

**TOROMONT**

**ANNUAL INFORMATION FORM  
2017**

**MARCH 24, 2017**

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## **PRESENTATION OF INFORMATION**

In this Annual Information Form, the terms "Toromont" and the "Corporation" mean Toromont Industries Ltd. together with, where the context requires, each of its subsidiaries.

Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

## **FORWARD-LOOKING INFORMATION**

Certain statements contained in this Annual Information Form constitute "forward-looking statements". Words such as "plans", "intends", "outlook", "expects", "anticipates", "estimates", "believes", "should" and similar expressions are intended to identify forward-looking statements. With respect to the forward-looking information contained in this Annual Information Form, we have made certain assumptions with respect to general economic and industry growth rates, commodity prices, currency exchange and interest rates, competitive intensity and shareholder and regulatory approvals.

Forward-looking statements are based on current expectations and are influenced by management's historical experience, perception of trends and current business conditions, expected future developments and other factors which management considers appropriate. These statements entail various risks and uncertainties including, but not limited to, risks and uncertainties related to: trends in the general business cycle; fluctuations in commodity prices; the Corporation's dependence on Caterpillar; the availability and timely supply of equipment and products; competition; credit risk relating to customers; fluctuations in the Canadian dollar relative to the United States dollar and the Euro; changes in interest rates; and the availability of additional capital. Any of these risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied the forward-looking statements included in or incorporated into this Annual Information Form. For a further description of these 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 the "Outlook" sections of the Management Discussion and Analysis included in the Corporation's 2016 Annual Report as well as the risk factors discussed under "Risk Factors" in the Management Information Circular dated February 28, 2017, prepared in connection with the Corporation's 2017 Annual Meeting of Shareholders to be held on April 27, 2017 (the "Management Information Circular"). The Corporation disclaims any obligation, except as required by applicable securities legislation, to update publicly or to revise any forward-looking statement, whether as a result of new information, future events or otherwise.

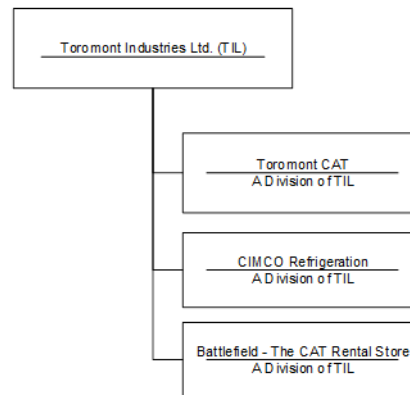
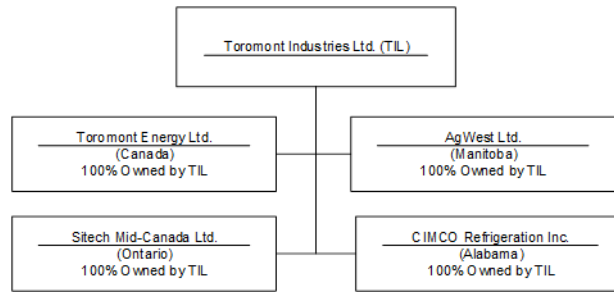
## **CORPORATE STRUCTURE**

### **Name and Incorporation**

Toromont Industries Ltd. is the successor corporation to Toromont Industrial Holdings Ltd., which was incorporated under the laws of Canada in 1961. Its name was changed to Toromont Industries Ltd. on April 18, 1974, and it was continued under the *Canada Business Corporations Act* on January 1, 1997 as a result of an amalgamation with wholly-owned subsidiaries. In this Annual Information Form, the terms "Toromont" and the "Corporation" mean Toromont Industries Ltd., together with, where the context requires, each of its subsidiaries. The address of the principal office of the Corporation is 3131 Highway 7 West, Concord, Ontario, L4K 1B7.

### **Intercorporate Relationships**

The principal subsidiaries of the Corporation, their jurisdictions of incorporation and the percentage of voting securities held by the Corporation are set out below. In addition, certain business units in Canada operate as divisions of the Corporation as outlined below.



## GENERAL DEVELOPMENT OF THE BUSINESS

Toromont Industries Ltd. currently operates through two business segments: the Equipment Group and CIMCO. The Equipment Group includes one of the world's larger Caterpillar Inc. ("Caterpillar") dealerships by revenue and geographic territory in addition to industry-leading rental operations. CIMCO is a market leader in the design, engineering, fabrication and installation of industrial and recreational refrigeration systems. Both groups offer comprehensive product support capabilities. At December 31, 2016, Toromont employed over 3,600 people in 123 locations, including shared facilities and service depots.

### Overview

Through 1985, Toromont held investments in businesses operating in a number of industries. The focus of the Corporation was narrowed in 1986 to Compression businesses, including both gas compression and refrigeration systems. In 1993, the focus of the Corporation expanded to include the Equipment Group, and thus provide a more financially diversified and balanced operation. In 2011, the Corporation spun off its gas compression business, Enerflex, as a separate public company so that the focus of the Corporation is now the Equipment Group and Refrigeration.

### *Equipment Group*

The Equipment Group was established in July 1993 when Toromont acquired the operating assets of Crothers Properties Limited and became the authorized dealer for Caterpillar equipment for most of the Province of Ontario. The Caterpillar dealership territory was expanded in 1996 with the acquisition of Newfoundland Tractor and Equipment Company Limited, the authorized Caterpillar dealer for all of Newfoundland and most of Labrador (other than the portion of Labrador lying west of 64° W. longitude and south of 56° N. latitude) and the French islands of St. Pierre and Miquelon located off the south shore of Newfoundland. In 2001, the Caterpillar dealership territory was again expanded with the acquisition of Powell Equipment Limited, the Caterpillar dealer in the province of Manitoba, northwestern Ontario and in

most of the territory of Nunavut (east of the 110° longitude).

In 1996, Toromont expanded into the equipment rental business with the acquisition of Battlefield Equipment Rentals and other equipment rental companies in various locations. The Battlefield Equipment Rentals division has since grown progressively through acquisitions and the development of greenfield operations to a total of 41 owned, leased or shared locations.

In 1997, Toromont Energy Ltd. ("Toromont Energy"), a wholly owned subsidiary of Toromont, was created to combine the power generation and co-generation expertise it had developed over the years within the Power Systems group of the Ontario Caterpillar dealership, and to capitalize on opportunities in Ontario's electricity markets.

In 2011, Sitech Mid-Canada Ltd., a wholly owned subsidiary of Toromont, was created to consolidate the Trimble (machine GPS control and guidance and laser survey equipment) sales and service segment of the business and to capitalize on the growing interest in GPS technology as an avenue to reduce site development costs.

In 2014, Toromont acquired the shares of Ag West Equipment Ltd., an agricultural equipment dealer in Manitoba. Subsequently, Ag West Equipment Ltd. acquired the assets of Canpro Gator Centre, an agricultural spray application equipment dealer in Manitoba. These transactions expand Toromont's presence in the agricultural equipment supply business, offering an enhanced distribution of products combined with full customer services and support. In 2015, the company name was changed to AgWest Ltd.

#### *Discontinued Operations*

A significant component of the Compression Group prior to 1993 was an equity investment in Enerflex Systems, a major gas compression company. This investment was reduced from 51% to 30% as a result of Enerflex Systems' initial public offering in 1993. In February 1997, Toromont sold its remaining investment in Enerflex Systems. During the period from 1990 to 2002, Compression activities continued to grow through developments in the process and industrial and recreational refrigeration sectors. In 1998, Toromont sold its commercial refrigeration business in the western United States to focus on the expansion and development of its industrial and process refrigeration operations, which were more consistent with the Corporation's strategic direction.

In 2003, Energy Industries Inc., a leading manufacturer of reciprocating natural gas compression packages, was purchased.

On January 20, 2010, Toromont acquired a controlling interest in Enerflex Systems through Toromont's take-over bid for Enerflex's parent, Enerflex Systems Income Fund ("ESIF"). On February 26, 2010, Toromont completed its acquisition of ESIF and subsequently wound up ESIF, thereby consolidating the operations of Enerflex and Toromont Energy Systems Inc. under the Enerflex banner.

As of June 1, 2011, Enerflex Ltd. was spun off as an entirely separate public company.

#### **Three Year History**

The following is a summary of significant developments in the Corporation's core businesses during the three years ended December 31, 2016.

- In February 2014, Toromont opened a new Battlefield Equipment branch office in Goose Bay/Happy Valley, Newfoundland to better service its customers in that Province.
- In September, 2014, Toromont acquired Ag West Equipment Ltd., a company that sold and serviced various lines of agricultural equipment from locations in Portage La Prairie and Neepawa, Manitoba.

- Subsequently, in December 2014, Toromont acquired certain assets, including the Agco spray equipment line, from Canpro Gator Centre in Brandon, Manitoba.
- In May and August 2015, Toromont opened new Battlefield Equipment branches in North Bay and Brantford, Ontario respectively, to better service customers in those markets.
- In 2015, CIMCO increased its sales and service capabilities in the United States through staff located in 23 States.

#### *General*

- The regular quarterly dividend has been increased annually in each of the last 27 years, maintaining a long-term average target payout of approximately 30-40% of trailing earnings from continuing operations. The quarterly dividend was increased by 15% in 2014, 13% in 2015 and 6% in 2016.
- The Corporation maintains a Normal Course Issuer Bid. In 2016, the Corporation purchased 89,244 shares for a total cost of approximately \$2,573,137.
- On November 2, 2005, the Corporation implemented a Shareholder Rights Plan. Shareholder approval was given at the Corporation's 2006 Annual and Special Meeting of Shareholders. The terms of the Plan are contained in the Shareholder Rights Plan Agreement dated November 2, 2005 between the Corporation and CIBC Mellon Trust Company, as rights agent. The Shareholder Rights Plan is intended to provide the Board with sufficient time to explore and develop alternatives for maximizing shareholder value if a take-over bid is made for the Corporation and to provide every shareholder with an equal opportunity to participate in such bid. The Shareholder Rights Plan will be in effect for a period of three years, unless reconfirmed by shareholders. The Shareholder Rights Plan was updated and extended for a further term of three years by shareholders at the Corporation's 2015 Annual and Special Meeting of Shareholders. A shareholder or any other interested party may obtain a copy of the Shareholder Rights Plan through the internet at [www.sedar.com](http://www.sedar.com) or by writing or calling the Vice President, Human Resources and Legal and Corporate Secretary of the Corporation.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

Toromont currently operates in two segments, the Equipment Group and CIMCO.

### **Equipment Group**

The Equipment Group is comprised of the following businesses:

- Toromont Cat
- Battlefield – The Cat Rental Store
- Sitech Mid-Canada Ltd.
- Toromont Energy Ltd.
- AgWest Ltd.

#### *Facilities and Principal Products*

Toromont Cat is one of the world's larger Caterpillar dealerships by revenue and geographic territory, with a network of branches in Ontario, Manitoba, Newfoundland and most of Labrador and Nunavut, providing a broad range of equipment supply and customer service capabilities. The Caterpillar dealership represents a broad range of Caterpillar products, including earthmoving and construction equipment, paving machines, forestry and mining equipment, industrial and marine applications, and power generation. In addition to the sales and service of equipment, operations include the distribution of replacement parts for Caterpillar products and other equipment lines, and the remanufacture and repair of

engines and engine components. The Caterpillar dealership operates from a total of 33 locations (including branches, shared locations and on-site facilities at major customer-owned mine sites) across Ontario, Manitoba, Newfoundland and Labrador and Nunavut. Headquarters are located in Concord, Ontario.

Battlefield Equipment Rentals – The Cat Rental Store is a single source supplier of rental equipment, Caterpillar Compact Equipment, new & used equipment sales, specialty tools, building products, safety supplies and safety training programs for construction contractors, trades people, plant maintenance contractors and homeowners. Battlefield Equipment has a network of 41 branches (including shared facilities and service depots) across Ontario, Manitoba and Newfoundland & Labrador, including its Head Office facility in Stoney Creek, Ontario. Battlefield Equipment sells brand name products and is the authorized distributor for such brands as Caterpillar, Spectra Precision/Trimble, Wacker Neuson, Stihl, Honda, SkyJack, Genie, Husqvarna, Atlas Copco, Bosch, Gorman-Rupp, as well as many others. Battlefield Equipment Rentals also operates Jobsite Industrial Rentals Services, which provides equipment for the plant maintenance, factory and industrial industries; focusing on the electrical, mechanical, welding, millwrighting and rigging trades. Jobsite Industrial Rentals Services operates out of shared locations in Burlington, Cambridge, Toronto and Sudbury, Ontario. Sitech Mid-Canada Ltd. sells and services Trimble machine GPS control and guidance and laser survey equipment and operates from shared locations in Concord, Ontario and Winnipeg, Manitoba.

Toromont Energy develops distributed generation and combined heat and power projects. A subsidiary of Toromont, its core business is the supply, construction and operation of high efficiency power plants, using Caterpillar’s power generation technologies. In addition to providing a range of services for power generation projects, Toromont Energy, on a selective basis, participates in project ownership. Toromont Energy is based in Concord, Ontario, and operates from four locations (including three owned and operated plants) throughout Ontario that supply energy to hospitals, district energy systems and landfill gas to energy plant. Toromont signed 15-year agreements with the Ontario Power Authority in 2010 regarding the power supplied from the two plants in Sudbury, Ontario. The plant in Waterloo, Ontario, is under a 20-year agreement, signed in 2007. In addition, Toromont Energy provides plant operations services to a number of customers in Ontario. We operate and maintain power plants to help ensure our customers success.

AgWest Ltd. (formerly Ag West Equipment Ltd.) is a dealer of agricultural equipment in the Province of Manitoba, providing products including Agco’s Challenger, Fendt and Massey Ferguson lines, Claas combines and building products targeted to agricultural customers. This was complemented by the acquisition of the assets of Canpro Gator Centre, an agricultural spray application equipment dealer representing Agco’s RoGator and TerraGator spray equipment as well as Raven (Slingshot) technology products. AgWest operates from 5 branches (including one shared location) in Manitoba.

#### *Revenue by Category*

The following table depicts the revenue by category of product and service. All revenues are with parties the Corporation deals with at arm’s length.

<i>(\$ thousands)</i>	<b>2016</b>	2015	\$ change	% change
Equipment sales and rentals				
New	<b>\$ 518,808</b>	\$ 595,441	\$ (76,633)	(13%)
Used	<b>239,447</b>	192,445	47,002	24%
Rentals	<b>221,009</b>	222,562	(1,553)	(1%)
Total equipment sales and rentals	<b>979,264</b>	1,010,448	(31,184)	(3%)
Power generation	<b>12,242</b>	11,173	1,069	10%
Product support	<b>595,383</b>	547,878	47,505	9%
<b>Total revenues</b>	<b>\$ 1,586,889</b>	\$ 1,569,499	\$ 17,390	1%

### *Competitive Conditions*

In both the construction and agricultural markets, Toromont competes with international, national, regional and local distributors of competing equipment product lines. Toromont's competitive strengths consist of distribution of high quality products, and continued emphasis on comprehensive product support services from locations in proximity to our customers. The Corporation has a strong financial position allowing for increased leverage and growth. In addition to sales and rentals, the Equipment Group offers mobile maintenance, rebuild capability, oil analysis, fuel injection rebuild laboratories, financing options through Caterpillar Financial Services Limited, online parts access and other e-commerce services. The breadth of Toromont's operations provides it with a competitive advantage in terms of servicing the needs of its customers.

Caterpillar, Toromont's largest supplier, manufactures a wide range of equipment and also distributes, through its dealer network, products manufactured for it and sold under the Caterpillar brand name. The Caterpillar brand is very strong and is widely recognized. Caterpillar builds high quality, reliable products. Accordingly, its products often have a higher capital cost than most competitors' products. However, most owners of Cat products find that, over the length of the operation of a machine, the total ownership cost including downtime, repairs and maintenance is among the best in the heavy equipment industry. Caterpillar's competitors typically offer a more limited range of products, which are specific to particular applications and industries. Toromont's share of industry-wide sales, in the regions it serves, varies significantly across product lines and industries. Toromont offers similar services in the agricultural market while representing leading companies like Agco and Claas.

### *Raw Materials*

The Corporation has dealership and distributor agreements with various equipment manufacturers, the most significant of which are with Caterpillar. Toromont is an authorized dealer for Caterpillar products within our assigned territories. The principal agreements common to arrangements such as this can be terminated on 90 days' notice. Other agreements can be terminated on four to six months' notice. In the event of termination of an agreement by Caterpillar, Caterpillar will purchase substantially all related inventories of new equipment and new parts stock from Toromont at cost. Toromont became a Caterpillar dealer in 1993 and has developed an excellent relationship with Caterpillar. Management of the Corporation is not aware of any matter which could result in termination of the dealership agreements with Caterpillar. As the majority of the Caterpillar dealerships' sales and product support activities involve Caterpillar products, the dealerships' success is dependent upon the continued market acceptance of Caterpillar products.

From time-to-time, during periods of intense product demand or during any disruption in the production of Caterpillar equipment, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Currently, a limited number of models are in tight supply. This has caused Toromont to maintain somewhat higher inventories than usual, from time to time. Any such allocation of supply has not historically proven to be a significant impediment to the conduct of the Caterpillar dealership business and the Corporation has been successful in responding to customers' equipment needs.

The Equipment Group has developed dealer relationships for other product lines not offered by Caterpillar in order to expand our markets, broaden our product offerings and to strengthen product support services. These include relationships with Agco, Claas, Trimble, Metso and Mesaba.

### *Seasonality*

The Equipment Group has 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 has traditionally been the strongest quarter 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. The agricultural industry is slow during the winter months.



## Customers

The Equipment Group's customer base includes infrastructure contractors, residential and commercial contractors, builders, mining companies, aggregate producers, forestry companies, pulp and paper producers, general contractors, utilities, municipalities, marine companies, waste handling companies and agricultural enterprises. There is no significant concentration of revenues within any one segment.

## CIMCO

CIMCO Refrigeration is Canada's largest supplier of industrial and recreational compression equipment, providing full-service capabilities including design, engineering, installation and after-market service. Industrial refrigeration applications include the food, dairy, cold storage and beverage segments. Recreational refrigeration applications include artificial ice surfaces for various sporting activities such as hockey, curling, skating and other unusual ice surfaces. CIMCO is the "Preferred Ice Rink Equipment Supplier" for the National Hockey League. Headquartered in Toronto, Ontario, CIMCO operates from over 36 locations (including branches and service depots) across Canada and the United States.

### Revenue by Category

The following table depicts the revenue by category of product and service. All revenues are with parties the Corporation deals with at arm's length.

<i>(\$ thousands)</i>	<b>2016</b>	2015	\$ change	% change
Package sales	<b>\$ 161,614</b>	\$ 119,516	\$ 42,098	35%
Product support	<b>118,780</b>	113,218	5,562	5%
<b>Total revenues</b>	<b>\$ 280,394</b>	\$ 232,734	\$ 47,660	20%

### Competitive Conditions

Toromont competes with international, national, regional and local suppliers, which is in large part due to the global distribution of its products. Toromont competes with these other suppliers principally on the basis of value to the customer, quality (exact design specification for each application completed with an eye to detail) and after-market service capabilities. Toromont's competitive strengths consist of the customized engineering and design approach to each customer and situation, distribution of high quality products, a broad product line and continued emphasis on delivering timely support services from locations in proximity to our customers. Toromont has a strong financial position allowing for increased leverage and growth. CIMCO has internationally recognized engineering capabilities, preferred status with a number of leading suppliers and customers, and is a leader in using environmentally friendly refrigerants.

### Raw Materials

Raw materials, components, parts and engines used by CIMCO are generally available from a variety of sources.

Toromont has not experienced significant problems in obtaining supply of materials to date and management does not expect significant supply constraints in the foreseeable future.

### Seasonality

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 equity capital. Customers globally are typically affected, to varying degrees, by trends in the general business cycle within their respective markets. As a result, financial performance is affected by the impact of such business cycles on the customer base.

### *Customers*

CIMCO's customer base consists primarily of companies engaged in all aspects of the food and beverage industry, food and beverage processors and recreational facilities around the world, but primarily in Canada and the United States.

### *Foreign Operations*

In the year ended December 31, 2016, approximately 75% of refrigeration revenues originated from the Canadian operations; the balance came from the U.S. operations, which reflects the location of customers.

### *Research and Development*

Projects undertaken for the supply of new equipment typically involve considerable custom engineering that may include unique applications requiring efforts of a research and development nature. Expenditures related to these activities are not charged to research and development, but directly to project costs.

### **Corporate Office**

Day-to-day operations are managed at the Corporation's business unit level. Toromont's corporate office in Concord, Ontario provides overall strategic direction and control as well as centralized insurance, legal, taxation, treasury and human resource functions.

### **Employees**

At December 31, 2016, Toromont employed 3,690 people, with 3,562 employees located in Canada and 128 in the United States. Over 76% of the workforce is employed by the Equipment Group.

The Corporation is a party to 21 collective agreements covering a total of approximately 982 employees. Two collective agreements affecting Toromont Cat, one collective agreement affecting Battlefield and five collective agreements affecting CIMCO will expire in various months during 2017. Generally, Toromont believes its labour relations to be satisfactory and does not anticipate any difficulties in respect of upcoming negotiations.

### **Locations**

Toromont operates from 123 facilities throughout Canada and the United States, 37 of which are leased. Other than its fabrication and repair facilities, Toromont's principal properties are primarily sales and service outlets. Included in the numbers below on the location listing is Toromont-owned land in King City and Vaughan (Ontario) and Goose Bay (Labrador) for future development.

Location	Equipment Group	Cimco	Corporate	Total Facilities	Total Square Footage
Canada:					
Alberta	0	2	0	2	22,700
British Columbia	0	2	0	2	8,700
Manitoba	13	1	0	14	243,200
New Brunswick	0	1	0	1	3,800
Newfoundland / Labrador	10	1	0	11	116,200
Nova Scotia	0	1	0	1	6,000
Nunavut	4	0	0	4	10,700
Ontario	56	10	4	70	1,173,500
Quebec	0	4	0	4	37,400
Saskatchewan	0	1	0	1	4,000
United States:					
Alabama	0	2	0	2	10,000
Arkansas	0	2	0	2	500
Arizona	0	1	0	1	100
Colorado	0	1	0	1	100
Connecticut	0	0	0	0	-
Florida	0	1	0	1	100
Georgia	0	1	0	1	100
Kentucky	0	1	0	1	500
Missouri	0	1	0	1	100
North Carolina	0	1	0	1	100
Pennsylvania	0	1	0	1	100
Texas	0	1	0	1	100
Total Facilities	83	36	4	123	1,638,000

## Environmental Matters

Toromont's operations are subject to a variety of federal, provincial, state and local environmental laws and regulations in Canada and the United States. Such laws and regulations relate to, among other things, the discharge of contaminants into water and air and onto land, the disposal of waste, the handling, storage and transportation of hazardous materials and the storage of materials in underground and above ground tanks.

Toromont is committed to the responsible management of the environment. A variety of programs are conducted throughout its operations to support this commitment, including information sessions and training for employees, and the implementation of response mechanisms and reporting procedures to ensure that appropriate parties are informed about environmental risks and hazards and of specific problems, if and when they occur. Management believes that Toromont is currently in compliance with applicable environmental laws and regulations in all material respects. Toromont's current costs of complying with such laws and regulations are not material. Although costs of compliance are expected to increase over time, the Corporation does not anticipate that any significant expenditures will be necessary to ensure future compliance with applicable environmental laws and regulations. In addition, Toromont considers costs under Canada's and Provincial carbon tax regimes to be substantial but not material.

Some components of CIMCO's activities involve the use of ammonia and alternative refrigerants, which must be stored and handled in accordance with applicable environmental regulations. Our operations are subject to federal, provincial and state regulations, which govern air emissions and impose specific requirements on the use and handling of chlorofluorocarbons, or CFCs, and certain other refrigerants. Regulations now prohibit the release of CFCs and HCFCs used as refrigerants into the environment, and require persons who repair and service equipment that use these refrigerants to be certified by the appropriate regulatory authority. The Corporation is a leader in the use of ammonia based refrigeration systems (and is increasing its use of CO<sub>2</sub> based systems) and as such, current environmental regulations do not have a material adverse impact on compression operations. To the extent more stringent regulations are enacted, Toromont intends to continue to address them in a proactive manner.

During the past few years there has been an increase in the regulation of greenhouse gas ("GHG") emissions including mandatory GHG reporting and, in some jurisdictions, GHG reduction targets. Toromont is not a large emitter of GHGs and does not currently exceed the current applicable GHG reporting or reduction thresholds. The Corporation's operations generated 51,632 CO<sub>2</sub> equivalent GHG emissions in 2016, an increase of 5.8% vs 2015. While reductions were achieved at Toromont CAT and Battlefield, it was not enough to offset an increase in emissions from a busier service fleet at CIMCO and 44% more run time at the Toromont Energy facilities. On a per dollar of revenue basis the Corporation's emissions increased by 2.2%. The Corporation continues to adopt new procedures and utilize more energy efficient equipment in its operations to reduce energy use and to implement better systems to track GHG emissions from all sources. The two single largest point sources of GHG emissions are the engine testing facilities at Toromont Cat Reman and Power Systems operations in Concord and Brampton, Ontario. A new test cell for large generators was opened in 2015 at the Power Systems facility that significantly reduces GHG emissions. In addition, as Cat engines become more efficient, there will be fewer GHG emissions from these facilities. Although Toromont expects the imposition of more stringent GHG regulations, Toromont does not currently anticipate any material expenditures will be necessary to ensure future compliance with more stringent GHG regulations. We cannot currently predict the effects, if any, of more stringent GHG regulations on our customers. However, the Corporation has many products and initiatives such as Eco-Chill, Eco-Snow, auxiliary power units, distributed generation power systems and Tier IV engines that are designed to reduce GHG emissions.

With respect to water conservation, a number of facilities use wastewater reclaim and treatment systems, and Battlefield and Toromont Cat are in the midst of multi-year plans to upgrade their equipment washing facilities, including water recycling systems (where feasible). Two facilities were retrofit with water recycling systems in 2016. Expenditures are not material. In addition, Toromont has commenced tracking water usage as an environmental KPI, similar to the tracking of GHG emissions, with the goal of improved water efficiencies use across its operations.

Management reports quarterly to the Board of Directors on environmental matters. See the Corporation's 2016 Annual Report for additional information regarding the Corporation's environmental initiatives.

## **Safety**

The Corporation maintains an active and extensive accident prevention program at each of its operations. Safety initiatives are built into the business plans (and many compensation plans) of each division. The Corporation considers the identification of near misses and hazards and responses thereto to be crucial in its attempts to reduce workplace injuries. The Board receives regular quarterly reports from the divisions regarding their health and safety performance. The Corporation's senior health and safety managers from each division meet in person or by teleconference on a quarterly basis to promote the sharing of best health and safety practices across the Corporation.

## **Ethics and Privacy**

The Corporation is committed to managing its activities in an ethical and proper manner in all aspects. The Corporation has a Code of Business Conduct setting out the expectations for the ethical and appropriate behaviour of all its Directors, officers and employees. The Code of Business Conduct is reviewed annually by the Corporation's senior management and Board of Directors. The Corporation's Directors, officers and all employees are required to sign an annual acknowledgment of their compliance with the Code.

The Corporation has established a toll-free, anonymous telephone and web-based compliance hotline, which can be used by employees and others to report suspected accounting or auditing irregularities and unethical behaviour or other breaches of the Code impacting the Corporation. The web address is [www.openboard.info/tih](http://www.openboard.info/tih). All complaints to the compliance hotline are brought to the attention of the Chairs of the Audit Committee and the Human Resources and Compensation Committee of the Corporation's Board of Directors.

The Corporation and each of its divisions has adopted a Privacy Policy, appointed Privacy Managers and

engaged in employee training regarding privacy obligations. The Corporation has also issued a Privacy Statement that sets out the Corporation's commitment to protecting the privacy of personal information. The Code and the Privacy Statement are available on the Corporation's website at [www.toromont.com](http://www.toromont.com).

## **RISK FACTORS**

A discussion of operating and financial risks relating to the Corporation is included in the Management Discussion and Analysis included in the Corporation's 2016 Annual Report, which is incorporated herein by reference.

## **LEGAL PROCEEDINGS**

Toromont is occasionally named as a party in various claims and legal proceedings, which arise during the normal course of its business. Toromont reviews each of these claims, including the nature of the claim, the amount in dispute or claimed and the availability of insurance coverage. Although there can be no assurance that any particular claim will be resolved in the Corporation's favour, management does not believe that the outcome of any claims or potential claims of which it is currently aware will have a material adverse effect on the Corporation, taken as a whole.

## **CAPITAL STRUCTURE AND MARKET FOR SECURITIES**

### **Capital Structure**

The Corporation's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares. The common shares entitle holders to one vote per share at all shareholder meetings except meetings at which only the holders of another class or series of shares are entitled to vote. Subject to the prior rights of the holders of the preferred shares, the common shares also entitle holders to receive any dividends declared by the Board of Directors and the remaining property after the Corporation is dissolved. As at December 31, 2016, there were 78,398,456 common shares outstanding and no preferred shares were outstanding.

### **Ratings**

On June 16, 2016, DBRS Limited confirmed the Issuer Rating and Senior Unsecured Debentures rating of Toromont Industries Ltd. (Toromont or the Company) at BBB (high) with Stable trends.

DBRS uses a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. A rating of BBB (high) by DBRS is in the highest subcategory of the fourth highest of 10 major categories and is of adequate credit quality. According to DBRS, debt securities rated BBB provide protection of interest and principal that is considered acceptable, but the issuer is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the issuer and its rated securities.

The credit rating accorded to the Corporation's debentures by DBRS should not be construed as a recommendation to buy, sell, or hold the Corporation's debentures as such rating does not comment as to the market price or suitability of the debentures for a particular investor. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities and are intended to be indicators of the likelihood of payment and of the capacity and willingness of the issuer to meet its financial commitment on obligations in accordance with the terms of those securities. However, the credit ratings accorded to the rated securities may not reflect the potential impact of all risks on the value of those securities, including risks related to structure, market or other factors. The credit rating accorded to the Corporation's debentures by DBRS may be revised or withdrawn at any time by DBRS.

### **Trading Price and Volume**

The Corporation's common shares are listed and posted for trading on The Toronto Stock Exchange (TSX) and trade under the share symbol "TIH".

The high and low trading prices for common shares along with the daily average volume for each month of 2016 were as follows:

	Price (\$ per common share)		Average Daily Volume (in shares) (#)
	High (\$)	Low (\$)	
January	31.33	27.66	284,012
February	32.60	27.25	286,337
March	34.40	31.26	163,736
April	38.80	32.26	166,951
May	37.95	36.06	133,856
June	38.07	36.19	94,733
July	40.81	38.21	117,280
August	40.89	38.25	95,863
September	40.50	37.59	104,087
October	40.93	39.01	74,263
November	44.04	39.01	107,698
December	44.44	42.00	101,059

## DIVIDENDS

Toromont has a practice of paying quarterly dividends on its outstanding common shares, targeting over the longer term, a payout of 30-40% of trailing earnings from continuing operations. This practice is reviewed at least annually, based upon and subject to the Corporation's earnings, financial requirements and general economic circumstances. Certain of Toromont's credit facilities, typical to commercial lending arrangements, contain provisions which could limit the payment of dividends if certain financial covenants are not met. As at December 31, 2016, the Corporation was in full compliance with these covenants.

The Corporation has declared the following dividends per share on its outstanding common shares during the past three years:

Fiscal Period		Dividend per Common Share
2014	First Quarter	\$0.15
	Second Quarter	\$0.15
	Third Quarter	\$0.15
	Fourth Quarter	\$0.15
2015	First Quarter	\$0.17
	Second Quarter	\$0.17
	Third Quarter	\$0.17
	Fourth Quarter	\$0.17
2016	First Quarter	\$0.18
	Second Quarter	\$0.18
	Third Quarter	\$0.18
	Fourth Quarter	\$0.18

## DIRECTORS AND OFFICERS

The names, municipalities and country of residence and principal occupations of the Directors and officers of Toromont, as well as the year each Director first became a Director are set out below. The term of office of each Director will expire at the next Annual Meeting of Shareholders of the Corporation.

### Directors

Name, Municipality and Country of Residence	Year First Became Director	Principal Occupation
Jeffrey S. Chisholm <sup>(1,2)</sup> King Township, Ontario, Canada	2011	Corporate Director
Cathryn E. Cranston <sup>(1,2)</sup> Toronto, Ontario, Canada	2013	Senior Vice President Finance and Treasurer, BMO Financial Group
Robert M. Franklin <sup>(2,3)</sup> Toronto, Ontario, Canada	1994	Corporate Director
David A. Galloway <sup>(1,2,3)</sup> Toronto, Ontario, Canada	2002	Corporate Director
James W. Gill <sup>(2,3)</sup> Toronto, Ontario, Canada	2015	Corporate Director
Wayne S. Hill <sup>(2,3)</sup> Toronto, Ontario, Canada	1988	Corporate Director
John S. McCallum <sup>(1,2)</sup> Winnipeg, Manitoba, Canada	1985	Professor, I. H. Asper School of Business, University of Manitoba
Scott J. Medhurst <sup>(4)</sup> Bolton, Ontario, Canada	2012	President and Chief Executive Officer of the Corporation
Robert M. Ogilvie <sup>(4)</sup> Caledon, Ontario, Canada	1986	Chairman of the Corporation
Katherine A. Rethy <sup>(1,2,3)</sup> Huntsville, Ontario, Canada	2013	Corporate Director
<b>Notes</b> (1) Member of Nominating and Corporate Governance Committee (2) Member of Audit Committee (3) Member of Human Resources and Compensation Committee (4) Messrs. Medhurst and Ogilvie do not serve on any Committees but attend all Committee meetings		

### Officers

Name and Municipality of Residence	Principal Occupation
Scott J. Medhurst Bolton, Ontario, Canada	President and Chief Executive Officer
Randall B. Casson Campbellville, Ontario, Canada	President, Construction Industries/Battlefield Equipment Rentals
Paul R. Jewer Bolton, Ontario, Canada	Executive Vice President and Chief Financial Officer
Michael P. Cuddy Tottenham, Ontario, Canada	Vice President and Chief Information Officer
David C. Wetherald Toronto, Ontario, Canada	Vice President, Human Resources and Legal and Corporate Secretary
Jennifer J. Cochrane Toronto, Ontario, Canada	Vice President, Finance

During the past five years, all of the Directors and officers of Toromont have been engaged in their principal occupations or in executive capacities with the corporations or entities in which they currently hold positions, except Ms. Cochrane who was Director of Finance, Toromont Industries Ltd.

As of December 31, 2016, the Directors and Officers of Toromont (as a group) beneficially own, directly or indirectly, or exercise control or direction over 5.3% of the outstanding common shares of the Corporation.

## TRANSFER AGENT

The transfer agent and registrar for Toromont's common shares is CST Trust Company in Toronto, Ontario, with offices in major cities across Canada.

## AUDIT COMMITTEE INFORMATION

### Overview

The Audit Committee is comprised of J.S. McCallum (Chairman), J.S. Chisholm, R.M. Franklin, W.S. Hill, C.E. Cranston, K.A. Rethy, J.W. Gill and D.A. Galloway, all of whom are considered by the Board of Directors to be "financially literate" and independent within the meaning of National Instrument 52-110 – *Audit Committees* ("NI 52-110").

### Mandate of the Audit Committee

The principal duties include oversight responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, approval of all audit and non-audit services provided by the independent auditors, consultation with the auditors independent of management and overseeing the work of the auditors and Internal Audit department. The Terms of Reference of the Audit Committee was approved by the Corporation's Board and is included in Appendix A.

### Relevant Education and Experience of Audit Committee Members

The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his/her responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by Toromont to prepare its annual and interim financial statements.

Audit Committee Member	Relevant Education and Experience
John S. McCallum (Chairman)	Mr. McCallum has been a Professor of Finance in the I. H. Asper School of Business at the University of Manitoba since 1973, teaching and conducting research in capital markets and financial institutions. He is also past Chairman of Manitoba Hydro and is a member of a number of private sector boards.
Jeffrey S. Chisholm	Mr. Chisholm is a business and finance consultant in the financial services industry, and holds a Bachelor of Science in Business Administration ("BS.B.A") degree from Georgetown University. Mr. Chisholm retired from the Bank of Montreal in 2001 after a 30-year career of progressively senior positions within the Bank.
Robert M. Franklin	Mr. Franklin acquired significant financial experience and exposure to accounting and financial issues while serving as Chairman of Placer Dome Inc. Mr. Franklin was also a director of several public companies.
Wayne S. Hill	Mr. Hill is an independent businessman, having retired in 2008 after a 40- year career in finance, accounting and general management with Canadian public companies, including three years as Executive Vice President of the Corporation, 20 years as Chief Financial Officer and several years in public accounting practice. Mr. Hill has also served as a director of other Canadian public companies.



Audit Committee Member	Relevant Education and Experience
Cathryn E. Cranston	Ms. Cranston is a senior executive in Financial Services where she has developed expertise in finance, risk and capital markets disciplines over more than 31 years in the industry. Ms. Cranston holds a Masters of Business Administration from the University of Manitoba.
Katherine A. Rethy	Mrs. Rethy is an independent businesswoman. She has held senior positions within various corporations, including risk management, insurance, legal counsel and business management. Mrs. Rethy holds a J.D. from the University of Windsor and an M.B.A from York University in Toronto.
David A. Galloway	Mr. Galloway was President & CEO of Torstar Corporation and has served on various boards in Canada and the USA (including as Chair at Bank of Montreal). He holds a B.A. (Hons) in economics from the University of Toronto and an MBA from Harvard Business School in the United States.
James W. Gill	Mr. Gill was CEO of Aur Resources Inc., a public corporation for 26 years. He has served on other Boards and is currently a Director of Turquoise Hill Resources Inc., and serves on both its Audit and Corporate Governance Committees which provides ongoing experience in and knowledge of current corporate governance and audit practices.

### External Auditors

The Corporation's Auditors, Ernst & Young LLP, have prepared an auditors' report on the Corporation's annual financial statements for the year ended December 31, 2016. As at February 6, 2017, Ernst & Young LLP has advised that it is independent with respect to the Corporation in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

### External Auditor Service Fees

All non-audit services are pre-approved by the Audit Committee. External auditor service fees by category can be found in the section of the Management Information Circular entitled "Annual Meeting Business - Matters to be Considered", which is incorporated herein by reference. The Audit Committee has pre-approved a budget for certain specific non-audit services such as the quarterly review of interim financial statements and assistance with tax returns. Management reports on all such expenditures at each Audit Committee meeting. In addition, all engagements with the external auditors must be documented by an engagement letter and pre-approved by the Audit Committee or its Chair or failing him, any other member of the Audit Committee. Any such approvals by the Chair or a member must be presented to the Audit Committee at the next quarterly scheduled meeting.

### ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, securities authorized for issuance under equity compensation plans and interests of insiders in material transactions, where applicable, is set out in the Management Information Circular.

Additional financial information is provided in the Corporation's consolidated financial statements and Management's Discussion and Analysis for the most recently completed financial year. A copy of these documents may be obtained upon request from the Vice President, Human Resources and Legal and Corporate Secretary of the Corporation or found on SEDAR at [www.sedar.com](http://www.sedar.com).

When the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus, or a preliminary short form prospectus has been filed in respect of a distribution of its securities, the Corporation shall provide any person, upon request to the Vice President, Human Resources and Legal and Corporate Secretary of the Corporation:

- 1) One copy of the current Annual Information Form of the Corporation, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in that Annual Information Form.
- 2) One copy of the comparative financial statements of the Corporation for its most recently completed financial year for which financial statements have been filed, together with the accompanying report of the auditor and one copy of the most recent interim financial statements of the Corporation that have been filed subsequent to the financial statements for its most recently completed financial year.
- 3) One copy of the Management Information Circular of the Corporation in respect of its most recent Annual Meeting of Shareholders or one copy of any annual filing prepared in lieu of that Management Information Circular, as appropriate.
- 4) One copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (1) to (3) above.

At any other time, the Corporation will provide upon request one copy of any of the documents referred to in (1), (2), (3) and (4) above, provided the Corporation may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation. For additional copies of this Annual Information Form or any of the materials listed in this paragraph, please contact Investor Relations, Toromont Industries Ltd. at 3131 Highway 7 West, P.O. Box 5511, Concord, Ontario, L4K 1B7; telephone 416-667-5511; fax 416-667-5555; or by email to: [investorrelations@toromont.com](mailto:investorrelations@toromont.com).

## **APPENDIX A**

### **AUDIT COMMITTEE TERMS OF REFERENCE**

#### **ORGANIZATION**

The Corporation has established an Audit Committee of the Board of Directors. These terms of reference govern the operations of the Audit Committee, as approved by the Board of Directors. The Committee shall review and reassess the terms of reference annually. The Committee shall be appointed by the Board and shall comprise at least three directors, each of whom are independent (as defined by applicable legislation and the rules of any stock exchange on which securities of the issuer are listed). All Committee members shall have a sufficient level of financial literacy to understand the issues to be raised in the Corporation's financial statements, and at least one Audit Committee member shall have accounting or related financial expertise.

Principal duties include oversight responsibility for financial statements and related disclosures, reports to shareholders and other related communications, establishment of appropriate financial policies, the integrity of accounting systems and internal controls, approval of all audit and non-audit services provided by the independent auditor, consultation with the auditor independent of management and overseeing the work of the independent auditor and monitoring and directing, as appropriate, the Internal Audit Department.

#### **STATEMENT OF POLICY**

The Committee will provide assistance to the Board in fulfilling their oversight responsibility relating to the integrity of the Corporation's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Corporation's financial statements, and any legal compliance or ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee, the independent auditor and management of the Corporation. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Corporation and the power to retain and pay outside counsel, or other experts it determines necessary to carry out its duties.

#### **RESPONSIBILITIES AND PROCESSES**

The primary responsibility of the Audit Committee is to oversee the Corporation's financial reporting process on behalf of the Board and report the results of their activities to the Board. Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Corporation. The independent auditor is responsible for auditing those financial statements. The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behaviour.

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee shall oversee the work of the auditor and shall have a clear understanding with management and the independent auditor that the independent auditor reports to and is ultimately accountable to the Board and the Audit Committee, as representatives of the Corporation's shareholders. The Committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, recommend the replacement of the independent auditor. The Committee shall

assure itself that the external auditor is independent from management and the Corporation, and will have access to all information about the audit firm's relationship with the Corporation that is necessary to come to a reasonable conclusion. Annually, the Committee shall review and recommend to the Board the election of the Corporation's independent auditor by the shareholders.

- The Committee shall discuss with the independent auditor the overall scope and plans for their audit including the adequacy of staffing and the audit fees. Such audit and fees are subject to the approval of the Committee. The Committee will recommend to the Board the appointment of the external auditor by the shareholders and the fees for such auditor. Also, the Committee shall discuss with management, and the independent auditor the adequacy and effectiveness of the accounting and financial controls, including the Corporation's system to monitor and manage business risk, and any legal and ethical compliance programs (including complaint mechanisms). The Committee will develop and maintain a relationship with the independent auditor that allows for full, open, and timely discussion of all material issues, with or without management as appropriate in the circumstances.
- The Committee shall approve non-audit services to be rendered by the independent auditor and fees associated there-with in advance of such activity taking place. The Committee may delegate this approval to one or more of its members, but such services must be presented to the full Audit Committee at its next scheduled meeting.
- The Committee shall, on behalf of the Board, review and approve press releases on quarterly financial results and interim reports to shareholders including the financial statements, note disclosure and Management's Discussion and Analysis included therein prior to public disclosure of such information. The Committee will periodically consider the extent of involvement of the independent auditor in connection with the interim financial statements, Management's Discussion and Analysis, and interim note disclosures. The Committee will periodically review and satisfy itself as to the adequacy of procedures for the review of other public disclosure by the Corporation of financial information derived from the Corporation's financial statements.
- The Committee will review with management and the independent auditor and recommend for approval by the Board the annual audited consolidated financial statements, Management's Discussion and Analysis and Annual Information Form.
- The Committee shall review any significant adjustments to financial statements, unusual transactions, investments or other transactions that could materially affect the viability of the Corporation, in addition to all material transactions with related parties. The Committee will make appropriate inquiries with respect to any significant litigation or regulatory compliance matters and report on these matters to the Board.
- At least annually, the Committee (or its designate) shall review expenses incurred by the Executive Chairman, President and Chief Executive Officer and Chief Financial Officer.
- At least annually, the Committee shall obtain confirmation that management has complied with the Corporation's Code of Business Conduct and other policies inclusive of those promulgated by securities legislation. The Committee will also review complaints to the Corporation's Compliance Hotline regarding financial matters.
- At least annually, the Committee shall receive a report from the Corporation's Disclosure Committee as to the Committee's activities and its recommendations on changes, if any, to the Corporation's disclosure practices. In addition, the Committee shall receive a report from the Disclosure Committee recommending disclosure of all press releases, financial statements, Management Discussion & Analysis and other public disclosure materials before the Committee approves such documents.
- The Committee shall review with management and the independent auditor the financial statements to be included in the Corporation's Annual Report, including their judgment about the quality and acceptability of accounting principles, the reasonableness of significant accounting estimates and judgments, and the clarity of the disclosures in the financial statements and related footnotes. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditor under generally accepted auditing standards.

- The Committee shall approve the Corporation's hiring of partners, employees and former partners and employees of the present and former external auditor of the Corporation.
- The head of the Corporation's Internal Audit department will have a functional reporting relationship direct to the Committee. The Committee will provide such guidance and direction to the Internal Audit department as it deems necessary to ensure the independence and appropriate functioning of such department. The Committee shall receive an annual report from the head of Internal Audit outlining plans for the subsequent year and quarterly reports describing progress against the plan and any relevant findings. The Chairman of the Committee will review with the Corporation's CFO the annual performance review for the head of the Corporation's Internal Audit department.
- The Committee shall put in place procedures for:
  - The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
  - The confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.<sup>1</sup>

<sup>1</sup> NI 52-110, s. 2.3(7).