



ProvenSteadyGrowth

Toromont Industries Ltd.
2016 Annual Report

TOROMONT

On tens of thousands of customer sites across many market sectors in Canada and the United States, Toromont Industries Ltd. has demonstrated the value and necessity of its products and service offerings.

When only proven capabilities will do, Toromont is ready to serve from over 100 locations employing more than 3,600 subject matter experts.

Customers know us by our trading names:



Shareholders know us by our Toronto Stock Exchange common share trading symbol TIH.

Equipment Group

We are a market leader in the supply of specialized mobile equipment and industrial engines. We provide sales and rental solutions as well as comprehensive product support through Toromont Cat, Battlefield – The Cat Rental Store and SITECH Mid-Canada Ltd. in Ontario, Newfoundland, Manitoba and most of Labrador and Nunavut, and AgWest Ltd. in Manitoba.

CIMCO

We are a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems with operations in Canada and the United States. We also offer comprehensive product support capabilities.

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- CIMCO's Darren Blundon inspects
- the control panel at the Glacier Arena in
- Mount Pearl, Newfoundland.

This is Toromont.

- Toromont Cat supplied this Cat 924H wheel loader and Metso ST3.8 mobile screening plant for a quarry near Parry Sound, Ontario.

Our Customers

Toromont's customer relationships are diverse and span multiple industries. The one constant in these relationships is how Toromont seeks to create customer value. In every case, we provide specialized equipment for sale and rent that is designed for each application, backed by market-leading product support capabilities. These capabilities, including remote machine monitoring, preventative maintenance, emergency repair, parts and consumables supply, and remanufacturing, reduce the lifetime cost of operating for our customers while improving equipment uptime.

Specialized equipment with product support attached: **this is Toromont.**

7th 

year of consecutive growth in product support revenues

\$99m 

invested in the rental fleet in 2016

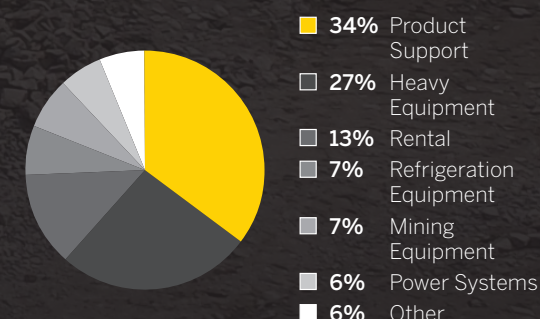
Sales and service network of

117 

locations across Canada and the U.S.

Our offerings

Percentage of revenue for last 3 years



Our Employees

Our employees create value for our customers and shareholders through their diverse skill sets, experience and productivity. When our people succeed, our business succeeds. Accordingly, we seek to protect, develop, challenge, reward and retain our people through programs that are relevant to each Toromont business unit. We also strive to foster teamwork and camaraderie on the job and after hours through employee events that support important local causes.


Engaged, empowered and productive employees:
this is Toromont.

50%
of employees
are shareholders



Over 
3,600
employees

Average employee
tenure

10.1  years

In 2016 over

\$500k 
in revenue per employee

- Battlefield's dispatch management
- technology allows our employees to respond
- in real time to customer needs.

Our Shareholders

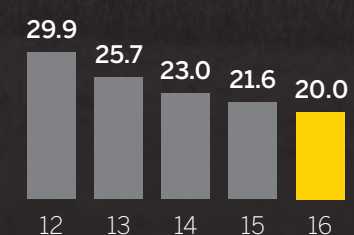
Toromont strives to create value for shareholders using a disciplined capital allocation process within a business model (specialized equipment requiring product support) that is constant. It works like this: Without compromising safety or our balance sheet, we strive to grow earnings to support an 18% after-tax return on opening shareholders' equity over a business cycle while growing our annual dividend. We then empower our business units to deploy capital to achieve our objectives.


Decentralization coupled with performance-based compensation, employee share ownership and a desire to lead every market we serve: **this is Toromont.**

5.9% 
dividend increase
in 2016

\$123m
in capital reinvested
in 2016 

Return on equity



6.2% 
5 year cumulative average
growth in revenue

• AgWest represents a variety of specialized farming
• equipment in Manitoba, including this Claas Lexion
• 730 combine.

Fellow Shareholders,

Balance is the key to our business. Every year, we balance the need to provide value-added equipment and service to our customers with the imperative of creating a safe, rewarding work environment for our employees and the desire to create strong returns for our shareholders. In 2016, Toromont struck the right balance.

Toromont earned \$1.99 per share in 2016, 6% more than in 2015.

Positive financial performance was achieved in spite of weak demand for new equipment in some of our core markets, which fostered more intense competition.

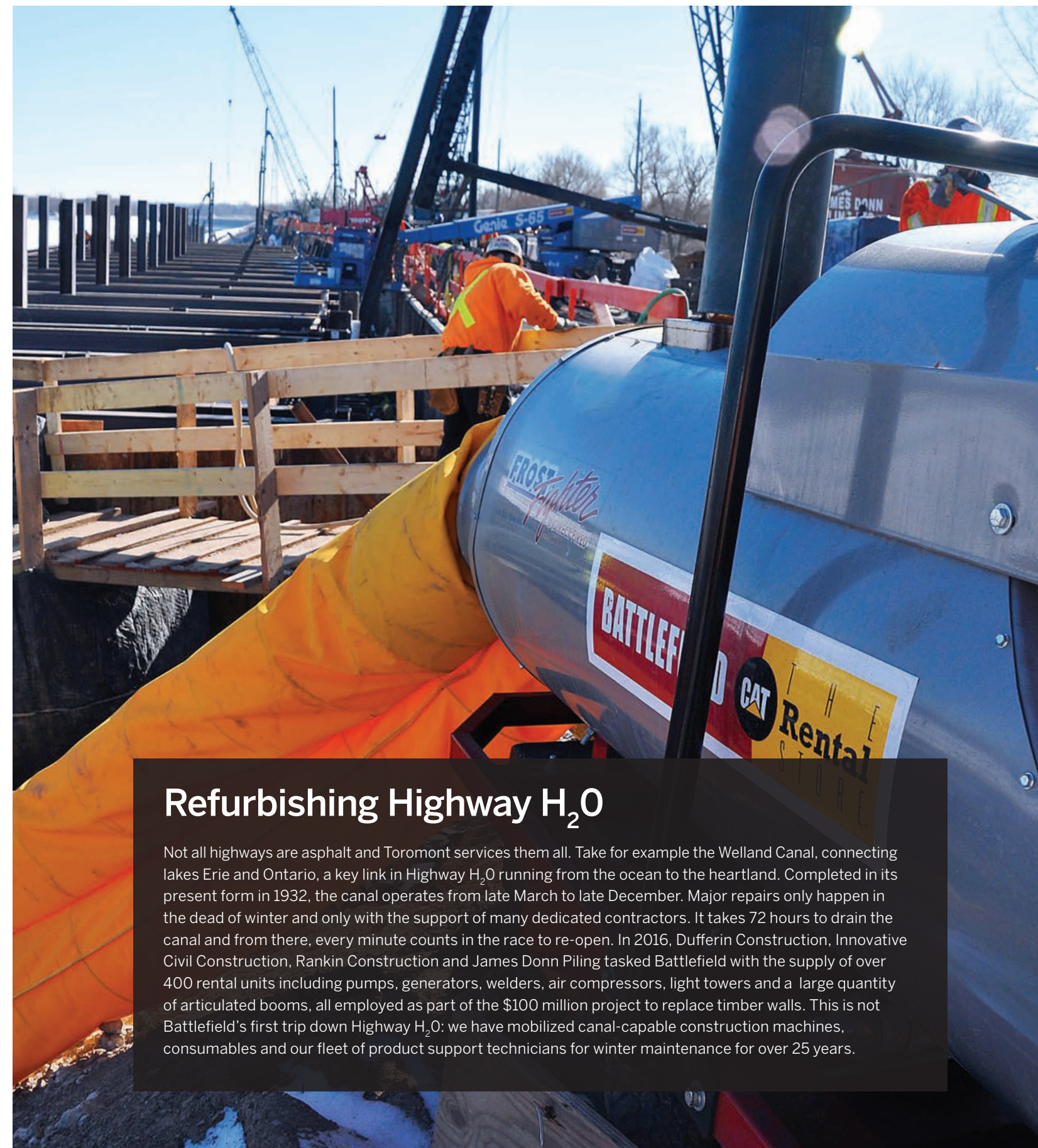
Toromont's business model of supporting the machines we sell was built for 2016. Growth in product support Company-wide provided the foundation for a strong year. Annual revenue growth of 4% also reflected record package sales at CIMCO and increases in used equipment sales in Equipment Group.

With higher earnings, return on opening shareholders' equity (ROE) was 20%. This performance provided support for dividend payments of \$55 million and business reinvestments of \$123 million including \$99 million for rental equipment that sustained and advanced Toromont's competitiveness.

Although we deployed the balance sheet in part to build our rental fleets, we continued to strengthen our financial foundation such that net debt to total capitalization of -4% was well within our stated target and below 2015's level. As a result, Toromont remains poised and positioned to seize and support meaningful growth opportunities.

Financial results are just one measure of Toromont's progress. Employee safety is another. The only acceptable result is an injury-free workplace. We fell short of that objective despite our daily efforts, the adoption of our zero-tolerance Five Cardinal Safety Rules and the cumulative effect of years of safety training. Although Toromont has moved in the right direction with total recordable injury frequency rate down 69% over the past five years, there is still more work to do to embed and entrench a safety-first culture.

- **Robert M. Ogilvie**
Chairman of the Board
- **Scott J. Medhurst**
President and CEO



Refurbishing Highway H₂O

Not all highways are asphalt and Toromont services them all. Take for example the Welland Canal, connecting lakes Erie and Ontario, a key link in Highway H₂O running from the ocean to the heartland. Completed in its present form in 1932, the canal operates from late March to late December. Major repairs only happen in the dead of winter and only with the support of many dedicated contractors. It takes 72 hours to drain the canal and from there, every minute counts in the race to re-open. In 2016, Dufferin Construction, Innovative Civil Construction, Rankin Construction and James Donn Piling tasked Battlefield with the supply of over 400 rental units including pumps, generators, welders, air compressors, light towers and a large quantity of articulated booms, all employed as part of the \$100 million project to replace timber walls. This is not Battlefield's first trip down Highway H₂O: we have mobilized canal-capable construction machines, consumables and our fleet of product support technicians for winter maintenance for over 25 years.



Florida’s largest ice rink complex opens with CIMCO ECO-CHILL

In early 2017, the largest ice rink complex in the southeastern United States opened near Tampa, Florida. By conventional standards, the Florida Hospital Center Ice is a giant, with five contiguous playing surfaces. Whereas a typical rink needs 80 tons of refrigeration, this one demands 450. Size is not the only feature that distinguishes this complex. The ownership group chose CIMCO to design, build and install a complete ECO CHILL® energy recycling system to deliver all the refrigeration power needed to keep the facility operating efficiently even on Florida’s hottest days. Our engineering team specified a host of CIMCO proprietary equipment and technology, including an ECO SENSE™ building management system with infra-red ice temperature controllers and CIMCO ECO DRY™ dehumidification, all integrated with CIMCO controls to create the best ice and the most comfortable climate for skaters at the lowest cost to the owners and to the environment. Annual energy savings will provide a payback of less than five years on the incremental cost of adding this highly efficient system.

Building a more effective workforce is another key responsibility. In 2016, our team benefitted from thousands of hours of training. There is much good derived from this investment, including employee development and engagement together with increases in productivity and efficiency. Workforce retention remains well ahead of industry averages, and the development of a deep talent pool supports our bias to promote from within. For example, this past year saw seamless successions in product support leadership at Toromont Cat and in Battlefield’s operational leadership.

Steady Focus Yields Results

Across our business groups, Toromont made steady progress aligned with our core strategies:

- Expand markets
- Strengthen product support
- Broaden product offerings
- Invest in our resources
- Maintain a strong financial foundation

The reward was improved positioning for the future.

At **Toromont Cat**, product support revenues were higher in mining, construction and power systems, as customers relied on us to keep their machines operating in top shape for longer. Remanufacturing throughput was at record levels on account of underground and surface mining activity in our patch, particularly for precious metals.

To keep pace with demand, we grew our workforce of technicians by 137 in the last five years. This was our single-most important investment in resources. We also intensified efforts to enhance the customer experience. We piloted a new telephony system that automatically transfers incoming customer calls to the first available parts counter representative in the region, rather than just in the local branch. A substantial reduction in abandoned calls was the reward, as we moved closer to our goal of ensuring customers never wait more than six seconds to place a parts order. We upgraded the warehouse management

systems at our Sudbury and Hamilton branches, a move that accelerated pick-and-pack throughput. We conducted efficiency audits of four branches to identify structural improvements that could reduce metrics, such as hours needed to complete service. These and other initiatives boosted our customer loyalty score. As some customers chose to defer new capital spending, used product sales were also up.

After a slow start, utilization of our fleet of heavy Cat rental machines improved as the year progressed and we were pleased that Newfoundland’s Muskrat Falls hydroelectric megaproject and the Highway 407 extension east of Toronto were both significant rental equipment users.

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“Workforce retention remains well ahead of industry averages, and the development of a deep talent pool supports our bias to promote from within.”

Large orders were not a feature of 2016 performance. However, we continued to place a significant volume of new equipment in various corners of our market as we sought to increase our deal participation and win rates. Some of the highlights included the provision of a fleet of Cat generator sets that will be used for peak power shaving at more than two dozen customer locations, supply of MaK engines in a 760-foot Great Lakes’ freighter and the turnkey delivery of co-generation equipment to Canada Malting Co. in Thunder Bay, Ontario.

Battlefield’s 41-store network invested in its rental fleet as a means of making the right equipment

available at the right time to address customer needs, and more generally, in response to positive long-term trends in the rental channel. While tough market conditions led to lower financial utilization, we were pleased to note the award of preferred vendor status by several large rental users which helped lead to improved time utilization. Efforts to improve market coverage continued to yield good results as the two Battlefield stores opened in 2015 were both accretive this past year. To develop our market presence and improve the customer experience, Battlefield piloted – and in January 2017 launched – Inside TRAC, a technology application that allows customers to manage their existing rentals, request maintenance and call equipment off rent from their mobile phones.

SITECH, our technology dealership, increased its focus on selling professional services, noting that customers often value technical advice when applying factory-embedded software capabilities. One of the many ways SITECH assists customers is to analyze site, excavation and grading plans prior to the submission of project bids to ensure appropriate costing. SITECH's performance garnered two awards from Trimble, one of our technology partners, for software sales and warranty sales excellence across a field of 110 distributors worldwide.

AgWest, our agricultural equipment dealership in Manitoba, achieved growth in revenues despite depressed markets and we were pleased to be ranked in the top 20 North American AGCO dealers. We are encouraged by customer receptivity to recent additions to AgWest's coverage model, including a parts depot in Steinbach, a key farming region southeast of Winnipeg, and to leading product offerings from CLAAS Lexion, AGCO Challenger and RoGator. Under the leadership of Richard Bergmann, who was appointed Vice President in June after serving in management positions in other segments of the agri-industry, AgWest also brought focus to operational excellence activities that are fundamental to sustaining performance improvements.

CIMCO, our refrigeration business, delivered record results on strong new package sales and

product support revenues. Our U.S. operation took a major step forward in 2016 as we parlayed years of investment and market development into significant growth, headlined by the delivery of equipment to customers such as the NHL's Boston Bruins and the new Las Vegas Golden Knights. In U.S. industrial refrigeration, CIMCO substantially increased its win rate on package bids by focusing on the renovation market. Contribution from U.S. business also improved over 2015, but more work is necessary to bring profitability to desired levels. In Canada, large projects were completed for Costco, Walmart and the Edmonton Oilers. To expand markets, CIMCO opened sales and service offices in Sudbury, Ontario and Drummondville, Quebec and added distribution rights to two new products: Shaler's Rink Seal Pro™, which cost-effectively repairs under-ice coolant leaks, and Mycom's NewTon® system, the world's first semi-hermetic ammonia screw compressor. Resource investments included the repurposing of a 10,000-square-foot prefabrication facility in Concord, Ontario, which supplies ready-made components for quicker and more economical assembly on construction sites.

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“CIMCO, our refrigeration business, delivered record results on strong new package sales and product support revenues.”

Partnerships

Toromont's business model works because of our access to specialized equipment from leading manufacturers. Caterpillar is our largest partner and a key to our success since 1993. Through the years, and in 2016, Toromont benefitted from the tremendous value of the Cat brand, the



Canada Malting Brews Up Energy Savings With Help From Toromont Cat Power Systems

Energy is a major cost of doing business for industrial power users. For GrainCorp's Canada Malting plant in Thunder Bay, Ontario, energy accounts for 65% of manufacturing costs. In response to rising electricity rates, the plant reduced consumption by 35% over the past five years. That was just the beginning. In 2016, with the help of Toromont Cat Power Systems, Canada Malting added a co-generation plant powered by a Cat G3516H gas generator set and supported 24/7 by Toromont. The two-megawatt power system makes the plant largely self-sufficient, but it is the 90% efficiency of the generator and the ability to re-use its waste heat in malting that is brewing up energy savings for Canada Malting in the order of \$1 million a year – and contributing to GrainCorp's ambitious sustainability goals.

excellent quality and high resale value of these products, and Caterpillar’s ambitious business programs. We strive to further enhance our relationship with Caterpillar and all business partners by growing our market share and providing our customers great service throughout the lifecycle of ownership.

In 2016, we were very pleased that Battlefield received Caterpillar’s 5 Star Award for best-in-class customer experience and Gold status (the highest rank available) in Warranty Excellence. Toromont Cat also won two coveted awards for its innovative human resource practices.

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“Throughout the planning horizon, Toromont will seek to grow but with equal emphasis on managing expenses. Our competitiveness depends on it.”

Our Plan Forward

In the Equipment Group, we plan to further leverage our technology assets and the leadership Toromont and our partners have seized over the years by investing in digital capabilities. Part of the Toromont Cat technology roadmap is to increase remote condition-monitoring of customer equipment within our installed base of approximately 7,000 connected assets as a means of growing product support revenues. Achieving this goal will require us to exhibit the value of technology to customers and enhance our information systems, so that each of our Toromont Cat EM Solutions advisors has adequate tools to manage more machines. This is one example. Another is to increase the use of

digital marketing to stimulate sales through online channels. Battlefield, which was a Toromont-first mover in digital marketing and sales, intends to further develop its online ordering and merchandising tools and upgrade its customer relationship management platform to put more and better information in the hands of its sales team. AgWest plans to add a telephony system similar to the one that Toromont Cat piloted and will test digital marketing. Restored parts will also be integrated into our online buying platform.

At CIMCO, our technology roadmap includes the implementation of an automated platform that will enhance product support by enabling service tablets for our technicians. For customers, CIMCO’s product development group, which pioneered a number of today’s industry-leading technologies, such as ECO CHILL®, the Ice Battery®, ECO Dry®, ECO Sense® Controllers and thermal and ammonia heat pumps, also intends to be active with the planned introductions of so-called smart machines. Partnerships with leading OEMs will complement internal efforts.

Throughout the planning horizon, Toromont will seek to grow but with equal emphasis on managing expenses. Our competitiveness depends on it.

Reaching our goals will hinge on the collective efforts of our team of over 3,600 people. We are confident that our businesses have the right management, the appropriate assets – people, capital, suppliers and partners – and the proper alignment of incentives, responsibilities and accountability to employ our ambitious plans.

Tone from the top is also important, and in this regard, Toromont is well served by our Board of Directors. Our Directors keep us abreast of business trends, challenge us to better our position each year, hold us accountable for actions taken and join in our success as key team members. We are delighted that all Directors are standing for re-election in 2017.

Summary

Over the past year, Toromont has achieved significant financial milestones and taken important strategic steps to add value to our franchise. Our business is healthy and our balance sheet is strong. Going forward, we will continue to target opportunities for business expansion, with a bias for organic growth, but with eyes open to acquisitions – provided they fit within our business model and can be added on terms we find attractive.

We expect some of the external themes that influenced our 2016 results to continue in 2017, including intense competition, a weak Canadian dollar and the potential for a volatile North American economy. In this context, promised fiscal stimulus programs aimed at repairing and replacing infrastructure in our key territories will be welcome.

With our scale and resources, Toromont stands out in the many markets in which we compete. We have an extensive and growing portfolio of specialized equipment to offer, the means to support that equipment wherever and whenever it is used, and a customer base that numbers in the thousands. Most important, we have a talented workforce that includes, by our reckoning, many of the best and brightest people in our industry.

We thank our employees, customers, shareholders and business partners for their many contributions to Toromont’s success in 2016. Together, we have a bright future.



Scott J. Medhurst
President and CEO



Robert M. Ogilvie
Chairman of the Board



Sustainability Report

By demonstrating leadership in employee health, safety and training, and acting as a responsible member of the communities where we live and work, we believe Toromont can deliver good results today and sustainability for the long term.

Safety

At Toromont, our most important objective is to protect our employees. For that reason, safety is an ethical and operational imperative for everyone who works here.

We also know safety is a chief concern for our customers, our neighbouring communities and our business partners, including Caterpillar, which has enjoined its dealers worldwide in a new safety regimen. In this way, our business success directly depends upon maintaining a reputation for operating safely and in compliance with all regulations across our 100+ facilities, in the field and on our customers' sites.

With the support of our employees, we strive to make safety a cultural norm, which is the key to consistent performance. We begin each day with Safety Talks that encourage our team members to learn and adopt the safest ways of working, whether they operate behind a computer or under a piece of heavy equipment. Our team also embraces formal safety training, which serves the dual purpose of providing our employees with key skills they need to stay safe and reinforces safety as part of our culture. In 2016 alone, our Toromont Cat employees enrolled in 6,500 hours of training.

Since our employees are exposed to different hazards, Toromont provides programs that are purpose built. For example, one hazard faced by Toromont Cat technicians while fixing equipment is hand injury. To eliminate this type of injury, we introduced an education campaign in 2016 focused on hand protection, provided guidance on the best type of gloves to wear for specific jobs, and installed safety glove vending machines.

Battlefield makes its mark for customers by getting rental equipment to construction sites quickly. To support safety, Battlefield provides extensive driver training, purchases delivery trucks that require less physical effort for our drivers to load and unload as a means of eliminating the potential for back injuries and, like Toromont Cat, equips delivery vehicles with GPS monitors. Among other advantages, GPS monitoring assists us in refining driver behaviours.

One of the key methods we have for entrenching safety as standard operating practice is the pre-job hazard assessment form. Across all of Toromont, no equipment installation or repair is to begin without a written analysis of the accompanying safety risks being made before the commencement of the job. This process ensures

Toromont Recognized at Caterpillar People Conference

Each year, 65 dealers from the Americas enter their human resource program initiatives for recognition at Caterpillar's People Conference. In 2016, Toromont took top honours in two categories. In Customer Experience, Toromont was recognized for "Beyond the Score," an integrated training, communication, technology, marketing and recognition program dedicated to helping our employees deliver better customer experiences. In Sales Compensation, Toromont was recognized for piloting a variable compensation plan that encouraged and subsequently rewarded our Barrie, Ontario, used parts team for increasing revenue, improving customer value and responsiveness, and enhancing returns on assets.

appropriate decisions on the type, quantity, capacity and location of safety equipment are made before a technician tackles a new assignment. In 2016, Battlefield made its assessment form digital, a move that makes it easier for drivers and technicians to reference completed records. This past year, a focus group of Toromont Cat technicians participated in redesigning their job hazard assessment checklist for 2017. Employee participation in setting safe work practices is a natural evolution of our journey to a safety first-and-always culture.

Investing in safety also means investing in management resources. New health and safety specialists were and will be added in 2016 and 2017 to serve CIMCO, AgWest and Toromont Cat.

Tone from the top is important in encouraging safe operations. Our Board of Directors demands accountability for safety outcomes and reviews safety results and practices at all regularly scheduled Board meetings. This culture of accountability permeates our management ranks and is reinforced through variable compensation tied to safe performance but also to the level of involvement in promoting safe behaviours. Our managers and supervisors demonstrate their commitment by being visible and active. We recently revised our Toromont Cat branch scorecards to put more emphasis on leader engagement in safety and in investigating

root causes of injuries – research that helps to prevent unsafe practices in future.

Annually, we award the coveted Safety Bucket Award to the Toromont Cat branch that best demonstrates the proper behaviours – this year presented to our customer-embedded operations at Detour Gold.

As a further demonstration of our collective commitment to safe operations, all Toromont employees are expected to follow our Five Cardinal Safety Rules: be fit for duty; assess all hazards prior to starting the job; control all hazardous energy; wear the right personal protective equipment; and report all incidents. This policy is similar to the practices used by health and safety leaders in key industries we serve and includes disciplinary action up to and including dismissal for non-compliance.

As a result of our employees' dedication to safety, Toromont's Total Recordable Injury Frequency Rate (TRIR) has been cut by 69% over the past five years. Injury severity has also been reduced over the period. However, this is not good enough for a company that puts safety first. Our goal is to achieve a TRIR of less than one and sustain zero loss-time injuries. There is more work to follow.

Employee Ownership

We believe every Toromont employee should have the opportunity to become an owner of the business. Employee ownership breeds an alignment with our broader goals of creating value for customers and shareholders. For those who have participated in our employee share purchase plan (ESPP), it has been a rewarding complement to their compensation and benefits packages. Today, about 50% of our workforce participates in our ESPP. We would like to see that percentage increase, so in 2016, we enhanced our Company match so that for every \$3 of stock an employee purchases, Toromont adds \$1 to a maximum of 2.5% of base salary.

Workforce Development

Although our industry is associated with large and sophisticated machines, it remains, at heart, a service business driven by personal interactions. As such, Toromont's sustainability is directly related to how its customers and employees feel they are treated as individuals. The starting place for customer satisfaction is an engaged, committed workforce that is trained and motivated to serve.

We are fortunate that Toromont has become known as a career destination. Approximately 42% of our employees have been with us for at least 10 years, and 10% have served Toromont for 25 years or more. Our overall voluntary turnover rate is below industry norms with Toromont Cat at just 3.6% in 2016. This is not happenstance. We strive to create meaningful employment with regular opportunities to learn, be challenged and to advance.

At Toromont Cat, our objective is that every employee will have individual long-range development plans with hard targets for measuring success. We focus employee development using a strategy called MYFUTURE. It identifies the key competencies that are necessary for success in each function or role. Employees then refer to our Development Playbook to identify the courses available to them through Toromont University to develop those competencies. Our educational resources are bolstered by Caterpillar's dealer performance centre and in 2016, by an agreement with a well-known online educational services provider that makes their courses available through an all-access pass. Due to the diverse geographies and time zones we serve, and our desire to make learning more convenient, we put more emphasis on virtual, computer-based learning in 2016 than ever before as a supplement to classroom experiences. We also learn from our employees. When our parts and service team asked for more role-based training, we obliged and will introduce it in 2017.

Toromont Cat's two-year Management Trainee Program provides another opportunity for

advancement and has been instrumental in developing a strong pool of talent that we draw on for future leaders.

Benchmarking by American Talent Development suggests that we invested over 70% more in training per employee in 2016 than the North American corporate average.

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“Employee participation in setting safe work practices is a natural evolution of our journey to a safety first-and-always culture.”

For 40 high-potential employees selected from our business units, we hosted our bi-annual Leadership Development Conference. Instructors and facilitators included senior management at Toromont and a professor from the Ivey Business School. Alternating years with the conference we run a Dealer Management Simulation course that focuses on the business of operating branch operations.

Recruiting people with the right background and attitude is also critical to our success. One of the ways we identify future employee prospects is through partnerships with 10 selected educational institutions that specialize in trades training. We serve as academic advisors and periodically donate equipment and software that students use in the classroom. In turn, students learn about Toromont, tour our facilities and many apply for our apprenticeship program. We added apprentices in 2016 through our educational partnership pipeline to bring total apprenticeship employment to 128.

Diversity

Workforce diversity is supported in a number of ways, beginning with recruitment from under-represented groups and in remote regions where we do business. We have had some success over the years in encouraging First Peoples to join Toromont, and that helps in our recruiting activities, as we can point to stories of achievement by more than 60 employees of First Peoples heritage. Partnerships with groups such as the Moose Cree, Attawapiskat and the Inuit and Innu in Nunavut and Newfoundland and Labrador assist in these efforts.

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“Careful use of resources has long been a key tenet of Toromont’s operating philosophy. Put simply, waste is costly and should be eliminated.”

While there is still a perception that the equipment industry is for “men,” women hold positions of authority at Toromont and are advancing their careers in areas such as branch management, national account management and senior management. To ignite greater interest in a career at Toromont, our recruiters participated in “women in trades” events in Waterloo, Ottawa and Windsor, Ontario in 2016, and we awarded two of our five THINK BIG scholarships to female students to help them offset tuition costs to attend trades training. One of our two co-op welders in Thunder Bay is female. We also collaborate with the March of Dimes to identify potential employees who are working to overcome their challenges.

To ensure newcomers from all walks of life feel welcome, we strive to create an inclusive environment. We provide training funds for business English language skills, recently added a module to Toromont University on how to communicate with employees and customers from different cultures, and make sign-language interpreters available as required.

Toromont’s Board of Directors also recognizes the benefits of diversity as a contributor to growth, innovation and corporate decision-making. The Directors have a formal Board Diversity Policy that sets out the diversity criteria the Corporation considers in identifying, assessing and selecting potential Director nominees.

Building Better Communities

Toromont believes that teamwork builds better communities both inside and outside our business. That’s why we encourage our employees to participate together in helping charitable causes. Our official charity is the United Way. Working side-by-side, our employees donated over \$100,000 in 2016 through a wide variety of grassroots events such as BBQs, golf tournaments, a poker event, photo contest and car wash. In addition, our people volunteered their time and expertise, sometimes through Days of Caring® events and occasionally with heavy-lifting support from Toromont equipment. When the Community Association for Riding for the Disabled needed the floor of its indoor equestrian arena restored in 2016, volunteers from SITECH, Battlefield and Toromont Cat marshalled the resources of a Cat D5K2 outfitted with slope assist and laser technologies and a Cat 232 Skid Steer Loader with a hydraulic power rake to condition and regrade the soil, much to the delight of the riders and staff.

Environment

Careful use of resources has long been a key tenet of Toromont’s operating philosophy. Put simply, waste is costly and should be eliminated. We take the same approach to managing our environmental footprint, seeking to reduce waste in all its forms.

Our fleet of vehicles is the single-largest contributor to our comparatively modest greenhouse gas (GHG) emissions, and fuel for those vehicles is a costly input. We make vehicle purchasing decisions based on several factors, including fuel economy, maintain anti-idling policies, and, using GPS monitoring, track and seek to eliminate idling and excessive speed, which are costly for the environment and our bottom line. Using data analytics, we estimate that the elimination of needless idling saves up to \$200,000 a year in fuel across the Toromont Cat fleet alone.

Our network of facilities is the second-largest source of GHG. Some of our branches are older, and that means taking remedial action to improve environmental performance during renovations. When our Toromont Cat branch in Orillia was upgraded in 2016, asset renewal included adding insulated garage doors, efficient lighting and fresh-air intake systems. These retrofits provide a payback in lower energy consumption. Another source of GHG is engine testing. To reduce this impact, we operate a testing facility at our Power Systems operation in Brampton that incorporates a Selective Catalytic Reduction emission abatement system that minimizes the release of nitrogen oxide and sulfur oxide during generator testing by up to 95%.

Toromont uses water in its operations. To reduce consumption, we invest in waste water treatment and water recycling for equipment cleaning at many branches. At Toromont Cat, innovative wash-water treatment systems were installed in London, Orillia and Concord, Ontario to complement a number of other Toromont Cat and Battlefield stores with similar systems.

Beyond GHG and water conservation strategies, we seek to reduce waste by recycling absorbent cloths used in cleaning and repairing machines. Over the past five years, we diverted 40,657 kilograms of waste from landfill and recovered 29,721 litres of liquid, including oil, through this recycling program.

In addition to in-house activities, Toromont and its business partners produce products that help customers conserve energy. Across our installed base, our ECO CHILL® technologies, which collect and recycle energy used in the refrigeration process, have offset 635,917 CO₂-equivalent tonnes compared to traditional refrigeration (the equivalent of 141,315 cars) and saved 75 million kilowatt hours of electricity by recycling heat. In our equipment markets, Caterpillar is a leader in manufacturing fuel-efficient, low-emission engines. Through an alliance with a photovoltaic company, Caterpillar recently introduced micro-grid solar solutions for mine-site and remote community applications.

We believe our customers and shareholders appreciate these efforts and expect us to do more every year to keep our environmental footprint – and theirs – small as we grow.

Corporate Governance

A strong and effective corporate governance program continues to be a principal priority for Toromont. The Nominating and Corporate Governance Committee, on behalf of the Board, establishes and monitors the governance program and its effectiveness.

The Company’s corporate governance structure and procedures are founded on our Code of Business Conduct that applies to all Directors, officers and employees. Our governance program includes the activities of the Board of Directors, who are elected by and are accountable to the shareholders, and the activities of management, who are appointed by the Board and are charged with the day-to-day management of the Company.

Toromont regularly reviews and enhances its governance practices in response to evolving regulatory developments and other applicable legislation.

The Company’s corporate governance program is in compliance with National Policy 58-201 – Corporate Governance Guidelines and Multilateral Instrument 52-110 – Audit Committees.

Board of Directors

The role of the Board of Directors, its activities and responsibilities are documented and are assessed at least annually, as are the terms of reference for each of the committees of the Board, the Chairs of the committees, the Lead Director and the Chairman, inclusive of scope and limits of authority of management. The Board acts in a supervisory role and any responsibilities not delegated to management remain with the Board. The Board’s supervisory role includes such matters as strategic planning, identification

and management of risks, succession planning, communication policy, internal controls and governance.

The Lead Director is an independent Director, appointed annually by the independent Directors of the Board to facilitate the Board’s functioning autonomously from management. The Lead Director serves as a non-partisan contact for other Directors on matters not deemed appropriate to be discussed initially with the Chairman or in situations where the Chairman is not available. The Lead Director is available to counsel the Chairman on matters appropriate for review in advance of discussion with the full Board of Directors.

For more information on the Board of Directors, please refer to the Management Information Circular dated February 28, 2017, prepared in connection with the Corporation’s 2017 Annual Meeting of Shareholders available on our website at www.toromont.com.

Board of Directors

• L to R: James W. Gill, Robert M. Franklin, Scott J. Medhurst, John S. McCallum, Robert M. Ogilvie, Cathryn E. Cranston, Jeffrey S. Chisholm, David A. Galloway, Katherine A. Rethy, Wayne S. Hill



Committee Structure and Mandates

Committees of the Board are an integral part of the Company’s governance structure. Three committees have been established with a view toward allocating expertise and resources to particular areas, and to enhance the quality of discussion at Board meetings. The committees facilitate Board decision-making by providing recommendations to the Board on matters within their respective responsibilities. All committees are comprised solely of Directors who are independent of management. A summary of the responsibilities of the committees follows.

The Nominating and Corporate Governance Committee

Principal responsibilities are reviewing and making recommendations as to all matters relating to effective corporate governance. The committee is responsible for assessing effectiveness of the Board, its size and composition, its committees, Director compensation, the Board’s relationship to management, and individual performance and contribution of its Directors. The committee is responsible for identification and recruitment of new Directors and new Director orientation.

The Audit Committee

Principal duties include oversight responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, legal compliance on ethics programs established by management, the approval of all audit and non-audit services provided by the independent auditors and consultation with the auditors independent of management and overseeing the work of the auditors and the Internal Audit department.

The Human Resources and Compensation Committee

Principal responsibilities are compensation of executive officers and other senior management, short- and long-term incentive programs, pension and other benefit plans, executive officer appointments, evaluation of performance of the Chief Executive Officer, succession planning and executive development. The committee also oversees compliance with the Company’s Code of Business Conduct and the health, safety and environment program.

Executive Operating Team

• L to R: David C. Wetherald, Paul R. Jewer,
• David A. Malinauskas, Michael P. Cuddy,
• Jennifer J. Cochrane, Scott J. Medhurst,
• Randall B. Casson



Randall B. Casson

*President, Toromont
Construction Division /
Battlefield – The Cat
Rental Store*

Mr. Casson joined Toromont in 1977. He was appointed Vice President and General Manager, Northern Region in 1997 and became President of Battlefield in 2001. He is a graduate of Toromont's management training program. He was appointed to his current position in 2012.

Jennifer J. Cochrane

Vice President, Finance

Ms. Cochrane joined Toromont in 2003 and has held increasingly senior management positions within the finance area. She is a CPA, CA. Ms. Cochrane was appointed to her current position in 2013.

Michael P. Cuddy

*Vice President and Chief
Information Officer*

Mr. Cuddy joined Toromont as General Manager, Information Technology and Chief Information Officer in 1995 and became Vice President and Chief Information Officer in 2004. He held various positions previously with Ontario Hydro, Imperial Oil and Bell Mobility, and holds a BSc and an MBA, both from the University of Toronto.

Paul R. Jewer

*Executive Vice President and
Chief Financial Officer*

Mr. Jewer joined Toromont in 2005 as Chief Financial Officer. Prior to joining Toromont, he served for five years as Chief Financial Officer for another Canadian publicly listed company. He is a Fellow of CPA Ontario (FCPA, FCA), a member of

CPA Newfoundland and Labrador and holds the ICD.D designation as a member of the Institute of Corporate Directors. Mr. Jewer is also Chair of the Board of The Country Day School, an independent school in King City, Ontario.

David A. Malinauskas

President, CIMCO Refrigeration

Mr. Malinauskas was appointed President of CIMCO on January 1, 2015 following a successful 16-year career with the business. He has held various positions of increasing responsibility, including most recently, Director of Engineering. He is a Professional Engineer and received his MBA in 2001.

Scott J. Medhurst

*President and Chief
Executive Officer*

Mr. Medhurst joined Toromont in 1988. He was appointed President of

Toromont Cat in 2004 and became President and CEO of Toromont Industries Ltd. in 2012. Mr. Medhurst is a graduate of Toromont's management training program. He is currently an active member of the World Presidents' Organization and Caterpillar Global Mining Council.

David C. Wetherald

*Vice President, Human
Resources and Legal*

Mr. Wetherald joined Toromont in 2004 as General Counsel and Corporate Secretary and became Vice President, Human Resources and Legal in 2008. He was previously employed with Torstar Corporation for 11 years as General Counsel & Secretary with corporate development responsibilities, and prior to that for five years with Davies.

Management's Discussion & Analysis

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 year ended December 31, 2016, compared to the preceding year. This MD&A should be read in conjunction with the attached audited consolidated financial statements and related notes for the year ended December 31, 2016.

The consolidated financial statements reported herein have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are reported in Canadian dollars. The information in this MD&A is current to February 6, 2017.

Additional information is contained in the Company’s filings with Canadian securities regulators, including the Company’s 2016 Annual Report and 2017 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 and Annual Report 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 and Annual Report is based on current objectives, strategies, expectations and assumptions which management considers appropriate and reasonable at the time including, but not limited to, general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

By its nature, forward-looking information is subject to risks and uncertainties which may be beyond the ability of Toromont to control or predict. The actual results, performance or achievements of Toromont could differ materially from those expressed or implied

by forward-looking information. Factors that could cause actual results, performance, achievements or events to differ from current expectations include, among others, risks and uncertainties related to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn\$/US\$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; and environmental regulation.

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 and

Annual Report. 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 this MD&A. 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 that are included in this MD&A and Annual Report, which are made as of the date of this MD&A, and not to use such information for anything other than its intended purpose. Toromont disclaims any obligation or intention to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable securities legislation.

Corporate Profile and Business Segmentation

As at December 31, 2016, Toromont employed over 3,600 people in more than 100 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

Toromont has two reportable operating segments: the Equipment Group and CIMCO.

The Equipment Group includes Toromont Cat, one of the world’s larger Caterpillar dealerships, Battlefield – The Cat Rental Store, an industry-leading rental operation, and AgWest, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers’ products.

Performance in the Equipment Group is driven by activity in several industries: road building and other infrastructure-related activities; mining; residential and commercial construction; power generation; aggregates; waste management; steel; forestry; and agriculture. Significant activities include the sale, rental and service of mobile equipment for Caterpillar and other manufacturers; sale, rental and service of engines used in a variety of applications including industrial, commercial, marine, on-highway trucks and power generation; and sale of complementary and related products, parts and service. Territories

include Ontario, Manitoba, Newfoundland and most of Labrador and Nunavut.

CIMCO is a market leader in the design, engineering, fabrication, installation and after-sale support of refrigeration systems in industrial and recreational markets. Results of CIMCO are influenced by conditions in the primary market segments served: beverage and food processing; cold storage; food distribution; mining; and recreational ice rinks. CIMCO offers systems designed to optimize energy usage through proprietary products such as ECO CHILL®. CIMCO has manufacturing facilities in Canada and the United States and sells its solutions globally.

Primary Objective and Major Strategies

The primary objective of the Company is to build shareholder value through sustainable and profitable growth, supported by a strong financial foundation. To guide its activities in pursuit of this objective, Toromont works toward specific, long-term financial goals (see section heading “Key Performance Measures” in this MD&A) and each of its operating groups consistently employs the following broad strategies:

Expand Markets

Toromont serves diverse markets that offer significant long-term potential for profitable expansion. Each operating group strives to achieve or maintain leading positions in markets served. Incremental revenues are derived from improved coverage, market share gains and geographic expansion. Expansion of the installed base of equipment provides the foundation for product support growth and leverages the fixed costs associated with the Company’s infrastructure.

Strengthen Product Support

Toromont’s parts and service business is a significant contributor to overall profitability and serves to stabilize results through economic downturns. Product support activities also represent

opportunities to develop closer relationships with customers and differentiate the Company’s product and service offering. The ability to consistently meet or exceed customers’ expectations for service efficiency and quality is critical, as after-market support is an integral part of the customer’s decision-making process when purchasing equipment.

Broaden Product Offerings

Toromont delivers specialized capital equipment to a diverse range of customers and industries. Collectively, hundreds of thousands of different parts are offered through the Company’s distribution channels. The Company expands its customer base through selectively extending product lines and capabilities. In support of this strategy, Toromont represents product lines that are considered leading and generally best-in-class from suppliers and business partners who continually expand and develop their offerings. Strong relationships with suppliers and business partners are critical in achieving growth objectives.

Invest in Resources

The combined knowledge and experience of Toromont’s people is a key competitive

advantage. Growth is dependent on attracting, retaining and developing employees with values that are consistent with Toromont’s. A highly principled culture, share ownership and profitability-based incentive programs result in a close alignment of employee and shareholder interests. By investing in employee training and development, the capabilities and productivity of employees continually improve to better serve shareholders, customers and business partners.

Toromont’s information technology represents another competitive differentiator in the marketplace. The Company’s selective investments in technology, inclusive of e-commerce initiatives, strengthen customer service capabilities, generate new opportunities for growth, drive efficiency and increase returns to shareholders.

Maintain a Strong Financial Position

A strong, well-capitalized balance sheet creates stability and financial flexibility, and has contributed to the Company’s long-term track record of profitable growth. It is also fundamental to the Company’s future success.

Consolidated Annual Operating Results

(\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Revenues	\$ 1,867,283	\$ 1,802,233	\$ 65,050	4%
Cost of goods sold	1,399,695	1,356,630	43,065	3%
Gross profit ⁽¹⁾	467,588	445,603	21,985	5%
Selling and administrative expenses	255,964	241,093	14,871	6%
Gain on sale of internally-developed software	(4,939)	—	(4,939)	nm
Operating income ⁽¹⁾	216,563	204,510	12,053	6%
Interest expense	7,242	8,668	(1,426)	(16%)
Interest and investment income	(4,006)	(3,422)	(584)	17%
Income before income taxes	213,327	199,264	14,063	7%
Income taxes	57,579	53,598	3,981	7%
Net earnings	155,748	145,666	10,082	7%
Basic earnings per share	\$ 1.99	\$ 1.88	\$ 0.11	6%
Key ratios:				
Gross profit margin ⁽¹⁾	25.0%	24.7%		
Selling and administrative expenses as a % of revenues	13.7%	13.4%		
Operating income margin ⁽¹⁾	11.6%	11.3%		
Income taxes as a % of income before income taxes	27.0%	26.9%		
Return on capital employed ⁽¹⁾	24.5%	24.3%		
Return on equity ⁽¹⁾	20.0%	21.6%		

(1) Defined in the sections titled “Additional GAAP Measures and Non-GAAP Measures.”

Revenues increased 4% to \$1.9 billion. CIMCO accounted for the majority of the increase in revenues on record package sales and product support revenues. The Equipment Group reported a 1% increase in revenues on higher product support and used equipment revenues, partially offset by lower new equipment sales and rentals. Gross profit margin was slightly higher than last year, up 30 basis points (“bps”) to 25.0% largely due to a favorable sales mix of product support to total revenues. Challenging market conditions have continued to exert downward pressures on margins for each category of sales across most of the business. Selling and administrative expenses increased \$14.9 million or 6% and were up 30 bps as a percentage of revenues versus

last year. The majority of the increase related to higher compensation costs (up \$9.3 million) and higher mark-to-market adjustments on Deferred Share Units (“DSUs”) (\$3.1 million) due to the increased share price. Bad debt expenses were down \$0.7 million on an improved aging profile of receivables. In the third quarter of 2016, Toromont sold its licences related to internally-developed software modules, designed to work with dealer-based systems (DBS). The pre-tax gain on this sale was \$4.9 million. Annual royalty revenue from the previous royalty arrangements averaged \$0.6 million over the preceding three years. Interest expense decreased on lower average debt balances and lower

effective interest rates realized in a late-2015 refinancing. Interest income increased on higher conversions of equipment on rent with a purchase option (“RPO”) and increased investment income on higher average cash balances. The effective income tax rate for 2016 was 27.0% compared to 26.9% in 2015. Net earnings in 2016 were \$155.7 million and basic earnings per share (“EPS”) were \$1.99, up 7% from 2015. Comprehensive income in 2016 was \$154.2 million (2015 – \$147.6 million). Other comprehensive loss in 2016 was \$1.6 million, including an actuarial loss on defined benefit pension plans of \$1.1 million which resulted from a decrease in the discount rate.

Business Segment Annual 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)	2016	2015	\$ change	% change
Equipment sales and rentals				
New	\$ 518,808	\$ 595,441	\$ (76,633)	(13%)
Used	239,447	192,445	47,002	24%
Rentals	221,009	222,562	(1,553)	(1%)
Total equipment sales and rentals	979,264	1,010,448	(31,184)	(3%)
Power generation	12,242	11,173	1,069	10%
Product support	595,383	547,878	47,505	9%
Total revenues	\$ 1,586,889	\$ 1,569,499	\$ 17,390	1%
Operating income	\$ 196,124	\$ 189,630	\$ 6,494	3%
Capital expenditures				
Rental	\$ 98,668	\$ 119,737	\$ (21,069)	(18%)
Other	22,938	29,331	(6,393)	(22%)
Total	\$ 121,606	\$ 149,068	\$ (27,462)	(18%)
Key ratios:				
Product support revenues as a % of total revenues	37.5%	34.9%		
Operating income margin	12.4%	12.1%		
Group total revenues as a % of consolidated revenues	85.0%	87.1%		
Return on capital employed	21.8%	22.2%		

The Equipment Group has faced challenging market conditions this year. The weakened Canadian dollar has resulted in higher new equipment prices versus recent years and delays in the roll-out of the announced Federal infrastructure investment has resulted in customers being more cautious with their capital expenditures. Consequently, customers have been seeking alternatives such as used, rebuilds and, to a certain extent, rental purchase options. Additionally, weakness in other geographic markets has resulted in a migration of rental fleets, inventory and contractors into the relatively more active Ontario market. This led to increasing competitive conditions across all segments. In total, equipment sales were down \$29.6 million or 4%.

New equipment sales were down \$76.6 million or 13% versus last year, tracking industry declines based on Company estimates, with decreases reported across most industries served. Toromont’s new equipment sales into construction markets declined \$40.0 million or 11%, while sales into mining markets were down \$34.2 million or 45%. Power Systems revenues were off \$10.9 million or 14%, due to delayed timing for certain project completions together with softness in most sectors. Deliveries into certain other market segments increased, including waste and landfill (up \$8.6 million or 104%) and forestry (up \$1.1 million or 7%). Agriculture revenues were relatively unchanged from last year despite very soft markets.

Offsetting the decline in new, used equipment sales increased to a new record of \$239.4 million led by strong mining deliveries and increases across most other market segments. Used equipment sales include used equipment purchased for resale, equipment received on trade-in, rent with purchase option (“RPO”) returns and sales of Company-owned rental fleet units. Rental revenues decreased \$1.6 million or 1% as lower rental rates across all segments more than offset increased time utilization in the larger rental asset categories. Light equipment rentals were up 3% on larger fleets (up 12%) and two additional locations. Heavy equipment rentals were down 5% on lower time utilization exacerbated by changes in

the competitive landscape which adversely affected demand. Power rentals decreased 17% against a tough prior year comparator, which included good activity surrounding the Toronto Pan-Am games, increased penetration of the entertainment market and the conversion of a large rental package. Rental revenues from RPO were down 8% largely due to rental rate pressures as the average RPO fleet investment increased 3% year-over-year. The ending RPO fleet at December 31, 2016, was \$61.0 million versus \$49.8 million at the end of 2015. Power generation revenues from Toromont-owned and -managed plants increased \$1.1 million or 10% over last year on higher electricity sales from the Waterloo Landfill site and Sudbury Hospital plant in addition to higher thermal revenue from the Sudbury Downtown and Hospital plants. Product support revenues increased \$47.5 million or 9%, benefitting from the larger installed base of equipment in our territory and good activity levels for equipment in the field. Parts revenues increased 11% over 2015, led by substantial

parts deliveries into mining (up 22%), construction (up 2%) and agriculture (up 25%) markets. Higher parts sales also reflect changes in pricing as a consequence of the weakened Canadian dollar. We estimate that on a constant dollar basis, parts sales increased 5%. Service revenues were up 2% largely due to good construction activity levels. Product support was also lifted by increased rebuild activity in mining. Gross margins improved 60 basis points (“bps”) on a favorable sales mix of product support revenues to total revenues (37.5% compared to 34.9% in 2015). Competitive market conditions were experienced across most lines of business during the year. Lower depreciation charges on the rental fleets as a result of updated estimates of estimated useful lives and residual values served to offset the impact of lower financial utilization of the rental fleets. The net impact of these changes reduced depreciation by \$4.1 million for the year versus applying the previous estimates. Selling and administrative expenses increased \$12.6 million or 6% compared

to last year. Compensation costs (up \$6.0 million), customer allowances (up \$2.0 million) and information technology expenses (up \$1.4 million) accounted for the majority of the increase. As a percentage of revenues, expenses were 60 bps higher than 2015 (13.4% vs. 12.8%). The \$4.9 million pre-tax gain on the sale of internally-developed software is included in the Equipment Group results. Excluding this gain, operating income increased \$1.6 million versus last year but was down 10 bps to 12.0% as a percentage of revenues. Capital expenditures in the Equipment Group were \$27.5 million (18%) lower year-over-year. Replacement and expansion of the rental fleet accounted for \$98.7 million of total investment in 2016. Other capital expenditures include \$11.2 million for service and delivery vehicles, \$6.1 million for new and expanded facilities to meet current and future growth requirements, \$2.7 million for machinery and equipment and \$1.5 million for upgrades and enhancements to the information technology infrastructure.

Bookings and Backlogs

(\$ millions)	2016	2015	\$ change	% change
Bookings – year ended December 31	\$ 814	\$ 779	\$ 35	4%
Backlogs – as at December 31	\$ 147	\$ 92	\$ 55	60%

Bookings increased 4% to \$814.0 million with increases in mining (29%), agriculture (18%) and power systems (7%) orders, partially offset by lower construction (1%) orders. Backlogs of \$147.0 million were up 60% from this time last year with increases

across most market segments. At December 31, 2016, the backlog related to mining (32%), construction (28%), power systems (26%) and agriculture (14%). Most of the backlog is expected to be delivered in 2017. 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 equipment or suppliers.

CIMCO

(\$ thousands)	2016	2015	\$ change	% change
Package sales	\$ 161,614	\$ 119,516	\$ 42,098	35%
Product support	118,780	113,218	5,562	5%
Total revenues	\$ 280,394	\$ 232,734	\$ 47,660	20%
Operating income	\$ 20,439	\$ 14,880	\$ 5,559	37%
Capital expenditures	\$ 1,888	\$ 1,038	\$ 850	82%

Key ratios:

Product support revenues as a % of total revenues	42.4%	48.6%
Operating income margin	7.3%	6.4%
Group total revenues as a % of consolidated revenues	15.0%	12.9%
Return on capital employed	73.8%	47.5%

CIMCO reported record results for the year on continued growth in both Canada and the US. Translation of US operations did not have a significant impact on results.	Product support revenues increased \$5.6 million or 5% versus last year largely due to higher activity levels in Canada (up 6%) while US revenues were relatively in line with last year. Focus remains on continued expansion into US markets with traction expected over the longer term as the installed base increases.	Selling and administrative expenses increased \$2.2 million or 6% compared to last year on higher compensation costs (up \$3.2 million), partially offset by lower bad debt expenses (down \$0.6 million). Certain other expense categories were lower including professional fees, insurance and depreciation. As a percentage of revenues, expenses were 220 bps lower than last year (15.3% vs. 17.5%).
Package revenues reflect work performed using the percentage-of-completion method, which reflects timing of projects and construction schedules largely under our customers' control. In Canada, package revenues were \$25.2 million or 26% higher than last year with terrific growth in Ontario, Quebec and Atlantic Canada, partially offset by a decline in Western Canada. Industrial markets were up \$30.4 million or 47% while recreational markets were down \$5.2 million or 17%. In the US, package revenues increased \$16.9 million or 71% versus last year with recreational activity more than doubling (up 120%) and industrial activity increasing 12%. Increased sales coverage in the US has yielded positive results and remains an area with significant growth potential.	Gross margins were down 130 bps on lower average package margins and an increased proportion of package sales versus higher margin product support sales, partially offset by improved product support margins. Lower package margins reflect the tight pricing environment and higher warranty costs, partially offset by improved execution and a favorable foreign exchange impact. Higher product support margins reflect execution experience despite increasingly competitive market conditions. Product support revenues were 42.4% as a percentage of total revenues in 2016 compared to 48.6% in 2015.	Operating income increased 37% to \$20.4 million on the higher revenues and lower relative expense levels, partially offset by lower margins. Operating income margin increased 90 bps to 7.3%. Capital expenditures were up 82% to \$1.9 million with the majority of expenditures in 2016 related to additional service vehicles (\$1.0 million), machinery and equipment (\$0.4 million) and information technology infrastructure enhancements and upgrades (\$0.3 million).

Bookings and Backlogs

(\$ millions)	2016	2015	\$ change	% change
Bookings – year ended December 31	\$ 178	\$ 139	\$ 39	28%
Backlogs – as at December 31	\$ 99	\$ 88	\$ 11	13%

Bookings increased 28% to a new high of \$178.0 million with increases in both Canada and the US. Industrial bookings were up 45% with strong growth in both Canada (up 33%) and the US (up 211%). Recreational bookings were up 6% with increases in the US (up 20%),	partially offset by a decrease in Canada (down 4%). Backlogs increased 13% to \$99.0 million also with increases in both Canada and the US and represented the second-highest level for this time of year. Recreational backlogs were	up 24% with increases in Canada (up 29%) and the US (up 19%). Industrial backlogs were up 4% as strong US activity levels (up 85%) were partially offset by softer Canadian levels (down 5%). Substantially all of the backlog is expected to be realized as revenue in 2017.
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Consolidated Financial Condition

The Company has maintained a strong financial position for many years. At December 31, 2016, the ratio of net debt to total capitalization was -4% (cash exceeded total debt).

Non-Cash Working Capital

The Company’s investment in non-cash working capital was \$388.5 million at December 31, 2016. The major components, along with the changes from December 31, 2015, are identified in the following table.

(\$ thousands)	2016	2015	\$ change	% change
Accounts receivable	\$ 277,050	\$ 262,523	\$ 14,527	6%
Inventories	435,757	463,210	(27,453)	(6%)
Other current assets	5,236	4,278	958	22%
Accounts payable, accrued liabilities and provisions	(264,198)	(240,203)	(23,995)	10%
Income taxes payable	(1,262)	(3,052)	1,790	(59%)
Derivative financial instruments	1,197	2,445	(1,248)	(51%)
Dividends payable	(14,111)	(13,253)	(858)	6%
Deferred revenues	(51,211)	(54,645)	3,434	(6%)
Total non-cash working capital	\$ 388,458	\$ 421,303	\$ (32,845)	(8%)

Accounts receivable increased \$14.5 million or 6% compared to 2015 mainly due to the 2% increase in revenues in the fourth quarter. Equipment Group accounts receivable increased \$9.3 million or 4% while CIMCO accounts receivable increased \$5.2 million or 11%. Days sales outstanding (DSO) was relatively in line with last year at 45 days with the Equipment Group holding constant and CIMCO down 2 days.	purchases and related payments for other supplies in addition to the impact of the weaker Canadian dollar on accounts payable to US-based vendors. Income taxes payable reflects the difference between tax installments and current tax expense. Higher dividends payable year over year reflect the higher dividend rate. In 2016, the quarterly dividend rate was increased from \$0.17 per share to \$0.18 per share, a 6% increase. Deferred revenues represent billings to customers in excess of revenue recognized. In the Equipment Group, deferred revenues arise on sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements as well as on progress billings on long-term construction contracts. Equipment Group deferred revenues were 12% lower in 2016 than in 2015 on customer service agreements. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues were 10% higher in 2016 than in 2015.	Goodwill and Intangibles The Company performs impairment tests on its goodwill and intangibles with indefinite lives on an annual basis or as warranted by events or circumstances. The assessment entails estimating the fair value of operations to which the goodwill and intangibles relate, using the present value of expected discounted future cash flows. This assessment affirmed goodwill and intangibles values as at December 31, 2016. See Note 7 to the consolidated financial statements.
Inventories decreased \$27.5 million (6%) to \$435.8 million versus a year ago.		
Equipment Group inventories were \$29.2 million (7%) lower than this time last year with decreases in equipment (down \$21.5 million or 7%), parts (down \$6.8 million or 6%) and service work-in-process (down \$0.9 million or 5%). Managing inventory levels remains a focus.		
CIMCO inventories were \$1.7 million (10%) higher than this time last year mainly on increases in work-in-process on the timing of projects.		
Accounts payable and accrued liabilities at December 31, 2016, increased \$24.0 million or 10% from this time last year. The increase was primarily due to the timing of payments related to inventory		Employee Share Ownership The Company employs a variety of stock-based compensation plans to align employees’ interests with corporate objectives. The Company maintains an Executive Stock Option Plan for its senior employees. Non-employee directors have not received grants under this plan since 2013. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. Stock options granted in 2013 and after have a 10-year term while those

granted prior to 2013 have a seven-year term. At December 31, 2016, 2.4 million options to purchase common shares were outstanding, of which 0.9 million were exercisable.

The Company offers an Employee Share Ownership Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of \$1 for every \$3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or \$1,000 per annum. Company contributions vest to the employee immediately. Company contributions amounting to \$1.8 million in 2016 (2015 – \$1.1 million) were charged to selling and administrative expense when paid. Approximately 50% (2015 – 48%) of employees participate in this plan. The Plan is administered by an independent third party.

The Company also offers a deferred share unit (“DSU”) plan for certain executives and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus or fees, respectively, in DSUs. Non-employee directors also receive DSUs as part of their compensation, aligning at-risk and cash compensation components. A DSU is a notional unit that reflects the market value of a single Toromont common share and generally vests immediately. DSUs will be redeemed on cessation of employment or directorship. DSUs have dividend equivalent rights, which are expensed as earned. The Company records the cost

of the DSU plan as compensation expense in selling and administrative expenses.

As at December 31, 2016, 407,731 DSUs were outstanding with a total value of \$17.3 million (2015 – 377,311 units at a value of \$12.0 million). The liability for DSUs is included in accounts payable, accrued liabilities and provisions on the consolidated statement of financial position.

Employee Future Benefits

Defined Contribution Plans

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not participate in Company-sponsored plans, and contributions are made to their retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee accounts, which are administered by a plan trustee in accordance with the plan documents.

Defined Benefit Plans

The Company sponsors three defined benefit plans (Powell Plan, Executive Plan and Toromont Plan) for approximately 91 qualifying employees. The Powell and Toromont Plans are administered by a separate Fund that is legally separated from the Company and as described fully in Note 18 to the consolidated financial statements.

The funded status of these plans changed by \$1.5 million (an increase in the accrued pension liability) as at December 31, 2016.

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were \$17.2 million as at December 31, 2016. As there are no plan assets, there is no impact on pension expense and contributions.

The Company expects pension expense and cash pension contributions for 2017 to be similar to 2016 levels.

A key assumption in pension accounting is the discount rate. This rate is set with regard to the yield on high-quality corporate bonds of similar average duration to the cash flow liabilities of the Plans. Yields are volatile and can deviate significantly from period to period.

Off-Balance Sheet Arrangements

Other than the Company's operating leases, the Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

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.

Normal Course Issuer Bid (“NCIB”)

Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the TSX was renewed in 2016. This issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2017. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

During the year ended December 31, 2016, the Company purchased and

cancelled 89,244 common shares for \$2.6 million (average cost of \$28.84 per share, including transaction costs) under its NCIB program (2015 – 74,500 common shares for \$2.2 million at an average cost of \$29.95 per share, including transaction costs).

Outstanding Share Data

As at the date of this MD&A, the Company had 78,417,956 common shares and 2,411,371 share options outstanding.

Dividends

Toromont pays a quarterly dividend on its outstanding common shares and has historically targeted a dividend rate that approximates 30 – 40% of trailing earnings from continuing operations.

During 2016, the Company declared dividends of \$0.72 per common share, \$0.18 per quarter (2015 – \$0.68 per common share or \$0.17 per quarter).

Considering the Company's solid financial position and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to 19 cents per share effective with the dividend payable on April 3, 2017. This represents a 6% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 28th consecutive year it has announced an increase.

Liquidity and Capital Resources

Sources of Liquidity

Toromont's liquidity requirements can be met through a variety of sources, including cash generated from operations, long- and short-term borrowings and the issuance of common shares. Borrowings are obtained through a variety of senior debentures, notes payable and committed long-term credit facilities.

The Company has a committed credit facility of \$250.0 million with a maturity of September 7, 2020. Debt under the facility is unsecured and ranks pari passu with debt outstanding under Toromont's existing

debentures. The facility includes covenants, restrictions and events of default typical for credit facilities of this nature.

As at December 31, 2016 and 2015, no amounts were drawn on the facility. Letters of credit utilized \$21.7 million of the facility (2015 – \$21.9 million).

On September 30, 2015, the Company issued senior unsecured debentures in an aggregate principal amount of \$150.0 million (the “Debentures”). The Debentures mature in 2025 and bear interest at a rate of 3.71% per annum, payable semi-annually. The Debentures

are unsecured, unsubordinated and rank pari passu with other unsecured, unsubordinated debt.

Cash at December 31, 2016, was \$188.7 million, compared to \$66.7 million at December 31, 2015.

The Company expects that continued cash flows from operations in 2017 and currently available credit facilities will be more than sufficient to fund requirements for investments in working capital and capital assets.

Principal Components of Cash Flow

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

(\$ thousands)	2016	2015
Cash, beginning of year	\$ 66,680	\$ 85,962
Cash, provided by (used in):		
Operating activities		
Operations	215,795	205,131
Change in non-cash working capital and other	34,744	(91,251)
Net rental fleet additions	(61,726)	(86,138)
	188,813	27,742
Investing activities	(18,575)	(27,728)
Financing activities	(48,112)	(19,623)
Effect of foreign exchange on cash balances	(71)	327
Increase (decrease) in cash in the year	122,055	(19,282)
Cash, end of year	\$ 188,735	\$ 66,680

Cash Flows From Operating Activities
Operating activities provided significantly higher cash flow in 2016 compared to 2015. Net earnings adjusted for items not requiring cash were up 5% over last year. Non-cash working capital provided significant cash inflow due to lower inventories and higher accounts payable, accrued liabilities and provisions, partially offset by higher accounts receivables. Net rental fleet additions (purchases less proceeds of dispositions) were lower as investment levels were ramped up in 2015 in response to market demand and in light of the existing fleet age profile at that time.

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

Cash Flows From Investing Activities
Investing activities used \$18.6 million in 2016 compared to \$27.7 million in 2015.

Investments in property, plant and equipment accounted for the majority of the cash use and included the following additions:

- \$12.2 million for service vehicles (2015 – \$11.3 million);
- \$6.3 million for land and buildings for new and expanded branches (2015 – \$11.8 million);
- \$3.1 million for machinery and equipment (2015 – \$4.1 million); and
- \$1.7 million for upgrades and enhancements to information technology infrastructure (2015 – \$3.2 million).

The Company also recorded proceeds on the disposal of internally-developed software of \$4.9 million during 2016 (2015 – \$nil).

Cash Flows From Financing Activities
Financing activities used \$48.1 million in 2016 compared to \$19.6 million in 2015.

In 2015, the Company issued \$150.0 million in long-term senior debentures and repaid the \$125.0 million long-term senior debentures which matured. Financing costs of \$1.7 million were incurred related to the issuance and amendments to the credit facility in 2015.

The Company paid dividends of \$55.4 million or \$0.71 per share in 2016 (2015 – \$51.2 million or \$0.66 per share).

The Company received \$11.6 million on the exercise of stock in 2016 (2015 – \$12.1 million).

In 2016, the Company purchased and cancelled 89,244 common shares for \$2.6 million (average cost of \$28.84, including transaction costs) under its Normal Course Issuer Bid program (2015 – 74,500 common shares for \$2.2 million [average cost of \$29.95, including transaction costs]).

Outlook

The Equipment Group’s parts and service business has provided momentum driven by the larger installed base of equipment working in the field, providing a measure of stability in a variable business environment. There was also a shift to used equipment and rebuild activity during the past year. The Company continues to hire technicians in anticipation of an increase in demand, including the opportunity for increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment, expanding the agricultural business and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth. In the near term, national and global economic conditions are leading national and international players to allocate additional resources to Toromont’s local markets, creating challenging conditions.

We are encouraged by the long-term outlook for infrastructure spending and

expect to get better visibility into future spending initiatives following the 2017 budget announcements from the federal and various provincial governments.

The mining industry has been capital constrained and focused on cost reduction initiatives for a number of years now, although increased enquiries point to the potential for a somewhat increased opportunity to come. In the meantime, mine production continues generating product support opportunities and incremental equipment to support the operations and expansion of these existing mines. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

AgWest expands our footprint in the important agricultural equipment market. Sales coverage and operational processes will continue to be a focus in order to generate longer-term financial returns. Weak end markets together with

increased industry inventory levels are expected to continue to dampen results in the near term.

CIMCO’s growth in performance in recent years represents the nascent realization of focused strategies. Recent booking activity and current backlogs bode well for future prospects. Increasing product support levels is also a positive signal for future trends. CIMCO has a wide product offering using natural refrigerants including innovative CO₂ solutions, which are expected to contribute to growth. In addition, CIMCO is focused on its growth strategy in the US, which represents a significant market opportunity.

The diversity of the businesses, expanding product offering and services, financial strength and disciplined operating culture position the Company for continued growth in the long term.

Contractual Obligations

Contractual obligations are set out in the following table. Management believes that these obligations will be met comfortably through cash on hand, cash generated from operations and existing long-term financing facilities.

Payments due by period (\$ thousands)	2017	2018	2019	2020	2021	Thereafter	Total
Long-term debt							
Principal	\$ 1,811	\$ 1,941	\$ 1,022	\$ —	\$ —	\$ 150,000	\$ 154,774
Interest	5,871	5,741	5,601	5,565	5,565	20,857	49,200
Accounts payable	278,309	—	—	—	—	—	278,309
Operating leases	3,166	2,255	1,635	1,056	716	1,874	10,702
	\$ 289,157	\$ 9,937	\$ 8,258	\$ 6,621	\$ 6,281	\$ 172,731	\$ 492,985

Key Performance Measures

Management reviews and monitors its activities and the performance indicators it believes are critical to measuring success. Some of the key financial performance measures are summarized in the following table. Others include, but are not limited to, measures such as market share, fleet utilization, customer and employee satisfaction, and employee health and safety.

Years ended December 31	2016	2015	2014	2013	2012
Expanding markets and broadening product offerings					
Revenue growth	3.6%	8.5%	4.2%	5.7%	9.1%
Revenue per employee (thousands)	\$ 521	\$ 524	\$ 501	\$ 491	\$ 481
Strengthening product support					
Product support revenue growth	8.0%	17.3%	12.4%	2.5%	13.2%
Investing in our resources					
Investment in information technology (millions)	\$ 15.2	\$ 14.0	\$ 13.4	\$ 12.0	\$ 12.6
Return on capital employed ⁽¹⁾	24.5%	24.3%	26.0%	26.5%	28.5%
Strong financial position					
Non-cash working capital (millions) ⁽¹⁾	\$ 388	\$ 421	\$ 335	\$ 282	\$ 302
Net debt to total capitalization ⁽¹⁾	-4%	10%	6%	10%	25%
Book value (shareholders' equity) per share	\$ 11.29	\$ 9.95	\$ 8.65	\$ 7.50	\$ 6.24
Build shareholder value					
Basic earnings per share growth	6.3%	8.5%	7.6%	2.9%	17.1%
Dividends per share growth	5.9%	13.3%	15.4%	8.3%	17.0%
Return on equity ⁽¹⁾	20.0%	21.6%	23.0%	25.7%	29.9%

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

Measuring Toromont’s results against these strategies over the past five years illustrates that the Company has made and continues to make significant progress.

Since 2012, revenues increased at an average annual rate of 6.2%. Product support revenue growth has averaged 10.7% annually. Revenue growth has been a result of:

- Increased customer demand in certain market segments, most notably construction and mining;
- Additional product offerings over the years from Caterpillar and other suppliers;
- Organic growth through increased rental fleet size and additional branches;
- Increased customer demand for formal product support agreements;
- Governmental funding programs such as the RinC program which provided support for recreational spending; and

- Acquisitions, primarily within the Equipment Group’s rental operations and through business combinations. Over the same five-year period, revenue growth has been constrained at times by a number of factors including:
 - General economic weakness and uncertainty in specific sectors;
 - Competitive conditions;
 - Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
 - Declines in underlying market conditions such as depressed US industrial markets.

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2012 there has been fluctuations in the average yearly exchange rate of Canadian dollar against the US

dollar – 2012 – on par, 2013 – US\$0.97, 2014 – US\$0.91, 2015 – US\$0.78 and 2016 – US\$0.75.

Toromont has generated a significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels, and we will continue this into the future as it is a crucial element to our success in the marketplace.

Toromont continues to maintain a strong balance sheet. Leverage, as represented by the ratio of net debt to total capitalization, was -4% (cash exceeded total debt), well within targeted levels.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 28 years. The regular quarterly dividend rate was increased 6% from \$0.17 to \$0.18 per share in 2016 and a further 6% to \$0.19 per share in 2017, evidencing our commitment to delivering exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31 (\$ thousands, except per share amounts)	2016	2015	\$ change	% change
Revenues	\$ 480,653	\$ 471,951	\$ 8,702	2%
Cost of goods sold	351,503	350,416	1,087	—
Gross profit	129,150	121,535	7,615	6%
Selling and administrative expenses	66,262	59,862	6,400	11%
Operating income	62,888	61,673	1,215	2%
Interest expense	1,853	2,236	(383)	(17%)
Interest and investment income	(1,377)	(1,144)	(233)	20%
Income before income taxes	62,412	60,581	1,831	3%
Income taxes	16,883	16,177	706	4%
Net earnings	\$ 45,529	\$ 44,404	\$ 1,125	3%
Basic earnings per share	\$ 0.58	\$ 0.57	\$ 0.01	2%
Key ratios:				
Gross profit margin	26.9%	25.8%		
Selling and administrative expenses as a % of revenues	13.8%	12.7%		
Operating income margin	13.1%	13.1%		
Income taxes as a % of income before income taxes	27.1%	26.7%		

Revenues were 2% higher in the fourth quarter of 2016 largely due to higher revenues at CIMCO as the Equipment Group revenues were relatively unchanged from last year.

Gross profit margin increased 110 basis points (“bps”) to 26.6% in the quarter versus last year mainly on improved margins in the Equipment Group, partially offset by decreased margins at CIMCO.

Selling and administrative expenses were up \$6.4 million or 11% and were 110 bps higher as a percentage of revenues.

Accounting for the majority of the increase was higher mark-to-market adjustments on deferred share units (up \$1.8 million), compensation costs (up \$0.9 million) and bad debt expenses (up \$0.9 million).

Certain other expense categories increased on the higher sales activity.

Interest expense was lower than in the similar period last year on lower average debt balances.

Interest income was up from last year on increased investment income resulting from higher average cash balances.

The effective income tax rate for the fourth quarter of 2016 was 27.1% compared to 26.7% in the same period last year and largely reflects the mix of income by tax jurisdiction.

Net earnings in the quarter were up 3% to \$45.5 million while basic earnings per share were up 2% to \$0.58.

Business Segment Fourth Quarter Operating Results

Equipment Group

Three months ended December 31 (\$ thousands)	2016	2015	\$ change	% change
Equipment sales and rentals				
New	\$ 131,664	\$ 158,123	\$ (26,459)	(17%)
Used	66,270	45,978	20,292	44%
Rentals	64,294	61,368	2,926	5%
Total equipment sales and rentals	262,228	265,469	(3,241)	(1%)
Power generation	3,137	2,694	443	16%
Product support	141,858	137,797	4,061	3%
Total revenues	\$ 407,223	\$ 405,960	\$ 1,263	—
Operating income	\$ 56,651	\$ 56,318	\$ 333	1%
Bookings (\$ millions)	\$ 224	\$ 165	\$ 59	36%
Key ratios:				
Product support revenues as a % of total revenues	34.8%	33.9%		
Operating income margin	13.9%	13.9%		
Group total revenues as a % of consolidated revenues	84.7%	86.0%		

Equipment Group results were slightly higher than last year. Revenues were relatively unchanged from last year as higher product support and rental revenues were offset by lower total equipment sales.

On a combined basis, given the interplay between new and used equipment sales described earlier, total equipment sales were down 3% versus last year. Deliveries into construction (down 11%) and power systems (down 28%) markets were lower while sales into mining (up 63%) and other market segments were higher.

Rental revenues were up 5% compared to last year with increases in light equipment (up 5%), heavy equipment (up 2%) and equipment on rent with a purchase option (up 8%). Power rentals were down 6% mainly due

to a large power project last year which boosted revenues.

Product support revenues were up \$4.1 million or 3% over 2015 with increases in both parts (up \$2.4 million or 2%) and service (up \$1.7 million or 5%). Activity was good across most markets.

Gross profit margins increased 150 basis points (“bps”) in the quarter versus last year. Improved equipment margins and a favorable sales mix of product support revenues to total were partially offset by lower product support and rental margins. Rental margins decreased on lower financial utilization, partially offset by lower depreciation charges as a result of the changes in estimates described earlier. The net impact of the changes reduced depreciation by

\$1.0 million in the fourth quarter versus applying the previous estimates.

Selling and administrative expenses increased by \$6.3 million or 13% versus last year mainly due to higher customer allowances (up \$1.4 million), compensation costs (up \$0.3 million) and bad debt expenses (up \$0.9 million). Certain other expense categories such as professional fees, information technology expenses and warranty were higher. As a percentage of revenues, expenses increased 150 bps over 2015 levels (13.6% vs. 12.1%).

Operating income margin was relatively unchanged from last year at 13.9%.

Bookings in the fourth quarter of 2016 were \$224.0 million, up 36% from the similar period last year with increases across most market segments.

CIMCO

Three months ended December 31 (\$ thousands)	2016	2015	\$ change	% change
Package sales	\$ 43,152	\$ 33,100	\$ 10,052	30%
Product support	30,278	32,891	(2,613)	(8%)
Total revenues	\$ 73,430	\$ 65,991	\$ 7,439	11%
Operating income	\$ 6,237	\$ 5,355	\$ 882	16%
Bookings (\$ millions)	\$ 41	\$ 36	\$ 5	14%
Key ratios:				
Product support revenues as a % of total revenues	41.2%	49.8%		
Operating income margin	8.5%	8.1%		
Group total revenues as a % of consolidated revenues	15.3%	14.0%		

CIMCO reported terrific results for the fourth quarter largely due to good momentum in Canada. Translation of US operations did not have a significant impact on results.

Package revenues increased 30% as higher activity in Canada (up 51%) was partially offset by a decrease in the US (down 21%). In Canada, higher industrial (up 96%) were partially offset by recreational (down 32%) sales. In the US, both market segments were lower where strong booking activity levels did not

translate into revenues as a result of delays in customers' construction schedules.

Product support revenues decreased 8% versus last year. Both Canadian and US activity levels were lower due to timing of job completions and invoicing.

Gross margins decreased 90 bps on lower package margins and an unfavorable sales mix, partially offset by improved product support margins. Product support revenues as a percentage of total revenues were 41.2% compared to 49.8% in the fourth quarter of 2015.

Selling and administrative expenses were relatively unchanged from last year but were 150 bps lower as a percentage of revenues (14.9% versus 16.4% last year).

Operating income increased 16% mainly on the higher revenues and was 8.5% as a percentage of revenues compared to 8.1% in 2015.

Bookings in the quarter totalled \$41.0 million, up 14% from the comparable period last year. Higher US bookings (up 35%) accounted for approximately 71% of the increase.

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 2016 annual audited consolidated financial statements.

(\$ thousands, except per share amounts)	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Revenues				
Equipment Group	\$ 327,644	\$ 441,677	\$ 410,346	\$ 407,223
CIMCO	50,072	68,979	87,912	73,430
Total revenues	\$ 377,716	\$ 510,656	\$ 498,258	\$ 480,653
Net earnings	\$ 24,170	\$ 38,406	\$ 47,643	\$ 45,529
Per share information:				
Basic earnings per share	\$ 0.31	\$ 0.49	\$ 0.61	\$ 0.58
Diluted earnings per share	\$ 0.31	\$ 0.49	\$ 0.60	\$ 0.58
Dividends paid per share	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.18
Weighted average common shares outstanding – basic (in thousands)	77,898	78,056	78,211	78,344

(\$ thousands, except per share amounts)	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Revenues				
Equipment Group	\$ 296,670	\$ 427,565	\$ 439,305	\$ 405,960
CIMCO	43,526	56,968	66,248	65,991
Total revenues	\$ 340,196	\$ 484,533	\$ 505,553	\$ 471,951
Net earnings	\$ 20,137	\$ 36,395	\$ 44,730	\$ 44,404
Per share information:				
Basic earnings per share	\$ 0.26	\$ 0.47	\$ 0.58	\$ 0.57
Diluted earnings per share	\$ 0.26	\$ 0.46	\$ 0.57	\$ 0.57
Dividends paid per share	\$ 0.15	\$ 0.17	\$ 0.17	\$ 0.17
Weighted average common shares outstanding – basic (in thousands)	77,422	77,625	77,773	77,904

Interim period revenues and earnings historically reflect significant variability from quarter to quarter.

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.

Selected Annual Information

(\$ thousands, except per share amounts)	2016	2015	2014
Revenues	\$ 1,867,283	\$ 1,802,233	\$ 1,660,390
Net earnings	\$ 155,748	\$ 145,666	\$ 133,196
Earnings per share			
Basic	\$ 1.99	\$ 1.88	\$ 1.73
Diluted	\$ 1.98	\$ 1.86	\$ 1.71
Dividends declared per share	\$ 0.72	\$ 0.68	\$ 0.60
Total assets	\$ 1,410,571	\$ 1,276,077	\$ 1,107,802
Total long-term debt	\$ 152,528	\$ 153,769	\$ 131,518
Weighted average common shares outstanding – basic (in millions)	78.1	77.7	77.1

Revenues grew 4% in 2016 mainly through strong performance at CIMCO as the Equipment Group continued to face competitive market conditions which led to a modest increase on continued product support growth. In 2015, revenues grew 9% through strong performance in both the Equipment Group and CIMCO.

Net earnings increased 7% in 2016 on the higher revenues and slightly improved gross margins, partially offset by a higher selling and administrative expense ratio. In 2015, net earnings improved 9% on higher revenues and a lower selling and administrative expense ratio, partially offset by slightly lower margins.

Earnings per share (“EPS”) have generally followed earnings with basic EPS increasing 6% in 2016 and 9% in 2015. Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate was increased in 2014 by 15% to \$0.15 per share, in 2015 by 13% to \$0.17 per share, in 2016 by 6% to \$0.18 per share and 6% to \$0.19 per share in 2017. The Company has paid dividends every year since 1968.

Total assets increased in 2016 by 11% and by 15% in 2015. The increase reflects growth in the Company’s operations and supports the higher revenues and earnings.

Long-term debt decreased in 2016 mainly due to principal repayments on the senior debenture due in March 2019, net of the amortization of debt issuance costs. In 2015, the Company issued \$150.0 million in long-term senior debentures to replace \$125.0 million of maturing debentures. The increased amount of debentures issued provides added flexibility for future investments in rental fleet, operational assets and business acquisitions. Net debt to total capitalization at December 31, 2016, was -4% (cash exceeded total debt), well within targeted levels.

Risks and Risk Management

In the normal course of business, Toromont is exposed to risks that may potentially impact its financial results in any or all of its business segments. The Company and each operating segment employ risk management strategies with a view to mitigating these risks on a cost-effective basis.

Business Cycle
Expenditures on capital goods have historically been cyclical, reflecting a variety of factors including interest rates, foreign exchange rates, consumer and

business confidence, commodity prices, corporate profits, credit conditions and the availability of capital to finance purchases. Toromont’s customers are typically affected, to varying degrees, by these factors and trends in the general business cycle within their respective markets. As a result, Toromont’s financial performance is affected by the impact of such business cycles on the Company’s customer base. Commodity prices, and, in particular, changes in the view on long-term trends, affect demand for the Company’s products and services in the Equipment Group.

Commodity price movements in base and precious metals sectors in particular can have an impact on customers’ demands for equipment and service. With lower commodity prices, demand is reduced as development of new projects is often stopped and existing projects can be curtailed, both leading to less demand for heavy equipment. The business of the Company is diversified across a wide range of industry market segments, serving to temper the effects of business cycles on consolidated results. Continued diversification

strategies such as expanding the Company’s customer base, broadening product offerings and geographic diversification are designed to moderate business cycle impacts. The Company has focused on the sale of specialized equipment and ongoing support through parts distribution and skilled service. Product support growth has been, and will continue to be, fundamental to the mitigation of downturns in the business cycle. The product support business contributes significantly higher profit margins and is typically subject to less volatility than equipment supply activities.

Product and Supply

The Equipment Group purchases most of its equipment inventories and parts from Caterpillar under a dealership agreement that dates back to 1993. As is customary in distribution arrangements of this type, the agreement with Caterpillar can be terminated by either party upon 90 days’ notice. In the event Caterpillar terminates, it must repurchase substantially all inventories of new equipment and parts at cost. Toromont has maintained an excellent relationship with Caterpillar for 24 years and management expects this will continue going forward.

Toromont is dependent on the continued market acceptance of Caterpillar’s products. It is believed that Caterpillar has a solid reputation as a high-quality manufacturer, with excellent brand recognition and customer support as well as leading market shares in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on the Company’s business, results of operations and future prospects.

Toromont is also dependent on Caterpillar for timely supply of equipment and parts. From time to time during periods of intense demand, Caterpillar may find it necessary to allocate its supply of

particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment in the conduct of business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by customers.

Competition

The Company competes with a large number of international, national, regional and local suppliers in each of its markets. Although price competition can be strong, there are a number of factors that have enhanced the Company’s ability to compete throughout its market areas including: the range and quality of products and services, ability to meet sophisticated customer requirements, distribution capabilities including number and proximity of locations, financing offered by Caterpillar Finance, e-commerce solutions, reputation and financial strength.

Increased competitive pressures or the inability of the Company to maintain the factors that have enhanced its competitive position to date could adversely affect the Company’s business, results of operations or financial condition.

The Company relies on the skills and availability of trained and experienced tradesmen and technicians in order to provide efficient and appropriate services to customers. Hiring and retaining such individuals is critical to the success of these businesses. Demographic trends are reducing the number of individuals entering the trades, making access to skilled individuals more difficult. The Company has several remote locations which make attracting and retaining skilled individuals more difficult.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, accounts receivable and derivative financial instruments. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

When the Company has cash on hand it may be invested in short-term instruments, such as money-market deposits. The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company has accounts receivable from a large diversified customer base, and is not dependent on any single customer or industry. The Company has accounts receivable from customers engaged in various industries including construction, mining, food and beverage, and governmental agencies. Management does not believe that any single customer represents significant credit risk. These customers are based predominately in Canada.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Warranties and Maintenance Contracts

Warranties are provided for most of the equipment sold, typically for a one-year period following sale. The warranty claim risk is generally shared jointly with the equipment manufacturer. Accordingly, liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts.

The Company also enters into long-term maintenance and repair contracts, whereby it is obligated to maintain equipment for its customers. The length of these contracts varies generally from two to five years. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Due to the long-term nature of these contracts, there is a risk that maintenance costs may exceed the estimate, thereby resulting in a loss on the contract. These contracts are closely monitored for early warning signs of cost

overruns. In addition, the manufacturer may, in certain circumstances, share in the cost overruns if profitability falls below a certain threshold.

Foreign Exchange

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar and the US dollar. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies.

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged US\$0.75 in 2016 compared to US\$0.78 in 2015, a 4% decrease. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO’s US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency

transactions when they occur. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Interest Rate

The Company minimizes its interest rate risk by managing its portfolio of floating- and fixed-rate debt, as well as managing the term to maturity.

At December 31, 2016, the Company’s debt portfolio included \$154.8 million in fixed-rate debt (38%) and a \$250.0 million floating-rate credit facility (62%).

Fixed-rate debt amortizes or matures between 2017 and 2025. Fixed-rate debt exposes the Company to future interest rate movements upon refinancing the debt at maturity. Further, the fair value of the Company’s fixed-rate debt obligations may be negatively affected by declines in interest rates, thereby exposing the Company to potential losses on early settlements or refinancing.

Floating-rate debt exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary.

The Company does not intend to settle or refinance any existing debt before maturity.

Financing Arrangements

The Company requires capital to finance its growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company’s business, together with the credit available under existing bank facilities, is not sufficient to fund future capital requirements, the Company will require additional debt or equity financing in the capital markets. The Company’s ability to access capital markets, on terms that are acceptable, will be dependent upon prevailing market conditions, as well as the Company’s future financial condition. Further, the Company’s ability to increase its debt financing may be limited by its financial covenants or its credit rating objectives. The Company maintains a

conservative leverage structure and although it does not anticipate difficulties, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected.

Environmental Regulation

Toromont’s customers are subject to significant and ever-increasing environmental legislation and regulation. This legislation can impact Toromont in two ways. First, it may increase the technical difficulty in meeting environmental requirements in product design, which could increase the cost of these businesses’ products. Second, it may result in a reduction in activity by Toromont’s customers in environmentally sensitive areas, in turn reducing the sales opportunities available to Toromont.

Toromont is also subject to a broad range of environmental laws and regulations. These may, in certain circumstances, impose strict liability for environmental contamination, which may render Toromont liable for remediation costs, natural resource damages and other damages as a result of conduct that was lawful at the time it occurred or the conduct of, or conditions caused by, prior owners, operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighbouring land owners and other third parties to file claims for personal injury, property damage and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact Toromont’s business, results of operations or financial condition.

Critical Accounting Policies and Estimates

The Company’s significant accounting policies are described in Note 1 to the consolidated financial statements.

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, 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.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Management reviews its estimates and judgments on an ongoing basis.

In the process of applying the Company’s accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements. The critical accounting policies and estimates described below affect the operating segments similarly, and therefore are not discussed on a segmented basis.

Property, Plant and Equipment

Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

Impairment of Non-financial Assets

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the cash-generating units (“CGUs”) to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in Note 7 to the consolidated financial statements.

Income Taxes

Estimates and judgments are made for uncertainties which exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

Revenue Recognition

Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

The Company also generates revenue from long-term maintenance and repair contracts whereby it is obligated to maintain equipment for its customers. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized using

the percentage-of-completion method based on work completed. This method requires management to make a number of estimates and assumptions surrounding machine usage, machine performance, future parts and labour pricing, manufacturers’ warranty coverage and other detailed factors. These factors are routinely reviewed as part of the contract management process.

Inventories

Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

Allowance for Doubtful Accounts

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified. By their nature, these are estimates based on management’s judgment and historical experience.

Share-based Compensation

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

Post-Employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which

include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee

benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

Future Accounting Standards

A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ending December 31, 2016, and accordingly, have not been applied in preparing these consolidated financial statements.

Statement of Cash Flows – Amendments to IAS 7 – *Statement of Cash Flows*, introduce new disclosure requirements of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

Share-based Payment – Amendments to IFRS 2 – *Share-based Payment*, clarify how to account for certain types of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Revenue Recognition – In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Entities chose either a full retrospective approach with some limited relief provided or a modified retrospective approach for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Financial Instruments – In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which replaces all

phases of the financial instruments project, IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Leases – In January 2016, the IASB issued IFRS 16 – *Leases*, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 – *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided the new revenue recognition standard, IFRS 15, has been applied, or is applied at the same date.

The Company is currently assessing the impact of these amendments and new standards on its financial statements. Refer to Note 1 to the consolidated financial statements for further information.

Responsibility of Management and the Board of Directors

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has in place appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is materially complete and

reliable. In addition, the Company’s Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the accompanying consolidated financial statements. The Audit Committee is

also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures and internal control over financial reporting.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company’s disclosure controls and procedures and internal controls over financial reporting as at December 31, 2016, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, they have concluded that the design and operation of the Company’s disclosure controls and procedures were adequate and effective as at December 31, 2016, to provide reasonable assurance that a) material information relating to the Company and

its consolidated subsidiaries would have been known to them and by others within those entities, and b) information required to be disclosed is recorded, processed, summarized and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting were adequate and effective as at December 31, 2016, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS. There have been no changes in the design of the Company’s internal controls over financial reporting during 2016 that would materially affect, or are reasonably

likely to materially affect, the Company’s internal controls over financial reporting. While the Officers of the Company have evaluated the effectiveness of disclosure controls and procedures and internal control over financial reporting as at December 31, 2016, and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and 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.

Net Debt to Total Capitalization

Net debt to total capitalization is calculated as net debt divided by total capitalization, both defined below, and is used by management as a measure 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 calculation is as follows:

(\$ thousands)	2016	2015
Long-term debt	\$ 150,717	\$ 152,079
Current portion of long-term debt	1,811	1,690
less: Cash	188,735	66,680
Net debt	(36,207)	87,089
Shareholders' equity	885,432	775,281
Total capitalization	\$ 849,225	\$ 862,370
Net debt to total capitalization	-4%	10%

For the year ended December 31, 2016, cash exceeded total debt and effectively resulted in a negative net debt to total capitalization of 4% as illustrated above.

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.

	Three months ended December 31		Years ended December 31	
(\$ thousands)	2016	2015	2016	2015
Net earnings	\$ 45,529	\$ 44,404	\$ 155,748	\$ 145,666
plus: Interest expense	1,853	2,236	7,242	8,668
less: Interest and investment income	(1,377)	(1,144)	(4,006)	(3,422)
plus: Income taxes	16,883	16,177	57,579	53,598
Operating income	\$ 62,888	\$ 61,673	\$ 216,563	\$ 204,510

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.

(\$ thousands)	2016	2015
Total current assets	\$ 907,975	\$ 799,136
less: Total current liabilities	332,593	312,843
Working capital	\$ 575,382	\$ 486,293

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).

(\$ thousands)	2016	2015
Total current assets	\$ 907,975	\$ 799,136
less: Cash	188,735	66,680
	719,240	732,456
Total current liabilities	332,593	312,843
less: Current portion of long-term debt	1,811	1,690
	330,782	311,153
Non-cash working capital	\$ 388,458	\$ 421,303

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.
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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 new equipment unit orders that management believes are firm. Backlogs are defined as the retail value of new equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future new 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 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)	2016	2015
Net earnings	\$ 155,748	\$ 145,666
plus: Interest expense	7,242	8,668
less: Interest and investment income	(4,006)	(3,422)
plus: Interest income – rental conversions (see note 13)	2,811	2,500
plus: Income taxes	57,579	53,598
	\$ 219,374	\$ 207,010
Average capital employed	\$ 894,765	\$ 853,101
Return on capital employed	24.5%	24.3%

Return on Equity (“ROE”)

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

(\$ thousands)	2016	2015
Net earnings	\$ 155,748	\$ 145,666
Opening shareholders’ equity (net of adjustments)	\$ 778,896	\$ 675,165
Return on equity	20.0%	21.6%

Management’s Report

The preparation and presentation of the Company’s consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and necessarily include estimates. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgment of management. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give

reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, were appointed by the shareholders as external auditors to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of independent directors, is responsible for

determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. It meets regularly with financial management and the internal and external auditors to discuss internal controls, auditing matters and financial reporting issues. The independent auditors have unrestricted access to the Audit Committee. The consolidated financial statements and Management’s Discussion and Analysis have been approved by the Board of Directors for inclusion in this Annual Report, based on the review and recommendation of the Audit Committee.



Scott J. Medhurst
President and
Chief Executive Officer



Paul R. Jewer
Executive Vice President and
Chief Financial Officer

February 6, 2017
Toronto, Canada

Independent Auditors’ Report

To the Shareholders of Toromont Industries Ltd.

We have audited the accompanying consolidated financial statements of Toromont Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated income statements, and consolidated statements of comprehensive income, cash flows and changes in equity for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Toromont Industries Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015, in accordance with International Financial Reporting Standards.



Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

February 6, 2017
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 (\$ thousands)	Note	2016	2015
Assets			
Current assets			
Cash		\$ 188,735	\$ 66,680
Accounts receivable	3	277,050	262,523
Inventories	4	435,757	463,210
Derivative financial instruments	11	1,197	2,445
Other current assets		5,236	4,278
Total current assets		907,975	799,136
Property, plant and equipment	5	181,827	184,154
Rental equipment	5	272,277	245,670
Other assets	6	15,381	11,484
Deferred tax assets	14	5,610	8,102
Goodwill and intangible assets	7	27,501	27,531
Total assets		\$ 1,410,571	\$ 1,276,077
Liabilities			
Current liabilities			
Accounts payable, accrued liabilities and provisions	8	\$ 278,309	\$ 253,456
Deferred revenues		51,211	54,645
Current portion of long-term debt	9	1,811	1,690
Income taxes payable		1,262	3,052
Total current liabilities		332,593	312,843
Deferred revenues		19,259	14,779
Long-term debt	9	150,717	152,079
Accrued pension liability	18	22,570	21,095
Shareholders' equity			
Share capital	10	315,078	301,413
Contributed surplus		8,166	7,236
Retained earnings		559,252	463,194
Accumulated other comprehensive income		2,936	3,438
Shareholders' equity		885,432	775,281
Total liabilities and shareholders' equity		\$ 1,410,571	\$ 1,276,077

See accompanying notes

Approved by the Board:



Robert M. Ogilvie
Director



John S. McCallum
Director

Consolidated Income Statements

Years ended December 31 (\$ thousands, except share amounts)	Note	2016	2015
Revenues			
Cost of goods sold	22	\$ 1,867,283	\$ 1,802,233
		1,399,695	1,356,630
Gross profit		467,588	445,603
Selling and administrative expenses		255,964	241,093
Gain on sale of internally-developed software		(4,939)	—
Operating income		216,563	204,510
Interest expense	13	7,242	8,668
Interest and investment income	13	(4,006)	(3,422)
Income before income taxes		213,327	199,264
Income taxes	14	57,579	53,598
Net earnings		\$ 155,748	\$ 145,666
Earnings per share			
Basic	15	\$ 1.99	\$ 1.88
Diluted	15	\$ 1.98	\$ 1.86
Weighted average number of shares outstanding			
Basic		78,127,400	77,681,337
Diluted		78,674,297	78,307,836

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 (\$ thousands)	2016	2015
Net earnings	\$ 155,748	\$ 145,666
Other comprehensive (loss) income, net of income taxes:		
<i>Items that may be reclassified subsequently to net earnings:</i>		
Foreign currency translation adjustments	(277)	1,471
Unrealized (loss) gain on derivatives designated as cash flow hedges	(948)	12,255
Income tax recovery (expense)	248	(3,191)
Unrealized (loss) gain on cash flow hedges, net of income taxes	(700)	9,064
Realized loss (gain) on derivatives designated as cash flow hedges	644	(12,409)
Income tax (recovery) expense	(169)	3,232
Realized loss (gain) on cash flow hedges, net of income taxes	475	(9,177)
<i>Items that will not be reclassified subsequently to net earnings:</i>		
Actuarial (loss) gain on pension plans	(1,465)	834
Income tax recovery (expense)	389	(217)
Actuarial (loss) gain on pension plans, net of income taxes	(1,076)	617
Other comprehensive (loss) income	(1,578)	1,975
Total comprehensive income	\$ 154,170	\$ 147,641

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 (\$ thousands)	Note	2016	2015
Operating activities			
Net earnings		\$ 155,748	\$ 145,666
Items not requiring cash:			
Depreciation and amortization	5,7,9	76,726	74,003
Stock-based compensation		3,261	2,568
Accrued pension liability		10	1,139
Deferred income taxes		2,960	(2,494)
Gain on sale of rental equipment and property, plant and equipment		(17,971)	(15,751)
Gain on sale of internally-developed software		(4,939)	—
		215,795	205,131
Net change in non-cash working capital and other	20	34,744	(91,251)
Additions to rental equipment		(98,668)	(119,737)
Proceeds on disposal of rental equipment		36,942	33,599
Cash provided by operating activities		188,813	27,742
Investing activities			
Additions to property, plant and equipment		(24,826)	(30,369)
Proceeds on disposal of property, plant and equipment		1,521	2,596
Proceeds on disposal of internally-developed software		4,939	—
(Increase) decrease in other assets		(209)	45
Cash used in investing activities		(18,575)	(27,728)
Financing activities			
Issue of senior debentures		—	150,000
Repayment of senior debentures		(1,690)	(126,576)
Financing costs		—	(1,713)
Dividends	10	(55,422)	(51,213)
Shares purchased for cancellation		(2,574)	(2,231)
Cash received on exercise of stock options		11,574	12,110
Cash used in financing activities		(48,112)	(19,623)
Effect of currency translation on cash balances		(71)	327
Increase (decrease) in cash		122,055	(19,282)
Cash, at beginning of year		66,680	85,962
Cash, at end of year		\$ 188,735	\$ 66,680

Supplemental cash flow information (note 20)

See accompanying notes

Consolidated Statements of Changes in Equity

	Share Capital		Contributed surplus	Retained earnings	Accumulated other comprehensive income			Total
	Number	Amount			Foreign currency translation adjustments	Cash flow hedges	Total	
(\$ thousands)								
At January 1, 2015	77,259,396	\$ 287,002	\$ 7,212	\$ 371,781	\$ 1,433	\$ 647	\$ 2,080	\$ 668,075
Net earnings	—	—	—	145,666	—	—	—	145,666
Other comprehensive income (loss)	—	—	—	617	1,471	(113)	1,358	1,975
Total comprehensive income	—	—	—	146,283	1,471	(113)	1,358	147,641
Exercise of stock options	720,925	14,698	—	—	—	—	—	14,698
Stock-based compensation expense	—	—	2,568	—	—	—	—	2,568
Stock options exercised	—	—	(2,544)	—	—	—	—	(2,544)
Effect of stock compensation plans	720,925	14,698	24	—	—	—	—	14,722
Shares purchased for cancellation	(74,500)	(287)	—	(1,988)	—	—	—	(2,275)
Dividends	—	—	—	(52,882)	—	—	—	(52,882)
At December 31, 2015	77,905,821	\$ 301,413	\$ 7,236	\$ 463,194	\$ 2,904	\$ 534	\$ 3,438	\$ 775,281
Net earnings	—	—	—	155,748	—	—	—	155,748
Other comprehensive loss	—	—	—	(1,076)	(277)	(225)	(502)	(1,578)
Total comprehensive income	—	—	—	154,672	(277)	(225)	(502)	154,170
Exercise of stock options	581,879	14,009	—	—	—	—	—	14,009
Stock-based compensation expense	—	—	3,261	—	—	—	—	3,261
Stock options exercised	—	—	(2,331)	—	—	—	—	(2,331)
Effect of stock compensation plans	581,879	14,009	930	—	—	—	—	14,939
Shares purchased for cancellation	(89,244)	(344)	—	(2,334)	—	—	—	(2,678)
Dividends	—	—	—	(56,280)	—	—	—	(56,280)
At December 31, 2016	78,398,456	\$ 315,078	\$ 8,166	\$ 559,252	\$ 2,627	\$ 309	\$ 2,936	\$ 885,432

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2016
(\$ 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 expanding agricultural equipment business. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both segments offer comprehensive product support capabilities. Toromont employs over 3,600 people in more than 100 locations.

Statement of Compliance
These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).
These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on February 6, 2017.

Basis of Preparation
These consolidated financial statements were prepared on a historical cost basis, except for derivative instruments that have been measured at fair value. The

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

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.
Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealized gains and losses resulting from intra-group transactions are eliminated in full upon consolidation.

Business Combinations and Goodwill
When determining the nature of an acquisition, as either a business combination or an asset acquisition, management defines a business as ‘an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants.’ An integrated set of activities and assets requires two essential elements – inputs and processes applied to those inputs, which together are or will be used to create outputs. However, a business need not include all of the inputs or processes that the seller used in operating that

business if the Company is capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes. If the transaction does not meet the criteria of a business, it is accounted for as an asset acquisition.
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of consideration transferred, measured at acquisition date fair value. Acquisition costs are expensed as incurred.
Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Company’s share in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statements.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company’s cash-generating units (“CGUs”) that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.
Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this

circumstance is measured based on the relative fair values of the operation disposed of and the portion of the CGU retained.

Cash and Cash Equivalents

Cash consists of petty cash and demand deposits. Cash equivalents, when applicable, consist of short-term deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within “Selling and administrative expenses” in the consolidated income statements.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost of equipment, repair and distribution parts and direct materials include purchase cost and costs incurred in bringing each product to its present location and condition. Serialized inventory is determined on a specific-item basis. Non-serialized inventory is determined based on a weighted average actual cost.

Cost of work-in-process includes cost of direct materials, labour and an allocation of manufacturing overheads, excluding borrowing costs, based on normal operating capacity.

Cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized principally on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives range from 20 to 30 years for buildings, three to 10 years for equipment and 20 years for power generation assets. Leasehold improvements and lease inducements are amortized on a straight-line basis over the term of the lease. Land is not depreciated.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Rental Equipment

Rental equipment is recorded at cost, net of accumulated depreciation and any impairment losses. Cost is determined on a specific-item basis. Rental equipment is depreciated to its estimated residual value over its estimated useful life on a straight-line basis, which ranges from one to 10 years.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

On January 1, 2016, the Company updated the estimated service lives and residual values of rental assets to accurately reflect asset life cycles and residual values based on experience. All other assumptions used in the calculation remain unchanged. See note 5 for further details.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for warranty costs are recognized when the product is sold or service provided. Initial recognition is based on historical experience.

Financial Instruments

The Company determines the classification of its financial assets and liabilities at initial recognition. Initially, all financial assets and liabilities are recognized at fair value. Regular-way trades of financial assets and liabilities are recognized on the trade date. Transaction costs are expensed as incurred except for loans and receivables and loans and borrowings, in which case transaction costs are included in initial cost.

Financial Assets

Subsequent measurement of financial assets depends on the classification. The Company has made the following classifications:

- Cash and cash equivalents are classified as held for trading and as such are measured at fair value, with changes in fair value being included in profit or loss.

- Accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method, less provisions for doubtful accounts.

The Company assesses, at each statement of financial position date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Financial Liabilities

Subsequent measurement of financial liabilities depends on the classification. The Company has made the following classifications:

- Accounts payable and accrued liabilities are classified as financial liabilities and as such are measured at amortized cost. The Company has not designated any financial liability at fair value through profit or loss.
- Long-term debt is classified as loans and borrowings and as such is subsequently measured at amortized cost using the effective interest rate method. Discounts, premiums and fees on acquisition are taken into account in determining amortized cost.

Derivatives

Derivative assets and liabilities are classified as held for trading and are measured at fair value with changes in fair value being included in profit or loss, unless they are designated as hedging instruments, in which case changes in fair value are included in other comprehensive income.

Fair Value of Financial Instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

- Level 3 – techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Derivative Financial Instruments and Hedge Accounting

Derivative financial arrangements are used to hedge exposure to fluctuations in exchange rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

At inception, the Company designates and documents the hedge relationship, including identification of the transaction and the risk management objectives and strategy for undertaking the hedge. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The Company has designated certain derivatives as cash flow hedges. These are hedges of firm commitments and highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated as a cash flow hedge is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Additionally:

- If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gains or losses that were recognized in other comprehensive income are included in the initial cost or other carrying amount of the asset;
- For cash flow hedges other than those identified above, amounts accumulated in other comprehensive income are recycled to the income statement in the period when the hedged item will affect earnings (for instance, when the forecast sale that is hedged takes place);

- When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in other comprehensive income remains in other comprehensive income and is recognized when the forecast transaction is ultimately recognized in the income statement; and
- When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately recognized in the income statement.

Impairment of Non-financial Assets

The Company assesses annually during the fourth quarter, whether goodwill or intangible assets with indefinite lives may be impaired. For the purpose of impairment testing, goodwill arising from acquisitions is allocated to each of the Company’s CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes, and is not higher than an operating segment. Intangible assets with indefinite lives that do not have separate identifiable cash flows are also allocated to CGUs or a group of CGUs. Any potential impairment of goodwill or intangible assets is identified by comparing the recoverable amount of a CGU or a group of CGUs to its carrying value. Recoverable amount is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the income statement.

The Company bases its impairment calculation on detailed three-year budgets and extrapolated long-term growth rate for periods beyond the third year.

For non-financial assets other than goodwill and intangible assets with finite lives, an assessment is made at each reporting date whether there is any indication of impairment, or that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, sales taxes and duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenues from the sale of equipment are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on shipment of the goods and/or invoicing.
- The sale of equipment for which the Company has provided a guarantee to repurchase the equipment at predetermined residual values and dates are accounted for as operating leases. Revenues are recognized over the period extending to the date of the residual value guarantee.

- Revenues from the sale of equipment systems involving design, manufacture, installation and start-up are recorded using the percentage-of-completion method. Percentage-of-completion is normally measured by reference to costs incurred to date as a percentage of total estimated cost for each contract. Periodically, amounts are received from customers in advance of the associated contract work being performed. These amounts are recorded as deferred revenue. Any foreseeable losses on such projects are recognized immediately in profit or loss as identified.
- Revenues from equipment rentals are recognized in accordance with the terms of the relevant agreement with the customer, generally on a straight-line basis over the term of the agreement.
- Product support services include sales of parts and servicing of equipment. For the sale of parts, revenues are recognized when the part is shipped to the customer. For servicing of equipment, revenues are recognized on completion of the service work.
- Revenues from long-term maintenance contracts and separately priced extended warranty contracts are recognized on a percentage-of-completion basis proportionate to the service work that has been performed based on the parts and labour service provided. Any losses estimated during the term of the contract are recognized when identified. At the completion of the contract, any remaining profit on the contract is recognized as revenue.
- Deferred revenues represent billings to customers in excess of revenue recognized and arise as a result of:
 - a. Sales of equipment with residual value guarantees, extended warranty contracts and other long-term customer support agreements as well as on progress billings on long-term construction contracts; and
 - b. Progress billings in advance of revenue recognition.

- Interest income is recognized using the effective interest rate method.

Foreign Currency Translation

The functional and presentation currency of the Company is the Canadian dollar. Each of the Company's subsidiaries determines its functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange as at the reporting date. All differences are taken directly to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations (having a functional currency other than the Canadian dollar) are translated into Canadian dollars at the rate of exchange prevailing at the statement of financial position date and the income statement is translated at the average exchange rate for the period. The exchange differences arising on translation are recognized in accumulated other comprehensive income in shareholders' equity. On disposal of a foreign operation, the deferred cumulative amount recognized in equity is recognized in the income statement.

Share-based Payment Transactions

The Company maintains both equity-settled and cash-settled share-based compensation plans under which the Company receives services from employees, including senior executives and directors, as consideration for equity instruments of the Company.

For equity-settled plans, which are no longer available to non-employee directors, expense is based on the fair value of the awards granted determined using the Black-Scholes option pricing model and the best estimate of the number of equity instruments that will ultimately vest. For awards with graded

vesting, each tranche is considered to be a separate grant based on its respective vesting period. The fair value of each tranche is determined separately on the date of grant and is recognized as stock-based compensation expense, net of forfeiture estimate, over its respective vesting period.

For cash-settled plans, the expense is determined based on the fair value of the liability incurred at each award date. The fair value of the liability is measured by applying quoted market prices. Changes in fair value are recognized in the income statement in selling and administrative expenses.

Employee Future Benefits

For defined contribution plans, the pension expense recorded in the income statement is the amount of the contributions the Company is required to pay in accordance with the terms of the plans.

For defined benefit plans, the pension expense is determined separately for each plan using the following policies:

- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on length of service and management's best estimate assumptions to value its pensions using a measurement date of December 31;
- Net interest is calculated by applying the discount rate to the net defined benefit liability or asset;
- Past service costs from plan amendments are recognized immediately in net earnings to the extent that the benefits have vested; otherwise, they are amortized on a straight-line basis over the vesting period; and
- Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in retained earnings and included in the statement of comprehensive income in the period in which they occur.

Income Taxes

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred taxes are provided for using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the income statement in the period that includes the date of substantive enactment. The Company assesses recoverability of deferred tax assets based on the Company's estimates and assumptions. Deferred tax assets are recorded at an amount that the Company considers probable to be realized.

Current and deferred income taxes relating to items recognized directly in shareholders' equity are also recognized directly in shareholders' equity.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. Leases that transfer substantially all of the benefits and risks of ownership of the property to the lessee are classified as finance leases; all other leases are classified as operating leases. Classification is re-assessed if the terms of the lease are changed.

Toromont as Lessee

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are deferred and amortized on a straight-line basis over the term of the lease.

Toromont as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the

carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur.

Amendments to Standards Adopted in 2016

Certain amendments to standards that were adopted on January 1, 2016, are noted below.

a) Presentation of Financial Statements
The amendments to IAS 1 – *Presentation of Financial Statements*, give some guidance on how to apply the concept on materiality in practice. These amendments had no impact on the Company's financial position, performance or disclosures.

b) Employee Benefits
The amendment to IAS 19 – *Employee Benefits*, requires an entity to recognize a post-employment benefit obligation for its defined benefit plans. This obligation must be discounted using market rates on high-quality corporate bonds or using government bond rates if a deep market for high-quality corporate bonds does not exist. The amendment clarifies that market depth of high-quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high-quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively. This amendment had no impact on the Company's financial position, performance or disclosures.

Standards Issued But Not Yet Effective

A number of new standards and amendments to standards have been issued but are not yet effective for the financial year ended December 31, 2016, and accordingly, have not been applied in preparing these consolidated financial statements.

a) Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 – *Statement of Cash Flows*, which requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently assessing the impact of adopting these amendments on its consolidated financial statements.

b) Share-based Payment

In June 2016, the IASB issued final amendments to IFRS 2 – *Share-based Payment*, which clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classifications of the transaction from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting these amendments on its consolidated financial statements.

c) Revenue Recognition

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Entities choose either a full retrospective approach with some limited relief provided or a modified retrospective approach for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company’s transition project consists of three phases: diagnostic assessment, solutions development and implementation. Investments in training and other support resources will be made throughout the transition period.

We are completing the diagnostic phase and have begun solutions development in core areas. A work team has been formed to steer the project. The project is being reviewed by the Chief Financial Officer and Audit Committee on a regular basis.

While our work is well underway and on plan, continued progress is necessary before the Company can prudently increase the specificity of the impact of adopting this standard.

d) Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments*, which replaces all phases of the financial instruments project, IAS 39 – *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements.

e) Leases

In January 2016, the IASB issued IFRS 16 – *Leases*, which requires lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 – *Leases*.

The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements.

analysis as required. Management reviews its estimates and judgments on an ongoing basis.

In the process of applying the Company’s accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements.

Property, Plant and Equipment and Rental Equipment

Depreciation is calculated based on the estimated useful lives of the assets and estimated residual values. Depreciation expense is sensitive to the estimated service lives and residual values determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles and physical condition of the asset, prospective use, and maintenance programs.

Impairment of Non-financial Assets

Judgment is used in identifying an appropriate discount rate and growth rate for the calculations required in assessing potential impairment of non-financial assets. Judgment is also used in identifying the CGUs to which the intangible assets should be allocated, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes. The impairment calculations require the use of estimates related to the future operating results and cash generating ability of the assets. The key assumptions used to determine the recoverable amount for the different groups of CGUs, including a sensitivity analysis, are disclosed and further explained in Note 7.

Income Taxes

Estimates and judgments are made for uncertainties which exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

Revenue Recognition

Recording revenues from the assembly and manufacture of equipment using the percentage-of-completion method requires management to make a number of estimates and assumptions about the expected profitability of the contract, the estimated degree of completion based on cost progression and other detailed factors. These factors are routinely reviewed as part of the project management process.

The Company also generates revenue from long-term maintenance and repair contracts whereby it is obligated to maintain equipment for its customers. The contracts are typically fixed price on either machine hours or cost per hour, with provisions for inflationary and exchange adjustments. Revenue is recognized using the percentage-of-completion method based on work completed. This method requires management to make a number of estimates and assumptions surrounding machine usage, machine performance, future parts and labour pricing, manufacturers’ warranty coverage and other detailed factors. These factors are routinely reviewed as part of the contract management process.

Inventories

Management is required to make an assessment of the net realizable value of inventory at each reporting period. These estimates are determined on the basis of age, stock levels, current market prices, current economic trends and past experience in the measurement of net realizable value.

Allowance for Doubtful Accounts

The Company makes estimates for allowances that represent its estimate of potential losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that may have been incurred but not yet specifically identified.

Share-based Compensation

The option pricing model used to determine the fair value of share-based payments requires various estimates relating to volatility, interest rates, dividend yields and expected life of the options granted. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments.

Post-Employment Benefit Plans

The Company has defined benefit pension plans and other post-employment benefit plans that provide certain benefits to its employees. Actuarial valuations of these plans are based on assumptions which include discount rates, retail price inflation, mortality rates, employee turnover and salary escalation rates. Judgment is exercised in setting these assumptions. These assumptions impact the measurement of the net employee benefit obligation, funding levels, the net benefit cost and the actuarial gains and losses recognized in other comprehensive income.

2. Significant Accounting Estimates and Assumptions

The preparation of the Company’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets

and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, 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.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal

3. Accounts Receivable

	2016	2015
Trade receivables	\$ 256,985	\$ 238,758
Less: allowance for doubtful accounts	(9,700)	(9,168)
Trade receivables – net	247,285	229,590
Other receivables	29,765	32,933
	\$ 277,050	\$ 262,523

The aging of gross trade receivables at each reporting date was as follows:

	2016	2015
Current to 90 days	\$ 240,418	\$ 221,854
Over 90 days	16,567	16,904
	\$ 256,985	\$ 238,758

The following table presents the movement in the Company’s allowance for doubtful accounts:

	2016	2015
Balance, January 1	\$ 9,168	\$ 7,845
Provisions and revisions, net	532	1,323
Balance, December 31	\$ 9,700	\$ 9,168

4. Inventories

	2016	2015
Equipment	\$ 300,344	\$ 321,825
Repair and distribution parts	99,297	106,094
Direct materials	4,001	4,117
Work-in-process	32,115	31,174
	\$ 435,757	\$ 463,210

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2016 was \$1.1 billion (2015 – \$1.1 billion). Cost of goods sold included inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition and during 2016 amounted to \$0.3 million (2015 – \$8.1 million).

5. Property, Plant and Equipment and Rental Equipment

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2016	\$ 49,988	\$ 143,223	\$ 154,924	\$ 38,771	\$ 386,906	\$ 438,607
Additions	539	4,912	16,850	56	22,357	98,696
Disposals	(371)	(20)	(13,030)	—	(13,421)	(57,749)
Currency translation effects	(5)	(85)	(98)	—	(188)	—
December 31, 2016	\$ 50,151	\$ 148,030	\$ 158,646	\$ 38,827	\$ 395,654	\$ 479,554
Accumulated depreciation						
January 1, 2016	\$ —	\$ 67,923	\$ 108,413	\$ 26,416	\$ 202,752	\$ 192,937
Depreciation charge	—	5,884	16,321	1,566	23,771	52,476
Depreciation of disposals	—	(18)	(12,604)	—	(12,622)	(38,136)
Currency translation effects	—	(7)	(67)	—	(74)	—
December 31, 2016	\$ —	\$ 73,782	\$ 112,063	\$ 27,982	\$ 213,827	\$ 207,277
Net book value – December 31, 2016	\$ 50,151	\$ 74,248	\$ 46,583	\$ 10,845	\$ 181,827	\$ 272,277

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2015	\$ 48,845	\$ 134,818	\$ 141,550	\$ 38,744	\$ 363,957	\$ 368,041
Additions	1,268	10,250	19,932	27	31,477	119,851
Disposals	(154)	(2,304)	(7,069)	—	(9,527)	(49,285)
Currency translation effects	29	459	511	—	999	—
December 31, 2015	\$ 49,988	\$ 143,223	\$ 154,924	\$ 38,771	\$ 386,906	\$ 438,607
Accumulated depreciation						
January 1, 2015	\$ —	\$ 63,882	\$ 98,822	\$ 24,855	\$ 187,559	\$ 172,778
Depreciation charge	—	5,578	15,637	1,561	22,776	50,658
Depreciation of disposals	—	(1,565)	(6,323)	—	(7,888)	(30,499)
Currency translation effects	—	28	277	—	305	—
December 31, 2015	\$ —	\$ 67,923	\$ 108,413	\$ 26,416	\$ 202,752	\$ 192,937
Net book value – December 31, 2015	\$ 49,988	\$ 75,300	\$ 46,511	\$ 12,355	\$ 184,154	\$ 245,670

During 2016, depreciation expense of \$69.4 million was charged to cost of goods sold (2015 – \$67.2 million) and \$6.8 million was charged to selling and administrative expenses (2015 – \$6.2 million).

Depreciation expense was lower by \$4.1 million in 2016 as a result of the change in estimate described in Note 1.
Operating income from rental operations for the year ended December 31, 2016, was \$27.4 million (2015 – \$32.7 million).

6. Other Assets

	2016	2015
Equipment sold with guaranteed residual values	\$ 13,147	\$ 9,459
Other	2,234	2,025
	\$ 15,381	\$ 11,484

7. Goodwill and Intangible Assets

	Goodwill	Distribution Network with indefinite useful life	Patents and Licenses with definite useful life	Total
Cost				
At January 1, 2015	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
At December 31, 2015	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
At December 31, 2016	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
Accumulated amortization				
At January 1, 2015	\$ —	\$ —	\$ 59	\$ 59
Amortization	—	—	29	29
At December 31, 2015	\$ —	\$ —	\$ 88	\$ 88
Amortization	—	—	30	30
At December 31, 2016	\$ —	\$ —	\$ 118	\$ 118
Net book value – At December 31, 2015	\$ 13,450	\$ 13,669	\$ 412	\$ 27,531
Net book value – At December 31, 2016	\$ 13,450	\$ 13,669	\$ 382	\$ 27,501

Impairment Testing of Goodwill and Intangible Assets With Indefinite Lives

Goodwill and intangible assets with indefinite lives have been allocated to two groups of CGUs for impairment testing as follows:

- Toromont Cat, included within the Equipment Group
- CIMCO, which is also an operating and reportable segment

The respective carrying amounts have been allocated to the two groups of CGUs below:

	Goodwill		Intangible Assets			Total
	2016	2015	2016	2015	2016	2015
Toromont Cat	\$ 13,000	\$ 13,000	\$ 13,669	\$ 13,669	\$ 26,669	\$ 26,669
CIMCO	450	450	—	—	450	450
	\$ 13,450	\$ 13,450	\$ 13,669	\$ 13,669	\$ 27,119	\$ 27,119

The Company performed the annual impairment test of goodwill and intangible assets allocated to Toromont Cat as at December 31, 2016. The recoverable amount of Toromont Cat has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period was extrapolated using a 2% growth rate which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to future cash flows was 10.94%. As a result of the analysis, management determined there was no impairment for this CGU.

The Company performed the annual impairment test of goodwill allocated to CIMCO as at December 31, 2016. The recoverable amount of CIMCO has been determined based on a value in use

calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Cash flow beyond the three-year period was extrapolated using a 2% growth rate which represents the expected growth in the Canadian economy. The pre-tax discount rate applied to future cash flows was 13.42%. As a result of the analysis, management determined there was no impairment for this CGU.

Key Assumptions to Value-in-Use Calculations

The calculation of value in use for Toromont Cat and CIMCO are most sensitive to the following assumptions:

- Discount rates
 - Growth rate to extrapolate cash flows beyond the budget period
- Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the

time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the CGU's weighted average cost of capital, taking into account both debt and equity.

The cost of equity is derived from the expected return on investment by the Company's shareholders. The cost of debt is based on the interest-bearing borrowings the Company is obliged to service.

Segment-specific risk is incorporated by applying different debt to equity ratios.

Growth rate estimates are based on published data, historical experiences and management's best estimate.

Sensitivity to Changes in Assumptions

Management believes that within reasonably possible changes to any of the above key assumptions, recoverable amounts exceed carrying values.

8. Payables, Accruals and Provisions

	2016	2015
Accounts payable and accrued liabilities	\$ 248,104	\$ 223,381
Dividends payable	14,111	13,253
Provisions	16,094	16,822
	\$ 278,309	\$ 253,456

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance as at January 1, 2015	\$ 7,777	\$ 6,082	\$ 13,859
New provisions	13,821	4,507	18,328
Charges/credits against provisions	(13,582)	(1,783)	(15,365)
Balance as at December 31, 2015	\$ 8,016	\$ 8,806	\$ 16,822
New provisions	17,420	1,290	18,710
Charges/credits against provisions	(14,636)	(4,802)	(19,438)
Balance as at December 31, 2016	\$ 10,800	\$ 5,294	\$ 16,094

Warranty

At the time of sale, a provision is recognized for expected warranty claims on products and services, based on past experience

and known issues. It is expected that most of these costs will be incurred in the next financial year.

Other

Other provisions relate largely to open legal and insurance claims and potential onerous contracts. No one claim is significant.

9. Long-Term Debt

All debt is unsecured.

	2016	2015
3.71%, \$150.0 million, due September 30, 2025 ⁽¹⁾ 7.06%, \$15.0 million, due March 29, 2019 ⁽²⁾	\$ 150,000 4,774	\$ 150,000 6,464
Senior debentures	154,774	156,464
Debt issuance costs, net of amortization	(2,246)	(2,695)
Total long-term debt	\$ 152,528	\$ 153,769
Less: current portion of long-term debt	(1,811)	(1,690)
Non-current portion of long-term debt	\$ 150,717	\$ 152,079

(1) Interest payable semi-annually, principal due on maturity.
(2) Blended principal and interest payments payable semi-annually through to maturity.

The Company has a committed credit facility of \$250.0 million with a maturity of September 7, 2020. Debt incurred under the facility is unsecured and ranks pari passu with debt outstanding under Toromont’s existing debentures. Interest is based on a floating rate, primarily bankers’ acceptances and prime, plus applicable margins and fees based on the terms of the credit facility.

At December 31, 2016, standby letters of credit issued utilized \$21.7 million of the credit lines (2015 – \$21.9 million). On September 30, 2015, the Company issued senior unsecured debentures in an aggregate principal amount of \$150.0 million (the “Debentures”). The Debentures mature in 2025 and bear interest at a rate of 3.71% per annum, payable semi-annually. The Debentures are unsecured,

unsubordinated and rank pari passu with other unsecured, unsubordinated debt. These credit arrangements include covenants, restrictions and events of default usually present in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants at December 31, 2016 and 2015.

Scheduled principal repayments and interest payments on long-term debt are as follows:

	Principal	Interest
2017	\$ 1,811	\$ 5,871
2018	1,941	5,741
2019	1,022	5,601
2020	—	5,565
2021	—	5,565
Thereafter	150,000	20,857
	\$ 154,774	\$ 49,200

Interest expense includes interest on debt initially incurred for a term greater than one year of \$7.1 million (2015 – \$7.8 million).

10. Share Capital

Authorized
The Company is authorized to issue an unlimited number of common shares (no par value) and preferred shares. No preferred shares have been issued.

Shareholder Rights Plan
The Shareholder Rights Plan is designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Company. Rights issued under the plan become exercisable when a person, and any related parties, acquires or commences a takeover bid to acquire 20% or more of the Company’s outstanding common shares without complying with certain provisions set out in the plan or without approval of the Company’s Board of Directors. Should such an acquisition occur, each rights

holder, other than the acquiring person and related parties, will have the right to purchase common shares of the Company at a 50% discount to the market price at that time. The plan expires in April 2018.

Normal Course Issuer Bid (“NCIB”)
Toromont renewed its NCIB program in 2016. The current issuer bid allows the Company to purchase up to approximately 6.7 million of its common shares in the 12-month period ending August 30, 2017, representing 10% of common shares in the public float, as estimated at the time of renewal. The actual number of shares purchased and the timing of any such purchases will be determined by Toromont. All shares purchased under the bid will be cancelled.

During the year ended December 31, 2016, the Company purchased and cancelled 89,244 common shares for \$2.6 million (average cost of \$28.84 per share, including transaction costs) under its NCIB program (2015 – 74,500 common shares for \$2.2 million at an average cost of \$29.95 per share, including transaction costs).

Dividends
The Company paid dividends of \$55.4 million (\$0.71 per share) for the year ended December 31, 2016, and \$51.2 million (\$0.66 per share) for the year ended December 31, 2015. Subsequent to the year ended December 31, 2016, the Board of Directors approved a quarterly dividend of \$0.19 per share payable on April 3, 2017, to shareholders on record at the close of business on March 10, 2017.

11. Financial Instruments

Financial Assets and Liabilities – Classification and Measurement

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

	2016	2015
Other financial liabilities:		
Current portion of long-term debt	\$ 1,811	\$ 1,690
Long-term debt	\$ 150,717	\$ 152,079
Derivative financial instruments:		
Foreign exchange forward contracts	\$ 1,197	\$ 2,445

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract’s value at maturity based on the contracted foreign exchange rate and the contract’s value at maturity based on the comparable foreign exchange rate at period end under the same conditions. The financial institution’s credit risk is also taken into consideration in determining fair value. The valuation is determined using Level 2 inputs which are observable inputs or inputs

which can be corroborated by observable market data for substantially the full term of the asset or liability, most significantly foreign exchange spot and forward rates. The fair value and carrying value of long-term debt is as follows:

	2016	2015
Long-term debt		
Fair value	\$ 154,929	\$ 158,123
Carrying value	\$ 154,774	\$ 156,464

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

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements.

Derivative Financial Instruments and Hedge Accounting
Foreign exchange contracts are transacted with financial institutions to hedge foreign

currency denominated obligations related to purchases of inventory and sales of products. As at December 31, 2016, the Company was committed to US dollar purchase contracts with a notional amount of \$128.6 million at an average exchange rate of \$1.3320, maturing between January and December 2017.

Management estimates that a gain of \$1.2 million (2015 – \$2.4 million) would be realized if the contracts were terminated on December 31, 2016. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of \$0.4 million (2015 – \$0.7 million) has been included in other comprehensive income. These gains will be reclassified to net earnings within the next 12 months and will offset losses recorded on the underlying hedged items, namely foreign-denominated accounts payable. 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 gain of \$0.8 million (2015 – \$1.7 million) on these forward contracts is included in net earnings, which offsets losses recorded on the foreign-denominated items, namely accounts payable.

All hedging relationships are formally documented, including the risk management objective and strategy. On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly rated financial institutions.

Interest Rate Risk
The Company minimizes its interest rate risk by managing its portfolio of floating- and fixed-rate debt, as well as managing the term to maturity. The Company may use derivative instruments such as interest rate swap agreements to manage its current and anticipated exposure to interest rates. There were

no interest rate swap agreements outstanding as at December 31, 2016 or 2015.
The Company did not have any floating-rate debt at December 31, 2016 or 2015.

Liquidity Risk
Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2016, the Company had unutilized lines of credit of \$228.3 million (2015 – \$228.1 million).

Accounts payable are primarily due within 90 days and will be satisfied from current working capital.
The Company expects that continued cash flows from operations in 2017, together with currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital, capital assets and dividend payments through the next 12 months, and that the Company’s credit ratings provide reasonable access to capital markets to facilitate future debt issuance.

12. Financial Instruments – Risk Management

In the normal course of business, Toromont is exposed to financial risks that may potentially impact its operating results in one or all of its reportable segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates. The Company does not enter into derivative financial agreements for speculative purposes.

Currency Risk
The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company mitigates exchange rate risk by entering into foreign currency contracts to fix the cost of imported inventory where appropriate. In addition, pricing to customers is customarily adjusted to reflect changes

in the Canadian dollar landed cost of imported goods.
The Company maintains a hedging policy whereby all significant transactional currency risks are identified and hedged.

Sensitivity Analysis
The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company’s financial instruments and show the impact on net earnings and comprehensive income. It is provided as a reasonably possible change in currency in a volatile environment. Financial instruments affected by currency risk include cash, accounts receivable, accounts payable and derivative financial instruments.
As at December 31, 2016, a 5% weakening (strengthening) of the Canadian dollar against the US dollar would result in a \$0.3 million increase (decrease) in OCI for financial instruments held in foreign operations and a \$0.6 million increase (decrease) in net earnings and \$4.1 million increase (decrease) in OCI for financial instruments held in Canadian operations.

Credit Risk
Financial instruments that potentially subject the Company to credit risk consist of cash, accounts receivable and derivative financial instruments. The carrying amount of assets included on the consolidated statement of financial position represents the maximum credit exposure.
The Company has deposited cash with reputable financial institutions, from which management believes the risk of loss to be remote.
The Company has accounts receivable from customers engaged in various industries including mining, construction, food and beverage, and governmental agencies. These specific customers may be affected by economic factors that may impact accounts receivable. Management does not believe that any single customer represents significant credit risk. Credit risk concentration with respect to trade receivables is mitigated by the Company’s large customer base.
The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may

The components of interest expense were as follows:

	2016	2015
Term loan facility	\$ 820	\$ 1,450
Senior debentures	6,422	7,218
	\$ 7,242	\$ 8,668

The components of interest and investment income were as follows:

	2016	2015
Interest income on rental conversions	\$ 2,811	\$ 2,500
Other	1,195	922
	\$ 4,006	\$ 3,422

14. Income Taxes

Significant components of the provision for income tax expense were as follows:

	2016	2015
Current income tax expense	\$ 54,846	\$ 56,150
Deferred income tax expense (recovery)	2,733	(2,552)
Total income tax expense	\$ 57,579	\$ 53,598

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes was as follows:

	2016	2015
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	\$ 56,532	\$ 52,805
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	490	302
Manufacturing and processing rate reduction	(330)	(266)
Expenses not deductible for tax purposes	1,539	1,363
Non-taxable gains	(853)	(260)
Effect of change in future income tax rate	13	—
Other	188	(346)
Provision for income taxes	\$ 57,579	\$ 53,598
Effective income tax rate	27.0%	26.9%

The statutory income tax rate represents the combined Canadian federal and Ontario provincial income tax rates which are the relevant tax jurisdictions for the Company.

The source of deferred income taxes was as follows:

	2016	2015
Accrued liabilities	\$ 15,267	\$ 14,318
Deferred revenues	1,960	1,525
Accounts receivable	2,072	1,922
Inventories	5,245	4,881
Capital assets	(25,531)	(20,621)
Accrued pension liability	5,759	5,362
Other	946	902
Cash flow hedges in other comprehensive income	(108)	(187)
Deferred tax assets	\$ 5,610	\$ 8,102

The movement in net deferred tax assets was as follows:

	2016	2015
Balance, January 1	\$ 8,102	\$ 5,784
Tax (expense) recovery recognized in income	(2,733)	2,552
Tax recovery (expense) recognized in other comprehensive income	241	(234)
Balance, December 31	\$ 5,610	\$ 8,102

The aggregate amount of unremitted earnings in the Company's subsidiaries was \$17.3 million (2015 – \$13.8 million). These earnings can be remitted with no tax consequences.

15. Earnings Per Share

	2016	2015
Net earnings	\$ 155,748	\$ 145,666
Weighted average common shares outstanding	78,127,400	77,681,337
Dilutive effect of stock option conversion	546,897	626,499
Diluted weighted average common shares outstanding	78,674,297	78,307,836
Earnings per share		
Basic	\$ 1.99	\$ 1.88
Diluted	\$ 1.98	\$ 1.86

For the calculation of diluted earnings per share for the year ended December 31, 2016, 513,500 (2015 – 520,700) outstanding stock options with a weighted average exercise price of \$39.79 (2015 – \$36.65) were considered anti-dilutive (exercise price in excess of average market price during the year) and as such were excluded from the calculation.

16. Employee Benefits Expense

	2016	2015
Wages and salaries	\$ 315,050	\$ 302,626
Other employment benefit expenses	54,125	46,737
Share options granted to directors and employees	3,261	2,568
Pension costs	13,276	12,716
	\$ 385,712	\$ 364,647

17. Stock-based Compensation

The Company maintains a stock option program for certain employees. Under the plan, up to 7,000,000 options may be granted for subsequent exercise in exchange for common shares. It is the Company’s policy that no more than 1% of outstanding shares or 779,058 share

options may be granted in any one year. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices of the common shares at the date the option is granted. Stock options

granted in 2013 and after have a 10-year term while those granted prior to 2013 have a seven-year term. Toromont accrues compensation cost over the vesting period based on the grant date fair value.

A reconciliation of the outstanding options for the years ended December 31, 2016 and 2015, was as follows:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,512,250	\$ 24.91	2,715,875	\$ 20.50
Granted	517,500	39.79	520,700	36.65
Exercised ⁽¹⁾	(581,879)	19.89	(720,925)	16.80
Forfeited	(17,000)	29.06	(3,400)	20.77
Options outstanding, December 31	2,430,871	\$ 29.25	2,512,250	\$ 24.91
Options exercisable, December 31	931,056	\$ 23.12	953,370	\$ 20.11

(1) The weighted average share price at date of exercise for the year ended December 31, 2016, was \$37.36 (2015 - \$31.70).

The following table summarizes stock options outstanding and exercisable as at December 31, 2016.

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$16.76 – \$23.40	948,321	4.0	\$ 20.95	664,766	\$ 20.33
\$23.41 – \$26.79	466,110	7.6	26.52	172,710	26.52
\$36.65	502,940	8.6	36.65	93,580	36.65
\$39.79	513,500	9.6	39.79	—	—
	2,430,871	6.8	\$ 29.25	931,056	\$ 23.12

The fair value of the stock options granted during 2016 and 2015 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2016	2015
Fair value price per option	\$ 7.61	\$ 7.33
Share price	\$ 39.79	\$ 36.65
Expected life of options (years)	8.25	8.51
Expected stock price volatility	22.0%	22.0%
Expected dividend yield	1.81%	1.86%
Risk-free interest rate	0.96%	1.30%

Deferred Share Unit Plan

The Company offers a deferred share unit (“DSU”) plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a

portion of their performance incentive bonus or fees, respectively, in DSUs. In addition, the Board may grant discretionary DSUs. Non-employee directors also receive a portion of their compensation in DSUs.

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

The following table summarizes information related to DSU activity:

	2016		2015	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	377,311	\$ 12,000	334,709	\$ 9,527
Units taken or taken in lieu and dividends	47,240	1,661	45,762	1,425
Redemptions	(16,820)	(683)	(3,160)	(106)
Fair market value adjustment	—	4,287	—	1,154
Outstanding, December 31	407,731	\$ 17,265	377,311	\$ 12,000

Employee Share Ownership Plan

The Company offers an Employee Share Ownership Plan (the “Plan”) whereby employees who meet the eligibility criteria can purchase shares by way of payroll

deductions. There is a Company match at the rate of \$1 for every \$3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or \$1,000 per annum. Company contributions

amounting to \$1.8 million in 2016 (2015 – \$1.1 million) were charged to selling and administrative expenses when paid. The Plan is administered by a third party.

18. Employee Future Benefits

Defined Contribution Plans

The Company sponsors pension arrangements for substantially all of its employees, primarily through defined contribution plans in Canada and a 401(k) matched savings plan in the United States. Certain unionized employees do not

participate in Company-sponsored plans, and contributions are made to these retirement programs in accordance with the respective collective bargaining agreements. In the case of defined contribution plans, regular contributions are made to the individual employee

accounts, which are administered by a plan trustee in accordance with the plan documents. Included in the net pension expense for the years ended December 31, were the following components of the defined contribution plans:

	2016	2015
Defined contribution plans	\$ 11,140	\$ 10,432
401(k) matched savings plans	248	202
Net pension expense	\$ 11,388	\$ 10,634

Defined Benefit Plans

The Company sponsors funded defined benefit plans as described below with approximately 91 qualifying employees.

a) Powell Plan – This is a legacy plan whose members were employees of Powell Equipment when it was acquired by Toromont in 2001. The plan is a contributory plan that provides pension benefits based on length of service and career average earnings. The plan is administered by the Toromont Pension Management Committee with assets held in a pension fund that is legally separate from the Company and cannot be used for any purpose other than payment of pension benefits and related administrative fees. The plan is registered with the Province of Manitoba. Manitoba’s minimum funding regulations require special payments for Toromont to amortize any shortfalls of plan assets relative to the cost of settling all accrued benefit entitlements

through the purchase of annuities or payments of an equivalent lump sum value (solvency funding basis). Security in the form of letters of credit is permitted in lieu of some or all of these solvency special payments. If the fair value of defined benefit assets were to exceed 105% of this solvency funding target, the excess can be applied to the cost of the defined benefits and defined contributions in future periods. The most recent actuarial valuation was completed as at December 31, 2013, with the next valuation scheduled for December 31, 2016.

b) Executive Plan – The plan is a supplemental pension plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. At December 31, 2016, the Company has posted letters of credit in

the amount of \$17.2 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2016, with the next valuation scheduled for December 31, 2017.

c) Other plan assets and obligations – This plan provides for certain retirees and terminated vested employees of businesses previously acquired by the Company as well as for retired participants of the defined contribution plan at that time, that, in accordance with the plan provisions, had elected to receive a pension directly from the plan. The plan is administered by a Fund that is legally separated from the Company. The most recent actuarial valuation was completed on January 1, 2014, with the next valuation scheduled for January 1, 2017.

Risks

Defined benefit pension plans expose the Company to risks as described below:

- Investment risk – The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high-quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit. Currently, the plan has a relatively balanced investment in equity securities, debt instruments and real

estate assets. The Toromont Pension Management Committee reviews the asset mix and performance of the plan assets on a quarterly basis with the balanced investment strategy intention.

- Interest rate risk – A decrease in the bond interest rates will increase the plan liability; however, this will be partially offset by an increase in the plan’s holdings in debt instruments
- Longevity risk – The present value of the defined benefit plan liability is

calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan’s liability.

- Salary risk – The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan’s liability.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2016	2015
Discount rate	3.60%	3.90%
Expected rate of salary increase	3.50%	3.50%

Amounts are recognized in comprehensive income in respect to these defined benefit plans as follows:

	2016	2015
Service cost	\$ 1,055	\$ 1,283
Net interest expense	833	799
Components of defined benefit costs recognized in net earnings	\$ 1,888	\$ 2,082
Remeasurement on the net defined benefit liability:		
Actuarial gains arising from experience adjustments	\$ (551)	\$ (272)
Actuarial losses (gains) arising from changes in financial assumptions	3,096	(734)
Return on plan assets (excluding amounts included in net interest expense)	(1,080)	172
Components of defined benefit costs recognized in other comprehensive income	\$ 1,465	\$ (834)

The changes in the fair value of assets and the pension obligations of the defined benefit plans at year end were as follows:

	2016	2015
Defined benefit obligations:		
Balance, January 1	\$ 81,778	\$ 86,555
Current service cost	1,055	1,283
Interest cost	3,116	3,241
Remeasurement (gains) losses:		
Actuarial gains arising from experience adjustments	(551)	(272)
Actuarial losses (gains) arising from changes in financial assumptions	3,096	(734)
Benefits paid	(5,435)	(8,620)
Contributions by the plan participants	311	325
Balance, December 31	83,370	81,778
Plan assets:		
Fair value, January 1	60,683	65,765
Interest income on plan assets	2,283	2,442
Remeasurement gain (loss):		
Return on plan assets (excluding amounts included in net interest expense)	1,080	(172)
Contributions from the Company	1,878	1,932
Contributions from the plan participants	311	325
Benefits paid	(5,435)	(8,620)
Transfer to Company defined contribution plan	—	(989)
Fair value, December 31	60,800	60,683
Accrued pension liability	\$ 22,570	\$ 21,095

The funded status of the Company's defined benefit pension plans at year end was as follows:

	2016			2015		
	Defined benefit obligations	Plan assets	Accrued pension liability	Defined benefit obligations	Plan assets	Accrued pension asset (liability)
Powell Plan	\$ 56,723	\$ 55,234	\$ (1,489)	\$ 54,429	\$ 54,844	\$ 415
Executive Plan	18,377	—	(18,377)	18,373	—	(18,373)
Other plan assets and obligations	8,270	5,566	(2,704)	8,976	5,839	(3,137)
	\$ 83,370	\$ 60,800	\$ (22,570)	\$ 81,778	\$ 60,683	\$ (21,095)

The allocation of the fair value of the plan assets at the end of the reporting period was as follows:

	2016	2015
Equity securities	43.9%	44.8%
Debt securities	38.2%	37.2%
Real estate assets	17.8%	17.7%
Cash and cash equivalents	0.1%	0.3%

The fair values of the plan assets was determined based on the following methods:

- Equity securities – generally quoted market prices in active markets.
- Debt securities – generally quoted market prices in active markets.
- Real estate assets – valued based on

appraisals performed by a qualified external real estate appraiser. Real estate assets are located primarily in Canada.

- Cash and cash equivalents – generally recorded at cost which approximates fair value.
- The actual return on plan assets was \$3.4 million (2015 – \$2.3 million).

The Company expects to contribute \$1.9 million to the defined benefit plans during 2017.

The weighted average duration of the defined benefit plan obligation at December 31, 2016, was 13.4 years (2015 – 13.3 years).

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are the discount rate and the life expectancy. The sensitivity analyses have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

As at December 31, 2016, the following quantitative analysis shows changes to the significant actuarial assumptions and the corresponding impact to the defined benefit obligation:

	Discount Rate		Life Expectancy	
	1% Increase	1% Decrease	Increase by 1 Year	Decrease by 1 Year
Powell Plan	\$ (7,377)	\$ 8,480	\$ 1,526	\$ (1,526)
Executive Plan	(1,593)	1,744	551	(551)
Other plan assets and obligations	(707)	782	361	(361)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

19. Capital Management

The Company defines capital as the aggregate of shareholders' equity and long-term debt less cash.

The Company's capital management framework is designed to maintain a flexible capital structure that allows for

optimization of the cost of capital at acceptable risk while balancing the interests of both equity and debt holders.

The Company generally targets a net debt to total capitalization ratio of 33%, although there is a degree of variability

associated with the timing of cash flows. Also, if appropriate opportunities are identified, the Company is prepared to significantly increase this ratio depending upon the opportunity.

The Company's capital management criteria can be illustrated as follows:

	2016	2015
Long-term debt	\$ 150,717	\$ 152,079
Current portion of long-term debt	1,811	1,690
Less: Cash	188,735	66,680
Net debt	(36,207)	87,089
Shareholders' equity	885,432	775,281
Total capitalization	\$ 849,225	\$ 862,370
Net debt to total capitalization	-4%	10%

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has met these minimum requirements during the years ended December 31, 2016 and 2015.

There were no changes in the Company's approach to capital management during the years ended December 31, 2016 and 2015.

20. Supplemental Cash Flow Information

	2016	2015
Net change in non-cash working capital and other		
Accounts receivable	\$ (14,527)	\$ (22,751)
Inventories	27,453	(96,017)
Accounts payable, accrued liabilities and provisions	23,995	11,974
Deferred revenues	1,046	24,662
Income taxes payable	(1,790)	(834)
Other	(1,433)	(8,285)
	\$ 34,744	\$ (91,251)
Cash paid during the year for:		
Interest	\$ 6,587	\$ 7,956
Income taxes	\$ 57,328	\$ 58,190
Cash received during the year for:		
Interest	\$ 3,599	\$ 2,914
Income taxes	\$ 1,845	\$ 2,229

21. Commitments

The Company has entered into leases on buildings, vehicles and office equipment. The vehicle and office equipment leases generally have an average life between three and five years with no renewal options.	The building leases have a maximum lease term of 20 years including renewal options. Some of the contracts include a lease escalation clause, which is usually based on the Consumer Price Index.	Future minimum lease payments under non-cancellable operating leases as at December 31, 2016, were as follows:
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2017	\$ 3,166
2018	2,255
2019	1,635
2020	1,056
2021	716
Thereafter	1,874
	\$ 10,702

22. Segmented Information

<p>The Company has two reportable segments: the Equipment Group and CIMCO, 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. The accounting policies of each of the reportable segments are the same as the significant account policies described in Note 1.</p> <p>The operating segments are being reported based on the financial information provided to the Chief Executive Officer and Chief Financial Officer, who have been identified as the Chief Operating Decision Makers (“CODMs”) in monitoring segment performance and allocating resources between segments. The CODMs assesses segment performance based on segment operating income, which is measured differently than income from operations in the consolidated financial statements. Corporate overheads are allocated to the segments based on revenue. Income taxes,</p>	<p>interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.</p> <p>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.</p> <p>No reportable segment is reliant on any single external customer.</p>	<ul style="list-style-type: none">• <i>Battlefield</i> – the Cat Rental Store – supplies and rents specialized mobile equipment as well as specialty supplies and tools.• <i>AgWest</i> – supplies specialized mobile equipment to the agriculture industry.• <i>Toromont Energy</i> – develops distributed generators and combined heat and power projects using Caterpillar engines.• <i>SITECH</i> – supplies control systems for specialized mobile equipment.
<p>Equipment Group</p> <p>The Equipment Group comprises the following business units:</p> <ul style="list-style-type: none">• <i>Toromont Cat</i> – supplies, rents and provides support services for specialized mobile equipment and industrial engines.		<p>CIMCO</p> <p>Provider of design, engineering, fabrication, installation, and product support of industrial and recreational refrigeration systems.</p>
		<p>Corporate Office</p> <p>The corporate office does not meet the definition of a reportable operating segment as defined in IFRS 8 – <i>Operating Segments</i>, as it does not earn revenue.</p>

The following table sets forth information by segment for the years ended December 31:

	Equipment Group			CIMCO		Consolidated
	2016	2015	2016	2015	2016	2015
Equipment/package sales	\$ 758,255	\$ 787,886	\$ 161,614	\$ 119,516	\$ 919,869	\$ 907,402
Rentals	221,009	222,562	—	—	221,009	222,562
Product support	595,383	547,878	118,780	113,218	714,163	661,096
Power generation	12,242	11,173	—	—	12,242	11,173
Total revenues	\$ 1,586,889	\$ 1,569,499	\$ 280,394	\$ 232,734	\$ 1,867,283	\$ 1,802,233
Operating income	\$ 196,124	\$ 189,630	\$ 20,439	\$ 14,880	\$ 216,563	\$ 204,510
Interest expense					7,242	8,668
Interest and investment income					(4,006)	(3,422)
Income taxes					57,579	53,598
Net earnings					\$ 155,748	\$ 145,666

Selected statements of financial position information:

	Equipment Group		CIMCO		Consolidated	
As at December 31	2016	2015	2016	2015	2016	2015
Identifiable assets	\$ 1,125,582	\$ 1,113,290	\$ 77,079	\$ 69,784	\$ 1,202,661	\$ 1,183,074
Corporate assets					207,910	93,003
Total assets					\$ 1,410,571	\$ 1,276,077
Identifiable liabilities	\$ 259,769	\$ 244,800	\$ 53,176	\$ 49,464	\$ 312,945	\$ 294,264
Corporate liabilities					212,194	206,532
Total liabilities					\$ 525,139	\$ 500,796
Capital expenditures	\$ 121,606	\$ 149,068	\$ 1,888	\$ 1,038	\$ 123,494	\$ 150,106
Depreciation	\$ 74,812	\$ 71,878	\$ 1,435	\$ 1,556	\$ 76,247	\$ 73,434

Operations are based in Canada and the United States. The following summarizes the final destination of revenues to customers and the capital assets held in each geographic segment:

	2016	2015
Revenues		
Canada	\$ 1,777,439	\$ 1,732,854
United States	88,523	66,799
International	1,321	2,580
	\$ 1,867,283	\$ 1,802,233

	2016	2015
Capital Assets and Goodwill		
Canada	\$ 462,937	\$ 438,948
United States	4,617	4,326
	\$ 467,554	\$ 443,274

23. Related Party Disclosures

Key management personnel and director compensation comprised:

	2016	2015
Salaries	\$ 3,273	\$ 3,088
Stock options and DSU awards	1,912	1,562
Annual non-equity incentive based plan compensation	2,799	2,968
Pension	607	583
All other compensation	118	147
	\$ 8,709	\$ 8,348

The remuneration of directors and key management is determined by the Human Resources Committee having regard to the performance of the individual and Company and market trends.

24. Economic Relationship

The Company, through its Equipment Group, sells and services heavy equipment and related parts. Distribution agreements are maintained with several equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar Inc. The distribution and servicing of Caterpillar products account for the major portion of the Equipment Group's operations. Toromont has had a strong relationship with Caterpillar since inception in 1993.

Ten-Year Financial Review⁽¹⁾

For the years ended December 31 (\$ thousands, except where otherwise indicated)	2016	2015	2014	2013	2012 ⁽⁶⁾	2011	2010	2009	2008	2007
Operating Results										
Revenues	1,867,283	1,802,233	1,660,390	1,593,431	1,507,173	1,381,974	1,207,028	1,824,592	2,121,209	1,886,761
Net earnings	155,748	145,666	133,196	123,031	119,473	246,459	103,912	120,516	140,524	122,280
Net interest expense (income) ⁽²⁾	3,236	5,246	4,034	4,900	5,740	5,798	8,826	2,460	(3,246)	9,331
Capital expenditures ⁽²⁾	123,494	150,107	107,815	94,803	101,311	82,877	71,143	61,041	96,475	97,108
Dividends declared	56,280	52,882	46,267	39,854	36,728	36,968	47,716	38,848	36,391	31,061
Financial Position										
Working capital	575,382	486,293	294,753	356,347	302,919	251,122	478,289	539,264	509,276	466,859
Capital assets	454,104	429,824	371,661	341,152	316,925	287,290	556,991	369,666	402,647	341,159
Total assets	1,410,571	1,276,077	1,107,802	1,030,555	936,170	913,331	2,271,763	1,364,667	1,533,450	1,356,861
Long-term debt ⁽³⁾	150,717	152,079	4,942	130,948	158,395	132,815	413,040	144,051	158,112	203,425
Shareholders' equity	885,432	775,281	668,075	576,557	476,575	403,861	1,196,838	854,063	779,103	654,730
Financial Ratios										
Working capital	2.7:1	2.6:1	1.7:1	2.2:1	2.2:1	1.7:1	1.8:1	2.6:1	1.9:1	2.0:1
Return on opening shareholders' equity (%) ⁽⁴⁾	20.0	21.6	23.0	25.7	29.9	28.9	9.1	15.5	21.5	21.6
Total debt, net of cash, to shareholders' equity	(.04):1	.11:1	.07:1	.11:1	.33:1	.15:1	.21:1	(.06):1	.05:1	.2:1
Per Share Data (\$)										
Basic earnings per share	1.99	1.88	1.73	1.61	1.56	3.20	1.36	1.86	2.16	1.89
Diluted earnings per share	1.98	1.86	1.71	1.59	1.55	3.18	1.35	1.86	2.15	1.88
Dividends declared	0.72	0.68	0.60	0.52	0.48	0.48	0.62	0.60	0.56	0.48
Book value (shareholders' equity)	11.29	9.95	8.65	7.50	6.24	5.27	15.50	13.17	12.06	10.08
Shares outstanding at year end	78,398,456	77,905,821	77,259,396	76,844,897	76,407,658	76,629,777	77,149,626	64,867,467	64,620,677	64,943,497
Price range ⁽⁵⁾										
High	44.44	37.61	28.97	26.94	25.00	33.25	32.40	27.80	32.90	30.00
Low	27.25	26.70	24.48	21.12	18.61	15.39	22.86	19.26	19.03	22.30
Close	42.35	31.55	28.51	26.65	21.10	21.32	30.76	27.79	22.99	28.26

(1) 2010-2016 results were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.
(2) Figures for 2010-2016 are presented on a continuing operations basis.
(3) In 2015, debentures totalling \$125.0 million matured and as such were shown as "Current portion of long-term debt" in 2014.
(4) 2011 ROE was calculated excluding earnings and equity from discontinued operations.
(5) On June 1, 2011, Toromont completed the spinoff of Enerflex. Toromont shareholders received one share of Enerflex for each Toromont share held.
(6) The Company adopted revisions to IAS 19 – *Employee Benefits*, effective January 1, 2013. As a result, certain 2012 amounts were restated – refer to Note 1 of the 2013 audited financial statements.

Corporate Information

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Officers

Scott J. Medhurst, President and Chief Executive Officer
Paul R. Jewer, Executive Vice President and Chief Financial Officer
Randall B. Casson, President, Construction Industries Division/
Battlefield – The Cat Rental Store
Michael P. Cuddy, Vice President and Chief Information Officer
David C. Wetherald, Vice President, Human Resources and Legal
Jennifer J. Cochrane, Vice President, Finance

Annual Meeting

The Annual Meeting of the Shareholders of Toromont Industries Ltd. will be held at 10:00 am (EST) on Thursday, April 27, 2017 in the Main Ballroom at the One King West Hotel, 1 King Street West, Toronto, Ontario M5H 1A1.

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How to Reach Our Transfer Agent and Registrar

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