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, 2018, compared to the preceding year. This MD&A should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2018.

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 14, 2019.

Advisory

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

Numerous risks and uncertainties could cause the actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking statements, including, but not limited to: business cycles, including general economic conditions in the countries in which Toromont operates; commodity price changes, including changes in the price of precious and base metals; changes in foreign exchange rates, including the Cdn$/US$ exchange rate; the termination of distribution or original equipment manufacturer agreements; equipment product acceptance and availability of supply; increased competition; credit of third parties; additional costs associated with warranties and maintenance contracts; changes in interest rates; the availability of financing; potential environmental liabilities of the acquired businesses and changes to environmental regulation; failure to attract and retain key employees; damage to the reputation of Caterpillar, product quality and product safety risks which could expose Toromont to product liability claims and negative publicity; new, or changes to current, federal and provincial laws, rules and regulations including changes in infrastructure spending; and any requirement of Toromont to make contributions to the registered funded defined benefit pension plans, postemployment benefits plan or the multi-employer pension plan obligations in which it participates in and acquired in excess of those currently contemplated. Risks and uncertainties related to the 2017 significant acquisition could also cause the actual results to differ materially from the estimates beliefs and assumptions expressed or implied in the forward-looking statements, including but not limited to: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material undiscovered liabilities in the 2017 acquisition; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition; and risks related to integration of the acquired operations with those of Toromont including cost of integration and ability to achieve the expected benefits. Readers are cautioned that the foregoing list of factors is not exhaustive.

Any of the above mentioned risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied in the forward-looking information and statements included in this MD&A. For a further description of certain risks and uncertainties and other factors that could cause or contribute to actual results that are materially different, see the risks and uncertainties set out in the "Risks and Risk Management" and "Outlook" sections herein. Other factors, risks and uncertainties not presently known to Toromont or that Toromont currently believes are not material could also cause actual results or events to differ materially from those expressed or implied by statements containing forward-looking information.

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

CORPORATE RECAP

2017 Acquisition

Toromont completed a significant acquisition on October 27, 2017 and as a consequence became the authorized Caterpillar dealer for the province of Québec, Western Labrador and the Maritimes, as well as the MCFA lift truck dealer for Québec and most of Ontario, in addition to the MaK engine dealer for Québec, the Maritimes and the Eastern seaboard of the United States, from Maine to Virginia. Additional distribution rights were also acquired. Collectively, the businesses acquired are referenced as Toromont Quebec/Maritimes ("Toromont QM or TQM") throughout this report.

This important transaction provides a substantial growth platform and strengthens our Company by providing a large contiguous operating platform extending across all of Eastern and Central Canada and into the far North.

For further information on the accounting for the acquisition, refer to note 25 of the notes to the consolidated financial statements.

CORPORATE PROFILE AND BUSINESS SEGMENTATION

As at December 31, 2018, Toromont employed over 6,000 people in more than 150 locations across Canada and the United States. Toromont is listed on the Toronto Stock Exchange under the symbol TIH.

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

The Equipment Group includes Toromont CAT, one of the world's larger Caterpillar dealerships, Battlefield – The CAT Rental Store, an industry-leading rental operation, Sitech, providing Trimble technology products and services, AgWest, an agricultural equipment and solutions dealer representing AGCO, CLAAS and other manufacturers' products, in addition to the acquired businesses noted above, which are in varying stages of integration. The Company is the exclusive Caterpillar dealer for a contiguous geographical territory in Canada that covers Manitoba, Ontario, Quebec, Newfoundland, New Brunswick, Nova Scotia, Prince Edward Island and most of Nunavut. Additionally, the Company is the MaK engine dealer for the Eastern seaboard of the United States, from Maine to Virginia. 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.

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)	**2018**	2017	$ change	% change
REVENUES	**$ 3,504,236**	$ 2,350,162	$ 1,154,074	49%
Cost of goods sold	**2,640,835**	1,794,213	846,622	47%
Gross profit (1)	**863,401**	555,949	307,452	55%
Selling and administrative expenses	**493,827**	306,367	187,460	61%
OPERATING INCOME (1)	**369,574**	249,582	119,992	48%
Interest expense	**30,643**	12,277	18,366	150%
Interest and investment income	**(8,918)**	(4,659)	(4,259)	91%
Income before income taxes	**347,849**	241,964	105,885	44%
Income taxes	**95,865**	65,994	29,871	45%
NET EARNINGS	**251,984**	175,970	76,014	43%
BASIC EARNINGS PER SHARE	**$ 3.10**	$ 2.22	$ 0.88	39%
KEY RATIOS:				
Gross profit margin (1)	**24.6%**	23.7%		
Selling and administrative expenses as a % of revenues	**14.1%**	13.0%		
Operating income margin (1)	**10.5%**	10.6%		
Income taxes as a % of income before income taxes	**27.6%**	27.3%		
Return on capital employed (1)	**21.7%**	21.5%		
Return on equity (1)	**22.3%**	19.3%		

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

The Company delivered solid results in the year, the first across the expanded territories in its Equipment Group. Results at CIMCO were weaker, mainly due to specific items.

The legacy businesses reported revenue growth of $127.5 million or 6% for the year with increases across most revenue streams in the Equipment Group and higher package sales and product support revenues at CIMCO. Toromont QM contributed $1.3 billion in the year versus $242.6 million generated for the two months of ownership in 2017.

Gross profit margin increased 90 basis points ("bps") to 24.6% versus last year. The legacy Equipment Group reported higher margins across most revenue streams, partially offset by lower package margins at CIMCO. Both Groups benefitted from a favorable sales mix of higher product support revenues to total revenues.

Selling and administrative expenses increased $187.5 million, largely reflecting the incremental expenses at Toromont QM ($172.7 million). Acquisition-related costs were $4.9 million lower than last year, while mark-to-market adjustments on Deferred Share Units ("DSUs") favorably impacted expenses by $5.6 million, given the relative share prices. Compensation costs accounted for approximately 60% of the remaining increase on additional headcount, regular annual increases and higher profit sharing accrual on the increased earnings. Allowance for doubtful accounts were $2.0 million higher reflecting the relative aging profiles of accounts receivables. Certain other expenses categories such as customer support costs, insurance, travel, training and information technology costs, were higher in support of the growth and integration and transition efforts. As a percentage of revenues, expenses net of Toromont QM and acquisition-related expenses were 20 bps higher than last year at 12.6%.

Operating income increased $120.0 million reflecting the incremental contribution at Toromont

QM, net of acquisition-related costs, and solid growth in the Equipment Group, partially offset by weaker results at CIMCO. Operating income margin for the legacy businesses increased 80 bps to 12.5%.

Interest expense increased $18.4 million as a result of the additional debt incurred to partially fund the acquisition.

Interest income increased $4.3 million on higher investment income resulting from higher average cash balances held throughout the year and higher interest from conversions of equipment on rent with a purchase option ("RPO").

The effective income tax rate for 2018 was 27.6% compared to 27.3% in 2017. The increase is substantially due to the higher proportion of income earned in the higher tax jurisdictions, although this is expected to be mitigated in coming years as Quebec continues to phase in reductions in the corporate tax rates.

Net earnings in 2018 were $252.0 million, up 43% from 2017, while basic earnings per share ("EPS") increased $0.88 or 39% to $3.10. The following table identifies the components of contributions to the 2018 results versus last year:

	Years ended December 31					
	Net earnings			**Basic EPS** [(a)]		
millions, except per share amounts	**2018**	2017	**% change**	**2018**	2017	**% change**
Legacy Toromont [(b)]	**$ 205.9**	$ 175.6	**17%**	**$ 2.61**	$ 2.29	**14%**
Toromont QM [(c)]	64.1	8.3	nm	0.81	0.11	nm
Acquisition-related interest expense and integration-related costs [(e)]	(18.0)	(7.9)	nm	(0.23)	(0.10)	nm
Dilutive impact of acquisition shares [(d)]	-	-	-	(0.09)	(0.08)	nm
As reported	**$ 252.0**	$ 176.0	**43%**	**$ 3.10**	$ 2.22	**39%**

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability

(b) Defined as all businesses continuing from prior to the acquisition

(c) Defined as all businesses acquired October 27, 2017

(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings

(e) Expenses shown net of taxes

Legacy Toromont net earnings increased 17% in the year while EPS increased $0.32 or 14%.

Comprehensive income in 2018 was $273.0 million (2017 - $168.2 million), comprised mainly of net earnings, other comprehensive income resulting from actuarial gains on defined benefit pension and other post-employment benefit plans and a favorable change in the fair value of cash flow hedges.

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)	**2018**	2017	$ change	% change
Equipment sales and rentals				
New	**$ 1,197,739**	$ 784,915	$ 412,824	53%
Used	**310,381**	227,293	83,088	37%
Rentals	**378,027**	261,641	116,386	44%
Total equipment sales and rentals	**1,886,147**	1,273,849	612,298	48%
Product support	**1,264,295**	746,832	517,463	69%
Power generation	**10,645**	11,270	(625)	(6%)
Total revenues	**$ 3,161,087**	$ 2,031,951	$1,129,136	56%
Operating income	**$ 348,876**	$ 219,814	$ 129,062	59%
Capital expenditures (net)				
Rental	**$ 125,148**	$ 66,822	$ 58,326	87%
Other	**37,546**	32,710	4,836	15%
Total	**$ 162,694**	$ 99,532	$ 63,162	63%
KEY RATIOS:				
Product support revenues as a % of total revenues	**40.0%**	36.8%		
Operating income margin	**11.0%**	10.8%		
Group total revenues as a % of consolidated revenues	**90.2%**	86.5%		
Return on capital employed	**21.4%**	21.1%		

Total Equipment Group results demonstrated significant increases in revenues and earnings on continued year-over-year growth in the legacy operations and an accretive full year of operations in the expanded territories (versus two months in 2017).

The legacy Equipment Group revenues grew 6% to $1.9 billion on increases across most revenue streams. Toromont QM contributed $1.3 billion in its first full year of operations under Toromont's ownership, representing a 13% increase over those generated in 2017, ten months of which were at the predecessor organization. To provide a more complete understanding of the business trends at TQM, year-over-year revenue comparisons will be against pro forma 2017 revenues (i.e. Toromont + predecessor organization).

At the legacy businesses, total equipment sales (new and used) increased $21.6 million or 2%. New equipment sales were up 6%. Growth in construction and agriculture followed positive markets, which more than offset lower sales in mining and power systems, following significant orders and record performance in the prior year. Used equipment sales were down 7%, significantly due to tighter availability, together with the strategic curtailment of rental fleet dispositions, due to growth focus in rental, together with a view to product availability.

At Toromont QM, total new and used equipment sales of $611.7 million represented a 16% increase over total new and used revenues generated in 2017 at Toromont and the predecessor organization combined. Sales into construction markets were up on good penetration of robust markets, and power systems increased on higher sales into electric power markets, somewhat offset by lower marine activity. Sales into mining markets were lower coming off a strong year. Material handling or lift truck sales increased with an expanding product portfolio, together with higher activity levels with the larger customers.

Legacy rental revenues increased $30.2 million or 12% versus last year, mainly on higher utilization and larger fleets. Rental rates have remained relatively constant to 2017, while the average cost for machines added to the fleets has increased. Heavy equipment rentals were up 4% with strong activity levels reported in Ontario, especially in the North and Southwestern corridor, offsetting lower activity in Newfoundland. Light equipment rentals increased 10% with all regions reporting growth except Newfoundland. Power rentals increased 67%, closing out a record year, on strong growth in the prime power segment. Market penetration was also good across most other industries, reflecting the continued focus on growing and diversifying the fleet to address demand signals across the wider market base. Rental revenues from equipment on rent with a purchase option (“RPO”) were up 10% on a larger average fleet versus 2017. At Toromont QM, rental revenues of $104.8 million represented a 6% increase over 2017. Higher investments in the fleets, together with a diversified portfolio aligning to the legacy operations mix yielded higher revenues. At December 31, 2018, the RPO fleet across the business was $74.6 million, up $3.0 million from a year ago.

Product support revenues at the legacy businesses increased $51.3 million or 8%. Parts sales grew 6%, mainly reflecting good activity into mining markets. Service revenues were up 13% with growth across most market segments. At Toromont QM, product support revenues of $552.8 million represented a 10% increase over 2017 on higher parts (up 9%) and service revenues (up 15%). Both legacy and Toromont QM’s product support revenues benefitted from good rebuild activity and a growing technician base.

Power generation revenues were $10.6 million versus $11.3 million last year, reflecting lower electricity output at the Waterloo landfill plant and lower thermal revenues at the Sudbury Hospital plant.

Gross margins increased 160 bps versus last year. For the legacy operations, product support, equipment and rental margins were higher, further buoyed by a favorable sales mix of product support revenues to total revenues.

Selling and administrative expenses were up $187.3 million, mainly due to the incremental expenses at Toromont QM, net of acquisition-related costs. At the legacy businesses, expenses increased $19.6 million or 9% and were 40 bps higher as a percentage of revenues, mainly due to higher compensation costs, allowance for doubtful accounts and general increases across most other categories in support of growth and integration and transition efforts.

Operating income was up $129.1 million. The operating income of the legacy businesses increased $42.3 million or 20% and was 160 bps higher as a percentage of revenues (13.7% versus 12.1% last year).

Capital expenditures, net of dispositions, increased $63.2 million, largely due to investments at Toromont QM (up $65.1 million). At the legacy businesses, replacement and expansion of the rental fleet were up $7.3 million to $68.3 million while other capital expenditures were lower by $9.2 million, mainly due to lower investments in land and buildings. At Toromont QM, $51.1 million of the increase related to growing the rental fleet.

Bookings and Backlogs

($ millions)	**2018**	2017	$ change	% change
Bookings - year ended December 31	**$ 1,537**	$ 1,013	$ 524	52%
Backlogs - as at December 31	**$ 342**	$ 327	$ 15	5%

The legacy businesses bookings increased $16.0 million or 2%. A large power systems order, together with higher construction (up 5%) and agriculture orders (up 14%), served to offset the impact of the large mining package delivered last year.

Toromont QM bookings were $594.0 million for 2018 versus $86.0 million for the two months of operations in 2017. Prior to the acquisition, bookings were not tracked at the predecessor organization. Approximately 60% of the orders in 2018 were construction related, with the remainder split somewhat evenly between mining, power systems and lift truck orders.

Backlogs, which would be on a comparable basis year-over-year, increased $15.0 million or 5% to $342.0 million. At December 31, 2018, the total backlog related to power systems (42%), construction (26%), mining (19%), agriculture (7%) and lift trucks (6%), most of which is expected to be delivered in 2019. Backlogs can vary significantly from period to period on large project activities, especially in mining and power systems, the timing of orders and deliveries and the availability of equipment from either inventory or suppliers.

CIMCO

($ thousands)	**2018**	2017	$ change	% change
Package sales	**$ 202,367**	$ 189,212	$ 13,155	7%
Product support	**140,782**	128,999	11,783	9%
Total revenues	**$ 343,149**	$ 318,211	$ 24,938	8%
Operating income	**$ 20,698**	$ 29,768	$ (9,070)	(30%)
Capital expenditures (net)	**$ 2,452**	$ 1,422	$ 1,030	72%
KEY RATIOS:				
Product support revenues as a % of total revenues	**41.0%**	40.5%		
Operating income margin	**6.0%**	9.4%		
Group total revenues as a % of consolidated revenues	**9.8%**	13.5%		
Return on capital employed	**64.1%**	99.9%		

CIMCO delivered record revenues for the year, mainly on continued growth in Canada as the US contracted slightly following a very strong 2017. The translation of financial results at the US operations did not have a significant impact on results. Lower operating income reflects a specific one-time inventory adjustment recorded in the fourth quarter.

In Canada, package revenues were up $19.2 million or 14%, reflecting strong sales into industrial markets (up 32%), partially offset by lower recreational sales (down 19%). Quebec and Western Canada revenues increased to record levels while Ontario and Atlantic Canada returned to more normal levels following the record 2017. In the US, package revenues decreased $6.0 million or 13% as strong sales into industrial markets (up 134%) were partially offset by lower sales into recreational markets (down 61%).

Product support revenues increased $11.8 million or 9% versus last year on growth in both Canada (up 10%) and the US (up 8%). The increased installed base continues to provide a solid growth platform as product support revenues have increased every year since 2009. Focus remains on growing the technician base to address demand signals.

Gross margins decreased 440 bps, largely attributable to an inventory write-down recorded in the fourth quarter ($6.0 million), together with execution problems encountered in the first half of the year on one US project resulting in a charge of $2.9 million for the year. The inventory charge stemmed from a review of work-in-process costing and aging. Apart from this, project margins continued to face pressures in both Canada and the US, mainly on a very competitive pricing environment. The growing proportion of product support revenues to total revenues continues to somewhat mitigate this impact. Product support revenues were 41.0% as a percentage of total revenues compared to 40.5% in 2017.

Selling and administrative expenses were relatively in line with last year but down 100 bps as a percentage of revenues (14.0% versus 15.0%). Higher compensation costs were offset by reductions in most other expense categories as the Group continues to focus on expense management to mitigate the margin pressures.

Operating income was lower by $9.1 million or 30% in 2018, principally due to the lower margins described above. As a percentage of revenues, operating income was 6.0%.

Capital expenditures, net of dispositions, were up $1.0 million or 72% to $2.5 million with the majority of expenditures in 2018 related to additional service vehicles ($1.2 million), information technology infrastructure enhancements and upgrades ($0.7 million) and machinery and equipment ($0.5 million).

Bookings and Backlogs

($ millions)	**2018**	2017	$ change	% change
Bookings - year ended December 31	**$ 185**	$ 233	$ (48)	(21%)
Backlogs - as at December 31	**$ 113**	$ 134	$ (21)	(16%)

Bookings of $185.0 million were lower by $48.0 million versus the all-time high achieved last year. Industrial orders were lower in both Canada (down 21%) and the US (down 61%) while recreational orders were lower in Canada (down 10%) and relatively unchanged in the US.

Backlogs of $113.0 million were also lower against the record 2017 levels, but still higher than the previous five-year average. Industrial backlogs were down 19%, mainly in Canada. Recreational backlogs were down 11% with higher Canadian activity more than offset by lower US activity. The backlog levels for this time of year provide a good base entering 2019, with substantially all expected to be realized as revenue in 2019.

CONSOLIDATED FINANCIAL CONDITION

The Company has maintained a strong financial position for many years, and continues to do so, even after raising financing for the substantial acquisition of TQM in October 2017.

At December 31, 2018, the ratio of net debt to total capitalization decreased to 18% versus 40% at December 31, 2017.

Non-Cash Working Capital

The Company's investment in non-cash working capital was $309.5 million at December 31, 2018. The major components, along with the changes from December 31, 2017, are identified in the following table.

($ thousands)	**2018**	2017	$ change	% change
Accounts receivable	**$ 522,462**	$ 528,748	$ (6,286)	(1%)
Inventories	**873,507**	777,524	95,983	12%
Other current assets	**9,932**	8,386	1,546	18%
Accounts payable and accrued liabilities	**(916,300)**	(525,166)	(391,134)	74%
Provisions	**(24,382)**	(22,436)	(1,946)	9%
Income taxes payable	**(28,368)**	(204)	(28,164)	nm
Derivative financial instruments	**27,624**	(5,260)	32,884	nm
Dividends payable	**(18,737)**	(15,655)	(3,082)	20%
Deferred revenues and contract liabilities	**(136,244)**	(137,129)	885	(1%)
Total non-cash working capital	**$ 309,494**	$ 608,808	$ (299,314)	(49%)

Accounts receivable at December 31, 2017 included $42.7 million related to amounts owing to the Company stemming from the acquisition which was subsequently collected in the first quarter of 2018. Excluding this, accounts receivables increased $36.4 million or 7%, largely reflecting higher revenues at the legacy businesses in the fourth quarter (up 5%), the impact of Toromont QM in the fourth quarter year-over-year (three months of activity in 2018 versus two months in 2017) and slower collections.

Inventories increased $96.0 million or 12% with increases in both Groups:

- Equipment Group inventories were $95.7 million or 13% higher with increases in equipment (up $51.9 million or 10%), parts (up $40.9 million or 21%) and service work-in-process (up $2.9 million or 5%). With increased business opportunities following the expansion, the Company built up both the equipment and parts inventory levels throughout the year. Additionally, certain inventory was held in advance of customer specified delivery dates later in 2019 together with higher parts inventory at remote mine sites to support higher activity levels. The higher service work-in-process levels reflects good activity levels across our service operations.
- CIMCO inventories were up $0.3 million or 2% on higher work-in-process levels.

The increase in other current assets relates to higher prepaid expenses at Toromont QM.

Accounts payable and accrued liabilities increased $391.1 million or 74%, principally due to the transitional terms from suppliers related to inventory purchases.

Income taxes payable reflects the difference between tax installments and current tax expense.
Derivative financial instruments represent the fair value of foreign exchange contracts. Fluctuations in the value of the Canadian dollar have led to a cumulative net gain of $27.6 million as at December 31, 2018. This is not expected to affect net earnings as the unrealized gains will offset future losses on the related hedged items.

Higher dividends payable year-over-year reflect the higher dividend rate. Early in 2018, the quarterly dividend rate was increased from $0.19 per share to $0.23 per share, a 21% increase.

Deferred revenues and contract liabilities, which were down $0.9 million or 1%, represent billings to customers in excess of revenue recognized.

- In the Equipment Group, these arise mainly due to progress billings from the sale of power and energy systems and long-term product support maintenance contracts, as well as on sales of equipment with residual value guarantees and customer deposits for machinery to be delivered in the future. In 2018, these increased $8.1 million or 7% largely related to progress billings and customer deposits for deliveries in 2019.
- At CIMCO, these arise on progress billings from the sale of refrigeration packages and were down $9.0 million or 31%, correlating to the lower backlog levels.

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, 2018 as outlined in note 7 of the notes to the consolidated financial statements.

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. Stock options vest 20% per year on each anniversary date of the grant and are exercisable at the designated common share price, which is fixed at prevailing market prices at the date the option is granted. Stock options granted in 2013 and after have a 10-year term while those granted prior to 2013 have a seven-year term. At December 31, 2018, 2.6 million options to purchase common shares were outstanding, of which 1.1 million were exercisable.

The Company offers an Employee Share Purchase Plan whereby employees can purchase shares by way of payroll deductions. Under the terms of this plan, eligible employees may purchase common shares of the Company in the open market at the then-current market price. The Company pays a portion of the purchase price, matching contributions at a rate of $1 for every $3 contributed, to a maximum of the greater of 2.5% of an employee's base salary or $1,000 per annum. Company contributions vest to the employee immediately. Company contributions amounting to $2.4 million in 2018 (2017 – $2.0 million) were charged to selling and administrative expense when paid. Approximately 53% (2017 – 52%) of eligible employees participate in the plan, which is administered by an independent third party.

The Company also offers a deferred share unit ("DSU") plan for executives, certain senior managers and non-employee directors, whereby they may elect, on an annual basis, to receive all or a portion of their performance incentive bonus (in the case of employees) or fees (in the case of directors) in DSUs. 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, 2018, 358,151 DSUs were outstanding with a total value of $19.0 million (2017 – 426,279 units at a value of $23.4 million). The liability for DSUs is included in accounts payable and accrued liabilities on the consolidated statements of financial position.

Employee Future Benefits

The Company sponsors pension arrangements for substantially all of its employees. These include:

- Defined contribution plans, which covers the largest segment of employees, including all newly hired employees;
- Defined benefit plans, which are largely associated with acquired businesses and some historic agreements;
- 401(k) matched savings plans for employees in the US; and
- Other post-employment benefit plans for certain grand-fathered employees in the acquired businesses.

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.

Defined Contribution Plans

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. At December 31, 2018, 3,647 employees participated in Company-sponsored defined contribution plans.

Defined Benefit Plans

The Company sponsors defined benefit pension plans which provides pension and other post-retirement benefits for approximately 2,181 qualifying employees. All Plans are administered by a separate Fund that is legally separated from the Company, with the exception of the Executive Plan described below.

The funded status of these plans changed by $17.0 million (a decrease in the accrued pension liability) as at December 31, 2018.

The Executive Plan is a supplemental plan and is solely the obligation of the Company. All members of the plan are retired. The Company is not obligated to fund the plan but is obligated to pay benefits under the terms of the plan as they come due. The Company has posted letters of credit to secure the obligations under this plan, which were $17.1 million as at December 31, 2018.

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

Off-Balance Sheet Arrangements

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

Legal and Other Contingencies

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

Normal Course Issuer Bid ("NCIB")

Toromont believes that, from time to time, the purchase of its common shares at prevailing market prices may be a worthwhile investment and in the best interests of both Toromont and its shareholders. As such, the normal course issuer bid with the TSX was renewed in 2018. This issuer bid allows the Company to purchase up to approximately 7.0 million of its common shares, representing 10.0% of common shares in the public float, in the twelve-month period ending August 30, 2019. 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, 2018, the Company purchased and cancelled 237,952 common shares for $12.8 million (average cost of $53.83 per share, including transaction costs). No shares were purchased and cancelled in 2017.

Outstanding Share Data

As at the date of this MD&A, the Company had 81,229,723 common shares and 2,632,730 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 2018, the Company declared dividends of $0.92 per common share, $0.23 per quarter (2017 - $0.76 per common share or $0.19 per quarter).

Considering the Company's solid financial position and positive long-term outlook, the Board of Directors announced an increase to the quarterly dividend to 27 cents per share effective with the dividend payable on April 3, 2019. This represents a 17.4% increase in Toromont's regular quarterly cash dividend. The Company has paid dividends every year since going public in 1968 and this represents the 30th 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.

Toromont's debt portfolio is unsecured, unsubordinated and ranks pari passu.

To partially fund the aforementioned acquisition on October 27, 2017, the Company expanded and extended its committed unsecured credit facility to include a term facility of $250.0 million and a revolving facility of $500.0 million, maturing in October 2022. The $250.0 million drawn on the term facility in 2017 was repaid in full during 2018. Standby letters of credit utilized $29.9 million of the revolving facility (2017 - $26.7 million).

Also in October 2017, the Company issued senior unsecured debentures ("Debentures") in the principal amount of $500.0 million which mature in 2027 and bear interest at a rate of 3.842% per annum, payable semi-annually.

These credit arrangements include covenants, restrictions and events of default usually present in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The Company was in compliance with all covenants at December 31, 2018 and 2017.

Cash at December 31, 2018, was $345.4 million, compared to $160.5 million at December 31, 2017.

The Company expects that continued cash flows from combined operations in 2019, cash on hand 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)	**2018**	2017
Cash, beginning of year	**$ 160,507**	$ 188,735
Cash, provided by (used in):		
Operating activities		
Operations	**395,281**	258,322
Change in non-cash working capital and other	**236,050**	70,010
Net rental fleet additions	**(125,148)**	(66,822)
	506,183	261,510
Investing activities	**2,475**	(979,978)
Financing activities	**(323,985)**	690,492
Effect of foreign exchange on cash balances	**254**	(252)
Increase (decrease) in cash in the period	**184,927**	(28,228)
Cash, end of year	**$ 345,434**	$ 160,507

Cash Flows from Operating Activities

Operating activities provided significantly higher cash flow in 2018 compared to 2017.

The higher cash generated from operations reflect the increased cash earnings generated by both Toromont QM and at the legacy businesses.

Non-cash working capital and other provided significantly higher cash in 2018, mainly as a result of higher accounts payable and accrued liabilities, higher income taxes payable and lower accounts receivables, partially offset by higher inventories, lower deferred revenues and contract liabilities and the unfavorable impact of the fair value on derivative financial instruments.

Net rental fleet additions (purchases less proceeds of dispositions) were higher mainly due to investments at Toromont QM to grow the fleet (up $51.1 million). At Legacy Toromont, net additions were $7.3 million higher. The Company continues to invest heavily in this very important rental segment to address strong retail demand signals.

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

Cash Flows from Investing Activities

Investing activities provided $2.5 million in 2018 compared to $980.0 million used in 2017.

The majority of the cash invested in 2017 was to fund the acquisition of Toromont QM, including a final working capital adjustment of $42.7 million which was collected from the vendor in 2018 (refer to note 25 of the notes to the consolidated financial statements for further information).

Investments in property, plant and equipment, net of disposition proceeds, were $40.0 million in 2018 versus $34.1 million in 2017 as follows:

- $18.5 million for service vehicles (2017 - $12.5 million);
- $11.4 million for machinery and equipment (2017 - $2.7 million);
- $5.2 million for land and buildings for new and expanded branches (2017 - $15.5 million); and
- $4.9 million for upgrades and enhancements to information technology infrastructure, furniture and fixtures (2017 - $3.4 million).

Included in the net property, plant and equipment additions above were $16.7 million at Toromont QM versus $2.7 million for the two months of ownership last year.

Cash Flows from Financing Activities

Financing activities used $324.0 million in 2018 versus $690.5 million provided in 2017.

To partially fund the acquisition of Toromont QM in 2017, the Company issued senior debentures of $500.0 million and drew $250.0 million against its term credit facility. Debt issuance costs of $5.6 million were also incurred. During 2018, the Company repaid the $250.0 million drawn on the term credit facility.

Other significant sources and uses of cash in 2018 included:

- Dividends paid to common shareholders of $71.4 million or $0.88 per share (2017 - $58.9 million or $0.75 per share);
- Cash received on exercise of share options of $12.2 million (2017 - $6.8 million); and
- Normal course purchases and cancellations of 237,952 common shares at an average cost of $53.83, including transaction costs, for $12.8 million (2017 – $nil).

OUTLOOK

The expansion of our territories to include Quebec and Atlantic Canada is proving to be transformative to the long-term performance of Toromont. It provides a substantial growth platform and strengthens our Company by providing a large contiguous operating platform extending across all of Eastern and Central Canada and into the far North. Effective execution will be required to realize on this significant potential for a greater combined presence in key Canadian economic sectors such as mining, construction and power systems, combined with the growing rental services and material handling markets. Focus is currently on safety of our people, customer deliverables, business integration, operational excellence initiatives and transition to generate favorable long-term returns.

The Equipment Group's parts and service business continues to provide momentum driven by the larger installed base of equipment working in the field, providing a measure of stability in a variable business environment. The Company continues to hire technicians in anticipation of an increase in demand, including the opportunity for increased equipment rebuilds and readying used iron. Broader product lines, investment in rental equipment and developing product support technologies supporting remote diagnostics and telematics are expected to contribute to longer-term growth.

The long-term outlook for infrastructure projects and other construction activity remains positive across most territories.

The Company has experienced good growth in mining product support this year. Production continues at existing mine sites, generating meaningful product support opportunities and incremental equipment sales to facilitate mine expansion. The substantially increased base of installed equipment bodes well for future product support activity.

CIMCO's increasing installed base and long-term product support levels are positive signals for future growth trends. CIMCO has a wide product offering using natural refrigerants including innovative CO_2 solutions, which remains a differentiator in recreational markets. In industrial markets, CIMCO's proven track record and strong geographical coverage provides continued growth opportunities.

Tariffs implemented this year have not had a material, direct impact to Toromont's businesses.

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

CONTRACTUAL OBLIGATIONS

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

Payments due by period ($ thousands)	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Long-term debt							
- principal	$ 1,022	$ -	$ -	$ -	$ -	$ 650,000	**$ 651,022**
- interest	24,811	24,775	24,775	24,775	24,775	83,146	**207,057**
Accounts payable and accrued liabilities	935,037	-	-	-	-	-	**935,037**
Operating leases	12,895	8,764	5,325	3,115	4,285	1,166	**35,550**
	$973,765	**$33,539**	**$30,100**	**$27,890**	**$29,060**	**$ 734,312**	**$1,828,666**

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,	**2018**	2017	2016	2015	2014
EXPANDING MARKETS AND BROADENING PRODUCT OFFERINGS					
Revenue growth	**49.1%**	22.9%	3.5%	11.2%	4.2%
Revenue per employee (thousands)	**$ 578**	$ 487	$ 533	$ 537	$ 501
STRENGTHENING PRODUCT SUPPORT					
Product support revenue growth	**60.4%**	16.3%	7.6%	24.2%	12.4%
INVESTING IN OUR RESOURCES					
Investment in information technology (millions)	**$ 27.4**	$ 15.0	$ 15.2	$ 14.0	$ 13.4
Return on capital employed (1)	**21.7%**	21.5%	24.5%	24.3%	26.0%
STRONG FINANCIAL POSITION					
Non-cash working capital (millions) (1)	**$ 309.5**	$ 608.8	$ 388.5	$ 421.3	$ 335.4
Net debt to total capitalization (1)	**18%**	40%	-4%	10%	6%
Book value (shareholders' equity) per share	**$ 16.35**	$ 13.89	$ 11.29	$ 9.95	$ 8.65
BUILD SHAREHOLDER VALUE					
Basic earnings per share growth	**39.4%**	11.6%	6.3%	8.5%	7.6%
Dividends per share growth	**21.1%**	5.6%	5.9%	13.3%	15.4%
Return on equity (1)	**22.3%**	19.3%	20.0%	21.6%	23.0%

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

Measuring Toromont's results against these strategies over the past five years illustrates that the Company has delivered consistent, steady growth. The addition of Toromont QM bolstered these key performance measures in 2018, a trend that is expected to continue in the near and long-term.

Included in the table above were two months of operations at Toromont QM in 2017 which increased the income statement metrics presented for that year and conversely diluted the balance sheet metrics. The Company estimated that most metrics in 2017 improved versus 2016 for the legacy businesses.

The 2018 amounts shown above includes one full year of results at Toromont QM and would affect the comparability of results versus the prior years.

In relation to the legacy businesses only, since 2014, revenues increased at an average annual rate of 7.0%, with product support growing at 11.4% annually. Over this period, revenue growth has been mainly 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 in the agricultural space.

Over the same five-year period, revenue growth has been constrained at times by a number of factors including:

- General economic weakness and uncertainty in specific sectors;
- Competitive conditions;
- Inability to source equipment from suppliers to meet customer demand or delivery schedules; and
- Declines in underlying market conditions such as depressed US industrial markets and Manitoba agricultural markets.

Changes in the Canadian/US exchange rate also affect reported revenues as the exchange rate impacts the purchase price of equipment that, in turn, is reflected in selling prices. Since 2014 there have been fluctuations in the average yearly exchange rate of Canadian dollar against the US dollar – 2014 - US$0.91, 2015 - US$0.78, 2016 - US$0.75, 2017 - US$0.77 and 2018 - US$0.77.

Toromont has generated a significant competitive advantage over the past years by investing in its resources, in part to increase productivity levels. 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 18% at the end of 2018 versus 40% at the end of 2017.

Toromont has paid dividends consistently since 1968 and has increased the dividend in each of the last 30 years. The regular quarterly dividend rate was increased 21.1% from $0.19 per share to $0.23 per share in 2018 and a further 17.4% to $0.27 per share in 2019, evidencing our commitment to delivering exceptional shareholder value.

CONSOLIDATED FOURTH QUARTER OPERATING RESULTS

Three months ended December 31 *($ thousands, except per share amounts)*	**2018**	2017	$ change	% change
REVENUES	**$ 966,047**	$ 822,766	$ 143,281	17%
Cost of goods sold	**722,581**	630,652	91,929	15%
Gross profit	**243,466**	192,114	51,352	27%
Selling and administrative expenses	**121,837**	105,533	16,304	15%
OPERATING INCOME	**121,629**	86,581	35,048	40%
Interest expense	**6,550**	6,788	(238)	(4%)
Interest and investment income	**(2,488)**	(1,637)	(851)	52%
Income before income taxes	**117,567**	81,430	36,137	44%
Income taxes	**32,669**	22,294	10,375	47%
NET EARNINGS	**84,898**	59,136	25,762	44%
BASIC EARNINGS PER SHARE	**$ 1.04**	$ 0.73	$ 0.31	43%
KEY RATIOS:				
Gross profit margin	**25.2%**	23.3%		
Selling and administrative expenses as a % of revenues	**12.6%**	12.8%		
Operating income margin	**12.6%**	10.5%		
Income taxes as a % of income before income taxes	**27.8%**	27.4%		

Results in the fourth quarter reflect solid execution in the legacy Equipment Group together with the contribution at Toromont QM. Results at CIMCO were lower on the inventory adjustments recorded in the quarter.

Revenues grew $143.3 million or 17%. Toromont QM's fourth quarter revenues were $356.7 million versus $242.6 million for the two months last year and $361.7 million, pro forma for the full fourth quarter of 2017, including revenues generated at the predecessor organization. The legacy businesses were up $29.2 million or 5%, with growth in the Equipment Group (up 7%) offsetting softness at CIMCO (down 5%).

Gross profit margin increased 190 bps to 25.2% in the quarter. Legacy Equipment Group reported higher equipment and product support margins across the business while CIMCO recorded lower package sales margins as a consequence of specific adjustments.

Selling and administrative expenses increased $16.3 million. Incremental expenses at Toromont QM were $11.1 million. Acquisition-related costs were $3.1 million lower while mark-to-market adjustments on DSUs represented a $3.9 million reduction to expenses. Compensation costs accounted for the majority of the remaining increase together with an increase in the allowance for doubtful accounts (up $1.6 million). As a percentage of revenues, expenses net of Toromont QM and acquisition-related expenses were 90 bps higher than last year at 11.5%.

Operating income increased $35.0 million reflecting the incremental contribution at Toromont QM, net of acquisition-related costs, and solid growth in the Equipment Group. Operating income margin for the legacy businesses increased 70 bps to 14.2%.

Interest expense decreased $0.2 million or 4% in the quarter and benefitted from the lower average debt balances resulting from the repayment of the $250.0 million term credit facility in 2018.

Interest income increased $0.9 million on higher investment income resulting from higher average cash balances held throughout the year and higher interest from conversions of RPOs.

The effective income tax rate for the fourth quarter was 27.8% compared to 27.4% in 2017. The increase is substantially due to the higher proportion of income earned in the higher tax jurisdictions, although this is expected to be mitigated in coming years as Quebec continues to phase in reductions in the corporate tax rates.

Net earnings in the quarter were up 44% to $84.9 million with EPS tracking the increase at $0.31 to $1.04. The following table identifies the components of contributions to the fourth results versus last year:

	Three months ended December 31					
	Net earnings			Basic EPS [a]		
millions, except per share amounts	**2018**	2017	**% change**	**2018**	2017	**% change**
Legacy Toromont [b]	**$ 67.2**	$ 56.8	**18%**	**$ 0.85**	$ 0.72	**18%**
Toromont QM [c]	21.4	8.3	nm	0.27	0.11	nm
Acquisition-related interest expense and integration-related costs [e]	(3.7)	(6.0)	nm	(0.05)	(0.07)	nm
Dilutive impact of acquisition shares [d]	-	-	-	(0.03)	(0.03)	-
As reported	**$ 84.9**	$ 59.1	**44%**	**$ 1.04**	$ 0.73	**43%**

(a) Separately identifies impact of shares issued at acquisition for year-over-year comparability

(b) Defined as all businesses continuing from prior to the acquisition

(c) Defined as all businesses acquired October 27, 2017

(d) EPS impact of 2.2 million shares issued on acquisition to total net earnings

(e) Expenses show n net of taxes

Legacy Toromont net earnings and EPS grew 18%.

BUSINESS SEGMENT FOURTH QUARTER OPERATING RESULTS

Equipment Group

Three months ended December 31 *($ thousands)*	**2018**	2017	$ change	% change
Equipment sales and rentals				
New	**$ 341,497**	$ 308,528	$ 32,969	11%
Used	**101,773**	69,219	32,554	47%
Rentals	**103,093**	90,039	13,054	14%
Total equipment sales and rentals	**546,363**	467,786	78,577	17%
Product support	**324,641**	255,763	68,878	27%
Power generation	**2,864**	2,462	402	16%
Total revenues	**$ 873,868**	$ 726,011	$ 147,857	20%
Operating income	**$ 115,741**	$ 75,434	$ 40,307	53%
Bookings ($ millions)	**$ 423**	$ 328	$ 95	29%
KEY RATIOS:				
Product support revenues as a % of total revenues	**37.1%**	35.2%		
Operating income margin	**13.2%**	10.4%		
Group total revenues as a % of consolidated	**90.5%**	88.2%		

The legacy operations revenues increased $33.8 million or 7% with growth across all revenue streams. Toromont QM contributed $356.7 million, versus $242.6 million generated at Toromont for the two months of operations post-acquisition, and $361.7 million pro forma for the full fourth quarter of 2017, including one month from the predecessor organization. Similar to the comments for the full year above, focus in this section will be on comparable basis which will include the one month of overlap at the predecessor organization.

Total legacy equipment sales (new and used) increased $14.8 million or 6%. Higher sales into construction (up 15%), power systems (up 35%) and agriculture markets (up 79%) were partially offset by lower mining sales (down 51%). At Toromont QM, total equipment sales of $188.1 million represented a decrease of $8.2 million or 4% versus the pro forma total equipment sales for the fourth quarter revenues last year, mainly as a result of lower mining sales, which were partially offset by increases across the other segments. Mining sales can vary substantially from period to period due to the timing of deliveries.

Rental revenues at the legacy businesses increased $6.3 million or 9%. All rental segments reported growth, led by light equipment (up 8%), power (up 33%), heavy rentals (up 6%) and equipment on rent with a purchase option (up 3%). Toromont QM rental revenues of $25.4 million represented a decrease of $4.8 million or 16% versus the pro forma revenues in 2017.

Product support revenues at the legacy businesses increased $12.3 million or 7% on higher parts (up 4%) and service (up 15%). Activity levels were good across most segments, notably in mining and construction. Toromont QM product support revenues of $143.1 million represented an increase of 6% versus the pro forma revenues 2017 with higher parts (up 3%) and service (up 17%).

Power generation revenues were $2.9 million versus $2.5 million last year on higher electricity output at the Sudbury Hospital plant.

Gross margins increased 250 bps in the quarter versus last year, principally due to higher equipment and product support margins at the legacy businesses.

Selling and administrative expenses increased by $16.1 million, largely reflecting the incremental expenses at Toromont QM (up $11.1 million). At the legacy businesses, higher compensation costs and allowance for doubtful accounts accounted for the majority of the increase. As a percentage of revenues, selling and administrative expenses at the legacy businesses were up 90 bps.

Operating income was up $40.3 million in the quarter. Operating income in the legacy businesses increased $13.5 million or 20% and was 170 bps higher as a percentage of revenues at 15.6%, largely reflecting the higher margins and revenues, partially offset by the higher expense ratio.

Bookings at the legacy businesses increased $15.0 million or 6% to $257.0 million reflecting higher mining, construction and agriculture orders, partially offset by lower power systems orders. Toromont QM bookings were $166.0 million for the three months in 2018 versus $86.0 million for the two months in 2017.

CIMCO

Three months ended December 31 *($ thousands)*	**2018**	2017	$ change	% change
Package sales	**$ 50,931**	$ 64,641	$ (13,710)	(21%)
Product support	**41,248**	32,114	9,134	28%
Total revenues	**$ 92,179**	$ 96,755	$ (4,576)	(5%)
Operating income	**$ 5,888**	$ 11,147	$ (5,259)	(47%)
Bookings ($ millions)	**$ 37**	$ 26	$ 11	44%
KEY RATIOS:				
Product support revenues as a % of total revenues	**44.7%**	33.2%		
Operating income margin	**6.4%**	11.5%		
Group total revenues as a % of consolidated revenues	**9.5%**	11.8%		

CIMCO results were dampened in the fourth quarter by an inventory write-down. Translation of US operations did not have a significant impact on results.

Package revenues were down $13.7 million or 21% versus the record levels last year, approximately two-thirds of which related to lower US sales. Canadian revenues were lower by 10% as higher industrial sales (up 9%) were more than offset by lower recreational sales (down 35%). In the US, both market segments experienced significant growth in the fourth quarter last year which were not repeated. Despite this however, fourth quarter revenues in the US were relatively in line with the previous five-year average.

Product support revenues grew $9.1 million or 28% to record levels for a fourth quarter in both

Canada (up 28%) and the US (up 29%).

Gross margins decreased 440 bps in the quarter. The inventory write-down of $6.0 million recorded in the fourth quarter largely accounted for the erosion, partially offset by a favorable sales mix of product support revenues to total revenues (44.7% versus 33.2% in 2017).

Selling and administrative expenses were relatively in line with last year for similar reasons outlined earlier for the year-to-date commentary. As a percentage of revenues, selling and administrative expenses were up 80 bps as a percentage of revenues (11.9% versus 11.1% last year).

Operating income was lower by $5.3 million or 47% in 2018, mainly due to the inventory write-down. Despite this however, operating income was relatively in line with the previous five-year average which included the record last year. As a percentage of revenues, operating income was 6.4%.

Bookings increased $11.0 million or 44% to $37.0 million on strong orders in both Canada and the US. Recreational orders were up in both Canada and the US, while industrial orders increased only in the US.

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 2018 annual audited consolidated financial statements.

($ thousands, except per share amounts)	Q1 2018	Q2 2018	Q3 2018	**Q4 2018**
REVENUES				
Equipment Group	$ 612,971	$ 874,120	$ 800,128	**$ 873,868**
CIMCO	63,857	87,147	99,966	**92,179**
Total revenues	$ 676,828	$ 961,267	$ 900,094	**$ 966,047**
NET EARNINGS	$ 30,779	$ 67,610	$ 68,697	**$ 84,898**
PER SHARE INFORMATION:				
Basic earnings per share	$ 0.38	$ 0.83	$ 0.84	**$ 1.04**
Diluted earnings per share	$ 0.38	$ 0.83	$ 0.84	**$ 1.03**
Dividends paid per share	$ 0.19	$ 0.23	$ 0.23	**$ 0.23**
Weighted average common shares outstanding - basic (in thousands)	80,976	81,131	81,383	**81,427**

($ thousands, except per share amounts)	Q1 2017	Q2 2017	Q3 2017	Q4 2017
REVENUES				
Equipment Group	$ 359,763	$ 458,158	$ 488,020	$ 726,011
CIMCO	52,545	72,772	96,138	96,755
Total revenues	$ 412,308	$ 530,930	$ 584,158	$ 822,766
NET EARNINGS	$ 27,024	$ 40,455	$ 49,355	$ 59,136
PER SHARE INFORMATION:				
Basic earnings per share	$ 0.34	$ 0.52	$ 0.63	$ 0.73
Diluted earnings per share	$ 0.34	$ 0.51	$ 0.62	$ 0.72
Dividends paid per share	$ 0.18	$ 0.19	$ 0.19	$ 0.19
Weighted average common shares outstanding - basic (in thousands)	78,434	78,474	78,522	80,916

Interim period revenues and earnings historically reflect variability from quarter to quarter due to seasonality. The acquisition in the fourth quarter of 2017 also affects comparability on a year-over-year basis.

The Equipment Group has historically had a distinct seasonal trend in activity levels. Lower revenues are recorded during the first quarter due to winter shutdowns in the construction industry. The fourth quarter had typically been the strongest due in part to the timing of customers' capital investment decisions, delivery of equipment from suppliers for customer-specific orders and conversions of equipment on rent with a purchase option. This pattern is impacted by the timing of significant sales to mining and other customers, resulting from the timing of mine site development and access, and construction project schedules. The Company is still in the process of gathering data and analyzing the dynamics of the customers, industries and economic climates of the acquired territories and does not expect the historical trend to be impacted; however more analysis is needed before arriving at a conclusion.

CIMCO has also had a distinct seasonal trend in results historically, due to timing of construction activity. Lower revenues are recorded during the first quarter on slower construction schedules due to winter weather. Revenues increase in subsequent quarters as construction schedules ramp up. This trend can be, and has been, impacted somewhat by significant governmental funding initiatives and significant industrial projects.

Historically, inventories have increased through the year to meet the expected demand for higher deliveries in the third and fourth quarters of the fiscal year. This seasonal sales trend also leads accounts receivable to be at their highest level at year-end.

SELECTED ANNUAL INFORMATION

(in thousands, except per share amounts)		**2018**		2017		2016
Revenues	**$**	**3,504,236**	$	2,350,162	$	1,912,040
Net earnings	**$**	**251,984**	$	175,970	$	155,748
Earnings per share ("EPS")						
- Basic	**$**	**3.10**	$	2.22	$	1.99
- Diluted	**$**	**3.07**	$	2.20	$	1.98
Dividends declared per share	**$**	**0.92**	$	0.76	$	0.72
Total assets	**$**	**3,234,531**	$	2,866,945	$	1,394,212
Total long-term debt	**$**	**645,562**	$	895,747	$	152,528
Weighted average common shares outstanding - basic (in millions)		**81.2**		79.1		78.1

Revenues grew 49% in 2018. Toromont QM contributed $1.3 billion in its first full year of operations in 2018, versus $242.6 million for the two months of ownership in 2017. The legacy businesses revenues increased 6% on good growth in Equipment Group and CIMCO, both buoyed by good product support growth. In 2017, revenues had increased 23%, inclusive of the two months of operations at Toromont QM noted above, with the legacy businesses growing 10% on good sales execution in the Equipment Group and at CIMCO, underpinned by continued product support growth.

Net earnings increased 43% in 2018. In addition to the incremental net earnings at Toromont QM, the legacy Equipment Group delivered good results, which served to offset weaker results at CIMCO and the higher net interest expense as a result of the additional debt incurred to partially fund the acquisition in 2017. In 2017, net earnings had increased 13%, reflecting higher revenues and a relatively lower expense ratio, in addition to the incremental impact of the acquisition.

EPS have generally tracked earnings with basic EPS increasing 39% in 2018 and 12% in 2017.

Dividends have generally increased in proportion to trailing earnings growth. The quarterly dividend rate continues to increase - in 2016 by 5.9% to $0.18 per share, in 2017 by 5.6% to $0.19 per share, in 2018 by 21.1% to $0.23 per share and in 2019 by 17.4% to $0.27 per share. The Company has paid dividends every year since 1968.

Total assets increased 13% in 2018 after more than doubling in 2017 (up 106%). The Company continues to invest in strategic opportunities and assets to drive and sustain the earnings growth experienced.

Long-term debt had increased in 2017 to partially fund the acquisition. The decrease in 2018 mainly represents repayment of the amounts drawn on the term credit facility at that time.

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.

Acquisition of Toromont QM

Risks and uncertainties exist related to the acquisition, including but not limited to: changes in consumer and business confidence as a result of the change in ownership; the potential for liabilities assumed in the acquisition to exceed our estimates or for material undiscovered liabilities; the potential for third parties to terminate or alter their agreements or relationships with Toromont as a result of the acquisition.

The anticipated benefits and synergies from the acquisition will depend in part on whether the operations, systems, management and cultures can be integrated in an efficient and effective manner. While progress regarding certain operational and strategic decisions with respect to the combined organization has been made, other decisions remain and some may not have been identified. These decisions and the integration with the existing Toromont businesses will present significant challenges to management. The integration process may lead to greater than expected operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers or suppliers) for Toromont or the combined organization that may affect the ability of the combined organization to realize the anticipated benefits of the combination or may otherwise materially and adversely affect Toromont's business, results of operations or financial condition.

Business Cycle

Expenditures on capital goods have historically been cyclical, reflecting a variety of factors including interest rates, foreign exchange rates, consumer and business confidence, commodity prices, corporate profits, credit conditions and the availability of capital to finance purchases. Toromont's customers are typically affected, to varying degrees, by these factors and trends in the general business cycle within their respective markets. As a result, Toromont's financial performance is affected by the impact of such business cycles on the Company's customer base.

Commodity prices, and, in particular, changes in the view on long-term trends, affects 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 since inception 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 amounts on the statement of financial position represents the maximum credit exposure.

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

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

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

Warranties and Maintenance Contracts

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

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

Foreign Exchange

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

The rate of exchange between the Canadian and US dollar has an impact on revenue trends. The Canadian dollar averaged US$0.77 in both 2018 and 2017. As substantially all of the equipment and parts sold in the Equipment Group are sourced in US dollars, and Canadian dollar sales prices generally reflect changes in the rate of exchange, a stronger Canadian dollar can adversely affect revenues. The impact is not readily estimable as it is largely dependent on when customers order the equipment versus when it was sold. Bookings in a given period would more closely follow period-over-period changes in exchange rates. Sales of parts come from inventories maintained to service customer requirements. As a result, constant parts replenishment means that there is a lagging impact of changes in exchange rates. In CIMCO, sales are largely affected by the same factors. In addition, revenues from CIMCO's US subsidiary reflect changes in exchange rates on the translation of results, although this is not significant.

Foreign exchange contracts reduce volatility by fixing landed costs related to specific customer orders and establishing a level of price stability for high-volume goods such as spare parts. The Company does not enter into foreign exchange forward contracts for speculative purposes. The gains and losses on the foreign exchange forward contracts designated as cash flow hedges are intended to offset the translation losses and gains on the hedged foreign currency transactions when they occur. As a result, the foreign exchange impact on earnings with respect to transactional activity is not significant.

Interest Rate

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

At December 31, 2018, the Company's outstanding debt of $651.0 million was all fixed-rate.

Fixed-rate debt amortizes or matures between 2019 and 2027. 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.

The Company's revolving credit facility of $500.0 million is a floating-rate debt which exposes the Company to fluctuations in short-term interest rates by causing related interest payments and finance expense to vary. At December 31, 2018, no amounts were drawn on this facility while standby letters of credit utilized $29.9 million.

The Company does not intend to settle or refinance any existing fixed-rate 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.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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.

The Company's significant accounting policies, estimates and assumptions are described in notes 1 and 2 of the notes to the consolidated financial statements.

Changes in Accounting Policies

Effective January 1, 2018, the Company adopted IFRS 15 - *Revenue from Contracts with Customers*, IFRS 9 - *Financial Instruments* and amendments to IFRS 2 - *Share-based payment.*

The impact upon adoption of these standards and amendments are described in full in note 1 of the notes to the consolidated financial statements.

Pending Accounting Changes

A new standard (IFRS 16 – *Leases)* and an interpretation (IFRIC 23 - *Uncertainty over Income Tax Treatments)* have been issued but were not yet effective for the financial year ending December 31, 2018, and accordingly, have not been applied in preparing the consolidated financial statements. The effect of this new standard and interpretation, together with effective dates are discussed in note 1 of the notes to the consolidated financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as at December 31, 2018.

Internal Control over Financial Reporting

Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined by National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings,* and have designed such internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with IFRS.

The CEO and the CFO, together with other members of management, have evaluated the effectiveness of the Company's internal control over financial reporting as at December 31, 2018, using the criteria set forth in Internal Control - Integrated Framework (2013 edition) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on that evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as at December 31, 2018.

There have been no changes in the design of the Company's internal control over financial reporting during 2018 that would materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, a projection of the evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Internal controls over financial reporting may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

ADDITIONAL GAAP MEASURES

IFRS mandates certain minimum line items for financial statements and also requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the Company's financial position or performance. IFRS also requires the notes to the financial statements to provide information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such measures outside of the minimum mandated line items are considered additional GAAP measures. The Company's consolidated financial statements and notes thereto include certain additional GAAP measures where management considers such information to be useful to the understanding of the Company's results.

Gross Profit

Gross Profit is defined as total revenues less cost of goods sold.

Operating Income

Operating income is defined as net earnings before interest expense, interest and investment income and income taxes and is used by management to assess and evaluate the financial performance of its operating segments. Financing and related interest charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments do not correspond to income tax jurisdictions, and it is believed that the allocation of income taxes distorts the historical comparability of the performance of the business segments.

	Three months ended December 31		**Years ended December 31**	
($ thousands)	**2018**	2017	**2018**	2017
Net earnings	**$ 84,898**	$ 59,136	**$ 251,984**	$ 175,970
plus: Interest expense	**6,550**	6,788	**30,643**	12,277
less: Interest and investment income	**(2,488)**	(1,637)	**(8,918)**	(4,659)
plus: Income taxes	**32,669**	22,294	**95,865**	65,994
Operating income	**$ 121,629**	$ 86,581	**$ 369,574**	$ 249,582

Net Debt to Total Capitalization and Equity

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

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

($ thousands)	**2018**	2017
Long-term debt	**$ 644,540**	$ 893,806
Current portion of long-term debt	**1,022**	1,941
less: Cash	**345,434**	160,507
Net debt	**300,128**	735,240
Shareholders' equity	**1,327,679**	1,124,727
Total capitalization	**$ 1,627,807**	$ 1,859,967
Net debt to total capitalization	**18%**	40%
Net debt to equity	**0.23:1**	0.65:1

NON-GAAP MEASURES

Management believes that providing certain non-GAAP measures provides users of the Company's consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. By considering these measures in combination with the comparable IFRS measures set out below, management believes that users are provided a better overall understanding of the Company's business and its financial performance during the relevant period than if they simply considered the IFRS measures alone.

The non-GAAP measures used by management do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for net income or cash flow, in each case as determined in accordance with IFRS.

Working Capital

Working capital is defined as total current assets less total current liabilities. Management views working capital as a measure for assessing overall liquidity.

($ thousands)	**2018**	2017
Total current assets	**$ 1,779,100**	$ 1,475,701
less: Total current liabilities	**1,125,194**	708,327
Working capital	**$ 653,906**	$ 767,374

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)	**2018**	2017
Total current assets	**$ 1,779,100**	$ 1,475,701
less: Cash	**345,434**	160,507
	1,433,666	1,315,194
Total current liabilities	**1,125,194**	708,327
less: Current portion of long-term debt	**1,022**	1,941
	1,124,172	706,386
Non-cash working capital	**$ 309,494**	$ 608,808

Market Capitalization & Total Enterprise Value

Market capitalization represents the total market value of the Company's equity. It is calculated by multiplying the market price of the Company's share by the total outstanding shares.

Total enterprise value represents the total value of the Company and is often used as a more comprehensive alternative to market capitalization. It is calculated by adding net debt (defined above) to market capitalization.

The calculations are as follows:

($ thousands, except for share price)	**2018**	2017
Outstanding common shares	**81,226**	80,950
times: Ending share price at December 31	**$ 54.26**	$ 55.10
Market capitalization	**$ 4,407,344**	$ 4,460,335
Long-term debt	**$ 644,540**	$ 893,806
Current portion of long-term debt	**1,022**	1,941
less: Cash	**345,434**	160,507
Net debt	**$ 300,128**	$ 735,240
Total enterprise value	**$ 4,707,472**	$ 5,195,575

Key Performance Indicators ("KPIs")

Management uses key performance indicators to consistently measure performance against the Company's priorities across the organization. The Company's KPIs include gross profit margin, operating margin, order bookings and backlogs, return on capital employed and return on equity. Although some of these KPIs are expressed as ratios, they are non-GAAP financial measures that do not have a standardized meaning under IFRS and may not be comparable to similar measures used by other issuers.

Gross Profit Margin

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

Operating Income Margin

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

Order Bookings and Backlogs

The Company's order bookings represent equipment unit orders that management believes are firm. Backlogs are defined as the retail value of equipment unit ordered by customers for future deliveries. Management uses order backlog as a measure of projecting future equipment deliveries. There are no directly comparable IFRS measures for order bookings or backlog.

Return on Capital Employed ("ROCE")

ROCE is utilized to assess both current operating performance and prospective investments. The adjusted earnings numerator used for the calculation is income before income taxes, interest expense and interest income (excluding interest on rental conversions). The denominator in the calculation is the monthly average capital employed, which is defined as net debt plus shareholders' equity or total capitalization.

($ thousands)	**2018**	2017
Net earnings	**$ 251,984**	$ 175,970
plus: Interest expense	**30,643**	12,277
less: Interest and investment income	**(8,918)**	(4,659)
plus: Interest income - rental conversions (see note 14)	**3,461**	2,308
plus: Income taxes	**95,865**	65,994
Adjusted net earnings	**$ 373,035**	$ 251,890
Average capital employed	**$ 1,720,921**	$ 1,171,449
Return on capital employed	**21.7%**	21.5%

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)	**2018**	2017
Net earnings	**$ 251,984**	$ 175,970
Opening shareholders' equity (net of adjustments)	**$ 1,130,947**	$ 909,715
Return on equity	**22.3%**	19.3%