** | $ 345,434 |
| Cash, provided by (used in): | | |
| **Operating activities** | | |
| Operations | **81,896** | 72,643 |
| Change in non-cash working capital and other | **(98,551)** | (168,492) |
| Net rental fleet additions | **(24,230)** | (43,822) |
| | **(40,885)** | (139,671) |
| **Investing activities** | **(9,297)** | (6,340) |
| **Financing activities** | **72,627** | (15,347) |
| Effect of foreign exchange on cash balances | **148** | 95 |
| Increase (decrease) in cash in the period | **22,593** | (161,263) |
| **Cash, end of period** | **$ 388,182** | $ 184,171 |

Cash Flows from Operating Activities

Operating activities utilized cash in the first quarter of 2020.

Cash generated from operations increased 13% from the similar quarter last year despite the slight decrease in net earnings.

Non-cash working capital used cash in the first quarter of 2020. Higher inventory levels, a reduction of accounts payable, in part due to payment of prior year profit sharing amounts, and an increase in valuation of foreign exchange derivative contracts all utilized cash in the quarter.

Non-cash working capital used less cash in the first quarter of 2020 as compared to the first quarter of 2019, as the increase in inventory was less year-over-year, and certain tax installments were lower due to timing of payments and instalments, as well as deferral options provided by the government in the latter part of the first quarter of 2020. Offsetting this was a larger reduction in accounts payable, including the foreign exchange derivative contracts, reflecting timing of payment of supplier invoices.

Net rental fleet additions (purchases less proceeds of dispositions) were lower in the first quarter of 2020 compared to the similar period last year. The Company has reduced investment in the light equipment rental fleet portfolio across Eastern Canada after a heavy investment in the prior year, and time required to absorb investments to full utilization.

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

Cash Flows from Investing Activities

Investments in property, plant and equipment totalled $19.0 million and included land of $10.2 million for a new fabrication and head office facility for CIMCO. Other additions included $5.4 million for service and delivery vehicles.

During the quarter, a property previously identified as available for sale was disposed of for $9.4

million, resulting in a capital gain of $4.1 million ($3.5 million after-tax).

In the first quarter of 2019, the Company invested $6.3 million in property, plant and equipment, net of disposition proceeds.

Cash Flows from Financing Activities

During the first quarter of 2020, the Company drew down $100 million on its committed, revolving credit facility.

Other uses and sources of cash during the quarter included:

- Dividends paid to common shareholders of $22.1 million or $0.27 per share (2019 - $18.7 million or $0.23 per share);
- Repurchase of the Company's common shares for $4.0 million, under the NCIB program (see note 4 to the unaudited condensed interim financial statements for further details);
- Cash received on exercise of share options of $1.5 million (2019 - $6.8 million); and
- Lease liability payments of $2.7 million versus $2.4 last year.

## OUTLOOK

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-isolation and quarantine periods, and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand and increase government regulations or intervention, all of which may negatively impact the business, financial results and conditions of the Company. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments as well as the impact on the financial results and condition of the Company in future periods. Toromont's businesses are currently characterized as essential in all circumstances requiring such a designation to date.

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 outbreak, the long-term outlook for infrastructure projects and other construction activity was positive across most territories. The Company has a large base of mining customers which in some cases has seen reduced operating activities as a result of the COVID-19 implications. These customers and jurisdictions they operate in continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion is still possible depending on global economic and financial conditions.

The Company has taken actions to reduce expenses, participating in governmental programs such as work share where available. Workforce planning initiatives also included voluntary compensation reductions by the executive team and the Board of Directors, wage increase freezes in some cases, advancement of vacation schedules and selective temporary layoffs. Human capital, including our technician workforce, is one of our most valuable assets and we will protect that asset to the extent possible. We continue to move forward with our investment in information technology, aligning our dealership under one operating system as well as facilitating and securing remote access to our networks. Actions are being balanced between short-term adjustments relative to demand, while also being sensitive to long-term requirements ensuring the business is positioned well to meet increased client requirements.

Broader product lines, investment in rental equipment and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth once economic, financial and social environments return to a more normalized state.

CIMCO's installed base and product support levels should support 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. Record booking activity in the quarter and backlog bodes well for future results.

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 2019 annual audited consolidated financial statements.

| *($ thousands, except per share amounts)* | Q2 2019 | Q3 2019 | Q4 2019 | **Q1 2020** |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Equipment Group | $ 895,457 | $ 881,487 | $ 933,131 | **$ 657,776** |
| CIMCO | 82,863 | 93,734 | 92,059 | **57,683** |
| Total revenues | $ 978,320 | $ 975,221 | $ 1,025,190 | **$ 715,459** |
| **NET EARNINGS** | $ 77,398 | $ 79,688 | $ 90,454 | **$ 37,396** |
| **PER SHARE INFORMATION:** | | | | |
| Basic earnings per share | $ 0.95 | $ 0.98 | $ 1.10 | **$ 0.46** |
| Diluted earnings per share | $ 0.94 | $ 0.97 | $ 1.10 | **$ 0.45** |
| Dividends paid per share | $ 0.27 | $ 0.27 | $ 0.27 | **$ 0.27** |
| Weighted average common shares outstanding - basic (in thousands) | 81,510 | 81,622 | 81,897 | **82,015** |

| ($ thousands, except per share amounts) | | Q2 2018 | | Q3 2018 | | Q4 2018 | | Q1 2019 |
|---|---|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | | | |
| Equipment Group | $ | 874,120 | $ | 800,128 | $ | 873,868 | $ | 633,875 |
| CIMCO | | 87,147 | | 99,966 | | 92,179 | | 66,099 |
| Total revenues | $ | 961,267 | $ | 900,094 | $ | 966,047 | $ | 699,974 |
| **NET EARNINGS** | $ | 67,610 | $ | 68,697 | $ | 84,898 | $ | 39,261 |
| **PER SHARE INFORMATION:** | | | | | | | | |
| Basic earnings per share | $ | 0.83 | $ | 0.84 | $ | 1.04 | $ | 0.48 |
| Diluted earnings per share | $ | 0.83 | $ | 0.84 | $ | 1.03 | $ | 0.48 |
| Dividends paid per share | $ | 0.23 | $ | 0.23 | $ | 0.23 | $ | 0.23 |
| Weighted average common shares outstanding - basic (in thousands) | | 81,131 | | 81,383 | | 81,427 | | 81,326 |

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality.

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.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. 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 and significant industrial projects.

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.

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-isolation and quarantine periods, and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand and increase government regulations or intervention, among other things, all of which may negatively impact the business, financial results and conditions of the Company and 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, 2019 under "Risks and Risk Management".

Coronavirus (COVID-19)

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods, self-isolation, physical and social distancing and the closure of non-essential businesses, have caused material disruption to businesses in Canada and globally which has resulted in an uncertain and challenging economic environment.

Global debt and equity capital markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

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

The risks and uncertainties disclosed in our December 31, 2019 MD&A could be particularly exacerbated by extraordinary externalities such as the COVID-19 pandemic and the recent commodity price challenges, including, risks described under “Business Cycle”, “Product and Supply”, “Credit Risk”, “Foreign Exchange”, “Interest Rate”, Financing Arrangements” and “Environmental Regulation”. Such risks include, but are not limited to:

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

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

The COVID-19 pandemic has resulted in a substantive shift in management’s focus towards ensuring the continued safety of our employees, continuing to serve our customers’ needs as an essential service, and protecting the business and organization for the long-term. A Critical Incident Executive Response Team was activated at an early stage and focuses on developing plans, assessing developments and responding appropriately, including restriction of business travel, enabling work from home where practical, implementing social distancing practices and enhancing sanitation protocols in all areas. Steps have also been taken to ensure that information technology, including remote access, is secure. The Company is updating employees on a frequent basis to provide information on the situation and on necessary precautions to take. We continue 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 2019 audited annual consolidated financial statements, and described in note 1 therein. Several amendments, apply for the first time in 2020, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Company for the three month period ending March 31, 2020.

### 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 2019 audited annual consolidated financial statements, contained in the Company's 2019 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 March 31, 2020.

### 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 months ended March 31, 2020, 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 March 31** | |
|---|---|---|
| *($ thousands)* | **2020** | 2019 |
| Net earnings | **$ 37,396** | $ 39,261 |
| *plus:* Interest expense | **6,931** | 6,919 |
| *less:* Interest and investment income | **(2,726)** | (2,572) |
| *plus:* Income taxes | **13,640** | 15,175 |
| **Operating income** | **$ 55,241** | $ 58,783 |

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) | | **March 31 2020** | | December 31 2019 | | March 31 2019 |
|---|---|---|---|---|---|---|
| Long-term debt | **$** | **745,703** | $ | 645,471 | $ | 644,773 |
| *less:* Cash | | **388,182** | | 365,589 | | 184,171 |
| Net debt | | **357,521** | | 279,882 | | 460,602 |
| Shareholders' equity | | **1,575,306** | | 1,533,891 | | 1,336,041 |
| **Total capitalization** | **$** | **1,932,827** | $ | 1,813,773 | $ | 1,796,643 |
| **Net debt to total capitalization** | | **18%** | | 15% | | 26% |
| **Net debt to equity** | | **0.23:1** | | 0.18:1 | | 0.34:1 |

## 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) | | **March 31 2020** | | December 31 2019 | | March 31 2019 |
|---|---|---|---|---|---|---|
| Total current assets | **$** | **1,888,845** | $ | 1,824,254 | $ | 1,695,579 |
| *less:* Total current liabilities | | **929,287** | | 994,979 | | 1,047,339 |
| **Working capital** | **$** | **959,558** | $ | 829,275 | $ | 648,240 |

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)* | | **March 31 2020** | | December 31 2019 | | March 31 2019 |
|---|---|---|---|---|---|---|
| Total current assets | **$** | **1,888,845** | $ | 1,824,254 | $ | 1,695,579 |
| *less:* Cash | | **388,182** | | 365,589 | | 184,171 |
| | | **1,500,663** | | 1,458,665 | | 1,511,408 |
| Total current liabilities | | **929,287** | | 994,979 | | 1,047,339 |
| | | **929,287** | | 994,979 | | 1,047,339 |
| **Non-cash working capital** | **$** | **571,376** | $ | 463,686 | $ | 464,069 |

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 share price)* | | **March 31 2020** | | December 31 2019 | | March 31 2019 |
|---|---|---|---|---|---|---|
| Outstanding common shares | | **81,981** | | 82,012 | | 81,484 |
| *times:* Ending share price | **$** | **61.65** | $ | 70.59 | $ | 68.25 |
| **Market capitalization** | **$** | **5,054,106** | $ | 5,789,258 | $ | 5,561,259 |
| Long-term debt | **$** | **745,703** | $ | 645,471 | $ | 644,773 |
| *less:* Cash | | **388,182** | | 365,589 | | 184,171 |
| **Net debt** | **$** | **357,521** | $ | 279,882 | $ | 460,602 |
| **Total enterprise value** | **$** | **5,411,627** | $ | 6,069,140 | $ | 6,021,861 |

## 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)* | **March 31 2020** | December 31 2019 | March 31 2019 |
| Net earnings | **$ 284,934** | $ 286,800 | $ 260,467 |
| *plus:* Interest expense | **27,718** | 27,707 | 28,667 |
| *less:* Interest and investment income | **(9,905)** | (9,752) | (9,311) |
| *plus:* Interest income - rental conversions | **4,116** | 4,283 | 3,393 |
| *plus:* Income taxes | **106,204** | 107,740 | 99,320 |
| Adjusted net earnings | **$ 413,067** | $ 416,778 | $ 382,536 |
| Average capital employed | **$ 1,875,188** | $ 1,823,420 | $ 1,705,567 |
| **Return on capital employed** | **22.0%** | 22.9% | 22.4% |

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)* | **March 31 2020** | December 31 2019 | March 31 2019 |
| Net earnings | **$ 284,934** | $ 286,800 | $ 260,467 |
| Opening shareholders' equity (net of adjustments) | **$ 1,345,979** | $ 1,338,468 | $ 1,157,001 |
| **Return on equity** | **21.2%** | 21.4% | 22.5% |

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

| ($ thousands) | Note | **March 31 2020** | December 31 2019 | March 31 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash | | **$ 388,182** | $ 365,589 | 184,171 |
| Accounts receivable | | **454,148** | 525,052 | 466,219 |
| Inventories | | **976,401** | 912,186 | 1,014,915 |
| Income taxes receivable | | **16,651** | 9,364 | 9,678 |
| Derivative financial instruments | 5 | **36,916** | - | 7,075 |
| Other current assets | | **16,547** | 12,063 | 13,521 |
| Total current assets | | **1,888,845** | 1,824,254 | 1,695,579 |
| | | | | |
| Property, plant and equipment | 2 | **432,087** | 428,527 | 409,420 |
| Rental equipment | 2 | **592,814** | 592,403 | 564,125 |
| Other assets | | **41,760** | 42,105 | 46,152 |
| Deferred tax assets | | **1,275** | 1,217 | 1,571 |
| Goodwill and intangible assets | | **481,962** | 482,831 | 485,439 |
| **Total assets** | | **$ 3,438,743** | $ 3,371,337 | $ 3,202,286 |
| | | | | |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | | **$ 751,517** | $ 819,946 | $ 873,789 |
| Provisions | | **24,287** | 23,680 | 24,087 |
| Deferred revenues and contract liabilities | | **153,483** | 140,898 | 149,442 |
| Derivative financial instruments | 5 | **-** | 10,366 | 21 |
| Income taxes payable | | **-** | 89 | - |
| Total current liabilities | | **929,287** | 994,979 | 1,047,339 |
| | | | | |
| Deferred revenues and contract liabilities | | **12,895** | 16,407 | 16,867 |
| Long-term lease liabilities | | **21,098** | 21,734 | 26,909 |
| Long-term debt | 3, 5 | **745,703** | 645,471 | 644,773 |
| Post-employment obligations | 9 | **103,443** | 125,705 | 119,395 |
| Deferred tax liabilities | | **51,011** | 33,150 | 10,962 |
| **Total liabilities** | | **1,863,437** | 1,837,446 | 1,866,245 |
| | | | | |
| **Shareholders' equity** | | | | |
| Share capital | | **491,452** | 490,047 | 466,031 |
| Contributed surplus | | **14,182** | 13,088 | 12,927 |
| Retained earnings | | **1,057,222** | 1,031,097 | 854,257 |
| Accumulated other comprehensive income (loss) | | **12,450** | (341) | 2,826 |
| **Total shareholders' equity** | | **1,575,306** | 1,533,891 | 1,336,041 |
| **Total liabilities and shareholders' equity** | | **$ 3,438,743** | $ 3,371,337 | $ 3,202,286 |

**See accompanying notes**

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

| ($ thousands, except share amounts) | Note | Three months ended March 31 2020 | 2019 |
|---|---|---|---|
| **Revenues** | 11 | **$ 715,459** | $ 699,974 |
| Cost of goods sold | | **544,601** | 529,313 |
| Gross profit | | **170,858** | 170,661 |
| Selling and administrative expenses | | **115,617** | 111,878 |
| **Operating income** | | **55,241** | 58,783 |
| Interest expense | 6 | **6,931** | 6,919 |
| Interest and investment income | 6 | **(2,726)** | (2,572) |
| Income before income taxes | | **51,036** | 54,436 |
| Income taxes | | **13,640** | 15,175 |
| **Net earnings** | | **$ 37,396** | $ 39,261 |
| | | | |
| **Earnings per share** | | | |
| Basic | 7 | **$ 0.46** | $ 0.48 |
| Diluted | 7 | **$ 0.45** | $ 0.48 |
| | | | |
| **Weighted average number of shares outstanding** | | | |
| Basic | 7 | **82,015,440** | 81,326,182 |
| Diluted | 7 | **82,548,816** | 82,001,203 |

**See accompanying notes**

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

| ($ thousands) | Three months ended March 31 **2020** | 2019 |
|---|---|---|
| **Net earnings** | **$ 37,396** | $ 39,261 |
| **Other comprehensive income (loss), net of income taxes:** | | |
| *Items that may be reclassified subsequently to net earnings:* | | |
| Foreign currency translation adjustments | **931** | (189) |
| Unrealized gains (losses) on derivatives designated as cash flow hedges | **19,606** | (4,729) |
| Income tax (expense) recovery | **(5,155)** | 1,229 |
| Unrealized gains (losses) on cash flow hedges, net of income taxes | **14,451** | (3,500) |
| Realized (gains) losses on derivatives designated as cash flow hedges | **(3,528)** | 762 |
| Income tax expense (recovery) | **937** | (198) |
| Realized (gains) losses on cash flow hedges, net of income taxes | **(2,591)** | 564 |
| *Items that will not be reclassified subsequently to net earnings:* | | |
| Actuarial and other gains (losses) | **24,222** | (19,122) |
| Income tax (expense) recovery | **(6,419)** | 5,067 |
| Actuarial and other gains (losses), net of income taxes | **17,803** | (14,055) |
| **Other comprehensive income (loss)** | **30,594** | (17,180) |
| **Total comprehensive income** | **$ 67,990** | $ 22,081 |

**See accompanying notes**

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

| ($ thousands) | Note | Three months ended March 31 2020 | 2019 |
|---|---|---|---|
| **Operating activities** | | | |
| Net earnings | | **$ 37,396** | $ 39,261 |
| Items not requiring cash: | | | |
| Depreciation and amortization | | **41,867** | 39,268 |
| Stock-based compensation | | **1,410** | 1,458 |
| Post-employment obligations | | **1,961** | (4,069) |
| Deferred income taxes | | **7,355** | 1,570 |
| Gain on sale of rental equipment and property, plant and equipment | | **(8,093)** | (4,845) |
| | | **81,896** | 72,643 |
| Net change in non-cash working capital and other | 10 | **(98,551)** | (168,492) |
| Additions to rental equipment | 2 | **(36,632)** | (60,111) |
| Proceeds on disposal of rental equipment | | **12,402** | 16,289 |
| **Cash used in operating activities** | | **(40,885)** | (139,671) |
| | | | |
| **Investing activities** | | | |
| Additions to property, plant and equipment | 2 | **(19,017)** | (6,487) |
| Proceeds on disposal of property, plant and equipment | | **9,766** | 195 |
| Increase in other assets | | **(46)** | (48) |
| **Cash used in investing activities** | | **(9,297)** | (6,340) |
| | | | |
| **Financing activities** | | | |
| Drawings on credit facility | | **100,000** | - |
| Repayment of senior debentures | | **-** | (1,022) |
| Dividends paid | 4 | **(22,139)** | (18,737) |
| Cash received on exercise of stock options | | **1,494** | 6,821 |
| Shares purchased for cancellation | 4 | **(4,043)** | - |
| Payment of lease liabilities | | **(2,685)** | (2,409) |
| **Cash provided by (used in) financing activities** | | **72,627** | (15,347) |
| | | | |
| Effect of currency translation on cash balances | | **148** | 95 |
| Increase (decrease) in cash during the period | | **22,593** | (161,263) |
| Cash, at beginning of the period | | **365,589** | 345,434 |
| **Cash, at end of the period** | | **$ 388,182** | $ 184,171 |

**Supplemental cash flow information (note 10)**

**See accompanying notes**

**TOROMONT INDUSTRIES LTD.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN 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 |
| **At January 1, 2020** | **82,012,448** | **$ 490,047** | **$ 13,088** | **$1,031,097** | **$ 2,219** | **$ (2,560)** | **$ (341)** | **$ 1,533,891** |
| Net earnings | **-** | **-** | **-** | **37,396** | **-** | **-** | **-** | **37,396** |
| Other comprehensive income | **-** | **-** | **-** | **17,803** | **931** | **11,860** | **12,791** | **30,594** |
| Total comprehensive income | **-** | **-** | **-** | **55,199** | **931** | **11,860** | **12,791** | **67,990** |
| Exercise of stock options | **35,980** | **1,810** | **(316)** | **-** | **-** | **-** | **-** | **1,494** |
| Stock-based compensation expense | **-** | **-** | **1,410** | **-** | **-** | **-** | **-** | **1,410** |
| Effect of stock compensation plans | **35,980** | **1,810** | **1,094** | **-** | **-** | **-** | **-** | **2,904** |
| Shares purchased for cancellation | **(67,800)** | **(405)** | **-** | **(3,638)** | **-** | **-** | **-** | **(4,043)** |
| Dividends declared | **-** | **-** | **-** | **(25,436)** | **-** | **-** | **-** | **(25,436)** |
| **At March 31, 2020** | **81,980,628** | **$ 491,452** | **$ 14,182** | **$1,057,222** | **$ 3,150** | **$ 9,300** | **$ 12,450** | **$ 1,575,306** |
| | | | | | | | | |
| **At January 1, 2019** | 81,226,383 | $ 457,800 | $ 12,879 | $ 851,049 | $ 2,700 | $ 3,251 | $ 5,951 | $ 1,327,679 |
| Net earnings | - | - | - | 39,261 | - | - | - | 39,261 |
| Other comprehensive loss | - | - | - | (14,055) | (189) | (2,936) | (3,125) | (17,180) |
| Total comprehensive income (loss) | - | - | - | 25,206 | (189) | (2,936) | (3,125) | 22,081 |
| Exercise of stock options | 257,265 | 8,231 | (1,410) | - | - | - | - | 6,821 |
| Stock-based compensation expense | - | - | 1,458 | - | - | - | - | 1,458 |
| Effect of stock compensation plans | 257,265 | 8,231 | 48 | - | - | - | - | 8,279 |
| Dividends declared | - | - | - | (21,998) | - | - | - | (21,998) |
| **At March 31, 2019** | **81,483,648** | **466,031** | **12,927** | **854,257** | **$ 2,511** | **$ 315** | **$ 2,826** | **$ 1,336,041** |

**See accompanying notes**

## 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

### Corporate Information

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

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 Standards (“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 for the year ended December 31, 2019.

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, 2019.

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 April 30, 2020.

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, 2019. Several amendments apply for the first time in 2020, 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 March 31 | |
|---|---|---|
| | **2020** | 2019 |
| Additions | | |
| Rental equipment | **$ 36,632** | $ 60,111 |
| Property, plant and equipment | **19,017** | 6,487 |
| **Total additions** | **$ 55,649** | $ 66,598 |
| Disposals - Net book value ("NBV") | | |
| Rental equipment | **$ 8,518** | $ 11,459 |
| Property, plant and equipment | **5,557** | 180 |
| **Total disposals - NBV** | **$ 14,075** | $ 11,639 |
| Depreciation | | |
| Cost of goods sold | **$ 32,091** | $ 30,183 |
| Selling and administrative expenses | **5,910** | 5,442 |
| **Total depreciation** | **$ 38,001** | $ 35,625 |

## 3. LONG-TERM DEBT

| | **March 31 2020** | December 31 2019 | March 31 2019 |
|---|---|---|---|
| Bank revolving credit facility | **$ 100,000** | $ - | $ - |
| Senior Debentures: | | | |
| 3.71%, $150.0 million, due September 30, 2025 [1] | **150,000** | 150,000 | 150,000 |
| 3.84%, $500.0 million, due October 27, 2027 [1] | **500,000** | 500,000 | 500,000 |
| | **750,000** | 650,000 | 650,000 |
| Debt issuance costs, net of amortization | **(4,297)** | (4,529) | (5,227) |
| **Total long-term debt** | **$ 745,703** | $ 645,471 | $ 644,773 |
| *Less*: Current portion of long-term debt | **-** | - | - |
| **Non-current portion of long-term debt** | **$ 745,703** | $ 645,471 | $ 644,773 |

[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 the 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.

As at March 31, 2020, $100.0 million was drawn on the facility. No amounts were drawn on the revolving credit facility as at December 31, 2019 or March 31, 2019. Standby letters of credit issued utilized $34.0 million of the facility as at March 31, 2020 (December 31, 2019 - $33.1 million and March 31, 2019 - $30.2 million). At March 31, 2020, the interest rate on these drawings was 2.67%.

## 4. SHARE CAPITAL

### Normal Course Issuer Bid ("NCIB")

During the three months ended March 31, 2020, the Company purchased and cancelled 67,800 common shares for $4.0 million (average cost of $59.62 per share, including transaction costs) under the NCIB program. No shares were purchased and cancelled during the comparative period in 2019.

### Dividends

The Company paid dividends of $22.1 million or $0.27 per share during the three months ended March 31, 2020 (2019 - $18.7 million or $0.23 per share).

The quarterly dividend was increased on February 11, 2020, to $0.31 per share effective with the dividend paid on April 2, 2020.

## 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:

| | **March 31 2020** | December 31 2019 | March 31 2019 |
|---|---|---|---|
| **Other financial liabilities:** | | | |
| Long-term debt | **$ 745,703** | $ 645,471 | $ 644,773 |
| **Derivative financial instruments assets (liabilities), net:** | | | |
| Foreign exchange forward contracts | **$ 36,916** | $ (10,366) | $ 7,054 |

### 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** | **March 31 2020** | December 31 2019 | March 31 2019 |
|---|---|---|---|
| Fair value | **$ 771,046** | $ 683,092 | $ 683,167 |
| Carrying value | **$ 750,000** | $ 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 has no plans to prepay these instruments prior to maturity. 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.

During the three-month period ended March 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

**Derivative Financial Instruments and Hedge Accounting**

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency-denominated obligations related to purchases of inventory and sales of products. As at March 31, 2020, the Company was committed to USD purchase contracts with a notional amount of $489.7 million at an average exchange rate of $1.3411, maturing between April 2020 and February 2021. The Company was also committed to USD sell contracts with a notional amount of $16.1 million at an average exchange rate of $1.3762, maturing between April 2020 and May 2020.

Management estimates that a gain of $37.3 million (December 31, 2019 – loss of $10.4 million; March 31, 2019 – gain of $7.1 million) would be realized if the contracts were terminated on March 31, 2020. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of $10.8 million (December 31, 2019 – unrealized loss of $2.8 million; March 31, 2019 – unrealized gain of $0.4 million) has been included in other comprehensive income (loss). These gains are not expected to affect net income as the amounts will be reclassified to net income within the next eleven months and will offset losses recorded on the underlying hedged items, namely foreign-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 gain of $26.5 million (December 31, 2019 – loss of $7.6 million; March 31, 2019 – gain of $6.7 million) on forward contracts not designated as hedges is included in net income, which offsets losses recorded on the foreign-denominated items, namely accounts payable and accrued liabilities.

## 6. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | 2019 |
| Credit facilities | **$ 410** | $ 416 |
| Senior debentures | **6,278** | 6,258 |
| Interest on lease liabilities | **243** | 245 |
| | **$ 6,931** | $ 6,919 |

The components of interest and investment income were as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | 2019 |
| Interest on conversion of rental equipment | **$ 771** | $ 937 |
| Other | **1,955** | 1,635 |
| | **$ 2,726** | $ 2,572 |

## 7. EARNINGS PER SHARE

| | Three months ended March 31 2020 | 2019 |
|---|---|---|
| Net earnings available to common shareholders | $ 37,396 | $ 39,261 |
| Weighted average common shares outstanding | 82,015,440 | 81,326,182 |
| Dilutive effect of stock option conversions | 533,376 | 675,021 |
| Diluted weighted average common shares outstanding | 82,548,816 | 82,001,203 |
| Earnings per share: | | |
| Basic | $ 0.46 | $ 0.48 |
| Diluted | $ 0.45 | $ 0.48 |

There were no anti-dilutive options in the three-month period ended March 31, 2020. For the three months ended March 31, 2019, 580,250 outstanding share options with an exercise price of $66.22 were considered anti-dilutive (exercise price in excess of average market price) and were excluded from the calculation.

## 8. STOCK-BASED COMPENSATION

A reconciliation of the outstanding options was as follows:

| | Three months ended March 31, 2020 | | Three months ended March 31, 2019 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Options outstanding, January 1 | 2,329,705 | $ 51.68 | 2,636,070 | $ 43.78 |
| Exercised [(1)] | (35,980) | 41.53 | (257,265) | 26.51 |
| Forfeited | (2,000) | 65.97 | (8,900) | 51.33 |
| Options outstanding, March 31 | 2,291,725 | $ 51.82 | 2,369,905 | $ 45.62 |
| Options exercisable, March 31 | 859,935 | $ 39.81 | 841,215 | $ 33.60 |

[(1)] The weighted average share price at date of exercise for the three months ended March 31, 2020 was $69.62 (2019 - $68.61).

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

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number | Weighted Average Remaining Life (years) | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| $23.40 - $26.52 | 280,520 | 4.1 | $ 25.67 | 280,520 | $ 25.67 |
| $36.65 - $39.79 | 595,800 | 5.9 | $ 38.37 | 345,560 | $ 38.09 |
| $53.88 - $66.22 | 1,415,405 | 8.4 | $ 62.67 | 233,855 | $ 59.30 |
| | 2,291,725 | 7.2 | $ 51.82 | 859,935 | $ 39.81 |

### Deferred Share Unit Plan ("DSU")

A reconciliation of the DSU plan was as follows:

| | **Three months ended March 31, 2020** | | Three months ended March 31, 2019 | |
|---|---|---|---|---|
| | **Number of DSUs** | **Value** | Number of DSUs | Value |
| Outstanding, January 1 | **388,547** | **$ 27,392** | 358,151 | $ 19,005 |
| Units taken or taken in lieu and dividends | **12,017** | **813** | 11,892 | 792 |
| Redemptions | **-** | **-** | - | - |
| Fair market value adjustment | **-** | **(3,993)** | - | 5,138 |
| Outstanding, March 31 | **400,564** | **$ 24,212** | 370,043 | $ 24,935 |

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 March 31** | |
|---|---|---|
| | **2020** | 2019 |
| Defined benefit plans | **$ 4,914** | $ 3,815 |
| Curtailment gain | **-** | (5,000) |
| Defined contribution plans | **4,001** | 3,711 |
| 401(k) matched savings plans | **70** | 65 |
| | **$ 8,985** | $ 2,591 |

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

| | **Three months ended March 31** | |
|---|---|---|
| | **2020** | 2019 |
| Net change in non-cash working capital and other | | |
| Accounts receivable | **$ 70,904** | $ 56,243 |
| Inventories | **(64,215)** | (141,408) |
| Accounts payable and accrued liabilities | **(71,803)** | (70,799) |
| Provisions | **607** | (295) |
| Deferred revenue and contract liabilities | **9,073** | 12,818 |
| Income taxes | **(7,376)** | (38,046) |
| Derivative financial instruments | **(31,394)** | 16,603 |
| Other | **(4,347)** | (3,608) |
| | **$ (98,551)** | $ (168,492) |
| | | |
| Cash paid during the period for: | | |
| Interest | **$ 4,092** | $ 649 |
| Income taxes | **$ 13,870** | $ 51,751 |
| | | |
| Cash received during the period for: | | |
| Interest | **$ 2,615** | $ 2,516 |
| Income taxes | **$ 166** | $ - |

## 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 months ended March 31, 2020 and 2019:

| | Equipment Group | | CIMCO | | Consolidated | |
|---|---|---|---|---|---|---|
| **Three months ended March 31** | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| Equipment/package sales | **$ 251,735** | $ 238,709 | **$ 22,609** | $ 31,527 | **$ 274,344** | $ 270,236 |
| Rentals | **80,978** | 81,082 | **-** | - | **80,978** | 81,082 |
| Product support | **322,351** | 311,560 | **35,074** | 34,572 | **357,425** | 346,132 |
| Power generation | **2,712** | 2,524 | **-** | - | **2,712** | 2,524 |
| **Total revenues** | **$ 657,776** | $ 633,875 | **$ 57,683** | $ 66,099 | **$ 715,459** | $ 699,974 |
| **Operating income** | **$ 55,076** | $ 57,673 | **$ 165** | $ 1,110 | **$ 55,241** | $ 58,783 |
| Interest expense | | | | | **6,931** | 6,919 |
| Interest and investment income | | | | | **(2,726)** | (2,572) |
| Income taxes | | | | | **13,640** | 15,175 |
| **Net earnings** | | | | | **$ 37,396** | $ 39,261 |

Operating income from rental operations was $2.4 million for the three months ended March 31, 2020 (2019 – operating income of $2.6 million).

## 12. BUSINESS SEASONALITY AND UNCERTAINTY

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. For CIMCO, the fourth quarter tends to be the strongest due to higher activity in recreational markets in advance of the winter recreational season.

The recent outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have affected economies and financial markets around the world resulting in an economic slowdown. This outbreak may also cause staff shortages, affect customer demand, increased government regulations or intervention, all of which may negatively impact the business, financial results and conditions of the Company. While Toromont’s businesses have, to date, been declared essential services in all jurisdictions in which the Company operates, Toromont is not insulated from the broader economic, financial and market impacts. Activity reductions of certain mine sites and construction projects reduced demand for our products and services in the latter part of the quarter. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments or the impact on the financial results and condition of the Company in future periods.

While the direct impacts of COVID-19 are not determinable at this time, as at March 31, 2020, the Company had cash on hand of $388 million, available liquidity of $366 million, exclusive of the new $250 million revolving line of credit referred to in note 13 below. The company also has a certain degree of flexibility in its operating and investing plans to mitigate the impacts of COVID-19.

## 13. SUBSEQUENT EVENT

On April 17, 2020, the Company entered into an additional $250 million committed revolving credit facility maturing in April 2021. Debt incurred under the facility is unsecured and ranks pari passu with Toromont’s existing debt. 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.

This supplemental credit arrangement includes covenants, restrictions and events of default usually present in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances.

### How to get in touch with us

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### How to reach our transfer agent and registrar

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

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

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