

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

(\$ thousands)	Note	June 30 2023	December 31 2022	June 30 2022
Assets				
Current assets				
Cash and cash equivalents		\$ 733,999	\$ 927,780	\$ 778,800
Accounts receivable		581,313	579,682	569,803
Inventories		1,115,170	1,025,759	916,845
Income taxes recoverable		3,461	—	—
Derivative financial instruments	7	—	18,530	12,639
Other current assets		22,052	17,444	19,684
Total current assets		2,455,995	2,569,195	2,297,771
Property, plant and equipment	4	486,017	470,624	460,348
Rental equipment	4	707,950	616,289	563,840
Other assets		69,830	52,527	37,391
Deferred tax assets		848	925	270
Goodwill and intangible assets		471,326	472,565	473,804
Total assets		\$ 4,191,966	\$ 4,182,125	\$ 3,833,424
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 607,428	\$ 691,084	\$ 650,601
Provisions		27,695	27,653	26,795
Deferred revenue and contract liabilities		273,387	309,349	308,303
Derivative financial instruments	7	8,475	—	—
Income taxes payable		825	28,653	3,186
Total current liabilities		917,810	1,056,739	988,885
Deferred revenue and contract liabilities		21,170	23,276	18,514
Long-term lease liabilities		20,661	16,160	16,900
Long-term debt	5, 7	647,422	647,060	646,699
Post-employment obligations	11	32,123	30,592	33,147
Deferred tax liabilities		84,457	82,939	61,512
Total liabilities		1,723,643	1,856,766	1,765,657
Shareholders' equity				
Share capital	6	567,744	561,078	544,134
Contributed surplus		24,297	19,262	18,112
Retained earnings		1,878,237	1,731,661	1,496,408
Accumulated other comprehensive (loss) income		(1,955)	13,358	9,113
Total shareholders' equity		2,468,323	2,325,359	2,067,767
Total liabilities and shareholders' equity		\$ 4,191,966	\$ 4,182,125	\$ 3,833,424

See accompanying notes

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

(\$ thousands, except share amounts)	Note	Three months ended		Six months ended	
		June 30		June 30	
		2023	2022	2023	2022
Revenue	13	\$ 1,174,956	\$ 1,053,698	\$ 2,221,319	\$ 1,900,312
Cost of goods sold	4	857,623	769,435	1,640,873	1,403,449
Gross profit		317,333	284,263	580,446	496,863
Selling and administrative expenses		138,560	128,521	273,859	253,874
Operating income		178,773	155,742	306,587	242,989
Interest expense	8	7,019	6,856	13,923	13,540
Interest and investment income	8	(10,755)	(3,776)	(21,103)	(6,275)
Income before income taxes		182,509	152,662	313,767	235,724
Income taxes		49,192	41,652	84,331	64,446
Income from continuing operations		133,317	111,010	229,436	171,278
Income (loss) from discontinued operations	3	5,720	671	5,605	(65)
Net earnings		\$ 139,037	\$ 111,681	\$ 235,041	\$ 171,213
Basic earnings per share					
Continuing operations		\$ 1.62	\$ 1.34	\$ 2.79	\$ 2.08
Discontinued operations		\$ 0.07	\$ 0.01	\$ 0.07	\$ —
	9	\$ 1.69	\$ 1.35	\$ 2.86	\$ 2.08
Diluted earnings per share					
Continuing operations		\$ 1.61	\$ 1.33	\$ 2.76	\$ 2.06
Discontinued operations		\$ 0.07	\$ 0.01	\$ 0.07	\$ —
	9	\$ 1.68	\$ 1.34	\$ 2.83	\$ 2.06
Weighted average number of shares outstanding					
Basic	9	82,294,205	82,433,458	82,313,550	82,449,900
Diluted	9	82,974,466	83,194,100	82,982,038	83,214,434

See accompanying notes

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

(\$ thousands)	Three months ended		Six months ended	
		June 30		June 30
	2023	2022	2023	2022
Net earnings	\$ 139,037	\$ 111,681	\$ 235,041	\$ 171,213
Other comprehensive (loss) income, net of income taxes:				
<i>Items that may be reclassified subsequently to net earnings:</i>				
Foreign currency translation adjustments	(455)	465	(479)	255
Unrealized (losses) gains on derivatives designated as cash flow hedges	(15,190)	25,499	(12,291)	12,218
Income tax recovery (expense)	3,950	(6,629)	3,196	(3,176)
Unrealized (losses) gains on cash flow hedges, net of income taxes	(11,240)	18,870	(9,095)	9,042
Realized gains on derivatives designated as cash flow hedges	(1,066)	(5,117)	(7,755)	(6,666)
Income tax expense	277	1,330	2,016	1,733
Realized gains on cash flow hedges, net of income taxes	(789)	(3,787)	(5,739)	(4,933)
<i>Items that will not be reclassified subsequently to net earnings:</i>				
Remeasurement gain on defined benefit plans	7,924	27,246	8,095	59,499
Income tax expense	(2,099)	(7,218)	(2,145)	(15,766)
Remeasurement gain on defined benefit plans, net of income taxes	5,825	20,028	5,950	43,733
Other comprehensive (loss) income	(6,659)	35,576	(9,363)	48,097
Total comprehensive income	\$ 132,378	\$ 147,257	\$ 225,678	\$ 219,310

See accompanying notes

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

(\$ thousands, except share amounts)	Share capital			Accumulated other comprehensive income (loss)				Total shareholders' equity
	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	
At January 1, 2023	82,318,159	\$ 561,078	\$ 19,262	\$ 1,731,661	\$ 2,992	\$ 10,366	\$ 13,358	\$ 2,325,359
Net earnings	—	—	—	235,041	—	—	—	235,041
Other comprehensive loss	—	—	—	5,950	(479)	(14,834)	(15,313)	(9,363)
Total comprehensive earnings	—	—	—	240,991	(479)	(14,834)	(15,313)	225,678
Exercise of share options	100,818	8,298	(1,300)	—	—	—	—	6,998
Share-based compensation plans	—	—	6,335	—	—	—	—	6,335
Effect of share compensation plans	100,818	8,298	5,035	—	—	—	—	13,333
Shares purchased for cancellation	(238,000)	(1,632)	—	(23,364)	—	—	—	(24,996)
Dividends declared	—	—	—	(71,051)	—	—	—	(71,051)
At June 30, 2023	82,180,977	\$ 567,744	\$ 24,297	\$ 1,878,237	\$ 2,513	\$ (4,468)	\$ (1,955)	\$ 2,468,323
At January 1, 2022	82,443,968	\$ 539,677	\$ 16,352	\$ 1,392,551	\$ 1,868	\$ 2,881	\$ 4,749	\$ 1,953,329
Net earnings	—	—	—	171,213	—	—	—	171,213
Other comprehensive income	—	—	—	43,733	255	4,109	4,364	48,097
Total comprehensive income	—	—	—	214,946	255	4,109	4,364	219,310
Exercise of share options	123,055	7,657	(1,283)	—	—	—	—	6,374
Share-based compensation plans	—	—	3,043	—	—	—	—	3,043
Effect of share compensation plans	123,055	7,657	1,760	—	—	—	—	9,417
Shares purchased for cancellation	(362,000)	(2,386)	—	(35,302)	—	—	—	(37,688)
Share repurchase commitment under NCIB	—	(814)	—	(11,498)	—	—	—	(12,312)
Dividends declared	—	—	—	(64,289)	—	—	—	(64,289)
At June 30, 2022	82,205,023	\$ 544,134	\$ 18,112	\$ 1,496,408	\$ 2,123	\$ 6,990	\$ 9,113	\$ 2,067,767

See accompanying notes

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

(\$ thousands)	Note	Three months ended		Six months ended	
		2023	June 30 2022	2023	June 30 2022
Operating activities					
Income from continuing operations		\$ 133,317	\$ 111,010	\$ 229,436	\$ 171,278
Items not requiring cash:					
Depreciation and amortization		44,131	39,487	86,152	78,550
Share-based compensation		2,891	1,522	5,179	3,043
Post-employment obligations		(1,408)	715	(2,288)	1,158
Deferred income taxes		2,118	(914)	2,960	(4,131)
Gain on sale of rental equipment and property, plant and equipment		(3,907)	(3,837)	(15,750)	(10,186)
		177,142	147,983	305,689	239,712
Net change in non-cash working capital and other	12	11,762	(12,466)	(261,002)	(166,366)
Additions to rental equipment	4	(88,409)	(64,716)	(162,267)	(100,784)
Proceeds on disposal of rental equipment		8,118	8,529	24,715	22,236
Continuing operations		108,613	79,330	(92,865)	(5,202)
Discontinued operations		(327)	(6,876)	—	(4,591)
Cash provided by (used in) operating activities		108,286	72,454	(92,865)	(9,793)
Investing activities					
Additions to property, plant and equipment	4	(18,148)	(20,796)	(45,084)	(32,003)
Proceeds on disposal of property, plant and equipment		319	83	8,091	313
Decrease in other assets		—	(40)	(41)	(85)
Continuing operations		(17,829)	(20,753)	(37,034)	(31,775)
Discontinued operations		(127)	482	(411)	482
Proceeds from sale of discontinued operations (net of cash)	3	26,606	—	26,606	—
Cash provided by (used in) investing activities		8,650	(20,271)	(10,839)	(31,293)
Financing activities					
Dividends paid	6	(35,413)	(32,164)	(67,517)	(61,015)
Cash received on exercise of share options		4,531	2,856	6,998	6,374
Shares purchased for cancellation	6	(24,996)	(37,688)	(24,996)	(37,688)
Payment of lease liabilities		(2,401)	(2,291)	(4,429)	(4,646)
Continuing operations		(58,279)	(69,287)	(89,944)	(96,975)
Discontinued operations		(9)	(42)	(38)	(85)
Cash used in financing activities		(58,288)	(69,329)	(89,982)	(97,060)
Effect of currency translation on cash balances		(89)	215	(95)	116
Increase (decrease) in cash and cash equivalents during the period					
Continuing operations		32,416	(10,495)	(219,938)	(133,836)
Discontinued operations		26,143	(6,436)	26,157	(4,194)
Cash and cash equivalents, at beginning of the period		675,440	795,731	927,780	916,830
Cash and cash equivalents, at end of the period		\$ 733,999	778,800	\$ 733,999	\$ 778,800

Supplemental cash flow information (note 12)

See accompanying notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

1. DESCRIPTION OF BUSINESS

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 ("TSX") under the symbol TIH. The registered office is located at 3131 Highway 7 West, Concord, Ontario, Canada.

The Company operates through two business segments: the Equipment Group and CIMCO. The Equipment Group includes one of the larger Caterpillar dealerships by revenue and geographic territory, spanning the Canadian provinces of Newfoundland and Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Québec, Ontario and Manitoba, in addition to most of the territory of Nunavut. The Equipment Group includes industry-leading rental operations and a complementary material handling 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

a) Statement of Compliance

These interim condensed consolidated financial statements were prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2022.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 26, 2023.

b) Basis of Presentation

These interim condensed consolidated financial statements were prepared on a historical cost basis, except for derivative instruments that have been measured at fair value. These interim condensed consolidated financial statements are presented in Canadian dollars, which is Toromont's functional currency, and all values are rounded to the nearest thousands, except where otherwise indicated.

Certain comparative figures have been reclassified to conform to the current period's presentation.

c) Accounting Policies

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 audited annual consolidated financial statements for the year ended December 31, 2022.

Several amendments apply for the first time in 2023, but do not have an impact on the interim condensed consolidated financial statements of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

A number of amendments to standards and interpretations have been issued, but are not yet effective up to the date of authorization of these interim condensed consolidated financial statements, which may have an impact on the disclosures and financial position of the Company, are disclosed below. The Company has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective and intends to adopt these when they become effective.

Amendments to IAS 1 – *Presentation of Financial Statements* (effective January 1, 2024):

- Clarify the classification of liabilities as current or non-current based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.
- Clarify that only covenants with which an entity is obliged to comply with on or before the reporting date will affect a liability's classification as current or non-current. Further, disclosure is required for any information that enables users of financial statements to comprehend the possibility that non-current liabilities with covenants may become payable within twelve months.

Management is currently assessing the impact of these amendments.

d) Use of Estimates and Judgements

The preparation of interim condensed consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenue, expenses, assets, liabilities and accompanying disclosures. Significant estimates and judgements used in the preparation of these interim condensed consolidated financial statements are described in the Company's audited annual consolidated financial statements for the year ended December 31, 2022. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

e) Discontinued Operations

The Company reports financial results for discontinued operations separately from continuing operations to distinguish the financial impact of disposal transactions from ongoing operations. Discontinued operations reporting occurs when the disposal of a component or a group of components of the Company represents a strategic shift that will have an impact on the Company's operations and financial results, and where the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

The results of discontinued operations are excluded from both continuing operations and business segment information in the interim condensed consolidated financial statements and the notes to the interim condensed consolidated financial statements, unless otherwise noted, and are presented net of tax in the interim condensed consolidated statements of income for the current and comparative periods. Refer to note 3 Discontinued Operations for further information regarding the Company's discontinued operations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

3. DISCONTINUED OPERATIONS

On May 1, 2023, the Company completed the sale of AgWest Ltd., a wholly owned subsidiary, in a share and asset transaction. Total proceeds were paid in cash of approximately \$41.6 million and are subject to customary post-closing adjustments. AgWest Ltd. was reported in the Equipment Group.

Proceeds on sale of shares	\$ 41,261
Less assets and liabilities sold:	
Working capital	15,010
Property, plant and equipment	3,404
	18,414
Cash disposed of	14,655
Gain on disposition	8,192
	2,808
Income taxes	2,808
Gain on divestiture, net of tax	\$ 5,384

Results of Discontinued Operations

For the three and six months ended June 30, 2023, the amounts in the current and prior periods are comprised of net income/(loss) associated with the Company's discontinued operations of AgWest Ltd.

The following table represents discontinued operations:

	Three months ended		Six months ended	
	June 30		June 30	
	2023	2022	2023	2022
Revenue	\$ 5,964	\$ 27,199	\$ 20,866	\$ 40,728
Net income (loss), net of tax	336	671	221	(65)
Gain on divestiture, net of tax	5,384	—	5,384	—
Net income (loss) from discontinued operations	\$ 5,720	\$ 671	\$ 5,605	\$ (65)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Property, Plant and Equipment					Rental Equipment
	Land	Buildings	Equipment	Power Generation	Total	
Cost						
January 1, 2023	\$ 177,099	\$ 327,067	\$ 314,214	\$ 40,094	\$ 858,474	\$ 1,133,080
Additions	4,305	14,822	26,324	44	45,495	162,267
Disposals	(3,643)	—	(6,083)	—	(9,726)	(40,113)
Business disposition	(135)	(4,313)	(5,463)	—	(9,911)	—
Foreign currency translation adjustments	(4)	(64)	(202)	—	(270)	—
June 30, 2023	\$ 177,622	\$ 337,512	\$ 328,790	\$ 40,138	\$ 884,062	\$ 1,255,234
Accumulated depreciation						
January 1, 2023	\$ —	\$ 138,322	\$ 212,345	\$ 37,183	\$ 387,850	\$ 516,791
Depreciation expense	—	6,833	15,318	589	22,740	57,303
Depreciation of disposals	—	(1)	(5,973)	—	(5,974)	(26,810)
Business disposition	—	(3,178)	(3,237)	—	(6,415)	—
Foreign currency translation adjustments	—	(16)	(140)	—	(156)	—
June 30, 2023	\$ —	\$ 141,960	\$ 218,313	\$ 37,772	\$ 398,045	\$ 547,284
Net book value – June 30, 2023	\$ 177,622	\$ 195,552	\$ 110,477	\$ 2,366	\$ 486,017	\$ 707,950

	Property, Plant and Equipment					Rental Equipment
	Land	Buildings	Equipment	Power Generation	Total	
Cost						
January 1, 2022	\$ 173,083	\$ 315,055	\$ 272,839	\$ 39,944	\$ 800,921	\$ 969,841
Additions	7,161	6,145	18,776	—	32,082	100,784
Disposals	(231)	—	(2,108)	—	(2,339)	(34,995)
Foreign currency translation adjustments	3	44	116	—	163	—
June 30, 2022	\$ 180,016	\$ 321,244	\$ 289,623	\$ 39,944	\$ 830,827	\$ 1,035,630
Accumulated depreciation						
January 1, 2022	\$ —	\$ 125,321	\$ 188,752	\$ 36,023	\$ 350,096	\$ 444,320
Depreciation expense	—	6,664	15,107	576	22,347	50,146
Depreciation of disposals	—	—	(2,063)	—	(2,063)	(22,676)
Foreign currency translation adjustments	—	10	89	—	99	—
June 30, 2022	\$ —	\$ 131,995	\$ 201,885	\$ 36,599	\$ 370,479	\$ 471,790
Net book value – June 30, 2022	\$ 180,016	\$ 189,249	\$ 87,738	\$ 3,345	\$ 460,348	\$ 563,840

During the six months ended June 30, 2023, depreciation expense of \$71.6 million was charged to cost of goods sold (2022 – \$63.5 million), and \$8.4 million was charged to selling and administrative expenses (2022 – \$9.0 million).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

5. LONG-TERM DEBT

	June 30 2023	December 31 2022	June 30 2022
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	650,000
Debt issuance costs, net of amortization	(2,578)	(2,940)	(3,301)
Total long-term debt	\$ 647,422	\$ 647,060	\$ 646,699

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

The Company has a \$500.0 million committed revolving credit facility, maturing in November 2026, with a syndicate of financial institutions. 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 the revolving credit facility as at June 30, 2023, December 31, 2022 and June 30, 2022.

Standby letters of credit issued utilized \$28.7 million of the facility as at June 30, 2023 (December 31, 2022 – \$28.9 million and June 30, 2022 – \$34.3 million).

6. SHARE CAPITAL

Normal Course Issuer Bid ("NCIB")

The Company purchased and cancelled 238,000 common shares for \$25.0 million (average cost of \$105.02 per share, including transaction costs) during the three and six months ended June 30, 2023.

The Company maintains an Automatic Share Purchase Plan ("ASPP") with a broker to enable the purchase of common shares under the NCIB during regular trading blackout periods. The volume of the purchases are determined by the broker based on share price and maximum volume parameters established by the Company under the ASPP prior to the commencement of each blackout period. As at June 30, 2023, there was no obligation for the repurchase of shares under the ASPP.

The Company purchased and cancelled 362,000 common shares for \$37.7 million (average cost of \$104.11 per share, including transaction costs) during the three and six months ended June 30, 2022. As at June 30, 2022, an obligation for the repurchase of shares of \$12.3 million was recognized under the ASPP.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

Dividends Declared

Dividend	2023				2022			
	Record Date	Dividend Amount Per Share	Payment Date	Total Dividends Declared (\$ millions)	Record Date	Dividend Amount Per Share	Payment Date	Total Dividends Declared (\$ millions)
Quarter 1	Mar. 9, 2023	\$ 0.43	Apr. 4, 2023	\$ 35.4	Mar. 9, 2022	\$ 0.39	Apr. 4, 2022	\$ 32.2
Quarter 2	Jun. 9, 2023	0.43	Jul. 5, 2023	35.6	Jun. 9, 2022	0.39	Jul. 5, 2022	32.1
		\$ 0.86		\$ 71.0		\$ 0.78		\$ 64.3

On July 26, 2023, the Board of Directors declared a quarterly dividend of \$0.43 per common share, payable on October 4, 2023, to shareholders on record on September 8, 2023.

7. 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 2023	December 31 2022	June 30 2022
Other financial liabilities:			
Long-term debt	\$ 647,422	\$ 647,060	\$ 646,699
Derivative financial instruments (liabilities) assets, net:			
Foreign exchange forward contracts	\$ (8,475)	\$ 18,530	\$ 12,639

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 as 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 are as follows:

	June 30 2023	December 31 2022	June 30 2022
Long-term debt:			
Fair value	\$ 621,744	\$ 626,585	\$ 628,469
Carrying value	\$ 650,000	\$ 650,000	\$ 650,000

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 has no plans to prepay these instruments prior to maturity.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2023

(\$ thousands, except where otherwise indicated) (Unaudited)

During the six months ended June 30, 2023 and 2022, 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, 2023, the Company was committed to: (i) US dollar purchase contracts with a notional amount of \$668.0 million at an average exchange rate of \$1.3358, maturing between July 2023 and June 2024; and (ii) US dollar sale contracts with a notional amount of \$29.8 million at an average exchange rate of \$1.3547, maturing between July 2023 and November 2023.

Management estimates that a loss of \$8.5 million (December 31, 2022 – gain of \$18.5 million; June 30, 2022 – gain of \$12.6 million) would be realized if the contracts were terminated on June 30, 2023. Certain of these forward contracts are designated as cash flow hedges and, accordingly, an unrealized loss of \$7.2 million (December 31, 2022 – unrealized gain of \$13.3 million; June 30, 2022 – unrealized gain of \$9.4 million) has been included in other comprehensive (loss) income. These gains and losses are not expected to affect net earnings as the amounts will be reclassified to net earnings within the next 12 months and will offset losses and gains recorded on the underlying hedged items, namely foreign-denominated accounts payable and accrued liabilities. Certain of these 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 \$1.3 million (December 31, 2022 – gain of \$5.2 million; June 30, 2022 – gain of \$3.2 million) on forward contracts not designated as hedges is included in net earnings, which offsets gains recorded on the foreign-denominated items, namely accounts payable and accrued liabilities.

8. INTEREST INCOME AND EXPENSE

The components of interest expense were as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2023	2022	2023	2022
Credit facilities	\$ 426	\$ 388	\$ 876	\$ 721
Senior debentures	6,314	6,313	12,556	12,505
Interest on lease liabilities	279	155	491	314
	\$ 7,019	\$ 6,856	\$ 13,923	\$ 13,540

The components of interest and investment income were as follows:

	Three months ended		Six months ended	
	June 30		June 30	
	2023	2022	2023	2022
Interest on conversion of rental equipment	\$ 1,131	\$ 1,163	\$ 1,482	\$ 1,922
Interest income	9,624	2,613	19,621	4,353
	\$ 10,755	\$ 3,776	\$ 21,103	\$ 6,275

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9. EARNINGS PER SHARE

	Three months ended		Six months ended	
	June 30		June 30	
	2023	2022	2023	2022
Income from continuing operations	\$ 133,317	\$ 111,010	\$ 229,436	\$ 171,278
Income (loss) from discontinued operations	\$ 5,720	\$ 671	\$ 5,605	\$ (65)
Net earnings available to common shareholders	\$ 139,037	\$ 111,681	\$ 235,041	\$ 171,213
Weighted average common shares outstanding	82,294,205	82,433,458	82,313,550	82,449,900
Effect of dilutive securities	680,261	760,642	668,488	764,534
Weighted average common shares outstanding – diluted	82,974,466	83,194,100	82,982,038	83,214,434
Basic earnings per share				
Continuing operations	\$ 1.62	\$ 1.34	\$ 2.79	\$ 2.08
Discontinued operations	\$ 0.07	\$ 0.01	\$ 0.07	\$ —
	\$ 1.69	\$ 1.35	\$ 2.86	\$ 2.08
Diluted earnings per share				
Continuing operations	\$ 1.61	\$ 1.33	\$ 2.76	\$ 2.06
Discontinued operations	\$ 0.07	\$ 0.01	\$ 0.07	\$ —
	\$ 1.68	\$ 1.34	\$ 2.83	\$ 2.06

For the three-month period ended June 30, 2023, 325,761 outstanding share options with an average exercise price of \$109.92 were considered anti-dilutive and were excluded from the calculation. There were no anti-dilutive options for the comparative period in 2022.

For the six-month period ended June 30, 2023, 164,307 outstanding share options with an average exercise price of \$112.48 were considered anti-dilutive and were excluded from the calculation. There were no anti-dilutive options for the comparative period in 2022.

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10. SHARE-BASED COMPENSATION

Share Option Plan

A reconciliation of the outstanding options for the six months ended June 30, 2023 and June 30, 2022 was as follows:

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, January 1	1,967,892	\$ 73.21	2,167,025	\$ 68.44
Granted	168,545	112.48	—	—
Exercised ⁽¹⁾	(100,818)	69.41	(123,055)	51.79
Forfeited	(11,573)	104.85	(13,342)	83.98
Options outstanding, June 30	2,024,046	\$ 76.49	2,030,628	\$ 69.34
Options exercisable, June 30	895,516	\$ 61.95	787,660	\$ 57.75

⁽¹⁾ The weighted average share price at the date of exercise for the six months ended June 30, 2023 was \$110.21 (2022 – \$111.41).

The following table summarizes share options outstanding and exercisable as at June 30, 2023:

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	57,990	1.1	\$ 26.45	57,990	\$ 26.45
\$25.53 – \$53.89	315,900	3.2	44.50	315,900	44.50
\$53.90 – \$72.95	990,857	6.3	69.05	403,795	68.18
\$72.96 – \$112.48	659,299	8.6	107.40	117,831	104.91
	2,024,046	6.4	\$ 76.49	895,516	\$ 61.95

The fair values of the share options granted during 2023 and 2022 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2023	2022
Fair value price per option	\$ 24.20	\$ 22.27
Share price	\$ 112.48	\$ 107.36
Expected life of options (years)	4.94	5.30
Expected share price volatility	22.0%	21.5%
Expected dividend yield	1.53%	1.45%
Risk-free interest rate	3.40%	2.77%

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Deferred Share Unit ("DSU") Plans

A reconciliation of the cash-settled DSU plan was as follows:

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	190,128	\$ 18,528	202,969	\$ 23,074
Units taken or taken in lieu and dividends	1,507	155	18,703	2,071
Redemptions	(1,829)	(193)	—	—
Fair market value adjustments	—	1,534	—	(2,501)
Outstanding, June 30	189,806	\$ 20,024	221,672	\$ 22,644

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

During the quarter, 4,034 equity-settled DSU units were taken in lieu of cash payment for director fees valued at \$0.4 million, which is included in selling and administrative expenses with a credit to contributed surplus. The plan had a total of 25,429 units as at June 30, 2023, including dividend credits of 115 units.

Long-term Incentive Plan ("LTIP")

A total of 14,282 restricted share units ("RSUs") and 56,336 performance share units ("PSUs") have been granted under the LTIP as at June 30, 2023, including reinvested dividends. LTIP expense of \$784 thousand was included in selling and administrative expenses with a credit to contributed surplus during the quarter. During the quarter, 118 RSUs and 1,856 PSUs were cancelled or forfeited under the LTIP.

11. EMPLOYEE FUTURE BENEFITS

Employee future benefits expense includes the following components:

	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Defined benefit plans	\$ 1,504	\$ 3,565	\$ 3,597	\$ 6,994
Defined contribution plans	4,727	4,577	9,423	8,843
401(k) matched saving plans	113	77	214	153
	\$ 6,344	\$ 8,219	\$ 13,234	\$ 15,990

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12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended		Six months ended	
	June 30		June 30	
	2023	2022	2023	2022
Net change in non-cash working capital and other				
Accounts receivable	\$ (36,344)	\$ (88,095)	\$ (3,825)	\$ (116,083)
Inventories	7,616	(69,482)	(111,292)	(182,967)
Accounts payable and accrued liabilities	29,370	71,063	(84,931)	53,427
Provisions	789	1,812	609	1,370
Deferred revenue and contract liabilities	7,042	64,389	(35,533)	97,473
Income taxes	4,102	10,557	(30,445)	(11,599)
Derivative financial instruments	872	(5,036)	6,967	(1,828)
Other	(1,685)	2,326	(2,552)	(6,159)
	\$ 11,762	\$ (12,466)	\$ (261,002)	\$ (166,366)
Cash paid during the period for:				
Interest	\$ 9,605	\$ 9,605	\$ 12,388	\$ 12,388
Income taxes	\$ 44,103	\$ 32,141	\$ 114,021	\$ 80,835
Cash received during the period for:				
Interest	\$ 8,163	\$ 3,862	\$ 17,562	\$ 6,403
Income taxes	\$ —	\$ —	\$ —	\$ —

13. 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 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.

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The following table sets forth information by segment for the three and six months ended June 30, 2023 and June 30, 2022:

Three months ended June 30	Equipment Group		CIMCO		Consolidated	
	2023	2022	2023	2022	2023	2022
Equipment/package sales	\$ 488,559	\$ 442,832	\$ 53,911	\$ 45,576	\$ 542,470	\$ 488,408
Rentals	116,448	108,839	—	—	116,448	108,839
Product support	462,344	411,709	50,851	42,107	513,195	453,816
Power generation	2,843	2,635	—	—	2,843	2,635
Total revenue	\$ 1,070,194	\$ 966,015	\$ 104,762	\$ 87,683	\$ 1,174,956	\$ 1,053,698
Operating income	\$ 168,936	\$ 150,671	\$ 9,837	\$ 5,071	\$ 178,773	\$ 155,742
Interest expense					7,019	6,856
Interest and investment income					(10,755)	(3,776)
Income taxes					49,192	41,652
Income from continuing operations					\$ 133,317	\$ 111,010

Six months ended June 30	Equipment Group		CIMCO		Consolidated	
	2023	2022	2023	2022	2023	2022
Equipment/package sales	\$ 925,315	\$ 768,266	\$ 93,357	\$ 76,119	\$ 1,018,672	\$ 844,385
Rentals	214,907	202,060	—	—	214,907	202,060
Product support	884,687	763,487	97,362	85,080	982,049	848,567
Power generation	5,691	5,300	—	—	5,691	5,300
Total revenue	\$ 2,030,600	\$ 1,739,113	\$ 190,719	\$ 161,199	\$ 2,221,319	\$ 1,900,312
Operating income	\$ 291,894	\$ 236,761	\$ 14,693	\$ 6,228	\$ 306,587	\$ 242,989
Interest expense					13,923	13,540
Interest and investment income					(21,103)	(6,275)
Income taxes					84,331	64,446
Income from continuing operations					\$ 229,436	\$ 171,278

Operating income from rental operations was \$23.8 million for the three months ended June 30, 2023 (2022 – \$22.5 million) and \$34.6 million for the six months ended June 30, 2023 (2022 – \$32.5 million).

14. BUSINESS SEASONALITY

Interim period revenue and earnings historically reflect variability from quarter to quarter due to seasonality.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenue is recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter has typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules. This trend can also be impacted during periods of equipment supply constraints from suppliers.

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CIMCO has also had a distinct seasonal trend in results historically, as the timing of construction activity impacts revenue recognition under percentage-of-completion accounting. Revenue is typically lower during the first quarter as winter weather slows down construction schedules. Revenue increases in subsequent quarters as construction schedules ramp up. This trend can be impacted by governmental funding initiatives, supply constraints and the customer's timing of significant industrial projects. Sequential comparisons are also impacted by CIMCO's relatively high fixed cost structure.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarter. This trend can be impacted by equipment and parts availability. These seasonal sales trends also typically lead to accounts receivable to be at their highest level at year-end.

Market and economic factors, local and global economic factors, and supply chain issues have affected and may continue to impact these trends. There can be no certainty that this historical seasonal pattern will recur in the future.