

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

(\$ thousands)	Note	June 30 2019	December 31 2018	June 30 2018
<b>Assets</b>				
Current assets				
Cash		\$ 154,452	\$ 345,434	\$ 279,724
Accounts receivable		539,520	522,462	510,251
Inventories		1,069,704	873,507	862,118
Income taxes receivable		2,764	118	1,158
Derivative financial instruments	5	-	27,647	15,489
Other current assets		11,881	9,932	13,666
<b>Total current assets</b>		<b>1,778,321</b>	1,779,100	1,682,406
Property, plant and equipment	2	430,141	412,776	406,914
Rental equipment	2	606,762	541,530	522,132
Other assets	1	45,020	13,206	16,560
Deferred tax assets		1,544	1,610	234
Goodwill and intangible assets		484,570	486,309	488,754
<b>Total assets</b>		<b>\$ 3,346,358</b>	\$ 3,234,531	\$ 3,117,000
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities	1	\$ 953,791	\$ 935,037	\$ 826,268
Provisions		23,837	24,382	23,115
Deferred revenues and contract liabilities		148,383	136,244	174,545
Current portion of long-term debt	3	-	1,022	2,010
Derivative financial instruments	5	12,554	23	33
Income taxes payable		-	28,486	5,985
<b>Total current liabilities</b>		<b>1,138,565</b>	1,125,194	1,031,956
Deferred revenues and contract liabilities		16,440	17,247	18,035
Long-term lease liabilities	1	26,166	-	-
Long-term debt	3	645,005	644,540	743,759
Post-employment obligations	9	147,421	104,342	102,653
Deferred tax liabilities		1,764	15,529	6,653
<b>Shareholders' equity</b>				
Share capital		467,924	457,800	452,847
Contributed surplus		14,061	12,879	11,625
Retained earnings		889,644	851,049	745,539
Accumulated other comprehensive (loss) income		(632)	5,951	3,933
<b>Shareholders' equity</b>		<b>1,370,997</b>	1,327,679	1,213,944
<b>Total liabilities and shareholders' equity</b>		<b>\$ 3,346,358</b>	\$ 3,234,531	\$ 3,117,000

See accompanying notes

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

(\$ thousands, except share amounts)	Note	Three months ended June 30		Six months ended June 30	
		2019	2018	2019	2018
<b>Revenues</b>	11	\$ 978,320	\$ 961,267	\$ 1,678,294	\$ 1,638,095
Cost of goods sold		741,412	736,401	1,270,725	1,246,455
Gross profit		236,908	224,866	407,569	391,640
Selling and administrative expenses		125,880	125,886	237,758	243,445
<b>Operating income</b>		111,028	98,980	169,811	148,195
Interest expense	6	6,988	7,719	13,907	16,614
Interest and investment income	6	(2,208)	(2,051)	(4,780)	(4,230)
Income before income taxes		106,248	93,312	160,684	135,811
Income taxes		28,850	25,702	44,025	37,422
<b>Net earnings</b>		\$ 77,398	\$ 67,610	\$ 116,659	\$ 98,389
<b>Earnings per share</b>					
Basic	7	\$ 0.95	\$ 0.83	\$ 1.43	\$ 1.21
Diluted	7	\$ 0.94	\$ 0.83	\$ 1.42	\$ 1.20
<b>Weighted average number of shares outstanding</b>					
Basic	7	81,510,292	81,131,332	81,418,746	81,054,292
Diluted	7	82,183,776	81,949,920	82,080,362	81,843,309

See accompanying notes

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

(\$ thousands)	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
<b>Net earnings</b>	<b>\$ 77,398</b>	\$ 67,610	<b>\$ 116,659</b>	\$ 98,389
<b>Other comprehensive income (loss), net of income taxes:</b>				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation adjustments	(184)	176	(375)	460
Unrealized (losses) gains on derivatives designated as cash flow hedges	(4,343)	1,849	(9,072)	5,926
Income tax recovery (expense)	1,130	(485)	2,359	(1,547)
Unrealized (losses) gains on cash flow hedges, net of income taxes	<b>(3,213)</b>	1,364	<b>(6,713)</b>	4,379
Realized (gains) losses on derivatives designated as cash flow hedges	(79)	(1,613)	683	(1,492)
Income tax expense (recovery)	20	419	(178)	389
Realized (gains) losses on cash flow hedges, net of income taxes	<b>(59)</b>	(1,194)	<b>505</b>	(1,103)
<i>Items that will not be reclassified subsequently to net earnings:</i>				
Actuarial and other (losses) gains	(27,210)	12,871	(46,332)	19,526
Income tax recovery (expense)	7,211	(3,411)	12,278	(5,143)
Actuarial and other (losses) gains, net of income taxes	<b>(19,999)</b>	9,460	<b>(34,054)</b>	14,383
<b>Other comprehensive (loss) income</b>	<b>(23,455)</b>	9,806	<b>(40,637)</b>	18,119
<b>Total comprehensive income</b>	<b>\$ 53,943</b>	\$ 77,416	<b>\$ 76,022</b>	\$ 116,508

See accompanying notes

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

(\$ thousands)	Note	Three months ended		Six months ended	
		June 30		June 30	
		2019	2018	2019	2018
<b>Operating activities</b>					
Net earnings		\$ 77,398	\$ 67,610	\$ 116,659	\$ 98,389
Items not requiring cash:					
Depreciation and amortization		40,657	35,662	79,925	69,341
Stock-based compensation		1,458	1,374	2,916	2,749
Post-employment obligations		816	(578)	(3,253)	844
Deferred income taxes		(810)	501	760	529
Interest accretion on repayment of term credit facility		-	-	-	511
Gain on sale of rental equipment and property, plant and equipment		(7,053)	(4,154)	(11,898)	(7,743)
		<b>112,466</b>	100,415	<b>185,109</b>	164,620
Net change in non-cash working capital and other	10	(25,726)	91,858	(194,218)	194,905
Additions to rental equipment	2	(83,040)	(70,497)	(143,151)	(105,325)
Proceeds on disposal of rental equipment		20,223	7,039	36,512	13,983
<b>Cash provided by (used in) operating activities</b>		<b>23,923</b>	128,815	<b>(115,748)</b>	268,183
<b>Investing activities</b>					
Additions to property, plant and equipment	2	(30,755)	(8,332)	(37,242)	(15,446)
Proceeds on disposal of property, plant and equipment		243	1,497	438	1,653
Increase (decrease) in other assets		100	-	52	42,577
<b>Cash (used in) provided by investing activities</b>		<b>(30,412)</b>	(6,835)	<b>(36,752)</b>	28,784
<b>Financing activities</b>					
Repayment of term credit facility		-	-	-	(150,000)
Repayment of senior debentures		-	-	(1,022)	(953)
Dividends	4	(21,998)	(18,636)	(40,735)	(34,015)
Cash received on exercise of stock options		1,569	5,053	8,390	7,006
Payment of lease liabilities	1	(2,506)	-	(4,915)	-
<b>Cash used in financing activities</b>		<b>(22,935)</b>	(13,583)	<b>(38,282)</b>	(177,962)
Effect of currency translation on cash balances		(295)	104	(200)	212
(Decrease) increase in cash		(29,719)	108,501	(190,982)	119,217
Cash, at beginning of period		184,171	171,223	345,434	160,507
<b>Cash, at end of period</b>		<b>\$ 154,452</b>	\$ 279,724	<b>\$ 154,452</b>	\$ 279,724

Supplemental cash flow information (note 10)

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

	Share Capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income			Total
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges	Total	
(\$ thousands, except share numbers)								
<b>At January 1, 2019</b>	<b>81,226,383</b>	<b>\$ 457,800</b>	<b>\$ 12,879</b>	<b>\$ 851,049</b>	<b>\$ 2,700</b>	<b>\$ 3,251</b>	<b>\$ 5,951</b>	<b>\$ 1,327,679</b>
Net earnings	-	-	-	116,659	-	-	-	116,659
Other comprehensive loss	-	-	-	(34,054)	(375)	(6,208)	(6,583)	(40,637)
Total comprehensive income	-	-	-	82,605	(375)	(6,208)	(6,583)	76,022
Exercise of stock options	307,015	10,124	-	-	-	-	-	10,124
Stock-based compensation expense	-	-	2,916	-	-	-	-	2,916
Stock options exercised	-	-	(1,734)	-	-	-	-	(1,734)
Effect of stock compensation plans	307,015	10,124	1,182	-	-	-	-	11,306
Dividends	-	-	-	(44,010)	-	-	-	(44,010)
<b>At June 30, 2019</b>	<b>81,533,398</b>	<b>\$ 467,924</b>	<b>\$ 14,061</b>	<b>\$ 889,644</b>	<b>\$ 2,325</b>	<b>\$ (2,957)</b>	<b>\$ (632)</b>	<b>\$ 1,370,997</b>
At January 1, 2018	80,949,819	\$ 444,427	\$ 10,290	\$ 669,813	\$ 1,911	\$ (1,714)	\$ 197	\$ 1,124,727
Net earnings	-	-	-	98,389	-	-	-	98,389
Other comprehensive income	-	-	-	14,383	460	3,276	3,736	18,119
Total comprehensive income	-	-	-	112,772	460	3,276	3,736	116,508
Exercise of stock options	330,015	8,420	-	-	-	-	-	8,420
Stock-based compensation expense	-	-	2,749	-	-	-	-	2,749
Stock options exercised	-	-	(1,414)	-	-	-	-	(1,414)
Effect of stock compensation plans	330,015	8,420	1,335	-	-	-	-	9,755
Dividends	-	-	-	(37,046)	-	-	-	(37,046)
<b>At June 30, 2018</b>	<b>81,279,834</b>	<b>\$ 452,847</b>	<b>\$ 11,625</b>	<b>\$ 745,539</b>	<b>\$ 2,371</b>	<b>\$ 1,562</b>	<b>\$ 3,933</b>	<b>\$ 1,213,944</b>

See accompanying notes

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the three and six months ended June 30, 2019**  
**(Unaudited)**

(\$ thousands, except where otherwise indicated)

**1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Corporate Information**

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

Toromont operates through two reportable segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory in addition to industry leading rental operations and an agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 6,000 people in more than 150 locations.

**Basis of Preparation**

These interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard (“IAS”) 34 - *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2018.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2018, except as noted below with respect to the adoption IFRS 16 – *Leases*.

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

These interim condensed consolidated financial statements were authorized for issue by the Audit Committee of the Board of the Directors on July 24, 2019.

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2018, except for the adoption of new standards effective as of January 1, 2019. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 - *Leases* has been applied effective January 1, 2019. As required by IAS 34, the nature and effect of these changes are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements.

#### **a) IFRS 16 - Leases**

IFRS 16 – *Leases* supersedes IAS 17 – *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC 15 – *Operating Leases - Incentives* and SIC 27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on–balance sheet model.

Lessor accounting is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where Toromont is the lessor.

Toromont applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated. The lease liabilities were recorded as the present value of the remaining lease payments discounted at the Company's incremental borrowing rate as at the date of application. The right-of-use assets were recorded at an amount equal to the lease liabilities, adjusted for any prepaid or accrued lease payments (nil).

Toromont elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application. Toromont also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

#### *Impact on the financial statements on transition*

On transition to IFRS 16 at January 1, 2019, Toromont recognized additional right-of-use assets and additional lease liabilities of \$33.8 million, respectively. There was no impact on retained earnings.

Lease liabilities for leases that were classified as operating leases were discounted using the incremental borrowing rate at January 1, 2019. The weighted average rate applied was 2.9%.

#### *Summary of new accounting policies*

Set out below are the new accounting policies upon adoption of IFRS 16, which have been applied from the date of initial application:

- *Right-of-use assets*

Toromont recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless Toromont is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on

a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- *Lease liabilities*

At the commencement date of the lease, Toromont recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The interest rate implicit in the lease is used, if readily determinable, to calculate the present value of lease payments. If not readily determinable, Toromont's incremental borrowing rate at the lease commencement date is used in the present value calculation. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- *Short-term leases and leases of low-value assets*

Toromont applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases that are considered of low-value. Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

- *Significant judgement in determining the lease term of contracts with renewal options*

Toromont determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Toromont applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. All relevant factors that create an economic incentive for it to exercise the renewal are considered. After the commencement date, Toromont reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Amounts recognized in the statement of financial position and profit or loss

Activity within right-of-use assets and lease liabilities during the period was as follows:

	Right-of-use assets			Lease liabilities
	Properties	Vehicles	Total	
<b>January 1, 2019</b>	<b>\$ 18,025</b>	<b>\$ 15,740</b>	<b>\$ 33,765</b>	<b>\$ 33,765</b>
Additions	1,265	2,694	3,959	3,959
Depreciation expense	(2,288)	(2,870)	(5,158)	-
Payments	-	-	-	(4,915)
<b>June 30, 2019</b>	<b>\$ 17,002</b>	<b>\$ 15,564</b>	<b>\$ 32,566</b>	<b>\$ 32,809</b>

Right-of-use assets are included in other assets on the statement of financial position. The current portion of lease liabilities at June 30, 2019 of \$6.6 million are included in accounts payable and accrued liabilities on the statement of financial position.

#### b) IFRIC 23 - *Uncertainty over Income Tax Treatment*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 - *Income Taxes*, specifically:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The adoption of this interpretation did not have an impact on the consolidated financial statements.

## 2. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

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

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>Additions</b>				
Rental equipment	\$ 83,040	\$ 70,497	\$ 143,151	\$ 105,325
Property, plant and equipment	30,755	8,332	37,242	15,446
<b>Total Additions</b>	<b>\$ 113,795</b>	<b>\$ 78,829</b>	<b>\$ 180,393</b>	<b>\$ 120,771</b>
<b>Disposals - NBV</b>				
Rental equipment	\$ 13,283	\$ 3,341	\$ 24,741	\$ 6,803
Property, plant and equipment	131	1,041	311	1,090
<b>Total Disposals - NBV</b>	<b>\$ 13,414</b>	<b>\$ 4,382</b>	<b>\$ 25,052</b>	<b>\$ 7,893</b>
<b>Depreciation</b>				
Cost of goods sold	\$ 31,618	\$ 28,182	\$ 61,801	\$ 54,735
Selling and administrative expenses	5,320	5,729	10,762	11,145
<b>Total Depreciation</b>	<b>\$ 36,938</b>	<b>\$ 33,911</b>	<b>\$ 72,563</b>	<b>\$ 65,880</b>

### 3. LONG-TERM DEBT

	June 30 2019	December 31 2018	June 30 2018
7.06%, \$15.0 million, due March 29, 2019 <sup>(1)</sup>	\$ -	\$ 1,022	\$ 2,010
3.71%, \$150.0 million, due September 30, 2025 <sup>(2)</sup>	150,000	150,000	150,000
3.84%, \$500.0 million, due October 27, 2027 <sup>(2)</sup>	500,000	500,000	500,000
Senior debentures	650,000	651,022	652,010
\$250.0 million term credit facility	-	-	100,000
	<b>650,000</b>	651,022	752,010
Debt issuance costs, net of amortization	<b>(4,995)</b>	(5,460)	(6,241)
<b>Total long-term debt</b>	<b>\$ 645,005</b>	\$ 645,562	\$ 745,769
Less: Current portion of long-term debt	-	(1,022)	(2,010)
<b>Non-current portion of long-term debt</b>	<b>\$ 645,005</b>	\$ 644,540	\$ 743,759

<sup>(1)</sup> Blended principal and interest payments payable semi-annually through to maturity.

<sup>(2)</sup> Interest payable semi-annually, principal due on maturity.

All debt is unsecured.

The Company maintains a \$500.0 million committed revolving credit facility which matures in October 2022. Debt under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing debentures. Interest is based on a floating rate, primarily bankers' acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

No amounts were drawn on the revolving credit facility at June 30, 2019, December 31, 2018 or June 30, 2018. Letters of credit utilized \$30.2 million of the facility at June 30, 2019 (December 31, 2018 - \$29.9 million and June 30, 2018 - \$27.4 million).

### 4. SHARE CAPITAL

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

No shares were purchased and cancelled under the NCIB program during the three and six months ended June 30, 2019 and 2018.

#### Dividends

The Company paid dividends of \$22.0 million or \$0.27 per share during the three months ended June 30, 2019 (2018 - \$18.6 million or \$0.23 per share) and \$40.7 million or \$0.50 per share during the six months ended June 30, 2019 (2018 - \$34.0 or \$0.42 per share).

The quarterly dividend was increased on February 14, 2019, to \$0.27 per share effective with the dividend paid on April 3, 2019.

## 5. FINANCIAL INSTRUMENTS

### Financial Assets and Liabilities – Classification and Measurement

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

	June 30 2019	December 31 2018	June 30 2018
<b>Other financial liabilities:</b>			
Current portion of long-term debt	\$ -	\$ 1,022	\$ 2,010
Long-term debt	\$ 645,005	\$ 644,540	\$ 743,759
<b>Derivative financial instruments - asset (liability):</b>			
Foreign exchange forward contracts	\$ (12,554)	\$ 27,624	\$ 15,456

### Fair Value of Financial Instruments

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

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

	June 30 2019	December 31 2018	June 30 2018
<b>Long-term debt</b>			
Fair value	\$ 691,903	\$ 655,575	\$ 760,325
Carrying value	\$ 650,000	\$ 651,022	\$ 752,010

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company has no plans to prepay these instruments prior to maturity. The valuation is determined using Level 2 inputs which are observable inputs or inputs which can be corroborated by observable market data for substantially the full term of asset or liability.

During the six month period ended June 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

### Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts and options are transacted with financial institutions to hedge foreign currency denominated obligations related to purchases of inventory and sales of products. As at June 30, 2019, the Company was committed to USD purchase contracts with a notional amount of \$598.5 million at an average exchange rate of \$1.3286, maturing between July 2019 and December 2020. The Company was also committed to USD sell contracts with a notional amount

of \$6.8 million at an average exchange rate of \$1.3136, maturing between April 2019 and April 2020.

Management estimates that a loss of \$12.6 million (December 31, 2018 – gain of \$27.6 million; gain of June 31, 2018 – \$15.5 million) would be realized if the contracts were terminated on June 30, 2019. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized loss of \$4.0 million (December 31, 2018 – gain of \$4.4 million; June 30, 2018 – gain of \$2.1 million) has been included in other comprehensive income. These losses/gains are not expected to affect net income as the amounts will be reclassified to net income within the next eighteen months and will offset gains/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 loss of \$8.6 million (December 31, 2018 – gain of \$23.2 million; June 30, 2018 – gain of \$13.4 million) on forward contracts not designated as hedges is included in net income, which offsets gains/losses recorded on the foreign-denominated items, namely accounts payable.

## 6. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Credit facilities	\$ 453	\$ 1,273	\$ 869	\$ 3,194
Senior debentures	6,286	6,446	12,544	12,909
Interest accretion on repayment of term credit facility	-	-	-	511
Interest on lease liabilities	249	-	494	-
	<b>\$ 6,988</b>	<b>\$ 7,719</b>	<b>\$ 13,907</b>	<b>\$ 16,614</b>

The components of interest and investment income were as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Interest on conversion of rental equipment	\$ 990	\$ 657	\$ 1,927	\$ 1,663
Other	1,218	1,394	2,853	2,567
	<b>\$ 2,208</b>	<b>\$ 2,051</b>	<b>\$ 4,780</b>	<b>\$ 4,230</b>

## 7. EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net earnings available to common shareholders	\$ 77,398	\$ 67,610	\$ 116,659	\$ 98,389
Weighted average common shares outstanding	81,510,292	81,131,332	81,418,746	81,054,292
Dilutive effect of stock option conversions	673,484	818,588	661,616	789,017
Diluted weighted average common shares outstanding	82,183,776	81,949,920	82,080,362	81,843,309
Earnings per share:				
Basic	\$ 0.95	\$ 0.83	\$ 1.43	\$ 1.21
Diluted	\$ 0.94	\$ 0.83	\$ 1.42	\$ 1.20

For the three and six months ended June 30, 2019, 573,400 (2018 – nil) outstanding share options were excluded from the calculation of diluted earnings per share as the impact would have been anti-dilutive.

## 8. STOCK BASED COMPENSATION

A reconciliation of the outstanding options was as follows:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,636,070	\$ 43.78	2,628,036	\$ 34.85
Exercised <sup>(1)</sup>	(307,015)	27.33	(330,015)	21.23
Forfeited	(15,500)	53.33	(4,000)	46.84
Options outstanding, June 30	2,313,555	\$ 45.90	2,294,021	\$ 36.78
Options exercisable, June 30	804,815	\$ 33.99	793,221	\$ 28.19

<sup>(1)</sup> The weighted average share price at date of exercise for the six months ended June 30, 2019 was \$67.90 (2018 - \$57.76).

The following table summarizes stock options outstanding and exercisable as at June 30, 2019.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$20.76	24,100	0.1	\$ 20.76	24,100	\$ 20.76
\$23.40 - \$26.79	418,180	4.8	\$ 25.59	330,960	\$ 25.35
\$36.65 - \$39.79	829,150	6.6	\$ 38.30	362,670	\$ 37.97
\$53.88 - \$66.22	1,042,125	8.7	\$ 60.67	87,085	\$ 53.88
	<b>2,313,555</b>	<b>7.1</b>	<b>\$ 45.90</b>	<b>804,815</b>	<b>\$ 33.99</b>

## Deferred Share Unit Plan

A reconciliation of the DSU plan was as follows:

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	358,151	\$ 19,005	426,279	\$ 23,417
Units taken or taken in lieu and dividends	18,492	792	17,928	999
Redemptions	-	-	(83,030)	(4,799)
Fair market value adjustment	-	3,278	-	798
Outstanding, June 30	376,643	\$ 23,075	361,177	\$ 20,415

The liability for deferred share units is recorded in accounts payable and accrued liabilities.

## 9. EMPLOYEE FUTURE BENEFITS

Employee future benefits expense included the following components:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Defined benefit plans	\$ 3,346	\$ 4,409	\$ 7,161	\$ 8,829
Curtailment gain	-	-	(5,000)	-
Defined contribution plans	3,264	3,158	6,975	6,516
401(k) matched savings plans	67	75	132	154
	\$ 6,677	\$ 7,642	\$ 9,268	\$ 15,499

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. A single component of this comprehensive alignment 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).

## 10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net change in non-cash working capital and other				
Accounts receivable	\$ (73,301)	\$ (72,338)	\$ (17,058)	\$ (24,181)
Inventories	(54,789)	752	(196,197)	(84,594)
Accounts payable and accrued liabilities	79,637	145,095	8,838	280,755
Provisions	(250)	278	(545)	679
Deferred revenues and contract liabilities	(1,486)	12,295	11,332	36,701
Income taxes	6,914	9,992	(31,132)	4,623
Derivative financial instruments	15,191	(5,968)	31,794	(16,281)
Other	2,358	1,752	(1,250)	(2,797)
	\$ (25,726)	\$ 91,858	\$ (194,218)	\$ 194,905
Cash paid during the period for:				
Interest	\$ 13,009	\$ 13,464	\$ 13,658	\$ 15,296
Income taxes	\$ 22,745	\$ 14,910	\$ 74,496	\$ 31,943
Cash received during the period for:				
Interest	\$ 2,044	\$ 1,866	\$ 4,560	\$ 3,779

## 11. SEGMENTED INFORMATION

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

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

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

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

No reportable segment is reliant on any single external customer.

The following tables set forth information by segment for the three and six month periods ended June 30, 2019 and 2018:

Three months ended June 30	Equipment Group		CIMCO		Consolidated	
	2019	2018	2019	2018	2019	2018
Equipment/package sales	\$ 413,797	\$ 446,546	\$ 44,882	\$ 53,826	\$ 458,679	\$ 500,372
Rentals	105,245	91,697	-	-	105,245	91,697
Product support	373,819	333,206	37,981	33,321	411,800	366,527
Power generation	2,596	2,671	-	-	2,596	2,671
<b>Total revenues</b>	<b>\$ 895,457</b>	<b>\$ 874,120</b>	<b>\$ 82,863</b>	<b>\$ 87,147</b>	<b>\$ 978,320</b>	<b>\$ 961,267</b>
<b>Operating income</b>	<b>\$ 104,455</b>	<b>\$ 93,927</b>	<b>\$ 6,573</b>	<b>\$ 5,053</b>	<b>\$ 111,028</b>	<b>\$ 98,980</b>
Interest expense					6,988	7,719
Interest and investment income					(2,208)	(2,051)
Income taxes					28,850	25,702
<b>Net earnings</b>					<b>\$ 77,398</b>	<b>\$ 67,610</b>

Six months ended June 30	Equipment Group		CIMCO		Consolidated	
	2019	2018	2019	2018	2019	2018
Equipment/package sales	\$ 652,506	\$ 703,850	\$ 76,409	\$ 89,445	\$ 728,915	\$ 794,795
Rentals	186,327	162,571	-	-	186,327	161,071
Product support	685,378	615,403	72,553	61,559	757,931	676,962
Power generation	5,121	5,267	-	-	5,121	5,267
<b>Total revenues</b>	<b>\$ 1,529,332</b>	<b>\$ 1,487,091</b>	<b>\$ 148,962</b>	<b>\$ 151,004</b>	<b>\$ 1,678,294</b>	<b>\$ 1,638,095</b>
<b>Operating income</b>	<b>\$ 162,128</b>	<b>\$ 139,722</b>	<b>\$ 7,683</b>	<b>\$ 8,473</b>	<b>\$ 169,811</b>	<b>\$ 148,195</b>
Interest expense					13,907	16,614
Interest and investment income					(4,780)	(4,230)
Income taxes					44,025	37,422
<b>Net earnings</b>					<b>\$ 116,659</b>	<b>\$ 98,389</b>

Operating income from rental operations was \$11.4 million for the three months ended June 30, 2019 (2018 – \$7.5 million) and \$14.0 million for the six months ended June 30, 2019 (2018 - \$6.6 million).

## 12. SEASONALITY OF BUSINESS

Interim period revenues and earnings historically reflect seasonality. For the Equipment Group, the first quarter is typically the weakest due to winter shutdowns in the construction industry while the fourth quarter has consistently been the strongest quarter due to higher conversions at the Caterpillar dealership of equipment on rent with a purchase option. For CIMCO, the fourth quarter tends to be the strongest due to higher activity in recreational markets in advance of the winter recreational season.