

TOROMONT

Second Quarter 2021

July 28, 2021

TOROMONT ANNOUNCES RESULTS FOR THE SECOND QUARTER OF 2021 AND QUARTERLY DIVIDEND

Toromont Industries Ltd. (TSX: TIH) reported its financial results for the second quarter ended June 30, 2021.

<i>millions, except per share amounts</i>	Three months ended June 30			Six months ended June 30		
	2021	2020	% change	2021	2020	% change
Revenues	\$ 1,127.1	\$ 849.6	33%	\$ 1,933.3	\$ 1,565.1	24%
Operating income	\$ 122.5	\$ 77.1	59%	\$ 192.7	\$ 132.4	46%
Net earnings	\$ 85.4	\$ 51.2	67%	\$ 133.4	\$ 88.6	51%
Basic earnings per share ("EPS")	\$ 1.03	\$ 0.62	66%	\$ 1.62	\$ 1.08	50%

We are pleased with the overall activity levels in our end markets and are proud of our team's dedication and ability to adjust to ongoing changes in the environment and customer requirements. The second quarter of 2020 was hardest hit by the pandemic response and restrictions, resulting in the increases reported in 2021 against this comparable. The Equipment Group reported strong prime product deliveries and excellent order bookings, reflecting robust activity levels. Rental and product support activity increased as equipment usage improved. CIMCO revenues increased on project execution, while product support activity continued to be dampened by COVID-19 restrictions, particularly within the recreational segment where facilities remained closed or usage limited.

Highlights:

Consolidated results

- Revenues increased 33% in the quarter versus the same period last year on higher sales in both the Equipment Group and CIMCO. This reflected improved activity levels in most markets and across all regions, as well as good execution from our teams. Product support revenues were 14% higher and rental revenues were up 27% compared to the similar quarter last year reflecting the initial impact of COVID-19 in the second quarter of 2020.
- Revenues increased 24% to \$1.9 billion year-to-date, as the improved activity in end markets continued. Strong deliveries from order backlogs and on improving demand drove equipment and packages revenues up 44% higher, while product support and rental revenues increased 7%.
- Operating income⁽¹⁾ increased 59% in the quarter and 46% year-to-date on the higher revenues. Operating income was 10.0% of revenues for the first half of 2021 compared to 8.5% in the similar period last year, improving on the higher activity levels.

- Backlogs⁽¹⁾ were \$957.8 million at June 30, 2021, compared to \$496.5 million at June 30, 2020, reflecting strong bookings⁽¹⁾ in the Equipment Group over the last three quarters and timing of order delivery.
- Net earnings increased \$34.2 million or 67% in the quarter versus a year ago to \$85.4 million and EPS (basic) was up 66% to \$1.03 per share.
- For the first half of the year, net earnings increased \$44.8 million or 51% and EPS (basic) was up 50% to \$1.62 per share.

Equipment Group

- Revenues increased \$239.8 million or 31% to \$1.0 billion for the quarter on strong equipment sales combined with higher product support and rental activity in most markets and across all regions.
- Revenues were up \$309.4 million or 22% to \$1.7 billion year-to-date with similar trends as the quarter.
- Operating income was up \$44.0 million or 61% to \$116.4 million reflecting higher revenues coupled with a lower expense ratio to revenues.
- Operating income was up \$58.7 million or 46% to \$186.3 million year-to-date, on the same reasons as noted for the quarter. Operating income margin increased 180 bps to 10.7%.
- Bookings increased \$335.9 million or 113% to \$633.9 million in the quarter and \$684.4 million or 108% to \$1.3 billion year-to-date. Most of the sectors reported higher orders, particularly in the mining and construction sectors.
- Backlogs of \$810.3 million at the end of June 2021 were up \$541.5 million or 201% from the end of June 2020 across all sectors. Approximately 65% of the backlog is expected to be delivered this year; certain mining orders are scheduled for delivery next year based on customer requirements.

CIMCO

- Revenues of \$110.5 million increased \$37.6 million or 52% compared to the second quarter last year, with strong package revenues, up \$37.6 million or 104%, reflecting build out of industrial orders booked in 2020. Product support sales remained flat, largely on lower activity in the recreational segment stemming from site restrictions.
- Revenues increased \$58.8 million or 45% to \$189.4 million year-to-date on increased package revenues. Product support sales decreased \$2.6 million or 4% versus 2020, as activity was impacted by site restrictions, particularly in the recreational segment.
- Operating income increased 31% to \$6.1 million in the quarter on the higher revenues. Operating income was 5.5% as a percentage of revenues (Q2 2020 – 6.4%), reflecting

lower gross margins on larger industrial projects and on product mix (lower proportion of product support to total).

- Operating income was up \$1.7 million or 35% to \$6.5 million year-to-date on similar reasons as noted for the quarter above. Operating income margin decreased to 3.4% (2020 – 3.7%) reflecting the unfavourable sales mix.
- Bookings were down \$5.9 million or 11% in the quarter and \$80.2 million or 49% year-to-date, mainly on lower industrial orders in Canada with several large industrial orders received in the first quarter of 2020.
- Backlogs of \$147.5 million were lower by \$80.2 million or 35%, against a very strong level last year, reflecting project build out and lower bookings to date. Subject to construction site access and schedules, approximately 90% of the backlog is estimated to be realized as revenue this year.

Financial Position

- Toromont's share price of \$108.00 at the end of June 2021, translated to a market capitalization⁽¹⁾ and a total enterprise value⁽¹⁾ of \$8.9 billion.
- The Company maintained a very strong financial position. Leverage as represented by the net debt to total capitalization⁽¹⁾ ratio was -1% at the end of June 2021 (net cash position), compared to 3% at December 2020 and 12% at June 2020.
- The Board of Directors announced a quarterly dividend of 35 cents per common share, payable on October 4, 2021 to shareholders on record on September 8, 2021. The quarterly dividend was previously increased 12.9% to 35 cents per share effective with the dividend paid July 5, 2021.
- Return on opening shareholders' equity⁽¹⁾ was 19.0% at June 30, 2021, on a trailing twelve-month basis, compared to 16.6% at December 2020, and 18.7% at June 2020. Trailing twelve month pre-tax return on capital employed⁽¹⁾ was 24.2% at the end of June 2021, compared to 20.4% at December 2020, and 20.2% at June 2020.

On July 15, 2021, the Board of Directors announced the retirement of its Chairman, Mr. Robert M. Ogilvie. Mr. Ogilvie's exemplary 36-year career with the Company started in 1985 when he joined as President and included 20 years as Chief Executive Officer and 34 years as Chairman. During Mr. Ogilvie's tenure, Toromont built significant value for shareholders, resulting from disciplines that were embedded in a culture of decentralization, empowerment and accountability. These principles remain core to the Toromont foundation today and a solid platform on which to build our future. In 1985, the Company's market capitalization was \$31 million and has grown to more than \$8.9 billion as at June 30, 2021. Additionally, the Company has increased its dividend consistently each year since 1989. During his time as Chairman and Chief Executive Officer, the Company's transformational growth was substantial. Mr. Ogilvie's outstanding financial and operational acumen were instrumental in leading strategic events including the 1993 acquisition of the Ontario Caterpillar dealership. Through strong operating performance, the Company accelerated further expansion in 1996, with the acquisition of the Newfoundland and Labrador dealership followed by Manitoba and most of Nunavut territories in 2001. There were many other milestone events

including the 1996 acquisition of the Battlefield Equipment Rental business that originally consisted of one store, and has since grown to over 70 outlets from Manitoba to Newfoundland. In 2011, under Mr. Ogilvie's leadership, there was further transformation with the bifurcation of Enerflex Systems Ltd. This decision positioned the business well to focus on growing the dealership, rental and refrigeration businesses. As Chairman, his counsel was instrumental in the acquisition of the Quebec and Maritime dealerships, our largest transaction to date.

Robert was a leader and mentor to many of today's Toromont leadership team and Board of Directors. The entire organization wishes Robert well in his retirement and thanks him for his significant contributions to Toromont's success and his steadfast commitment to our employees, customers and shareholders.

Mr. Richard Roy who joined the Toromont Board in 2018, has been appointed Chairman. Mr. Roy is Chair of Toromont's Environmental, Social and Governance Committee and is a member of the Audit Committee. During his more than 35 years of business experience, he spent 16 years at Uni-Select, where he advanced through several senior executive roles including Vice President, Administration and Chief Financial Officer, Vice President and Chief Operating Officer and President and Chief Executive Officer.

We continue to provide essential services and solutions to our clients, while remaining diligently focused on safeguarding our employees, and protecting our business for the future. We appreciate our entire team's incredible effort and on-going commitment to adapt to changes in the business environment. In the quarter, market activity was very strong and in some cases putting pressure on supply chain availability and delivery date extensions. Although vaccination rates in the main markets we serve are improving, caution is warranted given the changing status of the pandemic and response. Technician hiring remains a priority to meet demand. The diversity of our geographic landscape and markets served, extensive product and service offerings, and financial strength together with our disciplined operating culture, continue to position us well to build for the future.

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, 2021, 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 six months ended June 30, 2021, the annual MD&A contained in the 2020 Annual Report and the audited annual consolidated financial statements for the year ended December 31, 2020.

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 July 28, 2021.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2020 Annual Report and the 2021 Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.toromont.com.

Advisory

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; potential risks and uncertainties relating to the novel COVID-19 global pandemic, including an economic downturn, reduction or disruption in supply or demand for our products and services, or adverse impacts on our workforce, capital resources, or share trading price or liquidity; increased regulation of or restrictions placed on our businesses as a result of COVID-19; changes in foreign exchange rates, including the Cdn\$/US\$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities of the acquired businesses and changes to environmental regulation; information technology failures, including data or cyber security breaches; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; any requirement of Toromont to make contributions to the registered funded defined benefit pension plans, postemployment benefits plan or the multi-employer pension plan obligations in which it participates and acquired in excess of those currently contemplated; and increased insurance premiums. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections of Toromont's most recent annual Management Discussion and Analysis, as filed with Canadian securities regulators at www.sedar.com or at our website www.toromont.com. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

CONSOLIDATED OPERATING RESULTS

(\$ thousands, except per share amounts)	Three months ended June 30				Six months ended June 30			
	2021	2020	\$ change	% change	2021	2020	\$ change	% change
REVENUES	\$ 1,127,066	\$ 849,597	\$ 277,469	33%	\$ 1,933,304	\$ 1,565,056	368,248	24%
Cost of goods sold	872,360	655,810	216,550	33%	1,491,220	1,200,411	290,809	24%
Gross profit ⁽¹⁾	254,706	193,787	60,919	31%	442,084	364,645	77,439	21%
Selling and administrative expenses	132,198	116,653	15,545	13%	249,360	232,270	17,090	7%
OPERATING INCOME ⁽¹⁾	122,508	77,134	45,374	59%	192,724	132,375	60,349	46%
Interest expense	7,002	7,890	(888)	(11%)	14,179	14,821	(642)	(4%)
Interest and investment income	(2,260)	(1,564)	(696)	45%	(4,264)	(4,289)	25	(1%)
Income before income taxes	117,766	70,808	46,958	66%	182,809	121,843	60,966	50%
Income taxes	32,366	19,598	12,768	65%	49,453	33,237	16,216	49%
NET EARNINGS	85,400	51,210	34,190	67%	133,356	88,606	44,750	51%
BASIC EARNINGS PER SHARE	\$ 1.03	\$ 0.62	\$ 0.41	66%	\$ 1.62	\$ 1.08	\$ 0.54	50%
KEY RATIOS:								
Gross profit margin ⁽¹⁾	22.6%	22.8%			22.9%	23.3%		
Selling and administrative expenses as a % of revenues	11.7%	13.7%			12.9%	14.8%		
Operating income margin ⁽¹⁾	10.9%	9.1%			10.0%	8.5%		
Income taxes as a % of income before income taxes	27.5%	27.7%			27.1%	27.3%		

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

In 2020, the second quarter was hardest hit by the impact of pandemic site restrictions and shutdowns resulting in lower revenues and profit margins, and impacting comparability of results in the current year.

The Company delivered solid results in the second quarter of 2021. Market activity increased in the Equipment Group and CIMCO continued to deliver on the order backlog. Improving operational efficiency and leveraging learnings from the past year are a focus. We continue to operate with caution given the rapidly changing situation driven by COVID-19 variants.

Revenues increased \$277.5 million or 33% for the quarter and \$368.2 million or 24% year-to-date on higher activity in both the Equipment Group and CIMCO. Equipment Group revenues increased 31% in the quarter and 22% year-to-date on higher equipment deliveries. CIMCO revenues increased 52% in the quarter and 45% year-to-date as build out on industrial segment projects advanced.

Gross profit margin decreased 20 basis points ("bps") to 22.6% in the quarter and 40 bps year-to-date. The Equipment Group reported slightly increased margins in the quarter and unchanged year-to-date on improved rental fleet margins reflecting higher utilization and fleet adjustments (selective dispositions and additions), partially offset by a less favourable sales mix (lower product support to total revenues). CIMCO's margins were lower in both the quarter and year-to-date, on a less favourable sales mix of product support revenues to total revenues, and lower average margins on projects in process.

Selling and administrative expenses were \$15.5 million (13%) higher in the second quarter compared to the prior year. The mark-to-market adjustment on deferred share units (DSUs) was \$1.6 million higher than the second quarter of 2020, on a higher share price in the current year. All other compensation increased \$8.5 million reflecting lower expense levels in the prior year as a result of initiatives undertaken at that time in response to reduced market activity, including work-share programs, lay-offs, and \$0.8 million in benefits received under the Canada Emergency Wage Subsidy ("CEWS") program. Other selling and administrative expenses increased \$8.0 million, reflecting expenses in support of the higher sales activity, as well as such items as travel and training. Bad debt expense decreased \$2.5 million on good collections.

On a year-to-date basis, selling and administrative expenses increased \$17.1 million or 7%. The mark-to-market adjustment on DSUs was \$7.0 million higher than the first half of 2020 on a higher share price in the current year. All other compensation costs increased \$7.4 million reflecting similar reasons as noted above for the quarter. Other selling and administrative expenses increased \$4.9 million, reflecting expenses in support of the higher sales activity, including travel and training costs. Bad debt expense decreased \$2.3 million on good collections. Selling and administrative expenses were 12.9% of revenues, compared to 14.8% in 2020, reflecting higher revenues in the current period and continued expense containment.

Operating income increased \$45.4 million or 59% in the quarter to \$122.5 million and \$60.3 million or 46% to \$192.7 million year-to-date and was 150 bps higher as a percentage of revenues (10.0% versus 8.5% last year). Revenue growth exceeded growth in expenses as COVID-19 restrictions and the spending containment focus continues.

Interest expense decreased \$0.9 million in the quarter and \$0.6 million year-to-date, on lower debt levels.

Interest income increased \$0.7 million in the quarter on higher cash balances in the period and decreased 1% year-to-date on lower interest rates earned on cash balances.

The effective income tax rate was 27.5% for the quarter and 27.1% year-to-date, and was lower than the comparable period last year, reflecting lower rates on capital gains and other items in the current year.

Net earnings were up \$34.2 million or 67% to \$85.4 million for the quarter and \$44.8 million or 51% to \$133.4 million year-to-date. Basic earnings per share ("EPS") increasing 66% to \$1.03 for the quarter and 50% to \$1.62 year-to-date.

Comprehensive income in the quarter was \$96.6 million (2020 – \$3.9 million) and \$178.8 million year-to-date (2020 – \$71.9 million). Other comprehensive income included an actuarial gain on post-employment benefit plans of \$7.8 million after-tax for the quarter (2020 – actuarial loss of \$37.0 million) and year-to-date actuarial gain of \$42.1 million (2020 – actuarial loss of \$19.2 million). These gains/losses reflect changes in the weighted average discount rates used in the valuation, which are reflective of underlying financial markets, as well as changes in the fair value of pension plan assets. Other comprehensive income also included a favorable net change in the fair value of cash flow hedges of \$3.6 million after-tax for the quarter (2020 – unfavourable net change of \$9.9 million) and year-to-date a favorable net change of \$3.7 million after-tax (2020 – favourable net change of \$2.0 million). These changes reflect mark-to-market differences in the value of foreign exchange derivative contracts designated as cash flow hedges and are largely a function of the underlying USD/CAD exchange rates at period end compared to contract date.

BUSINESS SEGMENT OPERATING RESULTS

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

Equipment Group

(\$ thousands)	Three months ended June 30				Six months ended June 30			
	2021	2020	\$ change	% change	2021	2020	\$ change	% change
Equipment sales and rentals								
New	\$ 448,978	\$ 286,805	\$ 162,173	57%	\$ 699,305	\$ 473,578	\$ 225,727	48%
Used	110,546	100,592	9,954	10%	183,314	165,554	17,760	11%
Rentals	91,463	72,299	19,164	27%	163,761	153,277	10,484	7%
Total equipment sales and rentals	650,987	459,696	191,291	42%	1,046,380	792,409	253,971	32%
Product support	362,859	314,317	48,542	15%	692,083	636,668	55,415	9%
Power generation	2,699	2,690	9	0%	5,465	5,402	63	1%
Total revenues	\$ 1,016,545	\$ 776,703	\$ 239,842	31%	\$ 1,743,928	\$ 1,434,479	\$ 309,449	22%
Operating income	\$ 116,447	\$ 72,497	\$ 43,950	61%	\$ 186,260	\$ 127,573	\$ 58,687	46%
KEY RATIOS:								
Product support revenues as a % of total revenues	35.7%	40.5%			39.7%	44.4%		
Operating income margin	11.5%	9.3%			10.7%	8.9%		
Group total revenues as a % of consolidated revenues	90.2%	91.4%			90.2%	91.7%		

The Equipment Group continued its positive growth trend from the first quarter, delivering solid results for the second quarter of 2021, on higher equipment deliveries and continued expense discipline. As business prospects improve with the easing of pandemic restrictions and release of some pent up demand, customers have commenced equipment ordering.

Total equipment sales (new and used) increased \$172.1 million or 44% in the quarter and \$243.5 million or 38% year-to-date. Sales increased across all markets and regions for the quarter (and first half): construction markets +38% (+36%); power systems +15% (+18%); material handling +26% (+19%); agricultural +76% (+76%); and mining +181% (+97%).

Rental revenues were up \$19.2 million (+27%) in the quarter and \$10.5 million (+7%) year-to-date. Most markets and segments were up, reflecting continued improvement in market activity in the second quarter against a weak comparable last year. Revenue increases in each market for the quarter (and first half) were as follows: Light equipment rentals +22% (+7%), power system +29% (+5%), heavy equipment rentals +100% (+49%) and material handling +34% (+13%). Rental revenues from equipment on rent with a purchase option ("RPO") were down 15% in the quarter and 35% year-to-date on a smaller average fleet reflecting recent customer preference for purchase versus rental (RPO). As at June 30, 2021 the RPO fleet was \$32.2 million versus \$43.0 million at this time last year.

Product support revenues grew \$48.5 million or 15% in the quarter and \$55.4 million or 9% in the first half, with increases in both parts and service. Activity was up in the majority of the markets and across all regions in both the quarter (and first half of the year): construction markets +19% (+12%), mining +12% (+5%) and material handling +37% (+25%). Agricultural activity was relatively unchanged for the quarter and year-to-date.

Gross profit margins increased 20 bps in the quarter and remained flat year-to-date compared to last year. Equipment and product support margins were largely unchanged in both the quarter and year-to-date. Rental margins were higher in both periods (150 bps for the quarter and 120 bps year-to-date) reflecting higher utilization as well as fleet adjustments (selective dispositions and additions) over the last year. A shift in sales mix with a lower proportion of product support revenues to total revenues decreased margin by 130 bps in both periods. Product support revenues in both periods were lower as a percentage of total revenues compared to both the second quarter (down 480 bps to 35.7%) and year-to-date (down 470 bps to 39.7%) last year, mainly due to stronger comparative equipment sales in the current year.

Selling and administrative expenses were up \$13.0 million or 12% in the quarter, \$14.5 million or 7% for the first half of 2021. The increase is mainly attributable to higher compensation costs and the mark-to-market adjustment on DSUs. Other expenses increased in support of higher activity levels and after a reduced spending period, such as travel and training. Allowance for doubtful accounts decreased \$3.0 million in the quarter and \$1.9 million in the first half of the year, on good collection activity. Selling and administrative expenses were 180 basis points lower as a percentage of revenues (12.7% versus 14.5% last year), reflecting stronger sales and the continuation of certain expenditure controls implemented over the past year.

Operating income increased in both the quarter (up \$44.0 million or 61% to \$116.4 million) and year-to-date (up \$58.7 million or 46% to \$186.3 million), mainly reflecting the higher revenues coupled with a lower expense ratio to revenues.

Bookings and Backlogs

(\$ millions)	2021	2020	\$ change	% change
Bookings - three months ended June 30	\$ 633.9	\$ 298.0	\$ 335.9	113%
Bookings - six months ended June 30	\$ 1,320.0	\$ 635.6	\$ 684.4	108%
Backlogs - as at June 30	\$ 810.3	\$ 268.8	\$ 541.5	201%

New bookings continued to grow stronger in the second quarter, up \$335.9 million or 113%. The majority of the sectors reported higher orders: construction (+122%), mining (+165%), power systems (+97%), and material handling (+87%), slightly offset by agriculture (-34%).

On a year-to-date basis, bookings increased \$684.4 million or 108% to \$1.3 billion, reflecting increases across all sectors.

Backlogs of \$810.3 million were up \$541.5 million or 201% across all sectors. At June 30, 2021, the total backlog related to construction (43%), power systems (18%), mining (33%), agriculture (3%) and material handling (3%). Approximately 65% of order backlog is currently expected to be delivered this year based on customer schedules, however this is subject to vendor supply.

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 June 30				Six months ended June 30			
	2021	2020	\$ change	% change	2021	2020	\$ change	% change
Package sales	\$ 73,712	\$ 36,111	\$ 37,601	104%	\$120,101	\$ 58,720	\$ 61,381	105%
Product support	36,809	36,783	26	0%	69,275	71,857	(2,582)	(4%)
Total revenues	\$ 110,521	\$ 72,894	\$ 37,627	52%	\$189,376	\$130,577	\$ 58,799	45%
Operating income	\$ 6,061	\$ 4,637	\$ 1,424	31%	\$ 6,464	\$ 4,802	\$ 1,662	35%
KEY RATIOS:								
Product support revenues as a % of total revenues	33.3%	50.5%			36.6%	55.0%		
Operating income margin	5.5%	6.4%			3.4%	3.7%		
Group total revenues as a % of consolidated revenues	9.8%	8.6%			9.8%	8.3%		

CIMCO's results for the second quarter and first half of 2021 were higher than the prior year, on construction project build outs and easing of site restrictions since this time last year. Customer

specific constructions schedules also affect timing of revenue recognition. Product support activity continued in certain segments given the essential nature of the business, however remained limited in the recreational market.

Package revenues were up \$37.6 million or 104% with an increase in both the recreational (up 27%) and industrial (up 147%) markets in the quarter. 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 \$38.6 million or 149% reflecting higher industrial revenues, principally on the build out of a major industrial project. In the US, package revenues decreased \$0.9 million or 9% on a smaller activity base, with higher revenues in the industrial market and lower revenues in the recreational markets. Year to date, package sales were \$61.4 million or 105% higher than last year with build out of projects in both market segments (industrial up 147% and recreational up 31%). Package sales increased in both Canada (up \$58.0 million or 127%) and the US (up \$3.4 million or 26%), with increases in both the recreational and industrial markets in Canada and the US.

Product support revenues remained relatively flat for the second quarter and decreased \$2.6 million or 4% for the first half of the year. Revenues in Canada decreased 5% in the quarter and 6% year-to-date reflecting lower economic activity resulting from continued site restrictions in most areas and reduced demand particularly in recreational centres, which have been closed or severely restricted by the pandemic. In the US, the higher technician base continued to support activity levels resulting in 16% increase in the quarter and 4% increase year-to-date, albeit on a smaller base.

Gross profit margins decreased 420 bps in the quarter versus last year. The decrease in gross profit margins was due to lower package margins (down 250 bps) and higher product support margins (up 40 bps) combined with a lower sales mix of product support revenues to total revenues (down 200 bps). Margins mainly reflect activity levels, nature of projects in process and construction schedules, which are variable. Year-to-date, gross profit margins decreased 470 bps with lower package margin (down 240 bps) combined with unfavourable sales mix of product support revenues to total revenues (down 250 bps), slightly offset by higher product support margins (up 10 bps). Lower package margins were generally reflective of the nature of projects; execution was generally good and in line with estimates.

Selling and administrative expenses were up \$2.5 million or 21% in the quarter reflecting the higher activity levels. Certain costs such as travel and training were higher after a period of deferred spending. Compensation expenses increased in support of the higher activity levels and reflecting higher profit sharing accruals on the higher income. On a year-to-date basis, selling and administrative expenses increased \$2.6 million or 10% due to similar reasons as the quarter. As a percentage of revenues, selling and administrative expenses were lower at 14.3% in the first half of 2021 versus 18.7% for the similar period last year, reflecting the higher revenues and spending control.

Operating income increased \$1.4 million or 31% in the quarter and \$1.7 million or 35% year-to-date, reflecting higher package revenues, partially offset by lower gross margins.

Bookings and Backlogs

<i>(\$ millions)</i>	2021	2020	\$ change	% change
Bookings - three months ended June 30	\$ 46.1	\$ 52.0	\$ (5.9)	(11%)
Bookings - six months ended June 30	\$ 84.0	\$ 164.2	\$ (80.2)	(49%)
Backlogs - as at June 30	\$ 147.5	\$ 227.7	\$ (80.2)	(35%)

Bookings were down \$5.9 million or 11% to \$46.1 million in the quarter, in both markets. Recreational bookings were 4% lower on reduced market activity in Canada, slightly offset by higher activity in the US. The industrial markets were down 15% with reduced activity in both Canada and the US.

On a year-to-date basis, bookings were down \$80.2 million or 49% to \$84.0 million, in both markets. Several exceptionally large industrial orders were received in Canada in the first quarter of 2020, resulting in a decrease in bookings compared to last year. Industrial orders were down 59% with a decrease in Canada (down 64%) offset by an increase in the US (up 102%). Recreational orders decreased 18% to \$34.7 million, with decreases in both the US (down 31%) and Canada (down 14%).

Backlogs of \$147.5 million declined 35% versus June last year on progress of construction. Approximately 90% of the backlog is expected to be realized as revenue this year, however this is subject to construction schedules and potential changes stemming from the COVID-19 pandemic.

CONSOLIDATED FINANCIAL CONDITION

The Company maintained a strong financial position. At June 30, 2021, the ratio of net debt to total capitalization was -1% (net cash position), compared to 3% at December 31, 2020, and 12% at June 30, 2020. Cash balance was \$660.8 million at June 30, 2021.

Non-cash Working Capital

Investment in non-cash working capital was \$521.6 million at June 30, 2021. The major components, along with the changes from June 30 and December 31, 2020, are identified in the following table.

<i>(\$ thousands)</i>	June 30 2021	June 30 2020	Change		December 31 2020	Change	
			\$	%		\$	%
Accounts receivable	\$ 531,530	\$ 458,377	\$ 73,153	16%	\$ 541,580	\$ (10,050)	(2%)
Inventories	712,868	932,676	(219,808)	(24%)	728,404	(15,536)	(2%)
Other current assets	13,637	11,064	2,573	23%	10,897	2,740	25%
Accounts payable and accrued liabilities	(516,293)	(740,848)	224,555	(30%)	(558,443)	42,150	(8%)
Provisions	(26,724)	(24,583)	(2,141)	9%	(26,645)	(79)	0%
Income taxes recoverable (payable)	8,616	3,555	5,061	142%	(23,281)	31,897	(137%)
Derivative financial instruments	(633)	(4,123)	3,490	(85%)	(11,043)	10,410	(94%)
Dividends payable	(28,929)	(25,446)	(3,483)	14%	(25,560)	(3,369)	13%
Deferred revenues and contract liabilities	(172,516)	(142,516)	(30,000)	21%	(149,109)	(23,407)	16%
Total non-cash working capital	\$ 521,556	\$ 468,156	\$ 53,400	11%	\$ 486,800	\$ 34,756	7%

Accounts receivable increased 16% compared to June 30, 2020, mainly reflecting the 33% increase in revenues in the quarter, offset by good collection activity. Days sales outstanding

("DSO") decreased 5 days to 36 days on an improvement in both the Equipment Group (down 5 days) and CIMCO (down 6 days).

In comparison to December 31, 2020, accounts receivable decreased 2% on good collection activity. DSO was 41 days at December 31, 2020.

Inventories at June 30, 2021, were 24% lower compared to June 30, 2020:

- Equipment Group inventories were down \$204.8 million or 23%, reflecting lower levels of equipment (down \$164.9 million or 29%), service work-in-process (down \$4.6 million or 6%), and parts (down \$35.2 million or 14%). Equipment and parts inventories were intentionally reduced throughout last year in light of lower market activity levels, while recent higher sales levels further reduced inventory levels. Lower work-in-process levels reflects focus on improved invoicing cycle.
- CIMCO inventories were down \$15.1 million or 47%, on lower work-in-process levels (down 53%) on the advancement of construction schedules.

Inventories at June 30, 2021 were 2% lower compared to December 31, 2020:

- Equipment Group inventories were relatively unchanged with an increase in work-in-progress (up 25%), offset by a slight decrease in equipment inventory (down 1%) and parts inventory (down 3%). 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 typically busy selling period. As seen in the first half of 2021, changes in supply chain availability can affect these trends.
- CIMCO inventories were down 52% on lower work-in-process (down 58%) reflecting project construction progress.

Other current assets are comprised mainly of prepaid expenses, and vary from period to period based on timing of receipt of invoice and payment.

Accounts payable and accrued liabilities at June 30, 2021, were 30% lower than at June 30, 2020, principally due to the timing of purchases and payments for inventory. Accounts payable have reverted to normal levels as transitional terms provided in conjunction with the 2017 acquisition ended mid-year 2020. This was partially offset by the higher DSU liability on the higher relative closing share price.

In comparison to December 31, 2020, accounts payable and accrued liabilities were down 8%, mainly reflecting the timing of purchase and payment for inventory and other supplies and the payment of annual performance incentive bonuses.

Income taxes recoverable/(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 (weaker) led to a cumulative net loss of \$0.6 million as at June 30, 2021. This is not expected to affect net earnings as the unrealized losses offset future gains on the related hedged items, either current accounts payable or future transactions.

Dividends payable increased compared to June 30 and December 31, 2020, reflecting the higher dividend rate and higher number of shares outstanding. The quarterly dividend rate was increased 12.9% from \$0.31 per share to \$0.35 per share, effective with the July 5, 2021 payment.

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

- In the Equipment Group, these balances arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. At June 30, 2021, these were up 36% versus June 30, 2020 and up 41% versus December 31, 2020, largely related to progress billings and customer deposits for future equipment deliveries.
- At CIMCO, these balances arise on progress billings from the sale of refrigeration packages. As at June 30, 2021, these were down 23% versus June 30, 2020 and down 41% versus December 31, 2020, reflecting the timing of billings compared to customer's construction schedules.

Legal and Other Contingencies

Due to the size, complexity and nature of the Company's operations, various legal matters are pending. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management and by active management of these matters. In the opinion of management, none of these matters will have a material effect on the Company's consolidated financial position or results of operations.

Outstanding Share Data

As at the date of this MD&A, the Company had 82,655,063 common shares and 2,429,190 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 6, 2019	October 2, 2019	\$0.27	\$22.0
December 9, 2019	January 3, 2020	\$0.27	\$22.0
March 9, 2020	April 2, 2020	\$0.31	\$25.4
June 9, 2020	July 3, 2020	\$0.31	\$25.4
September 8, 2020	October 2, 2020	\$0.31	\$25.5
December 9, 2020	January 5, 2021	\$0.31	\$25.6
March 9, 2021	April 1, 2021	\$0.31	\$25.6
June 9, 2021	July 5, 2021	\$0.35	\$28.9

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 credit facilities.

The Company maintains a \$500.0 million committed revolving credit facility that matures in October 2022. Toromont's debt under this 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 this facility as at June 30, 2021 (December 31, 2020 - \$nil; June 30, 2020 - \$100.0 million). Standby letters of credit issued utilized \$30.0 million of the facility as at June 30, 2021 (December 31, 2020 - \$30.8 million and June 30, 2020 - \$34.0 million).

The Company entered into an additional \$250.0 million committed revolving credit facility on April 17, 2020, that matured in April 2021. This facility was never drawn, and was not renewed at maturity.

The Company expects that continued cash flows from operations in 2021, together with cash on hand and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets. The Company also has a certain degree of flexibility in its operating and investing plans to mitigate fluctuations.

Principal Components of Cash Flow

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

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Cash, beginning of period	\$ 613,942	\$ 388,182	\$ 591,128	\$ 365,589
Cash, provided by (used in):				
Operating activities				
Operations	123,370	99,619	209,714	181,515
Change in non-cash working capital and other	15,022	89,585	(14,375)	(8,966)
Net rental fleet additions	(40,172)	(5,743)	(46,236)	(29,973)
	98,220	183,461	149,103	142,576
Investing activities	(28,198)	(10,247)	(31,054)	(19,544)
Financing activities	(23,154)	(24,271)	(48,329)	48,356
Effect of foreign exchange on cash balances	(39)	50	(77)	198
Increase in cash in the period	46,829	148,993	69,643	171,586
Cash, end of period	\$ 660,771	\$ 537,175	\$ 660,771	\$ 537,175

Cash Flows from Operating Activities

Operating activities provided cash in both the second quarter and first half of 2021.

Cash generated from operations increased for the quarter (up 24%) and year-to-date (up 16%) from the similar periods last year on the higher net earnings.

Non-cash working capital provided cash in the second quarter of 2021. Reduced inventory levels due to recent market activity and other payables, along with higher deferred revenues and contract liabilities, were offset by increases in accounts receivables and customer deposits and timing of payments of taxes. Compared to 2020 cash was provided on similar reasons as above however at a lesser rate, as incremental increases in accounts receivables and deferred revenues were lower due to lower revenues.

On a year-to-date basis non-cash working capital used more cash in 2021 as compared to the first six months of 2020, as the higher accounts payable and other payables, coupled with the lower inventories levels, and higher deferred revenues and contract liabilities, were more than offset by higher accounts receivable and timing of payments of income tax instalments.

Net rental fleet additions (purchases less proceeds of dispositions) increased in both the second quarter and first half of 2021 compared to the similar periods last year. Additional investment in both the heavy and light equipment rental fleets reflect increased demand and improving market conditions.

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

Cash Flows from Investing Activities

Investments in property, plant and equipment totalled \$28.3 million in the second quarter of 2021, related largely to expansion of branch facilities (\$16.8 million) and normal replacement of service and delivery vehicles (\$11.5 million). Capital expenditures in 2020 of \$10.4 million largely related to an investment in land for potential branch expansion.

On a year-to-date basis, additions to property, plant and equipment totalled \$32.9 million. Disposition proceeds in the first half of 2021 were \$1.6 million (2020 - \$9.4 million), resulting in a capital gain of \$1.2 million (2020 - \$4.1 million), or \$1.0 million after-tax (2020 - \$3.5 million).

Cash Flows from Financing Activities

During the second quarter of 2021, the Company used \$23.2 million (2020 – used \$24.3 million) in cash in financing activities, major uses and sources of cash during the quarter included:

- Dividends paid to common shareholders of \$25.6 million or \$0.31 per share (2020 – \$25.4 million or \$0.31 per share);
- Cash received on exercise of share options of \$4.9 million (2020 – \$4.9 million); and
- Lease liability payments of \$2.5 million versus \$3.5 million for the comparable period last year.

For the six months ended June 30, 2021, financing activities used \$48.3 million (2020 – provided \$48.4 million) in cash, major uses and sources of cash during this period included:

- Dividends paid to common shareholders of \$51.1 million or \$0.62 per share (2020 – \$47.6 million or \$0.58 per share);
- Cash received on exercise of share options of \$7.9 million (2020 – \$6.4 million);
- Lease liability payments of \$5.1 million (2020 – \$6.1 million);
- In 2020, purchase of shares under the NCIB program used \$4.0 million (2021 – \$nil); and,
- In 2020, in an abundance of caution at the onset of the pandemic, \$100.0 million was drawn on the term credit facility (2021 – \$nil).

OUTLOOK

The duration and impact of the COVID-19 pandemic is uncertain and it is not possible to estimate the length and severity of these developments nor the impact on the financial results and condition of the Company in future periods. Vaccination programs are underway and generally restrictions are being eased or phased out across most of our territories. However, there is ongoing concern and uncertainty created by vaccine uptake levels and known and potential new COVID-19 variants. It is possible that emergency measures will be needed in future and will continue to evolve based on local conditions.

The Equipment Group's parts and service business provides stability along with a large and diversified installed base of equipment, so long as it is working in the field. Prior to the pandemic, the long-term outlook for infrastructure projects and other construction activity was positive across most territories. Mining customers and jurisdictions they operate in continue to evaluate appropriate activity levels on a daily/weekly basis. Longer term, mine expansion will remain dependent on global economic and financial conditions.

The protection and support of our people remains a priority. In particular, our technical workforce provide one of our most valuable service offerings for our customers. Workforce planning initiatives continue to be reviewed and monitored in light of current and expected activity levels.

Investment in broader product lines, rental equipment, and the development of product support technologies supporting remote diagnostics and telematics and digital information models to enhance CRM activity represent a strategic platform aligned to longer-term growth once economic, financial and social environments return to a more normalized state.

CIMCO's installed base and product support levels provide a platform for current and future operations and 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. Recreational markets have been slow due to pandemic restrictions, however longer term, opportunity exists. Current backlogs are supportive of future activity, although carry somewhat lower gross margins due to the nature of projects in process.

The diversity of the markets served, expanding product offering and services, strong financial position and disciplined operating culture position the Company well for continued growth in the long term.

QUARTERLY RESULTS

The following table summarizes unaudited quarterly consolidated financial data for the eight most recently completed quarters. This quarterly information is unaudited but has been prepared on the same basis as the 2020 annual audited consolidated financial statements.

<i>(\$ thousands, except per share amounts)</i>	Q3 2020	Q4 2020	Q1 2021	Q2 2021
REVENUES				
Equipment Group	\$ 834,716	\$ 896,904	\$ 727,383	\$ 1,016,545
CIMCO	86,940	95,281	78,855	110,521
Total revenues	\$ 921,656	\$ 992,185	\$ 806,238	\$ 1,127,066
NET EARNINGS	\$ 77,359	\$ 88,950	\$ 47,956	\$ 85,400
PER SHARE INFORMATION:				
Basic earnings per share	\$ 0.94	\$ 1.08	\$ 0.58	\$ 1.03
Diluted earnings per share	\$ 0.94	\$ 1.07	\$ 0.58	\$ 1.02
Dividends paid per share	\$ 0.31	\$ 0.31	\$ 0.31	\$ 0.35
Weighted average common shares outstanding - basic (in thousands)	82,195	82,373	82,499	82,587

<i>(\$ thousands, except per share amounts)</i>	Q3 2019	Q4 2019	Q1 2020	Q2 2020
REVENUES				
Equipment Group	\$ 881,487	\$ 933,131	\$ 657,776	\$ 776,703
CIMCO	93,734	92,059	57,683	72,894
Total revenues	\$ 975,221	\$ 1,025,190	\$ 715,459	\$ 849,597
NET EARNINGS	\$ 79,688	\$ 90,454	\$ 37,396	\$ 51,210
PER SHARE INFORMATION:				
Basic earnings per share	\$ 0.98	\$ 1.10	\$ 0.46	\$ 0.62
Diluted earnings per share	\$ 0.97	\$ 1.10	\$ 0.45	\$ 0.62
Dividends paid per share	\$ 0.27	\$ 0.27	\$ 0.27	\$ 0.31
Weighted average common shares outstanding - basic (in thousands)	81,622	81,897	82,015	82,024

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The pandemic has affected seasonal trends and may result in variations to historically experienced trends.

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.

In 2020 and 2021, these patterns were impacted by the governmental and market response and reaction to COVID-19. The second quarter of 2020 experienced the most significant slowdown in market activity. COVID-19 variants, vaccine roll-out and further governmental measures may continue to further alter the typical seasonal trend.

RISKS AND RISK MANAGEMENT

The significant risks and uncertainties affecting the Company and its business are discussed in the Company's MD&A for the year ended December 31, 2020 under "Risks and Risk Management". The following is an update to the changes in the risks or uncertainties facing the Company since that date.

Pandemic Risk (Coronavirus COVID-19)

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

Vaccination rates have increased and many provinces and territories are phasing in reduced restrictions. Variants of concern could still result in higher case counts and the resumption of shutdowns, which could continue to adversely impact the Company for a prolonged period.

The Company continues to focus on ensuring the continued safety of our employees, while continuing to serve our customers' needs as an essential service, and protecting the business and organization for the long-term. The Critical Incident Executive Response Team remains in effect and focuses on developing plans, assessing developments and responding appropriately. The Company is updating employees on a frequent basis to provide information on the situation and on necessary precautions to take. The Company continues to have an open dialogue with public safety and government officials at all levels, as well as key suppliers, partners and customers.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Accounting Policies

The significant accounting policies used in the preparation of the accompanying unaudited interim condensed consolidated financial statements are consistent with those used in the Company's 2020 audited annual consolidated financial statements, and described in note 1 therein. Several

amendments, apply for the first time in 2021, but do not have an impact on the unaudited interim condensed consolidated financial statements of the Company for the three and six month periods ending June 30, 2021.

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 2020 audited annual consolidated financial statements, contained in the Company's 2020 Annual Report.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, under the supervision of the President and Chief Executive Officer ("CEO") and Executive Vice President and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures, as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and have designed such disclosure controls and procedures, or have caused it to be designed under their supervision, to provide reasonable assurance that material information with respect to Toromont is made known to them.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as designed were effective as at June 30, 2021.

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 six month periods ended June 30, 2021, 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 June 30		Six months ended June 30	
	2021	2020	2021	2020
Net earnings	\$ 85,400	\$ 51,210	\$ 133,356	\$ 88,606
<i>plus:</i> Interest expense	7,002	7,890	14,179	14,821
<i>less:</i> Interest and investment income	(2,260)	(1,564)	(4,264)	(4,289)
<i>plus:</i> Income taxes	32,366	19,598	49,453	33,237
Operating income	\$ 122,508	\$ 77,134	\$ 192,724	\$ 132,375
Total Revenues	1,127,066	849,597	1,933,304	1,565,056
Operating income margin	10.9%	9.1%	10.0%	8.5%

Net Debt to Total Capitalization/Equity

Net debt to total capitalization/equity are calculated as net debt divided by total capitalization and shareholders' equity, respectively, as defined below, and are used by management as measures of the Company's financial leverage.

Net debt is calculated as long-term debt plus current portion of long-term debt less cash. Total capitalization is calculated as shareholders' equity plus net debt.

The calculations are as follows:

<i>(\$ thousands)</i>	June 30 2021	December 31 2020	June 30 2020
Long-term debt	\$ 646,867	\$ 646,299	\$ 745,712
less: Cash	660,771	591,128	537,175
Net debt	(13,904)	55,171	208,537
Shareholders' equity	1,833,640	1,698,652	1,560,050
Total capitalization	\$ 1,819,736	\$ 1,753,823	\$ 1,768,587
Net debt to total capitalization	-1%	3%	12%
Net debt to equity	-0.01:1	0.03:1	0.13:1

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>(\$ thousands)</i>	June 30 2021	December 31 2020	June 30 2020
Total current assets	\$ 1,927,521	\$ 1,872,144	\$ 1,943,031
less: Total current liabilities	745,194	794,216	937,700
Working capital	\$ 1,182,327	\$ 1,077,928	\$ 1,005,331

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>	June 30 2021	December 31 2020	June 30 2020
Total current assets	\$ 1,927,521	\$ 1,872,144	\$ 1,943,031
<i>less:</i> Cash	660,771	591,128	537,175
	1,266,750	1,281,016	1,405,856
Total current liabilities	745,194	794,216	937,700
Non-cash working capital	\$ 521,556	\$ 486,800	\$ 468,156

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 shares and share price)</i>	June 30 2021	December 31 2020	June 30 2020
Outstanding common shares	82,655,063	82,474,658	82,095,368
<i>times:</i> Ending share price	\$ 108.00	\$ 89.20	\$ 67.37
Market capitalization	\$ 8,926,747	\$ 7,356,739	\$ 5,530,765
Long-term debt	\$ 646,867	\$ 646,299	\$ 745,712
<i>less:</i> Cash	660,771	591,128	537,175
Net debt	\$ (13,904)	\$ 55,171	\$ 208,537
Total enterprise value	\$ 8,912,843	\$ 7,411,910	\$ 5,739,302

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		
	June 30 2021	December 31 2020	June 30 2020
Net earnings	\$ 299,664	\$ 254,915	\$ 258,747
<i>plus:</i> Interest expense	29,339	29,981	28,621
<i>less:</i> Interest and investment income	(9,057)	(9,083)	(9,261)
<i>plus:</i> Interest income - rental conversions	3,633	3,529	3,559
<i>plus:</i> Income taxes	112,837	96,621	96,952
Adjusted net earnings	\$ 436,416	\$ 375,963	\$ 378,618
Average capital employed	\$ 1,800,007	\$ 1,838,533	\$ 1,873,759
Return on capital employed	24.2%	20.4%	20.2%

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		
	June 30 2021	December 31 2020	June 30 2020
Net earnings	\$ 299,664	\$ 254,915	\$ 258,747
Opening shareholders' equity (net of adjustments)	\$ 1,573,428	\$ 1,538,817	\$ 1,383,862
Return on equity	19.0%	16.6%	18.7%

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

(\$ thousands)	Note	June 30 2021	December 31 2020	June 30 2020
Assets				
Current assets				
Cash		\$ 660,771	\$ 591,128	537,175
Accounts receivable		531,530	541,580	458,377
Inventories		712,868	728,404	932,676
Income taxes recoverable		8,715	135	3,739
Other current assets		13,637	10,897	11,064
Total current assets		1,927,521	1,872,144	1,943,031
Property, plant and equipment	2	434,309	423,282	431,691
Rental equipment	2	546,861	539,412	575,349
Other assets		27,972	33,263	39,985
Deferred tax assets		494	504	1,293
Goodwill and intangible assets		476,448	478,187	481,092
Total assets		\$ 3,413,605	\$ 3,346,792	\$ 3,472,441
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 545,222	\$ 584,003	\$ 766,294
Provisions		26,724	26,645	24,583
Deferred revenues and contract liabilities		172,516	149,109	142,516
Derivative financial instruments	5	633	11,043	4,123
Income taxes payable		99	23,416	184
Total current liabilities		745,194	794,216	937,700
Deferred revenues and contract liabilities		32,200	16,383	11,557
Long-term lease liabilities		14,382	16,565	19,699
Long-term debt	3, 5	646,867	646,299	745,712
Post-employment obligations	9	94,543	149,451	157,406
Deferred tax liabilities		46,779	25,226	40,317
Total liabilities		1,579,965	1,648,140	1,912,391
Shareholders' equity				
Share capital	4	526,025	516,591	497,350
Contributed surplus		15,562	14,243	14,592
Retained earnings		1,290,128	1,169,239	1,045,989
Accumulated other comprehensive income (loss)		1,925	(1,421)	2,119
Total shareholders' equity		1,833,640	1,698,652	1,560,050
Total liabilities and shareholders' equity		\$ 3,413,605	\$ 3,346,792	\$ 3,472,441

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	
		2021	2020	2021	2020
Revenues	11	\$ 1,127,066	\$ 849,597	\$ 1,933,304	\$ 1,565,056
Cost of goods sold		872,360	655,810	1,491,220	1,200,411
Gross profit		254,706	193,787	442,084	364,645
Selling and administrative expenses		132,198	116,653	249,360	232,270
Operating income		122,508	77,134	192,724	132,375
Interest expense	6	7,002	7,890	14,179	14,821
Interest and investment income	6	(2,260)	(1,564)	(4,264)	(4,289)
Income before income taxes		117,766	70,808	182,809	121,843
Income taxes		32,366	19,598	49,453	33,237
Net earnings		\$ 85,400	\$ 51,210	\$ 133,356	\$ 88,606
Earnings per share					
Basic	7	\$ 1.03	\$ 0.62	\$ 1.62	\$ 1.08
Diluted	7	\$ 1.02	\$ 0.62	\$ 1.60	\$ 1.07
Weighted average number of shares outstanding					
Basic	7	82,586,778	82,024,236	82,542,927	82,019,838
Diluted	7	83,462,230	82,468,858	83,332,327	82,483,651

See accompanying notes

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

(\$ thousands)	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net earnings	\$ 85,400	\$ 51,210	\$ 133,356	\$ 88,606
Other comprehensive (loss) income, net of income taxes:				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation adjustments	(168)	(454)	(312)	477
Unrealized (losses) gains on derivatives designated as cash flow hedges	(5,182)	(11,307)	(9,289)	8,299
Income tax recovery (expense)	1,350	2,977	2,417	(2,178)
Unrealized (losses) gains on cash flow hedges, net of income taxes	(3,832)	(8,330)	(6,872)	6,121
Realized losses (gains) on derivatives designated as cash flow hedges	9,987	(2,102)	14,233	(5,630)
Income tax (recovery) expense	(2,599)	555	(3,703)	1,492
Realized losses (gains) on cash flow hedges, net of income taxes	7,388	(1,547)	10,530	(4,138)
<i>Items that will not be reclassified subsequently to net earnings:</i>				
Actuarial and other gains (losses)	10,617	(50,338)	57,210	(26,116)
Income tax (expense) recovery	(2,814)	13,341	(15,161)	6,922
Actuarial and other gains (losses), net of income taxes	7,803	(36,997)	42,049	(19,194)
Other comprehensive income (loss)	11,191	(47,328)	45,395	(16,734)
Total comprehensive income	\$ 96,591	\$ 3,882	\$ 178,751	\$ 71,872

See accompanying notes

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

(\$ thousands)	Note	Three months ended June 30		Six months ended June 30	
		2021	2020	2021	2020
Operating activities					
Net earnings		\$ 85,400	\$ 51,210	\$ 133,356	\$ 88,606
Items not requiring cash:					
Depreciation and amortization		39,620	41,219	78,691	83,086
Stock-based compensation		1,410	1,410	2,876	2,820
Post-employment obligations		357	3,624	2,302	5,585
Deferred income taxes		1,506	5,958	5,117	13,313
Gain on sale of rental equipment and property, plant and equipment		(4,923)	(3,802)	(12,628)	(11,895)
		123,370	99,619	209,714	181,515
Net change in non-cash working capital and other	10	15,022	89,585	(14,375)	(8,966)
Additions to rental equipment	2	(54,701)	(18,433)	(78,341)	(55,065)
Proceeds on disposal of rental equipment		14,529	12,690	32,105	25,092
Cash provided by operating activities		98,220	183,461	149,103	142,576
Investing activities					
Additions to property, plant and equipment	2	(28,297)	(10,435)	(32,902)	(29,452)
Proceeds on disposal of property, plant and equipment		143	258	1,936	10,024
Decrease in other assets		(44)	(70)	(88)	(116)
Cash used in investing activities		(28,198)	(10,247)	(31,054)	(19,544)
Financing activities					
Drawings on credit facility		-	-	-	100,000
Debt issuance costs		-	(281)	-	(281)
Dividends paid	4	(25,587)	(25,435)	(51,147)	(47,574)
Cash received on exercise of stock options		4,939	4,898	7,877	6,392
Shares purchased for cancellation	4	-	-	-	(4,043)
Payment of lease liabilities		(2,506)	(3,453)	(5,059)	(6,138)
Cash (used in) provided by financing activities		(23,154)	(24,271)	(48,329)	48,356
Effect of currency translation on cash balances		(39)	50	(77)	198
Increase in cash during the period		46,829	148,993	69,643	171,586
Cash, at beginning of the period		613,942	388,182	591,128	365,589
Cash, at end of the period		\$ 660,771	\$ 537,175	\$ 660,771	\$ 537,175

Supplemental cash flow information (note 10)

See accompanying notes

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

	Share capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)			Total shareholders' equity
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges	Total	
(\$ thousands, except share numbers)								
At January 1, 2021	82,474,658	\$ 516,591	\$ 14,243	\$ 1,169,239	\$ 1,880	\$ (3,301)	\$ (1,421)	\$ 1,698,652
Net earnings	-	-	-	133,356	-	-	-	133,356
Other comprehensive income	-	-	-	42,049	(312)	3,658	3,346	45,395
Total comprehensive income	-	-	-	175,405	(312)	3,658	3,346	178,751
Exercise of stock options	180,405	9,434	(1,557)	-	-	-	-	7,877
Stock-based compensation expense	-	-	2,876	-	-	-	-	2,876
Effect of stock compensation plans	180,405	9,434	1,319	-	-	-	-	10,753
Dividends declared	-	-	-	(54,516)	-	-	-	(54,516)
At June 30, 2021	82,655,063	\$ 526,025	\$ 15,562	\$ 1,290,128	\$ 1,568	\$ 357	\$ 1,925	\$ 1,833,640
At January 1, 2020	82,012,448	\$ 490,047	\$ 13,088	\$ 1,031,097	\$ 2,219	\$ (2,560)	\$ (341)	\$ 1,533,891
Net earnings	-	-	-	88,606	-	-	-	88,606
Other comprehensive loss	-	-	-	(19,194)	477	1,983	2,460	(16,734)
Total comprehensive income	-	-	-	69,412	477	1,983	2,460	71,872
Exercise of stock options	150,720	7,708	(1,316)	-	-	-	-	6,392
Stock-based compensation expense	-	-	2,820	-	-	-	-	2,820
Effect of stock compensation plans	150,720	7,708	1,504	-	-	-	-	9,212
Shares purchased for cancellation	(67,800)	(405)	-	(3,638)	-	-	-	(4,043)
Dividends declared	-	-	-	(50,882)	-	-	-	(50,882)
At June 30, 2020	82,095,368	\$ 497,350	\$ 14,592	\$ 1,045,989	\$ 2,696	\$ (577)	\$ 2,119	\$ 1,560,050

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three and six months ended June 30, 2021
(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.

Basis of Preparation

These interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard (“IAS”) 34 — *Interim Financial Reporting* (“IAS 34”). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the year ended December 31, 2020.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements, were the same as those that applied to the Company’s consolidated financial statements as at and for the year ended December 31, 2020. Management also incorporated the potential impact of COVID-19 into its estimates and assumptions.

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

These interim condensed consolidated financial statements were authorized for issue by the Board of the Directors on July 28, 2021.

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, 2020. Several amendments apply for the first time in 2021, but do not have an impact on the interim condensed consolidated financial statements of the Company. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Additions				
Rental equipment	\$ 54,701	\$ 18,433	\$ 78,341	\$ 55,065
Property, plant and equipment	28,297	10,435	32,902	29,452
Total additions	\$ 82,998	\$ 28,868	\$ 111,243	\$ 84,517
Disposals - Net book value ("NBV")				
Rental equipment	\$ 9,735	\$ 9,041	\$ 20,850	\$ 17,559
Property, plant and equipment	14	107	563	5,664
Total disposals - NBV	\$ 9,749	\$ 9,148	\$ 21,413	\$ 23,223
Depreciation				
Cost of goods sold	\$ 31,550	\$ 31,821	\$ 62,614	\$ 63,912
Selling and administrative expenses	4,415	5,574	8,639	11,484
Total depreciation	\$ 35,965	\$ 37,395	\$ 71,253	\$ 75,396

3. LONG-TERM DEBT

	June 30 2021	December 31 2020	June 30 2020
Bank revolving credit facility	\$ -	\$ -	\$ 100,000
Senior Debentures:			
3.71%, \$150.0 million, due September 30, 2025 ⁽¹⁾	150,000	150,000	150,000
3.84%, \$500.0 million, due October 27, 2027 ⁽¹⁾	500,000	500,000	500,000
	650,000	650,000	750,000
Debt issuance costs, net of amortization	(3,133)	(3,701)	(4,288)
Total long-term debt	\$ 646,867	\$ 646,299	\$ 745,712

⁽¹⁾ Interest payable semi-annually, principal due on maturity.

All debt is unsecured.

The Company maintains a \$500.0 million committed revolving credit facility that matures in October 2022. Debt under this 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 this facility as at June 30, 2021 (December 31, 2020 – \$nil; June 30, 2020 – \$100.0 million). Standby letters of credit issued utilized \$30.0 million of the facility as at June 30, 2021 (December 31, 2020 – \$30.8 million and June 30, 2020 – \$34.0 million).

The Company entered into an additional \$250.0 million committed revolving credit facility on April 17, 2020, that matured in April 2021. This facility was never drawn, and was not renewed at maturity.

4. SHARE CAPITAL

Normal Course Issuer Bid (“NCIB”)

The Company purchased and cancelled 67,800 common shares for \$4.0 million (average cost of \$59.62 per share, including transaction costs) under the NCIB program during the six months ended June 30, 2020.

The Company’s NCIB expired in August 2020 and was not renewed.

Dividends

The Company paid dividends of \$25.6 million or \$0.31 per share during the three months ended June 30, 2021 (2020 – \$25.4 million or \$0.31 per share) and \$51.2 million or \$0.62 per share during the six months ended June 30, 2021 (2020 – \$47.6 million or \$0.58 per share).

The quarterly dividend was increased on May 4, 2021, to \$0.35 per share effective with the dividend paid on July 5, 2021.

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 2021	December 31 2020	June 30 2020
Other financial liabilities:			
Long-term debt	\$ 646,867	\$ 646,299	\$ 745,712
Derivative financial instruments (liabilities) assets, net:			
Foreign exchange forward contracts	\$ (633)	\$ (11,043)	\$ (4,123)

Fair Value of Financial Instruments

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

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

Long-term debt	June 30 2021	December 31 2020	June 30 2020
Fair value	\$ 705,971	\$ 726,871	\$ 816,318
Carrying value	\$ 650,000	\$ 650,000	\$ 750,000

The fair value was determined using the discounted cash flow method, a generally accepted valuation technique. The discounted factor is based on market rates for debt with similar terms and remaining maturities and based on Toromont's credit risk. The Company does not plan to prepay these instruments prior to maturity.

During the six months ended June 30, 2021, 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, 2021, the Company was committed to USD purchase contracts with a notional amount of \$551.5 million at an average exchange rate of \$1.2405, maturing between July 2021 and March 2023. The Company was also committed to USD sell contracts with a notional amount of \$20.6 million at an average exchange rate of \$1.2277, maturing between July 2021 and June 2022.

Management estimates that a loss of \$0.4 million (December 31, 2020 – loss of \$11.0 million; June 30, 2020 – loss of \$4.1 million) would be realized if the contracts were terminated on June 30, 2021. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of \$0.5 million (December 31, 2020 – unrealized loss of \$4.4 million; June 30, 2020 – unrealized loss of \$0.8 million) has been included in other comprehensive income (loss). These gains/losses are not expected to affect net earnings as the amounts will be reclassified to net earnings within the next 11 months and will offset losses recorded on the underlying hedged items, namely foreign currency-denominated accounts payable and accrued liabilities. Certain of those forward contracts are not designated as cash flow hedges, but are entered into for periods consistent with foreign currency exposure of the underlying transactions. A loss of \$0.9 million (December 31, 2020 – loss of \$6.6 million; June 30, 2020 – loss of \$3.3 million) on forward contracts not designated as hedges is included in net earnings, which offsets losses recorded on the foreign currency-denominated items, namely accounts payable and accrued liabilities.

6. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Credit facilities	\$ 544	\$ 1,383	\$ 1,292	\$ 1,793
Senior debentures	6,289	6,262	12,532	12,540
Interest on lease liabilities	169	245	355	488
	\$ 7,002	\$ 7,890	\$ 14,179	\$ 14,821

The components of interest and investment income were as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Interest on conversion of rental equipment	\$ 536	\$ 433	\$ 1,306	\$ 1,203
Other	1,724	1,131	2,958	3,086
	\$ 2,260	\$ 1,564	\$ 4,264	\$ 4,289

7. EARNINGS PER SHARE

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net earnings available to common shareholders	\$ 85,400	\$ 51,210	\$ 133,356	\$ 88,606
Weighted average common shares outstanding	82,586,778	82,024,236	82,542,927	82,019,838
Dilutive effect of stock option conversions	875,452	444,622	789,400	463,813
Diluted weighted average common shares outstanding	83,462,230	82,468,858	83,332,327	82,483,651
Earnings per share:				
Basic	\$ 1.03	\$ 0.62	\$ 1.62	\$ 1.08
Diluted	\$ 1.02	\$ 0.62	\$ 1.60	\$ 1.07

For the three and six months period ended June 30, 2021, 367,957 outstanding share options with an average exercise price of \$104.91 were considered anti-dilutive (exercise price in excess of average market price) and were excluded from the calculation.

For the three-month period ended June 30, 2020, 998,740 outstanding share options with an average exercise price of \$65.96 were considered anti-dilutive and were excluded from the calculation. There were no anti-dilutive options in the six-month period ended June 30, 2020.

8. STOCK-BASED COMPENSATION

A reconciliation of the outstanding options was as follows:

	Six months ended June 30, 2021		Six months ended June 30, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,328,038	\$ 58.67	2,329,705	\$ 51.68
Granted	367,957	104.91	-	-
Exercised ⁽¹⁾	(180,405)	43.66	(150,720)	42.41
Forfeited	(86,400)	57.55	(2,000)	65.97
Options outstanding, June 30	2,429,190	\$ 66.83	2,176,985	\$ 52.30
Options exercisable, June 30	666,370	\$ 47.35	786,495	\$ 40.40

⁽¹⁾ The weighted average share price at date of exercise for the six months ended June 30, 2021 was \$100.88 (2020 – \$67.10).

The following table summarizes stock options outstanding and exercisable as at June 30, 2021.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$23.40 – \$26.52	118,590	2.7	\$ 25.36	118,590	\$ 25.36
\$36.65 – \$39.79	281,760	4.7	\$ 38.64	212,800	\$ 38.26
\$53.88 – \$66.22	1,130,940	7.2	\$ 62.94	334,980	\$ 60.91
\$66.23 – \$72.95	529,943	9.1	\$ 72.95	-	\$ -
\$104.91	367,957	9.9	\$ 104.91	-	\$ -
	2,429,190	7.5	\$ 66.83	666,370	\$ 47.35

The fair value of the stock options granted during the three- and six-month period ended June 30, 2021 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30 2021
Fair value price per option	\$ 18.23
Share price	\$ 104.91
Expected life of options (years)	5.30
Expected stock price volatility	21.5%
Expected dividend yield	1.33%
Risk-free interest rate	0.90%

Deferred Share Unit (“DSU”) Plan

A reconciliation of the DSU plan was as follows:

	Six months ended June 30, 2021		Six months ended June 30, 2020	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	394,154	\$ 35,555	388,547	\$ 27,392
Units taken or taken in lieu and dividends	18,191	1,721	18,460	1,227
Redemptions	(157,421)	(15,346)	(23,477)	(1,527)
Fair market value adjustment	-	5,261	-	(1,766)
Outstanding, June 30	254,924	\$ 27,191	383,530	\$ 25,326

The liability for DSUs is recorded in accounts payable and accrued liabilities.

9. EMPLOYEE FUTURE BENEFITS

Employee future benefits expense included the following components:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Defined benefit plans	\$ 4,586	\$ 4,913	\$ 9,497	\$ 9,827
Defined contribution plans	4,223	3,637	8,072	7,638
401(k) matched savings plans	62	68	130	138
	\$ 8,871	\$ 8,618	\$ 17,699	\$ 17,603

10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net change in non-cash working capital and other				
Accounts receivable	\$ (48,686)	\$ (4,229)	\$ 10,050	\$ 66,675
Inventories	47,219	43,725	15,536	(20,490)
Accounts payable and accrued liabilities	3,815	15,086	(41,923)	(56,717)
Provisions	1,690	296	79	903
Deferred revenues and contract liabilities	5,179	(12,305)	39,224	(3,232)
Income taxes	4,167	13,096	(31,897)	5,720
Derivative financial instruments	(600)	27,833	(5,466)	(3,561)
Other	2,238	6,083	22	1,736
	\$ 15,022	\$ 89,585	\$ (14,375)	\$ (8,966)
Cash paid during the year for:				
Interest	\$ 9,605	\$ 9,605	\$ 12,388	\$ 13,697
Income taxes	\$ 26,707	\$ 80	\$ 77,721	\$ 13,950
Cash received during the year for:				
Interest	\$ 2,213	\$ 1,397	\$ 4,142	\$ 4,012
Income taxes	\$ -	\$ -	\$ 1,461	\$ 166

11. SEGMENTED INFORMATION

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

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

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

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

No reportable segment is reliant on any single external customer.

The following table sets forth information by segment for the three and six months ended June 30, 2021 and 2020:

Three months ended June 30	Equipment Group		CIMCO		Consolidated	
	2021	2020	2021	2020	2021	2020
Equipment/package sales	\$ 559,524	\$ 387,397	\$ 73,712	\$ 36,111	\$ 633,236	\$ 423,508
Rentals	91,463	72,299	-	-	91,463	72,299
Product support	362,859	314,317	36,809	36,783	399,668	351,100
Power generation	2,699	2,690	-	-	2,699	2,690
Total revenues	\$ 1,016,545	\$ 776,703	\$ 110,521	\$ 72,894	\$ 1,127,066	\$ 849,597
Operating income	\$ 116,447	\$ 72,497	\$ 6,061	\$ 4,637	\$ 122,508	\$ 77,134
Interest expense					7,002	7,890
Interest and investment income					(2,260)	(1,564)
Income taxes					32,366	19,598
Net earnings					\$ 85,400	\$ 51,210

Six months ended June 30	Equipment Group		CIMCO		Consolidated	
	2021	2020	2021	2020	2021	2020
Equipment/package sales	\$ 882,619	\$ 639,132	\$ 120,101	\$ 58,720	\$ 1,002,720	\$ 697,852
Rentals	163,761	153,277	-	-	163,761	153,277
Product support	692,083	636,668	69,275	71,857	761,358	708,525
Power generation	5,465	5,402	-	-	5,465	5,402
Total revenues	\$ 1,743,928	\$ 1,434,479	\$ 189,376	\$ 130,577	\$ 1,933,304	\$ 1,565,056
Operating income	\$ 186,260	\$ 127,573	\$ 6,464	\$ 4,802	\$ 192,724	\$ 132,375
Interest expense					14,179	14,821
Interest and investment income					(4,264)	(4,289)
Income taxes					49,453	33,237
Net earnings					\$ 133,356	\$ 88,606

Operating income from rental operations was \$12.5 million for the three months ended June 30, 2021 (2020 – operating income of \$3.5 million) and \$14.5 million for the six months ended June 30, 2021 (2020 – \$5.9 million).

12. BUSINESS SEASONALITY

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.

In 2020 and 2021, these patterns were impacted by the governmental and market response and reaction to COVID-19. The second quarter of 2020 experienced the most significant slowdown in market activity. COVID-19 variants, vaccine roll-out and further governmental measures may further alter the typical seasonal trend.

The breadth, duration, impact and response of this pandemic are unknown and evolving. Staff shortages, reduced customer activity and demand, increased government regulations or intervention, are some of the factors that have and may continue to negatively impact the business, consolidated financial results and conditions of the Company. It is not possible to reliably estimate the length and severity of these developments as well as the impact on the consolidated financial results and condition of the Company in future periods.

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