

# MANAGEMENT'S DISCUSSION AND ANALYSIS

August 4, 2020

This *MD&A of Finning* should be read in conjunction with the *Interim Financial Statements* and the accompanying notes thereto for the three and six months ended June 30, 2020, which have been prepared in accordance with *IAS 34, Interim Financial Reporting*. All dollar amounts presented in this MD&A are expressed in *CAD*, unless otherwise stated. Additional information relating to the *Company*, including its current *AIF*, can be found under the Company's profile on the *SEDAR* website at [www.sedar.com](http://www.sedar.com) and in the investors section of the Company's website at [www.finning.com](http://www.finning.com).

*A glossary of defined terms is included on page 46. The first time a defined term is used in this MD&A, it is shown in bold italics.*

## Second Quarter Overview

(\$ millions, except for per share amounts)	Q2 2020	Q2 2019	% change <i>fav (unfav)</i>
Revenue	\$ 1,419	\$ 2,137	(34)%
Net revenue <sup>(1)</sup>	\$ 1,335	\$ 1,995	(33)%
Gross profit	\$ 344	\$ 482	(29)%
<b>SG&amp;A</b>	<b>(306)</b>	<b>(350)</b>	12%
Equity earnings of joint ventures	1	5	(77)%
Other income	64	—	<i>n/m</i>
Other expenses	(51)	—	<i>n/m</i>
<b>EBIT</b>	<b>\$ 52</b>	<b>\$ 137</b>	(62)%
Net income	\$ 18	\$ 88	(79)%
Basic <b>EPS</b>	\$ 0.12	\$ 0.54	(78)%
<b>EBITDA</b> <sup>(1)</sup>	<b>\$ 130</b>	<b>\$ 213</b>	(39)%
Free Cash Flow <sup>(1)</sup>	\$ 312	\$ (162)	292%
Adjusted EBIT <sup>(1)(2)</sup>	\$ 39	\$ 137	(72)%
Adjusted net income <sup>(1)(2)</sup>	\$ 9	\$ 88	(89)%
Adjusted basic EPS <sup>(1)(2)</sup>	\$ 0.06	\$ 0.54	(89)%
Adjusted EBITDA <sup>(1)(2)</sup>	\$ 117	\$ 213	(45)%
<i>Gross profit as a % of net revenue</i> <sup>(1)</sup>	<b>25.7%</b>	24.1%	
<i>SG&amp;A as a % of net revenue</i> <sup>(1)</sup>	<b>22.9%</b>	17.5%	
<i>EBIT as a % of net revenue</i> <sup>(1)</sup>	<b>3.9%</b>	6.9%	
<i>EBITDA as a % of net revenue</i> <sup>(1)</sup>	<b>9.7%</b>	10.7%	
<i>Adjusted EBIT as a % of net revenue</i> <sup>(1)(2)</sup>	<b>2.9%</b>	6.9%	
<i>Adjusted EBITDA as a % of net revenue</i> <sup>(1)(2)</sup>	<b>8.8%</b>	10.7%	
<i>Adjusted ROIC</i> <sup>(1)(2)</sup>	<b>9.7%</b>	12.3%	

(1) These are "non-GAAP financial measures". See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 34 - 35 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics. See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

## Recent Developments

---

On March 11, 2020, the **COVID-19** outbreak was declared a pandemic by the World Health Organization. The most significant impacts on our operations related to COVID-19 during the six months ended June 30, 2020 included postponed equipment orders and deliveries, lower equipment utilization hours, temporary shutdowns of customer operations, and postponement of some projects. In addition, product support revenue was impacted by parked truck fleets and support equipment, deferral of non-essential maintenance, lower parts sales in the construction sector, lower labour recovery at our branches due to shift separation and physical distancing measures, and temporary closure of certain facilities in South America. The Company's results were also impacted by volatility in oil and other commodity prices. The timing and pace of market recovery from the effects of both COVID-19 and volatile oil and other commodity prices are unclear. Management expects these factors will have a material negative impact on the Company's 2020 financial results. Measures taken to slow the spread of COVID-19 in Canada and the **UK** have allowed for phased reopening of those economies and a notable increase in associated business activity. In South America, COVID-19 cases continued to grow through the quarter, though started to flatten in late-June, presenting challenges for the Company's customers and operations in that region. The Company deployed necessary resources and efforts to maintain operations and keep employees safe.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Government of Canada introduced the **CEWS** program, which subsidizes 75% of employee wages (up to a specified maximum) for Canadian employers whose businesses have been affected by COVID-19. The program is intended to help employers rehire previously laid off workers, prevent further job losses, and better position Canadian businesses to resume normal operations. To encourage companies to retain employees, the UK government introduced a support program (Coronavirus Job Retention Scheme) to pay approximately 80% of salaries for employees (up to a specified maximum) who are furloughed (on paid leave). The Company has taken advantage of CEWS and the Coronavirus Job Retention Scheme, as well as tax deferral programs that governments in most regions where the Company operates have made available. These government programs have supported the Company in retaining key technical talent and positioned the Company well for an economic recovery.

Refer to the Outlook and Risk Factors and Management sections later in this MD&A for further discussion of the potential impact of the COVID-19 pandemic and volatile oil and other commodity prices on the Company's operations and financial results.

## 2020 Second Quarter Highlights

---

- Revenue was \$1.4 billion in Q2 2020. Net revenue of \$1.3 billion in Q2 2020 was down 33% from Q2 2019 primarily due to the impact of COVID-19 and volatile commodity prices. Net revenue was lower in all of the Company's operations and all lines of business, particularly new equipment revenue.
- Q2 2020 EBIT was \$52 million and EBIT as a percentage of net revenue was 3.9%, compared to \$137 million and 6.9% in Q2 2019, respectively. In the quarter, the Company recorded a benefit from CEWS for its Canadian employees. In addition, the Company incurred restructuring costs to accelerate existing strategies to further improve employee and facility productivity in all regions. Excluding these items, which were not considered indicative of operational and financial trends, Adjusted EBIT and Adjusted EBIT as a percentage of net revenue in Q2 2020 were \$39 million and 2.9%, respectively.
- Adjusted EBITDA was \$117 million and Adjusted EBITDA as a percentage of net revenue was 8.8% in Q2 2020, compared to \$213 million and 10.7%, respectively, earned in Q2 2019. Adjusted EBITDA decreased primarily due to significantly lower volumes in Q2 2020 compared to the prior year due to COVID-19 impacts. Adjusted EBITDA as a percentage of net revenue was lower due to higher SG&A as a percentage of net revenue due to the proportion of fixed costs.
- Q2 2020 basic EPS was \$0.12 compared to Q2 2019 basic EPS of \$0.54. Excluding the \$0.30 per share benefit of CEWS and \$0.24 per share of global severance and restructuring costs, Q2 2020 Adjusted basic EPS was \$0.06.
- Free cash flow generation of \$312 million in Q2 2020 was significantly higher than the \$162 million use of cash in Q2 2019. The Company's financial position remains strong, with sufficient liquidity and access to capital. As at June 30, 2020, net debt to Adjusted EBITDA <sup>(1)(2)</sup> ratio was 2.1, down from 2.8 at June 30, 2019.
- Adjusted ROIC at June 30, 2020 was 9.7%, a decrease from Adjusted ROIC of 12.3% at June 30, 2019, mostly due to lower Adjusted ROIC in the Company's UK & Ireland and Canadian operations partially offset by an improvement in the Company's South American operations.

(1) These are "non-GAAP financial measures". See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 34 - 35 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics. See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

## Table of Contents

---

Second Quarter Overview .....	1
Recent Developments .....	2
Second Quarter Highlights .....	2
Strategic Framework.....	4
Adjusted Metrics .....	5
Quarterly Key Performance Measures .....	6
Second Quarter Results .....	8
Year-to-Date Results .....	10
Invested Capital .....	14
Adjusted Return on Invested Capital and Invested Capital Turnover .....	15
Results by Reportable Segment.....	16
Outlook .....	22
Liquidity and Capital Resources .....	25
Accounting Policies and Pronouncements .....	27
Risk Factors and Management.....	29
Controls and Procedures Certification.....	32
Outstanding Share Data .....	32
Description of Non-GAAP Financial Measures and Reconciliations .....	33
Selected Quarterly Information.....	42
Forward-Looking Disclaimer .....	43
Glossary of Defined Terms .....	46

## Strategic Framework

Finning's customer-centric growth strategy is based on three pillars – Develop, Perform, and Innovate – which provide a strong foundation for the Company's five Global Strategic Priorities:

- Customer Centricity – be our customers' trusted partner by providing consistent and innovative services that add value to their business;
- Lean & Agile Global Finning – maintain relentless focus on productivity, efficiency, and our customers' total cost of equipment ownership;
- Global Supply Chain – transform our globally-leveraged supply chain to enhance the omni-channel customer experience while increasing working capital efficiencies and generating free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers' experience, enable data-driven decisions, and reduce cost to serve; and,
- Growth & Diversification – achieve profitable and capital efficient growth.

### STRATEGIC PILLARS



### OUR PURPOSE

We believe in partnering and innovating to build and power a better world.

### OUR VISION

Leveraging our global expertise and insight, we are a trusted partner in transforming our customers' performance.

### OUR VALUES

**We are trusted:** We act ethically and honour our commitments.

**We are collaborative:** We build diverse and respectful partnerships.

**We are innovative:** We look for new and better ways to serve our customers.

**We are passionate:** We are driven to safely deliver results.

### Strategic Focus Areas

Finning's focus areas to support our strategy are: capture growth in mining and construction industries through market leadership and improving performance through transforming service; accelerate supply chain capabilities; and lower the cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with our Global Strategic Priorities and our strategic areas of focus.

### Sustainability

Sustainability is an integral part of our business, and is woven through our strategy and operations. We live our values every day, and they guide our behaviour in every interaction we have. Living our values means that how we do things is just as important as what we do.

Our approach to sustainability is closely aligned with our purpose and covers all of our material sustainability topics.

The Company's Sustainability Report can be found in the sustainability section of the Company's website at [www.finning.com](http://www.finning.com).

The Company will continue to pursue its strategy, while maintaining its immediate focus on safety of employees and customers and preserving financial and operational flexibility as it deals with the uncertain impacts of COVID-19.

## Adjusted Metrics

Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these are referred to as “Adjusted metrics”. Adjusted metrics are considered non-GAAP financial measures and do not have a standardized meaning under *IFRS*, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these Adjusted metrics to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” on pages 33 - 41 of this MD&A.

Significant items that affected the reported results for the three months ended June 30, 2020 which are not considered by management to be indicative of operational and financial trends, either by nature or amount, are detailed below.

### Q2 2020 significant items:

- The Company qualified for CEWS, which was introduced by the Government of Canada in response to COVID-19 for eligible entities who meet specific criteria. This government program has supported the Company in retaining key technical talent and positioned the Company well for an economic recovery.
- The Company accelerated existing strategies to further improve employee and facility productivity. As a result, the Company incurred:
  - Severance costs related to workforce reductions in all of the Company’s operations; and,
  - Restructuring and impairment losses in the Company’s Canadian and South American operations.

The following table shows the magnitude of these significant items and provides reconciliations of the Adjusted metrics to their most directly comparable GAAP measures:

3 months ended June 30, 2020 (\$ millions, except per share amounts)	EBIT				Net Income	Basic EPS
	Canada	South America	UK & Ireland	Consol <sup>(1)</sup>	Consol <sup>(1)</sup>	Consol <sup>(1)</sup>
EBIT, net income, and basic EPS	\$ 63	\$ 2	\$ (5)	\$ 52	\$ 18	\$ 0.12
Significant items:						
CEWS support	(60)	—	—	(64)	(48)	(0.30)
Severance costs	20	17	4	42	32	0.20
Facility closure related restructuring costs and impairment losses	5	4	—	9	7	0.04
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 28	\$ 23	\$ (1)	\$ 39	\$ 9	\$ 0.06

(1) Includes Other segment

There were no significant items identified by management for the three months ended June 30, 2019.

## Quarterly Key Performance Measures

The Company utilizes the following *KPIs* to enable consistent measurement of performance across the organization.

	2020		2019				2018 <sup>(1)</sup>		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
ROIC <sup>(2)(3)</sup> (%)									
Consolidated	<b>10.0%</b>	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%
Canada	<b>13.3%</b>	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%
South America	<b>9.3%</b>	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%
UK & Ireland	<b>3.7%</b>	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
EBIT <sup>(2)</sup> (\$ millions)									
Consolidated	<b>52</b>	94	97	129	137	62	91	93	126
Canada	<b>63</b>	60	72	82	92	50	71	78	77
South America	<b>2</b>	38	31	42	41	6	12	37	47
UK & Ireland	<b>(5)</b>	1	5	14	14	13	12	15	14
EBIT as a % of net revenue <sup>(2)</sup>									
Consolidated	<b>3.9%</b>	6.6%	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%
Canada	<b>8.9%</b>	7.9%	7.4%	8.5%	8.5%	5.5%	7.1%	8.6%	8.5%
South America	<b>0.5%</b>	7.8%	6.0%	7.3%	6.5%	1.2%	2.5%	6.7%	8.5%
UK & Ireland	<b>(3.2)%</b>	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%	5.1%	5.3%
EBITDA <sup>(2)</sup> (\$ millions)									
Consolidated	<b>130</b>	170	170	201	213	134	140	142	171
Canada	<b>110</b>	103	114	125	138	93	97	104	99
South America	<b>24</b>	60	51	62	62	26	29	52	62
UK & Ireland	<b>4</b>	11	15	22	23	22	18	23	21
EBITDA as a % of net revenue <sup>(2)</sup>									
Consolidated	<b>9.7%</b>	11.8%	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%
Canada	<b>15.6%</b>	13.7%	11.8%	12.8%	12.9%	10.2%	9.7%	11.4%	11.0%
South America	<b>5.2%</b>	12.4%	10.0%	10.8%	9.8%	5.2%	5.8%	9.3%	11.2%
UK & Ireland	<b>2.7%</b>	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%	7.7%	7.9%
Invested Capital <sup>(3)</sup> (\$ millions)									
Consolidated	<b>3,495</b>	3,883	3,591	3,907	3,964	3,753	3,163	3,431	3,362
Canada	<b>2,037</b>	2,093	2,026	2,209	2,285	2,148	1,675	1,889	1,840
South America	<b>1,106</b>	1,330	1,192	1,276	1,287	1,243	1,190	1,173	1,172
UK & Ireland	<b>349</b>	428	361	416	390	361	336	404	372
Invested Capital Turnover <sup>(3)</sup> (times)									
Consolidated	<b>1.71</b>	1.83	1.92	1.99	2.04	2.06	2.12	2.14	2.13
Canada	<b>1.63</b>	1.75	1.81	1.91	1.95	1.98	2.05	1.98	1.92
South America	<b>1.67</b>	1.73	1.78	1.77	1.80	1.78	1.86	2.01	2.05
UK & Ireland	<b>2.32</b>	2.60	2.98	3.18	3.27	3.25	3.22	3.30	3.44
Inventory (\$ millions)	<b>1,893</b>	2,152	1,990	2,215	2,366	2,356	2,061	2,017	1,968
Inventory Turns (Dealership) <sup>(3)</sup> (times)	<b>1.97</b>	2.25	2.53	2.49	2.36	2.46	2.68	2.58	2.57
Working Capital <sup>(3)</sup> to Net Revenue <sup>(3)</sup>	<b>29.9%</b>	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%
Free Cash Flow (\$ millions)	<b>312</b>	(50)	386	165	(162)	(347)	418	(49)	(28)
Net Debt <sup>(3)</sup> to EBITDA Ratio <sup>(2)(3)</sup>	<b>2.0</b>	2.2	2.1	2.6	3.0	2.9	1.7	2.1	2.0

(1) Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

(2) Certain of these reported financial metrics have been impacted in some quarters in this table by significant items management does not consider indicative of operational and financial trends either by nature or amount. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics and are summarized on page 7 of this MD&A.

(3) These are "non-GAAP financial measures". See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

## Adjusted KPIs

KPIs may be impacted by significant items described on pages 5 and 34 - 35 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as "Adjusted" KPIs and were as follows:

	2020		2019				2018 <sup>(1)</sup>		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Adjusted ROIC									
Consolidated	<b>9.7%</b>	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%
Canada	<b>11.6%</b>	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%
South America	<b>11.2%</b>	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%
UK & Ireland	<b>4.6%</b>	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
Adjusted EBIT (\$ millions)									
Consolidated	<b>39</b>	94	97	132	137	91	91	123	126
Canada	<b>28</b>	60	72	82	92	67	71	78	77
South America	<b>23</b>	38	31	45	41	14	12	37	47
UK & Ireland	<b>(1)</b>	1	5	14	14	13	12	15	14
Adjusted EBIT as a % of net revenue									
Consolidated	<b>2.9%</b>	6.6%	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%
Canada	<b>4.0%</b>	7.9%	7.4%	8.5%	8.5%	7.4%	7.1%	8.6%	8.5%
South America	<b>5.1%</b>	7.8%	6.0%	7.8%	6.5%	2.7%	2.5%	6.7%	8.5%
UK & Ireland	<b>(1.0)%</b>	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%	5.1%	5.3%
Adjusted EBITDA (\$ millions)									
Consolidated	<b>117</b>	170	170	204	213	163	140	172	171
Canada	<b>75</b>	103	114	125	138	110	97	104	99
South America	<b>45</b>	60	51	65	62	34	29	52	62
UK & Ireland	<b>8</b>	11	15	22	23	22	18	23	21
Adjusted EBITDA as a % of net revenue									
Consolidated	<b>8.8%</b>	11.8%	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%
Canada	<b>10.6%</b>	13.7%	11.8%	12.8%	12.9%	12.1%	9.7%	11.4%	11.0%
South America	<b>9.8%</b>	12.4%	10.0%	11.2%	9.8%	6.7%	5.8%	9.3%	11.2%
UK & Ireland	<b>4.9%</b>	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%	7.7%	7.9%
Net Debt to Adjusted EBITDA Ratio	<b>2.1</b>	2.2	2.0	2.5	2.8	2.6	1.7	2.0	2.0

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

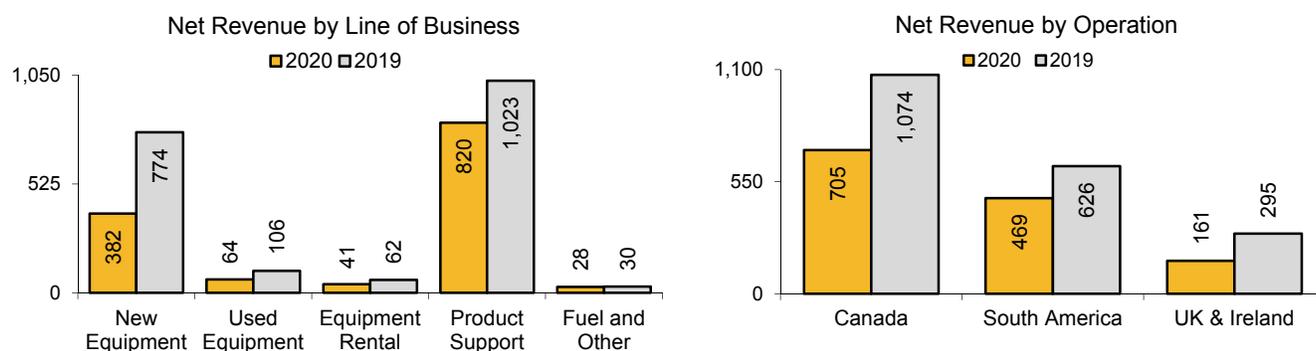
## Second Quarter Results

### Revenue

#### Net Revenue by Line of Business and by Operation

3 months ended June 30

(\$ millions)



The Company generated revenue of \$1.4 billion during the second quarter of 2020 and \$2.1 billion in Q2 2019. Q2 2020 net revenue of \$1.3 billion was 33% lower than net revenue of \$2.0 billion in Q2 2019 across all of the Company's operations. Net revenue was down in Q2 2020 primarily due to the negative impact of COVID-19 and volatility in commodity prices, which resulted in cancelled and postponed equipment deliveries and lower customer demand for parts and maintenance services.

Second quarter 2020 new equipment revenue was 51% lower than the same prior year period driven by lower volumes in all industry sectors, particularly in the construction sector in all operations. New equipment revenue also declined in the mining sector in the Company's Canadian and South American operations and the power systems sector in the Company's UK & Ireland operations. Key drivers of this decline were COVID-19 impacts, lower oil and other commodity prices in Canada, economic uncertainty in South America, and the timing of power system project deliveries in the Company's UK & Ireland operations.

Q2 2020 product support revenue was down 20% from the same prior year period driven by the mining and construction sectors of the Company's Canadian and South American operations due to parked trucks and support equipment, deferral of non-essential maintenance in the mining sector, lower machine utilization hours in the construction sector, and slowdown of customer operations due to COVID-19 restrictions.

Equipment backlog<sup>(1)</sup> of approximately \$700 million at June 30, 2020 was comparable to December 31, 2019, but down from approximately \$800 million at March 31, 2020. Equipment deliveries outpaced order intake<sup>(1)</sup> in Q2 2020, mainly in the Company's Canadian operations.

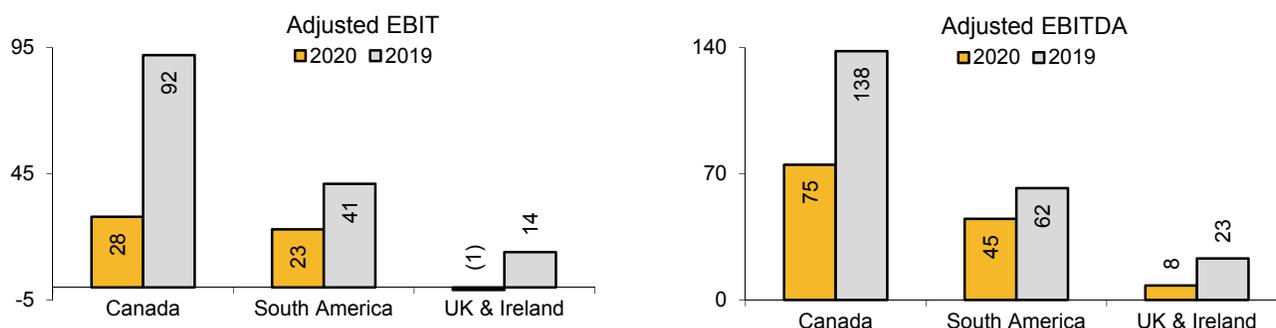
### EBIT and EBITDA

Q2 2020 gross profit was \$344 million, 29% lower than the same period in the prior year, driven by lower revenues. Overall gross profit as a percentage of net revenue of 25.7% in Q2 2020 was 160 basis points higher than Q2 2019, mainly due to a revenue mix shift to product support revenue (Q2 2020: 61% compared to Q2 2019: 51%).

SG&A in Q2 2020 of \$306 million was 12% lower than Q2 2019, driven by the benefit of measures taken to reduce costs to serve and discretionary spend and lower variable costs from reduced volumes. In Canada, the Company recognized a wage subsidy of \$64 million. Without the benefit of this wage subsidy, available alternative cost reduction actions would have been taken in the Canadian operations, which would have reduced SG&A by a further \$15 to \$20 million in Q2 2020. Although SG&A was down in all operations compared to Q2 2019, the fixed nature of certain SG&A costs on a much lower revenue base resulted in a 540 basis points increase in SG&A as a percentage of net revenue.

<sup>(1)</sup> These are "non-GAAP financial measures". See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

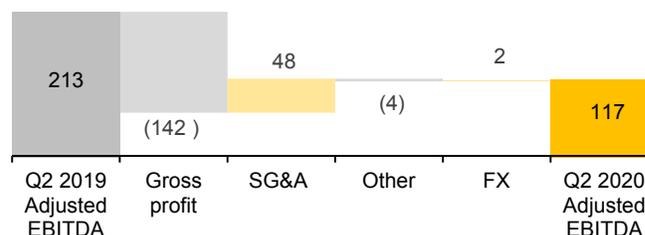
**Adjusted EBIT and Adjusted EBITDA by Operation <sup>(1)</sup>**  
3 months ended June 30  
(\$ millions)



(1) Excluding Other operations

The Company reported EBIT of \$52 million and EBIT as a percentage of net revenue of 3.9% in the second quarter of 2020 compared to \$137 million and 6.9%, respectively, in Q2 2019. Excluding the significant items not considered indicative of operational and financial trends described on page 5, Q2 2020 Adjusted EBIT and Adjusted EBIT as a percentage of net revenue were \$39 million and 2.9%, respectively.

Adjusted EBITDA in Q2 2020 was \$117 million, down 45% from \$213 million Adjusted EBITDA in Q2 2019 with lower earnings in all of the Company's operations primarily due to the negative impacts of COVID-19 and volatile oil and other commodity prices. Adjusted EBITDA as a percentage of net revenue in Q2 2020 was 8.8%, down 190 basis points from 10.7% in Q2 2019 largely driven by higher SG&A as a percentage of net revenue on a much lower revenue base, partially offset by improved gross margin.



The net debt to Adjusted EBITDA ratio at June 30, 2020 was 2.1 times, down from the 2.8 times at June 30, 2019, in part due to lower average debt levels despite a decline in Adjusted EBITDA. This ratio remains below the Company's long-term target of < 3.0.

**Finance Costs**

Finance costs in Q2 2020 were \$24 million, down from \$27 million Q2 2019 on lower average debt levels.

**Provision for Income Taxes**

The effective income tax rate in Q2 2020 was 32.8%, compared to 18.8% in Q2 2019. The effective income tax rate in Q2 2020 was higher due to a higher proportion of earnings in higher tax jurisdictions. The effective income tax rate in Q2 2019 was lower due to the substantively enacted tax rate changes in Alberta resulting in a positive one-time revaluation of the Company's deferred tax balances by approximately \$3 million.

Management expects the Company's effective tax rate generally to be within the 25-30% range on an annual basis. The rate may fluctuate from period to period as a result of changes in the relative income from the various jurisdictions in which the Company carries on business, source of income, changes in the estimation of tax reserves, outcomes of any tax audits, or changes in tax rates and tax legislation.

**Net Income and Basic EPS**

Net income was \$18 million and basic EPS was \$0.12 in Q2 2020, compared to \$88 million and \$0.54, respectively, in Q2 2019. Q2 2020 Adjusted net income was \$9 million and Adjusted basic EPS was \$0.06. Q2 2020 results were lower than Q2 2019 as all of the Company's operations reported lower earnings or losses in Q2 2020.

## Year-to-Date Overview

(\$ millions, except for per share amounts)	YTD 2020	YTD 2019	% change fav (unfav)
Revenue	\$ 2,977	\$ 3,947	(25)%
Net revenue	\$ 2,774	\$ 3,714	(25)%
Gross profit	\$ 762	\$ 912	(16)%
SG&A	(631)	(693)	9%
Equity earnings of joint ventures	2	9	(74)%
Other income	64	—	n/m
Other expenses	(51)	(29)	(76)%
EBIT	\$ 146	\$ 199	(27)%
Net income	\$ 72	\$ 116	(38)%
Basic EPS	\$ 0.45	\$ 0.71	(37)%
EBITDA	\$ 300	\$ 347	(14)%
Free cash flow	\$ 262	\$ (509)	151%
Adjusted EBIT	\$ 133	\$ 228	(41)%
Adjusted net income	\$ 63	\$ 138	(54)%
Adjusted basic EPS	\$ 0.39	\$ 0.85	(54)%
Adjusted EBITDA	\$ 287	\$ 376	(24)%
<i>Gross profit as a % of net revenue</i>	<b>27.5%</b>	24.6%	
<i>SG&amp;A as a % of net revenue</i>	<b>22.8%</b>	18.7%	
<i>EBIT as a % of net revenue</i>	<b>5.3%</b>	5.4%	
<i>EBITDA as a % of net revenue</i>	<b>10.8%</b>	9.3%	
<i>Adjusted EBIT as a % of net revenue</i>	<b>4.8%</b>	6.1%	
<i>Adjusted EBITDA as a % of net revenue</i>	<b>10.4%</b>	10.1%	
<i>Adjusted ROIC</i>	<b>9.7%</b>	12.3%	

Significant items that affected the reported results of the Company for the six months ended June 30, 2020 and June 30, 2019 which were not considered by management to be indicative of operational and financial trends, either by nature or amount, are detailed below.

Year-to-date 2020 significant items:

- CEWS from the Canadian government for eligible entities.
- The Company accelerated existing strategies to further improve employee and facility productivity. As a result, the Company incurred:
  - Severance costs related to workforce reductions in all of the Company's operations; and,
  - Restructuring and impairment losses in the Company's Canadian and South American operations.

Year-to-date 2019 significant items:

- Severance costs related to workforce reductions in the Company's Canadian and South American operations as the Company continued to align its cost structure to market activity and drive improved operating efficiency.
- Restructuring costs and impairment losses recorded in the Company's Canadian operations related to planned facility closures and consolidations to optimize the branch network.
- Acquisition costs related to the purchase of **4Refuel**.

The following table shows the magnitude of these items and reconciliations of the non-GAAP financial measures to their most directly comparable GAAP measures:

6 months ended June 30, 2020 (\$ millions, except for per share amounts)	EBIT				Net	EPS
	Canada	South America	UK & Ireland	Consol <sup>(1)</sup>	Income	Consol <sup>(1)</sup>
EBIT, net income, and basic EPS	\$ 123	\$ 40	\$ (4)	\$ 146	\$ 72	\$ 0.45
Significant items:						
CEWS support	(60)	—	—	(64)	(48)	(0.30)
Severance costs	20	17	4	42	32	0.20
Facility closure related restructuring costs and impairment losses	5	4	—	9	7	0.04
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 88	\$ 61	\$ —	\$ 133	\$ 63	\$ 0.39

6 months ended June 30, 2019 (\$ millions, except for per share amounts)	EBIT				Net	EPS
	Canada	South America	UK & Ireland	Consol <sup>(1)</sup>	Income	Consol <sup>(1)</sup>
EBIT, net income, and basic EPS	\$ 142	\$ 47	\$ 27	\$ 199	\$ 116	\$ 0.71
Significant item:						
Severance costs	10	8	—	18	13	0.08
Facility closure related restructuring costs and impairment losses	7	—	—	7	5	0.03
Acquisition costs	—	—	—	4	4	0.03
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 159	\$ 55	\$ 27	\$ 228	\$ 138	\$ 0.85

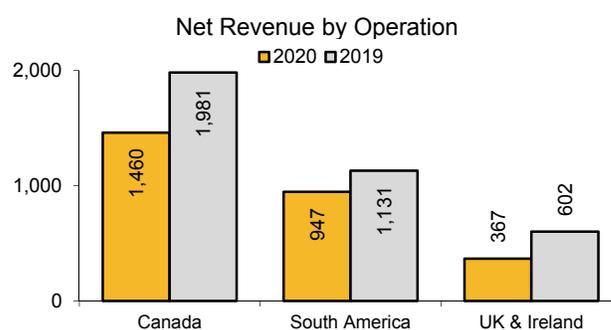
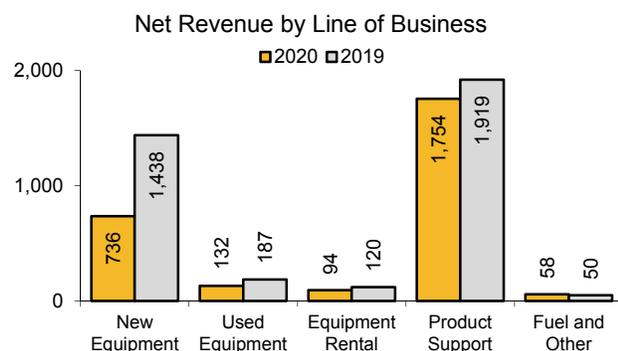
<sup>(1)</sup> Includes Other segment

## Revenue

### Net Revenue by Line of Business and by Operation

6 months ended June 30

(\$ millions)



The Company generated revenue of \$3.0 billion in the six months ended June 30, 2020. Net revenue of \$2.8 billion decreased 25% from the same period last year, down in all of the Company's operations due to lower customer demand as a result of volatility in commodity prices and COVID-19. The impact of COVID-19 on the Company's UK & Ireland operations started earlier than the Canadian or South American operations.

New equipment revenue in the six months ended June 30, 2020 was 49% lower than the prior year period, down in all operations. The decline in volumes reflected weak market conditions driven by COVID-19 impacts in all of the Company's operations. In addition, the decline in new equipment revenue was driven by volatile commodity prices and reduced construction activity in Canada; COVID-19 related lockdowns in South America, and the timing of power system projects in the Company's UK & Ireland operations.

Product support revenue in the six months ended June 30, 2020 was 9% lower than the first six months of 2019, primarily due to lower activity as well as customers deferring non-essential maintenance in the construction and mining sectors of the Company's Canadian operations.

### EBIT and EBITDA

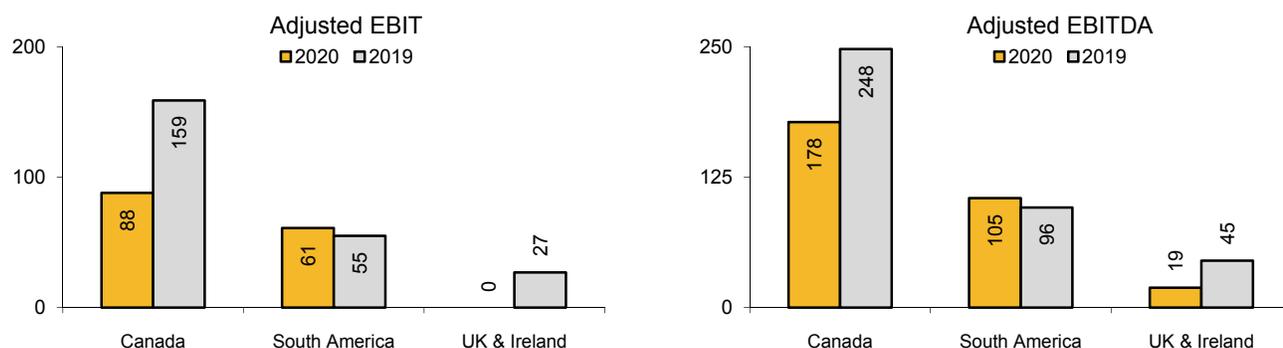
Gross profit in the first six months of 2020 of \$762 million was down from the comparative prior year period largely due to a significant decrease in volumes. Overall gross profit as a percentage of net revenue of 27.5% was up from the first six months of 2019 primarily due to a higher proportion of product support revenue (June 30, 2020: 63%; June 30, 2019: 52%).

SG&A for the first six months of 2020 was \$631 million, 9% lower than the same period of the prior year reflecting lower variable costs associated with a reduction in revenues, the benefit of cost reduction initiatives including lower people-related costs and disciplined spending. Although SG&A was lower, SG&A as a percentage of net revenue was up in all of the Company's operations reflecting the fixed proportion of SG&A on a significantly lower revenue base.

## Adjusted EBIT and Adjusted EBITDA by Operation <sup>(1)</sup>

6 months ended June 30

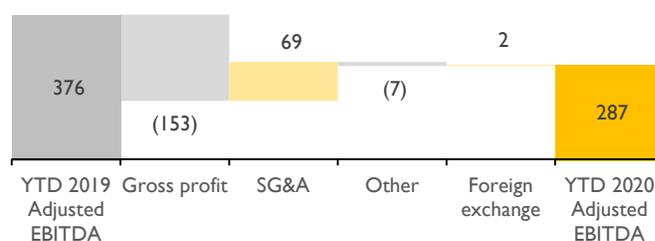
(\$ millions)



(1) Excluding Other operations

The Company reported EBIT of \$146 million and EBIT as a percentage of net revenue of 5.3% in the first six months of 2020, compared to \$199 million and 5.4%, respectively, earned in the first six months of 2019. Excluding significant items not indicative of financial and operational trends described on page 11, Adjusted EBIT in the first six months of 2020 was \$133 million and Adjusted EBIT as a percentage of net revenue was 4.8%, lower than Adjusted EBIT of \$228 million and Adjusted EBIT as a percentage of net revenue of 6.1% in the same period in 2019.

2020 year-to-date Adjusted EBITDA was \$287 million, down from \$376 million in the same prior year period. The 24% decrease was primarily due to lower volumes partially offset by lower SG&A. Adjusted EBITDA as a percentage of net revenue of 10.4% was higher than 10.1% earned in the same prior year period. This increase was largely driven by the gross margin improvement in the Company's South American operations as a result of a higher mix of product support revenue.



## Finance Costs

Finance costs for the six months ended June 30, 2020 were \$45 million, lower than the \$51 million in the same period in 2019 due to lower average debt levels.

## Provision for Income Taxes

The effective income tax rate for the first six months of 2020 was 28.3% compared to 21.2% in the prior year comparable period. The effective income tax rate was higher in 2020 due to a higher proportion of earnings from high tax jurisdictions compared to the prior year period. The effective income tax rate in 2019 was affected by the tax rate changes in Alberta resulting in a one-time positive revaluation of the Company's deferred tax balances.

## Net Income and Basic EPS

Net income was \$72 million in the first six months of 2020, compared to \$116 million earned in the comparable period in 2019 and basic EPS was \$0.45 compared with \$0.71 in 2019. Excluding the significant items not indicative of financial and operational trends described on page 11, Adjusted net income in 2020 was \$63 million and Adjusted basic EPS was \$0.39 compared to Adjusted net income of \$138 million and Adjusted basic EPS of \$0.85 in the same prior year period.

## Invested Capital

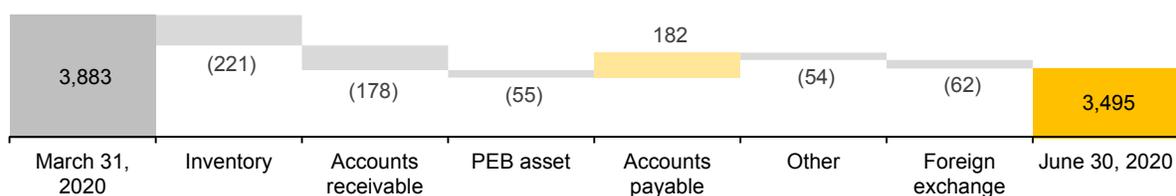
(\$ millions, unless otherwise stated)			Decrease from		(Decrease) Increase from	
	June 30, 2020	March 31, 2020	March 31, 2020	Dec 31, 2019	Dec 31, 2019	2019
Consolidated	\$ 3,495	\$ 3,883	\$ (388)	\$ 3,591	\$ (96)	
Canada	\$ 2,037	\$ 2,093	\$ (56)	\$ 2,026	\$ 11	
South America	\$ 1,106	\$ 1,330	\$ (224)	\$ 1,192	\$ (86)	
UK & Ireland	\$ 349	\$ 428	\$ (79)	\$ 361	\$ (12)	
South America (USD)	\$ 812	\$ 937	\$ (125)	\$ 918	\$ (106)	
UK & Ireland (GBP)	£ 207	£ 243	£ (36)	£ 210	£ (3)	

### Compared to March 31, 2020:

The \$388 million decrease in consolidated invested capital from March 31, 2020 to June 30, 2020 includes a foreign exchange impact of \$62 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 4% stronger CAD relative to the USD and 4% stronger CAD relative to the GBP at June 30, 2020 compared to the rates at March 31, 2020.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$326 million from March 31, 2020 to June 30, 2020 reflecting:

- a decrease in inventories (primarily equipment and parts inventory) in the Company's Canadian and South American operations reflecting inventory management;
- lower accounts receivable in the Company's Canadian and South American operations from lower sales and strong collections;
- a decrease in the **PEB asset** in the Company's UK & Ireland operations, largely due to a higher accrued benefit obligation as a result of updated actuarial assumptions; partially offset by,
- lower accounts payable in all operations, primarily the Company's Canadian operations, reflecting strong inventory management.

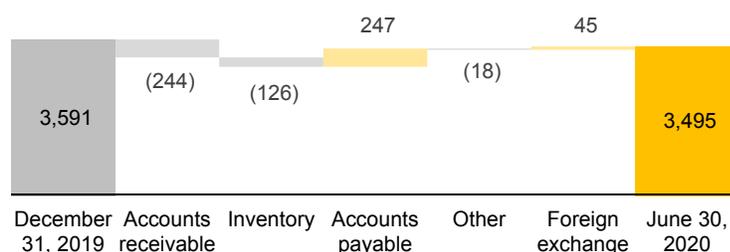


### Compared to December 31, 2019:

The \$96 million decrease in consolidated invested capital from December 31, 2019 to June 30, 2020 includes a foreign exchange impact of \$45 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 5% weaker CAD relative to the USD partially offset by the 2% stronger CAD relative to the GBP at June 30, 2020 compared to the rates at December 31, 2019.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$141 million from December 31, 2019 to June 30, 2020 reflecting:

- lower accounts receivable primarily in the Company's Canadian and South American operations due to a decrease in sales activity;
- a decrease in inventories (primarily new equipment, parts, and service work in progress) driven by the Company's South American operations reflecting strong inventory management; partially offset by,
- lower accounts payable, mainly in the Company's South American and Canadian operations, from reduced inventory purchases.



## Adjusted ROIC and Invested Capital Turnover

	June 30, 2020	December 31, 2019	June 30, 2019
<b>Adjusted ROIC</b>			
Consolidated	9.7%	12.0%	12.3%
Canada	11.6%	14.4%	15.4%
South America	11.2%	10.5%	8.5%
UK & Ireland	4.6%	12.1%	14.5%
<b>Invested Capital Turnover (times)</b>			
Consolidated	1.71	1.92	2.04
Canada	1.63	1.81	1.95
South America	1.67	1.78	1.80
UK & Ireland	2.32	2.98	3.27

### Adjusted ROIC

On a consolidated basis, Adjusted ROIC at June 30, 2020 was lower than December 31, 2019 primarily due to lower Adjusted EBIT for the last twelve-month period, mostly because of the negative impact of business disruptions related to COVID-19 and the volatility in commodity prices, outpacing a reduction in average invested capital levels, driven by the Company's Canadian and UK & Ireland operations. In the Company's South American operations, Adjusted ROIC at June 30, 2020 was higher than December 31, 2019 due to an improvement in earnings as well as lower average invested capital levels in the last twelve-month period.

On a consolidated basis, the decrease in Adjusted ROIC at June 30, 2020 compared to June 30, 2019 reflects lower Adjusted EBIT for the last twelve-month period as well as higher average invested capital levels. Adjusted ROIC at June 30, 2020 in the Company's UK & Ireland operations decreased significantly compared to the same prior year period reflecting lower earnings due to challenging market conditions, timing of power systems project deliveries, as well as higher average invested capital in part due to a higher PEB asset. June 30, 2020 Adjusted ROIC in the Company's Canadian operations was impacted by lower earnings and higher average invested capital levels. Adjusted ROIC at June 30, 2020 in the Company's South American operations was up 270 basis points from June 30, 2019 primarily due to the higher Adjusted EBIT earned in the last twelve-month period.

### Invested Capital Turnover

Consolidated invested capital turnover at June 30, 2020 was down from December 31, 2019 with the decline in net revenue over the last twelve-month period in all of the Company's operations outpacing the reduction in average invested capital levels. The decrease in invested capital turnover in all of the Company's operations was largely driven by the negative impact of the COVID-19 pandemic on net revenues.

Consolidated invested capital turnover at June 30, 2020 was lower than at June 30, 2019 due to a reduction in net revenues in all of the Company's operations compounded by an increase in average invested capital levels.

## Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets worldwide as described on pages 17 - 21. Finning's reportable segments are Canada, South America, UK & Ireland, and Other segment.

The table below provides details of net revenue by lines of business for the Canadian, South America, and UK & Ireland operations.

<b>3 months ended June 30, 2020</b>					
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consol</b>	<b>Net Revenue %</b>
New equipment	\$ 196	\$ 106	\$ 80	\$ 382	29%
Used equipment	36	12	16	64	5%
Equipment rental	26	9	6	41	3%
Product support	419	342	59	820	61%
Fuel and other	28	—	—	28	2%
<b>Net revenue</b>	<b>\$ 705</b>	<b>\$ 469</b>	<b>\$ 161</b>	<b>\$ 1,335</b>	<b>100%</b>
Net revenue % by operation	53%	35%	12%	100%	

<b>3 months ended June 30, 2019</b>					
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consol</b>	<b>Net Revenue %</b>
New equipment	\$ 384	\$ 198	\$ 192	\$ 774	39%
Used equipment	71	16	19	106	5%
Equipment rental	41	12	9	62	3%
Product support	549	400	74	1,023	51%
Fuel and other	29	—	1	30	2%
<b>Net revenue</b>	<b>\$ 1,074</b>	<b>\$ 626</b>	<b>\$ 295</b>	<b>\$ 1,995</b>	<b>100%</b>
Net revenue % by operation	54%	31%	15%	100%	

<b>6 months ended June 30, 2020</b>					
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consol</b>	<b>Net Revenue %</b>
New equipment	\$ 358	\$ 191	\$ 187	\$ 736	27%
Used equipment	69	27	36	132	5%
Equipment rental	59	21	14	94	3%
Product support	916	708	130	1,754	63%
Fuel and other	58	—	—	58	2%
<b>Net revenue</b>	<b>\$ 1,460</b>	<b>\$ 947</b>	<b>\$ 367</b>	<b>\$ 2,774</b>	<b>100%</b>
Net revenue % by operation	53%	34%	13%	100%	

<b>6 months ended June 30, 2019</b>					
<b>(\$ millions)</b>	<b>Canada</b>	<b>South America</b>	<b>UK &amp; Ireland</b>	<b>Consol</b>	<b>Net Revenue %</b>
New equipment	\$ 658	\$ 388	\$ 392	\$ 1,438	39%
Used equipment	119	27	41	187	5%
Equipment rental	80	23	17	120	3%
Product support	1,076	693	150	1,919	52%
Other	48	—	2	50	1%
<b>Net revenue</b>	<b>\$ 1,981</b>	<b>\$ 1,131</b>	<b>\$ 602</b>	<b>\$ 3,714</b>	<b>100%</b>
Net revenue % by operation	53%	31%	16%	100%	

## Canada Operations

The Canadian reporting segment includes **Finning (Canada)**, **OEM**, and a 25% interest in **PLM**, as well as 4Refuel since its acquisition on February 1, 2019. The Canadian operations sell, service, and rent mainly **Caterpillar** equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, the Northwest Territories, and a portion of Nunavut, and also provide mobile refueling services in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia and in Texas, **US**. The Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

The table below provides details of the results from the Canadian operations:

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 705	\$ 1,074
Operating costs	(631)	(941)
Equity earnings of joint venture	1	5
Other income	60	—
Other expenses	(25)	—
EBITDA	\$ 110	\$ 138
Depreciation and amortization	(47)	(46)
EBIT	\$ 63	\$ 92
Adjusted EBITDA	\$ 75	\$ 138
Adjusted EBIT	\$ 28	\$ 92
<i>EBITDA as a % of net revenue</i>	<b>15.6%</b>	12.9%
<i>EBIT as a % of net revenue</i>	<b>8.9%</b>	8.5%
<i>Adjusted EBITDA as a % of net revenue</i>	<b>10.6%</b>	12.9%
<i>Adjusted EBIT as a % of net revenue</i>	<b>4.0%</b>	8.5%

## Second Quarter Overview

Q2 2020 net revenue of \$705 million was 34% lower than Q2 2019, with challenging market conditions across all lines of business and market sectors. Customers have been significantly impacted by volatile oil prices as well as COVID-19, resulting in some truck fleets being parked for a portion of Q2 2020, the delay of certain projects until 2021, and some contracts being cancelled. In addition, lower demand driven by customers' focus on cost reductions and reduced capital spending contributed to lower demand in Q2 2020.

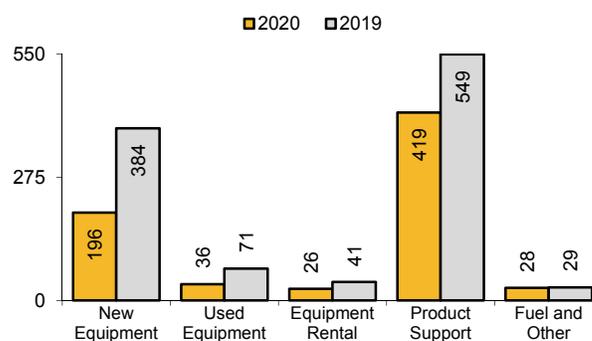
New equipment revenue was down 49% in Q2 2020 compared to Q2 2019, down in all industry sectors, primarily due to reduced market activity in the construction sector, particularly in Alberta. Decreased volumes in the mining sector and lower demand in gas compression also contributed to a reduction in new equipment revenue compared to the same prior year period. Equipment backlog was down from March 31, 2020 and December 31, 2019 as deliveries outpaced order intake. Q2 2020 order intake was low when compared to prior quarters due in large part to cost containment measures taken by customers as a result of challenging market conditions.

Product support revenue in Q2 2020 was down 24% compared to the same prior year period as customers temporarily shut down operations, parked equipment, lowered equipment utilization, and deferred major component rebuilds and non-essential maintenance.

Gross profit in Q2 2020 was lower than Q2 2019, mostly driven by lower volumes across all of the Company's lines of business. Overall gross profit as a percentage of net revenue increased in Q2 2020 compared to Q2 2019 primarily due to a revenue mix shift to product support.

## Net revenue by Line of Business Canada Operations

3 months ended June 30  
(\$ millions)



SG&A in Q2 2020 was down 11% compared to the prior year period, primarily due to lower people-related costs, as well as disciplined cost management and lower variable costs related to volumes. This decline was partially offset by higher provisions to reflect an increase in collection risk related to customer trade receivables as a result of current market conditions. The CEWS program allowed the Company to preserve a significant number of jobs and technical capabilities through a unique period of uncertainty. The Canadian operations recognized \$60 million of wage subsidy in Q2 2020. Without the benefit of this wage subsidy, the Company would have taken available alternative cost reduction actions in Canada, which would have reduced SG&A by \$15 to \$20 million in Q2 2020. The costs related to retained employees and other available cost reduction actions were included in SG&A whereas the CEWS benefit was included in other income. SG&A as a percentage of net revenue was up 620 basis points compared to the prior year period driven by certain costs that are fixed or semi-variable in nature combined with a lower labour recovery on significantly lower revenues.

In Q2 2020, the Company accelerated existing strategies to improve employee and facility productivity. This included the further leveraging of back office functions, streamlining the reporting structure, and relocating service work to lower cost operations. The Company is also re-shaping the existing branch structure to a hub and spoke operating model designed to improve customer turnaround, customer experience, labour productivity, and facility utilization, as well as reduce the Company's environmental footprint. This strategy modernizes the Company's service offering resulting in consolidation or relocation of facilities, or exit of certain facilities where leases are maturing.

Excluding the \$60 million benefit of CEWS and \$25 million of severance and facility restructuring costs, the Company's Canadian operations contributed Adjusted EBITDA of \$75 million in Q2 2020, down 46% from the same period in the prior year significantly impacted by challenging market conditions and COVID-19 related business disruptions. Adjusted EBITDA as a percentage of net revenue in Q2 2020 was 10.6%, lower than 12.9% in Q2 2019.

*Discussion of the Company's Canadian operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.*

## South America Operations

Finning's South American operations sell, service, and rent mainly Caterpillar equipment and engines in Chile, Argentina, and Bolivia. The South American operations' markets include mining, construction, forestry, and power systems.

The table below provides details of the results from the South American operations:

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 469	\$ 626
Operating costs	(424)	(564)
Other expenses	(21)	—
EBITDA	\$ 24	\$ 62
Depreciation and amortization	(22)	(21)
EBIT	\$ 2	\$ 41
Adjusted EBITDA	\$ 45	\$ 62
Adjusted EBIT	\$ 23	\$ 41
<i>EBITDA as a % of net revenue</i>	<i>5.2%</i>	<i>9.8%</i>
<i>EBIT as a % of net revenue</i>	<i>0.5%</i>	<i>6.5%</i>
<i>Adjusted EBITDA as a % of net revenue</i>	<i>9.8%</i>	<i>9.8%</i>
<i>Adjusted EBIT as a % of net revenue</i>	<i>5.1%</i>	<i>6.5%</i>

The weaker CAD relative to the USD on average in Q2 2020 compared to Q2 2019 had a favourable foreign currency translation impact on net revenue in Q2 2020 of approximately \$15 million and was not significant at the EBITDA level.

All \$ figures in this section are in CAD as this is Finning's reporting currency. All variances and ratios in this section are based on the functional currency of the Company's South American operation which is the USD.

## Second Quarter Overview

Q2 2020 net revenue was 28% lower than Q2 2019 with a decline in revenues across all lines of business and market sectors. During Q2 2020 there were lockdowns of varying degrees in the Company's South American operations due to COVID-19, including the temporary closure of some branches. These restrictions significantly impacted activity in the construction sector in all countries, and delayed government infrastructure projects.

New equipment revenue in Q2 2020 was 48% lower than the prior year quarter, declining in all countries and market sectors, particularly in the mining and construction market sectors in Chile and in Argentina. Equipment backlog at June 30, 2020 was comparable to December 31, 2019 and was up from March 31, 2020. Rising order intake was driven by strong demand from contractors supporting the mining sector. Equipment backlog includes orders for mining and construction customers expected to be delivered in the second half of 2020, including deliveries to Teck QB2 in Chile.

Product support revenue in Q2 2020 was down 17% from Q2 2019, primarily in the mining sector in Chile. Product support revenue was also lower in the construction sectors of all countries of the Company's South American operations.

Gross profit in Q2 2020 was lower than the same period in the prior year primarily due to lower volumes. Gross profit as a percentage of net revenue increased in Q2 2020 compared to Q2 2019, largely due to a revenue mix shift to higher product support revenue (Q2 2020: 73%; Q2 2019: 64%).

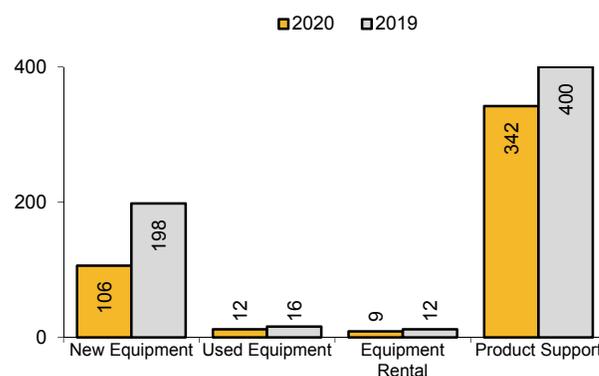
Q2 2020 SG&A was down 17% from Q2 2019, due to cost savings from improved execution in Chilean mining operations and reduced salaries and benefits. SG&A as a percentage of net revenue increased 270 basis points reflecting the fixed proportion of costs on a much lower revenue base.

In Q2 2020, the Company accelerated existing strategies to further improve employee and facility productivity. The Company's operations in South America are now benefiting from one common **ERP** system and realizing operating efficiencies, which has allowed for the restructuring of its workforce. In addition, the Company took actions to consolidate and rationalize its branch network in Chile, Argentina, and Bolivia.

Excluding severance and restructuring costs of \$21 million, Q2 2020 Adjusted EBITDA was \$45 million, down from the same prior year period as lower gross profit exceeded the reduction in SG&A. The Company's improvement in execution and higher profitability in Chile compared to the same prior year period was offset by lower EBITDA from the Company's operations in Argentina and Bolivia. Q2 2020 Adjusted EBITDA as a percentage of net revenue of 9.8% was consistent with Q2 2019.

*Discussion of the Company's South American operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.*

## Net revenue by Line of Business South America Operations 3 months ended June 30 (\$ millions)



## UK & Ireland Operations

The Company's UK & Ireland operations sell, service, and rent mainly Caterpillar equipment and engines in England, Scotland, Wales, Northern Ireland, and the Republic of Ireland. The UK & Ireland operations' markets include quarrying, construction, power systems, and mining.

The table below provides details of the results from the UK & Ireland operations:

(\$ millions)	3 months ended June 30	
	2020	2019
Net revenue	\$ 161	\$ 295
Operating costs	(153)	(272)
Other expenses	(4)	—
EBITDA	\$ 4	\$ 23
Depreciation and amortization	(9)	(9)
EBIT	\$ (5)	\$ 14
Adjusted EBITDA	\$ 8	\$ 23
Adjusted EBIT	\$ (1)	\$ 14
<i>EBITDA as a % of net revenue</i>	<i>2.7%</i>	<i>7.7%</i>
<i>EBIT as a % of net revenue</i>	<i>(3.2)%</i>	<i>4.8%</i>
<i>Adjusted EBITDA as a % of net revenue</i>	<i>4.9%</i>	<i>7.7%</i>
<i>Adjusted EBIT as a % of net revenue</i>	<i>(1.0)%</i>	<i>4.8%</i>

The CAD relative to the GBP on average in the three months ended 2020 and 2019 was relatively the same and, as a result, there was a minimal foreign currency translation impact on net revenue and EBITDA.

All \$ figures in this section are in CAD as this is Finning's reporting currency. All variances and ratios in this section are based on the functional currency of the Company's UK & Ireland operations which is the GBP.

## Second Quarter Overview

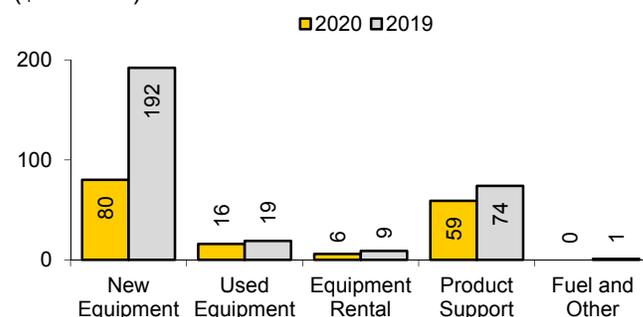
Second quarter 2020 net revenue was 45% lower than the same period in 2019, and was significantly impacted by government-imposed lockdowns and restrictions related to COVID-19. Net revenue was down in all lines of business, primarily new equipment revenues driven by lower customer demand. Product support revenue was also lower as customer activity was reduced to comply with lockdown restrictions.

New equipment revenue was 58% lower than the second quarter of 2019, driven primarily by significantly lower sales in the construction sector, impacted by site closures and market uncertainty caused by COVID-19. In addition, Q2 2020 new equipment revenue was lower as a result of the timing of power system project deliveries, including both the delay of projects under construction in the quarter, and project backlog that is weighted to the second half of 2020. Equipment backlog at June 30, 2020 was comparable to March 31, 2020 and up from December 31, 2019, driven primarily by order intake in the power systems sector outpacing deliveries. Order intake increased in power systems with strong demand from data centre customers and secured business with new strategic accounts.

Q2 2020 gross profit declined from the prior year period driven by lower sales volumes. Overall gross profit as a percentage of net revenue was down slightly from the comparable period in the prior year. Lower margins due to challenging market conditions were partially offset by the revenue mix shift to higher product support revenue.

## Net revenue by Line of Business UK & Ireland Operations

3 months ended June 30  
(\$ millions)



SG&A was down 24% in Q2 2020 compared to the prior year period reflecting cost reduction measures, lower variable costs, and government support for furloughed employees. In response to COVID-19 and to encourage companies to retain employees, the UK government introduced the Coronavirus Job Retention Scheme to pay approximately 80% of salaries for employees who are furloughed (on paid leave). During Q2 2020, nearly half of the employees in the Company's UK operations were on furlough. The Company was therefore eligible to receive this support which amounted to \$7 million (£4 million) and was recorded in SG&A to offset a portion of the salaries of furloughed employees. As required by the program, Finning did not derive any benefit from employees while they were on furlough. SG&A as a percentage of net revenue was higher in Q2 2020 compared to Q2 2019 primarily due to the fixed nature of much of the Company's SG&A costs on a lower revenue base.

As described on page 5, in Q2 2020, the Company's UK & Ireland operations incurred severance costs of \$4 million which were recorded in other expenses. Excluding these severance costs, in Q2 2020 the Company's UK & Ireland operations contributed Adjusted EBITDA of \$8 million and Adjusted EBITDA as a percentage of net revenue of 4.9%, lower than Q2 2019 EBITDA of \$23 million and EBITDA as a percentage of net revenue of 7.7%. Adjusted EBITDA as a percentage of net revenue was lower in Q2 2020 compared to the prior year period due to higher SG&A relative to net revenue.

*Discussion of the Company's UK & Ireland operation's year-to-date results is included in the Year-to-Date Results section of this MD&A on pages 10 - 13.*

### **Other Segment**

The Company's Other segment includes corporate operating costs.

Q2 2020 EBITDA of this segment was a loss of \$8 million, lower than the loss of \$10 million in Q2 2019. Support from CEWS was mostly offset by higher long-term incentive plan and severance costs in Q2 2020. In the six months ended June 30, 2020 EBITDA was a loss of \$12 million, down from a loss of \$17 million in the same prior year period, which included \$4 million of acquisition costs related to the purchase of 4Refuel.

## Outlook

---

### Canada Operations

In the oil sands, a decrease in oil production and non-production mining activities has resulted in lower fleet utilization and deferral of major rebuilds and non-essential maintenance during Q2 2020 as customers reduced capital spending and implemented cost containment measures. With the recovery in oil prices from March lows, most oil sands producers have put their truck fleets back to work, and are expected to be operating at pre-COVID-19 levels by the end of August. However, the Company expects oil sands contractors to take longer to return to pre-COVID-19 activity levels. Longer term, the aging equipment population is expected to continue to support demand for parts and service, including component rebuilds. The demand for new equipment, however, is expected to remain low until oil price fundamentals improve and the COVID-19 recovery takes hold.

Other mining operations in Western Canada are returning to full capacity as COVID-19 related restrictions are lifted. While the outlook for copper and precious and other metals has improved, coal prices are expected to remain low. Mining customers continue to focus on reducing operating costs and capital spending remains restricted. The Company expects product support activity to slowly return to normal levels as production output recovers from April lows.

The Company is seeing higher quoting activity to forestry customers, driven by the recent increase in lumber prices and higher forestry activity levels.

In construction, the Company is seeing recovery in machine utilization hours and rental utilization as restrictions began to ease in early May. These trends are supportive of the upward trajectory in parts sales in June and the Company's expectation for an improvement in product support activity throughout the second half of the year. Large infrastructure projects in Alberta and British Columbia, including pipelines, are expected to proceed as planned, and additional infrastructure investment has been announced by the Alberta government to re-start the economy. The Company is well positioned to capture equipment and product support opportunities for these projects. However, order intake for large construction equipment remains at low levels, and the pricing environment is expected to be highly competitive in the near term reflecting a surplus of competitive equipment inventories in Western Canada.

In power systems, the Company expects continued strong demand for prime and standby electric power generation for large infrastructure projects.

### South America Operations

In Chile, copper mining activity is expected to remain stable, however, the increase in COVID-19 infections in northern Chile in the latter part of Q2 2020 has led to further reductions in on-site workforce and restrictions to contractor access. As a result, some mining customers in Chile have slowed down operations and temporarily parked some of their truck fleets. However, the vast majority of equipment in Chilean copper mining operations is expected to continue being utilized. Strengthening copper prices are expected to lead to strengthening mining activity. Assuming no further business interruptions from COVID-19, the Company expects an improvement in product support activity as customers catch up on maintenance throughout the back half of the year. Longer term, sustained copper production and resumption of suspended mining construction projects are expected to bode well for product support and new equipment demand in Chile.

Activity in construction and power systems markets in Chile is expected to remain soft, impacted by measures to reduce the spread of COVID-19, as well as the overall economic uncertainty related to social unrest and devaluation of the **CLP**. The Company is well positioned to continue serving customers in construction and power systems markets during the COVID-19 outbreak and to grow product support in these sectors when customers return to normal operations.

The Company expects political and economic uncertainty, combined with COVID-19 disruptions, to continue to impact customer confidence and lead to slower economic growth in Chile in the near term. While there has been less evidence of social unrest in Chile in recent months, likely due to the pandemic and as a result of quarantine measures, the social unrest in that country continues to pose a risk. The potential impact of the government's social reform agenda on the Chilean economy and on the cost structure of the Company cannot reasonably be estimated at this time.

In Argentina, market activity is expected to remain at low levels due to a challenging economic environment amidst government efforts to restructure the country's debt and a gradual re-opening following COVID-19 lockdowns. The Company expects most construction customers to operate at about 30% capacity for the near future, and remains focused on delivering product support, while managing its **ARS** currency exposure. The government's restrictive monetary policies combined with capital and import controls are expected to limit the Company's growth opportunities in Argentina for the foreseeable future.

In Bolivia, customers are restarting operations at a very slow pace since the mandatory quarantine imposed by the government began to be lifted in stages starting in early May.

### **UK & Ireland Operations**

Economic activity in the UK & Ireland has been significantly impacted by COVID-19 mitigation measures and has resulted in declining **GDP** and high unemployment rates. Easing of lockdown measures beginning in May has significantly improved business activity levels compared to the levels in April 2020, including increased machine utilization hours and improved product support sales run-rates. Product support sales in July were approaching pre-COVID-19 levels. As a result of lower customer activity due to COVID-19, approximately 35% of employees in the UK & Ireland remain on furlough as at the date of this MD&A. The Company expects to reduce furlough as restrictions are relaxed and customer activity continues to ramp up.

The UK government's formal approval for construction work on the **HS2** project to proceed is expected to drive improved activity in the general construction equipment markets. This multi-year mega-project is expected to require approximately 1,100 units of heavy equipment representing a total direct sales opportunity of approximately £390 million. Leveraging its technology solutions, the Company is well positioned to capture new equipment and product support opportunities related to earthmoving work for HS2, which is expected to begin in late 2020.

In power systems, the Company expects to benefit from continued strong demand in the electric power capacity, combined heat & power, and data centre markets. All projects under construction that had been paused or delayed in Q2 2020 have resumed, and a backlog of high-quality power systems projects is scheduled to be delivered in the second half of 2020.

**Brexit**, which is scheduled for December 31, 2020, continues to provide a degree of risk and uncertainty for economic activity and supply chain logistics in the UK & Ireland.

### **Cost Containment**

The Company expects that the COVID-19 pandemic and related government, customer, and supplier actions will continue to negatively impact its 2020 financial results. To mitigate these impacts, the Company has taken swift measures to manage its costs in line with expected changes in business activity levels in each region. These measures include **Board** and employee pay reductions, reduced work schedules and furloughs, and workforce reductions in all regions.

The Company has accelerated its strategic plans to drive employee and facility productivity gains in each region, while maximizing flexibility and competitiveness to serve customers. The Company's operations in South America are now successfully leveraging one common ERP system and generating operating efficiencies. This has allowed the restructuring of the operations as well as the consolidation and rationalization of the branch network. In Canada, restructuring plans were accelerated to further leverage back office functions, streamline the reporting structure, and relocate service work to lower cost operations. The Company is also re-shaping the existing branch structure to a hub and spoke operating model designed to improve customer turnaround, customer experience, labour productivity and facility utilization, as well as reduce the Company's environmental footprint. This strategy modernizes the Company's service offering resulting in consolidation or relocation of facilities, or exit of certain facilities where leases are maturing. As a result of these restructuring initiatives, the Company's global workforce is expected to be down by 8% by the end of 2020 compared to 2019. The restructuring initiatives currently underway are expected to result in over \$100 million of annualized cost savings. Approximately one-third of these costs will likely return when market activity fully recovers, however will be incurred in locations with lower operating costs. We expect that the \$51 million of severance and facility restructuring costs incurred in Q2 2020 will have a payback period of less than one year.

In order to preserve jobs and retain technical talent, the Company has been working with its union partners and utilizing the government programs that are available and applicable to its operations in all regions. Refer to page 2 of this MD&A for more information on the Company's use of government subsidies and related benefits. Going forward, the use of government subsidy programs will be determined based on qualifying criteria and the trajectory of business recovery in each region.

## **Free Cash Flow and Capital Allocation**

The Company remains focused on maximizing EBITDA to free cash flow conversion to generate strong annual free cash flow in 2020 and maintain a healthy balance sheet. The Company continues to tightly manage its working capital and has made significant progress in monetizing surplus inventory, particularly in South America. In order to preserve capital through this challenging and uncertain period, the Company expects to reduce its investments in 2020 by minimizing capital expenditures to mission-critical maintenance and information technology systems, as well as selected rental fleet additions. The Company's 2020 net capital expenditures and net rental fleet additions are expected to be in the range of \$90 million to \$140 million.

The Company expects to maintain a strong balance sheet with sufficient liquidity and access to capital. As at June 30, 2020, the Company had \$338 million of cash and cash equivalents on hand and less than \$160 million drawn on its \$1.8 billion global credit facility. The Company expects to continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility. While the Company's liquidity capacity provides flexibility for a wide range of stress and opportunity scenarios, the near-term capital allocation priorities remain debt repayment and meeting its continued dividend commitment.

## Liquidity and Capital Resources

Management assesses liquidity in terms of the Company's ability to generate sufficient cash flow, along with other sources of liquidity including cash and borrowings, to fund its operations and growth. Liquidity is affected by operating, investing, and financing activities.

Cash flows provided by (used in) each of these activities were as follows:

(\$ millions)	3 months ended			6 months ended		
	June 30			June 30		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Operating activities	\$ 319	\$ (127)	\$ 446	\$ 305	\$ (451)	\$ 756
Investing activities	\$ (7)	\$ (35)	\$ 28	\$ (43)	\$ (287)	\$ 244
Financing activities	\$ (211)	\$ 39	\$ (250)	\$ (212)	\$ 457	\$ (669)
Free Cash Flow	\$ 312	\$ (162)	\$ 474	\$ 262	\$ (509)	\$ 771

The most significant contributors to the changes in cash flows for 2020 over 2019 are as follows (all events described are in the current quarter or year-to-date period, unless otherwise stated):

	Quarter over Quarter	Year-to-date over Year-to-date
Operating activities	<ul style="list-style-type: none"> <li>• lower inventory spend, mainly equipment, in all of the Company's operations, primarily in the Company's Canadian and South American operations, as a result of strong inventory management</li> <li>• the receipt of approximately \$35 million in government wage subsidies in Canada and the UK &amp; Ireland</li> <li>• lower tax payments due to payment deferrals allowed by global governments in response to COVID-19</li> <li>• partially offset by lower collections due to reduced sales volumes in the Company's UK &amp; Ireland and Canadian operations</li> </ul>	<ul style="list-style-type: none"> <li>• lower inventory spend, primarily equipment and parts, across all of the Company's operations mainly driven by the strong inventory management</li> <li>• the receipt of approximately \$35 million in government wage subsidies in Canada and the UK &amp; Ireland</li> <li>• lower tax payments due to payment deferrals allowed by global governments in response to COVID-19</li> <li>• partially offset by lower collections due to reduced sales volumes in the Company's Canadian and UK &amp; Ireland operations</li> </ul>
Investing activities	<ul style="list-style-type: none"> <li>• lower net spend on capital expenditures due to the Company's focus on cost management and prioritization of projects</li> </ul>	<ul style="list-style-type: none"> <li>• \$229 million net cash consideration paid to acquire 4Refuel in 2019</li> </ul>
Financing activities	<ul style="list-style-type: none"> <li>• approximately \$155 million repayment of short-term debt in Q2 2020 with available funds compared to approximately \$95 million increase in borrowings in 2019</li> </ul>	<ul style="list-style-type: none"> <li>• approximately \$80 million reduction in short-term debt in 2020 compared with \$600 million increase in borrowings in 2019</li> </ul>
Free Cash Flow	<ul style="list-style-type: none"> <li>• higher cash generated from operating activities for the reasons outlined above</li> </ul>	<ul style="list-style-type: none"> <li>• higher cash generated from operating activities for the reasons outlined above</li> </ul>

## Capital resources and management

The Company's cash and cash equivalents balance at June 30, 2020 was \$338 million (December 31, 2019: \$268 million). At June 30, 2020, to complement internally generated funds from operating and investing activities, the Company had approximately \$2.6 billion in unsecured committed and uncommitted credit facilities. Included in this amount is a committed revolving credit facility totaling \$1.8 billion with various Canadian and global financial institutions, of which approximately \$1.6 billion was available at June 30, 2020. The Company is subject to certain covenants within its committed revolving credit facility. As at June 30, 2020, the Company was in compliance with these covenants.

Management is closely evaluating the impact of COVID-19 on the Company's business and is adapting and adjusting daily to changes. The Company continuously monitors actual and forecasted cash flows, manages the maturity profiles of its financial liabilities and maintains committed and uncommitted credit facilities. Management believes that based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, the Company has sufficient liquidity to meet operational needs.

Refer to the Risk Factors and Management section later in this MD&A for further discussion of the Company's exposure to liquidity risk.

The Company is rated <sup>(1)</sup> by both **DBRS** and **S&P**:

	Long-term debt		Short-term debt	
	Jun 30, 2020	Dec 31, 2019	Jun 30, 2020	Dec 31, 2019
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	<i>n/a</i>	<i>n/a</i>

In March 2020, S&P placed the Company's BBB+ rating on CreditWatch with negative implications. In June 2020, S&P removed Finning from CreditWatch and assigned a negative outlook while affirming the Company's BBB+ rating.

During the first three months of 2020, the Company repurchased 1,215,617 common shares for \$23 million (at costs ranging from \$12.14 to \$22.20 per share and an average cost of \$19.25 per share) through an **NCIB** <sup>(2)</sup>. No common shares were repurchased in Q2 2020. During the first three months of 2019, the Company repurchased 1,073,354 common shares for cancellation for \$27 million (at costs ranging from \$23.15 to \$26.36 per share and an average cost of \$24.75 per share). No common shares were repurchased in Q2 2019.

## Net Debt to Adjusted EBITDA

The Company monitors net debt to Adjusted EBITDA to assess its operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take the Company to repay its debt, with net debt and Adjusted EBITDA held constant.

June 30	Company long-term target	2020	2019
Net debt to Adjusted EBITDA Ratio	< 3.0	2.1	2.8

(1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

(2) The Company renewed its NCIB for a further year effective May 11, 2020. A copy of the NCIB notice is available on request from the Company. Direct your request to the Corporate Secretary, 300 – 565 Great Northern Way, Vancouver, BC V5T 0H8.

## Accounting Policies and Pronouncements

---

Management's discussion and analysis of the Company's financial condition and results of operations is based on the Company's Interim Financial Statements. The Company's significant accounting policies, areas of estimation uncertainty, and significant judgments are contained in the notes to the **Annual Financial Statements** for the year ended December 31, 2019. Certain policies require management to make judgments, estimates and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The following summarizes the changes in the areas of estimation uncertainty and significant judgments facing the Company as a result of changing economic conditions, including the impact of COVID-19.

### Allowance for Doubtful Accounts

The Company records an allowance for doubtful accounts that represents management's best estimate of potential losses in respect of trade and other receivables and unbilled receivables. The main components of these allowances are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that are expected to occur. The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets, adjusted for current and forecasted future economic conditions.

Expected credit losses related to the current economic environment have been incorporated in management's estimate of its allowance for doubtful accounts at June 30, 2020. No assurance can be given that this provision will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. This remains an area that the Company will continue to monitor closely.

Refer to the Risk Factors and Management section later in this MD&A for further discussion of the Company's exposure to credit risk.

### Inventory

The Company records a provision to reflect slow-moving and obsolete inventory, which is estimated based on age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. The extent of the overall impact of the COVID-19 pandemic on the Company's inventory is unknown at this time and will depend on market activity, customer activity, and the expected outlook for the remainder of the year. The Company has reviewed its inventory provision and concluded that the inventory provision at June 30, 2020 adequately reflects the current economic conditions. This remains an area that the Company will continue to monitor closely.

### Goodwill and intangible assets with indefinite lives

The Company performs impairment tests on its goodwill and intangible assets with indefinite lives at the appropriate level (**CGU** or group of CGUs) at least annually or more frequently when events or changes in circumstances, which may include the declaration of the COVID-19 pandemic, indicate that the carrying amount of these assets may not be fully recoverable. Management conducted its annual impairment test in Q2 2020 and estimated the recoverable amount of all CGUs and groups of CGUs based on a value-in-use calculation. Key assumptions included future cash flow and growth projections covering a three-year period, with consideration of additional risk for any uncertainty in the cash flow projections driven by the impact of the COVID-19 pandemic and volatility in commodity prices. These cash flow projections were discounted using after-tax weighted-average cost of capital rates. Cash flows subsequent to the three-year projection period were extrapolated using growth rates based on estimated long-term nominal gross domestic product in the markets in which the Company operates. In addition to the impairment tests performed for goodwill and distribution network, recent economic uncertainty and financial performance triggered an impairment review of the Company's Argentina CGU. At June 30, 2020, management concluded that no impairment losses were required. This remains an area that the Company will continue to monitor closely.

### Property, plant, and equipment and rental equipment

Property, plant, and equipment and rental equipment are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company's review of its facilities network and long-term strategy prompted a review of its property, plant, and equipment and rental equipment. Impairment losses of \$7 million related to the Company's property, plant, and equipment were recorded in the three months ended June 30, 2020. No impairment losses were recorded on rental equipment. This remains an area that the Company will continue to monitor closely.

## Amendments to Accounting Standards

The Company has adopted the following amendments to IFRS effective January 1, 2020, except as otherwise noted:

- Amendments to IFRS 3, *Business Combinations* assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The definition of a business has been amended to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and to exclude returns in the form of lower costs and other economic benefits. These amendments did not impact the Company's consolidated financial statements.
- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required. The Company did not have any hedging relationships directly affected by the interest rate benchmark reform and as a result, these amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* were made to refine the definition of material in IAS 1 and align the definitions used across IFRS Standards and other publications. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition and the threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. These amendments did not impact the Company's consolidated financial statements or disclosures.
- Amendment to IFRS 16, *Leases* (effective for annual reporting periods beginning on or after June 1, 2020) allows lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19. The Company has elected to early adopt this amendment with retrospective application to April 1, 2020. Upon applying this amendment and in the three-month period ended June 30, 2020, eligible rent concessions in the Company's UK & Ireland operations were not accounted for as rent modifications and as a result, there was no impact to the Company's financial results.

## Future Accounting Pronouncements

The Company has not applied the following amendments to standards that have been issued but are not yet effective:

- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other direct costs. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023) clarify the presentation of liabilities in the statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.

## Risk Factors and Management

---

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's **ERM** process is designed to ensure that these risks are identified, managed, and reported. The ERM framework assists the Company in managing risks and business activities to mitigate these risks across the organization in order to achieve the Company's strategic objectives.

The Company maintains a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, Board level committees review the Company's processes for business risk assessment and the management of key business risks, any changes to key risks and exposures, and the steps taken to monitor and control such exposures. These reviews are reported to the Board quarterly. The Board reviews, in detail, all material risks on an annual basis. The Board also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and financial statements on a quarterly and annual basis. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. Key risks arising after the date of the Company's AIF are included in the relevant quarterly MD&A. Key risks impacting the Company in Q2 2020 are described below.

### Pandemic Outbreak and Impact on Operations

Epidemic and pandemic diseases, such as the recent outbreak of COVID-19, may have a significant impact on the Company. The Company continues to adapt to the impacts of COVID-19 on the business, with the health and safety of employees, customers, and communities as the highest priority. Since the World Health Organization's declaration of the global pandemic in March 2020, Finning successfully expedited its business continuity program, however, a risk of this nature may still have a material adverse impact on Finning's business, results of operations and financial condition.

The outbreak of COVID-19 has caused considerable disruption to the world economy, including financial markets and commodity prices. In periods of significantly lower commodity prices, development of new projects can be slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment or services supplied by the Company. To date, some of the Company's customers have requested to delay equipment deliveries as a result of their halted operations, parked equipment fleets, or delayed projects, and the Company has also received some equipment order cancellations.

All of the Company's operations have been deemed essential services and are currently open. During the six months ended June 30, 2020, a few branches in South America were closed in compliance with local quarantine restrictions but have since re-opened. A localized outbreak of a contagious illness such as COVID-19 could impact operations, risk the health of our employees who continue to work in branches or on customer sites, and result in the temporary closure of one or more of the Company's major facilities. The Company is following the requirements and advice of government and health authorities in each jurisdiction where it operates. All non-critical travel has been eliminated. The Company has applied a risk-based approach to assessing each facility in its global operations. A series of preventative measures have been developed and executed at each facility that at minimum include communication on the COVID-19 response protocol, awareness training, personal and facility specific hygiene practices, physical distancing, and work-from-home arrangements where possible. Further, in South America, given rising infection rates in the second quarter, the Company has taken additional measures to identify and protect high risk individuals, and implement low density transportation, employee testing, contact tracing, and preventative quarantine measures. As certain regions in the Company's operating areas begin to re-open, Finning has outlined a specific set of risk mitigation requirements that must be in place before any employees who are working from home return to office. Rules in all jurisdictions are changing rapidly and further government intervention or quarantine restrictions could impede the Company's ability to continue to manage the business. Similarly, significant curtailment or shutdown of customers' operations could negatively impact the Company's business and financial results.

The Company's financial results for 2020 could be negatively impacted by the actions taken by governments, customers, and/or suppliers, including business disruptions, force majeure, and/or supply chain constraints in response to the pandemic, and there is uncertainty over the severity and duration of any resulting adverse impact on our business, results of operations and financial condition. Actions or failures to act could impede the Company's ability to successfully recover within a reasonable timeframe. Management will continue to evaluate and adapt its business plans as the situation evolves. This includes working with the Board and salaried and hourly employees as well as union partners, and managing costs in line with expected changes in business activity levels in each region. To date, the Company has implemented Board and employee pay reductions, reduced work schedules and furloughs, as well as workforce reductions in all regions. Where the eligibility criteria has been met, the Company has applied for and obtained available government support. The Company will continue evaluating government programs and subsidies in all jurisdictions where we carry on business. The goal is to maximize flexibility and preserve critical talent and capabilities through this disruptive period.

## **Relationship with Caterpillar – Product and Supply**

The majority of Finning's business involves the distribution and servicing of Caterpillar products. Finning is dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of Finning's service maintenance contracts. In instances where Caterpillar reduces its production capacity or 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 to Finning in conducting its business. The impact of COVID-19 on the future supply of products is unknown and there can be no assurance that Caterpillar will continue to be able to supply its products in the quantities and timeframes required by Finning's customers. Caterpillar reported that as of mid-July 2020, nearly all of its primary production facilities continued to operate. When supply constraints have occurred in the past, Finning has been successful in utilizing its rental assets, used equipment, and other sources (such as the dealer network) to meet demand, but there can be no assurance of continued success in this area. A significant disruption to the Company's global supply chain could adversely affect the Company's business, results of operations, and financial condition.

Finning has also been reliant on Caterpillar to supply financing to its customers. In periods of global credit market disruption, Caterpillar may tighten sources or terms of financing for Finning's customers. In the current economic climate, Finning's customers may have limited access to financing from Caterpillar or alternate sources (such as financial institutions). Disruption in Caterpillar's or Finning's customers' access to liquidity, due to effects of the pandemic or otherwise, could have a material adverse impact on Finning's business, results of operations and financial condition.

## **Cybersecurity**

Cybersecurity incidents related to our information technology systems are a threat to the integrity, reliability, and availability of technology and data. Cybersecurity incidents may take the form of malware, computer viruses, cyber threats, cyber extortion, employee error, malfeasance, system errors and other types of security and data breaches, and may arise from inside and outside of our organization. Cybersecurity incidents could also target customer data or the security, integrity and/or reliability of the hardware and software installed in products we sell or service. Finning relies heavily on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, including personally identifiable information, credit card payment data and other sensitive customer and employee information, and to manage or support a variety of critical business processes and activities.

Finning's risk of experiencing a cybersecurity incident has increased due to the increase in users working remotely as a result of COVID-19. There is heightened risk that cyber criminals increase social engineering, phishing or ransomware events that may be introduced via emails or websites. To mitigate the heightened risk of cybersecurity incidents, our security monitoring and detection services were expanded and the ability to handle load on the current systems increased. The Company increased the monitoring of network activity and implemented mandatory security awareness training for users. Also, new tools and technologies to assist in the increased system load have been introduced, external based threats are monitored, critical work-from-home technologies have been reviewed to ensure enforcement of multi-factor authentication, and additional licenses for home technologies have been purchased to increase the number of remote users.

Cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. Although Finning makes significant efforts to maintain the security and integrity of its information technology systems, there can be no assurance that those efforts and measures will be able to prevent all cybersecurity incidents. Finning carries cyber insurance coverage as part of a stand-alone cyber insurance policy, however, there is no assurance that this coverage will apply or fully cover damages incurred in the event of a cyber incident. The occurrence of a significant loss or claim, or a greater number of these losses than anticipated, could have a material adverse impact on Finning. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats.

## **Commodity Prices**

The Company provides equipment and parts and service to customers in resource and construction industries. In the resource sector, fluctuations in commodity prices and changes in long-term outlook for commodities impact customer decisions regarding capital expenditures and production levels, which determine demand for equipment, parts and service. In the construction sector, publicly funded infrastructure spending is indirectly impacted by fluctuations in commodity prices (such as the prices of copper, gold, and other metals; metallurgical coal; natural gas, oil, and lumber), particularly in regions with resource-based economies. In Canada, the Company's customers, mostly in the oil sands in Northern Alberta, are exposed to the price of oil. In South America, the Company's customers are primarily exposed to the price of copper and, to a much lesser extent, the prices of gold, other metals, and natural gas. In the UK & Ireland, the Company's resource sector customers operate in off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on the Company's financial results.

## **Financial Instruments Risk**

The Company is exposed to risks through its operations that arise from its use of financial instruments, which include credit risk and liquidity risk. Under the normal course of operations, the Company has mitigation strategies to minimize these risks for its financial instruments. In the current economic climate, the Company has heightened exposure to these risks.

### Credit Risk

Credit risk associated with accounts receivable, unbilled receivables, and instalment notes receivable from customers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion. Also, the Company has policies in place to manage credit risk, including maintaining credit limits for customers taking into account factors such as projected purchase values, credit worthiness of the customer, and payment performance.

The COVID-19 pandemic has resulted in significant disruptions in financial markets, regional economies and the world economy. It is likely that the pandemic will continue to adversely affect the economies, financial markets, and social stability of many regions and countries in which our customers operate. There can be no assurance that these disruptions will not negatively affect the financial performance of our customers and our ability to collect customer receivables. The extent and duration of the impact of the COVID-19 pandemic on our customers is unknown at this time. This will depend on future developments and the availability of government support programs, all of which are highly uncertain and cannot be predicted with confidence. As a result, the Company's exposure to credit risk related to its accounts receivable has increased. No assurance can be given that the Company's provision for potential losses on customer receivables will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. This remains an area that the Company will continue to monitor closely.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains uncommitted bilateral and committed revolving credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. Based on the availability of credit facilities, the Company's business operating plans, and the discretionary nature of some of its cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs.

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment 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 financial condition. Further, the Company's ability to increase the level of debt financing may be limited by its financial covenants or its credit rating objectives. The actual and threatened spread of COVID-19 globally could adversely impact the Company's ability to carry out its plans and raise capital. The ability to raise additional financing for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond the control of the Company, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

## Foreign Exchange Risk

Key exchange rates that impacted the Company's results were as follows:

Exchange rate	June 30			December 31		3 months ended June 30 – average			6 months ended June 30 – average		
	2020	2019	Change	2019	Change	2020	2019	Change	2020	2019	Change
	USD/CAD	<b>1.3628</b>	1.3087	(4)%	1.2988	(5)%	<b>1.3853</b>	1.3377	(4)%	<b>1.3651</b>	1.3336
GBP/CAD	<b>1.6832</b>	1.6624	(1)%	1.7174	2 %	<b>1.7200</b>	1.7197	—	<b>1.7192</b>	1.7256	—
USD/CLP	<b>816.36</b>	679.86	(20)%	744.62	(10)%	<b>822.46</b>	683.44	(20)%	<b>812.71</b>	675.34	(20)%
USD/ARS	<b>70.46</b>	42.46	(66)%	59.89	(18)%	<b>67.62</b>	43.90	(54)%	<b>64.49</b>	41.31	(56)%

The impact of foreign exchange due to fluctuation in the value of the CAD relative to the USD, GBP, CLP, and ARS is expected to continue to affect Finning's results.

## Controls and Procedures Certification

### Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the **CEO** and **CFO**, on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to them in a timely manner.

The Company has a Corporate Disclosure Policy and a Disclosure Committee in place to mitigate risks associated with the disclosure of inaccurate or incomplete information, or failure to disclose required information.

- The Corporate Disclosure Policy sets out accountabilities, authorized spokespersons, and Finning's approach to the determination, preparation, and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.
- The Disclosure Committee, consisting of senior management, including legal counsel, reviews all financial information prepared for communication to the public to ensure it meets all regulatory requirements. The Disclosure Committee is responsible for raising any outstanding issues it believes require the attention of the **Audit Committee** for the Audit Committee's approval prior to recommending disclosure, subject to legal requirements applicable to disclosure of material information.

### Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. In March 2020, the Company employed remote work arrangements for the majority of its finance workforce. Although this continued through the financial close period, there has been no change in the design of the Company's internal control over financial reporting during the quarters ended March 31, 2020 and June 30, 2020, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management has taken additional steps to ensure key financial internal controls remained in place during the financial reporting period and these controls were completed electronically.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance that the objectives of the control systems are met, they are aware that these controls and procedures 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.

## Outstanding Share Data

### As at July 30, 2020

Common shares outstanding	162,103,503
Options outstanding	3,775,257

## **Description of Non-GAAP Financial Measures and Reconciliations**

---

### **Non-GAAP Financial Measures**

Management believes that providing certain non-GAAP financial measures provide users of the Company's MD&A and consolidated financial statements with important information regarding the operational performance and related trends of the Company's business. The non-GAAP financial measures used by management do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Accordingly, these measures should not be considered as a substitute or alternative for GAAP measures as determined in accordance with IFRS. By considering these measures in combination with the comparable IFRS financial measures (where available) 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 financial measures alone.

Management uses KPIs to consistently measure performance against the Company's priorities across the organization. KPIs, including those that are expressed as ratios, are non-GAAP financial measures.

There may be significant items that management does not consider indicative of future operational and financial trends of the Company, either by nature or amount. Management excludes these items when evaluating its operating financial performance. These items may not be non-recurring, but management believes that excluding these significant items from GAAP results provides a better understanding of the Company's financial performance when considered in conjunction with the GAAP results. Financial metrics that have been adjusted to take into account these significant items are referred to as "Adjusted" metrics. Adjusted metrics are non-GAAP financial measures and are intended to provide additional information to readers of the MD&A.

A description of the non-GAAP financial measures used by the Company in this MD&A is set out below. A quantitative reconciliation from each non-GAAP financial measure to their most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's consolidated financial statements (GAAP measures) can be found on pages 34 - 41 of this MD&A.

### **Adjusted net income and Adjusted basic EPS**

Adjusted net income excludes from net income the after-tax amounts of significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred.

Adjusted basic EPS is calculated by dividing Adjusted net income by the weighted average number of common shares outstanding during the period.

A reconciliation between net income and basic EPS (the most directly comparable GAAP measure) and Adjusted net income and Adjusted basic EPS can be found on pages 5 and 11 of this MD&A.

### **EBITDA, Adjusted EBITDA, and Adjusted EBIT**

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization and is utilized by management to assess and evaluate the financial performance of its reportable segments. Management believes that EBITDA improves comparability between periods by eliminating the impact of finance costs, income taxes, depreciation, and amortization.

Adjusted EBIT and Adjusted EBITDA exclude items that are not considered to be indicative of operational and financial trends, either by nature or amount, to provide a better overall understanding of the Company's underlying business performance.

EBITDA is calculated by adding depreciation and amortization to EBIT. Adjusted EBITDA is calculated by adding depreciation and amortization to Adjusted EBIT.

The most directly comparable GAAP measure to EBITDA is EBIT.

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for the consolidated operations for the last nine quarters is as follows:

3 months ended (\$ millions)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	52	94	97	129	137	62	91	93	126
Depreciation and amortization	78	76	73	72	76	72	49	49	45
EBITDA	130	170	170	201	213	134	140	142	171
EBITDA – last 12 months	671	754	718	688	629	587	610	624	628
EBIT	52	94	97	129	137	62	91	93	126
Significant items:									
CEWS support	(64)	—	—	—	—	—	—	—	—
Severance costs	42	—	—	2	—	18	—	—	—
Facility closures, restructuring costs, and impairment losses	9	—	—	1	—	7	—	—	—
Acquisition costs related to 4Refuel	—	—	—	—	—	4	—	—	—
Write-off and loss related to <i>Energyst</i>	—	—	—	—	—	—	—	30	—
Adjusted EBIT	39	94	97	132	137	91	91	123	126
Depreciation and amortization	78	76	73	72	76	72	49	49	45
Adjusted EBITDA	117	170	170	204	213	163	140	172	171
Adjusted EBIT – last 12 months	362	460	457	451	442	431	446	465	442
Adjusted EBITDA – last 12 months	661	757	750	720	688	646	633	648	622

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the Canadian operations for the last nine quarters is as follows:

3 months ended (\$ millions)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	63	60	72	82	92	50	71	78	77
Significant items:									
CEWS support	(60)	—	—	—	—	—	—	—	—
Severance costs	20	—	—	—	—	10	—	—	—
Facility closures, restructuring costs, and impairment losses	5	—	—	—	—	7	—	—	—
Adjusted EBIT	28	60	72	82	92	67	71	78	77
Depreciation and amortization	47	43	42	43	46	43	26	26	22
Adjusted EBITDA	75	103	114	125	138	110	97	104	99
Adjusted EBIT – last 12 months	242	306	313	312	308	293	290	285	264

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the South American operations for the last nine quarters is as follows:

3 months ended (\$ millions)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	2	38	31	42	41	6	12	37	47
Significant items:									
Severance costs	17	—	—	2	—	8	—	—	—
Facility closures, restructuring costs, and impairment losses	4	—	—	1	—	—	—	—	—
Adjusted EBIT	23	38	31	45	41	14	12	37	47
Depreciation and amortization	22	22	20	20	21	20	17	15	15
Adjusted EBITDA	45	60	51	65	62	34	29	52	62
Adjusted EBIT – last 12 months	137	155	131	112	104	110	142	182	193

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the UK & Ireland operations for the last nine quarters is as follows:

3 months ended (\$ millions)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
EBIT	(5)	1	5	14	14	13	12	15	14
Significant items:									
Severance costs	4	—	—	—	—	—	—	—	—
Adjusted EBIT	(1)	1	5	14	14	13	12	15	14
Depreciation and amortization	9	10	10	8	9	9	6	8	7
Adjusted EBITDA	8	11	15	22	23	22	18	23	21
Adjusted EBIT – last 12 months	19	34	46	53	54	54	51	47	41

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

### Equipment Backlog and Order Intake

The Company's global equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. Order intake represents committed new equipment orders. Management uses equipment backlog and order intake as measures of projecting future new equipment deliveries. There are no directly comparable IFRS measures for equipment backlog and order intake.

### Free Cash Flow

Free Cash Flow is defined as cash flow provided by or used in operating activities less net additions to property, plant, and equipment and intangible assets, as disclosed in the Company's Interim Financial Statements. The Company uses Free Cash Flow to assess cash operating performance and the ability to raise and service debt. A reconciliation of Free Cash Flow is as follows:

3 months ended (\$ millions)	2020			2019			2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash flow provided by (used in) operating activities	319	(14)	438	204	(127)	(324)	490	(6)	18
Additions to property, plant, and equipment and intangible assets	(17)	(38)	(54)	(40)	(37)	(23)	(77)	(46)	(46)
Proceeds on disposal of property, plant, and equipment	10	2	2	1	2	—	5	3	—
Free Cash Flow	312	(50)	386	165	(162)	(347)	418	(49)	(28)

### Inventory Turns (Dealership)

Inventory Turns (Dealership) is the number of times the Company's dealership inventory is sold and replaced over a period and is used by management as a measure of asset utilization. Inventory Turns (Dealership) is calculated as annualized cost of sales (excluding cost of sales related to the mobile refueling operations) for the last six months divided by average inventory (excluding fuel inventory), based on an average of the last two quarters, as follows:

(\$ millions, except as noted)	2020			2019			2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cost of sales (3 months ended)	1,075	1,140	1,483	1,500	1,655	1,380	1,429	1,306	1,263
Cost of sales related to mobile refueling operations (3 months ended)	(95)	(133)	(168)	(156)	(156)	(99)	—	—	—
Cost of sales related to the dealership (3 months ended)	980	1,007	1,315	1,344	1,499	1,281	1,429	1,306	1,263
Inventory	1,893	2,152	1,990	2,215	2,366	2,356	2,061	2,017	1,968
Fuel inventory	(2)	(3)	(3)	(3)	(3)	(3)	—	—	—
Inventory related to the dealership	1,891	2,149	1,987	2,212	2,363	2,353	2,061	2,017	1,968
Cost of sales related to the dealership – annualized	3,973	4,644	5,317	5,686	5,559	5,420	5,470	5,139	4,987
Inventory related to the dealership – 2 quarter average	2,020	2,068	2,099	2,287	2,359	2,208	2,039	1,992	1,937
Inventory turns (dealership) (number of times)	1.97	2.25	2.53	2.49	2.36	2.46	2.68	2.58	2.57

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

## Invested Capital

Invested capital is calculated as net debt plus shareholders' equity. Invested capital is also calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term and long-term debt, net of cash and cash equivalents. Management uses invested capital as a measure of the total cash investment made in the Company and in each reportable segment. Management uses invested capital in a number of different measurements in assessing financial performance against other companies and between reportable segments. Invested capital is calculated as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Cash and cash equivalents	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(221)	(300)
Short-term debt	158	329	226	532	751	658	154	223	213
Current portion of long-term debt	200	200	200	200	—	—	—	—	—
Long-term debt	1,348	1,381	1,318	1,325	1,321	1,341	1,354	1,315	1,330
Net debt	1,368	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243
Shareholders' equity	2,127	2,233	2,115	2,102	2,052	2,044	2,109	2,114	2,119
Invested capital	3,495	3,883	3,591	3,907	3,964	3,753	3,163	3,431	3,362

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

## Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as net revenue (defined and calculated on page 39) for the last twelve months divided by invested capital (defined and calculated on page 37) based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
Net revenue – last 12 months	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,887	6,670
Invested capital – 4 quarter average	3,719	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128
Invested capital turnover (number of times)	1.71	1.83	1.92	1.99	2.04	2.06	2.12	2.14	2.13
Canada									
Net revenue – last 12 months	3,406	3,775	3,927	3,964	3,896	3,729	3,674	3,525	3,351
Invested capital – 4 quarter average	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746
Invested capital turnover (number of times)	1.63	1.75	1.81	1.91	1.95	1.98	2.05	1.98	1.92
South America									
Net revenue – last 12 months	2,042	2,199	2,226	2,217	2,198	2,123	2,170	2,250	2,241
Invested capital – 4 quarter average	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091
Invested capital turnover (number of times)	1.67	1.73	1.78	1.77	1.80	1.78	1.86	2.01	2.05
UK & Ireland									
Net revenue – last 12 months	902	1,036	1,137	1,194	1,217	1,193	1,152	1,112	1,078
Invested capital – 4 quarter average	389	399	382	376	373	368	358	337	314
Invested capital turnover (number of times)	2.32	2.60	2.98	3.18	3.27	3.25	3.22	3.30	3.44

## Net Debt to EBITDA Ratio and Net Debt to Adjusted EBITDA Ratio

These ratios are calculated, respectively, as net debt (defined and calculated on page 37) divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. Management uses these ratios to assess the Company's operating leverage and ability to repay its debt. These ratios approximate the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Net debt	1,368	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243
EBITDA – last 12 months	671	754	718	688	629	587	610	624	628
Adjusted EBITDA – last 12 months	661	757	750	720	688	646	633	648	622
Net Debt to EBITDA Ratio	2.0	2.2	2.1	2.6	3.0	2.9	1.7	2.1	2.0
Net Debt to Adjusted EBITDA Ratio	2.1	2.2	2.0	2.5	2.8	2.6	1.7	2.0	2.0

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, Leases effective for the financial year beginning January 1, 2019.

### Net Revenue, Gross Profit as a % of Net Revenue, SG&A as a % of Net Revenue, EBITDA as a % of Net Revenue, and EBIT as a % of Net Revenue

Net revenue is defined as total revenue less the cost of fuel related to the mobile refueling operations in the Company's Canadian operations. As these fuel costs are pass-through in nature for this business, management views net revenue as more representative in assessing the performance of the business because the rack price for the cost of fuel is fully passed through to the customer and is not in the Company's control.

Prior to 2019, net revenue from all operations was the same as total revenue and the Company's non-GAAP financial measures, including KPIs and ratios, were calculated using total revenue. Effective Q1 2019, these financial measures are calculated using net revenue. For the Company's South American and UK & Ireland operations, net revenue is the same as total revenue.

Management uses these measures, including KPIs and ratios, to assess and evaluate the financial performance or profitability of its reportable segments. Management may also calculate these financial measures using an Adjusted EBITDA and Adjusted EBIT to exclude significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

The most directly comparable GAAP measure to net revenue is total revenue. The ratios are calculated, respectively, as gross profit divided by net revenue, SG&A divided by net revenue, EBITDA divided by net revenue, and EBIT divided by net revenue. Net revenue and these ratios are calculated as follows:

3 months ended (\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total revenue	1,419	1,558	1,911	1,959	2,137	1,810	1,842	1,755	1,729
Cost of fuel	(84)	(119)	(154)	(140)	(142)	(91)	—	—	—
Net revenue	1,335	1,439	1,757	1,819	1,995	1,719	1,842	1,755	1,729
Gross profit	344	418	428	459	482	430	413	449	466
<i>Gross profit as a % of net revenue</i>	<b>25.7%</b>	29.1%	24.3%	25.3%	24.1%	25.0%	22.4%	25.6%	26.9%
SG&A	306	325	334	333	350	343	324	330	345
<i>SG&amp;A as a % of net revenue</i>	<b>22.9%</b>	22.6%	19.0%	18.3%	17.5%	20.0%	17.6%	18.9%	19.9%
EBITDA	130	170	170	201	213	134	140	142	171
<i>EBITDA as a % of net revenue</i>	<b>9.7%</b>	11.8%	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%
Adjusted EBITDA	117	170	170	204	213	163	140	172	171
<i>Adjusted EBITDA as a % of net revenue</i>	<b>8.8%</b>	11.8%	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%
EBIT	52	94	97	129	137	62	91	93	126
<i>EBIT as a % of net revenue</i>	<b>3.9%</b>	6.6%	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%
Adjusted EBIT	39	94	97	132	137	91	91	123	126
<i>Adjusted EBIT as a % of net revenue</i>	<b>2.9%</b>	6.6%	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, Leases effective for the financial year beginning January 1, 2019.

## ROIC and Adjusted ROIC

Return on Invested Capital, or ROIC, is defined as EBIT for the last twelve months divided by invested capital (calculated on page 37) based on an average of the last four quarters, expressed as a percentage.

Management views ROIC as a useful measure for supporting investment and resource allocation decisions, as it adjusts for certain items that may affect comparability between certain competitors and segments. Management may also calculate an Adjusted ROIC using Adjusted EBIT to exclude significant items that are not considered to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of the Company's underlying business performance.

ROIC and Adjusted ROIC is calculated as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Consolidated									
EBIT – last 12 months	372	457	425	419	383	372	423	441	448
Adjusted EBIT – last 12 months	362	460	457	451	442	431	446	465	442
Invested capital – 4 quarter average	3,719	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128
ROIC	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%
Adjusted ROIC	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%
Canada									
EBIT – last 12 months	277	306	296	295	291	276	297	293	272
Adjusted EBIT – last 12 months	242	306	313	312	308	293	290	285	264
Invested capital – 4 quarter average	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746
ROIC	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%
Adjusted ROIC	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%
South America									
EBIT – last 12 months	113	152	120	101	96	102	142	180	191
Adjusted EBIT – last 12 months	137	155	131	112	104	110	142	182	193
Invested capital – 4 quarter average	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091
ROIC	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%
Adjusted ROIC	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%
UK & Ireland									
EBIT – last 12 months	15	34	46	53	54	54	51	47	41
Adjusted EBIT – last 12 months	19	34	46	53	54	54	51	47	41
Invested capital – 4 quarter average	389	399	382	376	373	368	358	337	314
ROIC	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%
Adjusted ROIC	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, Leases effective for the financial year beginning January 1, 2019.

### Working Capital & Working Capital to Net Revenue Ratio

Working capital is defined as total current assets (excluding cash and cash equivalents) less total current liabilities (excluding short-term debt and current portion of long-term debt). Management views working capital as a measure for assessing overall liquidity.

The working capital to net revenue ratio is calculated as working capital, based on an average of the last four quarters, divided by net revenue for the last twelve months. Management uses this KPI to assess the Company's efficiency in its use of working capital to generate net revenue.

The working capital to net revenue ratio is calculated as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>		
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Total current assets	3,416	3,828	3,659	3,959	4,217	4,187	3,924	3,696	3,763
Cash and cash equivalents	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(221)	(300)
Total current assets in working capital <sup>(2)</sup>	3,078	3,568	3,391	3,707	4,057	3,897	3,470	3,475	3,463
Total current liabilities	1,735	2,112	2,026	2,331	2,584	2,574	1,992	1,734	1,742
Short-term debt	(158)	(329)	(226)	(532)	(751)	(658)	(154)	(223)	(213)
Current portion of long-term debt	(200)	(200)	(200)	(200)	—	—	—	—	—
Total current liabilities in working capital <sup>(3)</sup>	1,377	1,583	1,600	1,599	1,833	1,916	1,838	1,511	1,529
Working capital	1,701	1,985	1,791	2,108	2,224	1,981	1,632	1,964	1,934
Working capital – 4 quarter average	1,896	2,026	2,026	1,986	1,950	1,878	1,859	1,837	1,793
Net revenue – last 12 months	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,887	6,670
Working capital to net revenue	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%

<sup>(1)</sup> Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

<sup>(2)</sup> Excluding cash and cash equivalents.

<sup>(3)</sup> Excluding short-term debt and current portion of long-term debt.

## Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2020		2019				2018 <sup>(1)</sup>	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue from operations <sup>(2)</sup>								
Canada	\$ 789	\$ 874	\$ 1,122	\$ 1,118	\$ 1,216	\$ 998	\$ 1,005	\$ 910
South America	469	478	518	577	626	505	509	558
UK & Ireland	161	206	271	264	295	307	328	287
<b>Total revenue</b>	<b>\$ 1,419</b>	<b>\$ 1,558</b>	<b>\$ 1,911</b>	<b>\$ 1,959</b>	<b>\$ 2,137</b>	<b>\$ 1,810</b>	<b>\$ 1,842</b>	<b>\$ 1,755</b>
Net income <sup>(2)(3)</sup>	\$ 18	\$ 54	\$ 50	\$ 76	\$ 88	\$ 28	\$ 55	\$ 25
Earnings Per Share <sup>(2)(3)</sup>								
Basic EPS	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15
Diluted EPS	\$ 0.12	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15
Total assets <sup>(2)</sup>	\$ 5,716	\$ 6,255	\$ 5,990	\$ 6,253	\$ 6,473	\$ 6,459	\$ 5,696	\$ 5,413
Long-term debt								
Current	\$ 200	\$ 200	\$ 200	\$ 200	\$ —	\$ —	\$ —	\$ —
Non-current	\$ 1,348	\$ 1,381	\$ 1,318	\$ 1,325	\$ 1,321	\$ 1,341	\$ 1,354	1,315
<b>Total long-term debt<sup>(4)</sup></b>	<b>\$ 1,548</b>	<b>\$ 1,581</b>	<b>\$ 1,518</b>	<b>\$ 1,525</b>	<b>\$ 1,321</b>	<b>\$ 1,341</b>	<b>\$ 1,354</b>	<b>\$ 1,315</b>
Cash dividends paid per common share	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.0¢	20.0¢	20.0¢
Common shares outstanding (000's)	162,104	162,104	163,319	163,310	163,310	163,310	164,382	168,191
Options outstanding (000's)	3,758	3,353	3,416	3,547	3,550	3,055	3,164	3,226

- (1) Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, Leases effective for the financial year beginning January 1, 2019.
- (2) In February 2019, the Company acquired 4Refuel in its Canadian reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.
- (3) Results were impacted by the following significant items:

(\$ millions except per share amounts)	2020	2019 <sup>(a)</sup>		2018 <sup>(a)</sup>
	Q2	Q3	Q1	Q3
CEWS support	\$ (64)	\$ —	\$ —	\$ —
Severance costs	42	2	18	—
Facility closures, restructuring costs, and impairment losses	9	1	7	—
Acquisition costs related to 4Refuel	—	—	4	—
Write-off and loss related to Energyst	—	—	—	30
<b>Impact of significant items on EBIT</b>	<b>\$ (13)</b>	<b>\$ 3</b>	<b>\$ 29</b>	<b>\$ 30</b>
Significant items impacting EBIT - impact on basic EPS <sup>(b)</sup>	\$ (0.06)	\$ 0.01	\$ 0.13	\$ 0.18
Significant items impacting net income only - impact on basic EPS <sup>(b)</sup> :				
Tax impact of devaluation of ARS <sup>(c)</sup>	—	0.02	—	0.12
<b>Impact of significant items on basic EPS<sup>(b)</sup>:</b>	<b>\$ (0.06)</b>	<b>\$ 0.03</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>

- (a) There were no significant items in Q1 2020, Q4 2019, Q2 2019, and Q4 2018.
- (b) The per share impact for each quarter has been calculated using the weighted average number of shares issued and outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year to date total.
- (c) Tax impact of devaluation of ARS Q3 2019 (\$4 million) and Q3 2018 (\$20 million).

- (4) In July 2020, the Company settled its 3.232%, \$200 million note which was due July 3, 2020.
- In April 2020, the Company secured an additional \$500 million committed revolving credit facility, which provides further financial flexibility and liquidity. This facility has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions of the existing \$1.3 billion committed revolving credit facility.
- In December 2019, the Company amended the credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024.
- In August 2019, the Company issued \$200 million of 2.626% senior unsecured notes due August 14, 2026. Proceeds of the issuance were used to reduce outstanding short-term debt under the Company's committed revolving credit facility.

## Forward-Looking Disclaimer

---

This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements: that the effects of COVID-19 and volatile oil and other commodity prices are expected to have a material negative impact on the Company's 2020 financial results; that the Company is positioned well for an economic recovery; about expected improvements in employee and facility productivity as a results of restructuring; about expected results from execution of the Company's strategic framework, including the Company's Global Strategic Priorities, strategic pillars, and strategic focus areas; that the Company will continue to pursue its strategy, while maintaining its immediate focus on preserving financial flexibility as it deals with the uncertain impacts of COVID-19; that the Company's effective tax rate will generally be within the 25-30% range on an annual basis; that the reshaping by the Company of its existing branch structure to a hub and spoke operating model will improve customer turnaround, customer experience, labour productivity and facility utilization, and reduce the Company's environmental footprint, and result in the consolidation, relocation or exit of certain facilities; about the Company's outlook for its Canada operations, including the expectation that most oil sands producers will be operating at pre-COVID-19 levels by the end of August and that oil sands contractor will take longer to return to pre-COVID-19 activity levels, that longer term, the aging equipment population is expected to continue to support demand for parts and service, including component rebuilds, that demand for new equipment will remain low until oil price fundamentals improve and the COVID-19 recovery takes hold, that other mining operations in Western Canada are returning to full capacity as COVID-19 related restrictions are lifted, that coal prices are expected to remain low, that mining customers continue to focus on reducing operating costs, and capital spending remains restricted, that the Company expects product support activity to slowly return to normal levels as production output recovers from April lows, that the Company expects improvement in product support activity in construction throughout the second half of the year, that large infrastructure projects in Alberta and British Columbia, including pipelines, are expected to proceed as planned, that the Company is well positioned to capture equipment and product support opportunities for these projects, although order intake for large construction equipment remains at low levels and the pricing environment is expected to be highly competitive in the near term reflecting a surplus of competitive equipment inventories in Western Canada, that the demand for small construction equipment and product support is expected to remain soft and dependent on the pace of a broader economic recovery post-COVID-19 disruptions, that in power systems, and the Company expects continued strong demand for prime and standby electric power generation for large infrastructure projects; about the Company's outlook for its South America operations, including, for Chile, that copper mining activity is expected to remain stable, that in spite of some mining customers in Chile having slowed operations and temporarily parked some of their truck fleets because of the increase in COVID-19 infections in northern Chile in the latter part of Q2 2020 the Company expects the vast majority of equipment in Chilean copper mining operations to continue being utilized, that strengthening copper prices are expected to lead to strengthening mining activity, that, assuming no further business interruptions from COVID-19, product support activity will improve as customers catch up on maintenance throughout the back half of the year, that, longer term, sustained copper production and resumption of suspended mining construction projects are expected to bode well for product support and new equipment demand in Chile, that activity in the construction and power systems markets in Chile is expected to remain soft, impacted by measures to reduce the spread of COVID-19, as well as the overall economic uncertainty related to social unrest and devaluation of the CLP, that the Company is well positioned to continue serving customers in construction and power systems markets during the COVID-19 outbreak and to grow product support in these sectors when customers return to normal operations, about the expectation that political and economic uncertainty, combined with COVID-19 disruptions, will continue to impact customer confidence and lead to slower economic growth in Chile in the near term, that social unrest in Chile continues to pose a risk; and for Argentina, that market activity is expected to remain at low levels due to a challenging economic environment amidst government efforts to restructure the country's debt and a gradual re-opening following COVID-19 lockdowns, the Company's expectation that most construction customers will operate at about 30% capacity for the near future, that the Company remains focused on delivering product support, while managing its ARS currency exposure, and that the government's restrictive monetary policies combined with capital and imports controls are expected to limit the Company's growth opportunities in Argentina for the foreseeable future; the Company's outlook for its operations in UK & Ireland, including that the Company expect to reduce furlough of its employees as restrictions are relaxed and customer activity continues to ramp up; that the UK government's formal approval for construction work on the HS2 project to proceed is expected to drive improved activity in the general construction equipment markets, require approximately 1,100 units of heavy

equipment representing a total direct sales opportunity of approximately £390 million and that, leveraging its technology solutions, the Company is well positioned to capture new equipment and product support opportunities related to earthmoving work for HS2, which is expected to begin in late 2020, and that, in power systems, the Company expects to benefit from continued strong demand in the electric power capacity, combined heat & power, and data centre markets and that a backlog of high-quality power systems projects is scheduled to be delivered in the second half of 2020; the Company's outlook for cost containment, including its expectation that the COVID-19 pandemic and related government, customer, and supplier actions will continue to negatively impact its 2020 financial results; that, as a result of the acceleration of its strategic plans, the Company's global workforce is expected to be down by 8% by the end of 2020 compared to 2019, that restructuring initiatives are expected to result in over \$100 million of annualized cost savings and that approximately one-third of those cost will likely return when market activity fully recovers but will be incurred in locations with lower operating costs; and that the Company expects that the \$51 million of severance and facility restructuring costs incurred in Q2 2020 will have a payback period of less than one year; the Company's outlook for free cash flow and capital allocation, including that the Company expects to reduce its investments in 2020 by minimizing capital expenditures to mission-critical maintenance and information technology systems, as well as selected rental fleet additions, and expects 2020 net capital expenditures and net rental fleet additions to be in the range of \$90 million to \$140 million; and that the Company expects to maintain a strong balance sheet with sufficient liquidity and access to capital, continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility and maintain near-term capital allocation priorities on debt repayment and meeting its continued dividend commitment; that, based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, the Company has sufficient liquidity to meet operational needs; that the Company continually monitors its significant accounting policies related to allowances for doubtful accounts, inventory, goodwill and intangible assets with indefinite lives, and property, plant, and equipment and rental equipment; that the Company will continue evaluating government programs and subsidies in all jurisdictions where it carries on business, with a goal to maximize flexibility and preserve critical talent and capabilities through this disruptive period; that the Company will continue to closely monitor credit risk; about the impact on results of expected ongoing volatility in foreign exchange markets; Finning's plans to manage its financial risks and uncertainties; and the expected impact of the COVID-19 pandemic on the Company's operations and the Company's plans to manage the risks and uncertainties associated with the spread of COVID-19.

All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws. Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at the date in this MD&A. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize.

Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: the impact and duration of the COVID-19 pandemic and measures taken by governments, customers and suppliers in response; general economic and market conditions; foreign exchange rates; commodity prices; the impact of changes in the trade relationship with the European Union; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term product support contracts with its customers; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to maintain a safe and healthy work environment across all regions, Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws, regulations, or policies; stock market volatility; changes in political and economic environments in the regions where Finning carries on business; Finning's ability to respond to climate change-related risks; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable

rates; the adequacy of insurance to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; Finning's ability to protect itself from cybersecurity threats or incidents; and the actual impact of the COVID-19 pandemic and Finning's ability to respond to and manage the evolving risks. Forward-looking statements are provided in this report to give information about management's current expectations and plans and allow investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that the Company believed were reasonable on the day the Company made the forward-looking statements including but not limited to (i) that Finning will be able to successfully manage its business through the current challenging times involving the effects of the COVID-19 response and low and/or volatile commodity prices and successfully implement its COVID-19 risk management plans; (ii) that general economic and market conditions will improve; (iii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iv) Finning's ability to successfully execute its plans and intentions; (v) Finning's ability to successfully attract and retain skilled staff; (vi) market competition will remain at similar levels; (vii) the products and technology offered by the Company's competitors will be as expected; and (viii) that our current good relationships with Caterpillar and with our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors, which could cause results to differ materially from those expressed in the forward-looking statements contained in this report, are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks. Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Finning cannot accurately predict the full impact that COVID-19 will have on its business, results of operations, financial condition or the demand for its services, due in part to the uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, the steps its customers and suppliers may take in current circumstances, including slowing or halting operations, the duration of travel and quarantine restrictions imposed by governments and other steps that may be taken by such governments to respond to the pandemic. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operation.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this report. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting its business.

## Glossary of Defined Terms

---

<b>4Refuel</b>	4Refuel Canada and 4Refuel US
<b>AIF</b>	Annual Information Form
<b>Annual Financial Statements</b>	Audited annual consolidated financial statements
<b>ARS</b>	Argentine Peso
<b>Audit Committee</b>	Audit Committee of the Board of Directors of Finning
<b>Board</b>	Board of Directors of Finning
<b>Brexit</b>	Withdrawal of the UK from the European Union
<b>CAD</b>	Canadian dollar
<b>Caterpillar</b>	Caterpillar Inc.
<b>CEO</b>	Chief Executive Officer
<b>CEWS</b>	Canadian Emergency Wage Subsidy
<b>CFO</b>	Chief Financial Officer
<b>CGU</b>	Cash-generating unit
<b>CLP</b>	Chilean Peso
<b>Company</b>	Finning International Inc.
<b>Consol</b>	Consolidated
<b>COVID-19</b>	Novel Coronavirus
<b>DBRS</b>	Dominion Bond Rating Service
<b>EBIT</b>	Earnings (loss) before finance costs and income tax
<b>EBITDA</b>	Earnings (loss) before finance costs, income tax, depreciation, and amortization
<b>Energyst</b>	Energyst B.V.
<b>EPS</b>	Earnings per share
<b>ERM</b>	Enterprise risk management
<b>ERP</b>	Enterprise resource planning
<b>fav</b>	Favourable
<b>Finning</b>	Finning International Inc.
<b>Finning (Canada)</b>	A division of Finning, with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories, and a portion of Nunavut
<b>GAAP</b>	Generally accepted accounting principles
<b>GBP</b>	UK pound sterling
<b>GDP</b>	Gross domestic product
<b>HS2</b>	High Speed 2, a partly planned high speed railway in the UK
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards
<b>Interim Financial Statements</b>	Interim condensed consolidated financial statements
<b>KPI</b>	Key performance indicator
<b>MD&amp;A</b>	Management's Discussion and Analysis
<b>n/a</b>	not applicable
<b>n/m</b>	% change not meaningful
<b>NCIB</b>	Normal course issuer bid
<b>OEM</b>	OEM Remanufacturing Company Inc.
<b>PEB asset</b>	Net post-employment benefit asset
<b>PLM</b>	PipeLine Machinery International
<b>ROIC</b>	Return on invested capital
<b>S&amp;P</b>	Standard and Poor's
<b>SEDAR</b>	System for Electronic Document Analysis
<b>SG&amp;A</b>	Selling, general, and administrative costs
<b>UK</b>	United Kingdom
<b>unfav</b>	Unfavourable
<b>US</b>	United States of America
<b>USD</b>	US dollar
<b>YTD</b>	Year-to-date