

TOROMONT INDUSTRIES LTD.

FORM 51-102F4

BUSINESS ACQUISITION REPORT

1. Identity of Company

1.1 Name and Address of Company

Toromont Industries Ltd. ("**Toromont**")
P.O. Box 5511
3131 Highway 7 West
Concord, Ontario
L4K 1B7

1.2 Executive Officer

Paul R. Jewer
Executive Vice President and Chief Financial Officer
(416) 514-4790

2. Details of Acquisition

2.1 Nature of Business Acquired

On October 27, 2017, Toromont acquired (the "**Acquisition**") the business and net operating assets of the Hewitt Group (as defined below) pursuant to an asset purchase agreement dated August 28, 2017, as amended October 26, 2017, between Toromont, as purchaser, and Hewclan Holdings Limited, Hewitt Equipment Limited, Hewitt Rentals Inc., Hewitt Material Handling Inc., Montréal Hydraulique 04 Inc., Atlantic Tractors & Equipment Limited, Sitech QM Limited, Sitech Atlantic Limited and Hewquip Inc. (collectively, the "**Hewitt Group**"), as sellers (the "**Purchase Agreement**").

Immediately prior to the Acquisition, the Hewitt Group carried on business as the authorized Caterpillar dealer for the provinces of Quebec, western Labrador, New Brunswick, Nova Scotia and Prince Edward Island, as well as the Mitsubishi Caterpillar Forklift America Inc. (MCFA) dealer for Quebec and most of Ontario. Headquartered in Pointe-Claire, Quebec, operating through 45 branches, and with more than 2,000 employees, the Hewitt Group sold, rented and serviced a wide range of Caterpillar products. The Hewitt Group was also the authorized dealer for Maschinenbau Kiel GmbH (MaK) for Quebec, the Maritimes, and the eastern seaboard of the United States, from Maine to Virginia. The Hewitt Group operated through five divisions: Heavy Equipment, Material Handling, Energy, Hewitt Rentals and Truck.

2.2 Date of Acquisition

October 27, 2017

2.3 Consideration

Pursuant to the Acquisition and subject to any post-closing adjustments for working capital, Toromont paid to the Hewitt Group aggregate cash consideration of approximately \$945.6 million (including preliminary working capital adjustments) and issued approximately 2.25 million common shares (having an aggregate value of approximately \$126.3 million at the date of issuance or \$100 million based on the 10-day volume weighted average trading price of the common shares on the TSX prior to the announcement of the Acquisition on August 28, 2017). Toromont also assumed the operating liabilities of the Hewitt Group.

Toromont funded the cash consideration paid to the Hewitt Group with:

- (a) the net proceeds of a Canadian private placement of \$500 million aggregate principal amount of its 3.842% senior unsecured notes due 2027;
- (b) an aggregate of \$310 million of borrowings under Toromont's expanded and amended credit facilities, comprising borrowings of \$250 million under the term facility and \$60 million under the revolving facility; and
- (c) cash on hand.

2.4 Effect on Financial Position

See the unaudited *pro forma* financial statements of Toromont included in Schedule A for an illustration of the effect of the Acquisition on Toromont's financial position.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

Not applicable.

2.7 Date of Report

November 13, 2017.

3. Financial Statements

The following financial statements are attached as Schedule A to this business acquisition report:

- (a) the audited consolidated financial statements of Hewclan Holdings Limited as at and for the financial years ended December 28, 2016 and December 28, 2015;

- (b) the unaudited interim condensed consolidated financial statements of Hewclan Holdings Limited as at June 23, 2017 and December 28, 2016 and for the six-month periods ended June 23, 2017 and June 24, 2016; and
- (c) the unaudited *pro forma* consolidated statement of financial position of Toromont as at June 30, 2017 and the unaudited *pro forma* consolidated statements of income of Toromont for the year ended December 31, 2016 and the six months ended June 30, 2017.

**SCHEDULE A
INDEX OF FINANCIAL STATEMENTS**

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Audited consolidated financial statements of Hewclan Holdings Limited ("**HHL**") as at and for the financial years ended December 28, 2016 and December 28, 2015..... A-2

Unaudited interim condensed consolidated financial statements of HHL as at June 23, 2017 and December 28, 2016 and for the six-month periods ended June 23, 2017 and June 24, 2016;..... A-27

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Notice Regarding Use of ASPE in HHL Financial Statements

The financial statements of HHL included in this business acquisition report are prepared in accordance with Canadian GAAP applicable to private enterprises, which are Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook.

The recognition, measurement and disclosure requirements of Canadian GAAP applicable to private enterprises differ from those of Canadian GAAP applicable to publicly accountable enterprises, which are International Financial Reporting Standards incorporated into the CPA Canada Handbook.

The *pro forma* financial statements included in this business acquisition report include adjustments relating to the acquired business and present *pro forma* information prepared using principles that are consistent with the accounting principles used by Toromont.

Audited consolidated financial statements of Hewclan Holdings Limited as at and for the financial years ended December 28, 2016 and December 28, 2015

Hewclan Holdings Limited

Consolidated Financial Statements
December 28, 2016



September 21, 2017,
except as to note 22, which is as of November 10, 2017

Independent Auditor's Report

To the Shareholder of Hewclan Holdings Limited

We have audited the accompanying consolidated financial statements of Hewclan Holdings Limited and its subsidiaries, which comprise the consolidated balance sheet as at December 28, 2016 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hewclan Holdings Limited and its subsidiaries as at December 28, 2016 and the results of their operations and their cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

This report replaces the report originally issued on March 17, 2017, as explained in note 21.

PricewaterhouseCoopers LLP¹

¹ CPA auditor, CA, public accountancy permit No. A119714

Hewclan Holdings Limited

Consolidated Balance Sheet

As at December 28, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Assets		
Current assets		
Cash	555	3,748
Accounts receivable (note 2)	148,645	160,841
Inventories (note 3)	268,281	265,790
Capital assets held for sale (note 5)	540	2,303
Income taxes recoverable	168	450
	<u>418,189</u>	<u>433,132</u>
Rental equipment (note 4)	161,239	180,983
Capital assets (note 5)	142,129	148,824
Intangible assets (note 6)	78,188	81,795
Deferred financing charges, at cost less accumulated amortization of \$203	1,195	563
Notes receivable (note 7)	5,596	5,596
Employee future benefits (note 8)	36,750	23,319
Other long-term assets	2,413	3,353
	<u>845,699</u>	<u>877,565</u>
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	-	138,000
Accounts payable and accrued liabilities (note 10)	175,905	176,978
Income taxes payable	1,124	1,850
Current portion of long-term debt (note 12)	5,338	5,199
	<u>182,367</u>	<u>322,027</u>
Notes payable (note 11)	787	787
Long-term debt (note 12)	273,475	223,813
Future income taxes	35,595	22,123
Employee future benefits (note 8)	22,000	23,022
Other long-term liabilities	2,413	3,353
	<u>516,637</u>	<u>595,125</u>
Shareholder's Equity		
Share capital (note 13)	15,500	15,500
Retained earnings	313,562	266,940
	<u>329,062</u>	<u>282,440</u>
	<u>845,699</u>	<u>877,565</u>

Approved by the Board of Directors

(signed) James W. Hewitt _____ Director

Hewclan Holdings Limited

Consolidated Statement of Earnings and Retained Earnings For the year ended December 28, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Revenue from all sources	1,049,407	1,108,033
Earnings before the following (note 3)	126,640	123,209
Amortization of rental equipment	47,492	54,449
Amortization of capital assets	10,121	10,913
Amortization of intangible assets	4,153	4,114
Amortization of deferred financing charges	766	520
Interest expense		
Notes payable	45	46
Long-term debt	4,072	4,903
Bank and other	9,549	10,304
Gain on foreign exchange	(1,604)	(4,335)
Loss (gain) on disposal of capital assets (note 5)	(41)	679
Change in value of investments	(600)	-
	73,953	81,593
Earnings before loss (gain) on remeasurements and other items – Employee future benefits and income taxes	52,687	41,616
Loss (gain) on remeasurements and other items – Employee future benefits	(11,585)	13,675
Earnings before income taxes	64,272	27,941
Provision for income taxes (note 14)	17,650	6,632
Net earnings for the year	46,622	21,309
Retained earnings – Beginning of year	266,940	245,631
Retained earnings – End of year	313,562	266,940

Hewclan Holdings Limited
Consolidated Statement of Cash Flows
For the year ended December 28, 2016

(in thousands of dollars)

	2016 \$	2015 \$
Cash flows from		
Operating activities		
Net earnings for the year	46,622	21,309
Adjustments for		
Amortization of rental equipment	47,492	54,449
Amortization of capital assets	10,121	10,913
Amortization of intangible assets	4,153	4,114
Amortization of deferred financing charges	766	520
Gain on disposal of rental equipment (note 21)	(28,087)	(33,085)
Loss (gain) on disposal of capital assets (note 5)	(41)	679
Excess of contributions over employee benefits expense	(2,868)	(5,464)
Future income taxes	13,472	3,280
Loss (gain) on remeasurements and other items – Employee future benefits	(11,585)	13,675
Change in value of other investments	(600)	-
	<u>79,445</u>	<u>70,390</u>
Additions to rental equipment (note 21)	(65,683)	(112,505)
Proceeds on disposal of rental equipment (note 21)	83,688	83,854
Changes in non-cash working capital items (note 15)	(8,878)	(46,490)
	<u>88,572</u>	<u>(4,751)</u>
Investing activities		
Additions to capital assets	(4,459)	(4,389)
Proceeds on disposal of capital assets	2,837	18
Additions to intangible assets	(546)	(462)
Additions to deferred financing charges	(1,398)	-
	<u>(3,566)</u>	<u>(4,833)</u>
Financing activities		
Increase (decrease) in bank indebtedness	(83,000)	11,000
Repayment of long-term debt	(5,199)	(6,676)
	<u>(88,199)</u>	<u>4,324</u>
Decrease in cash during the year	(3,193)	(5,260)
Cash – Beginning of year	<u>3,748</u>	<u>9,008</u>
Cash – End of year	<u>555</u>	<u>3,748</u>
Supplementary information		
Total additions to rental equipment during the year including inventory transfers and unpaid additions of \$17,666 (2015 – \$15,123)	(83,349)	(127,628)
Total additions to capital assets including net change in unpaid additions for the year of nil (2015 – \$840)	(4,459)	(5,229)

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

1 Basis of presentation and significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of Hewclan Holdings Limited (the “company”) and those of Hewitt Equipment Limited (HEL), Atlantic Tractors & Equipment Limited, Hewitt Rentals Inc., Hewitt Material Handling Inc., Montréal Hydraulique 04 Inc., 4198841 Canada Inc., Hewquip Inc., Les Tracteurs Hewitt Inc., Hewitt Labrador Limited, SITECH QM Limited and SITECH Atlantic Limited.

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE).

Use of estimates

The preparation of financial statements in accordance with ASPE requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period and disclosure of contingencies at the date of the financial statements. Actual results could differ from those estimates.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of machines and parts includes purchase and transportation costs.

Cost of machines is determined on a specific-item basis. Cost of parts is determined principally using the average-cost basis. Cost of work in progress includes cost of parts and labour. Work in progress represents work orders opened relating to customer repairs and work in progress relating to Energy Division projects.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Rental equipment

Rental equipment is recorded at cost less accumulated amortization. Amortization of rental equipment with a net book value approximating \$94 million (2015 – \$113 million) is calculated by annual charges to earnings of approximately 70% (2015 – 87%) of the rental revenue earned on the equipment. This amount approximates the amortization on a usage basis over the estimated useful life of the equipment less the estimated residual value. The balance of rental equipment with a net book value approximating \$67 million (2015 – \$68 million) is amortized principally using the straight-line method over its estimated useful life ranging from three to seven years less the estimated residual value (note 4).

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

Capital assets

Capital assets are carried at cost less accumulated amortization. Amortization is provided for by annual charges to earnings calculated using the following methods and annual rates:

	Method	Rate
Buildings	Declining balance	4% to 10%
Equipment and furniture	Declining balance	8% to 30%
	Straight-line	20%
Leasehold improvements	Straight-line	10% to 20%

Intangible assets

Intangible assets with a defined useful life consist primarily of costs related to the Enterprise Business System, (EBS), an internally generated software system. EBS is recorded at cost less accumulated amortization and impairment losses and amortized on a straight-line basis from the date it is put in use over the estimated useful life of 20 years. Intangible assets with an indefinite useful life consist of the Bucyrus distribution network and are recognized at cost less any accumulated impairment losses. Customer lists are amortized on a straight-line basis over 10 years.

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. An impairment loss of \$80 (2015 – \$653) has been recorded in these consolidated financial statements.

Deferred financing charges

Deferred financing charges represent transaction costs incurred in 2016 to secure amended and restated credit facilities and are being amortized using the straight-line method over the terms of the credit facilities which expire on May 13, 2020 (note 9).

Employee future benefits

Obligations under defined benefit pension plans are recorded net of plan assets. Actuarial valuations reports prepared for funding purposes are used to determine the obligations of the pension plans. In the years between actuarial valuations, the accrued benefit obligations are measured using roll-forward techniques. In addition, all past service costs and actuarial gains and losses are recognized in the year they occur. Plan assets are valued at fair value.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

The company sponsors defined benefit post-retirement plans which provide retirees with healthcare benefits and cover substantially all eligible employees. These plans are unfunded. The cost of the other retirement benefits earned by employees is actuarially determined using the projected-unit-credit-benefit method based on management's best estimates.

Pension expense includes the current service cost, finance cost (revenue) and remeasurements and other items which include mainly the difference between actual return on plan assets and the return calculated using the discount rate in the actuarial valuation, actuarial gains and losses and past service costs.

Revenue recognition

The company recognizes revenue when persuasive evidence of an arrangement exists, delivery and commissioning have occurred or the service has been rendered, the price to the buyer is fixed or determinable, and collection is reasonably assured. Revenues from the sale of equipment systems involving design, manufacture, installation and start-up are recognized using the percentage-of-completion method proportionate to the costs incurred to date as a percentage of total estimated costs. These projects are monitored closely, and estimated losses, if any, are recorded when identified.

Deferred revenue

Revenues from long-term maintenance contracts are recognized on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour provided. These contracts are closely monitored for performance. Any losses estimated during the term of the contract are recognized when identified. At the completion of the contract, any remaining profit on the contract is recognized as revenue.

Future income taxes

The company uses the future income taxes method of accounting for income taxes. Accordingly, future income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, computed based on rates and provisions of enacted or substantively enacted tax laws that are expected to be in effect in the year in which the differences are expected to be recovered or settled. The company reviews the valuation of its future income taxes annually and records adjustments as necessary (note 14).

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the consolidated balance sheet date. Revenues and expenses in foreign currencies are translated into Canadian dollars at the transaction date. The resulting translation gains and losses are included in net earnings (note 16).

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

Financial instruments

Measurement of financial instruments

The company initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions. The company subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable, notes receivable and other long-term assets. Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, notes payable, long-term debt and other long-term liabilities.

Financial assets measured at fair value include other investments. The gains and losses related to revaluation at the end of each period are included in net earnings.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the writedown is recognized in net earnings. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in net earnings.

Hedging

When the company uses derivatives in hedge accounting relationships, it formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking derivatives to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. The company also assesses that the critical terms of the hedging item and the hedged item are the same, and thus evaluates whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows of hedged items. If the hedged item ceases to exist due to its maturity, expiry, cancellation or exercise before the hedging instrument expires, unrecorded deferred gains or losses are charged to earnings (note 16).

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

2 Accounts receivable

a)

	2016 \$	2015 \$
Trade	145,256	159,186
Allowance for doubtful accounts	(5,996)	(9,245)
	<hr/>	<hr/>
Other receivables (note 2(b))	139,260	149,941
	9,385	10,900
	<hr/>	<hr/>
	148,645	160,841
	<hr/>	<hr/>

b) In November 2016, a subsidiary sold its share in an aircraft for a total consideration of \$604, resulting in a gain of \$470. The consideration amount of \$604 is being applied as the trade-in amount against the cost of a new aircraft. As at December 28, 2016, the subsidiary had made a deposit on account of \$196 relating to the purchase of a new aircraft.

Effective December 29, 2016, the subsidiary purchased the new aircraft for a total consideration of \$3,693, of which \$2,893 was paid in cash.

3 Inventories

	2016 \$	2015 \$
Machines	139,802	137,269
Parts	91,443	104,396
Work in progress	37,036	24,125
	<hr/>	<hr/>
	268,281	265,790
	<hr/>	<hr/>

Inventories recognized as expenses and included in earnings amounted to \$716,958 (2015 – \$765,879).

Hewclan Holdings Limited
Notes to Consolidated Financial Statements
December 28, 2016

(in thousands of dollars, except as otherwise noted)

4 Rental equipment

	2016	2015
	\$	\$
Cost	284,725	301,934
Less: Accumulated amortization	123,486	120,951
	<u>161,239</u>	<u>180,983</u>

In 2016, the company re-evaluated and changed estimates of residual values and useful lives of certain rental equipment. These changes in accounting estimates had the effect of reducing the current year's amortization expense by approximately \$5.4 million.

5 Capital assets

			2016	2015
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Land	16,166	-	16,166	16,726
Buildings	168,237	67,651	100,586	103,758
Equipment and furniture	82,653	66,299	16,354	17,580
Leasehold improvements	20,111	11,088	9,023	10,760
	<u>287,167</u>	<u>145,038</u>	<u>142,129</u>	<u>148,824</u>

- a) During the year, Hewquip Inc. sold two properties located in Baie-d'Urfé, Quebec and Bloomfield, Prince Edward Island resulting in a combined loss of \$753. A total impairment loss of \$653 relating to both of these properties was recorded in 2015. In 2016, Hewquip Inc. disposed of land in Baie-Comeau, Quebec, resulting in a loss of \$84.
- b) In 2016, Hewquip Inc. made the decision to sell a property located in Sherbrooke, Quebec. An impairment loss aggregating \$80 has been recorded in these consolidated financial statements.

Hewclan Holdings Limited
Notes to Consolidated Financial Statements
December 28, 2016

(in thousands of dollars, except as otherwise noted)

6 Intangible assets

			<u>2016</u>	<u>2015</u>
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Enterprise Business System (EBS)	82,473	25,668	56,805	60,129
Bucyrus distribution network	19,857	-	19,857	19,857
Customer lists	3,376	1,850	1,526	1,809
	<u>105,706</u>	<u>27,518</u>	<u>78,188</u>	<u>81,795</u>

7 Notes receivable

	<u>2016</u>	<u>2015</u>
	\$	\$
Demand notes receivable from the parent company, non-interest bearing	<u>5,596</u>	<u>5,596</u>

Demand notes receivable from the parent company are classified as long-term in these consolidated financial statements, as the company will not call them before January 2018.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

8 Employee future benefits

HEL and three subsidiaries maintain defined benefit plans providing pension and other retirement benefits to their eligible employees. The funded plans are evaluated as follows:

	Most recent valuation	Next required valuation
Pension benefit plans	December 31, 2013 and 2015	December 31, 2016 and 2018

The net expense (revenue) for the defined benefit plans is as follows:

	2016 \$	2015 \$
Current service cost	7,151	7,252
Finance revenue	(228)	(705)
	<hr/>	<hr/>
Loss (gain) on remeasurements and other items	6,923 (11,585)	6,547 13,675
	<hr/>	<hr/>
	(4,662)	20,222

Information about the defined benefit plans as at December 28 is as follows:

	2016		2015	
	Pension benefit plans \$	Unfunded benefit plans \$	Pension benefit plans \$	Unfunded benefit plans \$
Accrued benefit obligation	(272,166)	(22,000)	(271,253)	(23,022)
Fair value of plan assets	308,916	-	294,572	-
	<hr/>	<hr/>	<hr/>	<hr/>
Funded status – Plan surplus (deficit)	36,750	(22,000)	23,319	(23,022)

9 Bank indebtedness

In 2016, HEL, the borrower, negotiated an amended and restated unsecured syndicated credit facility amounting to \$350 million with a maturity date of May 13, 2020. The maturity date may be extended by 364-day operating periods provided no events of default exist and all lenders agree to the extension. The borrower is subject to full compliance with the terms and conditions of this syndicated facility throughout the borrowing period. This facility may be drawn in both Canadian and US funds and bears interest at variable rates plus a margin adjustment ranging from 0.5% to a maximum of 3.25%. The margin adjustment is calculated quarterly based on defined terms. In addition, this facility provides for an incremental \$50 million of borrowings under certain conditions.

(8)

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

- a) This syndicated facility contains negative pledges and affirmative and negative covenants, including the requirement to maintain certain financial ratios. The obligations of the borrower under this facility are solidarily guaranteed by Hewitt Rentals Inc., Atlantic Tractors & Equipment Limited, Hewitt Material Handling Inc. and Montréal Hydraulique O4 Inc.

As at December 28, 2016, the borrower had drawn \$171 million against this facility and complied with all requirements. HEL's borrowing rate for the year ended December 28, 2016 ranged from 3.10% to 4.20% (note 16). On February 2, 2017, the borrower entered into a new interest rate swap for an aggregate amount of \$30 million, which will expire in May 2020. On January 30, 2017, HEL voluntarily reduced, without penalty, the unsecured syndicated credit facility by an amount of \$30 million.

- b) In 2016, HEL also negotiated an amended and restated unsecured credit agreement with a financial institution providing for borrowings of up to an aggregate amount of \$40 million maturing on May 13, 2020. The full amount has been drawn as long-term debt by the borrower in the form of banker's acceptances as at December 28, 2016 (note 12). On February 2, 2017, HEL entered into new interest rate swaps for an aggregate amount of \$40 million, which will expire in May 2020.

10 Accounts payable and accrued liabilities

	2016 \$	2015 \$
Trade		
Major supplier (note 18)	28,723	35,089
Other	34,564	32,239
Customer deposits	647	135
Deferred revenue	49,905	43,301
Derivative financial instruments	21	168
Accrued liabilities	50,474	49,450
Government remittances*	11,571	16,596
	<u>175,905</u>	<u>176,978</u>

* Government remittances consist of amounts (such as sales taxes and payroll withholding taxes) required to be paid to government authorities and are recognized when the amounts become due.

11 Notes payable

	2016 \$	2015 \$
Demand notes from related parties, bearing interest at prime rate plus 3.00%	<u>787</u>	<u>787</u>

Demand notes payable are classified as long-term in these consolidated financial statements, as the related parties will not call their respective demand notes before January 2018.

(9)

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

12 Long-term debt

a)

	2016 \$	2015 \$
Unsecured credit agreement replacing the two previously outstanding unsecured credit facilities aggregating \$40 million. This credit agreement bears interest at CDOR plus a relevant margin adjustment ranging from 1.75% to a maximum of 3.25%, adjusted quarterly based on defined terms. As at December 28, 2016, the relevant margin was 2.25%. Principal is repayable in full on May 13, 2020. This borrowing agreement allows for full prepayment at any time without penalty (notes 9(b), 12(b) and 16)	40,000	-
Unsecured credit facility, bearing interest at CDOR plus a relevant margin; the borrowing rate was between 3.10% and 3.61% for the year ended December 28, 2016	-	30,000
Unsecured credit facility, bearing interest at CDOR plus a relevant margin; the borrowing rate was between 3.12% and 3.63% for the year ended December 28, 2016	-	10,000
Amended and restated unsecured syndicated credit facility (notes 9 and 16)	171,000	-
Long-term portion of unsecured syndicated credit facility (notes 9 and 16)	-	116,000
Unsecured non-revolving term credit facility obtained in 2007 for an amount of \$37,667, amended on May 1, 2015 in the amount of \$23,388, bearing interest at 4.19% and repayable in semi-annual instalments of principal and interest of \$1,415, due on July 27, 2020. The borrowing facility allows for full prepayment. (note 12(c))	20,286	22,206
Unsecured non-revolving term credit facility renegotiated in February 2016 for an amount of \$50,028, bearing interest at CDOR plus a relevant margin of 1.75%. Principal is repayable in monthly instalments of \$278 together with monthly interest payments. The facility expires in February 2021 (notes 12(c) and 16)	47,527	50,806
	<u>278,813</u>	<u>229,012</u>
Less: Current portion	5,338	5,199
	<u>273,475</u>	<u>223,813</u>

b) The obligations of HEL under these facilities are solidarily guaranteed by Hewitt Rentals Inc., Atlantic Tractors & Equipment Limited, Hewitt Material Handling Inc. and Montréal Hydraulique o4 Inc.

c) The above borrowing facilities contain both affirmative and negative covenants, negative pledges, as well as the maintenance of certain financial ratio requirements. HEL complied with all the requirements of these borrowing agreements.

Hewclan Holdings Limited
Notes to Consolidated Financial Statements
December 28, 2016

(in thousands of dollars, except as otherwise noted)

d) Debt repayments are as follows:

	\$
2017	5,338
2018	5,421
2019	5,510
2020	228,358
2021	34,186

13 Share capital

Authorized

28,000 6% Non-cumulative, voting preferred shares, redeemable at their issue price of \$1 each
1,000 Common shares

Issued

	2016 \$	2015 \$
1,000 Common shares	15,500	15,500

14 Income taxes

The provision for income taxes comprises the following:

	2016 \$	2015 \$
Current	4,178	3,352
Future	13,472	3,280
	17,650	6,632

Hewclan Holdings Limited
Notes to Consolidated Financial Statements
December 28, 2016

(in thousands of dollars, except as otherwise noted)

15 Cash flows

The changes in non-cash working capital items are as follows:

	2016 \$	2015 \$
Decrease (increase) in		
Accounts receivable	12,796	(14,101)
Inventories	(2,491)	7,121
Inventories transferred to rental equipment	(16,666)	(15,204)
Income taxes recoverable	282	98
Increase (decrease) in		
Accounts payable and accrued liabilities	(1,073)	(23,431)
Accounts payable related to rental equipment	(1,000)	81
Accounts payable related to capital assets	-	(840)
Income taxes payable	(726)	(214)
	<u>(8,878)</u>	<u>(46,490)</u>

16 Financial instruments

Risks and concentrations

The company is exposed to various risks through its financial instruments. The following analysis provides a measure of the company's risk exposures and concentrations as at December 28, 2016.

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to this risk mainly in respect of its accounts payable and accrued liabilities and long-term debt.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company's main credit risks relate to its accounts receivable. The company provides credit to its customers in the normal course of its operations. The company performs a continual evaluation of its customers' credit and records an allowance for doubtful accounts as required.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. A major portion of the company's purchases is denominated in US dollars; therefore, the company is exposed to significant levels of foreign exchange risk. Derivative financial instruments are used to manage this risk.

The company enters into foreign exchange forward contracts to reduce the impact of currency fluctuations on accounts payable and accrued liabilities denominated in foreign currencies. These forward contracts are not considered hedges for accounting purposes; as a result, any change in fair value is recognized in earnings as it occurs.

As at December 28, 2016, the company had foreign exchange forward contracts outstanding of US\$21,166 (2015 – US\$44,606) at an average rate of 1.2975 (2015 – 1.2844) and 3,683 euros (2015 – 4,716 euros) at an average rate of 1.4348 (2015 – 1.4277). These forward contracts mature on or before July 6, 2017. An amount of US\$21,166 (2015 – US\$34,795) and 3,683 euros (2015 – 2,800 euros) represent contracts entered into to reduce the impact of foreign exchange fluctuations on accounts payable and accrued liabilities denominated in foreign currencies. As at December 28, 2016, the fair value of these derivatives has been recorded in other receivables in the amount of \$1,138 favourable (2015 – \$4,168 favourable).

The company's exposure to currency risk is as follows:

	2016 \$	2015 \$
Denominated in US dollars		
Cash	(892)	(4,205)
Accounts receivable	(26,132)	(21,798)
Accounts payable and accrued liabilities	29,542	29,387
	<u>2,518</u>	<u>3,384</u>
	2016 \$	2015 \$
Denominated in euros		
Accounts receivable	(124)	(589)
Accounts payable and accrued liabilities	517	204
	<u>393</u>	<u>(385)</u>

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Given the current composition of long-term debt (proportion of debt at a fixed interest rate compared to a floating interest rate), fixed rate instruments subject the company to fair value risk, while the floating rate instruments subject it to cash flow risk.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

HEL has entered into interest rate swaps to cover the fluctuations of interest payments on portions of its long-term debt (cash flow hedge). The net interest payable or receivable under the swap contract is adjusted against the interest expense on long-term debt; thus, the interest expense on these portions of the long-term debt is equal to a fixed rate.

As at December 28, 2016, HEL had interest rate swaps for a total notional amount of \$156 million (2015 – \$156 million). This amount was used to hedge the cash flow risk relating to the previous unsecured credit facilities. These contracts terminated in January 2017. Under the terms of these contracts, HEL was committed to pay fixed rates between 1.49% and 1.65% and received the one-month CDOR rate. The fair value of these derivatives was recorded in accounts payable and accrued liabilities in the amount of \$21 unfavourable (2015 – \$168 unfavourable).

On February 2, 2017, the company entered into new interest rate swaps for a total of \$70 million; \$30 million has been used to hedge the cash flow risk arising from the amended and restated unsecured credit facilities (note 12) and designated as hedges for accounting purposes. The balance of \$40 million has been used to hedge the cash flow risk arising from the amended and restated unsecured credit agreement (note 12). These contracts will terminate in May 2020. Under the terms of these contracts, HEL is committed to pay a fixed rate ranging between 1.3% and 1.305% and receives the one-month CDOR rate.

In 2016, Hewquip Inc. entered into an interest rate swap agreement with a financial institution to hedge the cash flow risk arising from its unsecured non-revolving term credit facility which was renegotiated in February 2016. The swap follows the same amortization schedule as the credit facility. Under the terms of this swap, Hewquip Inc. is committed to pay a fixed weighted average rate of 2.81%, while the counterparty pays CDOR plus 1.75%. The swap agreement terminates on February 26, 2021. As at December 28, 2016, the unrecognized fair value of this derivative is \$456 favourable (2015 – \$380 unfavourable).

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

17 Commitments and contingencies

- a) The company and its subsidiaries are committed under the terms of operating leases related to service trucks, premises, computers and software systems. The aggregate payments due are as follows:

	Third parties
	\$
2017	7,964
2018	5,706
2019	4,604
2020	2,101
2021	501
	<hr/>
Total	20,876

- b) A subsidiary is committed under the terms of 8 (2015 – 11) sales contracts to repurchase machines at the option of customers between 2017 and 2020. The total repurchase price of these machines is approximately \$715 (2015 – \$1,112). The total amount recognized as a provision against these contracts is \$72 (2015 – \$111).
- c) Guaranteed residual values are periodically given by the company and a subsidiary in connection with certain machine sales. The likelihood of these commitments being called upon are assessed at the time of the initial transaction and on an annual basis going forward. As at December 28, 2016, the company is committed to approximately \$358 resulting from these guarantees and for which no provision has been recorded.
- d) In the normal course of business, the company is involved in certain legal proceedings. The outcome of these proceedings cannot be determined at this time, and, accordingly, no provision has been recorded. The company believes that the resolution of these proceedings will not have a material favourable or unfavourable effect on its financial situation.

18 Major supplier

The subsidiary companies purchase the majority of their products from Caterpillar and its related companies.

19 Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

20 Subsequent events

On August 28, 2017, the Company entered into a definitive agreement with Toromont Industries Limited ("Toromont") whereby Toromont will acquire substantially all of the Company's operating assets, with the exception of some excluded assets, and assume certain of the Company's liabilities as set out in the definitive agreement in exchange for \$917.7 million to be paid in cash and 2,249,478 common shares of Toromont (nominally \$100 million based on a 10-day average share price at the time of signing the definitive agreement) for a total consideration of \$1.0177 billion at August 28, 2017, subject to certain potential closing adjustments for working capital. Under the definitive agreement, either party can terminate the agreement if the transaction does not close by October 31, 2017 or such later date to which the parties may agree.

21 Presentation of rental fleet transactions in the consolidated statement of cash flows

The Company has reassessed the presentation in the consolidated statement of cash flows of the cash flows related to the rental equipment to provide information that is more relevant and that is more comparable to that of its industry peers. The Company has adjusted its presentation by reclassifying the cash flows for additions and disposals, net from cash flows from investing activities to operating activities, and disclosing separately the related net gains on disposals as follows.

	2016			2015		
	As previously reported \$	Adjustment \$	As adjusted \$	As previously reported \$	Adjustment \$	As adjusted \$
Gain on disposal of rental equipment	-	(28,087)	(28,087)	-	(33,085)	(33,085)
Additions to rental equipment	-	(65,683)	(65,683)	-	(112,505)	(112,505)
Proceeds on disposal of rental equipment	-	83,688	83,688	-	83,854	83,854
Cash flows from operating activities	98,654	(10,082)	88,572	56,985	(61,736)	(4,751)
Additions to rental equipment	(65,683)	65,683	-	(112,505)	112,505	-
Disposal of rental equipment – net	55,601	(55,601)	-	50,769	(50,769)	-
Cash flows used in investing activities	(13,648)	10,082	(3,566)	(66,569)	61,736	(4,833)

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

22 ASPE to International Financial Reporting Standards (IFRS) reconciliation

On October 27, 2017, the transaction described in note 20 closed. As a requirement of the acquisition, the company's financial statements must be included in a business acquisition report to be filed by Toromont. The report requires a reconciliation of ASPE to IFRS for the consolidated statement of earnings and a description of the impact of each adjustment on the consolidated balance sheet for each period presented, which are the years ended December 28, 2016 and 2015.

Reconciliation of profit and loss

	2016 \$	2015 \$
Net earnings for the year – ASPE	46,622	21,309
Employee future benefits (a)	(17,638)	6,494
Tax effect	4,851	(1,786)
	(12,787)	4,708
Derivative financial instruments (b)	890	(434)
Tax effect	(245)	119
	645	(315)
Net earnings for the year – IFRS	34,480	25,702

Selected consolidated balance sheet information

	2016		
	ASPE \$	Reconciliation to IFRS \$	IFRS \$
Accounts receivable	148,645	456 (b)	149,101
Employee future benefits (asset)	36,750	(36,750) (a)	-
Employee future benefits (liability)	22,000	42,140 (a)	64,140
Future income taxes	35,595	(21,569) (a), (b)	14,026
Retained earnings	313,562	(56,864) (a)	256,698
	2015		
	ASPE \$	Reconciliation to IFRS \$	IFRS \$
Account receivable	160,841	714 (b)	161,555
Accounts payable and accrued liabilities	176,978	1,535 (b)	178,513
Employee future benefits (asset)	23,319	(23,319) (a)	-
Employee future benefits (liability)	23,022	33,552 (a)	56,574
Future income taxes	22,123	(15,865) (a), (b)	6,258
Retained earnings	266,940	(41,546) (a), (b)	225,394
Accumulated other comprehensive loss	-	(281) (b)	(281)

(17)

Hewclan Holdings Limited

Notes to Consolidated Financial Statements

December 28, 2016

(in thousands of dollars, except as otherwise noted)

a) Employee future benefits

The following are differences between ASPE and IFRS with respect to accounting for employee future benefits:

- The company accounts for its defined benefit pension plans under ASPE using an actuarial valuation prepared for funding purposes. Under IFRS, the company uses an actuarial valuation prepared for accounting purposes.
- Under ASPE, the discount rate used for the defined benefit pension plans corresponds to the long-term expected rate of return on the assets of the plan. Under IFRS, the discount rate used is based on high-quality debt instruments.
- Under ASPE, income in the plans' assets is recorded based on their long-term expected return. Under IFRS, it is recorded based on the discount rate used for the benefit liabilities.
- Under ASPE, actuarial gains and losses arising from experience adjustments and changes in assumptions and other items are recognized in net income. Under IFRS, actuarial gains and losses arising from experience adjustments and changes in assumptions are recognized in other comprehensive income. ASPE does not have the concept of other comprehensive income.
- Under ASPE, the company measures the obligation using the traditional unit credit method for its defined benefit pension plans, without projection. Under IFRS, the obligations for pension and other post-employment benefit plans are measured using the projected unit credit method, which values the pension benefit projected to retirement and pro-rated on service.
- This difference requires that it be tax effected for the purposes of the reconciliation.

b) Derivative financial instruments

- The fair value of derivatives which are designated as effective cash flow hedges under ASPE are not recognized on the consolidated balance sheet. Under IFRS, all derivatives are required to be recorded on the consolidated balance sheet. As a result, the changes in fair value of these derivatives are recorded to net income under IFRS.
- This difference requires that it be tax effected for the purposes of the reconciliation.

**Unaudited interim condensed consolidated financial statements of Hewclan Holdings
Limited as at June 23, 2017 and December 28, 2016 and for the six-month periods ended
June 23, 2017 and June 24, 2016**

Hewclan Holdings Limited

Interim Condensed Consolidated Financial Statements
(Unaudited)
June 23, 2017

Hewclan Holdings Limited

Interim Condensed Statement of Financial Position (Unaudited)

(in thousands of dollars)

	NOTE	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Assets				
Current assets				
Cash		50,812	555	-
Accounts receivable	2	169,310	148,645	161,392
Inventories		270,683	268,281	324,642
Capital assets held for sale		540	540	-
Income taxes recoverable		602	168	1,446
		<u>491,947</u>	<u>418,189</u>	<u>487,480</u>
Rental equipment	3	162,960	161,239	171,633
Capital assets	4	142,574	142,129	148,591
Intangible assets		76,126	78,188	79,714
Deferred financing charges		1,021	1,195	1,626
Notes receivable		5,596	5,596	5,596
Employee future benefits	7	42,855	36,750	23,878
Other long-term assets		<u>2,362</u>	<u>2,413</u>	<u>3,148</u>
		<u>925,441</u>	<u>845,699</u>	<u>921,666</u>
Liabilities				
Current liabilities				
Bank overdraft		-	-	2,207
Accounts payable and accrued liabilities	5	251,909	175,905	198,312
Income taxes payable		3,027	1,124	1,039
Current portion of long-term debt	6	<u>5,380</u>	<u>5,338</u>	<u>5,297</u>
		260,316	182,367	206,855
Notes payable		787	787	787
Long-term debt	6	253,774	273,475	381,154
Future income taxes	9	38,255	35,595	21,815
Employee future benefits		23,662	22,000	25,171
Other long-term liabilities		<u>2,362</u>	<u>2,413</u>	<u>3,148</u>
		<u>579,156</u>	<u>516,637</u>	<u>638,930</u>
Shareholder's Equity				
Share capital	8	15,500	15,500	15,500
Retained earnings		<u>330,785</u>	<u>313,562</u>	<u>267,236</u>
		<u>346,285</u>	<u>329,062</u>	<u>282,736</u>
		<u>925,441</u>	<u>845,699</u>	<u>921,666</u>

Approved by the Board of Directors

(signed) James W. Hewitt Director

Hewclan Holdings Limited

Interim Condensed Consolidated Statement of Earnings and Retained Earnings (Unaudited)

(in thousands of dollars)

	NOTE	Six-month period ended June 23, 2017 \$	Six-month period ended June 24, 2016 \$
Revenue from all sources		497,530	460,975
Earnings before the following		52,376	41,467
Amortization of rental equipment		18,312	22,259
Amortization of capital assets		4,781	4,975
Amortization of intangible assets		2,062	2,081
Amortization of deferred financing charges		174	288
Interest expense			
Notes payable		22	22
Long-term debt		1,687	2,069
Bank and other		2,829	4,847
Gain on foreign exchange		1,374	348
Loss on disposal of capital assets		7	27
		31,248	36,916
Earnings before loss (gain) on remeasurements and other items – Employee future benefits and income taxes		21,128	4,551
Loss (gain) on remeasurements and other items – Employee future benefits	7	(2,679)	3,840
Earnings before income taxes		23,807	711
Provision for income taxes	9	6,584	415
Net earnings for the period		17,223	296
Retained earnings – Beginning of period		313,562	266,940
Retained earnings – End of period		330,785	267,236

Hewclan Holdings Limited

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

(in thousands of dollars)

	NOTE	Six-month period ended June 23, 2017 \$	Six-month period ended June 24, 2016 \$
Cash flows from			
Operating activities			
Net earnings for the period		17,223	296
Adjustments for			
Amortization of rental equipment		18,312	22,259
Amortization of capital assets		4,781	4,975
Amortization of intangible assets		2,062	2,081
Amortization of deferred financing charges		174	288
Gain on disposal of rental equipment		(15,105)	(35,037)
Loss on disposal of capital assets		7	27
Excess of contributions over employee benefits expense		(1,764)	(2,250)
Future income taxes		2,660	(308)
Loss (gain) on remeasurements and other items – Employee future benefits		(2,679)	3,840
		<u>25,671</u>	<u>(3,829)</u>
Additions to rental equipment		(3,247)	(13,250)
Proceeds on disposal of rental equipment		30,269	68,025
Changes in non-cash working capital items	10	<u>22,456</u>	<u>(72,523)</u>
		<u>75,149</u>	<u>(21,577)</u>
Investing activities			
Additions to capital assets		(5,233)	(2,466)
Additions to deferred financing charges		-	(1,351)
		<u>(5,233)</u>	<u>(3,817)</u>
Financing activities			
Decrease (increase) in unsecured syndicated credit facility		(17,000)	22,000
Repayment of long-term debt		(2,659)	(2,561)
		<u>(19,659)</u>	<u>19,439</u>
Increase (decrease) in cash		<u>50,257</u>	<u>(5,955)</u>
Cash – Beginning of period		<u>555</u>	<u>3,748</u>
Cash (bank overdraft) – End of period		<u>50,812</u>	<u>(2,207)</u>
Supplementary information			
Total additions to rental equipment during the period including inventory transfers and unpaid additions of \$35,197 (2016 – \$45,897)			

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

1 Basis of presentation and significant accounting policies

Basis of presentation

These interim condensed consolidated financial statements were prepared in accordance with Canadian Accounting Standards for Private Enterprises (ASPE) except that 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 Hewclan Holdings Limited for the year ended December 28, 2016. The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of Hewclan Holdings Limited annual financial statements for the year ended December 28, 2016.

2 Accounts receivable

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Trade	162,513	145,256	156,856
Allowance for doubtful accounts	(6,064)	(5,996)	(8,641)
	<hr/>	<hr/>	<hr/>
Other receivables	156,449 12,861	139,260 9,385	148,215 13,177
	<hr/>	<hr/>	<hr/>
	169,310	148,645	161,392

3 Rental equipment

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Cost	290,263	284,725	294,806
Less: Accumulated amortization	127,303	123,486	123,173
	<hr/>	<hr/>	<hr/>
	162,960	161,239	171,633

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

4 Capital assets

			June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
	Cost \$	Accumulated amortization \$	Net \$	Net \$	Net \$
Land	16,166	-	16,166	16,166	17,566
Buildings	168,237	69,840	98,397	100,586	103,949
Equipment and furniture	87,773	68,239	19,534	16,354	17,443
Leasehold improvements	20,111	11,634	8,477	9,023	9,633
	<u>292,287</u>	<u>149,713</u>	<u>142,574</u>	<u>142,129</u>	<u>148,591</u>

5 Accounts payable and accrued liabilities

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Trade	106,210	63,287	90,137
Customer deposits	1,191	647	1,733
Deferred revenue	64,967	49,905	50,120
Derivative financial instruments	-	21	-
Accrued liabilities	60,994	50,474	43,494
Government remittances	18,547	11,571	12,828
	<u>251,909</u>	<u>175,905</u>	<u>198,312</u>

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

6 Long-term debt

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Unsecured credit agreement of \$40 million bearing interest at CDOR plus a relevant margin adjustment ranging from 1% to a maximum of 3.25%, adjusted quarterly based on defined terms.	40,000	40,000	40,000
Unsecured syndicated credit facility	154,000	171,000	276,000
Unsecured non-revolving term credit facility, bearing interest at 4.19%	19,296	20,286	21,256
Unsecured non-revolving term credit facility, bearing interest at CDOR plus a relevant margin of 1.75%.	45,858	47,527	49,195
	<u>259,154</u>	<u>278,813</u>	<u>386,451</u>
Less: Current portion	5,380	5,338	5,297
	<u>253,774</u>	<u>273,475</u>	<u>381,154</u>

- a) The obligations under these facilities are solidarily guaranteed by Hewitt Equipment Limited, Hewitt Rentals Inc., Atlantic Tractors & Equipment Limited, Hewitt Material Handling Inc. and Montréal Hydraulique 04 Inc.
- b) The borrowing facilities contain both affirmative and negative covenants, negative pledges, as well as the maintenance of certain financial ratio requirements.

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

7 Employee future benefits

The net expense (revenue) for the defined benefit plans is:

	Six month period ended June 23, 2017 \$	Six month period ended June 24, 2016 \$
Current service cost	3,561	3,550
Finance revenue	(556)	(111)
	<u>3,005</u>	<u>3,439</u>
Loss (gain) on remeasurements and other items	(2,679)	3,840
	<u>326</u>	<u>7,279</u>

8 Share capital

Authorized

28,000 6% Non-cumulative, voting preferred shares, redeemable at their issue price of \$1 each
1,000 common shares

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Issued			
1,000 Common shares	<u>15,500</u>	<u>15,500</u>	<u>15,500</u>

9 Income taxes

The provision for income taxes comprises the following:

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Current	3,924	4,178	723
Future (recovery)	2,660	13,472	(308)
	<u>6,584</u>	<u>17,650</u>	<u>415</u>

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

10 Cash flows

The changes in non-cash working capital items are:

	June 23, 2017 \$	December 28, 2016 \$	June 24, 2016 \$
Decrease (increase) in			
Accounts receivable	(20,665)	12,796	(551)
Inventories	(2,402)	(2,491)	(58,852)
Inventories transferred to rental equipment	(20,064)	(16,666)	(25,385)
Income taxes recoverable	(434)	282	(996)
Increase (decrease) in			
Accounts payable and accrued liabilities	76,004	(1,073)	21,334
Accounts payable related to rental equipment	(11,886)	(1,000)	(7,262)
Income taxes payable	1,903	(726)	(811)
	<u>22,456</u>	<u>(8,878)</u>	<u>(72,523)</u>

11 Seasonality of Business

Historically, interim period revenues and earnings reflect seasonality. The first quarter is typically weaker due to winter conditions with consistently improving results throughout the remaining quarters.

12 Subsequent event

On August 28, 2017, the Company entered into a definitive agreement with Toromont Industries Limited ("Toromont") whereby Toromont would acquire substantially all of the Company's operating assets, with the exception of some excluded assets, and assume certain of the Company's liabilities as set out in the definitive agreement. On October 27, 2017, the transaction was closed with the Company receiving \$945.57 million in cash and 2,249,478 common shares of Toromont with a value of \$126.3 million for a total consideration of \$1.072 billion, subject to certain post-closing potential adjustments for working capital.

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

13 ASPE to International Financial Reporting Standards (IFRS) reconciliation

On October 27, 2017, substantially all of the Company's operating assets were sold and certain of its liabilities were assumed, as set out in note 12. As a requirement of the acquisition by Toromont, the company's financial statements must be included in a Business Acquisition Report ("BAR") to be filed by Toromont. The BAR requires an ASPE to IFRS reconciliation for the consolidated statement of earnings and a description of the impact of each adjustment on the consolidated balance sheet for the six-month period ended June 23, 2017.

Reconciliation of profit and loss

	\$
Net earnings for the period – ASPE	17,223
Employee future benefits (a)	(6,641)
Future tax impact (a)	1,826
	<u>(4,815)</u>
Derivative financial instruments (b)	(456)
Future tax impact (b)	126
	<u>(330)</u>
Net earnings for the period – IFRS	<u>12,078</u>

Selected consolidated balance sheet information

	ASPE \$	Reconciliation to IFRS \$		IFRS \$
Employee future benefits (asset)	42,855	(42,855)	(a)	-
Employee future benefits (liability)	23,662	55,697	(a)	79,359
Future income taxes	38,255	(27,102)	(a)	11,153
Retained earnings	330,785	(71,450)	(a)	259,335

a) Employee future benefits

The following are differences between ASPE and IFRS with respect to accounting for employee future benefits:

- The company accounts for its defined benefit pension plans under ASPE using an actuarial valuation prepared for funding purposes. Under IFRS, the company uses an actuarial valuation prepared for accounting purposes.
- Under ASPE, the discount rate used for the defined benefit pension plans corresponds to the long-term expected rate of return on the assets of the plan. Under IFRS, the discount rate used is based on high-quality debt instruments.
- Under ASPE, income in the plans' assets is recorded based on their long-term expected return. Under IFRS, it is recorded based on the discount rate used for the benefit liabilities.

Hewclan Holdings Limited

Notes to Interim Condensed Consolidated Financial Statements as at and for the six month period ended June 23, 2017 and June 24, 2016
(Unaudited)

(in thousands of dollars, except as otherwise noted)

- Under ASPE, actuarial gains and losses arising from experience adjustments and changes in assumptions and other items are recognized in net income. Under IFRS, actuarial gains and losses arising from experience adjustments and changes in assumptions are recognized in other comprehensive income. ASPE does not have the concept of other comprehensive income.
- Under ASPE, the company measures the obligation using the traditional unit credit method for its defined benefit pension plans, without projection. Under IFRS, the obligations for pension and other post-employment benefit plans are measured using the projected unit credit method, which values the pension benefit projected to retirement and pro-rated on service.
- This difference requires that it be tax effected for the purposes of the reconciliation.

b) Derivative financial instruments

- The fair value of derivatives which are designated as effective cash flow hedges under ASPE are not recognized on the consolidated balance sheet. Under IFRS, all derivatives are required to be recorded on the consolidated balance sheet. As a result, the changes in fair value of these derivatives are recorded to net income under IFRS.
- This difference requires that it be tax effected for the purposes of the reconciliation.

Unaudited *pro forma* consolidated statement of financial position of Toromont as at June 30, 2017 and unaudited *pro forma* consolidated statements of income of Toromont for the year ended December 31, 2016 and the six months ended June 30, 2017

TOROMONT INDUSTRIES LTD.

**PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)**

June 30, 2017

Toromont Industries Ltd.
Pro Forma Consolidated Statement of Financial Position
As at June 30, 2017
(Unaudited)

(\$ thousands)	Toromont	Hewitt	Note 2	Add/(Deduct) Pro Forma Adjustments	Toromont Pro Forma
Assets					
Current assets					
Cash and cash equivalents	\$ 120,944	\$ 50,812	a, b, c	\$ (171,756)	\$ -
Accounts receivable	312,023	169,310		-	481,333
Inventories	523,515	270,683		-	794,198
Income taxes receivable	2,096	602	a	(602)	2,096
Other assets	5,289	540		-	5,829
Total current assets	963,867	491,947		(172,358)	1,283,456
Property, plant and equipment	186,462	142,574	a	75,523	404,559
Rental equipment	310,443	162,960	a	15,596	488,999
Deferred tax assets	7,414	-	c	1,025	8,439
Other assets	15,234	8,979	a	(6,617)	17,596
Intangible assets	14,036	76,126	a	(6,126)	84,036
Goodwill	13,450	-	a	495,919	509,369
Total assets	\$ 1,510,906	\$ 882,586		\$ 402,962	\$ 2,796,454
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	\$ 310,416	\$ 189,304		\$ -	\$ 499,720
Deferred revenues	78,833	64,967		-	143,800
Income taxes payable	-	3,027	a	(3,027)	-
Current portion of long-term debt	1,875	5,380	a	(5,380)	1,875
Derivative financial instruments	5,735	-		-	5,735
Total current liabilities	396,859	262,678		(8,407)	651,130
Deferred revenues	18,604	-		-	18,604
Long-term debt	149,987	254,561	a, b	573,869	978,417
Accrued pension liability	21,641	79,359		-	101,000
Future income taxes	-	11,153	a	(11,153)	-
Shareholders' equity					
Share capital	317,121	15,500	a	110,763	443,384
Contributed surplus	9,528	-		-	9,528
Retained earnings	596,915	259,335	a, c	(262,110)	594,140
Accumulated other comprehensive loss	251	-		-	251
Total shareholders' equity	923,815	274,835		(151,347)	1,047,303
Total liabilities and shareholders' equity	\$ 1,510,906	\$ 882,586		\$ 402,962	\$ 2,796,454

See accompanying notes

Toromont Industries Ltd.
Pro Forma Consolidated Income Statement
Year Ended December 31, 2016
(Unaudited)

(\$ thousands except per share amounts)	Toromont	Hewitt	Note 3	Add/(Deduct) Pro Forma Adjustments	Toromont Pro Forma
Revenues	\$ 1,867,283	\$ 1,049,407		\$ -	\$ 2,916,690
Cost of goods sold	1,399,695	785,911	a, c	2,183	2,187,789
Gross profit	467,588	263,496		(2,183)	728,901
Selling and administrative expenses	255,964	202,140	a, c, d	3,785	461,889
Gain on sale of internally developed software	(4,939)	-		-	(4,939)
Operating income	216,563	61,356		(5,968)	271,951
Interest expense	7,242	14,432	b	12,088	33,762
interest and investment income	(4,006)	(600)		-	(4,606)
Income before income taxes	213,327	47,524		(18,056)	242,795
Income tax expense (recovery)	57,579	13,044	a, b, c, d	(4,965)	65,658
Net earnings	\$ 155,748	\$ 34,480		\$ (13,091)	\$ 177,137
Basic earnings per share	\$ 1.99				\$ 2.20
Diluted earnings per share	\$ 1.98				\$ 2.19

See accompanying notes

Toromont Industries Ltd.
Pro Forma Consolidated Income Statement
Six Months Ended June 30, 2017
(Unaudited)

(\$ thousands except per share amounts)	Toromont	Hewitt	Note 3	Add/(Deduct) Pro Forma Adjustments	Toromont Pro Forma
Revenues	\$ 943,238	\$ 497,530		\$ -	\$ 1,440,768
Cost of goods sold	720,690	375,378	a, c	1,092	1,097,160
Gross profit	222,548	122,152		(1,092)	343,608
Selling and administrative expenses	128,132	100,730	a, c, d	1,107	229,969
Operating income	94,416	21,422		(2,199)	113,639
Interest expense	3,671	4,712	b	8,548	16,931
interest and investment income	(2,108)	-		-	(2,108)
Income before income taxes	92,853	16,710		(10,747)	98,816
Income tax expense (recovery)	25,374	4,632	a, b, c, d	(2,955)	27,051
Net earnings	\$ 67,479	\$ 12,078		\$ (7,792)	\$ 71,765
Basic earnings per share	\$ 0.86				\$ 0.89
Diluted earnings per share	\$ 0.85				\$ 0.88

See accompanying notes

TOROMONT INDUSTRIES LTD.
NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
Unaudited

(\$ thousands except where otherwise indicated)

1. BASIS OF PRESENTATION

Effective October 27, 2017, Toromont Industries Ltd. (“Toromont” or the “Company”) acquired (the “Acquisition”) the businesses and net operating assets of Hewitt (the “Hewitt Business”) of Hewclan Holdings Limited and its subsidiaries (collectively “Hewitt”) and became the approved Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Quebec and most of Ontario and the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States, from Maine to Virginia. Additional distribution rights were also acquired in the Acquisition. The Acquisition expands the Company’s Eastern operations into a contiguous territory covering all of Eastern and Central Canada, extending into the far North.

The purchase price for the Hewitt Business, subject to any post-closing adjustments for working capital, was comprised of \$945.6 million in cash (including preliminary working capital adjustments) and approximately 2.25 million Toromont shares valued for accounting purposes at \$126.3 million at date of issuance, plus the assumption of certain liabilities of Hewitt arising out of or relating to the Hewitt Business. Toromont funded the cash portion of the purchase price for the Acquisition on October 27, 2017 through \$135.6 million cash on hand, the proceeds of a \$500 million notes offering and \$310 million of borrowings under expanded and amended unsecured credit facilities (collectively the “Funding”). Toromont did not assume any obligations or liabilities of Hewitt relating to: (i) intercompany indebtedness of Hewitt entities and their affiliates; (ii) Hewitt’s existing credit facilities or other indebtedness for borrowed money owed to third parties; (iii) Hewitt’s income taxes; (iv) breaches under contracts, leases, or authorizations transferred to Toromont occurring prior to the closing of the Acquisition; and (v) certain Hewitt assets excluded from the Acquisition (including Hewitt’s cash and cash equivalents).

These unaudited pro forma consolidated financial statements (“Pro Formas”) have been prepared for inclusion in this Business Acquisition Report and are for illustrative purposes only. The Pro Formas give effect to the Acquisition and the Funding on the basis of the assumptions and adjustments described below and in Notes 2 and 3.

The unaudited pro forma consolidated balance sheet as at June 30, 2017 gives effect to the Acquisition and Funding as if they had occurred as at June 30, 2017. The unaudited pro forma consolidated income statements for the six-month period ended June 30, 2017 and the year ended December 31, 2016 give effect to the Acquisition and Funding as if they had occurred on January 1, 2016.

These Pro Formas may not be indicative of the financial position that would have prevailed and results of operations that would have been achieved if the Acquisition and the Funding had been completed on those dates or for the periods presented, nor do they claim to project the results of operations or financial position of the consolidated entities for any future period or as of any future date.

The Pro Formas have been derived from historical financial information of Toromont and Hewitt contained in:

- the audited annual consolidated financial statements of Toromont as at December 31, 2016 and for the year then ended, prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board;
- the unaudited interim condensed consolidated financial statements of Toromont as at and for the six month period ended June 30, 2017, prepared in accordance with International Accounting Standards IAS 34 – Interim Financial Reporting;
- the audited annual consolidated financial statements of Hewitt as at December 28, 2016 and for the year then ended, prepared in accordance with Canadian accounting standards for private enterprises (“ASPE”) and including a note reconciling ASPE to IFRS; and,
- the unaudited interim condensed consolidated financial statements of Hewitt as at and for the six month period ended June 23, 2017, prepared in accordance with ASPE and including a note reconciling ASPE to IFRS.

The reported financial year and interim periods of Toromont and Hewitt are non-coterminous. No adjustment for this difference in period ends has been applied in preparing the Pro Formas.

Adjustments have been made to the historical consolidated financial statements of Hewitt that were originally prepared in accordance with ASPE to convert those statements to IFRS, as described in Note 22 of the December 28, 2016 Hewitt annual consolidated financial statements and in Note 13 of the June 23, 2017 Hewitt interim condensed consolidated financial statements included in this report. Reclassification adjustments have been made to Hewitt’s historical financial statements to provide a consistent basis of presentation and classification with the consolidated financial statements of Toromont. The following tables summarize these adjustments and reclassifications to the historical income statements of Hewitt for the six month period ended June 23, 2017 and the year ended December 28, 2016.

(in 000's)	Hewitt year ended Dec. 28, 2016 ASPE	Reconciliation to IFRS	Presentation Reclassification	Hewitt year ended Dec. 28, 2016 IFRS
Revenues	\$ 1,049,407			\$ 1,049,407
Cost of goods sold			785,911	785,911
Gross profit	1,049,407	-	(785,911)	263,496
Selling and administrative expenses		5,163	196,977	202,140
Operating income	1,049,407	(5,163)	(982,888)	61,356
All other expenses	922,767		(922,767)	-
Earnings before the following items	126,640	(5,163)	(60,121)	61,356
Amortization				
- rental equipment	47,492		(47,492)	-
- capital assets	10,121		(10,121)	-
- intangible assets	4,153		(4,153)	-
- deferred financing charges	766		(766)	-
Gain on foreign exchange	(1,604)		1,604	-
Loss (gain) on disposal of capital assets	(41)		41	-
Interest expense	13,666		766	14,432
interest and investment income	(600)			(600)
Income before undernoted items	52,687	(5,163)	-	47,524
Loss (gain) on remeasurement - employee future benefits	(11,585)	11,585		-
Earnings before income taxes	64,272	(16,748)		47,524
Income taxes	17,650	(4,606)		13,044
Net earnings	\$ 46,622	(12,142)	\$ -	\$ 34,480

(in 000's)	Hewitt six months ended June 23, 2017 ASPE	Reconciliation to IFRS	Presentation Reclassification	Hewitt six months ended June 23, 2017 IFRS
Revenues	\$ 497,530			\$ 497,530
Cost of goods sold			375,378	375,378
Gross profit	497,530	-	(375,378)	122,152
Selling and administrative expenses		4,418	96,312	100,730
Operating income	497,530	(4,418)	(471,690)	21,422
All other expenses	445,154		(445,154)	-
Earnings before the following items	52,376	(4,418)	(26,536)	21,422
Amortization				
- rental equipment	18,312		(18,312)	-
- capital assets	4,781		(4,781)	-
- intangible assets	2,062		(2,062)	-
- deferred financing charges	174		(174)	-
Gain on foreign exchange	1,374		(1,374)	-
Loss (gain) on disposal of capital assets	7		(7)	-
Interest expense	4,538		174	4,712
interest and investment income	-			-
Income before undernoted items	21,128	(4,418)	-	16,710
Loss (gain) on remeasurement - employee future benefits	(2,679)	2,679		-
Earnings before income taxes	23,807	(7,097)		16,710
Income taxes	6,584	(1,952)		4,632
Net earnings	\$ 17,223	(5,145)	\$ -	\$ 12,078

The accounting policies used in the preparation of these Pro Formas are consistent with those described in the audited consolidated financial statements of Toromont for the year ended December 31, 2016. In preparing the Pro Formas, management conducted a preliminary review of Hewitt's accounting policies under ASPE and the ASPE IFRS reconciliation and determined that accounting policies are generally aligned. However, these Pro Formas are prepared based on information known to date and may change as the Company completes its review and integration process.

The unaudited Pro Formas have been prepared using the acquisition method of accounting in accordance with IFRS 3, Business Combinations ("IFRS 3"), under which, the total fair value of the consideration transferred will be assigned to the assets acquired and the liabilities assumed based on the estimated fair values at the date of the acquisition, with any difference allocated to goodwill. The pro forma adjustments are determined based on available financial information and certain estimates and assumptions made by management, all of which are preliminary and have been made solely for the purpose of preparing the unaudited pro forma consolidated and combined financial statements. Changes are expected as valuations of assets acquired and liabilities assumed are completed and as additional information becomes available. Accordingly, the final fair value determination may differ from those set forth in the unaudited pro forma consolidated financial statements and differences may be material.

The Pro Formas do not include all the information and disclosures required by IFRS for annual financial statements and should be read in conjunction with the historical consolidated financial statements of Toromont and the financial statements of Hewitt from which they were derived. These Pro Formas have been prepared in thousands of Canadian dollars unless otherwise noted.

These Pro Formas do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve or any costs that will be incurred to achieve these cost savings, operating synergies or revenue enhancements or to otherwise integrate the Hewitt business with Toromont.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS – CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The unaudited pro forma consolidated statement of financial position gives effect to the following transactions, assumptions and adjustments as if they occurred on June 30, 2017:

- a) Pursuant to the Acquisition agreement, the Company purchased the net operating assets of Hewitt on October 27, 2017. As consideration, and subject to post-closing working capital adjustments, the Company paid \$945.6 million (including preliminary working capital adjustments) and issued approximately 2.25 million common shares of Toromont. The acquisition will be accounted for using the acquisition method of accounting, in accordance with IFRS 3. The pro forma adjustments described below are based on estimates and assumptions made by management, all of which are preliminary and have been made solely for the purpose of preparing the unaudited pro forma consolidated and combined financial statements. Changes are expected as valuations of assets acquired and liabilities assumed are completed and as additional information becomes available. In addition, changes to the purchase equation are expected as the level of working capital and other balances acquired on October 27, 2017, differ from those levels at June 23, 2017, which were used to form the basis of the preliminary

estimated fair value of assets acquired and liabilities assumed. Accordingly, the final fair value determination may differ from those set forth in the unaudited pro forma consolidated financial statements and such adjustments may be material.

The estimates of the fair values of assets acquired and liabilities assumed relating to the Hewitt Business as at June 23, 2017, were as follows:

Allocation:

Accounts receivable	\$	169,310
Inventories		270,683
Property, plant and equipment		218,097
Rental equipment		178,556
Other assets		2,902
Accounts payable and accrued liabilities		(189,304)
Deferred revenues		(64,967)
Employee future benefits		(79,359)
Intangibles		70,000
Goodwill		495,919
	<u>\$</u>	<u>1,071,837</u>

Consideration:

Cash	\$	945,574
Common shares issued - 2,249,478		126,263
	<u>\$</u>	<u>1,071,837</u>

The Pro Formas have also been adjusted to eliminate (i) the cash and indebtedness and other excluded assets and liabilities of Hewitt that were not transferred to or assumed by Toromont pursuant to the Acquisition and (ii) the historical equity accounts of Hewitt.

- b) The Company funded the cash portion of the consideration from cash on hand, the issuance of unsecured notes and borrowings under its amended and expanded unsecured credit facilities as described below:

On October 27, 2017, the Company issued senior unsecured notes in an aggregate principal amount of \$500.0 million (the “Notes”) to partially fund the Acquisition. The Notes mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually. The Notes are unsecured and rank pari passu with the unsubordinated debt under Toromont’s other outstanding senior unsecured notes and debentures.

On October 27, 2017, the Company also expanded and extended its existing unsecured credit facility to provide for two facilities - a new non-revolving term credit facility of \$250.0 million and a larger revolving credit facility of \$500.0 million, each maturing in October 2022. Debt incurred under these credit facilities is unsecured and ranks pari passu with debt outstanding under Toromont’s other outstanding unsubordinated debt. These credit facilities bear interest at the applicable reference rate plus an applicable margin depending on the nature of loan drawn and DBRS’ credit rating of the Company. On October 27, 2017, \$250.0 million was drawn on the term facility and \$60.0 million was drawn on the

revolving facility. For purposes of preparing the Pro Formas, the cash on hand at June 30, 2017, totaled \$120.9 million and as such it has been assumed that \$74.6 million was drawn on the revolving facility.

The agreement governing Toromont's new credit facilities contains representations and warranties, reporting requirements, negative and positive, covenants and events of default that are substantially the same as Toromont's existing credit facility with the addition of customary provisions regarding anti-corruption and sanctions laws. The negative covenants include restrictions on additional indebtedness and encumbrances. In addition, the Company is required to maintain a net funded debt to EBITDA ratio measured on a consolidated basis, tested quarterly and pro forma any acquisitions (including the Acquisition).

Estimated transaction costs for the Funding totaling \$5 million were deferred and will be amortized over the terms of the related debt instruments.

- c) Acquisition costs incurred by the Company up to June 30, 2017 amounted to \$0.8 million have been eliminated from the pro forma income statement for the six month period ended June 30, 2017. These costs have already been recorded in retained earnings at June 30, 2017. Estimated acquisition-related costs after June 30, 2017 are expected to approximate \$3.8 million. For purposes of the Pro Formas at June 30, 2017, an adjustment was made to reduce cash by \$3.8 million, retained earnings by \$2.8 million and increase deferred income tax asset by \$1.0 million.

3. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS – CONSOLIDATED INCOME STATEMENTS

The unaudited pro forma consolidated income statements for the year ended December 31, 2016 and the six month period ended June 30, 2017, give effect to the following assumptions and adjustments:

- a) Elimination of non-recurring acquisition related costs of \$0.8 million incurred by the Company in connection with the acquisition of Hewitt during the six month period ended June 30, 2017. No such costs were incurred during the year ended December 31, 2016.
- b) Interest expense has been adjusted to reflect the interest associated with the Funding transactions, as well as the amortization of the related financing costs. A pro forma adjustment was made to increase interest expense by \$13.3 million for the six-month period ended June 30, 2017. A pro forma adjustment was made to increase interest expense by \$26.5 million for the year period ended December 31, 2016. A pro forma adjustment has also been made to remove historical interest expense of Hewitt in the amount of \$4.7 for the six-month period ended June 30, 2017 and \$14.4 for the year ended December 31, 2016.
- c) Depreciation has been adjusted to reflect the higher carrying values of certain property, plant and equipment and rental equipment resulting from the estimated fair market valuations assigned at time of purchase. The pro forma adjustment increased depreciation expense by \$1.6 million for the six-month period ended June 30, 2017 and \$3.1 million for the year ended December 31, 2016.

- d) A pro forma adjustment was made to record amortization on estimated acquired definite lived intangibles as well as a reduced valuation assigned to Enterprise Business System on acquisition. The pro forma adjustment increased amortization expense by \$1.4 million for the six-month period ended June 30, 2017 and \$2.8 million for the year ended December 31, 2016.
- e) Tax impact of the above adjustments.

4. PRO FORMA EARNINGS PER SHARE

The following table sets forth the computation of pro forma basic and diluted earnings per share.

(in thousands, except share and per share amounts)	Year ended December 31, 2016	Six months ended June 30, 2017
Pro forma net income	\$ 177,137	\$ 71,765
Weighted average common shares outstanding of Toromont	78,127,400	78,453,047
Pro forma adjustment for shares issued as part of the transaction	2,249,478	2,249,478
Pro forma weighted average common shares outstanding of Toromont	80,376,878	80,702,525
Dilutive effect of Toromont stock option conversion	546,897	819,746
Pro forma diluted weighted average common shares of Toromont	80,923,775	81,522,271
Pro forma earnings per share - Basic	\$ 2.20	\$ 0.89
Pro forma dilutive effect of stock option conversion	(0.01)	(0.01)
Pro forma diluted earnings per share	\$ 2.19	\$ 0.88