

# MANAGEMENT'S DISCUSSION AND ANALYSIS

May 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 months ended March 31, 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 43. The first time a defined term is used in this MD&A, it is shown in bold italics.***

## First Quarter Overview

(\$ millions, except for per share amounts)	Q1 2020	Q1 2019	% change <i>fav (unfav)</i>
Revenue	\$ 1,558	\$ 1,810	(14)%
Net revenue <sup>(1)</sup>	\$ 1,439	\$ 1,719	(16)%
Gross profit	\$ 418	\$ 430	(3)%
<b>SG&amp;A</b>	<b>(325)</b>	<b>(343)</b>	5%
Equity earnings of joint ventures	1	4	(71)%
Other expenses	—	(29)	<i>n/m</i>
<b>EBIT</b>	<b>\$ 94</b>	<b>\$ 62</b>	53%
Net income	\$ 54	\$ 28	94%
Basic <b>EPS</b>	\$ 0.33	\$ 0.17	95%
<b>EBITDA</b> <sup>(1)</sup>	<b>\$ 170</b>	<b>\$ 134</b>	27%
Free Cash Flow <sup>(1)</sup>	\$ (50)	\$ (347)	86%
Adjusted EBIT <sup>(1)(2)</sup>	\$ 94	\$ 91	4%
Adjusted net income <sup>(1)(2)</sup>	\$ 54	\$ 50	8%
Adjusted basic EPS <sup>(1)(2)</sup>	\$ 0.33	\$ 0.30	9%
Adjusted EBITDA <sup>(1)(2)</sup>	\$ 170	\$ 163	5%
<i>Gross profit as a % of net revenue</i> <sup>(1)</sup>	<b>29.1%</b>	25.0%	
<i>SG&amp;A as a % of net revenue</i> <sup>(1)</sup>	<b>22.6%</b>	20.0%	
<i>EBIT as a % of net revenue</i> <sup>(1)</sup>	<b>6.6%</b>	3.6%	
<i>EBITDA as a % of net revenue</i> <sup>(1)</sup>	<b>11.8%</b>	7.8%	
<i>Adjusted EBIT as a % of net revenue</i> <sup>(1)(2)</sup>	<b>6.6%</b>	5.3%	
<i>Adjusted EBITDA as a % of net revenue</i> <sup>(1)(2)</sup>	<b>11.8%</b>	9.4%	
<i>Adjusted ROIC</i> <sup>(1)(2)</sup>	<b>12.0%</b>	12.5%	

<sup>(1)</sup> These are "non-GAAP financial measures" that 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 non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

<sup>(2)</sup> 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 significant items are described on pages 5 and 31 - 32 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

## Recent Developments

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On March 11, 2020, the **COVID-19** outbreak was declared a pandemic by the World Health Organization. COVID-19 had an impact on the Company's business beginning in Q1 2020. The impact on the Company's UK & Ireland operations started earlier than the Canadian or South American operations. The most significant impacts on our operations from disruptions related to COVID-19 in the first quarter included delayed equipment deliveries in all regions, lower parts sales in the construction sector and lower rental utilization in March in all regions, reduced productivity at our component repair facilities and lower labour recovery at our branches due to shift separation and distancing measures, temporary closure of certain facilities in South America, and additional allowances for doubtful accounts related to an increase in customer credit risk. The timing and pace of market recovery from the effects of both COVID-19 and low commodity prices are unclear. Management expects these factors will have a material negative impact on the Company's 2020 financial results.

Refer to the Outlook and Risk Factors and Management sections later in this MD&A for further discussion of the potential impact of the pandemic on the Company's operations and financial results.

## 2020 First Quarter Highlights

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- Revenue was \$1.6 billion in Q1 2020. Net revenue of \$1.4 billion in Q1 2020 was down 16% from Q1 2019, largely driven by lower new equipment revenue in all of the Company's operations partially offset by a 23% increase in product support revenue in the Company's South American operations.
- Q1 2020 EBIT was \$94 million and EBIT as a percentage of net revenue was 6.6%, compared to \$62 million and 3.6% in Q1 2019, respectively. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT and Adjusted EBIT as a percentage of net revenue in Q1 2019 were \$91 million and 5.3%, respectively.
- EBITDA was \$170 million and EBITDA as a percentage of net revenue was 11.8% in Q1 2020, compared to Adjusted EBITDA and Adjusted EBITDA as a percentage of net revenue of \$163 million and 9.4%, respectively, earned in Q1 2019 largely driven by improved gross margins in the Company's South American and Canadian operations.
- Q1 2020 basic EPS was \$0.33 compared to Q1 2019 basic EPS of \$0.17. Excluding significant items not considered indicative of operational and financial trends, Q1 2019 Adjusted basic EPS was \$0.30. The increase in Q1 2020 basic EPS reflects higher earnings from the Company's South American operations, partially offset by lower earnings in the Company's **UK & Ireland** and Canadian operations.
- Free cash flow use of \$50 million in Q1 2020 was lower than the \$347 million use of cash in Q1 2019 reflecting inventory management in the Company's Canadian and South American operations.
- Adjusted ROIC at March 31, 2020 was 12.0%, a decrease from Adjusted ROIC of 12.5% at March 31, 2019, mostly due to lower Adjusted ROIC in the Company's UK & Ireland operations partially offset by an improvement in the Company's South American operations.

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## 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 preserving financial 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 30 - 38 of this MD&A.

There were no significant items identified by management for the three months ended March 31, 2020. Significant items that affected the reported results for the three months ended March 31, 2019 which are not considered by management to be indicative of operational and financial trends, either by nature or amount, were:

### Q1 2019 significant items:

- Severance costs related to workforce reductions in the Company’s Canadian and South American operations as the Company aligned 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 significant items and provides reconciliations of the Adjusted metrics to their most directly comparable GAAP measure:

3 months ended March 31, 2019 (\$ millions, except per share amounts)	EBIT				Net Income	Basic EPS
	Canada	South America	UK & Ireland	Consol	Consol	Consol
EBIT, net income, and basic EPS	\$ 50	\$ 6	\$ 13	\$ 62	\$ 28	\$ 0.17
Significant item:						
Severance costs	10	8	—	18	13	0.08
Facility closures, restructuring costs, and impairment losses	7	—	—	7	5	0.03
Acquisition costs	—	—	—	4	4	0.02
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 67	\$ 14	\$ 13	\$ 91	\$ 50	\$ 0.30

## 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>			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
ROIC <sup>(2)(3)</sup> (%)									
Consolidated	<b>11.9 %</b>	11.2 %	11.3 %	10.7 %	10.8 %	12.8 %	13.7 %	14.3 %	13.7 %
Canada	<b>14.2 %</b>	13.7 %	14.2 %	14.5 %	14.6 %	16.6 %	16.4 %	15.5 %	14.5 %
South America	<b>11.9 %</b>	9.6 %	8.1 %	7.9 %	8.6 %	12.2 %	16.2 %	17.5 %	17.6 %
UK & Ireland	<b>8.4 %</b>	12.1 %	14.1 %	14.5 %	14.8 %	14.2 %	14.0 %	13.2 %	13.4 %
EBIT <sup>(2)</sup> (\$ millions)									
Consolidated	<b>94</b>	97	129	137	62	91	93	126	113
Canada	<b>60</b>	72	82	92	50	71	78	77	71
South America	<b>38</b>	31	42	41	6	12	37	47	46
UK & Ireland	<b>1</b>	5	14	14	13	12	15	14	10
EBIT as a % of net revenue <sup>(2)</sup>									
Consolidated	<b>6.6 %</b>	5.5 %	7.1 %	6.9 %	3.6 %	4.9 %	5.3 %	7.3 %	6.8 %
Canada	<b>7.9 %</b>	7.4 %	8.5 %	8.5 %	5.5 %	7.1 %	8.6 %	8.5 %	8.4 %
South America	<b>7.8 %</b>	6.0 %	7.3 %	6.5 %	1.2 %	2.5 %	6.7 %	8.5 %	8.4 %
UK & Ireland	<b>0.5 %</b>	1.9 %	5.1 %	4.8 %	4.4 %	3.7 %	5.1 %	5.3 %	3.7 %
EBITDA <sup>(2)</sup> (\$ millions)									
Consolidated	<b>170</b>	170	201	213	134	140	142	171	157
Canada	<b>103</b>	114	125	138	93	97	104	99	93
South America	<b>60</b>	51	62	62	26	29	52	62	61
UK & Ireland	<b>11</b>	15	22	23	22	18	23	21	17
EBITDA as a % of net revenue <sup>(2)</sup>									
Consolidated	<b>11.8 %</b>	9.7 %	11.1 %	10.7 %	7.8 %	7.6 %	8.1 %	9.9 %	9.4 %
Canada	<b>13.7 %</b>	11.8 %	12.8 %	12.9 %	10.2 %	9.7 %	11.4 %	11.0 %	10.9 %
South America	<b>12.4 %</b>	10.0 %	10.8 %	9.8 %	5.2 %	5.8 %	9.3 %	11.2 %	11.1 %
UK & Ireland	<b>5.2 %</b>	5.4 %	8.3 %	7.7 %	7.3 %	5.7 %	7.7 %	7.9 %	6.3 %
Invested Capital <sup>(3)</sup> (\$ millions)									
Consolidated	<b>3,883</b>	3,591	3,907	3,964	3,753	3,163	3,431	3,362	3,226
Canada	<b>2,093</b>	2,026	2,209	2,285	2,148	1,675	1,889	1,840	1,778
South America	<b>1,330</b>	1,192	1,276	1,287	1,243	1,190	1,173	1,172	1,140
UK & Ireland	<b>428</b>	361	416	390	361	336	404	372	322
Invested Capital Turnover <sup>(3)</sup> (times)									
Consolidated	<b>1.83</b>	1.92	1.99	2.04	2.06	2.12	2.14	2.13	2.13
Canada	<b>1.75</b>	1.81	1.91	1.95	1.98	2.05	1.98	1.92	1.87
South America	<b>1.73</b>	1.78	1.77	1.80	1.78	1.86	2.01	2.05	2.08
UK & Ireland	<b>2.60</b>	2.98	3.18	3.27	3.25	3.22	3.30	3.44	3.65
Inventory (\$ millions)	<b>2,152</b>	1,990	2,215	2,366	2,356	2,061	2,017	1,968	1,906
Inventory Turns (Dealership) <sup>(3)</sup> (times)	<b>2.25</b>	2.53	2.49	2.36	2.46	2.68	2.58	2.57	2.80
Working Capital <sup>(3)</sup> to Net Revenue <sup>(3)</sup>	<b>28.9 %</b>	27.8 %	26.9 %	26.7 %	26.7 %	26.6 %	26.7 %	26.9 %	27.1 %
Free Cash Flow (\$ millions)	<b>(50)</b>	386	165	(162)	(347)	418	(49)	(28)	(263)
Net Debt <sup>(3)</sup> to EBITDA Ratio <sup>(2)(3)</sup>	<b>2.2</b>	2.1	2.6	3.0	2.9	1.7	2.1	2.0	1.9

(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 that 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 non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 30 - 38 in this MD&A.

## Adjusted KPIs

KPIs may be impacted by significant items described on pages 5 and 31 - 32 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>			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Adjusted ROIC									
Consolidated	<b>12.0 %</b>	12.0 %	12.2 %	12.3 %	12.5 %	13.5 %	14.5 %	14.2 %	13.5 %
Canada	<b>14.2 %</b>	14.4 %	15.0 %	15.4 %	15.5 %	16.2 %	16.0 %	15.1 %	14.0 %
South America	<b>12.2 %</b>	10.5 %	9.0 %	8.5 %	9.2 %	12.2 %	16.4 %	17.7 %	17.8 %
UK & Ireland	<b>8.4 %</b>	12.1 %	14.1 %	14.5 %	14.8 %	14.2 %	14.0 %	13.2 %	13.4 %
Adjusted EBIT (\$ millions)									
Consolidated	<b>94</b>	97	132	137	91	91	123	126	106
Canada	<b>60</b>	72	82	92	67	71	78	77	64
South America	<b>38</b>	31	45	41	14	12	37	47	46
UK & Ireland	<b>1</b>	5	14	14	13	12	15	14	10
Adjusted EBIT as a % of net revenue									
Consolidated	<b>6.6 %</b>	5.5 %	7.3 %	6.9 %	5.3 %	4.9 %	7.0 %	7.3 %	6.4 %
Canada	<b>7.9 %</b>	7.4 %	8.5 %	8.5 %	7.4 %	7.1 %	8.6 %	8.5 %	7.5 %
South America	<b>7.8 %</b>	6.0 %	7.8 %	6.5 %	2.7 %	2.5 %	6.7 %	8.5 %	8.4 %
UK & Ireland	<b>0.5 %</b>	1.9 %	5.1 %	4.8 %	4.4 %	3.7 %	5.1 %	5.3 %	3.7 %
Adjusted EBITDA (\$ millions)									
Consolidated	<b>170</b>	170	204	213	163	140	172	171	150
Canada	<b>103</b>	114	125	138	110	97	104	99	86
South America	<b>60</b>	51	65	62	34	29	52	62	61
UK & Ireland	<b>11</b>	15	22	23	22	18	23	21	17
Adjusted EBITDA as a % of net revenue									
Consolidated	<b>11.8 %</b>	9.7 %	11.2 %	10.7 %	9.4 %	7.6 %	9.7 %	9.9 %	9.0 %
Canada	<b>13.7 %</b>	11.8 %	12.8 %	12.9 %	12.1 %	9.7 %	11.4 %	11.0 %	10.1 %
South America	<b>12.4 %</b>	10.0 %	11.2 %	9.8 %	6.7 %	5.8 %	9.3 %	11.2 %	11.1 %
UK & Ireland	<b>5.2 %</b>	5.4 %	8.3 %	7.7 %	7.3 %	5.7 %	7.7 %	7.9 %	6.3 %
Net Debt to Adjusted EBITDA Ratio <sup>(2)(3)</sup>	<b>2.2</b>	2.0	2.5	2.8	2.6	1.7	2.0	2.0	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) 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 significant items are described on pages 5 and 31 - 32 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

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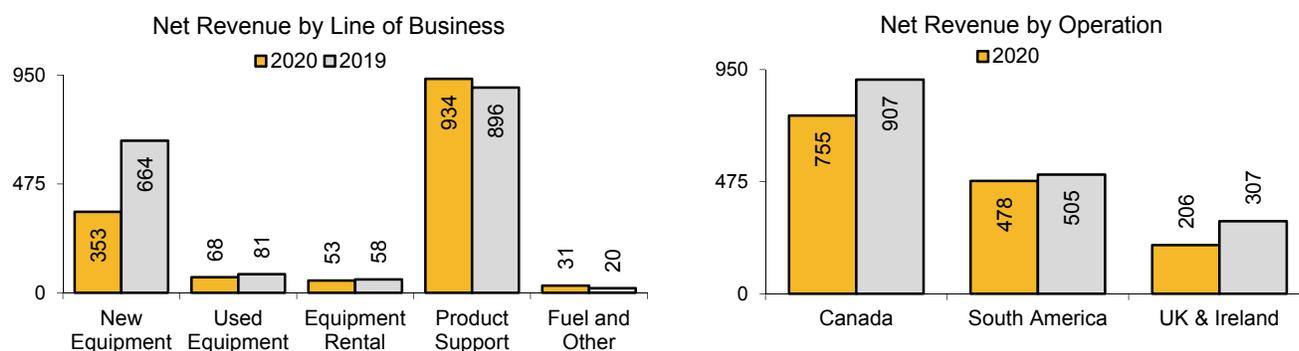
## First Quarter Results

### Revenue

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

3 months ended March 31

(\$ millions)



The Company generated revenue of \$1.6 billion during the first quarter of 2020 and \$1.8 billion in Q1 2019. Q1 2020 net revenue of \$1.4 billion was 16% lower than net revenue of \$1.7 billion in Q1 2019, primarily driven by lower new equipment revenue in all of the Company's operations.

First quarter 2020 new equipment revenue was 47% lower than the same prior year period driven by lower volumes in all industry sectors, particularly in the construction and mining sectors of the Company's Canadian and South American operations and the power systems sector in the Company's UK & Ireland operations. The lower volumes reflected challenging market conditions in the Company's Canadian operations due to lower oil and other commodity prices and reduced construction activity; economic uncertainty due to social unrest in the Company's South American operations; and the timing of power system project backlog delivery in the Company's UK & Ireland operations.

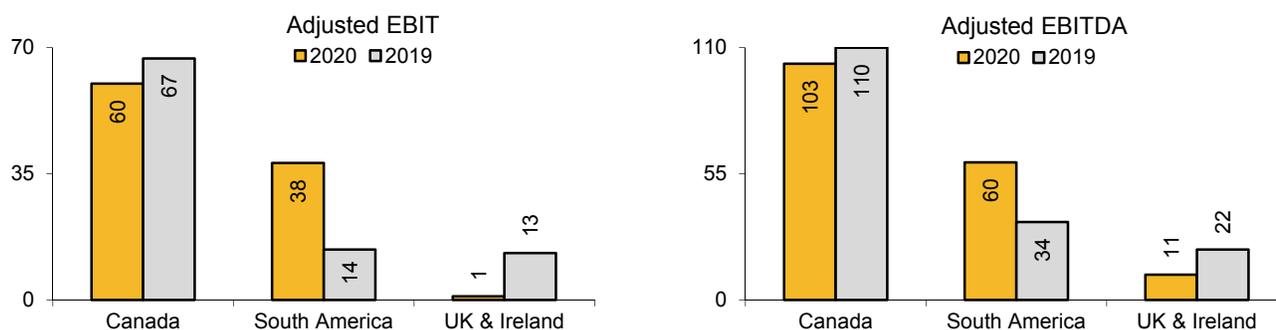
Q1 2020 product support revenue was up 4% from the same prior year period driven by the Company's South American operations, particularly in the mining sector in Chile, partially offset by lower revenue in the Company's Canadian operations due to softening market conditions in the forestry, coal mining, and construction sectors.

Equipment backlog <sup>(1)</sup> was approximately \$800 million at March 31, 2020, up from approximately \$700 million at December 31, 2019 and down from \$1.2 billion at March 31, 2019. Order intake <sup>(1)</sup> outpaced equipment deliveries in Q1 2020, mainly in the Company's operations in Canada and UK & Ireland.

<sup>(1)</sup> These are non-GAAP financial measures that 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 definition, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 30 - 38 in this MD&A.

## EBIT and EBITDA

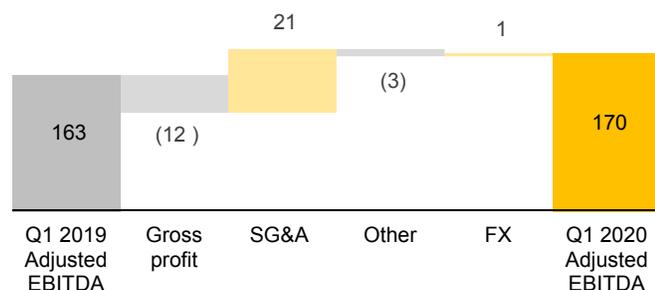
### Adjusted EBIT and Adjusted EBITDA by Operation <sup>(1)</sup> 3 months ended March 31 (\$ millions)



(1) Excluding Other operations

Q1 2020 gross profit was \$418 million, 3% lower than the same period in the prior year, driven by lower revenues. Overall gross profit as a percentage of net revenue of 29.1% in Q1 2020 was 410 basis points higher than Q1 2019, mainly due to a revenue mix shift to product support revenue (Q1 2020: 65% compared to Q1 2019: 52%).

SG&A in Q1 2020 of \$325 million was lower than \$343 million in Q1 2019, down 5%, driven by lower variable costs, lower long-term incentive plan costs, and the benefit of measures taken in 2019 to reduce costs to serve. SG&A costs were down in all operations compared to Q1 2019.



The Company reported EBIT of \$94 million and EBIT as a percentage of net revenue of 6.6% in the first quarter of 2020 compared to EBIT of \$62 million and EBIT as a percentage of net revenue of 3.6% in Q1 2019.

Excluding the significant items not considered indicative of operational and financial trends described on page 5, Q1 2019 Adjusted EBIT and EBIT as a percentage of net revenue were \$91 million and 5.3%, respectively. Q1 2020 EBIT was 4% higher than Q1 2019 Adjusted EBIT and EBIT as a percentage of net revenue in Q1 2020 of 6.6% was up from Q1 2019 Adjusted EBIT as a percentage of net revenue.

EBITDA in Q1 2020 was \$170 million, up 5% from \$163 million Adjusted EBITDA in Q1 2019 on 16% lower net revenue due to higher earnings in the Company's South American operations. Adjusted EBITDA as a percentage of net revenue in Q1 2020 was 11.8%, up 240 basis points from 9.4% in Q1 2019 largely driven by improved gross margins in the Company's South American and Canadian operations.

The net debt to Adjusted EBITDA ratio at March 31, 2020 was 2.2, down from the 2.6 at March 31, 2019 in part due to higher Adjusted EBITDA on comparable average debt levels. This ratio remains below the Company's long-term target of < 3.0.

## **Finance Costs**

Finance costs in Q1 2020 were \$21 million, down from \$24 million Q1 2019 on comparable average debt levels.

## **Provision for Income Taxes**

The effective income tax rate in Q1 2020 was 26.6%, compared to 27.9% in Q1 2019. The effective income tax rate in Q1 2019 was affected by the non-deductibility of 4Refuel acquisition costs for tax purposes, partially offset by a lower proportion of earnings in high tax jurisdictions.

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 \$54 million and Basic EPS was \$0.33 in Q1 2020, compared to \$28 million and \$0.17, respectively, earned in Q1 2019. Q1 2019 Adjusted net income was \$50 million and Adjusted EPS was \$0.30. Q1 2020 results were higher than Q1 2019 primarily due to higher earnings in the Company's South American operations.

## Invested Capital

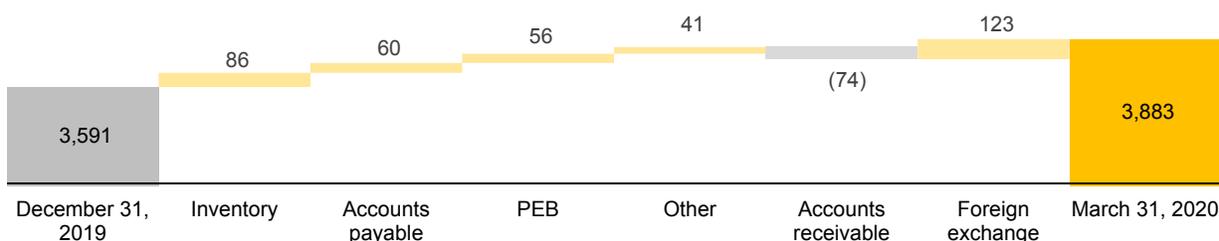
(\$ millions, unless otherwise stated)	March 31, 2020	December 31, 2019	Increase from		Increase (Decrease) from March 31, 2019
			December 31, 2019	March 31, 2019	
Consolidated	\$ 3,883	\$ 3,591	\$ 292	\$ 3,753	\$ 130
Canada	\$ 2,093	\$ 2,026	\$ 67	\$ 2,148	\$ (55)
South America	\$ 1,330	\$ 1,192	\$ 138	\$ 1,243	\$ 87
UK & Ireland	\$ 428	\$ 361	\$ 67	\$ 361	\$ 67
<i>South America (USD)</i>	\$ 937	\$ 918	\$ 19	\$ 930	\$ 7
<i>UK &amp; Ireland (GBP)</i>	£ 243	£ 210	£ 33	£ 207	£ 36

### Compared to December 31, 2019:

The \$292 million increase in consolidated invested capital from December 31, 2019 to March 31, 2020 includes a foreign exchange impact of \$123 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 9% weaker CAD relative to the USD and 3% weaker CAD relative to the GBP at March 31, 2020 compared to the rates at December 31, 2019.

Excluding the impact of foreign exchange, consolidated invested capital increased by approximately \$170 million from December 31, 2019 to March 31, 2020 reflecting:

- an increase in inventories (primarily new equipment) driven by the Company's Canadian operations which were impacted by the delay of some equipment deliveries to later in 2020;
- a decrease in accounts payable mainly in the Company's South American operations from reduced inventory purchases;
- an increase in the **PEB** in the Company's UK & Ireland operations, largely due to a gain on its accrued benefit obligation as a result of updated actuarial assumptions related to high-quality corporate bond yields and retail price inflation; partially offset by,
- lower accounts receivable in the Company's Canadian and South American operations.

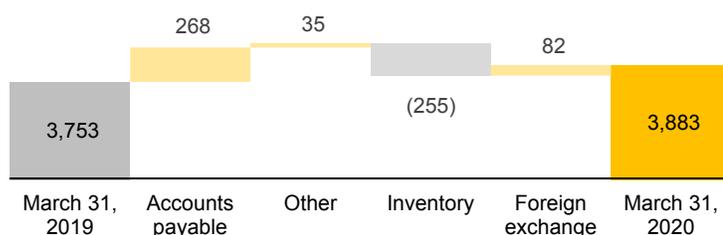


### Compared to March 31, 2019:

The \$130 million increase in consolidated invested capital from March 31, 2019 to March 31, 2020 includes a foreign exchange impact of \$82 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 6% weaker CAD relative to the USD at March 31, 2020 compared to the rates at March 31, 2019.

Excluding the impact of foreign exchange, consolidated invested capital increased by approximately \$50 million from March 31, 2019 to March 31, 2020 reflecting:

- a decrease in accounts payable in all of the Company's operations; partially offset by,
- lower inventory in all operations, primarily new equipment inventory in the Company's Canadian operations and parts inventory in the Company's South American operations.



## Adjusted ROIC and Invested Capital Turnover

	March 31, 2020	December 31, 2019	March 31, 2019
<b>Adjusted ROIC</b>			
Consolidated	12.0%	12.0%	12.5%
Canada	14.2%	14.4%	15.5%
South America	12.2%	10.5%	9.2%
UK & Ireland	8.4%	12.1%	14.8%
<b>Invested Capital Turnover (times)</b>			
Consolidated	1.83	1.92	2.06
Canada	1.75	1.81	1.98
South America	1.73	1.78	1.78
UK & Ireland	2.60	2.98	3.25

### Adjusted ROIC

On a consolidated basis, Adjusted ROIC at March 31, 2020 is the same as December 31, 2019 primarily due to comparable increases in average invested capital levels and Adjusted EBIT earned for the last twelve-month period. Adjusted ROIC at March 31, 2020 improved in the Company's South American operations compared to December 31, 2019 reflecting higher Adjusted EBIT outpacing growth in average invested capital levels in the last twelve-month period reflecting improved profitability. The decrease in Adjusted ROIC at March 31, 2020 in the Company's UK & Ireland operations reflects lower earnings in the last twelve-month period on higher average invested capital levels primarily due to a higher PEB.

On a consolidated basis, the decrease in Adjusted ROIC at March 31, 2020 compared to March 31, 2019 reflects higher average invested capital levels in all of the Company's operations outpacing the growth in consolidated Adjusted EBIT earned in the last twelve-month period. Adjusted ROIC at March 31, 2020 in the Company's UK & Ireland operations decreased compared to the same prior year period reflecting lower earnings due to challenging market conditions, timing of power systems project backlog delivery, as well as average higher invested capital which includes a higher PEB. March 31, 2020 Adjusted ROIC in the Company's Canadian operations was impacted by higher average invested capital levels from the Company's acquisition of 4Refuel on February 1, 2019. Adjusted ROIC at March 31, 2020 in the Company's South American operations was up 300 basis points from March 31, 2019 due to the strong growth in Adjusted EBIT.

### Invested Capital Turnover

Consolidated invested capital turnover at March 31, 2020 was down from December 31, 2019 with lower net revenue earned over the last twelve-month period in all of the Company's operations on slightly higher average invested capital levels. The decrease in invested capital turnover in the Company's UK & Ireland operations was due to lower net revenues in a challenging market and a higher PEB.

Consolidated invested capital turnover at March 31, 2020 was lower than at March 31, 2019 due to higher average invested capital levels in all of the Company's operations as well as slightly lower consolidated net revenue in the last twelve-month period. March 31, 2020 invested capital turnover in the Company's UK & Ireland operations decreased due to a decline in net revenues from challenging market conditions, timing of power systems project backlog delivery, as well as higher average invested capital levels which includes a higher PEB. March 31, 2020 invested capital turnover in the Company's Canadian operations decreased due to the growth in net revenue being outpaced by the increase in average invested capital levels due to the acquisition of 4Refuel on February 1, 2019.

## 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 14 - 17. Finning's reportable segments are Canada, South America, UK & Ireland, and Other operations.

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 March 31, 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	\$ 162	\$ 85	\$ 106	\$ 353	24%
Used equipment	33	15	20	68	5%
Equipment rental	33	12	8	53	4%
Product support	497	366	71	934	65%
Fuel and other	30	—	1	31	2%
<b>Net revenue</b>	<b>\$ 755</b>	<b>\$ 478</b>	<b>\$ 206</b>	<b>\$ 1,439</b>	<b>100%</b>
Net revenue % by operation	53%	33%	14%	100%	

<b>3 months ended March 31, 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	\$ 274	\$ 190	\$ 200	\$ 664	39%
Used equipment	48	11	22	81	5%
Equipment rental	39	11	8	58	3%
Product support	527	293	76	896	52%
Fuel and other	19	—	1	20	1%
<b>Net revenue</b>	<b>\$ 907</b>	<b>\$ 505</b>	<b>\$ 307</b>	<b>\$ 1,719</b>	<b>100%</b>
Net revenue % by operation	53%	29%	18%	100%	

## Canada Operations

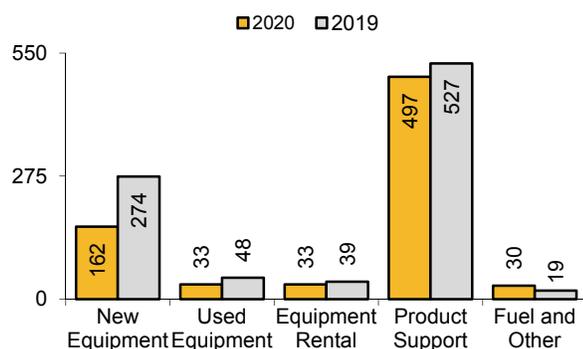
The Canadian reporting segment includes **Finning (Canada)**, **OEM**, and a 25% interest in **PLM** as well as 4Refuel since its acquisition on February 1, 2019. The Canadian operations sell, service, and rent mainly **Caterpillar** equipment and engines in British Columbia, Alberta, Saskatchewan, Yukon, 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:

3 months ended March 31		
(\$ millions)	2020	2019
Net revenue	\$ 755	\$ 907
Operating costs	(653)	(801)
Equity earnings of joint ventures	1	4
Other expenses	—	(17)
EBITDA	103	93
Depreciation and amortization	(43)	(43)
EBIT	\$ 60	\$ 50
Adjusted EBITDA	\$ 103	\$ 110
Adjusted EBIT	\$ 60	\$ 67
<i>EBITDA as a % of net revenue</i>	13.7%	10.2%
<i>EBIT as a % of net revenue</i>	7.9%	5.5%
<i>Adjusted EBITDA as a % of net revenue</i>	13.7%	12.1%
<i>Adjusted EBIT as a % of net revenue</i>	7.9%	7.4%

### Net Revenue by Line of Business Canadian Operations

3 months ended March 31  
(\$ millions)



First quarter 2020 net revenue of \$755 million was 17% lower than Q1 2019, as market conditions across all sectors in Western Canada were challenging due to lower oil and other commodity prices, and reduced construction activity, particularly in Alberta.

New equipment revenue was down 41% in Q1 2020 compared to Q1 2019, driven by lower volumes in a softer construction market, particularly in Alberta. In addition, Q1 2019 included significant equipment deliveries in the mining sector not replicated in Q1 2020. Equipment backlog was up from December 31, 2019 and included some equipment deliveries anticipated for Q1 2020 that were delayed to later in 2020.

Product support revenue in Q1 2020 was down 6% compared to the same prior year period, mainly due to lower activity in the construction, coal mining, and forestry sectors, partially offset by higher volumes in the oil sands.

Used equipment and rental markets were also soft in Western Canada in Q1 2020, with revenues from these lines of business declining by 30% and 16%, respectively.

Fuel and other net revenue in Q1 2020 was higher than Q1 2019 which only included two months of net revenue from 4Refuel since its acquisition on February 1, 2019.

Gross profit decreased compared to the first quarter of 2019, reflecting lower volumes in most lines of business as a result of softening market conditions. Gross profit as a percentage of net revenue increased in Q1 2020 compared to Q1 2019 primarily due to a higher proportion of product support revenue (Q1 2020: 66% compared to Q1 2019: 58%).

SG&A in the Company's Canadian operations was down 5% on 17% lower net revenue compared to the prior year period, mainly reflecting the portion of fixed costs in the Company's SG&A. Q1 2020 SG&A decreased from Q1 2019 as a result of lower people-related costs in part due to the actions taken in Q1 2019 to reduce costs to adjust to market conditions. Lower incentive plan costs and a decrease in variable costs from lower volumes in Q1 2020 were partially offset by higher provisions to reflect an increase in collection risk related to customer trade receivables at the end of the quarter as a result of current market conditions, including COVID-19.

In Q1 2019, Finning (Canada) took steps to reduce its cost structure to align with softening market activity, which included a reduction of its non-revenue generating workforce and planned closures of certain facilities. Severance and facility costs totalling \$17 million related to this restructuring were included in other expenses in Q1 2019. Excluding these severance and facility costs, Q1 2019 Adjusted EBITDA was \$110 million and Adjusted EBITDA as a percentage of net revenue was 12.1%. Q1 2020 EBITDA of \$103 million was 6% lower than Q1 2019 Adjusted EBITDA primarily due to 17% lower net revenues. EBITDA as a percentage of net revenue in Q1 2020 was 13.7%, an improvement of 160 basis points over Q1 2019 primarily due to the benefit of a higher mix of product support revenue.

### 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:

<b>3 months ended March 31</b>		
<b>(\$ millions)</b>	<b>2020</b>	<b>2019</b>
Net revenue	\$ 478	\$ 505
Operating costs	(418)	(471)
Other expenses	—	(8)
EBITDA	\$ 60	\$ 26
Depreciation and amortization	(22)	(20)
EBIT	\$ 38	\$ 6
Adjusted EBITDA	\$ 60	\$ 34
Adjusted EBIT	\$ 38	\$ 14
<i>EBITDA as a % of net revenue</i>	<b>12.4%</b>	5.2%
<i>EBIT as a % of net revenue</i>	<b>7.8%</b>	1.2%
<i>Adjusted EBITDA as a % of net revenue</i>	<b>12.4%</b>	6.7%
<i>Adjusted EBIT as a % of net revenue</i>	<b>7.8%</b>	2.7%

The weaker CAD relative to the USD on average in Q1 2020 compared to Q1 2019 had a favourable foreign currency translation impact on net revenue in Q1 2020 of approximately \$5 million and was not significant at the EBITDA level.

All \$ numbers 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.

Q1 2020 net revenue was 7% lower than Q1 2019, as higher product support revenue was more than offset by lower new equipment sales. Lower activity in the construction sector was partially offset by higher sales in the mining sector. Chile was impacted by social instability early in the year and the resulting devaluation of the **CLP**, as well as actions that began in March in response to the COVID-19 pandemic. The Company's operations were affected due to government imposed mandatory quarantines with the closure of a few branches in Argentina, Bolivia, and Chile, which taken together, are not material to the Company's consolidated revenues.

New equipment revenue in Q1 2020 was down 56% from the prior year quarter, mostly due to a significant decline in construction activity in Chile, which was impacted by social instability early in the year and the resulting devaluation of the CLP, as well as disruptions related to COVID-19 beginning in March. Other factors contributing to a decrease in new equipment sales year over year were significant equipment deliveries in the Chilean mining sector in Q1 2020 not replicated in Q1 2019 and the broad industry contraction in Argentina. Equipment backlog levels at March 31, 2020 were lower than December 31, 2019 as deliveries outpaced order intake.

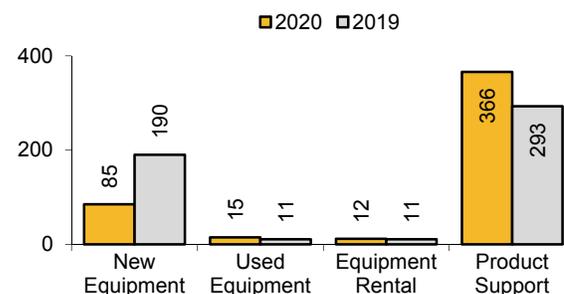
Product support revenue in Q1 2020 was up 23% compared to the same prior year period reflecting the recovery of parts volumes from improved execution in product support to our Chilean mining customers. Q1 2019 was impacted by the launch of the ERP system in late 2018, which slowed the speed of processing mining parts and components. Parts flow was restored by the end of Q1 2019. Q1 2020 product support revenue was comparable to Q4 2019.

Gross profit was higher than Q1 2019 despite lower revenue, driven by the increase in product support revenue. Gross profit as a percentage of net revenue increased in Q1 2020 compared to Q1 2019, largely due to a revenue mix shift to higher product support revenue (Q1 2020: 77% compared to Q1 2019: 58%).

Q1 2020 SG&A was down 9% on 7% lower net revenue, as a result of lower fixed operating costs due in part to management's efforts to contain costs as well as lower variable costs driven by lower volumes.

The Company's South American operations contributed EBITDA of \$60 million in Q1 2020 and EBITDA as a percentage of net revenue of 12.4%. In Q1 2019 the Company implemented cost reduction measures resulting in severance costs of \$8 million which was recorded in other expenses. Excluding these severance costs, Q1 2019 Adjusted EBITDA was \$34 million and Adjusted EBITDA as a percentage of net revenue was 6.7%. Q1 2020 EBITDA as a percentage of net revenue increased 570 basis points from Q1 2019 due to higher gross profit from a shift in revenue mix to product support and lower SG&A as a percentage of net revenues.

**Net Revenue by Line of Business  
South American Operations**  
3 months ended March 31  
(\$ 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:

3 months ended March 31 (\$ millions)	2020	2019
Net revenue	\$ 206	\$ 307
Operating costs	(195)	(285)
EBITDA	\$ 11	\$ 22
Depreciation and amortization	(10)	(9)
EBIT	\$ 1	\$ 13
<i>EBITDA as a % of net revenue</i>	<i>5.2%</i>	<i>7.3%</i>
<i>EBIT as a % of net revenue</i>	<i>0.5%</i>	<i>4.4%</i>

The stronger CAD relative to the GBP on average in Q1 2020 compared to Q1 2019 did not have a significant foreign currency translation impact on net revenue or EBITDA in the first quarter of 2020.

All \$ numbers 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.

First quarter 2020 net revenue was 32% lower than the same period in 2019, down in all market sectors. Construction equipment markets were significantly weaker compared to Q1 2019 as the uncertainty related to **Brexit** and slower economic growth in the UK at the beginning of 2020 was compounded by COVID-19 related business disruptions. In March 2020, several construction customers reduced their operations in accordance with the government-imposed restrictions to contain the spread of COVID-19, and it remains unclear at this time when the restrictions will be eased.

New equipment revenue was 47% lower than the first quarter of 2019, largely due to significantly lower revenue from power system projects, due to the timing of power system project backlog delivery and customer schedules that are weighted to the second half of 2020 as well as lower activity in the construction sector. Q1 2020 equipment deliveries were impacted by a weak construction industry as well as COVID-19 related disruptions.

Q1 2020 gross profit was lower than the prior year period driven by lower sales volumes, partially offset by higher overall gross profit as a percentage of net revenue, reflecting a revenue mix shift to product support revenue.

SG&A was down 2% in Q1 2020 compared to Q1 2019, reflecting variable cost reductions associated with lower volumes. SG&A as a percentage of net revenue was higher in Q1 2020 compared to Q1 2019 primarily due to reduced labour recovery and the fixed portion of SG&A costs.

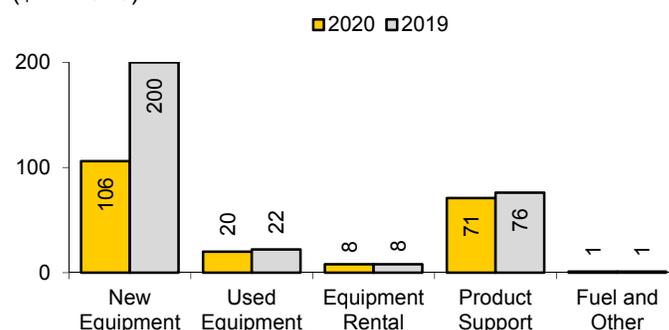
For Q1 2020, the Company's UK & Ireland operations contributed EBITDA of \$11 million and EBITDA as a percentage of net revenue of 5.2%, lower than Q1 2019 EBITDA of \$22 million and EBITDA as a percentage of net revenue of 7.3%. EBITDA as a percentage of net revenue was lower in Q1 2020 compared to the prior year period due to higher SG&A relative to net revenue more than offsetting higher gross profit as a percentage of net revenue.

## Other Operations

The Company's Other operations includes corporate operating costs.

Q1 2020 EBITDA of this segment was a loss of \$4 million compared to a loss of \$7 million in Q1 2019. This was primarily due to lower long-term incentive plan costs partially offset by higher operating costs in 2020. Q1 2019 also included \$4 million of acquisition costs related to the purchase of 4Refuel.

**Net Revenue by Line of Business  
UK & Ireland Operations**  
3 months ended March 31  
(\$ millions)



## Outlook

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### Canada Operations

In response to the lower price of oil and COVID-19 pandemic, oil sands producers have announced reductions in capital spending, cost containment measures, and have implemented business continuity protocols with a range of impacts on activity levels. Oil production may be reduced in the coming months, and non-production mining activities likely will be reduced. In the oil sands, some customers plan to reduce contractor hours and/or park approximately 20% to 30% of their truck fleets for a portion of Q2 2020. The Company expects demand for new equipment to remain low until oil price fundamentals and the COVID-19 situation improve. The aging active equipment population will continue to support demand for parts and service, including component rebuilds, however, lower utilization of fleets and deferral of non-essential maintenance are expected to reduce product support volumes in the oil sands in the near term.

Outlook for other mining segments in Western Canada is uncertain due to low prices of coal, copper, and other metals, in addition to the potential range of COVID-19 related disruptions. Mining customers continue to reduce operating costs and capital spending. With several mining customers reducing on-site workforce to essential employees and in some cases temporarily suspending certain activities, production levels may decline. The Company expects some deferral of product support activity until mining operations return to full capacity.

While the construction industry has been designated as an essential service in the three Western Canadian provinces, some construction projects have been scaled back to comply with social distancing measures and to keep employees safe during the COVID-19 outbreak. The demand for general construction equipment and product support is expected to be more resilient in the current environment compared to demand for smaller construction machines. Large infrastructure projects in Alberta and British Columbia, including pipelines, are under construction and in some cases supported by government ownership. The Company is well positioned to serve construction customers during the COVID-19 outbreak by leveraging its branch operations and digital and omni-channel capabilities, and to capture equipment and product support opportunities for large infrastructure projects.

Activity in the oil & gas and forestry sectors is expected to remain at low levels reflecting current commodity prices. The gas compression industry is expected to remain resilient in the current economic environment, providing opportunities for product support.

In power systems, the Company expects continued strong demand for prime and standby electric power generation for large infrastructure and gas projects, as well as other essential industries and facilities, such as hospitals.

### South America Operations – Chile

In Chile, most copper mines are expected to continue to operate during the COVID-19 outbreak albeit with reduced on-site workforce and restricted contractor access and with some mines under construction, such as Teck's QB2 project having been temporarily suspended. Copper production is expected to be maintained in the near term, driving continued demand for product support. Longer term, resumption of suspended mining construction projects and softening international trade tensions are expected to drive increased copper production and have a positive impact on the Company's outlook for Chilean mining.

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 Chilean peso. 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.

While social unrest in Chile continues to pose a risk, the situation has improved somewhat during the Chilean summer and as a result of social distancing measures and quarantine requirements. It is unclear whether this will continue once these measures and requirements are relaxed. The potential impact of the government's social reform agenda on the Chilean economy and potential impact on the cost structure of the Company cannot reasonably be estimated at this time. The Company expects political and economic uncertainty, combined with COVID-19 disruption, to continue to impact customer confidence and lead to slower economic growth in Chile in the near term.

## South America Operations – Argentina and Bolivia

In Argentina, most of the Company's operations reopened in mid-April following closures related to COVID-19 imposed by the government on March 21, 2020; however, market activity is expected to remain slow due to a challenging economic environment. The Company remains focused on delivering product support to customers, while managing its **ARS** currency exposure. 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 facilities in Bolivia remain closed in compliance with the mandatory quarantine imposed by the government on March 21, 2020, and it is unknown at this time when the lockdowns will be lifted. The Company expects to continue providing equipment and product support to customers designated as essential services.

The Company's South American facilities that have been or continue to be closed in Argentina, Bolivia, and Chile in compliance with local quarantine restrictions are not material to the Company's consolidated revenues.

## UK & Ireland Operations

In the UK & Ireland, many construction customers reduced their operations in accordance with the lockdown imposed by the government on March 23, 2020 to contain the spread of COVID-19, and it remains unclear at this time when the restrictions will be eased. The Company continues to provide services to industries deemed essential, including power generation, data centres, waste and recycling, and water management.

Construction equipment markets in the UK & Ireland are expected to remain weak in the near term as a prolonged period of uncertainty related to Brexit and slower economic growth at the start of 2020 was compounded by the government-imposed lockdown referred to above. To support business confidence, the UK government has continued to express its commitment to infrastructure investments announced earlier in the year, including **HS2**. On April 15, 2020, the UK government gave formal notice for HS2 to proceed and earthmoving work for the project is expected to begin in the second half of 2020. The Company believes it is well positioned to capture equipment and product support opportunities related to HS2.

In power systems, the Company expects to benefit from continued demand in the electric power capacity, combined heat & power, and data centre markets. Activity and/or projects in these sectors are likely to be paused for all or a portion of Q2 2020, which will likely have an impact on revenue recognition for those projects. The Company expects to resume execution of these projects in Q3 2020 and begin execution of a large backlog of power systems projects in the second half of 2020.

As a result of lower volumes and activity due to COVID-19, approximately 50% of our employees in the UK & Ireland are on furlough as at the date of this MD&A and the Company expects to benefit from the UK government program to offset approximately 80% of furloughed employee salary costs.

## Supply Chain

The Company's global supply chain continues to function with minimal disruptions. The Company's operations have been deemed essential services in all regions and remain open, except for some branches in South America, which are not material to the Company's consolidated revenues. The Company expects to continue providing regular services to customers through its branch network, parts warehouses, and on-site customer locations, as well as by leveraging its digital and omni-channel capabilities to serve customers remotely via on-line channels, call centres, drop boxes in Canada and UK & Ireland, and other flexible delivery alternatives. In Canada, nearly half of our direct parts sales (excludes parts for service work) are ordered on-line, up from 25% in 2017. The Company set a new record in digital parts drop box volumes in April as the number of new customers more than tripled compared to the prior year.

As the magnitude and duration of the COVID-19 pandemic are difficult to estimate at this time, there can be no assurance that Caterpillar will continue to be able to supply parts and equipment in the quantities and timeframes required by customers in all regions, or that the Company's parts warehouses, branches or other facilities will remain open. The Company will continue working closely with Caterpillar's supply chain teams to execute business continuity plans, including utilizing alternative sources of supply, prioritizing the most impactful parts, and ensuring maximum flexibility on ordering.

## **Revenue and Cost Containment**

We expect that the COVID-19 pandemic and related government, customer, and/or supplier actions, including business disruptions, force majeure, and/or supply chain constraints, will negatively impact the Company's 2020 financial results and as a result, the Company no longer expects to achieve product support revenue growth in 2020 as previously indicated. The Company's net revenue in April was down approximately 15% from average monthly net revenue earned in Q1 2020.

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, while maximizing flexibility and preserving critical talent and capabilities for the future. These measures include Board and employee pay reductions, reduced work schedules and furloughs, and workforce reductions in some areas. The Company is proactively working with its union partners and looking at its eligibility to access government programs through this disruptive period. Further cost reduction measures, including workforce reductions and restructuring, may become necessary. In April 2020, the Company's Canadian operations supporting the oil sands were restructured in order to reduce the cost to serve. This restructuring has resulted in a 5% reduction in the Canadian workforce.

## **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 absolute level of free cash flow will depend on the degree and duration of disruptions related to COVID-19 and the resulting revenue and EBITDA profile for the remainder of the year. In order to preserve capital through this challenging and uncertain period, the Company expects to reduce its investments for the remainder of 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, down from \$200 million to \$250 million that was previously planned. The Company continues to tightly manage its working capital and monetize surplus inventory. While our improved expanded liquidity capacity provides flexibility for a wide range of both stress and opportunity scenarios, our base case and primary objective goal is to generate strong free cash flow and prioritize capital allocation toward debt repayment and meeting our continued dividend commitment. The quarterly dividend was maintained at \$0.205 per share.

## **Strong Financial Position**

The Company expects to maintain a strong balance sheet with sufficient liquidity and access to capital.

As at March 31, 2020, the Company had \$260 million cash on hand and less than \$300 million drawn on its \$1.3 billion global credit facility. On April 17, 2020, the Company secured an additional \$500 million committed revolving credit facility, which has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions as the existing committed global credit facility. The new facility further improves the Company's financial flexibility and liquidity, and positions the business for both the market challenges and opportunities that lie ahead. The Company expects to continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility.

## 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 (used in) provided by each of these items were as follows:

3 months ended March 31 (\$ millions)	2020	2019	Increase (Decrease) in cash flow
Operating activities	\$ (14)	\$ (324)	\$ 310
Investing activities	\$ (36)	\$ (252)	\$ 216
Financing activities	\$ (1)	\$ 418	\$ (419)
Free Cash Flow	\$ (50)	\$ (347)	\$ 297

The most significant contributors to the changes in cash flows for Q1 2020 over Q1 2019 were as follows:

Operating activities	<ul style="list-style-type: none"> <li>lower use of cash on inventory purchases, mainly due to lower spend on parts inventory in the Company's South American operations and equipment inventory in the Company's Canadian operations</li> <li>partly offset by higher cash use to pay accounts payable and other liabilities in the Company's South American operations</li> </ul>
Investing activities	<ul style="list-style-type: none"> <li>higher cash use in Q1 2019 due to the \$229 million consideration paid for the acquisition of 4Refuel</li> </ul>
Financing activities	<ul style="list-style-type: none"> <li>approximately \$425 million less cash provided by short-term borrowings</li> </ul>
Free Cash Flow use	<ul style="list-style-type: none"> <li>lower use of cash on working capital in all operations, particularly in the Company's Canadian operations</li> </ul>

## Capital resources and management

The Company's cash and cash equivalents balance at March 31, 2020 was \$260 million (December 31, 2019: \$268 million). At March 31, 2020, to complement internally generated funds from operating and investing activities, the Company had approximately \$2.2 billion in unsecured committed and uncommitted credit facilities. Included in this amount is a committed revolving credit facility totaling \$1.3 billion with various Canadian and global financial institutions, of which approximately \$1.0 billion was available at March 31, 2020. The Company continuously monitors actual and forecast cash flows, manages the maturity profiles of its financial liabilities and maintains uncommitted bilateral and committed revolving credit facilities. 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. The Company is subject to certain covenants within its committed revolving credit facility. As at March 31, 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 to daily changes. 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 was rated <sup>(1)</sup> by both **DBRS** and **S&P** as follows:

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

In March 2020, S&P placed the Company's BBB+ rating on CreditWatch with negative implications, noting the exposure of the Company's earnings to lower commodity prices and uncertainty about the impact of COVID-19 on Finning's operations as significant factors driving the change.

During the first quarter of 2020, the Company repurchased 1,215,617 common shares for cancellation for \$23 million (at a cost ranging from \$12.14 to \$22.20 per share and an average cost of \$19.25 per share) through an **NCIB** <sup>(2)</sup>. During the first quarter of 2019, the Company repurchased 1,073,354 common shares for cancellation for \$27 million (at a cost ranging from \$23.15 to \$26.36 per share and an average cost of \$24.75 per share).

### Net Debt to EBITDA

The Company monitors net debt to Adjusted EBITDA to assess 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.

March 31	Company long-term target	2020	2019
Net debt to Adjusted EBITDA Ratio	< 3.0	2.2	2.6

<sup>(1)</sup> 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.

<sup>(2)</sup> The Company has 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

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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 allowance for doubtful accounts that represent 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. 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. The provision is estimated based on age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. Following a review of its inventory provisions, recent market activity, customer activity, and expected outlook for the remainder of the year, the Company concluded that no additional inventory provisions for the current economic environment were required at March 31, 2020. 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 and when events or changes in circumstances, which may include the declaration of the pandemic, indicate that their value may not be fully recoverable. At March 31, 2020, management concluded no impairment losses were required in relation to the Company's goodwill and intangible assets with indefinite lives. 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. At March 31, 2020, management concluded no impairment losses were required in relation to the Company's property, plant, and equipment and 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:

- Amendments to IFRS 3, *Business Combinations* (effective January 1, 2020) assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The definition of a business was 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* (effective January 1, 2020) 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* (effective January 1, 2020) 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 have an impact on the Company's consolidated financial statements or disclosures.

## Future Accounting Pronouncement

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

- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2022) clarifies 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 (i.e., a liability is classified as non-current even if management intends or expects to settle the liability within twelve months). The amendment also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of this amendment.

## Risk Factors and Management

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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 Q1 2020 are described below.

### Pandemic Outbreak and Impact on Operations

Epidemic 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.

All of the Company's operations have been deemed essential services and remain open, except for a few branches in South America that are currently closed in compliance with local quarantine restrictions. 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 is applying a risk-based approach to assessing each facility in its global operations. A series of prevention measures have been developed and are being applied 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. 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 our 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 some areas. The Company is 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.

### Business Continuity Risks

The occurrence of one or more natural disasters, such as earthquakes, wildfires and hurricanes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest in countries in which Finning operates, acts of terrorism, or similar disruptions, could materially adversely affect Finning's business, employees, customers and financial results.

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.

## **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.

## **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. On April 28, 2020, Caterpillar reported that it has suspended operations temporarily at certain facilities during the last several weeks due to supply chain issues, weak customer demand or government regulations. As of mid-April 2020, globally and across Caterpillar's three primary segments, approximately 75% of its primary production facilities continue to operate. Some facilities that were temporarily closed have reopened. 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.

## **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.

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.

## **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 instalments 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 may result in significant disruptions in financial markets, regional economies and the world economy. The pandemic could 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 the disruption in financial markets, regional economies and the world economy will not negatively affect the financial performance of our customers and our ability to collect customer receivables. The extent 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	March 31			December 31		3 months ended March 31 – average		
	2020	2019	Change	2019	Change	2020	2019	Change
USD/CAD	<b>1.4187</b>	1.3363	(6)%	1.2988	(9)%	<b>1.3449</b>	1.3295	(1)%
GBP/CAD	<b>1.7604</b>	1.7418	(1)%	1.7174	(3)%	<b>1.7184</b>	1.7316	1 %
USD/CLP	<b>846.30</b>	681.09	(24)%	744.62	(14)%	<b>802.91</b>	667.25	(20)%
USD/ARS	<b>64.47</b>	43.35	(49)%	59.89	(8)%	<b>61.56</b>	38.95	(58)%

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. Since the implementation of a new ERP system in the Company's South American operations in the second half of 2018, management has employed additional procedures to ensure key financial internal controls remained in place. Management also performed additional account reconciliations and other analytical substantive procedures to mitigate any financial risks from the introduction of the new system. 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 quarter ended March 31, 2020, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management ensured 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 April 30, 2020

Common shares outstanding	162,103,503
Options outstanding	3,351,787

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

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### **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 31 - 38 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 page 5 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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	94	97	129	137	62	91	93	126	113
Depreciation and amortization	76	73	72	76	72	49	49	45	44
EBITDA	170	170	201	213	134	140	142	171	157
EBITDA – last 12 months	754	718	688	629	587	610	624	628	602
EBIT	94	97	129	137	62	91	93	126	113
Significant items:									
Severance costs	—	—	2	—	18	—	—	—	—
Facility closures, restructuring costs, and impairment losses	—	—	1	—	7	—	—	—	—
Acquisition costs related to 4Refuel	—	—	—	—	4	—	—	—	—
Write-off and loss related to <b>Energyst</b>	—	—	—	—	—	—	30	—	—
Insurance proceeds from Alberta wildfires	—	—	—	—	—	—	—	—	(7)
Adjusted EBIT	94	97	132	137	91	91	123	126	106
Depreciation and amortization	76	73	72	76	72	49	49	45	44
Adjusted EBITDA	170	170	204	213	163	140	172	171	150
Adjusted EBIT – last 12 months	460	457	451	442	431	446	465	442	413
Adjusted EBITDA – last 12 months	757	750	720	688	646	633	648	622	596

(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.

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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	60	72	82	92	50	71	78	77	71
Significant items:									
Severance costs	—	—	—	—	10	—	—	—	—
Facility closures, restructuring costs, and impairment losses	—	—	—	—	7	—	—	—	—
Insurance proceeds from Alberta wildfires	—	—	—	—	—	—	—	—	(7)
Adjusted EBIT	60	72	82	92	67	71	78	77	64
Depreciation and amortization	43	42	43	46	43	26	26	22	22
Adjusted EBITDA	103	114	125	138	110	97	104	99	86
Adjusted EBIT – last 12 months	306	313	312	308	293	290	285	264	242

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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	38	31	42	41	6	12	37	47	46
Significant items:									
Severance costs	—	—	2	—	8	—	—	—	—
Facility closures and restructuring costs	—	—	1	—	—	—	—	—	—
Adjusted EBIT	38	31	45	41	14	12	37	47	46
Depreciation and amortization	22	20	20	21	20	17	15	15	15
Adjusted EBITDA	60	51	65	62	34	29	52	62	61
Adjusted EBIT – last 12 months	155	131	112	104	110	142	182	193	188

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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Reported and Adjusted EBIT <sup>(2)</sup>	1	5	14	14	13	12	15	14	10
Depreciation and amortization	10	10	8	9	9	6	8	7	7
Adjusted EBITDA <sup>(2)</sup>	11	15	22	23	22	18	23	21	17
Adjusted EBIT – last 12 months <sup>(2)</sup>	34	46	53	54	54	51	47	41	40

(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) There have been no significant items adjusted in the UK & Ireland operations since Q2 2016, therefore the Adjusted metrics for all periods presented above are the same as the reported metrics.

### 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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash flow (used in) provided by operating activities	(14)	438	204	(127)	(324)	490	(6)	18	(242)
Additions to property, plant, and equipment and intangible assets	(38)	(54)	(40)	(37)	(23)	(77)	(46)	(46)	(32)
Proceeds on disposal of property, plant, and equipment	2	2	1	2	—	5	3	—	11
Free Cash Flow	(50)	386	165	(162)	(347)	418	(49)	(28)	(263)

### 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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cost of sales (3 months ended)	1,140	1,483	1,500	1,655	1,380	1,429	1,306	1,263	1,230
Cost of sales related to mobile refueling operations (3 months ended)	(133)	(168)	(156)	(156)	(99)	—	—	—	—
Cost of sales related to the dealership (3 months ended)	1,007	1,315	1,344	1,499	1,281	1,429	1,306	1,263	1,230
Inventory	2,152	1,990	2,215	2,366	2,356	2,061	2,017	1,968	1,906
Fuel inventory	(3)	(3)	(3)	(3)	(3)	—	—	—	—
Inventory related to the dealership	2,149	1,987	2,212	2,363	2,353	2,061	2,017	1,968	1,906
Cost of sales related to the dealership – annualized	4,644	5,317	5,686	5,559	5,420	5,470	5,139	4,987	5,056
Inventory related to the dealership – 2 quarter average	2,068	2,099	2,287	2,359	2,208	2,039	1,992	1,937	1,807
Inventory turns (dealership) (number of times)	2.25	2.53	2.49	2.36	2.46	2.68	2.58	2.57	2.80

<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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash and cash equivalents	(260)	(268)	(252)	(160)	(290)	(454)	(221)	(300)	(325)
Short-term debt	329	226	532	751	658	154	223	213	169
Current portion of long-term debt	200	200	200	—	—	—	—	—	—
Long-term debt	1,381	1,318	1,325	1,321	1,341	1,354	1,315	1,330	1,322
Net debt	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243	1,166
Shareholders' equity	2,233	2,115	2,102	2,052	2,044	2,109	2,114	2,119	2,060
Invested capital	3,883	3,591	3,907	3,964	3,753	3,163	3,431	3,362	3,226

<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 36) for the last twelve months divided by invested capital (defined and calculated on page 34) based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2020		2019				2018 <sup>(1)</sup>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
Consolidated										
Net revenue – last 12 months	7,010	7,290	7,375	7,311	7,045	6,996	6,887	6,670	6,525	
Invested capital – 4 quarter average	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128	3,065	
Invested capital turnover (number of times)	1.83	1.92	1.99	2.04	2.06	2.12	2.14	2.13	2.13	
Canada										
Net revenue – last 12 months	3,775	3,927	3,964	3,896	3,729	3,674	3,525	3,351	3,234	
Invested capital – 4 quarter average	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746	1,727	
Invested capital turnover (number of times)	1.75	1.81	1.91	1.95	1.98	2.05	1.98	1.92	1.87	
South America										
Net revenue – last 12 months	2,199	2,226	2,217	2,198	2,123	2,170	2,250	2,241	2,206	
Invested capital – 4 quarter average	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091	1,060	
Invested capital turnover (number of times)	1.73	1.78	1.77	1.80	1.78	1.86	2.01	2.05	2.08	
UK & Ireland										
Net revenue – last 12 months	1,036	1,137	1,194	1,217	1,193	1,152	1,112	1,078	1,085	
Invested capital – 4 quarter average	399	382	376	373	368	358	337	314	298	
Invested capital turnover (number of times)	2.60	2.98	3.18	3.27	3.25	3.22	3.30	3.44	3.65	

## 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 34) 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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	
Net debt	1,650	1,476	1,805	1,912	1,709	1,054	1,317	1,243	1,166	
EBITDA – last 12 months	754	718	688	629	587	610	624	628	602	
Adjusted EBITDA – last 12 months	757	750	720	688	646	633	648	622	596	
Net Debt to EBITDA Ratio	2.2	2.1	2.6	3.0	2.9	1.7	2.1	2.0	1.9	
Net Debt to Adjusted EBITDA Ratio	2.2	2.0	2.5	2.8	2.6	1.7	2.0	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:

(\$ millions, except as noted)	2020		2019			2018 <sup>(1)</sup>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	1,558	1,911	1,959	2,137	1,810	1,842	1,755	1,729	1,670
Cost of fuel	(119)	(154)	(140)	(142)	(91)	—	—	—	—
Net revenue	1,439	1,757	1,819	1,995	1,719	1,842	1,755	1,729	1,670
Gross profit	418	428	459	482	430	413	449	466	440
<i>Gross profit as a % of net revenue</i>	<b>29.1%</b>	24.3%	25.3%	24.1%	25.0%	22.4%	25.6%	26.9%	26.3%
SG&A	325	334	333	350	343	324	330	345	328
<i>SG&amp;A as a % of net revenue</i>	<b>22.6%</b>	19.0%	18.3%	17.5%	20.0%	17.6%	18.9%	19.9%	19.6%
EBITDA	170	170	201	213	134	140	142	171	157
<i>EBITDA as a % of net revenue</i>	<b>11.8%</b>	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%	9.4%
Adjusted EBITDA	170	170	204	213	163	140	172	171	150
<i>Adjusted EBITDA as a % of net revenue</i>	<b>11.8%</b>	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%	9.0%
EBIT	94	97	129	137	62	91	93	126	113
<i>EBIT as a % of net revenue</i>	<b>6.6%</b>	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%	6.8%
Adjusted EBIT	94	97	132	137	91	91	123	126	106
<i>Adjusted EBIT as a % of net revenue</i>	<b>6.6%</b>	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%	6.4%

<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 34) 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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Consolidated									
EBIT – last 12 months	457	425	419	383	372	423	441	448	419
Adjusted EBIT – last 12 months	460	457	451	442	431	446	465	442	413
Invested capital – 4 quarter average	3,836	3,804	3,697	3,578	3,427	3,295	3,212	3,128	3,065
ROIC	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%	13.7%
Adjusted ROIC	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%	13.5%
Canada									
EBIT – last 12 months	306	296	295	291	276	297	293	272	250
Adjusted EBIT – last 12 months	306	313	312	308	293	290	285	264	242
Invested capital – 4 quarter average	2,153	2,167	2,079	1,999	1,888	1,795	1,782	1,746	1,727
ROIC	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%	14.5%
Adjusted ROIC	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%	14.0%
South America									
EBIT – last 12 months	152	120	101	96	102	142	180	191	186
Adjusted EBIT – last 12 months	155	131	112	104	110	142	182	193	188
Invested capital – 4 quarter average	1,271	1,250	1,249	1,223	1,195	1,169	1,117	1,091	1,060
ROIC	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%	17.6%
Adjusted ROIC	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%	17.8%
UK & Ireland									
EBIT – last 12 months	34	46	53	54	54	51	47	41	40
Adjusted EBIT – last 12 months	34	46	53	54	54	51	47	41	40
Invested capital – 4 quarter average	399	382	376	373	368	358	337	314	298
ROIC	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%	13.4%
Adjusted ROIC	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%	13.4%

<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>			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total current assets	<b>3,828</b>	3,659	3,959	4,217	4,187	3,924	3,696	3,763	3,687
Cash and cash equivalents	<b>(260)</b>	(268)	(252)	(160)	(290)	(454)	(221)	(300)	(325)
Total current assets in working capital <sup>(2)</sup>	<b>3,568</b>	3,391	3,707	4,057	3,897	3,470	3,475	3,463	3,362
Total current liabilities	<b>2,112</b>	2,026	2,331	2,584	2,574	1,992	1,734	1,742	1,626
Short-term debt	<b>(329)</b>	(226)	(532)	(751)	(658)	(154)	(223)	(213)	(169)
Current portion of long-term debt	<b>(200)</b>	(200)	(200)	—	—	—	—	—	—
Total current liabilities in working capital <sup>(3)</sup>	<b>1,583</b>	1,600	1,599	1,833	1,916	1,838	1,511	1,529	1,457
Working capital	<b>1,985</b>	1,791	2,108	2,224	1,981	1,632	1,964	1,934	1,905
Working capital – 4 quarter average	<b>2,026</b>	2,026	1,986	1,950	1,878	1,859	1,837	1,793	1,767
Net revenue – last 12 months	<b>7,010</b>	7,290	7,375	7,311	7,045	6,996	6,887	6,670	6,525
Working capital to net revenue	<b>28.9%</b>	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%	27.1%

(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) Excluding cash and cash equivalents.

(3) 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>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue from operations <sup>(2)</sup>								
Canada	\$ 874	\$ 1,122	\$ 1,118	\$ 1,216	\$ 998	\$ 1,005	\$ 910	\$ 907
South America	478	518	577	626	505	509	558	551
UK & Ireland	206	271	264	295	307	328	287	271
<b>Total revenue</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>	<b>\$ 1,729</b>
Net income <sup>(2)(3)</sup>	\$ 54	\$ 50	\$ 76	\$ 88	\$ 28	\$ 55	\$ 25	\$ 81
Earnings Per Share <sup>(2)(3)</sup>								
Basic EPS	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15	\$ 0.48
Diluted EPS	\$ 0.33	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15	\$ 0.48
Total assets <sup>(2)</sup>	\$ 6,255	\$ 5,990	\$ 6,253	\$ 6,473	\$ 6,459	\$ 5,696	\$ 5,413	\$ 5,457
Long-term debt								
Current	\$ 200	\$ 200	\$ 200	\$ —	\$ —	\$ —	\$ —	\$ —
Non-current	\$ 1,381	\$ 1,318	\$ 1,325	\$ 1,321	\$ 1,341	\$ 1,354	1,315	1,330
<b>Total long-term debt <sup>(4)</sup></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>	<b>\$ 1,330</b>
Cash dividends paid per common share	20.5¢	20.5¢	20.5¢	20.5¢	20.0¢	20.0¢	20.0¢	20.0¢
Common shares outstanding (000's)	162,104	163,319	163,310	163,310	163,310	164,382	168,191	168,184
Options outstanding (000's)	3,353	3,416	3,547	3,550	3,055	3,164	3,226	3,241

- (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)	2019 <sup>(a)</sup>		2018 <sup>(a)</sup>
	Q3	Q1	Q3
Severance costs	\$ 2	\$ 18	\$ —
Facility closures, restructuring costs, and impairment losses	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>\$ 3</b>	<b>\$ 29</b>	<b>\$ 30</b>
Significant items impacting EBIT - impact on basic EPS <sup>(b)</sup>	\$ 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>\$ 0.03</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>

- (a) There were no significant items in Q1 2020, Q4 2019, Q2 2019, Q4 2018, and Q2 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 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. 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.

## Forward-Looking Disclaimer

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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 COVID-19 will have a material negative impact on the Company's 2020 financial results; regarding 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; about the Company's outlook for its Canada operations, including that oil production may be reduced in the coming months and non-production mining activities likely will be reduced, that some oil sands customers plan to reduce contractor hours and/or park approximately 20% to 30% of their truck fleets for a portion of Q2 2020, that demand for new equipment will remain low until oil price fundamentals and the COVID-19 situation improve, that the aging active equipment population will continue to support demand for parts and service, including component rebuilds, that lower utilization of fleets and deferral of non-essential maintenance are expected to reduce product support volumes in the oil sands in the near term, that the outlook for other mining segments in Western Canada is uncertain due to low prices of coal, copper, and other metals, in addition to the potential range of COVID-19 related disruptions, that mining customers' production levels may decline, that product support activity will be deferred until mining operations return to full capacity, that the demand for general construction equipment and product support is expected to be more resilient in the current environment compared to demand for smaller construction machines, that the Company is well positioned to serve construction customers during the COVID-19 outbreak by leveraging its branch operations and digital and omni-channel capabilities and to capture equipment and product support opportunities for large infrastructure projects, that activity in the oil & gas and forestry sectors is expected to remain low reflecting current commodity prices, that the gas compression industry is expected to remain resilient in the current economic environment, providing opportunities for product support, and about continued strong demand for prime and standby electric power generation for large infrastructure and gas projects, as well as other essential industries and facilities, such as hospitals; the Company's outlook for its South America operations, including, for Chile, that most copper mines will continue to operate during the COVID-19 outbreak with a reduced on-site workforce and restricted contract access, that copper production is expected to be maintained in the near term, driving continued demand for product support, and that, longer term, suspended mining construction projects will resume and international trade tensions will soften, which is expected to drive increased copper production and have a positive impact on the Company's outlook for Chilean mining, that activity in the construction and power systems markets in Chile will remain soft, that the Company is well positioned to continue serving customers in construction and power systems markets during the COVID-19 outbreak and to grow and support these sectors when customers return to normal operations, that customers will return to normal operations and that social distancing measures and quarantine requirements will be relaxed, the expectation that political and economic uncertainty, combined with disruptions related to COVID-19, will continue to impact customer confidence and lead to slower economic growth in Chile in the near term; and for Argentina and Bolivia, that market activity is expected to remain slow, the Company's focus on delivering product support to customers while managing its ARS currency exposure, that the government's restrictive monetary policies combined with capital and imports controls are expected to limit the Company's growth opportunities in Argentina, and that the Company will continue to provide equipment and product support to customers designated as essential services in Bolivia; the Company's outlook for its operations in UK & Ireland, including that the Company will continue to provide services to essential industries during the COVID-19 shutdown, that construction equipment markets will remain weak in the near term, that earthmoving work for HS2 is expected to begin in the second half of 2020 and that the Company is well-positioned to capture equipment and product support opportunities related to HS2, and that the Company will continue to benefit from continued demand in the electric power capacity, combined heat & power, and data centre markets; that activity and/or projects in these sectors are likely to be paused for all or a portion of Q2 2020, which will likely have an impact on revenue recognition for those projects, that the Company expects to resume execution of these projects in Q3 2020, with related revenue recognition, and begin execution of a large backlog of power systems projects in the second half of 2020, and the Company's expectation to benefit from the UK government program to offset approximately 80% of furloughed employee salary costs; the Company's outlook for supply chain, including that the Company expects to continue to provide regular services to customers through its branch network, parts warehouses, and on-site customer locations, as well as leveraging its digital and omni-channel capabilities, and that the Company will continue working closely with Caterpillar's supply chain teams to execute business continuity plans; the Company's outlook for

revenue and cost containment, including the Company's expectation that the COVID-19 pandemic and related government and customer actions, including business disruptions and supply chain constraints, will negatively impact its 2020 financial results and that the Company will not achieve product support revenue growth in 2020 as previously indicated, the possibility that further cost reduction measures, including workforce reductions, may become necessary; the Company's outlook for free cash flow and capital allocation, including that the Company expects to reduce its investments for the remainder of 2020, including reducing 2020 net capital expenditures and net rental fleet additions to the range of \$90 million to \$140 million, down from the \$200 million to \$250 million that was previously planned, and the prioritization of capital allocation toward debt repayment and meeting the continued dividend commitment; the Company's outlook for its financial position, including that it expects to maintain a strong balance sheet with sufficient liquidity and access to capital, and continue to have significant headroom in its net debt to total capital covenant under its committed revolving credit facility, and that the Company has sufficient liquidity to meet operational needs; the impact on results of expected ongoing volatility in foreign exchange markets; the expected impact of recently adopted accounting standards and interpretation or future expected changes; 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 actual impact of Brexit and 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 for the purpose of giving information about management's current expectations and plans and allowing 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 commodity prices and successfully implement its COVID-19 risk management

plans; (ii) that Finning will maintain improved execution in South America and a lower cost base in Canada; (iii) that general economic and market conditions will improve; (iv) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (v) Finning's ability to successfully execute its plans and intentions; (vi) Finning's ability to successfully attract and retain skilled staff; (vii) market competition will remain at similar levels; (viii) the products and technology offered by the Company's competitors will be as expected; and (ix) 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

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<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>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>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</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