



2015 Annual Report

—
Proven Steady Growth

TORONTO



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This is who we are.

Toromont Industries Ltd. and our dedicated team of more than 3,500 deliver specialized equipment and much more from over 100 locations in Canada and the United States.

Shareholders know us as TIH on the Toronto Stock Exchange.

Our customers know us by our brands.



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.



This is why we exist.

We exist to create value for our customers, knowing that when we help them to succeed, our shareholders, employees, business partners and the communities where we work share in that success.



Customers

Best equipment and product support including training, remote machine monitoring, field service, parts supply and remanufacturing, all to lower total cost of ownership.



Employees

Safe workplace where performance is rewarded with competitive compensation and advancement opportunities.



Communities

Local employment, investments and expenditures; engagement with organizations that help those in need; and alignment with “reduce, reuse, recycle” environmental philosophies.



Shareholders

Superior investment returns over the long run, including capital accretion and dividends.

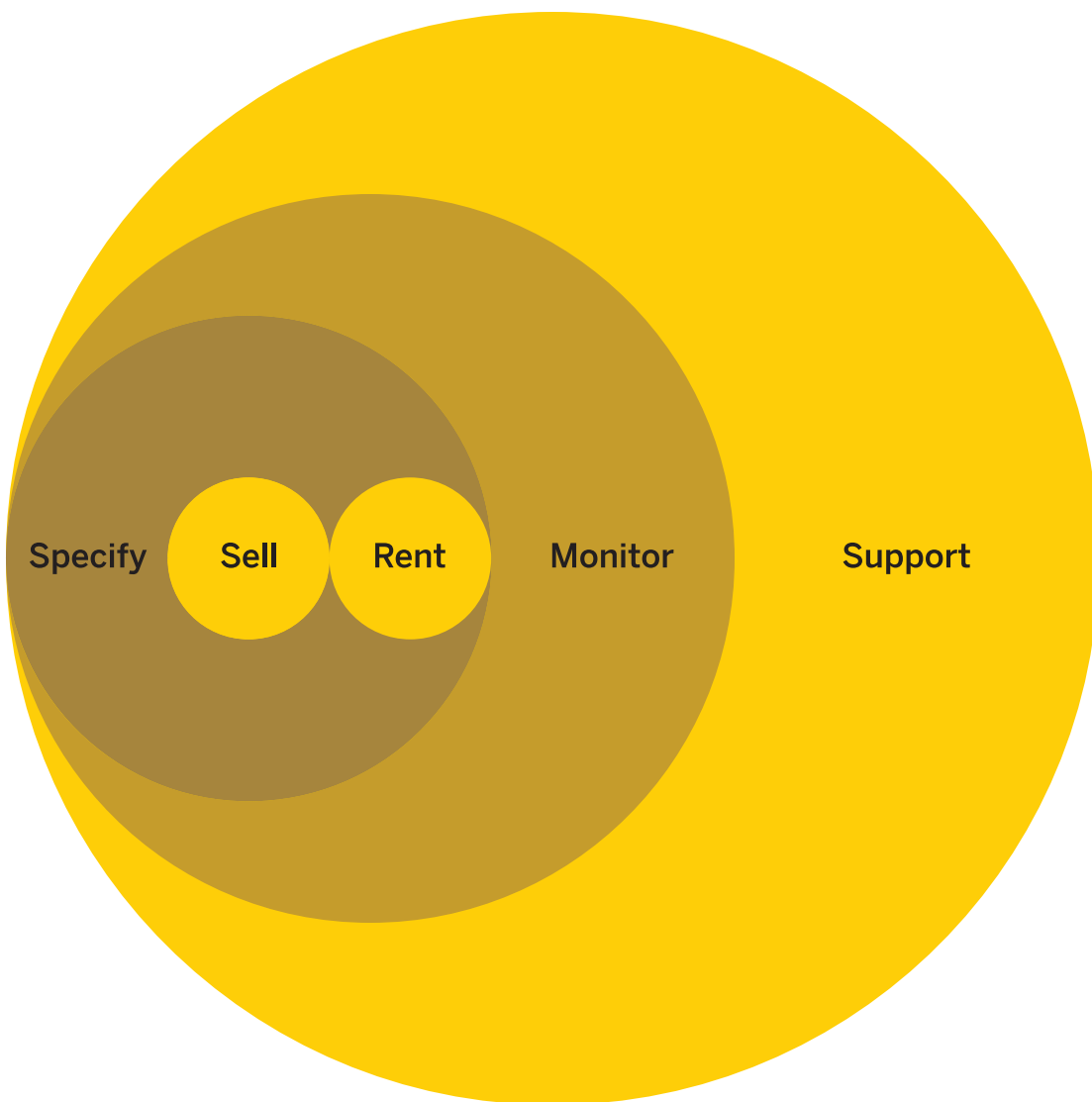


Business partners

Ongoing investment in infrastructure, sales and technical training that supports market share growth.

This is what we do.

Our organizing principle is to provide customers with specialized equipment and the lifetime product support they need to use that equipment safely, effectively and productively.



This is how we do it.

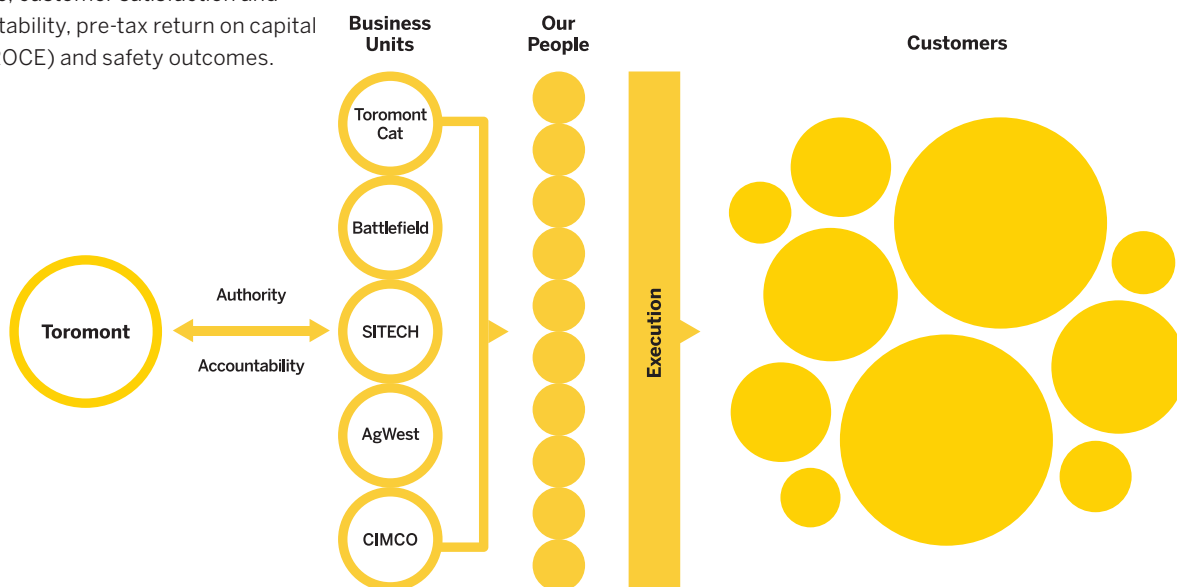
**Our business model is not unique.
What differentiates us is how we deliver our model.**

We begin with ambitious annual and multi-year objectives that include financial and non-financial measures. Our key non-financial objective is zero lost-time injuries. Over a business cycle, our chief financial goals are to grow revenues organically by 10% while earning an 18% after-tax return on opening shareholders' equity (ROE) and maintaining a strong, well-capitalized balance sheet.

To reach our targets, we unleash the talents, ingenuity and efforts of our employees through a decentralized business structure. Decentralization means we grant authority to our business unit leaders who request, deploy and manage capital for sustained advantage. Each leader commits to business-specific performance metrics, which include goals for revenue growth, market share, customer satisfaction and loyalty, profitability, pre-tax return on capital employed (ROCE) and safety outcomes.

At the corporate level, we provide strategic support in critical areas such as finance, information technology and human resources; use pay-for-performance to focus all eyes on the growth, health and sustainability of Toromont; monitor results against commitments made; and hold each business accountable for actions taken.

This approach, coupled with a high degree of employee share ownership, empowers and compels each Toromont business to use our assets wisely, innovate in the service of customers and bring our four operating strategies to life (expand markets, strengthen product support, broaden product offerings and invest in resources) in ways that are relevant in the markets we serve.



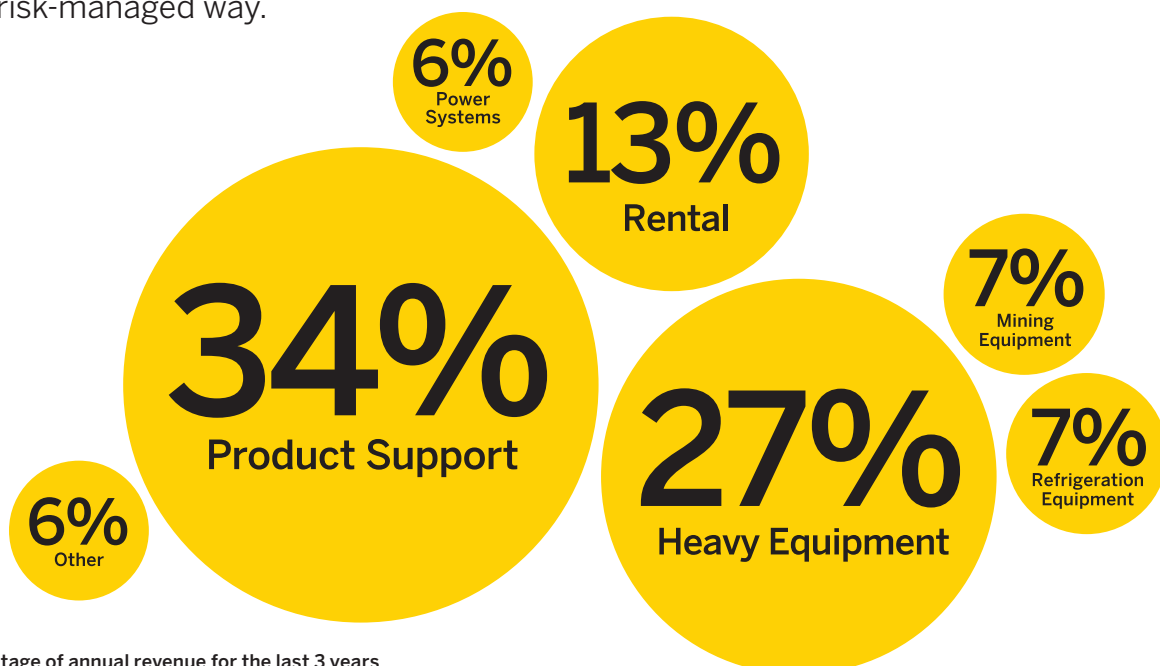
This is where we work.

Toromont competes with highly specialized equipment, value-added services and product support in market segments where we can grow. We seek to differentiate ourselves in the eyes of customers on the basis of total lifetime cost of ownership and achieve/sustain market leadership.

Despite these strict governors, Toromont serves a vast and diverse array of end markets – the largest of which is infrastructure – and thousands of customers.

We are able to achieve this level of diversification, differentiation and leadership because of the breadth and steady expansion of our offerings over decades.

By working in many fields but always with the same clear focus, Toromont seeks to grow across business cycles in a risk-managed way.



Percentage of annual revenue for the last 3 years

Some of the customers we served in 2015:



Covering the Canadian Shield

Teranorth Construction & Engineering Limited



Market diversification is a critical success factor for most contractors. Nowhere is this more evident than for those serving the near north. Companies such as Teranorth, headquartered in Sudbury, Ontario, thrive on their ability to serve multiple industries and to reach across the Canadian Shield to secure opportunities. In 2015, Teranorth deployed 117 machines to infrastructure projects in Nipigon and Pass Lake and the Detour Gold mine. They looked to Toromont Cat not only to supply 29 new machines but also to deliver consistent and responsive product support everywhere they went. To meet this objective, we marshalled the in-branch and field-service resources of our four northern Ontario locations, monitored the location of the customer's machines so that each branch knew when the equipment was active in its territory and, as is our habit, made inter-branch communication a priority. The result was another satisfied customer.



Carving Out New Territories

Battlefield – The Cat Rental Store



When customers of Battlefield – The Cat Rental Store need equipment, they need it within a two-hour window. We understand this requirement and seek to be ready by expanding our store network, investing in our inventories and employing a rapid response, technology-enabled delivery service model. In 2015, we expanded twice, adding stores in Brantford and North Bay, Ontario; locations chosen based on proximity to potential and existing customers, as well as other factors such as population density and competitive intensity. As a result of our now expanded 42-store network, we are better able to reach our broader customers – both those who are stationary (e.g., a local aggregate quarry) and those that are mobile across our patch. In Brantford, industries served include industrial, commercial and residential in Hamilton, Nanticoke and Tillsonburg and, from North Bay, we address the needs of mining, IT, construction, forestry and public service sectors in the broader area. By carving out these territories, Battlefield added to its 14,500-strong customer base and brought a new level of responsiveness to the many accounts served.



Infrastructure



Support



Refrigeration



Power Systems



Agriculture



Forestry



Idling No More

Cruickshank



Technology plays an important role in Toromont's mission to provide customers with the lowest cost of ownership. Our collaboration with Cruickshank, the Kingston, Ontario based construction company and loyal user of Cat equipment shows why. Late in 2014, Toromont began sending Cruickshank Cat EMSolutions' reports, which use data from VisionLink® telematics to benchmark the customer's machine utilization against similar fleets. Using these reports, Cruickshank identified an opportunity to reduce idling time across its equipment groups. For 2015, it set idle-time targets, and, in May 2015, began employing Cat Connect PAYLOAD technology to monitor tonnes per hour and manage loader productivity. By year's end, Cruickshank found that, while working hours had increased 2%, idle time was down 50%. The savings in fuel costs, machine hours, and repairs and the benefits to the environment were significant. For Toromont, it meant another win for technology.



Icing Greenhouse Gas

Strathcona County



Alberta's Strathcona County practices what it calls ecological integrity. So when it set out to replace the ice-making plant in the local Olympiette arena in 2015, it chose our patented ECO₂ CHILL® technology. In so doing, it became the first community outside Quebec to benefit from the environmental, safety and energy efficiency features of carbon dioxide as an arena refrigerant. Our CIMCO system was specified because CO₂ is a natural, non-toxic, non-flammable refrigerant that produces no net greenhouse effect. Beyond advanced technology, what clinched the purchase was the trusting relationship between CIMCO and the County, developed while working together on several past projects. Today, ECO₂ CHILL delivers abundant high-grade heat reclamation that the County will use to heat dressing rooms and spectator areas.



Taking Centre Stage

Stronco Show Services



Stronco is a leading provider of planning, logistics, system exhibits, shows and temporary power services to the entertainment and trade show industries. Many of Canada's most well-attended events depend on Stronco's behind-the-scenes capabilities. For reliable power, Stronco relies on Toromont for portable generators. In 2015, Stronco entered into a multi-year agreement with Toromont Power Systems, and in the first six months, we delivered more than 36 MWs of power to multiple special events orchestrated by Stronco, including the Neil Young-headlined WayHome Music and Arts Festival (Mr. Young used our bio-diesel generator).



Deepening a Relationship

Ward & Burke Construction Limited



Ward & Burke is a civil engineering firm and leader in micro tunnelling, a technique it has specified for use in many sensitive projects including the installation of jet fuel pipes under Toronto Pearson International Airport. It is an ongoing Toromont customer. In addition to generator sets, Ward & Burke selected Toromont Cat for the supply of several large hydraulic excavators. It was not, however, just the industry-leading digging and moving capabilities of the equipment that secured this order for Toromont. Ward & Burke was drawn to the programmable tool-control options aboard the machines that enable rapid mounting of sophisticated hydraulic attachments; the presence of VisionLink, the technology the customer uses to monitor machine performance from its head office in Ireland; and our rapid-response product support services.



Challenging the Status Quo

P.J. Neufeld Farms



P.J. Neufeld Farms is a family affair. Brothers Sean and Andy carry on their father's tradition of growing wheat, canola, and soybeans, and in 2015 added corn for the first time. For years, the Neufeld's were committed users of competitors' farming machines, until 2008 when they purchased their first AGCO Challenger MT855B tractor. It performed so well that they traded it in for a Challenger MT855C in 2013. Still, the brothers used competitors' combines. AgWest set out to change that by introducing them to CLAAS Lexion and the advantages of better fuel consumption and low grain loss. A demo, a trip to the CLAAS factory in Germany, and the growing number of Lexion machines in their neighbours' fields convinced the Neufelds to order two Lexion 760s in 2015. This is just one order but to AgWest, it is the start of something bigger.



Firing on All Cylinders

MetalCraft Marine



Fighting fires in New York City takes specialized equipment that will not quit when the going gets tough. When the City decided it needed a new fireboat, it chose MetalCraft Marine, one of the world's preeminent patrol and workboat builders to fill the order. In turn, MetalCraft of Kingston, Ontario chose once again to work with Toromont. Our contributions included three 1,150-horsepower Cat C18 engines for main propulsion and a 510-horsepower Cat C9 fire pump engine to enable the vessel to reach a top speed of 40 knots (about 75 km/h) and a pumping capacity of over 8,000 gallons per minute. When the going gets tough, New York firefighters now count on the William H. Feehan for all the power they need.



Working the Yard

Dallan LP



Dallan is a partnership between Lac Des Milles Lac First Nation, Nigigoonsiminikaaning First Nation and Dale Levesque, a member of the Fort William First Nation. It is also one of Toromont's long-standing customers. In 2015, Dallan added another seven material handlers and wheel loaders to its Toromont Cat fleet to meet demand for its mill yard services in Thunder Bay, Atikokan and Ignace. Dallan chooses Toromont because they know and trust our product support team. They recognize the value we deliver beyond initial sales, including machine customization to meet the special handling needs of raw and finished lumber and on-demand maintenance and parts supply.



Refrigerating a Leader

Gordon Food Service®



Gordon Food Service is North America's largest privately held, family-managed food service distributor, and it keeps growing with some help from Toromont. In 2015, CIMCO was chosen to supply refrigeration systems to the customer's new cold-storage facility in Calgary and its existing facility in Edmonton, which was being expanded. In both cases, we worked collaboratively with the customer's engineering group in Michigan, and provided the expertise and all the specified equipment (screw compressors, condensers, cooler coils and electrical controls) needed to build, install and commission systems that the customer counts on to keep a variety of high-demand foods refrigerated or frozen. The 18,000 man-hours devoted to Gordon Food Service made it one of CIMCO's largest customers of 2015.



Equipping a Megaproject

Rt. Hon. Herb Grey Parkway



Since construction began on the \$1.4 billion Herb Grey Parkway in 2011, contractors serving the site have been regular customers of several Toromont divisions including Battlefield – The Cat Rental Store. Last year, some 20 contractors rented dozens of units from Battlefield including Cat telehandlers, wheel loaders, skid steers, backhoes, excavators, articulated and stick booms, rough terrain scissor lifts, generators, light towers, ground and diesel heaters, indirect heaters and submersible pumps. Battlefield's ready-to-roll inventory, ecommerce capabilities and after-hours and emergency product support made it the go-to rental provider to a project that will one day connect Highway 401 to the proposed Gordie Howe International Bridge. (crossing between Windsor, Ontario and Detroit, Michigan).



Fielding a Winner

Wingham Colony Farms Ltd.



Broadening our product offering is a strategic imperative for Toromont. Wingham Colony near Elm Creek, Manitoba shows why. Some 20 years ago, the Colony began purchasing Cat wheel loaders, excavators and power generators to heat their barns. As our relationship and product line grew, the Colony added AGCO Challenger tractors and CLAAS Lexion combines. Last year, Wingham needed a new machine to apply nutrients and protectants to its crops. Traditionally, this was not a product we carried. However, as part of the formation of AgWest in 2015, we added representation of RoGator® application equipment. Wingham responded by buying a RoGator RG1100B based on its superior ballast, fuel economy and productivity, proving that broader product lines mean deeper customer relationships.

Fellow Shareholders,

Toromont's record 2015 results reflected strength in the fundamental drivers of our business: steady growth in installed equipment, in the product support we provide customers and in the resources that sustain our leadership across diverse markets.

Toromont earned \$1.88 per share in 2015, up 9% over the prior year.

Revenue growth of 9% demonstrated the value of diversification. Contributors to growth included product support, heavy rents and power rentals, as well as recreational and industrial refrigeration package sales. Revenue growth fueled by product support led to improved gross profit, a relatively lower expense ratio and increased annual earnings that produced return on opening shareholders' equity (ROE) of 21.6%.

Positive results allowed Toromont to return more cash to shareholders. In 2015, we paid \$51 million in dividends, up 15% from 2014 as a result of our 26th consecutive annual increase in payouts. At their meeting in February 2016, our Board extended that track record to 27 years with a dividend increase of 5.9% per share effective with the payment on April 1, 2016. In the year, \$150 million was invested in capital assets to enhance Toromont's capabilities including \$120 million in rental fleets and \$30 million in property, plant and equipment. As always, we chose to allocate funds to address market opportunities and achieve targeted returns on capital employed.

The most important investment was made to protect and develop our employees. Our team benefitted from over 85,000 hours of training to stay current with product innovations, enhance skills, and perform all work safely. These investments made Toromont more productive in 2015 and better equipped to handle the demands of an increasingly sophisticated marketplace. Meanwhile, the cumulative effect of years of focus on safety allowed Toromont to reduce total recordable injury frequency by 68% since 2011. We will stay the course on these investments.

We took an active approach to managing our balance sheet. At the end of the third quarter, we issued \$150 million of ten-year debentures bearing interest at 3.71% per annum and used the proceeds to fund the maturity of \$125 million of debentures and for general corporate purposes. Additionally, we increased our committed credit facility and extended its term to September 2020. This had the effect of increasing our financial flexibility and reducing our overall effective interest rate.

By maintaining a strong financial foundation that at year end featured net debt to total capitalization of 10% (well within stated capital targets), Toromont is positioned to carry out our strategies for growth and improvement.



Robert M. Ogilvie
Chairman of the Board



Scott J. Medhurst
President and CEO

“2016 marks
our 27th year
of consecutive
dividend increases.”



21.6%
ROE

Toward Operational Excellence

To operate effectively in competitive markets, Toromont made a number of changes and advancements in 2015.

Toromont Cat:

- increased product support resources to serve growth in installed equipment – including the 6,300 machines that are now wirelessly connected in our territories – and growth in contracted service agreements now numbering over 3,500
- expanded customer utilization of EMSolutions, a standardized product support program that customers can elect to use to meet their specific operating needs (with the strongest uptake in the access, inform and support categories)
- improved pick-and-pack efficiency by 20% at our Concord parts warehouse through a new warehouse management system installed in 2014, introduced a smaller-scale version in Peterborough, Ontario in 2015 and began a similar roll out at year end in Hamilton, Ontario
- aligned itself to Caterpillar's "Across the Table" initiative, which is designed to improve the performance of all Cat dealers around the world
- enhanced focus on customer communication and engagement and drove an increase in our customer loyalty score
- introduced a new purpose-built IT system for our heavy rents business and experienced improvements in fleet management

Battlefield:

- opened new stores in Brantford and North Bay, Ontario with good first-year results
- enhanced the way it gathers and reports data electronically to improve fleet asset management
- increased use of our TRAC® technology for product check-ins and rental inspections, liberating resources to improve service

AgWest:

- integrated the two acquisitions from 2014 with our existing operations so that all branches share Toromont-standard IT, financial reporting, safety and training platforms, a prerequisite for long-term growth
- improved market coverage and product support capacity and doubled product support revenues year over year in spite of a general decline in market demand for equipment
- began the process of embedding operational efficiencies and rationalizing capital to create the foundation for sustainable profitability and growth

CIMCO:

- grew package sales by serving, among others, Maple Leaf Foods, Kraft, Sofina, Gordon Food Service, Unilever, Magna, Cameco and many ice rink facilities, including Warrior Ice Arena, the Boston Bruins practice facility in Brighton, Massachusetts
- realized an incremental increase in gross margin by eliminating un-budgeted costs and generally bringing greater attention to the standards set for efficient project completion
- added service technicians in Canada and the US and drove a 14% year-over-year increase in product support, including a 41% increase in US product support revenues (our US product support business generated revenue in 48 of America's 50 states in 2015)
- introduced CIMCO Care, an extended asset-protection plan that is beneficial to customers and Toromont

Succession

A long-term challenge is to identify and develop Toromont's next generation of leaders so they are ready to assume greater responsibilities when succession opportunities arise. To date, we have met this challenge at the highest levels, reflected most recently in 2015 with CIMCO's successful leadership succession to David Malinauskas, President. David follows in the footsteps of Steve McLeod, who retired at the end of 2014 after 33 years of success with CIMCO, the last 29 as its President.

Across the Equipment Group, natural retirements led to opportunities to appoint homegrown talent. At Toromont Cat, Miles Gregg (a 20-year Toromont veteran) was appointed Vice President, Product Support and Adam Miller (18-years with Toromont) was promoted to Vice President, Central Region. At Battlefield, Colin Goheen (18-year Toromont career) became Vice President, Operations. Congratulations are extended to these newly minted leaders and to retiring executives, Larry Moffatt, Wayne Waterman and Dale Folkerson who pass on the torch of growth and success. We will continue to satisfy our talent needs through appraisal and development tools (see page 15) now in place at Toromont Cat that will improve the way we identify, nurture and promote employees.

Succession is also important to our Board of Directors, which maintains its own best practice system to recruit Directors with the necessary qualities, skills and experience. In 2015, the Board appointed a new independent director, James W. Gill. A recognized business leader, Dr. Gill has 35-years of experience in the mining industry.



“By maintaining a strong financial foundation, Toromont is positioned to carry out our strategies for growth and improvement.”



8.3%

5-yr cumulative
average growth
in revenue

Looking Ahead

The road to growth is never smooth. In 2016, we will navigate it by remaining true to our long-term strategies, including investing in resources, generating returns on past investments and containing expenses through the pursuit of operational excellence. By following this roadmap, Toromont will respond forcefully to the opportunities and challenges that will arise in this period of economic turbulence and heightened competition.

Increasingly, technology will feature prominently in our quest for growth. In our view, successful suppliers will lead on the technology file or fall to disruption. We choose to lead. In addition to representing the most technologically advanced equipment manufacturers in the industry, Toromont has invested \$64 million over the past five years in information technology that we use to enhance customer relationships, generate revenue, improve productivity and efficiency, and recruit and develop employees. We believe there is more value to be realized in the digital work channel in the years to come.

Not to be overlooked is the value of our long-time partnership with Caterpillar. Cat adds immeasurably to Toromont's strengths and contributes in many ways to our success in serving customers, including the many global accounts active in our territories.

Today, we have over 3,500 dedicated employees across more than 100 locations. With our significant platform, Toromont stands out and yet it is not size that distinguishes us: it is the quality and

engagement of our employees – 49% of whom are Toromont shareholders; the enduring nature of customer relationships, many dating back decades; and, our experience in helping customers to achieve their goals. We are confident that our business strengths, strategies and the commitment we share to creating value will serve all stakeholders well.

We thank our customers, shareholders, employees, directors and business partners for their loyalty and support this past year. We look forward to continued success together.

Yours sincerely,



Robert M. Ogilvie
Chairman of the Board



Scott J. Medhurst
President and CEO



68%

reduction
in TRIR
since 2011



13.7%

5-yr cumulative
average growth
in net earnings



Sustainability Report



Safety

Our first priority is to create and sustain a workplace free of injuries. As a result, we set out many years ago to create a culture of shared vigilance.

The starting point was to make a commitment at the highest levels of our Company to protect our employees. We did that. Our Board of Directors have long provided active oversight through their Human Resources and Compensation Committee and safety is reviewed at every meeting of that Committee as well as every regular meeting of the full Board. We introduced regular branch health and safety audits to track results against leading safety indicators and ensure compliance. We tied a portion of our managers' variable compensation to safety outcomes to reinforce management accountability.

We also invested steadily. We provided thousands of hours (including 13,550 in 2015) of safety training for our employees that is customized to the various workplaces found in the Equipment Group and CIMCO and gave every employee ready access to personal protective equipment ("PPE") and online safety manuals that are specified for the jobs they perform.

Most important, we made safety a pre-occupation and promoted it as a shared responsibility for all Toromont employees. Every work day at Toromont starts with a daily "safety talk" to encourage the right behaviours. We mandated the use of pre-job hazard assessment checklists to focus employees on how to avoid/mitigate specific risks. We recognized employee safety excellence, including at Toromont Cat with the annual presentation of the Safety Bucket

Award to the branch with the best score across 14 safety indicators (awarded in 2015 to Musselwhite branch). We also encouraged employees to suggest new safety program ideas and refinements.

The payoff for these and many other activities is clear. Since 2011, Lost Time Injuries have declined 39%, while our Total Recordable Injury Frequency Rate has been cut by 68%. These results show that our culture is improving.

Even so, we were not satisfied with our safety results and to further elevate safety as a cultural norm and a shared obligation, in 2015 we took a significant step toward greater accountability: the introduction of our Five Cardinal Safety Rules – be fit for duty, assess all hazards prior to starting the job, control all hazardous energy (electrical, hydraulic, pneumatic, gravity etc.), wear the right PPE, and report all incidents. Any employee – at any level – who fails to comply with these rules – is subject to disciplinary action up to and including dismissal. Since introducing the policy, several suspensions have been served, proving that we are serious about working safely at all times.

Toromont Cat was the first to implement our Five Cardinal Safety Rules, followed closely by AgWest and CIMCO. Plans are in development to roll out a similar program at Battlefield in 2016.

We feel confident in adopting the policy now because of the strides our employees have made in adopting safe practices as part of our culture.

Workforce Development

Beyond employee safety, Toromont's job as an employer is to recruit, train, develop and motivate our people to achieve our business goals and their personal goals. Growing our organizational capabilities demands that we use a number of strategies and tools.

Toromont Cat has taken the lead in this area. In 2015, web-based performance appraisal and talent development programs called MYPERFORMANCE and MYFUTURE, respectively, were employed for the first time.

MYPERFORMANCE changes the form and frequency of appraisals, causes managers and their direct reports to be more mindful of the goals they set and allows us to cascade corporate objectives to the individual level. MYFUTURE defines the specific competencies one needs in order to be successful at Toromont Cat and includes a Development Playbook that outlines the various training resources available to advance those competencies in areas such as customer service, teamwork, operational excellence, personal accountability and leadership. These resources include a mix of on-line and on-demand learning modules, in-person seminars, one-on-one coaching and recommended readings. To ensure employees remain on the right development track, they are encouraged to visit our virtual Toromont University where they can follow a personal roadmap and recommendations on the number of development hours they should invest per year.

Defining the competencies we seek, developing them, and then assessing where each employee sits on the competency

spectrum allows us to be more strategic and targeted in our training efforts and, over time, will assist in succession decision-making. Ultimately, the objective is for every Toromont Cat employee to benefit from having individual development plans for the long run, and specific, motivating, measureable, achievable, results-focused and time-bound targets annually.

Other Toromont businesses are also active in developing the skills and talents of their teams and in using technology to improve visibility. In 2016, CIMCO will bring greater employee focus to its key performance indicators ("KPIs") by cascading them throughout the organization using online employee portals powered by its human resources information system. KPIs will be specific to job functions so that employees will have a clearer picture of how their performance contributes to CIMCO's targets as a whole.

As a result of the efforts taken to date company wide, employee loyalty (measured by our voluntary turnover rate) remains well above industry benchmarks, while productivity (reflected by revenue per employee) has continued to grow.


For the future, Toromont's success is dependent on adding great people, especially technicians who deliver our product support mission. Partnering with educational institutions that specialize in trades training is our most effective recruiting strategy. With the addition of Northern College in 2015, we now support 10 such institutions financially, by serving as academic advisors and with periodic donations of Cat equipment and software

Toromont Recognized at Caterpillar People Conference

In 2015, Toromont took top honours at Caterpillar's People Conference in the Technician Pipeline Development category for a concept we use to serve remote customer sites. Code-named Store 90, it is not a store at all, but rather a pool of specialized parts and service technicians that is available for rapid deployment on short notice. Serving in this virtual store is an enriching experience for employees. For Toromont Cat, Store 90 meets customer demands without depleting branch resources. Since its inception, Store 90 has completed more than 15,000 customer work orders.

Competition included 65 dealers from the Americas.

This was the second year running that Toromont was recognized at the Caterpillar People Conference: in 2014, we took home two awards.



that students use in the classroom. In turn, students learn about Toromont, tour our facilities and many apply for our apprenticeship program. Our total apprenticeship employment at year end was 119, including 41 new apprentices who joined us during the year. Toromont Cat's THINK Big scholarships also ignite interest in careers in heavy equipment among younger students who use the funds to offset tuition costs at sponsored colleges.

Toromont recruits future leaders using the Toromont Cat management trainee program, which is open to university graduates, primarily with engineering or business degrees. Over a two-year period, trainees rotate through different departments and geographic regions in order to understand business fundamentals and develop talents needed to build future careers at Toromont.

Casting our net far and wide for the best people means that we actively recruit from under-represented groups and in remote regions where we do business. To increase awareness among First Peoples of job opportunities at Toromont, we introduced new social media marketing content featuring testimonials from Aboriginal group members who have built careers at our Company. We also maintain partnerships with Inuit communities in the Kivalliq, Kitikmeot, and Qikiqtaaluk regions of Nunavut and formal relationships with a number of different First Nations' communities. These efforts are paying off: aboriginal peoples now represent almost 3% of our workforce and for the first time

ever, we recruited a candidate for our management trainee program from a First Nations community, in this case Qalipu Mi'kmaq in Newfoundland.

Employing a culturally diverse workforce sometimes requires special support for employees whose primary language is not English or French. This past year, members of our parts team in Thompson, Manitoba, and several head office employees took part in workplace communications skills training.

Women are also under-represented in our industry and we seek to change that through targeted prospecting efforts. At Fleming College's 2015 Career Exploration Event for Women, as an example, Toromont's Amanda Carter promoted a career in skilled trades to 125 students from grades nine to 12. Informal engagements with organizations such as Women in Electricity and the Women in Trades Network (WiTN) offered us other important connection points. Of course, actions speak louder than words, which is why we are proud that women serve in executive and management roles at Toromont and have actively participated in our management trainee program for over a decade.

Toromont's Board of Directors also recognizes the benefits of diversity as a contributor to growth, innovation and corporate decision-making. To that end, in 2015 the Directors adopted a Board Diversity Policy setting out the diversity criteria the Corporation considers in identifying, assessing and selecting potential Director nominees.

Community

Our employees are busy, but never too busy to lend a helping hand to charitable causes with support from Toromont. Our official charity is the United Way, chosen because, like Toromont, it serves dozens of communities and welcomes the volunteer efforts of our employees. We're proud to have raised \$151,469 for the United Way in 2015 and delighted that our employees participated shoulder to shoulder in collegial fundraising events including the York Region Dragon Boat Races, baseball, ball-hockey and virtual poker tournaments. A wildlife photo contest brought out the talents of our northern employees in support of United Way.

We showed our community spirit in other ways including participation in Day of Caring® events where employees volunteered to help organizations such as Knights Table that helps the poor and homeless in Peel Region and The Gathering Place, a St. John's community service centre. Thirty members of our team completed a sponsored run to send children with, and affected by, cancer to Camp Oochigeas. Battlefield continued its tradition of supporting regional healthcare and environmental organizations such as Ducks Unlimited. AgWest contributed to the 45th annual Canadian Junior A ice hockey national championship in Portage la Prairie, Manitoba.

Environment

Toromont believes that what is good for the environment can also be good for business. The opening of a testing facility at our Power Systems operation in Brampton is a recent example. It incorporates Selective Catalytic Reduction (SCR), an emission abatement system that uses special chemical reactions to minimize the release of nitrogen oxides (NO_x) and sulfur oxides (SO_x) during generator testing. As a result, we now conform to the highest emission standards in North America during full load and scenario testing, which requires generators to perform continuously for hours at a time. To our knowledge, there is no other facility like this in our territories, which adds a unique selling proposition when we compete for projects that specify environmentally friendly testing. In another win for the environment and for business efficiency, the testing cell uses video cameras connected to the Internet so that customers can participate in acceptance testing without travelling to our site.

Conserving resources is also part of Toromont's approach. We employ waste water treatment and water recycling systems for equipment cleaning at many branches, with two more of the former installed at Toromont Cat and one more of the latter at Battlefield in 2015.

We maintain anti-idling and minimum fuel efficiency guidelines for Company vehicles, use high-efficiency air compressors in our service shops, light our facilities with energy-efficient bulbs, and avidly recycle.

Over the past five years, we diverted 45,320 kilograms of waste from landfill, inclusive of 33,770 litres of liquid such as oil recovered from recycling the absorbent pads used by our technicians when cleaning machines. While Toromont's environmental footprint is relatively small, we act to keep it this way through these and other practices, including assessing annual water consumption and CO₂ contributors, knowing that what gets measured gets managed.

To assist customers with their sustainability efforts, we provide patented ECO CHILL and ECO₂ CHILL refrigeration equipment. These systems collect and recycle energy used in the refrigeration process and, as such, reduce electricity consumption and greenhouse gas emissions compared to traditional refrigeration systems. Across our installed base, ECO CHILL technologies have offset 539,230 CO₂-equivalent tonnes compared to traditional refrigeration (the equivalent of taking more than 119,800 cars off the road) and saved 64 million kilowatt hours of electricity by recycling heat. These systems have also become best sellers for CIMCO, proving once again that what is good for the environment can be good for business. Toromont's efforts to help customers meet their environmental goals are also greatly assisted because of our alignment with Caterpillar, a company dedicated to leading the equipment industry to a more sustainable future.

“Our focus on sustainability in all its forms will continue as we strive to make Toromont a better company today than it was yesterday.”



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 29, 2016, prepared in connection with the Corporation's 2016 Annual Meeting of Shareholders available on our website at www.toromont.com.



“Toromont regularly reviews and enhances its governance practices in response to evolving regulatory developments...”

Board of Directors



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.

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

Executive Operating Team



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 CPA, CA and a member of CPA Newfoundland and Labrador, and CPA Ontario. 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, during which time he held various positions of increasing responsibility, 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.



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, 2015, 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, 2015.

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 9, 2016.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's 2015 Annual Report and 2016 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, 2015, Toromont employed over 3,500 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 comprises 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)	2015	2014	\$ change	% change
Revenues	\$ 1,802,233	\$ 1,660,390	\$ 141,843	9%
Cost of goods sold	1,356,630	1,247,999	108,631	9%
Gross profit	445,603	412,391	33,212	8%
Selling and administrative expenses	241,093	227,579	13,514	6%
Operating income	204,510	184,812	19,698	11%
Interest expense	8,668	8,188	480	6%
Interest and investment income	(3,422)	(4,154)	732	(18%)
Income before income taxes	199,264	180,778	18,486	10%
Income taxes	53,598	47,582	6,016	13%
Net earnings	145,666	133,196	12,470	9%
Basic earnings per share	\$ 1.88	\$ 1.73	\$ 0.15	9%
Key ratios:				
Gross profit as a % of revenues	24.7%	24.8%		
Selling and administrative expenses as a % of revenues	13.4%	13.7%		
Operating income as a % of revenues	11.3%	11.1%		
Income taxes as a % of income before income taxes	26.9%	26.3%		
Return on capital employed ⁽¹⁾	24.3%	26.0%		
Return on equity ⁽²⁾	21.6%	23.0%		

(1) Return on capital employed is defined in the section titled "Non-GAAP Measures."

(2) Return on equity is defined in the section titled "Non-GAAP Measures."

Growth in both the Equipment Group (up 8%) and CIMCO (up 10%) contributed to the \$141.8 million or 9% increase in revenues over last year. Strong product support growth in both Groups accounts for 69% of the total increase year-over-year. The Equipment Group continues to benefit from the increased installed base of equipment in the field and good activity levels. CIMCO benefitted from continued strong performance in Canada with contributions from growing US product support. Equipment Group equipment sales increased 5% while CIMCO package sales were up 7%.

Gross profit margin was slightly lower than last year, down 0.10 of a percentage point to 24.7%. A favorable sales mix of product support to total revenues partially offset generally lower gross margins. Market conditions continue to be challenged by the heightened competitive environment, global economic conditions and the weakened Canadian dollar.

Selling and administrative expenses increased at a lower rate than revenues. The increase was mainly attributable to higher compensation costs (up \$6.8 million) on annual salary increases, additional personnel and increased incentive compensation on the higher income; increased costs associated with the expanded agricultural business (up \$4.2 million); and an unfavorable foreign exchange impact on translation of US operations (\$1.3 million). Certain other expense categories, such as occupancy, insurance, customer allowances and information technology, and travel costs, were higher, reflecting increased business levels.

Interest expense increased on higher average debt balances in support of higher working capital held throughout the year. Additionally, the recent \$150.0 million debenture offering was completed in advance of the maturity of the \$125.0 million maturing debenture, resulting in incremental

interest in the fourth quarter while the debentures overlapped.

Interest income decreased, reflecting lower conversions of rental purchase options.

The effective income tax rate for 2015 was 26.9% compared to 26.3% in 2014.

Net earnings in 2015 were \$145.7 million and basic earnings per share ("EPS") were \$1.88, up 9% from 2014, tracking the increased revenues.

Comprehensive income in 2015 was \$147.6 million (2014 – \$129.0 million), comprising net earnings of \$145.7 million (2014 – \$133.2 million) and other comprehensive income of \$1.9 million (2014 – \$4.2 million loss). Other comprehensive income included actuarial gains on employee pension plans of \$0.6 million (2014 – \$5.1 million loss), net of tax.

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)	2015	2014	\$ change	% change
Equipment sales and rentals				
New	\$ 595,441	\$ 566,552	\$ 28,889	5%
Used	192,445	186,360	6,085	3%
Rentals	222,562	220,143	2,419	1%
Total equipment sales and rentals	1,010,448	973,055	37,393	4%
Power generation	11,173	11,548	(375)	(3%)
Product support	547,878	464,153	83,725	18%
Total revenues	\$ 1,569,499	\$ 1,448,756	\$ 120,743	8%
Operating income	\$ 189,630	\$ 172,727	\$ 16,903	10%
Capital expenditures:				
Rental	\$ 119,737	\$ 81,358	\$ 38,378	47%
Other	29,331	24,999	4,333	17%
Total	\$ 149,068	\$ 106,357	\$ 42,711	40%
Key ratios:				
Product support revenues as a % of total revenues	34.9%	32.0%		
Operating income as a % of revenues	12.1%	11.9%		
Group total revenues as a % of consolidated revenues	87.1%	87.3%		
Return on capital employed	22.2%	24.4%		

Equipment Group results improved on continued product support growth along with increased equipment sales and rental revenues.

The majority of new equipment and parts is sourced from the United States, which impacts the comparability of new equipment revenues year-over-year. A weaker Canadian dollar translates to increased unit prices and costs. While the value of the Canadian dollar was lower by 14% on average in 2015 versus a year ago, the specific impact is mitigated in the short term by hedging practices and inventory on hand.

New equipment sales into construction markets were relatively flat versus a year ago, down \$2.7 million or 1%. Sales of new agricultural equipment increased \$4.7 million or 15%, benefitting from acquisitions last

year, but limited by the very weak conditions seen in this market. New equipment sales to mining (up \$6.0 million or 9%) and forestry customers (up \$7.0 million or 74%) were up year-over-year.

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. Used equipment sales increased \$6.1 million or 3% largely due to dispositions of agriculture equipment inventory and rental fleet, partially offset by lower sales into mining. Used equipment sales can vary substantially period-to-period on factors such as product availability (both new and used), customer demands and the general pricing environment.

Rental revenues increased \$2.4 million or 1% on strong heavy equipment and power rentals. Heavy equipment rentals were up 7% on a larger fleet. Power rentals increased 13%, benefiting from good activity during the Toronto Pan-Am games and increased penetration of the entertainment market. Light equipment rentals were relatively unchanged year-over-year as a drop in activity related to renewable energy projects was offset by increased activity in other segments. The Company continues to invest in this very important and competitive light equipment rental market, as evidenced by the opening of new rental branches in Goose Bay, NL (late 2014); and Brantford and North Bay, Ontario (2015). Revenue from equipment on rent with a purchase option was down 3% on lower mining activity.

Power generation revenues from Toromont-owned and managed plants decreased marginally over last year on lower electricity sales from the Waterloo Landfill site and Sudbury Downtown plant in addition to lower thermal revenue from the Sudbury Downtown and Sudbury Hospital plants.

Product support revenues increased \$83.7 million or 18%, benefitting from the larger installed base of equipment in our territory and good activity levels for equipment in the field. Parts revenues increased 19% over 2014, benefitting in part from the weaker Canadian dollar. Parts revenues were up 7% on a constant dollar basis with substantial parts deliveries to mining (up 18%), construction (up 16%) and agriculture (up 118%) markets. Service revenues were up 15%, also with good increases from construction (up 10%), mining (up 11%) and agriculture (up 81%). Product support was further buoyed by increased rebuild activity in mining.

Equipment margins were 0.30 percentage points lower reflecting competitive market conditions together with planned dispositions of aged agricultural equipment at auctions. Rental margins were down 0.40 percentage points, reflecting the cost of the larger rental fleet that was not fully utilized during the year. A favorable sales mix of product support revenues to total improved gross margins by 0.50 percentage points. Product support revenues as a percentage of total revenues were 34.9% in 2015 compared to 32.0% in 2014.

Selling and administrative expenses increased \$8.9 million or 5% compared to last year. The expanded agricultural business accounted for approximately \$4.2 million or 47% of the increase. Compensation costs were higher (up \$4.9 million) on annual increases, additional headcount to support growth and higher profit sharing accrual on the higher earnings. Bad debt expenses were \$1.4 million lower mainly due to specific exposures identified in 2014 not repeated. Certain other

expense categories increased relative to the higher sales activity. As a percentage of revenues, expenses were 0.40 percentage points lower than 2014 (12.8% vs. 13.2%).

Operating income increased 10% versus a year ago reflecting the higher revenues and lower relative expense levels, partially offset by the lower margins.

Capital expenditures in the Equipment Group were \$42.7 million (40%) higher year-over-year, mainly on continued investment in rental assets. Replacement and expansion of the rental fleet accounted for \$119.7 million of total investment in 2015. Expenditures of \$11.5 million related to new and expanded facilities to meet current and future growth requirements. Other capital expenditures included \$11.0 million for service and delivery vehicles, \$3.9 million for machinery and equipment and \$2.9 million for upgrades and enhancements to the information technology infrastructure.

Bookings and Backlogs

(\$ millions)	2015	2014	\$ change	% change
Bookings – year ended December 31	\$ 779	\$ 754	\$ 25	3%
Backlogs – as at December 31	\$ 92	\$ 102	\$ (10)	(10%)

Higher agriculture bookings account for approximately 65% of the increase year-over-year, benefitting from the acquisitions. Increased mining (up 13%) and relatively unchanged construction bookings (against a tough comparator) were partially offset by

lower power systems activity (down 5%).

Backlogs decreased 10% from 2014 across all industries except agriculture (up 30%) and mining (up 5%). At December 31, 2015, the backlog related to construction (39%), power systems (30%), mining (20%) and agriculture

(11%). Most of the backlog is expected to be delivered in 2016. Shortened delivery windows due to process improvements and increased capacity at Caterpillar, together with available equipment for construction orders from inventory, have contributed to reduced backlogs.

CIMCO

(\$ thousands)	2015	2014	\$ change	% change
Package sales	\$ 119,516	\$ 112,084	\$ 7,432	7%
Product support	113,218	99,550	13,668	14%
Total revenues	\$ 232,734	\$ 211,634	\$ 21,100	10%
Operating income	\$ 14,880	\$ 12,085	\$ 2,795	23%
Capital expenditures	\$ 1,039	\$ 1,458	\$ (421)	(29%)
Key ratios:				
Product support revenues as a % of total revenues	48.6%	47.0%		
Operating income as a % of revenues	6.4%	5.7%		
Group total revenues as a % of consolidated revenues	12.9%	12.7%		
Return on capital employed	47.5%	41.7%		

CIMCO reported record revenues for the year. Package sales increased after a slower year in 2014 and product support revenues continued to demonstrate solid growth in both Canada and the US. The Canadian dollar was weaker in 2015, accounting for approximately \$6.0 million of the increase in revenues on the translation of the US operations, split fairly evenly between package sales and product support revenues.

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 \$3.9 million or 4% higher than last year. Recreational activity was good, up \$3.0 million or 11%; however, still somewhat below historical averages. Industrial activity was up \$0.9 million or 1% over last year. In the US, package revenues increased \$3.5 million or 17% (\$0.3 million or 1% in US\$) compared to 2014.

Product support revenues increased \$13.7 million or 14% versus 2014. In Canada, revenues were up \$5.3 million or 7% with good growth across all regions. In the US, revenues were up \$8.4 million or 41% (\$4.0 million or 22% in US\$). Focus remains on continued expansion into US markets.

Gross margins improved 1.20 percentage points on higher package margins (up 1.60 percentage points) and a favorable sales mix of product support revenues to total (up 0.20 percentage points), partially offset by lower product support margins (down 0.60 percentage points). Package margins were up on improved execution, higher value-added content of projects and lower warranty costs. Lower product support margins reflect the tight pricing environment in Canada and the US. Product support revenues were 48.6% as a percentage of total revenues in 2015 compared to 47.0% in 2014.

Selling and administrative expenses

increased \$4.6 million or 13% compared to last year mainly on the foreign exchange impact on translation of US operations (up \$1.3 million), higher bad debt expenses (up \$1.1 million), compensation costs (up \$0.9 million), professional fees and insurance (up \$0.6 million) and insurance proceeds received in 2014 (\$0.7 million). As a percentage of revenues, expenses were 0.20 percentage points higher than 2014 (17.5% vs. 17.3%).

Operating income increased 23% compared to 2014, reflecting the higher revenues and improved margins, partially offset by the higher relative expense levels.

Capital expenditures decreased 29% to \$1.0 million with the majority of expenditures in 2015 related to information technology infrastructure enhancements and upgrades (\$0.3 million), buildings and leasehold improvements (\$0.2 million), machinery and equipment (\$0.2 million) and additional service vehicles (\$0.2 million).

Bookings and Backlogs

(\$ millions)	2015	2014	\$ change	% change
Bookings – year ended December 31	\$ 139	\$ 114	\$ 25	22%
Backlogs – as at December 31	\$ 88	\$ 67	\$ 21	31%

Bookings increased 22%. Recreational bookings were strong in both Canada (up 44%) and the US (up 223% in Cdn\$, 179% in US\$). Industrial bookings were down 5% as increases in Canada (up 5%) were

more than offset by weaker activity in the US (down 58% in Cdn\$, 63% in US\$).

Backlogs increased 31%. Recreational backlogs were up 107% with increases in the US (up 239% in Cdn\$, 193% in US\$) and

Canada (up 45%). Industrial backlogs were up 2% with increases in Canada (up 13%) partially offset by decreases in the US (down 46% in Cdn\$, 53% in US\$). Most of the backlog is expected to revenue in 2016.

Consolidated Financial Condition

The Company has maintained a strong financial position for many years. At December 31, 2015, the ratio of net debt to total capitalization was 10%.

Non-Cash Working Capital

The Company's investment in non-cash working capital was \$421.3 million at December 31, 2015. The major components, along with the changes from December 31, 2014, are identified in the following table.

(\$ thousands)	2015	2014	\$ change	% change
Accounts receivable	\$ 262,523	\$ 239,772	\$ 22,751	9%
Inventories	463,210	367,193	96,017	26%
Other current assets	4,278	4,228	50	1%
Accounts payable, accrued liabilities and provisions	(240,202)	(227,187)	(13,015)	6%
Income taxes payable	(3,052)	(3,886)	834	nm
Derivative financial instruments	2,445	1,683	762	45%
Dividends payable	(13,254)	(11,584)	(1,670)	14%
Deferred revenues	(54,645)	(34,852)	(19,793)	57%
Total non-cash working capital	\$ 421,303	\$ 335,367	\$ 85,936	26%

Accounts receivable increased \$22.8 million or 9% compared to 2014 on the 1% increase in revenues in the fourth quarter and slower collections. Equipment Group accounts receivable increased \$21.6 million or 11% while CIMCO accounts receivable increased \$1.2 million or 3%. Days sales outstanding ("DSO") was 45 at December 31, 2015, compared to 42 at the same time last year on increases in both the Equipment Group (up 3 days) and CIMCO (up 1 day).

Inventories increased \$96.0 million (26%) to \$463.2 million versus a year ago.

- Equipment Group inventories were \$91.5 million (26%) higher than this time last year with increases in equipment (up \$71.9 million or 29%), parts (up \$19.3 million or 22%) and service work-in-process (up \$0.3 million or 2%). The higher inventory levels were a result of the following factors:
 - An expanded agriculture business with two acquisitions late in 2014, leading to a \$14.1 million increase in

inventories year-over-year, on weaker market conditions;

- The impact of the weaker Canadian dollar on equipment and parts inventories sourced from the US. This increased inventories by \$22 million;
- Certain inventory held in advance of customer-specified delivery dates later in the year; and
- Higher parts inventories required at remote mine sites (up \$9.6 million) to support higher activity levels and location-specific shipping schedules.
- CIMCO inventories were \$4.5 million (37%) 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, 2015, increased \$13.0 million or 6% from this time last year. The increase was primarily due to the timing of payments related to inventory purchases and related payments for other supplies, the impact of

the weaker Canadian dollar on accounts payable to US-based vendors as well as higher accruals for annual performance incentive bonuses on the higher net earnings.

Income taxes payable represents amounts owing for current corporate income taxes less installments made to date.

Higher dividends payable year-over-year reflect the higher dividend rate. In 2015, the quarterly dividend rate was increased from \$0.15 per share to \$0.17 per share, a 13% 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 43% higher in 2015 than in 2014. In CIMCO, deferred revenues arise on progress billings in advance of revenue recognition. CIMCO deferred revenues were 113% higher in 2015 than in 2014.

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, 2015.

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. Effective 2013, non-employee directors no longer receive grants under this plan. 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. Effective 2013, stock options granted have a ten-year term while those granted prior to 2013 have a seven-year term. At December 31, 2015, 2.5 million options to purchase common shares were outstanding, of which 1.0 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 \$1,000 per employee, per year. Effective January 1, 2016, the maximum contribution will increase to the greater of 2.5% of an employee's base salary or \$1,000 per year. Company contributions vest to the employee immediately. Company contributions amounting to \$1.1 million in 2015 (2014 – \$1.0 million) were charged to selling and administrative expense when paid.

Approximately 48% (2014 – 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, 2015, 377,311 DSUs were outstanding with a total value of \$12.0 million (2014 – 334,709 units at a value of \$9.5 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 97 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 \$0.3 million (an increase in the accrued pension liability) as at December 31, 2015.

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 \$18.0 million as at December 31, 2015. 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 2016 to be similar to 2015 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

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 2015. This issuer bid allows the Company to purchase up to approximately 5.9 million of its common shares, representing 10% of common shares in the public float, in the year ending August 30, 2016. 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, 2015, the Company purchased and cancelled

74,500 common shares for \$2.2 million (average cost of \$29.95, including transaction costs). No shares were purchased during the year ended December 31, 2014.

Outstanding Share Data

As at the date of this MD&A, the Company had 77,922,571 common shares and 2,490,420 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 2015, the Company declared dividends of \$0.68 per common share, \$0.17 per quarter (2014 – \$0.60 per common share or \$0.15 per quarter).

Considering the Company's solid financial position, cash flows and balances, and positive long-term outlook, the Board of Directors announced it is increasing the quarterly dividend to \$0.18 per share effective with the dividend payable on April 1, 2016. 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 27th 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.

Effective September 18, 2015, the Company amended and increased its existing \$200.0 million committed credit facility to \$250.0 million and extended the term of the agreement to 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, 2015 and 2014, no amounts were drawn on the facility. Letters of credit utilized \$21.9 million of the facility (2014 – \$22.6 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. Toromont used the net proceeds to pay the principal and interest owing on the outstanding \$125.0 million senior debentures which matured on October 13, 2015, and for general corporate purposes.

Cash at December 31, 2015, was \$66.7 million, compared to \$86.0 million at December 31, 2014.

The Company expects that continued cash flows from operations in 2016 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)	2015	2014
Cash, beginning of year	\$ 85,962	\$ 70,769
Cash, provided by (used in):		
Operating activities		
Operations	205,131	186,081
Change in non-cash working capital and other	(91,251)	(42,571)
	113,880	143,510
Investing activities	(113,866)	(85,762)
Financing activities	(19,623)	(42,696)
Effect of foreign exchange on cash balances	327	141
(Decrease) increase in cash in the year	(19,282)	15,193
Cash, end of year	\$ 66,680	\$ 85,962

Cash Flows from Operating Activities

Operating activities provided \$113.9 million in 2015 compared to \$143.5 million in 2014. Net earnings adjusted for items not requiring cash were 10% higher than last year on higher revenues. Non-cash working capital and other used \$91.3 million compared to \$42.6 million in 2014.

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 \$113.9 million in 2015 compared to \$85.8 million in 2014.

Net rental fleet additions (purchases less proceeds of disposition) totalled \$86.1 million in 2015 compared to \$52.1 million in 2014. Investments in the rental fleet continued in light of stronger demand on improved market conditions, the existing fleet age profile and the continued expansion of our heavy and light equipment rental operations.

Investments in property, plant and equipment in 2015 totalled \$30.4 million

compared to \$26.5 million in 2014. Additions in 2015 and 2014 were largely made within the Equipment Group and included \$11.8 million for new and expanded branches (2014 – \$10.7 million), \$11.3 million for service vehicles (2014 – \$8.3 million), \$4.0 million for machinery and equipment (2014 – \$3.7 million) and \$3.2 million for IT equipment (2014 – \$3.0 million).

No businesses were acquired during the year ended December 31, 2015. In 2014, \$8.6 million was used for business acquisitions. Refer to note 24 to the Notes to the Consolidated Financial Statements for further information.

Cash Flows from Financing Activities

Financing activities used \$19.6 million in 2015 compared to \$42.7 million in 2014.

Significant sources and uses of cash in 2015 included:

- Issuance of long-term senior debentures of \$150.0 million;
- Repayment of long-term senior debentures of \$126.6 million;
- Financing costs of \$1.7 million associated

with the issuance of long-term senior debentures and amendments to the credit facility;

- Dividends paid to common shareholders of \$51.2 million or \$0.66 per share;
- Cash received on exercise of share options of \$12.1 million; and
- Normal course purchase and cancellation of common shares of \$2.2 million (74,500 shares at an average cost of \$29.95, including transaction costs).

Significant sources and uses of cash in 2014 included:

- Repayment of long-term senior debentures of \$1.5 million;
- Repayment of the loans assumed on business acquisitions of \$3.0 million;
- Dividends paid to common shareholders of \$44.7 million or \$0.58 per share; and
- Cash received on exercise of share options of \$6.4 million.

Outlook

In the Equipment Group, the parts and service business has experienced significant growth driven by the larger installed base of equipment in the field, which provides a measure of stability. Service shops remain busy and the Company continues to hire technicians to address the increased demand. Broader product lines, investment in rental, the expanded agricultural businesses and developing product support technologies supporting remote diagnostics and telemetrics will also contribute to future growth.

The Federal government's commitment to significantly increase infrastructure spending bodes well for long-term prospects. Heightened competitive conditions, a tight pricing environment, stagnant economic growth and the weaker Canadian dollar are expected to continue to weigh on prospects in 2016. The Company continued to invest in growing its rental fleets and in increasing utilization rates.

While market conditions in mining remain challenging, mine production continues and opportunities for sales in support of new mine development, mine expansion and equipment replacement exist. With the substantially increased base of installed equipment, product support activity should continue to grow so long as mines remain active.

The newly formed AgWest business unit expands our reach into the important agricultural equipment market. Business integration efforts are largely complete. Sales coverage and operational processes will continue to be a focus in order to generate target returns over the longer term. End markets are currently weak and are expected to dampen results in the near term.

Activity at CIMCO reflects general economic activity, governmental investment levels and focus, as well as specific customer decisions and construction schedules. Recent booking activity and current backlog bode well for future prospects. The product

support business remains a focus for development and continued growth in this area is encouraging. CIMCO has a wide product offering using natural refrigerants including innovative CO₂ solutions, which are expected to contribute to growth in the future replacement of CFC, HCFC and HFC refrigerants in both recreational and industrial applications. In addition, CIMCO is focused on its growth strategy in the US, which is 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 generated from operations and existing long-term financing facilities.

Payments due by period (\$ thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Long-term debt							
Principal	\$ 1,690	\$ 1,811	\$ 1,941	\$ 1,022	\$ —	\$ 150,000	\$ 156,464
Interest	5,992	5,871	5,741	5,601	5,565	26,422	55,192
Accounts payable	253,456	—	—	—	—	—	253,456
Operating leases	3,152	2,458	1,727	1,368	860	2,491	12,056
	\$ 264,290	\$ 10,140	\$ 9,409	\$ 7,991	\$ 6,425	\$ 178,913	\$ 477,168

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	2015	2014	2013	2012	2011
Expanding Markets and Broadening Product Offerings					
Revenue growth ⁽¹⁾	8.5%	4.2%	5.7%	9.1%	14.5%
Revenue per employee (thousands) ⁽¹⁾	\$ 524	\$ 501	\$ 491	\$ 481	\$ 465
Strengthening Product Support					
Product support revenue growth ⁽¹⁾	17.3%	12.4%	2.5%	13.2%	12.6%
Investing In Our Resources					
Investment in information technology (millions) ⁽¹⁾	\$ 14.0	\$ 13.4	\$ 12.0	\$ 12.6	\$ 12.1
Return on capital employed ⁽²⁾	24.3%	26.0%	26.5%	28.5%	32.4%
Strong Financial Position					
Non-cash working capital (millions) ⁽¹⁾	\$ 421	\$ 335	\$ 282	\$ 302	\$ 177
Net debt to total capitalization ⁽³⁾	10%	6%	10%	25%	13%
Book value (shareholders' equity) per share	\$ 9.95	\$ 8.65	\$ 7.50	\$ 6.24	\$ 5.27
Build Shareholder Value					
Basic earnings per share growth ⁽¹⁾	8.5%	7.6%	2.9%	17.1%	32.5%
Dividends per share growth ⁽⁴⁾	13.3%	15.4%	8.3%	17.0%	16.1%
Return on equity ⁽⁵⁾	21.6%	23.0%	25.7%	29.9%	28.9%

(1) Metric presents results on a continuing operations basis.

(2) Return on capital employed is defined in the section titled "Non-GAAP Measures." 2011 ROCE was calculated excluding earnings and capital employed from discontinued operations.

(3) Net debt to total capitalization is defined in the section titled "Additional GAAP Measures."

(4) Dividends per share growth in 2011 reflects the announced increase in dividend subsequent to apportionment of dividend to Enerflex subsequent to spinoff.

(5) Return on equity is defined in the section titled "Non-GAAP Measures." 2011 ROE was calculated excluding earnings and equity from discontinued operations.

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

Since 2011, revenues increased at an average annual rate of 8.4%. Product support revenue growth has averaged 11.6% 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;
- 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/U.S. 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 2011, there have been fluctuations in the average yearly exchange rate of the Canadian dollar against the US dollar: 2011 – US\$1.01;

2012 – on par; 2013 – US\$0.97; 2014 – US\$0.91; and 2015 – US\$0.78.

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 10%, well within targeted levels.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 27 years. The regular quarterly dividend rate was increased 13% from \$0.15 to \$0.17 per share in 2015 and a further 6% to \$0.18 per share in 2016, evidencing our commitment to delivering exceptional shareholder value.

Consolidated Fourth Quarter Operating Results

Three months ended December 31
(\$ thousands, except per share amounts)

	2015	2014	\$ change	% change
Revenues	\$ 471,951	\$ 465,651	\$ 6,300	1%
Cost of goods sold	350,416	340,113	10,303	3%
Gross profit	121,535	125,538	(4,003)	(3%)
Selling and administrative expenses	59,862	63,394	(3,532)	(6%)
Operating income	61,673	62,144	(471)	(1%)
Interest expense	2,236	1,971	265	13%
Interest and investment income	(1,144)	(1,748)	604	(35%)
Income before income taxes	60,581	61,921	(1,340)	(2%)
Income taxes	16,177	16,251	(74)	—
Net earnings	\$ 44,404	\$ 45,670	\$ (1,266)	(3%)
Basic earnings per share	\$ 0.57	\$ 0.59	\$ (0.02)	(3%)
Key ratios:				
Gross profit as a % of revenues	25.8%	27.0%		
Selling and administrative expenses as a % of revenues	12.7%	13.6%		
Operating income as a % of revenues	13.1%	13.3%		
Income taxes as a % of income before income taxes	26.7%	26.2%		

Despite continuing challenges in the broader economy, revenues were higher in the fourth quarter of 2015 compared to the same period last year. Both the Equipment Group and CIMCO benefitted from strong product support growth.

Gross profit decreased 3% in the quarter versus last year on lower margins in the Equipment Group. Competitive markets and the weakened Canadian dollar continued to dampen margins, exacerbated by underutilized rental fleet additions. CIMCO margins were relatively unchanged as higher package margins and a favorable sales mix of product support revenues to total were offset by lower product support margins. At CIMCO, the product support business continued its strong growth, increasing to 49.8% as a

percentage of revenues compared to last year, up 5.10 percentage points.

Selling and administrative expenses decreased \$3.5 million or 6% on the 1% increase in revenues. Expenses were \$3.5 million lower than last year and 0.90 percentage points lower as a percentage of revenues (12.7% versus 13.6%). Bad debt expenses (down \$1.7 million) professional fees (down \$1.5 million) and lower mark-to-market adjustments on DSUs (down \$0.9 million) contributed to this expense reduction, partially offset by higher compensation costs (up \$0.3 million) and additional costs related to the expanded agricultural business (up \$0.4 million). Certain other expense categories increased on the higher sales activity.

Interest expense was higher than in the similar period last year on higher debt balances resulting from the issuance of senior debentures during the fourth quarter.

Interest income was down from last year on reduced conversions of rental equipment with purchase options.

The effective income tax rate for 2015 was 26.7% compared to 26.2% in the same period last year and largely reflects the mix of income by tax jurisdiction.

Net earnings in the quarter were \$44.4 million and basic EPS was \$0.57, compared to net earnings of \$45.7 million and basic EPS of \$0.59 in 2014, a decrease of 3%.

Business Segment Fourth Quarter Operating Results

Equipment Group

Three months ended December 31
(\$ thousands)

	2015	2014	\$ change	% change
Equipment sales and rentals				
New	\$ 158,123	\$ 154,904	\$ 3,219	2%
Used	45,978	58,825	(12,847)	(22%)
Rentals	61,368	63,046	(1,678)	(3%)
Total equipment sales and rentals	265,469	276,775	(11,306)	(4%)
Power generation	2,694	2,880	(186)	(6%)
Product support	137,797	125,539	12,258	10%
Total revenues	\$ 405,960	\$ 405,194	\$ 766	—
Operating income	\$ 56,318	\$ 57,522	\$ (1,204)	(2%)
Bookings (\$ millions)	\$ 165	\$ 201	\$ (36)	(18%)
Key ratios:				
Product support revenues as a % of total revenues	33.9%	31.0%		
Operating income as a % of revenues	13.9%	14.2%		
Group total revenues as a % of consolidated revenues	86.0%	87.0%		

Equipment Group results were lower in the fourth quarter versus last year. Revenues were relatively unchanged from last year on growing product support activity, offset by lower equipment sales and rentals.

New equipment sales increased \$3.2 million or 2% in the quarter compared to 2014. Lower construction (down \$1.9 million or 2%) and mining deliveries (down \$3.1 million or 20%) were more than offset by higher sales into forestry markets (up \$3.2 million or 143%) and increased Power Systems revenues (up \$5.2 million or 19%) on growth in prime and backup power projects.

Used equipment sales decreased in the quarter compared to the record fourth quarter last year. Mining (down \$11.0 million or 69%) and forestry deliveries (down \$2.2 million or 86%) led the drop. Agriculture used equipment sales were also lower (down \$1.4 million or 34%) in light of the weaker end markets facing that sector. Growth in other markets compensated somewhat.

Rental revenues were \$1.7 million or 3% lower compared to last year on lower light equipment rentals (down \$1.5 million or 4%).

Heavy equipment and power rentals were relatively unchanged despite the larger fleet. Rental rates were fairly consistent in both years with continuing competitive market conditions.

Product support revenues were up \$12.3 million or 10% over 2014 with increases in both parts (up \$10.7 million or 11%) and service (up \$1.6 million or 5%). Activity was good across most markets.

Gross profit margins decreased 1.40 percentage points in the quarter. A favorable sales mix of product support revenues to total (up 0.80 percentage points) was partially offset by lower margins. Rental margins were 1.00 percentage point lower on lower market activity and underutilized new fleet additions. Equipment margins were 0.90 percentage points lower and have remained under pressure throughout the year on very competitive market conditions, exacerbated by the weakened Canadian dollar. Product support revenues as a percentage of total revenues were 33.9% in the fourth quarter compared to 31.0% in 2014.

Selling and administrative expenses were

\$4.4 million or 8% lower than the comparable quarter last year mainly due to lower bad debt expenses (down \$1.4 million), warranty (down \$0.6 million) and freight (down \$0.6 million). The expanded agricultural business increased expenses by \$0.4 million versus last year while certain other expense categories, such as compensation costs, profit sharing, information technology expenses and occupancy costs, were higher, reflective of the increase in revenues. As a percentage of revenues, expenses were 1.10 percentage points lower than 2014 (12.0% vs. 13.1%).

Operating income decreased 2% compared to last year on the lower margins partially offset by a lower expense ratio. Operating income as a percentage of revenues was 13.9% compared to 14.2% in the fourth quarter of 2014.

Bookings in the fourth quarter of 2015 were \$165.0 million, down 18% from the similar period last year with decreases across all segments except agriculture (up 12%), benefitting from the broader product of the expanded business.

CIMCO

Three months ended December 31
(\$ thousands)

	2015	2014	\$ change	% change
Package sales	\$ 33,100	\$ 33,441	\$ (341)	(1%)
Product support	32,891	27,016	5,875	22%
Total revenues	\$ 65,991	\$ 60,457	\$ 5,534	9%
Operating income	\$ 5,355	\$ 4,622	\$ 733	16%
Bookings (\$ millions)	\$ 36	\$ 30	\$ 6	20%
Key ratios:				
Product support revenues as a % of total revenues	49.8%	44.7%		
Operating income as a % of revenues	8.1%	7.6%		
Group total revenues as a % of consolidated revenues	14.0%	13.0%		

CIMCO reported record results for the fourth quarter on growth in the US. The weaker Canadian dollar accounted for approximately \$2.0 million of the increase in revenues on the translation of the US operations, split fairly evenly between package sales and product support revenues.

Package revenues were down 1% as higher activity in the US was more than offset by lower levels in Canada. US package revenues increased in both recreational (up 181% in Cdn\$, 150% in US\$) and industrial markets (up 23% in Cdn\$, 4% in US\$). Lower Canadian industrial revenues (down 30%) were partially offset by higher recreational revenues (up 18%). Strong industrial activity in Western Canadian industrial markets were more than offset by softer conditions in Eastern Canada.

Product support revenues increased in both the US and Canada. US product support, a focus for expansion, generated a 71% revenue increase (47% in US\$).

Gross margins were relatively unchanged from last year as improved package margins (up 2.00 percentage points) and a favorable sales mix of product support revenues to total (up 0.40 percentage points) were offset by lower product support margins (down 2.40 percentage points). Product support revenues as a percentage of total revenues were 49.8% compared to 44.7% in the fourth quarter of 2014.

Selling and administrative expenses increased \$0.8 million or 8%, mainly due to an unfavorable foreign exchange impact (\$0.4 million), higher professional fees and insurance (\$0.3 million), compensation costs

(\$0.3 million) and safety and training (up \$0.3 million), partially offset by lower bad debt expenses (down \$0.3 million). As a percentage of revenues, expenses were 0.10 percentage points lower than 2014 (16.9% vs. 17.0%).

Operating income increased 16% on the higher revenues and was 8.1% as a percentage of revenues compared to 7.6% in 2014.

Bookings in the quarter totalled \$36.0 million, up 20% from the comparable period last year. US bookings were up 119% (72% in US\$) while Canadian bookings were relatively unchanged.

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 2015 annual audited consolidated financial statements.

(\$ 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

(\$ thousands, except per share amounts)	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenues				
Equipment Group	\$ 263,834	\$ 368,650	\$ 411,077	\$ 405,194
CIMCO	47,914	46,909	56,355	60,457
Total revenues	\$ 311,748	\$ 415,559	\$ 467,432	\$ 465,651
Net earnings	\$ 18,629	\$ 28,859	\$ 40,038	\$ 45,670
Per share information:				
Basic earnings per share	\$ 0.24	\$ 0.37	\$ 0.52	\$ 0.59
Diluted earnings per share	0.24	0.37	0.51	0.59
Dividends paid per share	\$ 0.13	\$ 0.15	\$ 0.15	\$ 0.15
Weighted average common shares outstanding – basic (in thousands)	76,895	77,032	77,117	77,195

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 has been interrupted by the timing of significant sales to mining and other customers, which can be variable due to the timing of mine site development and access, and construction project schedules. We expect this historical seasonal trend to continue for non-mining related business.

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 the weather.

Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, interrupted somewhat by significant governmental funding initiatives and significant industrial projects.

As a result of the historical seasonal sales trends, inventories increase through the year in order to meet the expected demand for delivery in the fourth quarter of the fiscal year, while accounts receivable are highest at year end.

Selected Annual Information

(\$ thousands, except per share amounts)

	2015	2014	2013
Revenues	\$ 1,802,233	\$ 1,660,390	\$ 1,593,431
Net earnings	\$ 145,666	\$ 133,196	\$ 123,031
Earnings per share			
Basic	\$ 1.88	\$ 1.73	\$ 1.61
Diluted	\$ 1.86	\$ 1.71	\$ 1.59
Dividends declared per share	\$ 0.68	\$ 0.60	\$ 0.52
Total assets	\$ 1,276,077	\$ 1,107,802	\$ 1,030,555
Total long-term debt	\$ 153,769	\$ 131,518	\$ 132,418
Weighted average common shares outstanding – basic (in millions)	77.7	77.1	76.6

Revenues grew 9% in 2015, despite competitive market conditions and an uncertain economic environment, with strong performance in the Equipment Group and CIMCO. In 2014, revenues grew 4% through strong performance in the Equipment Group and continued product support growth at CIMCO.

Net earnings improved 9% in 2015 on higher revenues and a lower selling and administrative expense ratio, partially offset by slightly lower margins. In 2014, net earnings improved 8% on higher revenues, generally improving margins and a relatively flat selling and administrative expenses ratio.

Earnings per share has generally followed earnings with basic EPS increasing 9% in 2015 and 8% in 2014.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate was increased in 2013 by 8% to \$0.13 per share, in 2014 by 15% to \$0.15 per share, in 2015 by 13% to \$0.17 per share and 6% to \$0.18 per share in 2016. The Company has paid dividends every year since 1968.

Total assets increased in 2015 by 15% and by 7% in 2014. The increase reflects growth in the Company's operations and supports the higher revenues and earnings.

Inventories have increased significantly as described in the "Non-Cash Working Capital" section of this MD&A. Continued investment in the rental fleet reflects strong demand and improved market conditions.

Long-term debt increased in 2015. The Company issued \$150.0 million in long-term senior debentures during the year 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 was 10% at December 31, 2015, 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.

Commodities 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 23 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 manages its credit exposure associated with cash equivalents by ensuring there is no significant concentration of credit risk with a single counterparty, and by dealing only with highly rated financial institutions as counterparties.

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 U.S. 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 U.S. dollar has an impact on revenue trends. The Canadian dollar averaged US\$0.78 in 2015 compared to US\$0.91 in 2014, a 14% decrease. As substantially all of the equipment and parts sold in the Equipment Group are sourced in U.S. 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, 2015, the Company's debt portfolio included \$156.5 million in fixed-rate debt (38%) and a \$250.0 million floating-rate credit facility (62%).

Fixed-rate debt amortizes or matures between 2016 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

Impairment exists when the carrying value of an asset, cash generating unit ("CGU") or

group of CGUs exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next three years.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. 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

The Company generates revenue from the assembly and manufacture of equipment using the percentage-of-completion method. This method requires management to make a number of estimates and assumptions surrounding: the expected profitability of the contract; the estimated degree of completion based on cost progression; and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in revenues recognized in a given period.

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; however, changes in these estimates or assumptions could lead to changes in the revenues and cost of goods sold recognized in a given period.

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

Estimating the fair value for share-based payment transactions requires determining the most appropriate inputs to the valuation model including: the expected life of the share option; volatility; and dividend yield.

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, 2015, and accordingly, have not been applied in preparing these consolidated financial statements.

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. Either a full or modified retrospective application is now required for annual periods beginning on or after January 1, 2018, with early adoption 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 standard, IFRS 15 – *Revenue from Contracts with Customers*, has been applied, or is applied at the same date.

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.

The Company is currently assessing the impact of these new standards and amendments on its financial statements.

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, 2015, 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, 2015, 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, 2015, 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 2015 that would materially affect, or is 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, 2015, 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.

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 and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments.

(\$ thousands)	Three months ended December 31		Years ended December 31	
	2015	2014	2015	2014
Net earnings	\$ 44,404	\$ 45,670	\$ 145,666	\$ 133,196
plus: Interest expense	2,236	1,971	8,668	8,188
less: Interest and investment income	(1,144)	(1,748)	(3,422)	(4,154)
plus: Income taxes	16,177	16,251	53,598	47,582
Operating income	\$ 61,673	\$ 62,144	\$ 204,510	\$ 184,812

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)	2015	2014
Long-term debt	\$ 152,079	\$ 4,942
Current portion of long-term debt	1,690	126,576
less: Cash	66,680	85,962
Net debt	87,089	45,556
Shareholders' equity	775,281	668,075
Total capitalization	\$ 862,370	\$ 713,631
Net debt to total capitalization	10%	6%

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)	2015	2014
Total current assets	\$ 799,136	\$ 698,838
less: Total current liabilities	312,843	404,085
Working capital	\$ 486,293	\$ 294,753

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)	2015	2014
Total current assets	\$ 799,136	\$ 698,838
less: Cash	66,680	85,962
	732,456	612,876
Total current liabilities	312,843	404,085
less: Current portion of long-term debt	1,690	126,576
	311,153	277,509
Non-cash working capital	\$ 421,303	\$ 335,367

Key Performance Indicators (“KPIs”)

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin,

operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a

standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

The Company's order bookings represent 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 backlogs.

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)	2015	2014
Net earnings	\$ 145,666	\$ 133,196
<i>plus:</i> Interest expense	8,668	8,188
<i>less:</i> Interest and investment income	(3,422)	(4,154)
<i>plus:</i> Interest income – rental conversions (see note 13)	2,500	3,270
<i>plus:</i> Income taxes	53,598	47,582
	\$ 207,010	\$ 188,082
Average capital employed	\$ 853,101	\$ 723,475
Return on capital employed	24.3%	26.0%

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)	2015	2014
Net earnings	\$ 145,666	\$ 133,196
Opening shareholders' equity (net of adjustments)	\$ 675,165	\$ 579,795
Return on equity	21.6%	23.0%

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 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 9, 2016
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, 2015 and 2014, and the consolidated income statements, and consolidated statements of comprehensive income, cash flows and changes in equity for the years ended December 31, 2015 and 2014, 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.

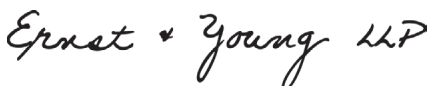
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

February 9, 2016
Toronto, Canada

Consolidated Statements of Financial Position

As at December 31 (\$ thousands)

	Note	2015	2014
Assets			
Current assets			
Cash		\$ 66,680	\$ 85,962
Accounts receivable	3	262,523	239,772
Inventories	4	463,210	367,193
Derivative financial instruments	11	2,445	1,683
Other current assets		4,278	4,228
Total current assets		799,136	698,838
Property, plant and equipment	5	184,154	176,398
Rental equipment	5	245,670	195,263
Other assets	6	11,484	3,959
Deferred tax assets	14	8,102	5,784
Goodwill and intangible assets	7	27,531	27,560
Total assets		\$ 1,276,077	\$ 1,107,802
Liabilities			
Current liabilities			
Accounts payable, accrued liabilities and provisions	8	\$ 253,456	\$ 238,771
Deferred revenues		54,645	34,852
Current portion of long-term debt	9	1,690	126,576
Income taxes payable		3,052	3,886
Total current liabilities		312,843	404,085
Deferred revenues		14,779	9,910
Long-term debt	9	152,079	4,942
Accrued pension liability	18	21,095	20,790
Shareholders' equity			
Share capital	10	301,413	287,002
Contributed surplus		7,236	7,212
Retained earnings		463,194	371,781
Accumulated other comprehensive income		3,438	2,080
Shareholders' equity		775,281	668,075
Total liabilities and shareholders' equity		\$ 1,276,077	\$ 1,107,802

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	2015	2014
Revenues	22	\$ 1,802,233	\$ 1,660,390
Cost of goods sold		1,356,630	1,247,999
Gross profit		445,603	412,391
Selling and administrative expenses		241,093	227,579
Operating income		204,510	184,812
Interest expense	13	8,668	8,188
Interest and investment income	13	(3,422)	(4,154)
Income before income taxes		199,264	180,778
Income taxes	14	53,598	47,582
Net earnings		\$ 145,666	\$ 133,196
Earnings per share			
Basic	15	\$ 1.88	\$ 1.73
Diluted	15	\$ 1.86	\$ 1.71
Weighted average number of shares outstanding			
Basic		77,681,337	77,061,455
Diluted		78,307,836	77,675,711

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31 (\$ thousands)	2015	2014
Net earnings	\$ 145,666	\$ 133,196
Other comprehensive income (loss), net of income tax:		
<i>Items that may be reclassified subsequently to net earnings:</i>		
Foreign currency translation adjustments	1,471	602
Unrealized gain on derivatives designated as cash flow hedges	12,255	3,601
Income tax expense	(3,191)	(938)
Unrealized gain on cash flow hedges, net of income tax	9,064	2,663
Realized gain on derivatives designated as cash flow hedges	(12,409)	(3,088)
Income tax expense	3,232	803
Realized gain on cash flow hedges, net of income tax	(9,177)	(2,285)
<i>Items that will not be reclassified subsequently to net earnings:</i>		
Actuarial gain (loss) on pension plans	834	(6,977)
Income tax (expense) recovery	(217)	1,850
Actuarial gain (loss) on pension plans, net of income tax	617	(5,127)
Other comprehensive income (loss)	1,975	(4,147)
Total comprehensive income	\$ 147,641	\$ 129,049

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31 (\$ thousands)	Note	2015	2014
Operating activities			
Net earnings		\$ 145,666	\$ 133,196
Items not requiring cash:			
Depreciation and amortization	5,7,9	74,003	65,456
Stock-based compensation		2,568	2,330
Accrued pension liability		1,139	680
Deferred income taxes		(2,494)	(1,633)
Gain on sale of rental equipment and property, plant and equipment		(15,751)	(13,948)
		205,131	186,081
Net change in non-cash working capital and other	20	(91,251)	(42,571)
Cash provided by operating activities		113,880	143,510
Investing activities			
Additions to:			
Rental equipment		(119,737)	(81,358)
Property, plant and equipment		(30,369)	(26,457)
Proceeds on disposal of:			
Rental equipment		33,599	29,265
Property, plant and equipment		2,596	1,657
Decrease (increase) in other assets		45	(235)
Business acquisitions		—	(8,634)
Cash used in investing activities		(113,866)	(85,762)
Financing activities			
Issue of senior debentures		150,000	—
Repayment of senior debentures		(126,576)	(1,471)
Financing costs		(1,713)	—
Repayment of loans assumed on business acquisitions	24	—	(2,960)
Dividends	10	(51,213)	(44,663)
Shares purchased for cancellation		(2,231)	—
Cash received on exercise of stock options		12,110	6,398
Cash used in financing activities		(19,623)	(42,696)
Effect of currency translation on cash balances		327	141
(Decrease) increase in cash		(19,282)	15,193
Cash, at beginning of year		85,962	70,769
Cash, at end of year		\$ 66,680	\$ 85,962

Supplemental cash flow information (note 20)

See accompanying notes

Consolidated Statements of Changes in Equity

	Share Capital		Accumulated other comprehensive income					
	Number	Amount	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Cash flow hedges	Total	Total
(\$ thousands)								
At January 1, 2014	76,844,897	\$ 279,149	\$ 6,329	\$ 289,979	\$ 831	\$ 269	\$ 1,100	\$ 576,557
Net earnings	—	—	—	133,196	—	—	—	133,196
Other comprehensive (loss) income	—	—	—	(5,127)	602	378	980	(4,147)
Total comprehensive income	—	—	—	128,069	602	378	980	129,049
Issue on exercise of stock options	414,499	7,853	—	—	—	—	—	7,853
Stock-based compensation expense, net of forfeitures	—	—	2,330	—	—	—	—	2,330
Value of compensation cost associated with exercised options	—	—	(1,447)	—	—	—	—	(1,447)
Effect of stock compensation plans	414,499	7,853	883	—	—	—	—	8,736
Dividends on common shares	—	—	—	(46,267)	—	—	—	(46,267)
At December 31, 2014	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
Issue on exercise of stock options	720,925	14,698	—	—	—	—	—	14,698
Stock-based compensation expense, net of forfeitures	—	—	2,568	—	—	—	—	2,568
Value of compensation cost associated with exercised options	—	—	(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 on common shares	—	—	—	(52,882)	—	—	—	(52,882)
At December 31, 2015	77,905,821	\$ 301,413	\$ 7,236	\$ 463,194	\$ 2,904	\$ 534	\$ 3,438	\$ 775,281

See accompanying notes

Notes to the Consolidated Financial Statements

December 31, 2015

(\$ 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, industry-leading rental operations and a growing agricultural dealership in Manitoba. 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 3,500 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 audited financial statements were authorized for issue by the Audit Committee of the Board of the Directors on February 9, 2016.

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.

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.

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. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. Intangible assets with a definite useful life are amortized on a straight-line basis over their estimated useful lives.

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

Derivatives 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.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

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 cash generating units ("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 which 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. The recoverable amount of a CGU or group of CGUs is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the CGU or group of CGUs 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 budgets which are prepared for each of the CGUs and generally cover a period of three years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the third year.

For non-financial assets other than goodwill and intangible assets with definite 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 on the consolidated statement of financial position 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.
- 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 and items included in the financial statements of each subsidiary are measured using that 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 operates 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 the term of 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 and at each subsequent statement of financial position date until the award is settled. 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 which 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.

Standards Adopted in 2015

Certain amendments to standards and a new interpretation that were adopted on January 1, 2015 are noted below.

a. Employee Benefits

The amendments to IAS 19 – *Employee Benefits*, require an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments had no impact on the Company's financial position or performance.

b. Operating Segments

The amendments to IFRS 8 – *Operating Segments*, require an entity to disclose judgments made by management in aggregating segments, and a reconciliation of segment assets to the entity's assets when segments are reported. These amendments resulted in additional disclosures to the Company's consolidated financial statements.

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, 2015, and accordingly, have not been applied in preparing these consolidated financial statements.

a) *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. The Company is currently assessing the impact of adopting this interpretation on its consolidated financial statements.

b) *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 interpretation on its consolidated financial statements.

c) *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 – *Revenue from Contracts with Customers*, has been applied, or is applied at the same date. The Company is currently assessing the impact of adopting this interpretation on its consolidated financial statements.

d) *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.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2016. The Company does not anticipate that the application of these amendments will have a material impact on the consolidated financial statements.

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 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

Impairment exists when the carrying value of an asset, CGU or group of CGUs exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for

disposing of the asset. The value in use calculation is based on a discounted cash flow ("DCF") model. The cash flows are derived from the budget for the next three years. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. 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

The Company generates revenue from the assembly and manufacture of equipment using the percentage-of-completion method. This method requires management to make a number of estimates and assumptions surrounding: the expected profitability of the contract; the estimated degree of completion based on cost progression; and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in revenues recognized in a given period.

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; however, changes in these estimates or assumptions could lead to changes in the revenues and cost of goods sold recognized in a given period.

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

Estimating the fair value for share-based payment transactions requires determining the most appropriate inputs to the valuation model including: the expected life of the share option; volatility; and dividend yield.

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.

3. Accounts Receivable

	2015	2014
Trade receivables	\$ 238,758	\$ 224,880
Less: allowance for doubtful accounts	(9,168)	(7,845)
Trade receivables – net	229,590	217,035
Other receivables	32,933	22,737
Trade and other receivables	\$ 262,523	\$ 239,772

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

	2015	2014
Current to 90 days	\$ 221,854	\$ 211,497
Over 90 days	16,904	13,383
	\$ 238,758	\$ 224,880

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

	2015	2014
Balance, January 1	\$ 7,845	\$ 9,242
Provisions and revisions, net	1,323	(1,397)
Balance, December 31	\$ 9,168	\$ 7,845

4. Inventories

	2015	2014
Equipment	\$ 321,825	\$ 249,932
Repair and distribution parts	106,094	86,878
Direct materials	4,117	3,881
Work-in-process	31,174	26,502
	\$ 463,210	\$ 367,193

The amount of inventory recognized as an expense in cost of goods sold (accounted for other than by the percentage-of-completion method) during 2015 was \$1.1 billion (2014 – \$993 million). Cost of goods sold included inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition and during 2015 amounted to \$8.1 million (2014 – \$2.1 million).

5. Property, Plant and Equipment and Rental Equipment

	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

	Land	Buildings	Equipment	Power Generation	Property, Plant and Equipment	Rental Equipment
Cost						
January 1, 2014	\$ 46,069	\$ 123,988	\$ 129,611	\$ 38,639	\$ 338,307	\$ 333,390
Additions	2,305	8,990	15,979	105	27,379	81,173
Acquisitions	959	1,680	859	—	3,498	—
Disposals	(500)	(31)	(5,059)	—	(5,590)	(46,522)
Currency translation effects	12	191	160	—	363	—
December 31, 2014	\$ 48,845	\$ 134,818	\$ 141,550	\$ 38,744	\$ 363,957	\$ 368,041
Accumulated depreciation						
January 1, 2014	\$ —	\$ 58,625	\$ 89,946	\$ 23,296	\$ 171,867	\$ 158,678
Depreciation charge	—	5,279	13,737	1,559	20,575	44,281
Depreciation of disposals	—	(29)	(4,932)	—	(4,961)	(30,181)
Currency translation effects	—	7	71	—	78	—
December 31, 2014	\$ —	\$ 63,882	\$ 98,822	\$ 24,855	\$ 187,559	\$ 172,778
Net book value – December 31, 2014	\$ 48,845	\$ 70,936	\$ 42,728	\$ 13,889	\$ 176,398	\$ 195,263

During 2015, depreciation expense of \$67.2 million was charged to cost of goods sold (2014 – \$59.6 million) and \$6.2 million was charged to selling and administrative expenses (2014 – \$5.2 million).

Operating income from rental operations for the year ended December 31, 2015 was \$31.9 million (2014 – \$37.0 million).

6. Other Assets

	2015	2014
Equipment sold with guaranteed residual values	\$ 9,459	\$ 1,888
Other	2,025	2,071
	\$ 11,484	\$ 3,959

7. Goodwill and Intangible Assets

	Goodwill	Distribution Network with indefinite useful life	Patents and Licenses with definite useful life	Total
Cost				
At January 1, 2014	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
At December 31, 2014	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
At December 31, 2015	\$ 13,450	\$ 13,669	\$ 500	\$ 27,619
Accumulated amortization				
At January 1, 2014	\$ —	\$ —	\$ 30	\$ 30
Amortization	—	—	29	29
At December 31, 2014	\$ —	\$ —	\$ 59	\$ 59
Amortization	—	—	29	29
At December 31, 2015	\$ —	\$ —	\$ 88	\$ 88
Net book value – At December 31, 2014	\$ 13,450	\$ 13,669	\$ 441	\$ 27,560
Net book value – At December 31, 2015	\$ 13,450	\$ 13,669	\$ 412	\$ 27,531

The distribution network (former Bucyrus) is considered to have an indefinite useful life as the agreement does not have a termination date. Intangible assets with an indefinite useful life are not amortized but are tested for impairment annually, or when conditions suggest that there may be an impairment.

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; and
- 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
	2015	2014	2015	2014	2015	2014
Toromont Cat	\$ 13,000	\$ 13,000	\$ 13,669	\$ 13,669	\$ 26,669	\$ 26,669
CIMCO	450	450	—	—	450	450
Total	\$ 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, 2015. 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 10.85%. 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, 2015. 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 13.19%. 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; and
- 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

	2015	2014
Accounts payable and accrued liabilities	\$ 223,381	\$ 213,328
Dividends payable	13,253	11,584
Provisions	16,822	13,859
	\$ 253,456	\$ 238,771

Activities related to provisions were as follows:

	Warranty	Other	Total
Balance at January 1, 2014	\$ 8,354	\$ 6,047	\$ 14,401
New provisions	8,042	1,584	9,626
Charges/credits against provisions	(8,619)	(1,549)	(10,168)
Balance at December 31, 2014	\$ 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 at December 31, 2015	\$ 8,016	\$ 8,806	\$ 16,822

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.

	2015	2014
3.71%, \$150.0 million, due September 30, 2025 ⁽¹⁾	\$ 150,000	\$ —
7.06%, \$15.0 million, due March 29, 2019 ⁽²⁾	6,464	8,040
4.92%, \$125.0 million, due October 13, 2015 ⁽¹⁾	—	125,000
Senior debentures	156,464	133,040
Debt issuance costs, net of amortization	(2,695)	(1,522)
Total long-term debt	\$ 153,769	\$ 131,518
Less: current portion of long-term debt	(1,690)	(126,576)
Non-current portion of long-term debt	\$ 152,079	\$ 4,942

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

(2) Blended principal and interest payments payable semi-annually through to maturity.

Effective September 18, 2015, the Company amended and increased its exiting \$200.0 million committed credit facility to \$250.0 million and extended the term of the agreement to 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, 2015, standby letters of credit issued utilized \$21.9 million of the credit lines (2014 – \$22.6 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. The net proceeds of this

issuance were used to pay the principal and interest owing on the \$125.0 million senior debentures which matured on October 13, 2015 and for general corporate purposes.

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.

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

	Principal	Interest
2016	\$ 1,690	\$ 5,992
2017	1,811	5,871
2018	1,941	5,741
2019	1,022	5,601
2020	—	5,565
Thereafter	150,000	26,422
	\$ 156,464	\$ 55,192

Interest expense includes interest on debt initially incurred for a term greater than one year of \$7.8 million (2014 – \$7.9 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 take-over 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 2015. The current issuer bid allows the Company to purchase up to approximately 5.9 million of its common shares in the 12-month period ending August 30, 2016, 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, 2015, the Company purchased and cancelled 74,500 common shares for \$2.2 million (average cost of \$29.95 per share, including transaction costs) under its NCIB program (2014 – nil).

Dividends

The Company paid dividends of \$51.2 million (\$0.66 per share) for the year ended December 31, 2015 and \$44.7 million (\$0.58 per share) for the year ended December 31, 2014.

Subsequent to the year ended December 31, 2015, the Board of Directors approved a quarterly dividend of \$0.18 per share payable on April 1, 2016 to shareholders on record at the close of business on March 10, 2016.

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:

	2015	2014
Other financial liabilities:		
Current portion of long-term debt	\$ (1,690)	\$ (126,576)
Long-term debt	(152,079)	(4,942)
Derivative instruments – cash flow hedges:		
Foreign exchange forward contracts	\$ 2,445	\$ 1,683

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:

Long-term debt	2015	2014
Fair value	\$ 158,123	\$ 137,040
Carrying value	156,464	133,040

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 year ended December 31, 2015 and 2014, 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, 2015, the Company was committed to USD purchase contracts with a notional amount of \$65.5 million at an average exchange rate of \$1.3462, maturing between January and July 2016.

Management estimates that a gain of \$2.4 million (2014 – \$1.7 million) would be realized if the contracts were terminated on December 31, 2015. Certain of these forward contracts are designated as cash flow hedges, and accordingly, an unrealized gain of \$0.7 million (2014 – \$0.9 million) has been included in OCI. 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 \$1.7 million (2014 – \$0.8 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 on-going 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.

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, 2015, 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 \$0.4 million increase (decrease) in net earnings and \$2.4 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 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, 2015 or 2014.

The Company did not have any floating rate debt at December 31, 2015 or 2014.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. As at December 31, 2015, the Company had unutilized lines of credit of \$228.1 million (2014 – \$177.4 million). The increase in the unutilized lines of credit was

due to the amendment of the credit facility in 2015 (see note 9).

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 2016, 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.

13. Interest Income And Expense

The components of interest expense were as follows:

	2015	2014
Term loan facility	\$ 1,450	\$ 1,478
Senior debentures	7,218	6,710
	\$ 8,668	\$ 8,188

The components of interest and investment income were as follows:

	2015	2014
Interest income – rental conversions	\$ 2,500	\$ 3,270
Other	922	884
	\$ 3,422	\$ 4,154

14. Income Taxes

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

	2015	2014
Current income tax expense	\$ 56,150	\$ 49,204
Deferred income tax recovery	(2,552)	(1,622)
Total income tax expense	\$ 53,598	\$ 47,582

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

	2015	2014
Statutory Canadian federal and provincial income tax rates	26.50%	26.50%
Expected taxes on income	\$ 52,805	\$ 47,906
Increase (decrease) in income taxes resulting from:		
Higher effective tax rates in other jurisdictions	302	119
Manufacturing and processing rate reduction	(266)	(258)
Expenses not deductible for tax purposes	1,363	1,116
Non-taxable gains	(260)	(197)
Effect of future income tax rate reductions	—	(138)
Other	(346)	(966)
Provision for income taxes	\$ 53,598	\$ 47,582
Effective income tax rate	26.9%	26.3%

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:

	2015	2014
Accrued liabilities	\$ 14,318	\$ 11,856
Deferred revenues	1,525	1,921
Accounts receivable	1,922	1,619
Inventories	4,881	3,562
Capital assets	(20,621)	(18,848)
Pension	5,362	5,017
Other	902	885
Cash flow hedges in other comprehensive income	(187)	(228)
Deferred tax assets	\$ 8,102	\$ 5,784

The movement in net deferred tax assets was as follows:

	2015	2014
Balance, January 1	\$ 5,784	\$ 2,435
Tax recovery recognized in income	2,552	1,622
Tax (expense) recovery recognized in other comprehensive income	(234)	1,727
Balance, December 31	\$ 8,102	\$ 5,784

The aggregate amount of unremitted earnings in the Company's subsidiaries was \$13.8 million (2014 – \$57.3 million). These earnings can be remitted with no tax consequences.

15. Earnings Per Share

	2015	2014
Net earnings	\$ 145,666	\$ 133,196
Weighted average common shares outstanding	77,681,337	77,061,455
Dilutive effect of stock option conversion	626,499	614,256
Diluted weighted average common shares outstanding	78,307,836	77,675,711
Earnings per share		
Basic	\$ 1.88	\$ 1.73
Diluted	\$ 1.86	\$ 1.71

For the calculation of diluted earnings per share for the year ended December 31, 2015, 520,700 (2014 – 522,000) outstanding stock options with a weighted average exercise price of \$36.65 (2014 – \$26.52) 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

	2015	2014
Wages and salaries	\$ 302,626	\$ 282,471
Other employment benefit expenses	46,737	45,962
Share options granted to directors and employees	2,568	2,330
Pension costs	12,716	11,543
	\$ 364,648	\$ 342,306

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 772,594 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. Effective 2013, stock options

granted have a ten-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, 2015 and 2014 was as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, January 1	2,715,875	\$ 20.50	2,610,274	\$ 18.49
Granted	520,700	36.65	522,500	26.52
Exercised ⁽¹⁾	(720,925)	16.80	(414,499)	15.43
Forfeited	(3,400)	20.77	(2,400)	18.79
Options outstanding, December 31	2,512,250	\$ 24.91	2,715,875	\$ 20.50
Options exercisable, December 31	953,370	\$ 20.11	1,108,790	\$ 17.56

(1) The weighted average share price at date of exercise for the year ended December 31, 2015 was \$31.70 (2014 - \$26.12).

The following table summarizes stock options outstanding and exercisable as at December 31, 2015.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
\$12.42 - \$17.10	519,775	2.1	\$ 16.86	412,295	\$ 16.80
\$17.11 - \$23.40	954,455	5.5	22.01	441,355	21.75
\$23.41 - \$26.79	517,320	8.6	26.52	99,720	26.52
\$36.65	520,700	9.6	36.65	—	—
Total	2,512,250	6.3	\$ 24.91	953,370	\$ 20.11

The fair value of the stock options granted during 2015 and 2014 were determined at the time of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2015	2014
Fair value price per option	\$ 7.33	\$ 5.50
Share price	\$ 36.65	\$ 26.52
Expected life of options (years)	8.51	8.45
Expected stock price volatility	22.0%	23.0%
Expected dividend yield	1.86%	2.26%
Risk-free interest rate	1.30%	1.92%

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:

	2015		2014	
	Number of DSUs	Value	Number of DSUs	Value
Outstanding, January 1	334,709	\$ 9,527	288,920	\$ 7,696
Units taken in lieu of performance incentive awards, director fees and dividends	45,762	1,425	53,575	1,420
Redemptions	(3,160)	(106)	(7,786)	(197)
Fair market value adjustment	—	1,154	—	608
Outstanding, December 31	377,311	\$ 12,000	334,709	\$ 9,527

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 of up to \$1,000 per employee, per year, based on contributions by the Company of \$1 for every \$3 contributed by the employee. Company contributions vest to the employee immediately. Company contributions amounting to \$1.1 million in 2015 (2014 – \$1.0 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:

	2015	2014
Defined contribution plans	\$ 10,432	\$ 9,504
401(k) matched savings plans	202	158
Net pension expense	\$ 10,634	\$ 9,662

Defined Benefit Plans

The Company sponsors funded defined benefit plans for approximately 97 qualifying employees.

Outlined below is a summary of the plans in effect at December 31, 2015 and 2014:

- 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, 2015, the Company has posted letters of credit in the amount of \$18.0 million to secure the obligations under this plan. The most recent actuarial valuation was completed as at December 31, 2015, with the next valuation scheduled for December 31, 2016.

c) Other plan assets and obligations – This 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 that, in accordance with the plan provisions, have 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

The plans typically expose the Company to actuarial 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 asset 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:

	2015	2014
Discount rate(s)	3.90%	3.80%
Expected rate(s) of salary increase	3.50%	4.00%

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

	2015	2014
Service cost	\$ 1,283	\$ 1,162
Net interest expense	799	719
Components of defined benefit costs recognized in net earnings	\$ 2,082	\$ 1,881
Remeasurement on the net defined benefit liability:		
Actuarial (gains) losses arising from experience adjustments	\$ (272)	\$ 1,302
Actuarial losses arising from changes in demographic assumptions	—	441
Actuarial (gains) losses arising from changes in financial assumptions	(734)	7,828
Return on plan assets (excluding amounts included in net interest expense)	172	(2,594)
Components of defined benefit costs recognized in other comprehensive income	\$ (834)	\$ 6,977

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

	2015	2014
Accrued defined benefit obligations:		
Balance, January 1	\$ 86,555	\$ 79,791
Current service cost	1,283	1,162
Interest cost	3,241	3,714
Remeasurement (gains)/losses:		
Actuarial (gains) losses arising from experience adjustments	(272)	1,302
Actuarial losses arising from changes in demographic assumptions	—	441
Actuarial (gains) losses arising from changes in financial assumptions	(734)	7,828
Benefits paid	(8,620)	(8,036)
Voluntary contributions by plan participants	325	353
Balance, December 31	81,778	86,555
Plan assets:		
Fair value, January 1	65,765	66,656
Interest income on plan assets	2,442	2,995
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	(172)	2,595
Contributions from the Company	1,932	2,669
Contributions from the plan participants	325	353
Benefits paid	(8,620)	(8,036)
Transfer to Company defined contribution plan	(989)	(1,467)
Fair value, December 31	60,683	65,765
Accrued pension liability	\$ 21,095	\$ 20,790

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

	2015			2014		
	Accrued defined benefit obligation	Plan assets	Accrued pension asset (liability)	Accrued defined benefit obligation	Plan assets	Accrued pension (liability)
Powell Plan	\$ 54,429	\$ 54,844	\$ 415	\$ 56,521	\$ 56,185	\$ (336)
Executive Plan	18,373	—	(18,373)	20,849	2,089	(18,760)
Other plan assets and obligations	8,976	5,839	(3,137)	9,185	7,491	(1,694)
	\$ 81,778	\$ 60,683	\$ (21,095)	\$ 86,555	\$ 65,765	\$ (20,790)

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

	2015	2014
Equity securities	44.8%	43.6%
Debt securities	37.2%	38.2%
Real estate assets	17.7%	17.3%
Cash and cash equivalents	0.3%	0.9%

The fair values of the above plan assets are 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 \$2.3 million (2014 – \$5.6 million).

The Company expects to contribute \$1.9 million to the defined benefit plans during 2016.

The weighted average duration of the defined benefit plan obligation at December 31, 2015 was 13.3 years (2014 – 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, 2015, 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	\$ (7,040)	\$ 8,092	\$ 1,456	\$ (1,456)
Executive Plan	\$ (1,610)	\$ 1,765	\$ 507	\$ (507)
Other plan assets and obligations	\$ (787)	\$ 874	\$ 368	\$ (368)

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:

	2015	2014
Long-term debt	\$ 152,079	\$ 4,942
Current portion of long-term debt	1,690	126,576
less: Cash	66,680	85,962
Net debt	87,089	45,556
Shareholders' equity	775,281	668,075
Total capitalization	\$ 862,370	\$ 713,631
Net debt to total capitalization	10%	6%

The Company is subject to minimum capital requirements relating to bank credit facilities and senior debentures. The Company has comfortably met these minimum requirements during the years ended December 31, 2015 and 2014.

There were no changes in the Company's approach to capital management during the years ended December 31, 2015 and 2014.

20. Supplemental Cash Flow Information

	2015	2014
Net change in non-cash working capital and other		
Accounts receivable	\$ (22,751)	\$ 1,174
Inventories	(96,017)	(17,886)
Accounts payable, accrued liabilities and provisions	11,974	(22,129)
Deferred revenues	24,662	(15,222)
Other	(9,119)	11,492
	\$ (91,251)	\$ (42,571)
Cash paid during the year for:		
Interest	\$ 7,956	\$ 7,463
Income taxes	\$ 58,190	\$ 43,547
Cash received during the year for:		
Interest	\$ 2,914	\$ 3,629
Income taxes	\$ 2,229	\$ 5,748

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, 2015 were as follows:

2016	\$ 3,152
2017	2,458
2018	1,727
2019	1,368
2020	860
Thereafter	2,491
	\$ 12,056

22. Segmented Information

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.

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, interest expense, interest and investment income are managed at a consolidated level and are not allocated to the reportable operating segments. Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to the segments as they are also managed on a consolidated level.

The aggregation of the reportable segments is based on the economic characteristics of the business units. These business units are

considered to have similar economic characteristics including nature of products and services, class of customers and markets served and similar distribution models.

No reportable segment is reliant on any single external customer.

Equipment Group

The Equipment Group comprises the following business units:

- *Toromont Cat* – supplies, rents and provides support services for specialized mobile equipment and industrial engines.
- *Battlefield* – the Cat Rental Store – supplies and rents specialized mobile equipment as well as specialty supplies and tools.

- *AgWest* – supplies specialized mobile equipment to the agriculture industry.
- *Toromont Energy* – develops distributed generators and combined heat and power projects using Caterpillar engines.
- *SITECH* – supplies control systems for specialized mobile equipment.

CIMCO

Provider of design, engineering, fabrication, installation, and product support of industrial and recreational refrigeration systems.

Corporate Office

The corporate office does not meet the definition of a reportable operating segment as defined in IFRS 8, as it does not earn revenue.

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

	Equipment Group			CIMCO		Consolidated
	2015	2014	2015	2014	2015	2014
Equipment/package sales	\$ 787,886	\$ 752,912	\$ 119,516	\$ 112,084	\$ 907,402	\$ 864,996
Rentals	222,562	220,143	—	—	222,562	220,143
Product support	547,878	464,153	113,218	99,550	661,096	563,703
Power generation	11,173	11,548	—	—	11,173	11,548
Total revenues	\$ 1,569,499	\$ 1,448,756	\$ 232,734	\$ 211,634	\$ 1,802,233	\$ 1,660,390
Operating income	\$ 189,630	\$ 172,727	\$ 14,880	\$ 12,085	\$ 204,510	\$ 184,812
Interest expense					8,668	8,188
Interest and investment income					(3,422)	(4,154)
Income taxes					53,598	47,582
Net earnings					\$ 145,666	\$ 133,196

Selected Statement of Financial Position Information:

As at December 31, 2015	Equipment Group	CIMCO	Consolidated
Identifiable assets	\$ 1,113,290	\$ 69,784	\$ 1,183,074
Corporate assets			93,003
Total assets			\$ 1,276,077
Identifiable liabilities	\$ 244,800	\$ 49,464	\$ 294,264
Corporate liabilities			206,532
Total liabilities			\$ 500,796
Capital expenditures	\$ 149,068	\$ 1,039	\$ 150,107
Depreciation	\$ 71,878	\$ 1,556	\$ 73,434

As at December 31, 2014	Equipment Group	CIMCO	Consolidated
Identifiable assets	\$ 933,393	\$ 64,087	\$ 997,480
Corporate assets			110,322
Total assets			\$ 1,107,802
Identifiable liabilities	\$ 222,983	\$ 34,883	\$ 257,866
Corporate liabilities			181,861
Total liabilities			\$ 439,727
Capital expenditures	\$ 106,357	\$ 1,458	\$ 107,815
Depreciation	\$ 63,416	\$ 1,440	\$ 64,856

Operations are based primarily 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:

	2015	2014
Revenues		
Canada	\$ 1,732,854	\$ 1,609,909
United States	66,799	49,217
International	2,580	1,264
	\$ 1,802,233	\$ 1,660,390
	2015	2014
Capital Assets and Goodwill		
Canada	\$ 438,948	\$ 381,064
United States	4,326	4,047
	\$ 443,274	\$ 385,111

23. Related Party Disclosures

Key management personnel and director compensation comprised:

	2015	2014
Salaries	\$ 3,088	\$ 2,850
Stock options and DSU awards	2,448	1,954
Annual non-equity incentive based plan compensation	2,968	2,875
Pension	583	508
All other compensation	147	147
	\$ 9,234	\$ 8,334

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. Business Combinations

There were no businesses acquired during the year ended December 31, 2015.

Acquisitions in 2014

Ag West Equipment Limited

On September 30, 2014, the Company acquired Ag West Equipment Limited ("Ag West"), for total cash consideration of \$3.7 million, plus assumed debt of \$3.0 million for a total transaction value of \$6.7 million. Based in

Manitoba, Ag West specialised in the sale and service of agricultural equipment as an authorized dealer of AGCO and other manufacturers' products for over twenty years. With this acquisition, Toromont expanded its cross-selling opportunities and strengthened its presence in the agricultural sector.

The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon the fair market value at the date of acquisition. The final allocation of the purchase price was as follows:

Assets

Cash	\$ 577
Trade receivables	261
Inventories	11,819
Other current assets	350
Property, plant and equipment	2,971
Deferred tax assets	5
	\$ 15,983

Liabilities

Current liabilities	\$ 12,320
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Net identifiable assets acquired	\$ 3,663
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For the year ended December 31, 2014, Ag West contributed \$5.7 million of revenues from the date of acquisition. If the acquisition had occurred on January 1, 2014, Ag West would have contributed approximately \$22.3 million in total revenues for the year-ended December 31, 2014.

Canpro Gator Centre

On December 19, 2014, Ag West acquired substantially all of the assets of Canpro Gator Centre ("Canpro"), for approximately \$6.4 million, representing their assessed fair value. Based in Manitoba, Canpro specialised in the sale and service of agricultural equipment as an authorized

AGCO dealer. Additionally, Canpro was the licensed distributor for various agricultural precision devices that increase productivity and efficiency. This acquisition provided broader market coverage with an expanded portfolio of products and services.

The purchase price was allocated to the underlying assets acquired based on

preliminary fair value assessments as at the purchase date. In September 2015, the valuation was completed and the final fair values of the assets acquired were adjusted.

The following table provides a summary of adjustments to the preliminary assessed fair values of assets acquired.

Assets	Preliminary	Adjustments	Final
Trade receivables	\$ 124	\$ (40)	\$ 84
Inventories	5,365	9	5,374
Other assets	413	(65)	348
Property, plant and equipment	527	66	593
	\$ 6,429	\$ (30)	\$ 6,399

Canpro contributed no revenues in the year-ended December 31, 2014 due to the timing of the acquisition. If the acquisition had taken place on January 1, 2014, Canpro would have contributed approximately \$20.0 million in total revenues for the year ended December 31, 2014.

25. 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)

	2015	2014	2013	2012 ⁽⁶⁾
Operating Results				
Revenues	1,802,233	1,660,390	1,593,431	1,507,173
Net earnings	145,666	133,196	123,031	119,473
Net interest expense (income) ⁽²⁾	5,246	4,034	4,900	5,740
Capital expenditures ⁽²⁾	150,106	107,815	94,803	101,311
Dividends declared	52,882	46,267	39,854	36,728
Financial Position				
Working capital	486,293	294,753	356,347	302,919
Capital assets	429,824	371,661	341,152	316,925
Total assets	1,276,077	1,107,802	1,030,555	936,170
Long-term debt ⁽³⁾	152,079	4,942	130,948	158,395
Shareholders' equity	775,281	668,075	576,557	476,575
Financial Ratios				
Working capital	2.6:1	1.7:1	2.2:1	2.2:1
Return on opening shareholders' equity (%) ⁽⁴⁾	21.6	23.0	25.7	29.9
Total debt, net of cash, to shareholders' equity	.11:1	.07:1	.11:1	.33:1
Per Share Data (\$)				
Basic earnings per share	1.88	1.73	1.61	1.56
Diluted earnings per share	1.86	1.71	1.59	1.55
Dividends declared	0.68	0.60	0.52	0.48
Book value (shareholders' equity)	9.95	8.65	7.50	6.24
Shares outstanding at year end	77,905,821	77,259,396	76,844,897	76,407,658
Price range ⁽⁵⁾				
High	37.61	28.97	26.94	25.00
Low	26.70	24.48	21.12	18.61
Close	31.55	28.51	26.65	21.10

(1) 2010 - 2015 results were prepared in accordance with IFRS. Results for 2009 and prior were prepared in accordance with Canadian GAAP.

(2) Figures for 2010 - 2015 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.

2011	2010	2009	2008	2007	2006
1,381,974	1,207,028	1,824,592	2,121,209	1,886,761	1,746,162
246,459	103,912	120,516	140,524	122,280	99,421
5,798	8,826	2,460	(3,246)	9,331	11,110
82,877	71,143	61,041	96,475	97,108	102,444
36,968	47,716	38,848	36,391	31,061	25,594
251,122	478,289	539,264	509,276	466,859	469,638
287,290	556,991	369,666	402,647	341,159	323,504
913,331	2,271,763	1,364,667	1,533,450	1,356,861	1,299,992
132,815	413,040	144,051	158,112	203,425	238,468
403,861	1,196,838	854,063	779,103	654,730	565,556
1.7:1	1.8:1	2.6:1	1.9:1	2.0:1	2.1:1
28.9	9.1	15.5	21.5	21.6	20.6
.15:1	.21:1	(.06):1	.05:1	.2:1	.4:1
3.20	1.36	1.86	2.16	1.89	1.56
3.18	1.35	1.86	2.15	1.88	1.54
0.48	0.62	0.60	0.56	0.48	0.40
5.27	15.50	13.17	12.06	10.08	8.79
76,629,777	77,149,626	64,867,467	64,620,677	64,943,497	64,310,377
33.25	32.40	27.80	32.90	30.00	27.15
15.39	22.86	19.26	19.03	22.30	20.08
21.32	30.76	27.79	22.99	28.26	24.50

Corporate Information

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F: 416.667.5555
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Battlefield – The Cat Rental Store

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T: 905.577.7777
F: 905.643.6008
www.battlefieldequipment.ca

AgWest Ltd.

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F: 877.353.4343
www.agwest.com

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www.cimcorefrigeration.ca

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 Wednesday, April 27, 2016 in the Toscana Ballroom at the Hilton Garden Inn (Vaughan), 3201 Highway 7, Vaughan, Ontario L4K 5Z7.

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How to Reach Our Transfer Agent and Registrar

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Common Shares

Listed on the Toronto Stock Exchange

Stock Symbol – TIH

This annual report was printed in Canada on stock manufactured chlorine-free with 10% post-consumer fibre.

Design and Coordination: Ove Design & Communications www.ovedesign.com Editorial: Fundamental Creative Inc.



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