

## Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the three and six months ended June 30, 2018, compared to the preceding year. This MD&A should be read in conjunction with the attached unaudited condensed interim consolidated financial statements and related notes for the three and six months ended June 30, 2018, the annual MD&A contained in the 2017 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2017.

The unaudited condensed interim consolidated financial statements reported herein have been prepared in accordance International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*, and are reported in Canadian dollars. The information in this MD&A is current to July 24, 2018.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2017 Annual Report and 2018 Annual Information Form. These filings are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.toromont.com](http://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 reflect 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; 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; and 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 in and acquired in excess of those currently contemplated. Risks and uncertainties related to the 2017 significant acquisition could also 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: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material undiscovered liabilities in the 2017 acquisition; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition;

and risks related to integration of the acquired operations with those of Toromont including cost of integration and ability to achieve the expected benefits. 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](http://www.sedar.com) or at our website [www.toromont.com](http://www.toromont.com). Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

## **CORPORATE RECAP**

### **2017 Acquisition**

As a consequence of an acquisition completed on October 27, 2017, Toromont became the authorized Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the Caterpillar lift truck dealer for Québec and most of Ontario, in addition to 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. Collectively, these acquired businesses are referenced as Toromont QM in the balance of this report.

This important transaction delivers a substantial growth opportunity, and strengthens the Company's expertise and operations in the mining, construction, power systems, product support and expanded product lines.

For further information on the accounting for the acquisition, refer to note 3 of the notes to the 2017 audited consolidated financial statements, as filed with Canadian securities regulators at [www.sedar.com](http://www.sedar.com) or at our website [www.toromont.com](http://www.toromont.com).

## CONSOLIDATED RESULTS OF OPERATIONS

| (\$ thousands, except per share amounts)               | Three months ended June 30 |                   |                   |            | Six months ended June 30 |                   |                   |            |
|--|----------------------------|-------------------|-------------------|------------|--------------------------|-------------------|-------------------|------------|
|  | 2018                       | 2017              | Change            |            | 2018                     | 2017              | Change            |            |
|  |                            |                   | \$                | %          |                          |                   | \$                | %          |
| <b>REVENUES</b>  | <b>\$ 961,267</b>          | <b>\$ 530,930</b> | <b>\$ 430,337</b> | <b>81%</b> | <b>\$ 1,638,095</b>      | <b>\$ 943,238</b> | <b>\$ 694,857</b> | <b>74%</b> |
| Cost of goods sold                                     | 736,401                    | 408,787           | 327,614           | 80%        | 1,246,455                | 720,690           | 525,765           | 73%        |
| Gross profit <sup>(1)</sup>                            | 224,866                    | 122,143           | 102,723           | 84%        | 391,640                  | 222,548           | 169,092           | 76%        |
| Selling and administrative expenses                    | 125,886                    | 65,621            | 60,265            | 92%        | 243,445                  | 128,132           | 115,313           | 90%        |
| <b>OPERATING INCOME <sup>(1)</sup></b>                 | <b>98,980</b>              | <b>56,522</b>     | <b>42,458</b>     | <b>75%</b> | <b>148,195</b>           | <b>94,416</b>     | <b>53,779</b>     | <b>57%</b> |
| Interest expense                                       | 7,719                      | 1,839             | 5,880             | 320%       | 16,614                   | 3,671             | 12,943            | 353%       |
| Interest and investment income                         | (2,051)                    | (996)             | (1,055)           | 106%       | (4,230)                  | (2,108)           | (2,122)           | 101%       |
| Income before income taxes                             | 93,312                     | 55,679            | 37,633            | 68%        | 135,811                  | 92,853            | 42,958            | 46%        |
| Income taxes   | 25,702                     | 15,224            | 10,478            | 69%        | 37,422                   | 25,374            | 12,048            | 47%        |
| <b>NET EARNINGS</b>                                    | <b>67,610</b>              | <b>40,455</b>     | <b>27,155</b>     | <b>67%</b> | <b>98,389</b>            | <b>67,479</b>     | <b>30,910</b>     | <b>46%</b> |
| <b>BASIC EARNINGS PER SHARE</b>                        | <b>\$ 0.83</b>             | <b>\$ 0.52</b>    | <b>\$ 0.31</b>    | <b>60%</b> | <b>\$ 1.21</b>           | <b>\$ 0.86</b>    | <b>\$ 0.35</b>    | <b>41%</b> |
| <b>KEY RATIOS:</b>                                     |                            |                   |                   |            |                          |                   |                   |            |
| Gross profit margin <sup>(1)</sup>                     | 23.4%                      | 23.0%             |                   |            | 23.9%                    | 23.6%             |                   |            |
| Selling and administrative expenses as a % of revenues | 13.1%                      | 12.4%             |                   |            | 14.9%                    | 13.6%             |                   |            |
| Operating income margin <sup>(1)</sup>                 | 10.3%                      | 10.6%             |                   |            | 9.0%                     | 10.0%             |                   |            |
| Income taxes as a % of income before income taxes      | 27.5%                      | 27.3%             |                   |            | 27.6%                    | 27.3%             |                   |            |

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

The Company experienced a significant increase in revenues in the second quarter on organic growth in the Legacy Equipment Group and CIMCO together with incremental contribution from Toromont QM. On a year-over-year comparable basis, net earnings increased 32% in the quarter and 27% year-to-date.

The Legacy Equipment Group revenues increased 15% in the quarter and 10% year-to-date with growth reported across most lines of business. Toromont QM generated revenues of \$348.7 million in the quarter and \$590.1 million for the first half of the year, up 19% for both periods versus revenues generated at the predecessor organization in 2017 on higher new equipment sales, rentals and product support. CIMCO's revenues increased 20% in both the quarter and year-to-date on strong package sales growth in both Canada and the US. On a year-over-year comparable basis, revenues grew \$81.6 million or 15% in the quarter and \$104.8 million or 11% year-to-date.

Gross profit margins increased 40 basis points ("bps") in the quarter to 23.4% and were up 30 bps to 23.9% for the first half of the year. The legacy Equipment Group reported improved margins across most revenue streams on improved equipment margins and higher rental fleet utilization, partially offset by lower package margins at CIMCO. Historically, Toromont QM's businesses achieved lower average margins than Toromont's legacy operations. While they have increased at Toromont QM versus a year ago in the predecessor organization, the continued gap reduced overall margins by 10 bps in the quarter and 30 bps year-to-date.

Selling and administrative expenses increased \$60.3 million in the quarter and \$115.3 million year-to-date, largely reflecting the incremental expenses at Toromont QM and integration-related costs. Expenses at Legacy Toromont increased \$3.9 million in the quarter and \$7.3 million year-to-date, largely due to higher compensation costs on increased headcount and increased at-risk compensation accruals on the higher earnings, together with higher customer support costs. Bad debt allowances were lower in both the quarter and on a year-to-date basis. Legacy Toromont expenses were 100 bps lower as a percentage of revenues in the quarter (11.4% versus 12.4% last year) and 70 bps lower year-to-date (12.9% versus 13.6% last year).

Operating income increased \$42.5 million in the quarter and \$53.8 million year-to-date. Toromont QM contributed \$24.9 million in the quarter and \$30.8 million year-to-date, net of integration-related costs.

Operating income at Legacy Toromont increased \$17.6 million or 31% in the quarter and \$23.0 million or 24% year-to-date on the higher revenues and margins together with a relatively lower expense ratio.

Interest expense increased in the quarter and year-to-date due to acquisition-related financing. Additionally, the Company expensed \$0.5 million of unamortized deferred financing costs in the first quarter of 2018; related to the repayment of \$150.0 million of the initial \$250.0 million drawn against the term credit facility to partially fund the transaction.

Interest income increased both in the quarter and year-to-date on higher conversions of equipment on rent with a purchase option (“RPO”) and higher investment income on higher average cash balances.

The effective income tax rate was 27.5% in the quarter and 27.6% year-to-date. The increase versus comparable periods is substantially due to the higher proportion of income earned in the higher tax jurisdictions, although this is expected to be mitigated in coming years as Quebec continues to phase in reductions in the corporate tax rates.

Net earnings increased \$27.1 million or 67% to \$67.6 million in the quarter, while basic earnings per share (“EPS”) increased \$0.31 or 60% to \$0.83. For the first half of 2018, net earnings increased \$30.9 million or 46% to \$98.4 million, while EPS increased \$0.35 or 41% to \$1.21.

At Legacy Toromont, net earnings increased 32% in the quarter and 27% year-to-date, while EPS increased 31% and 26%, respectively.

| <i>millions, except per share amounts</i>   | <b>Three months ended June 30</b> |                |                 |                                 |                |                 |
|---|-----------------------------------|----------------|-----------------|---------------------------------|----------------|-----------------|
|   | <b>Net earnings</b>               |                |                 | <b>Basic EPS <sup>(a)</sup></b> |                |                 |
|   | <b>2018</b>                       | 2017           | <b>% change</b> | <b>2018</b>                     | 2017           | <b>% change</b> |
| Legacy Toromont <sup>(b)</sup>  | <b>53.4</b>                       | \$ 40.5        | <b>32%</b>      | <b>0.68</b>                     | \$ 0.52        | <b>31%</b>      |
| Toromont QM <sup>(c)</sup>  | 18.7                              | -              | -               | 0.24                            | -              | -               |
| Acquisition-related interest expense and integration-related costs <sup>(e)</sup> | (4.5)                             | -              | -               | (0.06)                          | -              | -               |
| Dilutive impact of acquisition shares <sup>(d)</sup>                              | -                                 | -              | -               | (0.03)                          | -              | -               |
| <b>As reported</b>  | <b>\$ 67.6</b>                    | <b>\$ 40.5</b> | <b>67%</b>      | <b>\$ 0.83</b>                  | <b>\$ 0.52</b> | <b>60%</b>      |

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability

(b) Defined as all businesses continuing from prior to the acquisition

(c) Defined as all business acquired October 27, 2017

(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings

(e) Expenses shown net of taxes

| <i>millions, except per share amounts</i>   | Six months ended June 30 |                |            |                          |                |            |
|---|--------------------------|----------------|------------|--------------------------|----------------|------------|
|   | Net earnings             |                |            | Basic EPS <sup>(a)</sup> |                |            |
|   | 2018                     | 2017           | % change   | 2018                     | 2017           | % change   |
| Legacy Toromont <sup>(b)</sup>  | 85.5                     | \$ 67.5        | 27%        | 1.08                     | \$ 0.86        | 26%        |
| Toromont QM <sup>(c)</sup>  | 23.7                     | -              | -          | 0.30                     | -              | -          |
| Acquisition-related interest expense and integration-related costs <sup>(e)</sup> | (10.8)                   | -              | -          | (0.14)                   | -              | -          |
| Dilutive impact of acquisition shares <sup>(d)</sup>                              | -                        | -              | -          | (0.03)                   | -              | -          |
| <b>As reported</b>  | <b>\$ 98.4</b>           | <b>\$ 67.5</b> | <b>46%</b> | <b>\$ 1.21</b>           | <b>\$ 0.86</b> | <b>41%</b> |

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability

(b) Defined as all businesses continuing from prior to the acquisition

(c) Defined as all business acquired October 27, 2017

(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings

(e) Expenses shown net of taxes

Comprehensive income was \$77.4 million in the quarter (2017 - \$38.0 million) and \$116.5 million year-to-date (2017 - \$64.8 million), comprising mainly of net earnings, actuarial gains on post-employment obligations and unrealized gains on cash flow hedges due to fluctuations in the Canadian dollar.

## 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 and operating income relative to revenues. Corporate expenses are allocated based on each segment's revenue. Interest expense and interest and investment income are not allocated.

### Equipment Group

| <i>(\$ thousands)</i>                                | Three months ended June 30 |                   |                   |            | Six months ended June 30 |                   |                   |            |
|--|----------------------------|-------------------|-------------------|------------|--------------------------|-------------------|-------------------|------------|
|  | 2018                       | 2017              | Change            |            | 2018                     | 2017              | Change            |            |
|  |                            |                   | \$                | %          |                          |                   | \$                | %          |
| Equipment sales and rentals                          |                            |                   |                   |            |                          |                   |                   |            |
| New  | \$ 358,016                 | \$ 179,768        | \$ 178,248        | 99%        | \$ 562,250               | \$ 286,584        | \$ 275,666        | 96%        |
| Used   | 88,530                     | 54,604            | 33,926            | 62%        | 143,100                  | 107,510           | 35,590            | 33%        |
| Rentals  | 91,697                     | 55,694            | 36,003            | 65%        | 161,071                  | 101,128           | 59,943            | 59%        |
| Total equipment sales and rentals                    | 538,243                    | 290,066           | 248,177           | 86%        | 866,421                  | 495,222           | 371,199           | 75%        |
| Product support                                      | 333,206                    | 165,078           | 168,128           | 102%       | 615,403                  | 316,555           | 298,848           | 94%        |
| Power generation                                     | 2,671                      | 3,014             | (343)             | (11%)      | 5,267                    | 6,144             | (877)             | (14%)      |
| <b>Total revenues</b>                                | <b>\$ 874,120</b>          | <b>\$ 458,158</b> | <b>\$ 415,962</b> | <b>91%</b> | <b>\$ 1,487,091</b>      | <b>\$ 817,921</b> | <b>\$ 669,170</b> | <b>82%</b> |
| <b>Operating income</b>                              | <b>\$ 93,927</b>           | <b>\$ 49,984</b>  | <b>\$ 43,943</b>  | <b>88%</b> | <b>\$ 139,722</b>        | <b>\$ 85,060</b>  | <b>\$ 54,662</b>  | <b>64%</b> |
| <b>KEY RATIOS:</b>                                   |                            |                   |                   |            |                          |                   |                   |            |
| Product support revenues as a % of total revenues    | 38.1%                      | 36.0%             |                   |            | 41.4%                    | 38.7%             |                   |            |
| Operating income margin                              | 10.7%                      | 10.9%             |                   |            | 9.4%                     | 10.4%             |                   |            |
| Group total revenues as a % of consolidated revenues | 90.9%                      | 86.3%             |                   |            | 90.8%                    | 86.7%             |                   |            |

The Equipment Group delivered solid results on equipment sales and rentals growth across most market segments in the expanded territory together with continued product support growth. Legacy Toromont Equipment Group revenues were up 15% in the quarter and 10% year-to-date. Toromont QM contributed \$348.7 million in total revenues in the quarter and \$590.1 million year-to-date, up 19% for both periods versus revenues generated at the predecessor organization in 2017.

At the legacy businesses, new equipment sales increased 19% in the quarter and 17% year-to-date. Sales into construction markets were up in both the quarter (37%) and year-to-date (41%) with good growth reported across most of the territory. Mining equipment sales were relatively unchanged in the quarter but down 2% year-to-date. Power systems sales were down 6% in the quarter and 14% year-to-date from the record levels achieved last year, on lower demand for electric power generator sets. In Manitoba, agriculture sales grew 56% in the quarter and were up 16% for the year. Used equipment sales increased 1% in the quarter but were down 16% year-to-date following a slow start to the year which saw challenges in sourcing used gear. With the weaker Canadian dollar, used equipment pricing remains attractive to the US buyers pursuing these inventories, constricting available supply.

On a combined basis, total equipment sales in the legacy businesses as described above, increased 14% in the quarter and 8% year-to-date. At Toromont QM, total equipment sales increased 28% in the quarter to \$178.3 million and 25% year-to-date to \$280.3 million, driven by strong new equipment sales while used equipment sales remained relatively unchanged.

Rental revenues at the legacy businesses increased 16% in the quarter and 14% year-to-date versus last year on improved time utilization. Demand for light equipment rentals was up 11% in the quarter and 13% year-to-date reflecting growth across all regions except Newfoundland which benefited from certain one-time projects last year. Momentum in power rentals continued with revenues increasing 65% in the quarter and 81% year-to-date on a larger fleet with product offerings ranging from uninterrupted power supply/generators to pump and temperature control units. Heavy equipment rentals increased 10% in the quarter following a slow start to the year (down 4% year-to-date). Rental revenues from RPO increased 30% in the quarter and 6% year-to-date, benefiting from a larger average fleet versus similar periods last year. At Toromont QM, rental revenues were up 25% to \$27.1 million in the quarter and up 17% to \$45.6 million year-to-date. Approximately two-thirds of rental revenues at Toromont QM were generated from the light equipment fleet and lift-truck rentals.

The RPO fleet increased to \$70.4 million, including \$21.0 million at Toromont QM.

Product support revenues at the legacy businesses increased 15% in the quarter and were up 11% year-to-date with growth in both parts and service across most market segments. At Toromont QM, product support revenues increased 8% in the quarter and 12% year-to-date versus a year ago.

Gross profit margins increased 110 bps in the quarter and 100 bps versus a year ago, buoyed by improved margins across most revenue streams at the legacy businesses. Historically, the Toromont QM business achieved lower average margins than the Legacy Toromont business. While Toromont QM achieved margin expansion versus that achieved a year ago in the predecessor organization, the margin gap still reduced total Equipment Group margins by 40 bps in the quarter and 50 bps on a year-to-date basis. Higher utilization of a diverse rental fleet helped to increase margins.

Selling and administrative expenses increased mainly due to the incremental expenses at Toromont QM (\$56.1 million in the quarter and \$107.3 million year-to-date) together with certain integration-related costs (\$0.3 million in the quarter and \$2.0 million year-to-date). At Legacy Toromont, certain expenses such as compensation, customer support costs, information technology expenses and travel and entertainment increased in support of growth. Most other expenses were lower. As a percentage of revenues, expenses were 80 bps lower in the quarter and 30 bps lower year-to-date at Legacy Toromont.

Operating income was up \$43.9 million or 88% in the quarter and \$54.7 million or 64% year-to-date. Toromont QM contributed \$24.9 million in the quarter and \$30.8 million year-to-date, net of integration-related costs. Legacy Toromont operating income increased 38% in the quarter and 28% year-to-date, reflecting the higher revenues and margins together with relatively lower expense ratios.

As a percentage of revenues, operating income was up 220 bps in the quarter and 180 bps year-to-date at the Legacy businesses.

## Bookings and Backlogs

| <i>(\$ millions)</i>                  | <b>2018</b> | 2017   | \$ change | % change |
|---------------------------------------|-------------|--------|-----------|----------|
| Bookings - three months ended June 30 | \$ 423      | \$ 312 | \$ 111    | 36%      |
| Bookings - six months ended June 30   | \$ 793      | \$ 500 | \$ 293    | 59%      |
| Backlogs - as at June 30              | \$ 407      | \$ 253 | \$ 154    | 61%      |

Bookings increased \$111.0 million in the quarter. In the legacy businesses, bookings were comparable excluding the large mining order received in the second quarter of 2017. Lower mining orders (down 78%), were partially offset by higher power systems (up 75%) and agriculture orders (up 46%), while construction orders were relatively unchanged. Toromont QM bookings of \$169.0 million in the quarter reflected good ordering activity across all market segments. Approximately 60% of the orders received at QM were construction related, a quarter mining and power systems combined and the remainder lift trucks.

On a year-to-date basis, Toromont QM bookings of \$327.0 million served to offset the lower mining orders in the legacy businesses (down 54%). Exclusive of mining, orders received by Legacy Toromont were up across all market segments.

Backlogs increased to \$407.0 million, including \$175.0 million at Toromont QM. At June 30, 2018, the total backlog of \$407.0 million related to power systems (33%), construction (32%), mining (24%), agriculture (6%) and lift trucks (5%), most of which is expected to be delivered this year. Backlogs can vary significantly from period to period on large project activities, especially in mining and power, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

## CIMCO

| <i>(\$ thousands)</i>                                | Three months ended June 30 |                  |                   |              | Six months ended June 30 |                   |                  |             |
|--|----------------------------|------------------|-------------------|--------------|--------------------------|-------------------|------------------|-------------|
|  | <b>2018</b>                | 2017             | Change            |              | <b>2018</b>              | 2017              | Change           |             |
|  |                            |                  | \$                | %            |                          |                   | \$               | %           |
| Package sales  | \$ 53,826                  | \$ 39,984        | \$ 13,842         | 35%          | \$ 89,445                | \$ 63,299         | \$ 26,146        | 41%         |
| Product support                                      | 33,321                     | 32,788           | 533               | 2%           | 61,559                   | 62,018            | (459)            | (1%)        |
| <b>Total revenues</b>                                | <b>\$ 87,147</b>           | <b>\$ 72,772</b> | <b>\$ 14,375</b>  | <b>20%</b>   | <b>\$ 151,004</b>        | <b>\$ 125,317</b> | <b>\$ 25,687</b> | <b>20%</b>  |
| <b>Operating income</b>                              | <b>\$ 5,053</b>            | <b>\$ 6,538</b>  | <b>\$ (1,485)</b> | <b>(23%)</b> | <b>\$ 8,473</b>          | <b>\$ 9,356</b>   | <b>\$ (883)</b>  | <b>(9%)</b> |
| <b>KEY RATIOS:</b>                                   |                            |                  |                   |              |                          |                   |                  |             |
| Product support revenues as a % of total revenues    | 38.2%                      | 45.1%            |                   |              | 40.8%                    | 49.5%             |                  |             |
| Operating income margin                              | 5.8%                       | 9.0%             |                   |              | 5.6%                     | 7.5%              |                  |             |
| Group total revenues as a % of consolidated revenues | 9.1%                       | 13.7%            |                   |              | 9.2%                     | 13.3%             |                  |             |

CIMCO reported strong package sales growth in Canada and the US. Execution issues encountered on two US projects, pressured margins downward versus a year ago. Currency translation of US operations did not have a significant impact on trends.

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 up 39% in the quarter and 49% year-to-date with growth reported across all regions except Atlantic Canada. Higher industrial activity in both the quarter (up 75%) and

year-to-date (up 67%) were partially offset by lower recreational activity (down 38% in the quarter and 3% year-to-date). In the US, package revenues increased 23% in the quarter and 18% year-to-date with similar market trends seen in Canada.

Product support revenues increased 2% in the quarter and were down 1% year-to-date following a slow start to the year which was impacted by inclement weather conditions. Canadian product support revenues grew 3% in the quarter but were down 1% year-to-date while US activity was down both in the quarter (3%) and year-to-date (1%). There is an inverse correlation between package sales and product support, as increased package sales draw on limited technician availability to facilitate installation and start-up.

Gross profit margins decreased 540 bps in the quarter and 480 bps year-to-date. Package margins were lower in both the quarter and year-to-date against a tough prior year comparator which included good project closeouts and favorable one-time adjustments, not repeated. Additionally, weaker project execution in the US, together with higher warranty costs, have pressured package margins. Product support margins were higher in the quarter and year-to-date on good execution. An unfavorable sales mix of product support revenues to total revenues further dampened margins.

Selling and administrative expenses were relatively unchanged in both the quarter and year-to-date. Higher compensation costs on annual salary increases and additional headcount to support growth were offset by lower bad debt allowances. As a percentage of sales, expenses were 230 bps lower in the quarter and 310 bps lower year-to-date.

Operating income decreased 23% in the quarter and 9% year-to-date, largely reflecting the lower margins, partially offset by the higher revenues and lower expense ratios.

### Bookings and Backlogs

| <i>(\$ millions)</i>                  | <b>2018</b>   | 2017   | \$ change | % change |
|---------------------------------------|---------------|--------|-----------|----------|
| Bookings - three months ended June 30 | \$ <b>62</b>  | \$ 72  | \$ (11)   | (15%)    |
| Bookings - six months ended June 30   | \$ <b>122</b> | \$ 136 | \$ (14)   | (10%)    |
| Backlogs - as at June 30              | \$ <b>163</b> | \$ 169 | \$ (6)    | (3%)     |

Bookings were down in both the quarter and year-to-date. For the quarter, Canadian bookings were down 19% with lower recreational (down 34%) and industrial orders (down 10%). US bookings increased 31% with strong industrial orders (up 149%) offsetting lower recreational orders (down 69%).

On a year-to-date basis, Canadian bookings were down 4% as higher industrial orders (up 14%) were more than offset by lower recreational orders (down 32%). In the US, bookings were down 35%, reflecting significantly lower recreational levels (down 53%), partially offset by strong industrial ordering activity (up 76%).

Backlogs were slightly lower than the record set last year but still significantly higher than the previous five-year average. In both Canada and the US, industrial backlogs were up with the opposite for recreational. Approximately 75% of the backlog is expected to be delivered over the remainder of this year.

## CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At June 30, 2018, the ratio of net debt to total capitalization was 28%, compared to 40% at December 31, 2017 and 3% at June 30, 2017.

### Non-Cash Working Capital

The Company's investment in non-cash working capital was \$378.7 million at June 30, 2018. The major components, along with the changes from June 30 and December 31, 2017 are presented in the following table.

| (\$ thousands)                             | June 30           | June 30           | Change             |              | December 31       | Change              |              |
|--|-------------------|-------------------|--------------------|--------------|-------------------|---------------------|--------------|
|  | 2018              |                   | 2017               | \$           |                   | %                   | 2017         |
| Accounts receivable                        | \$ 510,251        | \$ 293,517        | \$ 216,734         | 74%          | \$ 528,748        | \$ (18,497)         | (3%)         |
| Inventories                                | 864,618           | 523,515           | 341,103            | 65%          | 780,024           | 84,594              | 11%          |
| Other current assets                       | 13,666            | 5,289             | 8,377              | 158%         | 8,386             | 5,280               | 63%          |
| Accounts payable and accrued liabilities   | (804,082)         | (262,827)         | (541,255)          | 206%         | (521,666)         | (282,416)           | 54%          |
| Provisions                                 | (23,115)          | (14,174)          | (8,941)            | 63%          | (22,436)          | (679)               | 3%           |
| Income taxes (payable) receivable          | (4,827)           | 2,096             | (6,923)            | (330%)       | (204)             | (4,623)             | nm           |
| Derivative financial instruments           | 15,456            | (5,735)           | 21,191             | nm           | (5,260)           | 20,716              | nm           |
| Dividends payable                          | (18,686)          | (14,909)          | (3,777)            | 25%          | (15,655)          | (3,031)             | 19%          |
| Deferred revenues and contract liabilities | (174,545)         | (78,833)          | (95,712)           | 121%         | (137,129)         | (37,416)            | 27%          |
| <b>Total non-cash working capital</b>      | <b>\$ 378,736</b> | <b>\$ 447,939</b> | <b>\$ (69,203)</b> | <b>(15%)</b> | <b>\$ 614,808</b> | <b>\$ (236,072)</b> | <b>(38%)</b> |

Accounts receivable at June 30, 2018 included \$189.9 million at Toromont QM. Accounts receivable were up \$26.8 million or 9% at the legacy businesses reflecting the higher sales.

Accounts receivable at December 31, 2017 included \$42.7 million related to amounts owing to the Company as part of the 2017 acquisition, collected in the first quarter of 2018. At Legacy Toromont, accounts receivable increased \$24.2 million or 5% on higher trailing revenues.

Inventories at June 30, 2018 included \$345.4 million at Toromont QM. Legacy Toromont inventories were down \$4.3 million or 1% compared to June 30, 2017 as follows:

- Legacy Equipment Group inventories decreased \$9.2 million or 2% with lower equipment (down \$32.4 million or 9%), partially offset by higher parts (up \$14.4 million or 15%) and service work-in-process (up \$8.8 million or 39%).
- CIMCO inventories were up \$4.9 million or 18%, largely reflecting higher work-in-process levels on the timing of project advancement.

In comparison to December 31, 2017, inventories were \$84.6 million or 11% higher with increases in both Groups:

- Equipment Group inventories were \$72.1 million or 9% higher with increases in all categories. Equipment Group inventory levels are typically lowest at the end of the fiscal year due to seasonality, with inventories building during the year in advance of the busy selling period.
- CIMCO inventories were up \$12.5 million or 61% on higher work-in-process for both Canadian and US projects reflecting project construction schedules.

Accounts payable and accrued liabilities at June 30, 2018 included \$297.2 million at Toromont QM. Legacy Toromont accounts payable and accrued liabilities increased \$244.0 million or 93% largely reflecting timing of payments and transitional terms from suppliers. Compared to December 31, 2017, the increase of \$282.4 million mainly reflects the timing of payments and terms related to inventory purchases, partially offset by the payout of annual performance incentive bonuses.

Provisions at June 30, 2018 increased \$8.9 million or 63%, reflecting higher warranty provisions at the legacy businesses on increased equipment and package sales together with \$6.1 million which related to Toromont QM.

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

Derivative financial instruments represent the fair value of foreign exchange contracts. Management estimates that a gain of \$15.5 million (December 31, 2017 – loss of \$5.3 million; June 30, 2017 – loss of \$5.7 million) would be realized if the contracts were terminated on June 30, 2018. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of \$2.1 million (December 31, 2017 – unrealized loss of \$2.3 million; June 30, 2017 – unrealized loss of \$2.7 million) has been included in other comprehensive income. These gains are not expected to affect net income as the gains will be reclassified to net income within the next seventeen months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable. 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 \$13.4 million (December 31, 2017 – loss of \$3.0 million; March 31, 2017 – loss of \$3.0 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.

Dividends payable increased compared to June 30 and December 31, 2017 reflecting the higher dividend rate and the higher number of shares outstanding. The quarterly dividend rate was increased 21% from \$0.19 per share to \$0.23 per share effective with the April 2, 2018 dividend payment.

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

- In the Equipment Group, these arise on sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements (“CSAs”) as well as on progress billings on long-term construction contracts. Toromont QM reported deferred revenues and contract liabilities of \$66.4 million at June 30, 2018, while the legacy Equipment Group reported an increase of \$16.3 million or 33% versus June 30, 2017, due to increased progress billings for equipment deliveries in the future and progress billings relative to work completed on long-term CSAs.
- In CIMCO, these arise on progress billings in advance of revenue recognition and were up \$13.0 million or 45% at June 30, 2018 versus June 30, 2017.

Compared to December 31, 2017, both the Equipment Group (up \$24.5 million or 23%) and CIMCO (up \$12.9 million or 44%) reported higher deferred revenues and contract liabilities for similar reasons outlined earlier.

## **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 81,279,834 common shares and 2,294,021 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) |
|-------------------|-----------------|---------------------------|---------------------------------------|
| September 9, 2016 | October 3, 2016 | \$0.18                    | \$14.1                                |
| December 9, 2016  | January 3, 2017 | \$0.18                    | \$14.1                                |
| March 10, 2017    | April 3, 2017   | \$0.19                    | \$14.9                                |
| June 9, 2017      | July 4, 2017    | \$0.19                    | \$14.9                                |
| September 8, 2017 | October 2, 2017 | \$0.19                    | \$14.9                                |
| December 8, 2017  | January 3, 2018 | \$0.19                    | \$15.4                                |
| March 9, 2018     | April 2, 2018   | \$0.23                    | \$18.6                                |
| June 8, 2018      | July 3, 2018    | \$0.23                    | \$18.7                                |

## 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 long-term credit facilities.

The Company maintains a \$500.0 million committed revolving bank credit facility. 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. The facility includes covenants, restrictions and events of default typical for credit facilities of this nature.

No amounts were drawn on the revolving bank credit facility at June 30, 2018, December 31, 2017 or June 30, 2017. Letters of credit utilized \$27.4 million of the facility (December 31, 2017 - \$26.7; June 30, 2017 - \$22.9).

In March 2018, the Company repaid \$150.0 million on its committed term bank credit facility, bringing the balance drawn to \$100.0 million. Unamortized deferred financing costs of \$0.5 million associated with this portion of the term credit facility were expensed as a result.

The Company expects that continued cash flows from operations in 2018 together with cash on hand, and available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

### Principal Components of Cash Flow

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

| (\$ thousands)                               | Three months ended<br>June 30 |            | Six months ended<br>June 30 |            |
|--|-------------------------------|------------|-----------------------------|------------|
|  | 2018                          | 2017       | 2018                        | 2017       |
| <b>Cash, beginning of period</b>             | <b>\$ 171,223</b>             | \$ 155,584 | <b>\$160,507</b>            | \$188,735  |
| Cash, provided by (used in):                 |                               |            |                             |            |
| <b>Operating activities</b>                  |                               |            |                             |            |
| Operations                                   | <b>100,415</b>                | 55,087     | <b>164,620</b>              | 94,456     |
| Change in non-cash working capital and other | <b>91,858</b>                 | (24,803)   | <b>194,905</b>              | (63,920)   |
| Net rental fleet additions                   | <b>(63,458)</b>               | (38,741)   | <b>(91,342)</b>             | (54,981)   |
|  | <b>128,815</b>                | (8,457)    | <b>268,183</b>              | (24,445)   |
| <b>Investing activities</b>                  | <b>(6,835)</b>                | (11,424)   | <b>28,784</b>               | (14,991)   |
| <b>Financing activities</b>                  | <b>(13,583)</b>               | (14,660)   | <b>(177,962)</b>            | (28,225)   |
| Effect of foreign exchange on cash balances  | <b>104</b>                    | (99)       | <b>212</b>                  | (130)      |
| Increase (decrease) in cash in the period    | <b>108,501</b>                | (34,640)   | <b>119,217</b>              | (67,791)   |
| <b>Cash, end of period</b>                   | <b>\$ 279,724</b>             | \$ 120,944 | <b>\$ 279,724</b>           | \$ 120,944 |

### *Cash Flows from Operating Activities*

Operating activities provided significant cash inflow in the second quarter and year-to-date.

The higher cash generated from operations reflect the increased cash earnings generated by both the legacy businesses and Toromont QM.

The significant cash inflow from non-cash working capital in both the quarter and on a year-to-date basis was mainly due to higher accounts payable and accrued liabilities.

Net rental fleet additions (purchases less proceeds of disposition) were higher mainly due to investments at Toromont QM to grow the fleet (\$33.8 million in the quarter and \$36.4 million year-to-date). At Legacy Toromont, net additions were lower in the quarter and year-to-date, reflecting timing of additions on a relatively newer and optimized fleet, combined with attentiveness to support strong retail demand signals.

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

### *Cash Flows from Investing Activities*

During the first quarter, the Company received \$42.7 million related to the final closing working capital adjustment of the 2017 acquisition (refer to note 3 of the notes to the 2017 audited consolidated financial statements for more information).

Investments in property, plant and equipment in the quarter amounted to \$8.3 million (2017 - \$11.6 million), which included \$1.3 million at the acquired locations.

On a year-to-date basis, investments in property, plant and equipment were \$15.4 million (2017 - \$15.8 million), including \$5.2 million at the acquired locations. Total additions included \$9.7 million for service vehicles, \$2.2 million in land and buildings for new and expanded branches and \$2.2 million for machinery and equipment.

### *Cash Flows from Financing Activities*

The Company paid dividends of \$18.6 million or \$0.23 per share (2017 - \$14.9 million or \$0.19 per share) during the quarter and \$34.0 million or \$0.42 per share year-to-date (2017 - \$29.0 million or

\$0.37 per share).

The Company received \$5.1 million (2017 - \$0.2 million) in the quarter on the exercise of stock options and \$7.0 million year-to-date (2017 - \$1.7 million).

To partially fund the acquisition in 2017, the Company drew \$250.0 million against its term credit facility. During the second quarter, there were no repayments, compared to \$150.0 million repaid during the first quarter which largely accounts for the significant use of cash for the first six months of the year.

## **OUTLOOK**

The expansion of our territories to include Quebec and Atlantic Canada is expected to be transformative to the long-term performance of Toromont. It provides a substantial growth platform and strengthens our Company by providing a large contiguous operating platform extending across all of Eastern and Central Canada and into the far North. Effective execution will be required to realize on this significant potential for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems, combined with the growing rental services market. Focus is currently on safety of our people, customer deliverables, business integration and transition to generate favorable long-term returns.

The Equipment Group's parts and service business continues to provide momentum driven by the larger installed base of equipment working in the field, providing a measure of stability in a variable business environment. The Company continues to hire technicians in anticipation of an increase in demand, including the opportunity for increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment, expanding the agricultural business and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth.

The long-term outlook for infrastructure projects and other construction activity remains positive across most territories.

The Company has experienced good growth in mining product support this year. Production continues at existing mine sites, generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion. The substantially increased base of installed equipment, bodes well for future product support activity.

CIMCO's backlogs bode well for future prospects. Increasing long-term product support levels is also a positive signal for future trends. CIMCO has a wide product offering using natural refrigerants including innovative CO<sub>2</sub> solutions, which are expected to contribute to growth. In addition, CIMCO is focused on its growth strategy in the US, which represents a significant market opportunity.

Tariffs recently implemented do not appear to have a material, immediate, direct impact to Toromont's businesses. However, it is expected that product costs will ultimately increase as these tariffs work their way through the supply chains and as suppliers deal with a less predictable environment. It is not possible to estimate the impact at this time.

The diversity of the markets served, expanding product offering and services, financial strength and disciplined operating culture position the Company 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 2017 annual audited consolidated financial statements.

| <i>(\$ thousands, except per share amounts)</i>                      | Q3 2017 |         | Q4 2017 |         | Q1 2018 |         | Q2 2018 |                |
|--|---------|---------|---------|---------|---------|---------|---------|----------------|
| <b>REVENUES</b>  |         |         |         |         |         |         |         |                |
| Equipment Group  | \$      | 488,020 | \$      | 726,011 | \$      | 612,971 | \$      | <b>874,120</b> |
| CIMCO  |         | 96,138  |         | 96,755  |         | 63,857  |         | <b>87,147</b>  |
| Total revenues   | \$      | 584,158 | \$      | 822,766 | \$      | 676,828 | \$      | <b>961,267</b> |
| <b>NET EARNINGS</b>  | \$      | 49,355  | \$      | 59,136  | \$      | 30,779  | \$      | <b>67,610</b>  |
| <b>PER SHARE INFORMATION:</b>  |         |         |         |         |         |         |         |                |
| Basic earnings per share   | \$      | 0.63    | \$      | 0.73    | \$      | 0.38    | \$      | <b>0.83</b>    |
| Diluted earnings per share   | \$      | 0.62    | \$      | 0.72    | \$      | 0.38    | \$      | <b>0.83</b>    |
| Dividends paid per share   | \$      | 0.19    | \$      | 0.19    | \$      | 0.19    | \$      | <b>0.23</b>    |
| Weighted average common shares outstanding - basic<br>(in thousands) |         | 78,522  |         | 80,916  |         | 80,976  |         | <b>81,131</b>  |

| <i>(\$ thousands, except per share amounts)</i>                      | Q3 2016 |         | Q4 2016 |         | Q1 2017 |         | Q2 2017 |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>REVENUES</b>  |         |         |         |         |         |         |         |         |
| Equipment Group  | \$      | 421,862 | \$      | 418,793 | \$      | 359,763 | \$      | 458,158 |
| CIMCO  |         | 87,912  |         | 73,430  |         | 52,545  |         | 72,772  |
| Total revenues   | \$      | 509,774 | \$      | 492,223 | \$      | 412,308 | \$      | 530,930 |
| <b>NET EARNINGS</b>  | \$      | 47,643  | \$      | 45,529  | \$      | 27,024  | \$      | 40,455  |
| <b>PER SHARE INFORMATION:</b>  |         |         |         |         |         |         |         |         |
| Basic earnings per share   | \$      | 0.61    | \$      | 0.58    | \$      | 0.34    | \$      | 0.52    |
| Diluted earnings per share   | \$      | 0.60    | \$      | 0.58    | \$      | 0.34    | \$      | 0.51    |
| Dividends paid per share   | \$      | 0.18    | \$      | 0.18    | \$      | 0.18    | \$      | 0.19    |
| Weighted average common shares outstanding - basic<br>(in thousands) |         | 78,211  |         | 78,344  |         | 78,434  |         | 78,474  |

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The acquisition in the fourth quarter of 2017 also affects comparability on a year-over-year basis.

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 has 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.

## **RISKS AND RISK MANAGEMENT**

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial results in either or both of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks in a cost-effective manner. There have been no material changes to the operating and financial risk assessment and related risk management strategies as described in the Company's 2017 Annual Report.

## **CRITICAL 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 2017 audited annual consolidated financial statements, and described in Note 1 therein, except as described in Note 1 to the unaudited interim condensed consolidated financial statements for the three and six month period ending June 30, 2018.

### *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 2017 audited annual consolidated financial statements, contained in the Company's 2017 Annual Report.

## **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures and internal control over financial reporting.

### 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 CFO have limited the scope of their design to exclude the disclosure controls and procedures of the businesses acquired on October 27, 2017. The design of the acquired businesses disclosure controls and procedures will be completed for the fourth quarter of fiscal 2018.

### 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 significant changes in the design of the Company's internal controls over financial reporting during the three and six month period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The CEO and CFO have limited the scope of their design and evaluation of the Company's internal control over financial reporting to exclude the internal control over financial reporting of the businesses acquired on October 27, 2017. The acquired businesses contribution to the overall consolidated financial statements of Toromont for the six months ended June 30, 2018 was approximately 36% of consolidated revenues and 24% of consolidated net income.

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 are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### **ADDITIONAL GAAP MEASURES**

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

#### *Gross Profit*

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

## Operating Income

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

| (\$ thousands)                              | Three months ended June 30 |                  | Six months ended June 30 |                  |
|---|----------------------------|------------------|--------------------------|------------------|
|   | 2018                       | 2017             | 2018                     | 2017             |
| Net earnings                                | \$ 67,610                  | \$ 40,455        | \$ 98,389                | \$ 67,479        |
| <i>plus:</i> Interest expense               | 7,719                      | 1,839            | 16,614                   | 3,671            |
| <i>less:</i> Interest and investment income | (2,051)                    | (996)            | (4,230)                  | (2,108)          |
| <i>plus:</i> Income taxes                   | 25,702                     | 15,224           | 37,422                   | 25,374           |
| <b>Operating income</b>                     | <b>\$ 98,980</b>           | <b>\$ 56,522</b> | <b>\$ 148,195</b>        | <b>\$ 94,416</b> |

## Net Debt to Total Capitalization and Equity

Net debt to total capitalization and 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)                          | June 30<br>2018     | December 31<br>2017 | June 30<br>2017   |
|---|---------------------|---------------------|-------------------|
| Long-term debt                          | \$ 743,759          | \$ 893,806          | \$ 149,987        |
| Current portion of long-term debt       | 2,010               | 1,941               | 1,875             |
| <i>less:</i> Cash                       | 279,724             | 160,507             | 120,944           |
| <b>Net debt</b>                         | <b>466,045</b>      | <b>735,240</b>      | <b>30,918</b>     |
| Shareholders' equity                    | 1,213,944           | 1,124,727           | 923,815           |
| <b>Total capitalization</b>             | <b>\$ 1,679,989</b> | <b>\$ 1,859,967</b> | <b>\$ 954,733</b> |
| <b>Net debt to total capitalization</b> | <b>28%</b>          | <b>40%</b>          | <b>3%</b>         |
| <b>Net debt to equity</b>               | <b>0.38:1</b>       | <b>0.65:1</b>       | <b>0.03:1</b>     |

## 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.

| <i>(\$ thousands)</i>           | <b>June 30<br/>2018</b> | December 31<br>2017 | June 30<br>2017   |
|---------------------------------|-------------------------|---------------------|-------------------|
| Total current assets            | \$ 1,683,715            | \$ 1,477,665        | \$ 945,361        |
| less: Total current liabilities | 1,027,265               | 704,291             | 378,353           |
| <b>Working capital</b>          | <b>\$ 656,450</b>       | <b>\$ 773,374</b>   | <b>\$ 567,008</b> |

### *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).

| <i>(\$ thousands)</i>                   | <b>June 30<br/>2018</b> | December 31<br>2017 | June 30<br>2017   |
|---|-------------------------|---------------------|-------------------|
| Total current assets                    | \$ 1,683,715            | \$ 1,477,665        | \$ 945,361        |
| less: Cash                              | 279,724                 | 160,507             | 120,944           |
|   | <b>1,403,991</b>        | 1,317,158           | 824,417           |
| Total current liabilities               | 1,027,265               | 704,291             | 378,353           |
| less: Current portion of long-term debt | 2,010                   | 1,941               | 1,875             |
|   | <b>1,025,255</b>        | 702,350             | 376,478           |
| <b>Non-cash working capital</b>         | <b>\$ 378,736</b>       | <b>\$ 614,808</b>   | <b>\$ 447,939</b> |

### *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:

| <i>(\$ thousands, except for share price)</i> | <b>June 30<br/>2018</b> | December 31<br>2017 | June 30<br>2017 |
|---|-------------------------|---------------------|-----------------|
| Outstanding common shares                     | <b>81,280</b>           | 80,950              | 78,480          |
| x Ending share price                          | <b>\$ 56.86</b>         | \$ 55.10            | \$ 47.74        |
| <b>Market capitalization</b>                  | <b>\$ 4,621,571</b>     | \$ 4,460,335        | \$ 3,746,657    |
| Long-term debt                                | <b>\$ 743,759</b>       | \$ 893,806          | \$ 149,987      |
| Current portion of long-term debt             | <b>2,010</b>            | 1,941               | 1,875           |
| <i>less:</i> Cash                             | <b>279,724</b>          | 160,507             | 120,944         |
| <b>Net debt</b>                               | <b>\$ 466,045</b>       | \$ 735,240          | \$ 30,918       |
| <b>Total enterprise value</b>                 | <b>\$ 5,087,616</b>     | \$ 5,195,575        | \$ 3,777,575    |

### 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.