

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") comments on the operations, performance and financial condition of Toromont Industries Ltd. ("Toromont" or the "Company") as at and for the three and nine months ended September 30, 2019, compared to the preceding year. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2019, the annual MD&A contained in the 2018 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2018.

The unaudited interim condensed consolidated financial statements reported herein have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*, and are reported in Canadian dollars. The information in this MD&A is current to November 4, 2019.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2018 Annual Report and the 2019 Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; 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 herein. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

CONSOLIDATED OPERATING RESULTS

(\$ thousands, except per share amounts)	Three months ended September 30				Nine months ended September 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
REVENUES	\$ 975,221	\$ 900,094	\$ 75,127	8%	\$ 2,653,515	\$ 2,538,189	\$ 115,326	5%
Cost of goods sold	731,842	671,798	60,044	9%	2,002,567	1,918,253	84,314	4%
Gross profit ⁽¹⁾	243,379	228,296	15,083	7%	650,948	619,936	31,012	5%
Selling and administrative expenses	128,894	128,545	349	-	366,652	371,990	(5,338)	(1%)
OPERATING INCOME ⁽¹⁾	114,485	99,751	14,734	15%	284,296	247,946	36,350	15%
Interest expense	6,944	7,479	(535)	(7%)	20,851	24,093	(3,242)	(13%)
Interest and investment income	(1,805)	(2,199)	394	(18%)	(6,585)	(6,429)	(156)	2%
Income before income taxes	109,346	94,471	14,875	16%	270,030	230,282	39,748	17%
Income taxes	29,659	25,774	3,885	15%	73,684	63,196	10,488	17%
NET EARNINGS	79,687	68,697	10,990	16%	196,346	167,086	29,260	17%
BASIC EARNINGS PER SHARE	\$ 0.98	\$ 0.84	\$ 0.14	17%	\$ 2.41	\$ 2.06	\$ 0.35	17%
KEY RATIOS:								
Gross profit margin ⁽¹⁾	25.0%	25.4%			24.5%	24.4%		
Selling and administrative expenses as a % of revenues	13.2%	14.3%			13.8%	14.7%		
Operating income margin ⁽¹⁾	11.7%	11.1%			10.7%	9.8%		
Income taxes as a % of income before income taxes	27.1%	27.3%			27.3%	27.4%		

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

Revenues increased 8% in the quarter and 5% year-to-date. In the Equipment Group, product support, rentals and used equipment growth continued, while new equipment sales rebounded well in the quarter following a slower first half of the year. At CIMCO, strong product support revenues served to partially offset lower package sales.

Gross profit margin decreased 40 basis points (“bps”) to 25.0% in the quarter but were up 10 bps year-to-date to 24.5%. The Equipment Group reported lower margins in the quarter and year-to-date. CIMCO’s margins were higher in both the quarter and year-to-date.

Selling and administrative expenses in the quarter were largely unchanged versus last year but were 110 bps lower as a percentage of revenues at 13.2%. Mark-to-market adjustments on Deferred Share Units (“DSUs”) and allowances for doubtful accounts were lower while compensation and information technology costs were higher. On a year-to-date basis, selling and administrative expenses decreased \$5.3 million or 1%. Adjusted to exclude the non-recurring gain described in note 9 to the financial statements, year-to-date expenses decreased \$0.3 million (unchanged as a percentage) and were 70 bps lower as a percentage of revenues (14.0% versus 14.7%), with similar trends as the quarter.

Operating income increased \$14.7 million or 15% in the quarter to \$114.5 million and was up 60 bps to 11.7% as a percentage of revenues. Year-to-date, adjusted operating income was up \$31.3 million or 13% to \$279.3 million and was 70 bps higher as a percentage of revenues (10.5% versus 9.8% last year).

Interest expense decreased \$0.5 million in the quarter and \$3.2 million year-to-date on the lower average debt balances.

Interest income decreased \$0.4 million in the quarter but was up \$0.2 million year-to-date. Interest earned on cash balances were lower in the quarter and year-to-date while interest income earned on equipment on rent with a purchase option (“RPO”) was higher in the quarter and year-to-date.

The effective income tax rate was 27.1% in the quarter and 27.3% year-to-date.

Net earnings increased \$11.0 million or 16% to \$79.7 million in the quarter and \$29.3 million or 17% to \$196.3 million year-to-date, with EPS up 17% in the quarter and year-to-date. Adjusted year-to-date net earnings and EPS was up 15%.

Comprehensive income was \$90.4 million in the quarter (2018 - \$84.6 million) and \$166.4 million year-to-date (2018 – \$201.1 million). Comprehensive income includes actuarial gains/losses on post-employment benefit plans. In the third quarter, an actuarial gain was recorded as return on plan assets exceeded the discount rate. On a year-to-date basis, this was more than offset by an actuarial loss recorded on a lower weighted-average discount rate (3.9% at December 31, 2018 versus 3.0% at September 30, 2019). Comprehensive income also includes gains/losses on foreign currency derivative contracts used for hedging purposes. These gains/losses are expected to offset future gains on the underlying hedged items.

BUSINESS SEGMENT OPERATING RESULTS

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

Equipment Group

(\$ thousands)	Three months ended September 30				Nine months ended September 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Equipment sales and rentals								
New	\$ 332,191	\$ 293,992	\$ 38,199	13%	\$ 831,986	\$ 856,242	\$ (24,256)	(3%)
Used	76,238	65,508	10,730	16%	228,950	207,108	21,842	11%
Rentals	117,763	113,862	3,901	3%	304,089	276,434	27,655	10%
Total equipment sales and rentals	526,192	473,362	52,830	11%	1,365,025	1,339,784	25,241	2%
Product support	352,718	324,251	28,467	9%	1,038,097	939,654	98,443	10%
Power generation	2,577	2,515	62	2%	7,697	7,781	(84)	(1%)
Total revenues	\$ 881,487	\$ 800,128	\$ 81,359	10%	\$ 2,410,819	\$ 2,287,219	\$ 123,600	5%
Operating income	\$ 104,221	\$ 93,414	\$ 10,807	12%	\$ 266,348	\$ 233,135	\$ 33,213	14%
KEY RATIOS:								
Product support revenues as a % of total revenues	40.0%	40.5%			43.1%	41.1%		
Operating income margin	11.8%	11.7%			11.0%	10.2%		
Group total revenues as a % of consolidated revenues	90.4%	88.9%			90.9%	90.1%		

The Equipment Group executed well and delivered strong results in the quarter.

New equipment sales rebounded following a slow start to the first half of the year with good sales into construction and agriculture markets offsetting softer mining and power systems sales. Used equipment sales were lifted by dispositions of aged equipment from the rental fleets. Sourcing good used iron remained challenging.

Total equipment sales (new and used) increased \$48.9 million or 14% in the quarter but were down \$2.4 million (unchanged as a percentage) year-to-date. Construction sales increased 30% in the quarter and 8% year-to-date. Growth in Quebec continued in the quarter and year-to-date on good activity levels and increased market penetration. In Ontario, road activity ramped up, leading to growth in the quarter, however, volumes still declined year-to-date on market weakness experienced in the first half. Manitoba saw good growth in the quarter which resulted in relatively unchanged sales on a year-to-date basis. Atlantic Canada benefitted from good project activity last year which didn't repeat, and as a result, sales were lower in both the quarter and year-to-date. Sales into mining markets were down 32% in the quarter and 29% year-to-date, partially reflecting a tough prior year comparator, which included large deliveries. Power systems sales were down 11% in the quarter and 10% year-to-date, largely reflecting timing of customers' construction schedules, together with limited availability of certain models from the factory. Agriculture sales increased 31% in the quarter but were down 4% year-to-date. Material handling sales were down 3% in the quarter and 11% year-to-date.

Rental revenues were up \$3.9 million or 3% in the quarter and \$27.7 million or 10% year-to-date. Light equipment rentals increased 6% in the quarter and 11% year-to-date, as demand signals remained strong across the territory. Most regions reported growth, with Quebec accounting for approximately half of the increase in the quarter and 60% year-to-date. Power rentals were down 10% in the quarter but up 2% year-to-date, reflecting continued growth in Quebec and Atlantic Canada, partially offset by lower activity in Ontario. Heavy equipment rentals were down 12% in the quarter and 5% year-to-date with only Quebec reporting growth on the larger fleets. Material handling equipment rentals were up 3% in the quarter and relatively unchanged year-to-date. Rental revenues from RPO were up 17% in the quarter and 33% year-to-date. At September 30, 2019, RPO inventory totalled \$96.2 million versus \$79.3 million at this time last year.

Product support revenues grew \$28.5 million or 9% in the quarter and \$98.4 million or 10% year-to-date on growth in both parts and service into most markets.

Gross profit margins decreased 110 bps in the quarter and 10 bps year-to-date versus last year. Equipment margins were lower in both the quarter and year-to-date, largely reflective of pricing pressures. Rental margins were lower reflecting the time required to absorb the recent increased investment in rental fleet. Product support margins were down slightly in both the quarter and year-to-date, mainly as a result of a higher proportion of parts to service revenues and certain favorable project closeouts recorded last year. The overall sales mix of product support revenues to total revenues dampened margins in the quarter but had a favorable impact on a year-to-date basis.

Selling and administrative expenses were up \$0.5 million (unchanged as a percentage) in the third quarter. Compensation expenses were higher on increased headcount and annual salary adjustments and information technology costs increased on systems integration and upgrades. This were partially offset by lower allowances for doubtful accounts. As a percentage of revenues, selling and administrative expenses decreased 120 bps in the quarter to 13.2%. Year-to-date, adjusted selling and administrative expenses were down \$0.2 million (unchanged as percentage), with lower allowances for doubtful accounts offsetting higher compensation and information technology costs. Adjusted selling and administrative expenses were 70 basis points lower as a percentage of revenues (13.9% versus 14.6% last year).

Operating income increased in both the quarter and year-to-date mainly on the higher revenues. For the quarter, operating income was up \$10.8 million or 12% to \$104.2 million and was 10 bps higher as a percentage of revenues at 11.8%. Year-to-date, adjusted operating income increased \$28.2 million or 12% and was up 60 bps to 10.8% as a percentage of revenues.

Bookings and Backlogs

<i>(\$ millions)</i>	2019	2018	\$ change	% change
Bookings - three months ended September 30	\$ 332.6	\$ 321.0	\$ 11.6	4%
Bookings - nine months ended September 30	\$ 1,053.2	\$ 1,113.7	\$ (60.5)	(5%)
Backlogs - as at September 30	\$ 325.3	\$ 365.9	\$ (40.6)	(11%)

Bookings were up \$11.6 million or 4% in the quarter on higher construction, mining and material handling orders, partially offset by lower power systems and agriculture orders.

On a year-to-date basis, bookings were down \$60.5 million or 5%, as strong construction orders were more than offset by decreases in the other segments.

Backlogs of \$325.3 million were down \$40.6 million or 11%. At September 30, 2019, the total backlog related to power systems (44%), construction (37%), mining (14%), material handling (4%) and agriculture (1%), approximately 75% of which is expected to be delivered over the remainder of the year.

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

CIMCO

(\$ thousands)	Three months ended September 30				Nine months ended September 30			
	2019	2018	Change		2019	2018	Change	
			\$	%			\$	%
Package sales	\$ 50,785	\$ 61,991	\$ (11,206)	(18%)	\$ 127,194	\$ 151,436	\$ (24,242)	(16%)
Product support	42,949	37,975	4,974	13%	115,502	99,534	15,968	16%
Total revenues	\$ 93,734	\$ 99,966	\$ (6,232)	(6%)	\$ 242,696	\$ 250,970	\$ (8,274)	(3%)
Operating income	\$ 10,264	\$ 6,337	\$ 3,927	62%	\$ 17,948	\$ 14,811	\$ 3,137	21%
KEY RATIOS:								
Product support revenues as a % of total revenues	45.8%	38.0%			47.6%	39.7%		
Operating income margin	10.9%	6.3%			7.4%	5.9%		
Group total revenues as a % of consolidated revenues	9.6%	11.1%			9.1%	9.9%		

Package sales were down \$11.2 million or 18% in the quarter and \$24.2 million or 16% year-to-date. In Canada, these were lower by 11% in the quarter and 9% year-to-date as higher recreational sales were more than offset by lower industrial sales. In the US, package sales were down 40% in the quarter and 42% year-to-date, with similar market segment trends as experienced in Canada. Package revenues reflect the progress of project construction applying the percentage-of-completion method for revenue recognition, which results in a degree of variability as the timing of projects and construction schedules are largely under the control of third parties (contractors and end-customers).

Product support revenues continued to grow to new highs in both Canada and the US for a third quarter period and year-to-date. In Canada, a 5% increase in the quarter reflected growth in all regions except Quebec, while on a year-to-date basis all regions were up and led to a 14% increase over last year. The US reported growth of 51% in the quarter and 22% year-to-date. The increased technician base contributed positively to the growth and recruitment remains a focus to further address strong demand signals in both Canada and the US.

Gross profit margins increased 530 bps in the quarter and 190 bps year-to-date, on significantly improved project execution in the third quarter relative to cost over-runs experienced on one U.S. project in 2018. Package margins increased in the quarter but were down on a year-to-date basis. Product support margins were higher in the quarter but down year-to-date, largely attributable to the good pickups realized on project close-outs last year. The higher proportion of product support revenues to total revenues in both the quarter and year-to-date favorably impacted margins.

Selling and administrative expenses were down \$0.2 million in both the quarter and year-to-date, largely reflecting lower allowances for doubtful accounts and higher compensation costs. As a percentage of revenues, selling and administrative expenses were up 70 bps in the quarter (13.8% versus 13.1% last year) and 50 bps year-to-date (15.2% versus 14.7% last year).

Operating income increased \$3.9 million or 62% in the quarter and \$3.1 million or 21% year-to-date on the higher gross profit margins. Operating income margin of 10.9% was the highest ever for a third quarter and second highest for the first nine months of the year at 7.4%.

Bookings and Backlogs

<i>(\$ millions)</i>	2019	2018	\$ change	% change
Bookings - three months ended September 30	\$ 34.4	\$ 25.7	\$ 8.7	34%
Bookings - nine months ended September 30	\$ 149.2	\$ 147.8	\$ 1.4	1%
Backlogs - as at September 30	\$ 128.6	\$ 125.7	\$ 2.9	2%

Bookings were up \$8.7 million or 34% in the quarter, with higher Canada orders offsetting lower US orders. Industrial activity increased 89% on strong ordering in Canada (up 113%), while the US was lower (down 61%). Recreational orders were down 23% with good growth in Canada (up 48%) offsetting lower US ordering (down 72%).

On a year-to-date basis, bookings were up \$1.4 million or 1%, on increases in both Canada and the US. Recreational orders (up 28%) were higher in both Canada (up 34%) and the US (up 17%). Industrial orders (down 14%) were lower in both Canada (down 13%) and the US (down 31%).

Backlogs of \$128.6 million were up \$2.9 million or 2%. Recreational backlogs (up 54%) were higher in both Canada and the US, partially offset by lower industrial backlogs (down 19%) in both countries. Approximately half of the backlog is expected to be realized as revenue over the remainder of this year.

CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At September 30, 2019, the ratio of net debt to total capitalization was 22%, compared to 18% at December 31, 2018 and 25% at September 30, 2018.

Non-cash Working Capital

The Company's investment in non-cash working capital was \$476.3 million at September 30, 2019. The major components, along with the changes from September 30 and December 31, 2018, are identified in the following table.

<i>As at (\$ thousands)</i>	September 30 2019	September 30 2018	Change		December 31 2018	Change	
			\$	%		\$	%
Accounts receivable	\$ 513,927	\$ 529,708	\$ (15,781)	(3%)	\$ 522,462	\$ (8,535)	(2%)
Inventories	1,069,758	909,095	160,663	18%	873,507	196,251	22%
Other current assets	13,336	14,265	(929)	(7%)	9,932	3,404	34%
Accounts payable and accrued liabilities	(911,548)	(855,731)	(55,817)	7%	(916,300)	4,752	(1%)
Provisions	(22,543)	(22,483)	(60)	-	(24,382)	1,839	(8%)
Income taxes payable	(7,841)	(20,634)	12,793	nm	(28,368)	20,527	nm
Derivative financial instruments	(925)	(1,010)	85	nm	27,624	(28,549)	nm
Dividends payable	(22,045)	(18,733)	(3,312)	18%	(18,737)	(3,308)	18%
Deferred revenues and contract liabilities	(155,791)	(156,075)	284	-	(136,244)	(19,547)	14%
Total non-cash working capital	\$ 476,328	\$ 378,402	\$ 97,926	26%	\$ 309,494	\$ 166,834	54%

Accounts receivable decreased 3% compared to September 30, 2018, principally due to improved collections. Days sales outstanding ("DSOs") decreased 5 days to 48 days, with improvements in both the Equipment Group (down 7 days) and at CIMCO (down 1 day).

In comparison to December 31, 2018, accounts receivable decreased 2%, reflecting lower sales in the month of September 2019 versus December 2018, partially offset by slower collections. DSOs were 43 days at December 31, 2018.

Inventories at September 30, 2019 were 18% higher compared to September 30, 2018:

- Equipment Group inventories were up \$159.8 million or 18%, with higher equipment (up \$136.8 million or 25%), parts (up \$18.9 million or 8%) and service work-in-process (up \$4.1 million or 5%). The higher equipment and parts inventory levels were mainly attributable to improved availability from suppliers, aggressive positioning for better penetration in the expanded territories, especially in light of transitional terms from suppliers, and on higher RPO levels. The higher service work-in-process levels reflect busy shops and good demand given the large installed base.
- CIMCO inventories were up \$0.9 million or 4%, on higher parts and work-in-process levels, reflecting project construction schedules.

Inventories at September 30, 2019 were 22% higher compared to December 31, 2018 with increases in both Groups:

- Equipment Group inventories were 23% higher with increases in all categories. Inventory levels are typically lowest at the end of a fiscal year due to seasonality, with inventories building during the year in advance of the busy selling period. RPO inventories were up \$21.6 million or 29%.
- CIMCO inventories were up 16% on higher work-in-process.

Other current assets can vary period-over-period and mainly relates to prepaid expenses for property taxes and software licenses.

Accounts payable and accrued liabilities at September 30, 2019 were 7% higher than at September 30, 2018, principally due to transitional terms from suppliers related to inventory purchases. These transitional terms are expected to end mid-year 2020, which will revert accounts payable to more normal levels over the second half of the year. Additionally, the adoption of *IFRS 16 – Leases*, in the current year resulted in the recognition of current lease liabilities, which were \$6.6 million at September 30, 2019 (refer to note 1 of the notes to the unaudited interim condensed consolidated financial statements).

In comparison to December 31, 2018, accounts payable and accrued liabilities were down 1% due to timing of payments, partially offset by the impact of the current lease liabilities.

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

Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar led to a cumulative net loss of \$0.9 million as at September 30, 2019. This is not expected to affect net earnings as the unrealized losses will offset future gains on the related hedged items.

Dividends payable increased compared to September 30 and December 31, 2018, reflecting the higher dividend rate. The quarterly dividend rate was increased 17% from \$0.23 per share to \$0.27 per share, effective with the April 3, 2019 payment.

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

- In the Equipment Group, these arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. At September 30, 2019, these were up 2% versus September 30, 2018, and 13% versus December 31, 2018, largely related to the impact of progress billings and timing of customer deposits for deliveries later in the year.
- At CIMCO, these arise on progress billings from the sale of refrigeration packages. At September 30, 2019, these were down 12% versus September 30, 2018 and up 23% versus December 31, 2018, reflecting the relative activity levels seen in Canada and the US, and customer's construction schedules.

Employee Future Benefits

The Company completed the alignment of benefit programs across the Equipment Group in the first quarter of 2019, which on the whole, led to improved benefits for most employees in the acquired businesses and to increased administrative efficiencies for the Company. This will increase certain operating costs over ensuing years, however the impact is not expected to be significant in any given year. A single component of this comprehensive alignment program led to changes in the structure and elements of certain post-employment benefit plans, which resulted in a non-recurring curtailment gain of \$5.0 million (\$3.7 million after-tax) recorded in the first quarter ended March 31, 2019.

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 81,782,508 common shares and 2,559,645 share options outstanding.

Dividends

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

Record Date	Payment Date	Dividend Amount per Share	Dividends Paid in Total (\$ millions)
December 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
September 7, 2018	October 2, 2018	\$0.23	\$18.7
December 7, 2018	January 3, 2019	\$0.23	\$18.7
March 8, 2019	April 3, 2019	\$0.27	\$22.0
June 7, 2019	July 3, 2019	\$0.27	\$22.0
September 6, 2019	October 2, 2019	\$0.27	\$22.0

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.

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

The Company maintains a \$500.0 million revolving credit facility, maturing in October 2022. No amounts were drawn on the facility at September 30, 2019, December 31, 2018 or September 30, 2018. Standby letters of credit utilized \$30.2 million of the facility at September 30, 2019, \$29.9 million at December 31, 2018 and \$27.2 million at September 30, 2018.

The Company expects that continued cash flows from operations in 2019, together with cash on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

Principal Components of Cash Flow

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

(\$ thousands)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash, beginning of period	\$ 154,452	\$ 279,724	\$ 345,434	\$ 160,507
Cash, provided by (used in):				
Operating activities				
Operations	112,454	100,786	297,563	265,406
Change in non-cash working capital and other	11,827	(8,949)	(182,391)	185,956
Net rental fleet additions	(28,724)	(26,749)	(135,363)	(118,091)
	95,557	65,088	(20,191)	333,271
Investing activities	(7,973)	(14,071)	(44,725)	14,714
Financing activities	(16,428)	(113,714)	(54,710)	(291,676)
Effect of foreign exchange on cash balances	109	(134)	(91)	77
Increase (decrease) in cash in the period	71,265	(62,831)	(119,717)	56,386
Cash, end of period	\$ 225,717	\$ 216,893	\$ 225,717	\$ 216,893

Cash Flows from Operating Activities

Operating activities provided cash in the third quarter and used cash on a year-to-date basis versus similar periods last year.

Cash generated from operations for the quarter and year-to-date increased as a result of the higher net earnings. The adoption of IFRS 16 – Leases on January 1, 2019, results in higher cash from

operating activities as lease payments are presented under financing activities (refer to note 1 of the notes to the unaudited interim condensed consolidated financial statements).

Non-cash working capital and other provided cash in the quarter versus a use of cash last year, mainly as a result of lower accounts receivables and inventories and higher deferred revenues, partially offset by lower accounts payables and accrued liabilities and an unfavorable change in the value of derivatives financial instruments. On a year-to-date basis, the significant use of cash was mainly a result of lower accounts payable and accrued liabilities, higher inventories and lower income taxes payable, partially offset by lower accounts receivables and a favorable change in the value of derivative financial instruments.

Net rental fleet additions (purchases less proceeds of dispositions) were up 7% in the quarter and 15% year-to-date, reflecting continued focus on growing and optimizing the fleets across the broader territory to adequately address demand signals.

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

Cash Flows from Investing Activities

Investments in property, plant and equipment, net of disposition proceeds in the quarter (\$7.9 million versus \$14.0 million last year) mainly accounted for the use of cash and were lower as a result of investments made last year in the acquired territories.

On a year-to-date basis, the \$44.7 million use of cash in 2019 related to net investments in property, plant and equipment. Cash of \$14.7 million provided last year were mainly as a result of a \$42.7 million final working capital adjustment received, stemming from the 2017 acquisition, partially offset by investments of \$27.8 million in property, plant and equipment, net of disposition proceeds.

Cash Flows from Financing Activities

The significant use of cash last year mainly related to the repayment of \$250.0 million drawn on a term credit facility to partially fund the 2017 transaction. The Company initially repaid \$150.0 million in the first quarter of 2018 and the remaining \$100.0 million in the third quarter of 2018.

Other significant uses and sources of cash included:

- Dividends paid to common shareholders of \$22.0 million or \$0.27 per share (2018 - \$18.7 million or \$0.23 per share) in the quarter and \$62.7 million or \$0.77 per share (2018 - \$52.7 million or \$0.65 per share) year-to-date.
- Principal portion of lease liability payments resulting from the adoption of IFRS 16 – *Leases*, of \$2.6 million in the quarter and \$7.5 million year-to-date versus \$nil for the comparable periods last year.
- Cash received on the exercise of share options of \$8.1 million (2018 - \$5.0 million) in the quarter and \$16.5 million (2018 - \$12.0 million) year-to-date.

OUTLOOK

On October 27th, we passed the two year mark following our significant acquisition in 2017. We continue to believe that the expansion of our territories to include Quebec and Atlantic Canada presents a great opportunity for the long-term performance of Toromont. Our focus on a measured and steady pace of integration, has already delivered tangible improvements in operating results. Effective execution of operational initiatives will be required to continue to realize on this significant potential for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems. Additionally, rental services, product support and material handling markets present significant growth opportunities over the longer-term. Our focus continues to be on the safety of our people, customer deliverables, business integration, operational efficiencies and asset management initiatives to generate favorable long-term returns.

The Equipment Group's parts and service business has realized significant growth in recent years, driven by the larger installed base of equipment, and provides increased stability and predictability in a variable business environment. The Company continues to hire technicians and invest in infrastructure to address growing demand signals, including increased equipment rebuilds and readying used iron. Industry activity has softened in certain areas, although the expanded territory has proven to be beneficial due to the geographic size and variability of activity throughout Eastern Canada. Broader product lines, investment in rental equipment and developing product support technologies supporting remote diagnostics and telematics are expected to support longer-term growth.

A disciplined investment in rental fleets together with the inclusion of equipment lines utilized in the weaker shoulder and winter seasons, present the opportunities to grow and to stabilize seasonality. We continue to assess the rental footprint.

Production at existing mine sites is generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion, although industry equipment investment has slowed in an uncertain global economic environment. Our substantially increased base of installed equipment is a good bell-weather for future product support activity.

CIMCO's increasing installed base and long-term product support levels are positive signals for future growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO₂ solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides continued growth opportunities. Market activity is tighter, reflecting a cautious environment in the near term, although booking activity improved in the quarter and quoting activity remains solid.

The diversity of the markets served, expanding product offering and services, financial strength and disciplined operating culture position our 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 2018 annual audited consolidated financial statements.

<i>(\$ thousands, except per share amounts)</i>	Q4 2018	Q1 2019	Q2 2019	Q3 2019
REVENUES				
Equipment Group	\$ 873,868	\$ 633,875	\$ 895,457	\$ 881,487
CIMCO	92,179	66,099	82,863	93,734
Total revenues	\$ 966,047	\$ 699,974	\$ 978,320	\$ 975,221
NET EARNINGS	\$ 84,898	\$ 39,261	\$ 77,398	\$ 79,687
PER SHARE INFORMATION:				
Basic earnings per share	\$ 1.04	\$ 0.48	\$ 0.95	\$ 0.98
Diluted earnings per share	\$ 1.03	\$ 0.48	\$ 0.94	\$ 0.97
Dividends paid per share	\$ 0.23	\$ 0.23	\$ 0.27	\$ 0.27
Weighted average common shares outstanding - basic (in thousands)	81,427	81,326	81,510	81,622

<i>(\$ thousands, except per share amounts)</i>	Q4 2017	Q1 2018	Q2 2018	Q3 2018
REVENUES				
Equipment Group	\$ 726,011	\$ 612,971	\$ 874,120	\$ 800,128
CIMCO	96,755	63,857	87,147	99,966
Total revenues	\$ 822,766	\$ 676,828	\$ 961,267	\$ 900,094
NET EARNINGS	\$ 59,136	\$ 30,779	\$ 67,610	\$ 68,697
PER SHARE INFORMATION:				
Basic earnings per share	\$ 0.73	\$ 0.38	\$ 0.83	\$ 0.84
Diluted earnings per share	\$ 0.72	\$ 0.38	\$ 0.83	\$ 0.84
Dividends paid per share	\$ 0.19	\$ 0.19	\$ 0.23	\$ 0.23
Weighted average common shares outstanding - basic (in thousands)	80,916	80,976	81,131	81,383

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 had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives and significant industrial projects.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year end.

RISKS AND RISK MANAGEMENT

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial results in any or all of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks on a cost-effective basis. There have been no material change to the operating and financial risk assessment and related risk management strategies as described in the Company's 2018 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Accounting Policies

The significant accounting policies used in the preparation of the accompanying unaudited interim condensed consolidated financial statements are consistent with those used in the Company's 2018 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 nine month periods ending September 30, 2019.

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 2018 audited annual consolidated financial statements, contained in the Company's 2018 Annual Report.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, under the supervision of the President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such disclosure

controls and procedures, or have caused it to be designed under their supervision, to provide reasonable assurance that material information with respect to Toromont is made known to them.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at September 30, 2019.

Internal Control over Financial Reporting

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

There have been no changes in the design of the Company's internal control over financial reporting during the three and nine month periods ended September 30, 2019, that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

ADDITIONAL GAAP MEASURES

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

Gross Profit

Gross Profit is defined as total 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 September 30		Nine months ended September 30	
	2019	2018	2019	2018
Net earnings	\$ 79,687	\$ 68,697	\$ 196,346	\$ 167,086
<i>plus:</i> Interest expense	6,944	7,479	20,851	24,093
<i>less:</i> Interest and investment income	(1,805)	(2,199)	(6,585)	(6,429)
<i>plus:</i> Income taxes	29,659	25,774	73,684	63,196
Operating income	\$ 114,485	\$ 99,751	\$ 284,296	\$ 247,946

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:

As at (\$ thousands)	September 30 2019	December 31 2018	September 30 2018
Long-term debt	\$ 645,238	\$ 644,540	\$ 644,307
Current portion of long-term debt	-	1,022	2,010
<i>less:</i> Cash	225,717	345,434	216,893
Net debt	419,521	300,128	429,424
Shareholders' equity	1,449,078	1,327,679	1,286,039
Total capitalization	\$ 1,868,599	\$ 1,627,807	\$ 1,715,463
Net debt to total capitalization	22%	18%	25%
Net debt to equity	0.29:1	0.23:1	0.33:1

NON-GAAP MEASURES

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

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

Working Capital

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

<i>As at (\$ thousands)</i>	September 30 2019	December 31 2018	September 30 2018
Total current assets	\$ 1,822,738	\$ 1,779,100	\$ 1,672,020
less: Total current liabilities	1,120,693	1,125,194	1,078,735
Working capital	\$ 702,045	\$ 653,906	\$ 593,285

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>As at (\$ thousands)</i>	September 30 2019	December 31 2018	September 30 2018
Total current assets	\$ 1,822,738	\$ 1,779,100	\$ 1,672,020
less: Cash	225,717	345,434	216,893
	1,597,021	1,433,666	1,455,127
Total current liabilities	1,120,693	1,125,194	1,078,735
less: Current portion of long-term debt	-	1,022	2,010
	1,120,693	1,124,172	1,076,725
Non-cash working capital	\$ 476,328	\$ 309,494	\$ 378,402

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>As at (\$ thousands, except for share price)</i>	September 30 2019	December 31 2018	September 30 2018
Outstanding common shares	81,783	81,226	81,456
x Ending share price	\$ 64.00	\$ 54.26	\$ 66.77
Market capitalization	\$ 5,234,081	\$ 4,407,344	\$ 5,438,821
Long-term debt	\$ 645,238	\$ 644,540	\$ 644,307
Current portion of long-term debt	-	1,022	2,010
less: Cash	225,717	345,434	216,893
Net debt	\$ 419,521	\$ 300,128	\$ 429,424
Total enterprise value	\$ 5,653,602	\$ 4,707,472	\$ 5,868,245

Significant item

A curtailment gain of \$5.0 million (\$3.7 million after tax) as described in note 9 of the notes to the interim condensed consolidated financial statements was recorded in the first quarter of 2019. It did not impact the third quarter and therefore adjusted for the reported results of the Company for the nine months ended September 30, 2019 only. This item was not considered to be indicative of operational and financial trends, either by nature or amount and as such, a reconciliation adjusting for the impact of this item is shown below:

<i>(\$ thousands, except per share amounts)</i>	Nine months ended September 30, 2019		
	Reported	Curtailment gain	Adjusted - excluding curtailment gain
Selling and administrative expenses	\$ 366,652	\$ (5,000)	\$ 371,652
Operating income	\$ 284,296	\$ 5,000	\$ 279,296
Net earnings	\$ 196,346	\$ 3,700	\$ 192,646
Basic earnings per share ("EPS")	\$ 2.41	\$ 0.04	\$ 2.37

Key Performance Indicators ("KPIs")

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

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

The Company's order bookings represent equipment unit orders that management believes are firm. Backlogs are defined as the retail value of equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

Return on Capital Employed ("ROCE")

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

(\$ thousands)	Trailing twelve months ended		
	September 30 2019	December 31 2018	September 30 2018
Net earnings	\$ 281,245	\$ 251,984	\$ 226,222
<i>plus:</i> Interest expense	27,401	30,643	30,883
<i>less:</i> Interest and investment income	(9,074)	(8,918)	(8,066)
<i>plus:</i> Interest income - rental conversions	3,993	3,461	3,140
<i>plus:</i> Income taxes	106,353	95,865	85,489
Adjusted net earnings	\$ 409,917	\$ 373,035	\$ 337,669
Average capital employed	\$ 1,793,174	\$ 1,720,921	\$ 1,713,884
Return on capital employed	22.9%	21.7%	19.7%

Return on Equity ("ROE")

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

(\$ thousands)	Trailing twelve months ended		
	September 30 2019	December 31 2018	September 30 2018
Net earnings	\$ 281,245	\$ 251,984	\$ 226,222
Opening shareholders' equity (net of adjustments)	\$ 1,281,574	\$ 1,130,947	\$ 1,080,040
Return on equity	21.9%	22.3%	20.9%