FINNING

Q4 AND ANNUAL 2020 EARNINGS RELEASE **February 9, 2021**

Finning reports Q4 and Annual 2020 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) ("Finning", "the Company", "we", "our" or "us") reported fourth quarter and annual 2020 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q4 2019 and annual 2019 results unless indicated otherwise.

- Q4 2020 EPS(1) of $0.45 represented a 45% increase from Q4 2019 and included $0.07 of Canada Emergency Wage Subsidy ("CEWS"). Q4 2020 Adjusted EPS(2)(3) was $0.38, 25% higher than Q4 2019.
- Q4 2020 revenue was $1.7 billion, and net revenue(2) of $1.6 billion was down 12% from Q4 2019, as increased revenue in the UK & Ireland was offset by reduced market activity in Canada and South America. Compared to Q3 2020, net revenue increased by 7%, with growth in all regions.
- Gross profit as a percentage of net revenue(2) of 26.9% in Q4 2020 was 260 basis points higher than Q4 2019, due to operational improvements and a revenue mix shift to product support revenue.
- For the full year 2020, SG&A(1) was down by $115 million or 8% compared to 2019**.** Q4 2020 SG&A costs decreased by 3%, or $10 million, from Q4 2019. Savings from global cost initiatives were offset by $13 million higher long-term incentive plan ("LTIP") expense in Q4 2020 compared to Q4 2019.
- All our operations achieved improved profitability compared to Q4 2019, driven by a lower cost base, stable gross profit margins, and the resiliency of our product support business. EBIT(1) as a percentage of net revenue(2) was 9.3% in Canada (7.7% on an adjusted basis), 8.3% in South America, and 3.7% in the UK & Ireland.
- We have significantly strengthened our financial position throughout the year as we reduced our net debt(2) by $615 million from December 31, 2019. EBITDA(1)(2) to free cash flow(2) conversion(2) was approximately 125% in 2020. Our net debt to Adjusted EBITDA(2)(3) ratio(2)(3) was 1.4 at December 31, 2020, down from 2.0 at December 31, 2019, and our finance costs decreased by 21% from 2019 to $85 million in 2020.
- Equipment backlog(2) increased by 19% from September 30, 2020 to $0.8 billion at December 31, 2020, driven primarily by higher order intake(2) in the UK & Ireland related to initial equipment orders for HS2, and by mining in South America. Consolidated order intake in Q4 2020 increased by approximately 60% from Q3 2020 and was the highest since Q3 2018.

"We navigated through a very challenging year while operating safely, supporting our customers, and executing on our strategic priorities. Our Total Injury Frequency rate decreased by 35%, and our customer loyalty scores increased by 10% in 2020 compared to 2019. Our employees should be proud of these accomplishments, which demonstrate continued adaptability and unwavering commitment to providing essential services to our customers," said Scott Thomson, president and CEO of Finning International.

"We greatly appreciate the contributions of our many stakeholders in 2020. The combination of employee flexibility, liquidity from our capital markets partners, and government support programs in Canada and the UK have helped protect against significant job losses while positioning our business for a strong recovery."

"2020 was an exceptional execution year. Despite the challenges, we benefited from earlier investments in our digital capabilities and delivered on the commitments we set out at the beginning of the year. We improved our execution in South America, reduced our cost base in Canada, built a strong backlog of projects in the UK, and significantly lowered our finance costs.

"Our outlook for 2021 remains positive, with key markets recovering, commodity prices at constructive levels, our customers increasing capital expenditures, and government stimulus spending supporting infrastructure projects. In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue(2), and effective allocation of capital." concluded Mr. Thomson.

Q4 2020 FINANCIAL SUMMARY

Quarterly Overview *$ millions, except per share amounts*	**Q4 2020**	Q4 2019	% change
Revenue	**1,666**	1,911	(13)
Net revenue	**1,551**	1,757	(12)
EBIT	**108**	97	11
EBIT as a percentage of net revenue[2]	***6.9%***	*5.5%*	
EBITDA	**185**	170	9
EBITDA as a percentage of net revenue[2]	***11.9%***	*9.7%*	
Net income	**72**	50	44
EPS	**0.45**	0.31	45
Free cash flow	**292**	386	(24)

Q4 2020 EBIT and EBITDA by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	72	41	11	(16)	108	0.45
CEWS support	(13)	-	-	(1)	(14)	(0.07)
Adjusted EBIT[2][3] / Adjusted EPS	59	41	11	(17)	94	0.38
Adjusted EBIT as a percentage of net revenue[2][3]	*7.7%*	*8.3%*	*3.7%*	-	*6.1%*	
Adjusted EBITDA	106	61	20	(16)	171	
Adjusted EBITDA as a percentage of net revenue[2][3]	*13.7%*	*12.2%*	*7.0%*	-	*11.0%*	

Q4 2019 EBIT and EBITDA by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	72	31	5	(11)	97	0.31
EBIT as a percentage of net revenue	*7.4%*	*6.0%*	*1.9%*	-	*5.5%*	
EBITDA	114	51	15	(10)	170	
EBITDA as a percentage of net revenue	*11.8%*	*10.0%*	*5.4%*	-	*9.7%*	

Invested Capital[2] **and ROIC**[1][2]	**Q4 2020**	Q4 2019
Invested capital *($ millions)*		
Consolidated	**3,067**	3,591
Canada	**1,819**	2,026
South America (US dollars)	**731**	918
UK & Ireland (UK pound sterling)	**188**	210
Invested capital turnover[2] *(times)*	**1.68**	1.92
Working capital[2] **to net revenue ratio**[2]	**28.3%**	27.8%
Inventory *($ millions)*	**1,477**	1,990
Inventory turns (dealership)[2] *(times)*	**2.79**	2.53
Adjusted ROIC[2][3] *(%)*		
Consolidated	**9.6**	12.0
Canada	**10.5**	14.4
South America	**12.9**	10.5
UK & Ireland	**5.5**	12.1

Q4 2020 HIGHLIGHTS BY OPERATION

All comparisons are to Q4 2019 results unless indicated otherwise. All numbers are in functional currency: Canada – Canadian dollar; South America – US dollar; UK & Ireland – UK pound sterling (GBP).

Canada

- Net revenue decreased by 20%, largely due to a 47% decline in new equipment sales. Q4 2019 revenue benefited from large mining equipment packages that did not repeat in Q4 2020. Net revenue grew 6% from Q3 2020, driven by improving activity in mining and power systems deliveries.
- Product support revenue was 6% below Q4 2019 due to reduced activity in all sectors. Compared to Q3 2020, product support revenue increased by 5%, driven primarily by improved demand in the oil sands and higher rebuild activity.
- Due to a significant reduction in revenues in our Canadian operations year over year, we continued to qualify for CEWS and recognized $13 million of this wage subsidy in Q4 2020, which is included in other income and excluded from our adjusted earnings. Support from the CEWS program allowed us to preserve over 500 jobs during 2020. We have rehired over 100 technicians since June 2020 as market activity began to improve. Our strengthened financial position will enable us to make strategic investments early in the recovery cycle, including the purchase and capacity expansion of our Regina facility in Saskatchewan, selected capacity expansions in Alberta, and the construction of new ultra-efficient facilities in Kamloops and Campbell River, British Columbia in partnership with local Indigenous communities.
- SG&A decreased by 7% from Q4 2019, reflecting cost savings from improved processes and efficiencies. However, these savings were partly offset by higher service and overhead costs, as new equipment preparation work was down significantly from Q4 2019 and we continued to use the CEWS program to retain technicians.
- Adjusted EBIT as a percentage of net revenue was 7.7%, up 30 basis points compared to Q4 2019 despite lower revenue, driven by a higher proportion of product support in the revenue mix, a reduced cost base, and operational improvements.

South America

- Net revenue decreased by 3% from Q4 2019 mostly due to continued impacts of COVID-19 restrictions on mining operations and overall economic activity. Compared to Q3 2020, net revenue increased by 6%, driven by product support recovery.
- Product support revenue was down 4% from Q4 2019, impacted by COVID-19 restrictions on mining operations. Compared to Q3 2020, product support revenue was up 8%, reflecting a recovery of repair and maintenance work for Chilean mining customers.
- New equipment sales were 10% below Q4 2019. However, order intake in South America increased by over 80% from Q3 2020, driven by mining.
- EBIT as a percentage of net revenue was 8.3%, up 230 basis points from Q4 2019, reflecting the benefit of a lower cost base from leveraging one common technology system.

United Kingdom & Ireland

- Net revenue was up by 4% from Q4 2019, driven by an 18% increase in new equipment sales, attributable to deliveries of power systems projects to the data centre and electricity capacity markets. Product support revenue was up 3% from Q4 2019 due to higher service and rebuild activity, and related parts consumption in construction.
- EBIT as a percentage of net revenue was 3.7%, up 180 basis points from Q4 2019. An increase in profitability compared to Q4 2019 was driven by a new equipment product mix shift to power systems, improved quality of equipment inventory, and effective cost control. The number of UK & Ireland employees on furlough was about 3% during Q4 2020, down from 20% in Q3 2020 and nearly 50% in Q2 2020. The UK government's furlough program has helped limit business disruptions and supported our rapid recovery in the UK and Ireland.
- An increase in order intake in the UK & Ireland in Q4 2020 was driven in part by initial equipment orders related to HS2. We expect to start delivering equipment to this project in Q2 2021. Despite some delays, we are encouraged by these orders, and remain well positioned to capture further equipment and product support opportunities for this project.

Q4 2020 MARKET UPDATE AND BUSINESS OUTLOOK

Canada

Oil sands production and capital expenditures are expected to increase in 2021 compared to 2020 in response to strengthened oil prices and the Alberta government's removal of production curtailments. We expect product support activity in the oil sands to continue to improve, with higher fleet utilization driving increased demand for maintenance and rebuilds.

The outlook for copper, precious metals and other metals has improved, supporting increased activity in this mining sector. Diamond mining activity is expected to return to full capacity in the first quarter after selected shut-downs in 2020. We are actively quoting on multiple requests for proposals (RFPs) for equipment and product support, including projects in the Golden Triangle of British Columbia, which represent significant greenfield opportunities. Higher demand for metallurgical coal is expected to be partly offset by lower thermal coal production.

We are well positioned to help our mining customers reduce cost per ton and improve operating efficiencies through initiatives such as autonomy and leveraging our technology solutions. The large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds, autonomy conversions, and continued demand for product support.

We are encouraged by significant infrastructure investments being made in both the public and private sectors. Large fiscal stimulus programs in each province are expected to provide a near-term positive impact on construction activity, including investments in Alberta's light rail projects and BC Highway works. Other planned investments, such as the orphaned well abandonment program in Alberta and irrigation expansion in Alberta and Saskatchewan are expected to support a medium-term growth outlook for the construction sector. The significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021. Cancellation of the Keystone XL pipeline is not expected to have a material impact on our business. We are seeing an increase in order intake for construction equipment. However, in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels. Our focus remains on capturing product support market share in construction sectors by leveraging our technology solutions to strengthen relationships with our customers.

South America

We are optimistic about mining recovery in Chile. A positive long-term outlook for copper, increasing copper production forecasts, and an aging equipment population are expected to drive improved demand for product support and higher RFP activity in Chilean mining. We are actively quoting on multiple opportunities for new mining equipment and autonomy solutions for both brownfield expansions and greenfield projects. We are seeing an increasing commercial momentum for copper and gold mines in Chile and Argentina with significant projects advancing though feasibility studies. According to Cochilco, the Chilean Copper Commission, copper production in Chile is expected to increase to 7.1 million tons by 2029 from 5.8 million tons in 2020. Chile's portfolio of mining projects includes a total investment of US$74 billion in 49 projects, mainly in copper, gold, iron, lithium and industrial minerals. Opportunities in the Lithium Triangle region, covering Chile, Argentina, and Bolivia, represent significant growth potential as lithium production is expected to continue increasing rapidly with the transition to electric vehicles.

We expect mining product support revenue to recover in 2021 as customers are ramping up major maintenance work and preparing their equipment fleets to meet increasing production targets. However, COVID-19 related restrictions are expected to continue to limit the capacity of mining operations in the near term. While we have reached agreements with our own unions, we are monitoring the upcoming customer union negotiations closely.

The outlook for a recovery in the Chilean construction industry is positive. The Chilean government announced US$34 billion of public investment in infrastructure over 2020-2022 to jumpstart the economy. As a result, we expect to see improved activity and strong order intake in the construction and power systems markets in Chile in 2021. Although currently muted, we continue to monitor the potential for social unrest heading into the elections in November 2021.

In Argentina, we expect stability in gold mining and oil and gas, and some recovery in construction activity in 2021. We expect the overall business environment in Argentina to remain challenging, and are actively managing key risks, including ARS devaluation. We are maintaining a minimal level of investment in this region to manage risks and support our customers.

UK & Ireland

A new trade deal between the UK and the European Union reached in December 2020 is expected to remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European market. We have completed significant planning ahead of the Brexit leave date in conjunction with Caterpillar to mitigate potential supply chain risks, and we are well positioned to meet our customer needs. Economic activity in the UK & Ireland continues to be affected by COVID-19 mitigation measures. However, since we provide services to industries that are deemed essential, we do not anticipate the latest lockdowns to impact the sectors we serve in a material way.

The outlook for general construction equipment markets in the UK is positive, driven by the HS2 project and the government's investment in other infrastructure initiatives to support the economy. After some delays, we expect a strong ramp-up in HS2 construction activity in 2021. Our backlog at December 31, 2020 includes some initial equipment orders related to HS2, and we expect to start delivering equipment to this project in Q2 2021.

We expect continued strong demand for our power systems solutions, particularly in the data centre market, with the timing of project deliveries expected to be phased towards the second half of 2021.

Improved Earnings Capacity in a Recovery

Our overall outlook for 2021 remains positive. Led by strong recoveries in Chile and the UK, we expect revenue growth in 2021, however remaining below 2019 levels. COVID-19 mitigation measures are expected to continue impacting our business in the first quarter of 2021. We are seeing some restrictions at construction sites in Canada, and our mining customers in Chile are currently operating at reduced capacity.

The execution of our global cost initiatives is on track to deliver more than $100 million of annualized cost savings. Our goal is to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle.

In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle SG&A target, and effective allocation of capital. Assuming an undisrupted market recovery and the successful execution of our profitability drivers, we expect 2021 earnings to exceed 2019.

We will be making strategic capital investments in our Canadian facility network and our digital capabilities in 2021, and expect our net capital expenditures and net rental fleet additions to be in the $170 to $210 million range this year, dependent on the pace of market recovery.

We expect to deliver strong annual free cash flow in 2021. However, with increased inventory purchases, our EBITDA to free cash flow conversion is projected to be modestly below 50% for the year.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of $0.205 per share, payable on March 11, 2021 to shareholders of record on February 25, 2021. This dividend will be considered an eligible dividend for Canadian income tax purposes.

Amended and Restated Advance Notice By-Law

The Board of Directors has approved some minor changes to Finning's Advance Notice By-Law to update the By-law and track current market best practices. Our Amended and Restated Advance Notice By-Law, which takes effect immediately, will be available for review under our profile on SEDAR at www.sedar.com.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

$ millions, except per share amounts	Three months ended December 31			Twelve months ended December 31		
	2020	2019	% change fav (unfav)	**2020**	2019	% change fav (unfav)
New equipment	**500**	649	(23)	**1,671**	2,776	(40)
Used equipment	**93**	99	(6)	**308**	361	(15)
Equipment rental	**49**	55	(10)	**196**	246	(20)
Product support	**877**	922	(5)	**3,473**	3,793	(8)
Net fuel and other	**32**	32		**120**	114	5
Net revenue	**1,551**	1,757	(12)	**5,768**	7,290	(21)
Gross profit	**418**	428	(2)	**1,570**	1,799	(13)
Gross profit as a percentage of net revenue	***26.9%***	*24.3%*		***27.2%***	*24.7%*	
SG&A	**(324)**	(334)	3	**(1,245)**	(1,360)	8
SG&A as a percentage of net revenue	***(20.9)%***	*(19.0)%*		***(21.6)%***	*(18.7)%*	
Equity earnings of joint ventures	**-**	3		**3**	15	
Other income	**14**	-		**115**	-	
Other expenses	**-**	-		**(51)**	(29)	
EBIT	**108**	97	11	**392**	425	(8)
EBIT as a percentage of net revenue	***6.9%***	*5.5%*		***6.8%***	*5.8%*	
Adjusted EBIT	**94**	97	(3)	**328**	457	(28)
Adjusted EBIT as a percentage of net revenue	***6.1%***	*5.5%*		***5.7%***	*6.3%*	
Net income	**72**	50	44	**232**	242	(4)
Basic EPS	**0.45**	0.31	45	**1.43**	1.48	(3)
Adjusted EPS	**0.38**	0.31	25	**1.14**	1.65	(31)
EBITDA	**185**	170	9	**700**	718	(3)
EBITDA as a percentage of net revenue	***11.9%***	*9.7%*		***12.1%***	*9.9%*	
Adjusted EBITDA	**171**	170	1	**636**	750	(15)
Adjusted EBITDA as a percentage of net revenue	***11.0%***	*9.7%*		***11.0%***	*10.3%*	
Free cash flow	**292**	386	(24)	**870**	42	n/m

	Dec 31, 2020	Dec 31, 2019
Invested capital	**3,067**	3,591
Invested capital turnover (times)	**1.68**	1.92
Net debt to EBITDA ratio[2]	**1.2**	2.1
Net debt to Adjusted EBITDA ratio	**1.4**	2.0
ROIC	**11.4%**	11.2%
Adjusted ROIC	**9.6%**	12.0%

n/m – not meaningful

To access Finning's complete Q4 and annual 2020 results in PDF, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q4 2020 INVESTOR CALL

The Company will hold an investor call on February 10, 2021 at 10:00 am Eastern Time. Dial-in numbers: 1-800-319-4610 (Canada and US), 1-416-915-3239 (Toronto area), 1-604-638-5340 (international). The investor call will be webcast live and archived for three months. The webcast and accompanying presentation can be accessed at https://www.finning.com/en_CA/company/investors.html.

ABOUT FINNING

Finning International Inc. (TSX: FTT) is the world's largest Caterpillar equipment dealer delivering unrivalled service to customers for 88 years. Finning sells, rents, and provides parts and service for equipment and engines to help customers maximize productivity. Headquartered in Vancouver, B.C., the Company operates in Western Canada, Chile, Argentina, Bolivia, the United Kingdom and Ireland.

CONTACT INFORMATION

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FOOTNOTES

(1) Earnings Before Finance Costs and Income Taxes (EBIT); Basic Earnings per Share (EPS); Earnings Before Finance Costs, Income Taxes, Depreciation and Amortization (EBITDA); Selling, General & Administrative Expenses (SG&A); Return on Invested Capital (ROIC).

(2) These financial metrics, referred to as "non-GAAP financial measures", do not have a standardized meaning under International Financial Reporting Standards (IFRS), which are also referred to herein as Generally Accepted Accounting Principles (GAAP), 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" in the Company's 2020 management discussion and analysis (MD&A). Management believes that providing certain non-GAAP financial measures provides 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. By considering these measures in combination with the comparable IFRS financial measures (where available) set out in the MD&A, 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.

(3) Certain 2020 and 2019 financial metrics were 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, 9 and 41-43 of the MD&A. The financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

FORWARD-LOOKING INFORMATION CAUTION

This news release contains information about our business outlook, objectives, plans, strategic priorities and other information that is not historical fact. Information we provide is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information 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 information in this news release includes, but is not limited to, the following: our positive outlook for 2021; 2021 profitability drivers will include operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle target of 17% SG&A as a percentage of net revenue and effective allocation of capital; our plans to make strategic investments early in the recovery cycle, including the purchase and capacity expansion of our Regina, Saskatchewan facility, selected capacity expansions in Alberta, and the construction of new ultra-efficient facilities in Kamloops and Campbell River, British Columbia; we expect to start delivering equipment to the HS2 project in the UK in Q2 2021 and remain well positioned to capture further equipment and product support opportunities for this project; our outlook for our Canadian operations, including: oil sands production and capital expenditures are expected to increase in 2021 compared to 2020, product support activity in the oil sands is expected to continue to improve with higher fleet utilization driving increased demand for maintenance and rebuilds (assuming sustainment of strengthened oil prices and the Alberta Government will not re-impose production curtailments); expected return of diamond mining to full capacity in the first quarter (assumed based on the improved outlook for copper and precious and other metals); the Golden Triangle of British Columbia represents significant greenfield opportunities (assumed based on request for proposal (RFP) quoting activity for equipment and product support), higher demand for metallurgical coal is expected to be partly offset by lower thermal coal production; the large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds and autonomy conversions and continued demand for product support; large fiscal stimulus programs in Alberta, British Columbia and Saskatchewan are expected to provide near-term and medium-term positive impact and growth in the construction sector; significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021; cancellation of the Keystone XL pipeline is not expected to have a material impact on our business; and in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels; our outlook for our South American operations, including: we are optimistic about mining recovery in Chile; our expectation that the positive long-term outlook for copper, increasing copper production forecasts and an aging equipment population will drive improved demand for product support and higher RFP activity in Chilean mining; increasing commercial momentum for copper and gold mines in Chile and Argentina (assuming positive outcomes of feasibility studies for significant projects in progress); significant growth potential from opportunities in the Lithium Triangle region as lithium production is expected to continue increasing rapidly with the transition to electric vehicles; our expectation that mining product support revenue will recover in 2021 as customers resume major maintenance work and prepare their equipment fleets to meet increasing production targets; that COVID-19 related restrictions will continue to limit the capacity of mining operations in the near term; our positive outlook for recovery in the Chilean construction industry, including our expectation for improved activity and stronger order intake in the construction and power systems markets in Chile in 2021; and, in Argentina, our expectation for stability in gold mining and oil and gas, and some recovery in construction activity in 2021, and that Argentina will remain challenging; our outlook for our UK & Ireland operations, including: our expectation that the new trade deal between the UK and the European Union reached in December 2020 will remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European markets and that we are well positioned to meet our customers' needs given the significant planning ahead of the Brexit leave date in conjunction with Caterpillar to mitigate potential supply chain risks; our expectation that the latest COVID-19 lockdowns will not materially impact the sectors we serve (assumed the industries we serve will continue to be deemed essential and not covered by the lockdown orders); our positive outlook for general construction equipment markets in the UK; driven by the HS2 project and the government's other infrastructure initiatives, expected strong ramp-up in HS2 construction activity in 2021 and that we will start delivering equipment to HS2 in Q2 2021; and our expectation for continued strong demand for our power systems solutions, particularly in the data centre market, with project deliveries expected towards the second half of 2021; statements regarding our improved earnings capacity in a recovery, including: our overall positive outlook for 2021 and expected revenue growth in 2021 (assuming strong recoveries particularly in Chile and the UK), however remaining below 2019 levels; our expectation that COVID-19 mitigation measures will continue impacting our business in the first quarter of 2021; that our global cost initiatives are on track to deliver more than $100 million of annualized cost savings; our goal to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle; our expectation to benefit in 2021 from profitability drivers, including: operating leverage in a recovering market, product support growth in all regions, progress towards our mid-cycle goal of 17% SG&A as a percentage of net revenue, and effective allocation of capital, and that our 2021 earnings will exceed 2019 (assuming an undisrupted market recover, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest, and successful execution of our profitability drivers); our plans to make strategic capital investments in our Canadian facility network and digital capabilities in 2021 and our expectation that our 2021 net capital expenditures and net rental fleet additions will be in the $170 to $210 million range this year, dependent on the pace of

market recovery; and our expectation that we will deliver strong free cash flow in 2021, but that with increased inventory purchases, our EBITDA to free cash flow conversion will be modestly below 50% for the year; and the Canadian income tax treatment of the quarterly dividend. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless we indicate otherwise, forward-looking information in this news release reflects our expectations at the date in this news release. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise.

Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on a number of assumptions. This gives rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking information and that our business outlook, objectives, plans, strategic priorities and other information that is not historical fact may not be achieved. As a result, we cannot guarantee that any forward-looking information will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information include: the impact and duration of the COVID-19 pandemic and measures taken by governments and businesses in response; general economic and market conditions and economic and market conditions in the regions where we operate; foreign exchange rates; commodity prices; the impact of changes in the UK's trade relationship with the European Union as a result of Brexit; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain our relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to sustainably reduce costs and improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary regulatory or other approvals, and secure financing on attractive terms or at all; our ability to manage our growth strategy effectively; our ability to effectively price and manage long-term product support contracts with our customers; our ability to reduce costs in response to slowing activity levels; our ability to drive continuous cost efficiency in a recovering market; our ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for our employees and us; the intensity of competitive activity; our ability to raise the capital needed to implement our business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments in the regions where we carry on business; our ability to respond to climate change-related risks; the occurrence of natural disasters, pandemic outbreaks, geo-political events, acts of terrorism, social unrest or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates and whether the amount of insurance coverage will be adequate to cover all liability or loss that we incur; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and our ability to protect our business from cybersecurity threats or incidents. Forward-looking information is provided in this news release for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of our operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking information for any other purpose.

Forward-looking information made in this news release is based on a number of assumptions that we believed were reasonable on the day the information was given, including but not limited to the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response; that commodity prices will remain at constructive levels; that our customers will not curtail their increasing capital expenditures; that our action plan to minimize the impact of Brexit will be successful; that general economic and market conditions will improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; our ability to successfully execute our plans and intentions; our ability to attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; consistent and stable legislation in the various countries in which we operate; no disruptive changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained. 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 news release are discussed in our current AIF and in our annual MD&A for the financial risks, including for updated risks related to the COVID-19 pandemic.

We caution readers that the risks described in the AIF and in the annual and most recent quarterly MD&A are not the only ones that could impact the Company. We cannot accurately predict the full impact that COVID-19 will have on our business, results of operations, financial condition or the demand for our 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 our customers and suppliers may take in current circumstances, including slowing or halting operations, the duration of travel

and quarantine restrictions imposed by governments of affected countries and other steps that may be taken by such governments to respond to the pandemic. Additional risks and uncertainties not currently known to us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 9, 2021

This ***MD&A*** should be read in conjunction with our ***Annual Financial Statements*** and the accompanying notes thereto for the year ended December 31, 2020, which have been prepared in accordance with ***IFRS***. In this MD&A, unless context otherwise requires, the terms we, us, our, and ***Finning*** refer to Finning International Inc. and/or its subsidiaries. All dollar amounts presented in this MD&A are expressed in ***CAD***, unless otherwise stated. Additional information relating to Finning, including our ***AIF*** and MD&A, can be found under our profile on the ***SEDAR*** website at www.sedar.com and in the investors section of our website at www.finning.com.

Finning (***TSX***:FTT) is the largest dealer of ***Caterpillar*** products in the world delivering service to customers for over 85 years. We sell, rent, and provide parts and service for Caterpillar equipment and engines and complementary equipment on three continents to customers in various industries, including mining, construction, petroleum, forestry, and a wide range of power systems applications. We aim to consistently deliver solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

A glossary of defined terms is included on page 56. The first time a defined term is used in this MD&A, it is shown in bold italics.

Annual Overview

($ millions, except for per share amounts)	**2020**	2019	% change ***fav (unfav)***
Revenue	**$ 6,196**	$ 7,817	(21)%
Net revenue [1]	**$ 5,768**	$ 7,290	(21)%
Gross profit	**$ 1,570**	$ 1,799	(13)%
SG&A	**(1,245)**	(1,360)	8%
Equity earnings of joint ventures	**3**	15	(76)%
Other income	**115**	—	***n/m***
Other expenses	**(51)**	(29)	n/m
EBIT	**$ 392**	$ 425	(8)%
Net income	**$ 232**	$ 242	(4)%
Basic ***EPS***	**$ 1.43**	$ 1.48	(3)%
EBITDA [1]	**$ 700**	$ 718	(3)%
Free cash flow [1]	**$ 870**	$ 42	n/m
Adjusted EBIT [1][2]	**$ 328**	$ 457	(28)%
Adjusted net income [1][2]	**$ 186**	$ 269	(31)%
Adjusted basic EPS [1][2]	**$ 1.14**	$ 1.65	(31)%
Adjusted EBITDA [1][2]	**$ 636**	$ 750	(15)%
Gross profit as a % of net revenue [1]	***27.2%***	*24.7%*	
SG&A as a % of net revenue [1]	***21.6%***	*18.7%*	
EBIT as a % of net revenue [1]	***6.8%***	*5.8%*	
EBITDA as a % of net revenue [1]	***12.1%***	*9.9%*	
Adjusted EBIT as a % of net revenue [1][2]	***5.7%***	*6.3%*	
Adjusted EBITDA as a % of net revenue [1][2]	***11.0%***	*10.3%*	
*Adjusted **ROIC*** [1][2]	***9.6%***	*12.0%*	

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

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 42 - 44 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics. See "Description of Non-GAAP Financial Measures and Reconciliations" later in this MD&A.

Recent Developments

On March 11, 2020, the ***COVID-19*** outbreak was declared a pandemic by the World Health Organization. The most significant impacts on our operations related to COVID-19 during the year ended December 31, 2020, particularly in the second quarter of the year, included postponed equipment orders and deliveries, lower equipment utilization hours, temporary shutdowns of customer operations, and postponement of some projects. In addition, product support revenue was impacted by parked truck fleets and support equipment, deferral of non-essential maintenance, lower parts sales in the construction sector, lower labour recovery at our branches due to shift separation and physical distancing measures, and temporary closure of certain facilities in South America. Our results were also impacted by volatility in oil and other commodity prices. Although the timing and pace of market recovery from the effects of both COVID-19 and volatile oil and other commodity prices are unclear, we saw end market improvements in Q4 2020. These challenging market conditions had a material negative impact on our 2020 financial results. Measures taken to slow the spread of COVID-19 in the jurisdictions where we operate have allowed for a phased reopening of those economies and an increase in associated business activity.

In response to the negative economic impact of COVID-19, various government programs were announced to provide financial relief to affected businesses. The Government of Canada introduced the ***CEWS*** program, which subsidizes a portion of employee wages (up to a specified maximum) for Canadian employers whose businesses have met eligibility criteria. The program is intended to help employers rehire previously laid off workers, prevent further job losses, and better position Canadian businesses to resume normal operations. To encourage companies to retain employees, the Government of the ***UK*** introduced the ***CJRS*** to pay a portion of salaries for employees (up to a specified maximum) who were furloughed (on paid leave). The CJRS support was recorded in SG&A to offset a portion of the salaries of furloughed employees. As required by the UK government program, we did not derive any benefit from employees while they were on furlough. We have utilized CEWS and CJRS, as well as tax deferral programs that governments in most regions where we operate have made available. These government programs have supported us in retaining key technical talent and positioned us well for an economic recovery.

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

Annual Highlights

- 2020 revenue of $6.2 billion and net revenue of $5.8 billion were down 21% from 2019, reflecting reduced market activity. Net revenue was lower in all of our operations and most lines of business, primarily new equipment revenue.
- 2020 EBIT was $392 million and EBIT as a percentage of net revenue was 6.8%. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT was $328 million and Adjusted EBIT as a percentage of net revenue was 5.7%, compared to $457 million and 6.3%, respectively, in 2019. 2020 Adjusted EBIT reflected lower market activity resulting in reduced gross profit partially offset by lower SG&A, reflecting the successful execution of global productivity initiatives and strong management of costs.
- Adjusted EBITDA of $636 million was 15% lower than $750 million in 2019. 2020 Adjusted EBITDA as a percentage of net revenue of 11.0% improved from 10.3% in 2019. This improvement was the result of an increase in gross profit as a percentage of net revenue in all of our operations due to operational improvements and a revenue mix shift to product support revenue. This was partially offset by higher SG&A as a percentage of net revenue due to a lower revenue base.
- 2020 basic EPS was $1.43 compared to 2019 basic EPS of $1.48. Excluding significant items not considered indicative of operational and financial trends, 2020 Adjusted basic EPS was $1.14, 31% lower than 2019.
- Strong EBITDA to free cash flow conversion [1] resulted in $870 million of free cash flow in 2020, higher than the $42 million free cash flow generated in 2019, which significantly strengthened our financial position. Financing costs in 2020 of $85 million were 21% lower than 2019 and the net debt to Adjusted EBITDA [1][2] ratio at December 31, 2020 of 1.4 times improved from 2.0 times at December 31, 2019.
- Adjusted ROIC at December 31, 2020 was 9.6%, a decrease from Adjusted ROIC of 12.0% at December 31, 2019, driven by a decline in Adjusted EBIT in the last twelve months which exceeded the reduction in invested capital. Lower Adjusted ROIC in our UK & Ireland and Canadian operations was partially offset by an improvement in our South American operations.

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

(2) Reported financial metrics may be impacted by significant items described on pages 5 and 42 - 44 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as “Adjusted” metrics. See “Description of Non-GAAP Financial Measures and Reconciliations” later in this MD&A.

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Strategic Framework

Our customer-centric growth strategy is based on three pillars – Develop, Perform, and Innovate – which provide a strong foundation for our 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.

Our strategic framework is founded in our values, which have been articulated with the input of our employees and are: we are trusted, collaborative, innovative and passionate.

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

Our focus areas to support our strategy are: to capture growth in mining through a focus on lowest total cost of ownership and in construction through aftermarket leadership; and to improve performance through transforming service, accelerating supply chain capabilities and lowering our 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.

Our Sustainability Report can be found in the sustainability section of our website at www.finning.com.

In 2020, we took decisive measures to protect the interests of all our stakeholders and further strengthen our financial position as we navigated through the impacts of the COVID-19 pandemic and volatility in commodity prices. Our teams have successfully advanced our strategic priorities by staying focused on controlling what we can in a difficult and uncertain environment. We are confident that our resilient business model, improving execution, financial flexibility, and cost and capital discipline will serve us well as markets recover and position us for opportunities that lie ahead.

Adjusted Metrics

Reported financial metrics may be impacted by significant items we do not consider indicative of operational and financial trends by either 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 41 - 50 of this MD&A.

Significant items that affected our reported annual 2020 and 2019 results, which we do not consider to be indicative of operational and financial trends, either by nature or amount, are detailed below.

2020 significant items:

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

2019 significant items:

- Severance costs related to workforce reductions and restructuring costs related to planned facility closures in Canada and South America.
- Acquisition costs related to the purchase of ***4Refuel***.
- The ***ARS*** experienced a significant devaluation relative to the ***USD*** in the third quarter of 2019 losing approximately 35% of its value (annual devaluation of approximately 60%). This devaluation resulted in higher tax expense due to the revaluation of deferred taxes in September 2019.

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

For year ended December 31, 2020 ($ millions, except for per share amounts)	**EBIT Canada**	**EBIT South America**	**EBIT UK & Ireland**	***EBIT Consol*** [(1)]	**Net Income Consol** [(1)]	**EPS Consol** [(1)]
EBIT, net income, and basic EPS	**$ 288**	**$ 121**	**$ 16**	**$ 392**	**$ 232**	**$ 1.43**
Significant items:						
CEWS support	**(108)**	**—**	**—**	**(115)**	**(85)**	**(0.53)**
Severance costs	**20**	**17**	**4**	**42**	**32**	**0.20**
Facility closure related restructuring costs and impairment losses	**5**	**4**	**—**	**9**	**7**	**0.04**
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	**$ 205**	**$ 142**	**$ 20**	**$ 328**	**$ 186**	**$ 1.14**

For year ended December 31, 2019 ($ millions, except for per share amounts)	EBIT Canada	EBIT South America	EBIT UK & Ireland	EBIT Consol [(1)]	Net Income Consol [(1)]	EPS Consol [(1)]
EBIT, net income, and basic EPS	$ 296	$ 120	$ 46	$ 425	$ 242	$ 1.48
Significant items:						
Severance costs	10	10	—	20	14	0.09
Facility closure related restructuring costs and impairment losses	7	1	—	8	5	0.03
Acquisition costs	—	—	—	4	4	0.03
Tax impact of devaluation of ARS	—	—	—	—	4	0.02
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	$ 313	$ 131	$ 46	$ 457	$ 269	$ 1.65

(1) Includes Other segment

Annual Key Performance Measures

We utilize the following ***KPI***s to enable consistent measurement of performance across the organization.

For years ended December 31	**2020**	2019	2018 [1]	2017 (Restated) [1][2]	2016 [1][2]
ROIC [3][4] (%)					
Consolidated	**11.4%**	11.2%	12.8%	13.1%	5.6%
Canada	**14.6%**	13.7%	16.6%	13.3%	5.3%
South America	**11.0%**	9.6%	12.2%	17.8%	13.3%
UK & Ireland	**4.5%**	12.1%	14.2%	12.8%	(4.5)%
EBIT [3] ($ millions)					
Consolidated	**392**	425	423	392	165
Canada	**288**	296	297	225	87
South America	**121**	120	142	184	137
UK & Ireland	**16**	46	51	37	(12)
EBIT as a % of net revenue [3]					
Consolidated	**6.8%**	5.8%	6.0%	6.3%	2.9%
Canada	**9.7%**	7.5%	8.1%	7.3%	3.1%
South America	**6.3%**	5.4%	6.6%	8.5%	7.4%
UK & Ireland	**1.8%**	4.1%	4.4%	3.6%	(1.1)%
EBITDA [3] ($ millions)					
Consolidated	**700**	718	610	576	357
Canada	**473**	470	393	324	187
South America	**204**	201	204	242	199
UK & Ireland	**53**	82	79	63	18
EBITDA as a % of net revenue [3]					
Consolidated	**12.1%**	9.9%	8.7%	9.2%	6.3%
Canada	**16.0%**	12.0%	10.7%	10.6%	6.6%
South America	**10.6%**	9.0%	9.4%	11.2%	10.7%
UK & Ireland	**6.0%**	7.2%	6.9%	6.1%	2.0%
Invested capital [4] ($ millions)					
Consolidated	**3,067**	3,591	3,163	2,830	2,797
Canada	**1,819**	2,026	1,675	1,621	1,595
South America	**931**	1,192	1,190	983	996
UK & Ireland	**327**	361	336	250	216
Invested capital turnover [4] (times)					
Consolidated	**1.68**	1.92	2.12	2.09	1.90
Canada	**1.50**	1.81	2.05	1.82	1.70
South America	**1.75**	1.78	1.86	2.09	1.80
UK & Ireland	**2.49**	2.98	3.22	3.56	3.54
Inventory ($ millions)	**1,477**	1,990	2,061	1,708	1,601
Inventory turns (dealership) [4] (times)	**2.79**	2.53	2.68	2.82	2.49
Working capital [4] to net revenue [4]	**28.3%**	27.8%	26.6%	27.4%	30.4%
Free cash flow ($ millions)	**870**	42	78	165	370
Net debt [4] to EBITDA ratio [3][4] (times)	**1.2**	2.1	1.7	1.5	2.5

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

(2) Comparative results prior to 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

(3) Certain of these reported financial metrics have been impacted in some years 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.

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

Adjusted KPIs

KPIs may be impacted by significant items described on pages 5 and 42 - 44 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:

For years ended December 31	**2020**	2019	2018 [1]	2017 (Restated) [1][2]	2016 [1][2]
Adjusted ROIC (%)					
Consolidated	**9.6%**	12.0%	13.5%	13.1%	9.3%
Canada	**10.5%**	14.4%	16.2%	13.2%	9.3%
South America	**12.9%**	10.5%	12.2%	18.1%	15.0%
UK & Ireland	**5.5%**	12.1%	14.2%	12.8%	5.9%
Adjusted EBIT ($ millions)					
Consolidated	**328**	457	446	393	273
Canada	**205**	313	290	224	154
South America	**142**	131	142	186	155
UK & Ireland	**20**	46	51	37	16
Adjusted EBIT as a % of net revenue					
Consolidated	**5.7%**	6.3%	6.4%	6.3%	4.9%
Canada	**7.0%**	8.0%	7.9%	7.3%	5.5%
South America	**7.4%**	5.9%	6.6%	8.7%	8.4%
UK & Ireland	**2.2%**	4.1%	4.4%	3.6%	1.8%
Adjusted EBITDA ($ millions)					
Consolidated	**636**	750	633	577	465
Canada	**390**	487	386	323	254
South America	**225**	212	204	244	217
UK & Ireland	**57**	82	79	63	46
Adjusted EBITDA as a % of net revenue					
Consolidated	**11.0%**	10.3%	9.0%	9.2%	8.3%
Canada	**13.2%**	12.4%	10.5%	10.5%	9.0%
South America	**11.7%**	9.5%	9.4%	11.3%	11.7%
UK & Ireland	**6.5%**	7.2%	6.9%	6.1%	4.8%
Net debt to Adjusted EBITDA ratio (times)	**1.4**	2.0	1.7	1.5	1.9

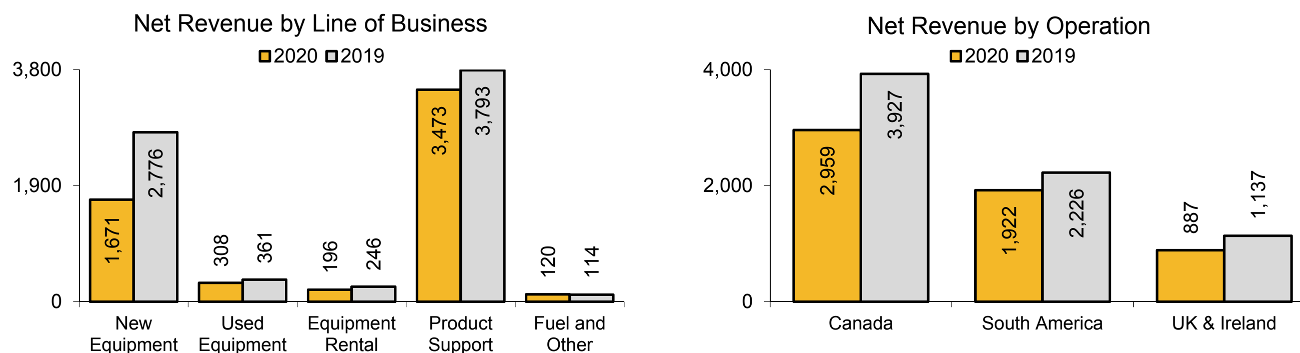
[1] Comparative results prior to 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

[2] Comparative results prior to 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

Annual Results

Revenue

Net Revenue by Line of Business and by Operation
For years ended December 31
($ millions)



Revenue was $6.2 billion in the twelve months ended December 31, 2020 compared to $7.8 billion during 2019. Net revenue of $5.8 billion decreased 21% from the prior year, down in all of our operations due to lower customer demand as a result of volatility in commodity prices and weaker market conditions globally due to COVID-19. The reduction in net revenue was largely driven by lower new equipment sales with a smaller decline in product support due to the resiliency of that line of business.

New equipment revenue in 2020 was 40% lower than the prior year period, down in all operations. The decline in volumes reflected lower capital spending by our customers in 2020 and deliveries of large equipment packages in 2019.

Equipment backlog [(1)] of $0.8 billion at December 31, 2020 was up over 10% from December 31, 2019 and up almost 20% from September 30, 2020. In 2020 order intake [(1)] outpaced equipment deliveries, primarily in UK & Ireland and South America.

Product support revenue in 2020 was 8% lower than 2019, primarily due to lower activity in all operations with some customers reducing equipment utilization and deferring non-essential maintenance.

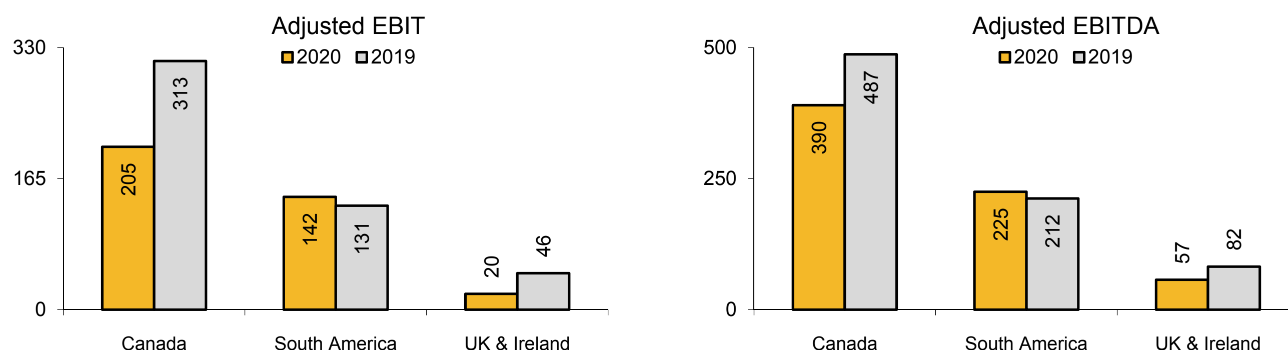
EBIT and EBITDA

Gross profit in 2020 of $1.6 billion was 13% lower than the comparative prior year period largely due to 21% lower net revenues. Overall gross profit as a percentage of net revenue of 27.2% was higher than 2019 primarily due to a higher proportion of product support revenue in all of our operations, which generates higher margins.

SG&A in 2020 was $1.2 billion, 8% lower than the prior year reflecting the benefit of cost reduction initiatives including lower people-related costs due to restructuring initiatives as well as lower travel during the year, strong cost control in all of our operations, and the benefit from the devaluation of the ***CLP*** relative to the USD in the year ended 2020 compared to 2019. This decline was partially offset by higher costs in Canada related to jobs and technical capabilities being preserved during the pandemic with government support programs. Although SG&A decreased, SG&A as a percentage of net revenue was up in all of our operations reflecting the fixed nature of certain SG&A costs on a significantly lower revenue base.

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

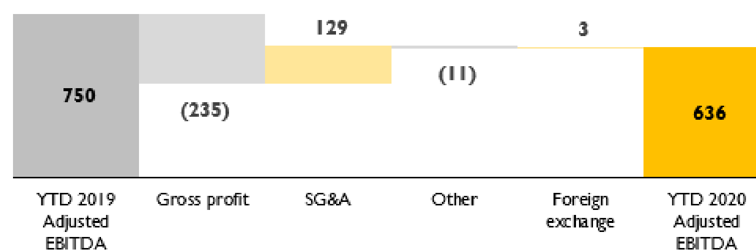
Adjusted EBIT and Adjusted EBITDA by Operation [(1)]
For years ended December 31
($ millions)



(1) Excluding Other operations

EBIT was $392 million and EBIT as a percentage of net revenue was 6.8% in 2020, compared to $425 million and 5.8%, respectively, in 2019. Excluding significant items not indicative of financial and operational trends described on page 5, Adjusted EBIT in 2020 was $328 million and Adjusted EBIT as a percentage of net revenue was 5.7%, lower than $457 million and 6.3%, respectively, in 2019. Lower earnings in Canada and UK & Ireland were partially offset by improved earnings and profitability in South America.

2020 Adjusted EBITDA was $636 million, down from $750 million in 2019. This 15% decrease was primarily due to lower volumes partially offset by lower SG&A. Adjusted EBITDA as a percentage of net revenue of 11.0% increased from 10.3% earned in the prior year. This was largely driven by an improvement in gross profit as a percentage of net revenue in all of our operations, primarily in Canada and South America as a result of a higher mix of product support revenue.



The net debt to Adjusted EBITDA ratio at December 31, 2020 was 1.4 times, down from 2.0 times at December 31, 2019, primarily due to a significant decline in average net debt levels, which reduced more than the decline in Adjusted EBITDA. This ratio remains below our long-term target of < 3.0 times.

Finance Costs

Finance costs for 2020 were $85 million, 21% lower than $107 million in 2019 due to strong free cash flow which contributed to a reduction in average debt levels.

Provision for Income Taxes

The effective income tax rate for 2020 of 24.4% was comparable to 24.0% for 2019.

We expect our 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 we carry on business, sources of income, changes in the estimation of tax reserves, outcomes of any tax audits, or tax rates and tax legislation.

Net Income and Basic EPS

Net income was $232 million and basic EPS was $1.43 in 2020, compared to $242 million and $1.48, respectively, in 2019. Excluding the significant items not indicative of financial and operational trends described on page 5, Adjusted net income in 2020 was $186 million and Adjusted basic EPS was $1.14, lower than $269 million and $1.65, respectively, in 2019. The reduction in 2020 earnings was driven by lower customer demand as a result of volatility in commodity prices and COVID-19.

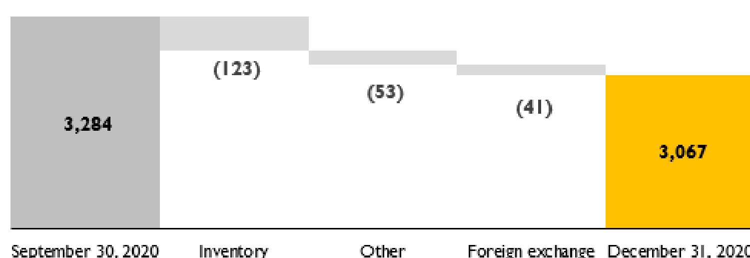
Invested Capital

($ millions, unless otherwise stated)		December 31, 2020		September 30, 2020		(Decrease) Increase from September 30, 2020		December 31, 2019		Decrease from December 31, 2019
Consolidated	**$**	**3,067**	$	3,284	$	(217)	$	3,591	$	(524)
Canada	**$**	**1,819**	$	1,921	$	(102)	$	2,026	$	(207)
South America	**$**	**931**	$	1,035	$	(104)	$	1,192	$	(261)
UK & Ireland	**$**	**327**	$	323	$	4	$	361	$	(34)
South America (USD)	***$***	***731***	*$*	*776*	*$*	*(45)*	*$*	*918*	*$*	*(187)*
*UK & Ireland (**GBP**)*	***£***	***188***	*£*	*188*	*£*	*—*	*£*	*210*	*£*	*(22)*

Compared to September 30, 2020:

The $217 million decrease in consolidated invested capital from September 30, 2020 to December 31, 2020 includes a foreign exchange impact of $41 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 5% stronger CAD relative to the USD at December 31, 2020 compared to September 30, 2020.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $176 million from September 30, 2020 to December 31, 2020 mainly due to a decrease in inventories in all regions, primarily equipment and parts, as a result of strong inventory management.

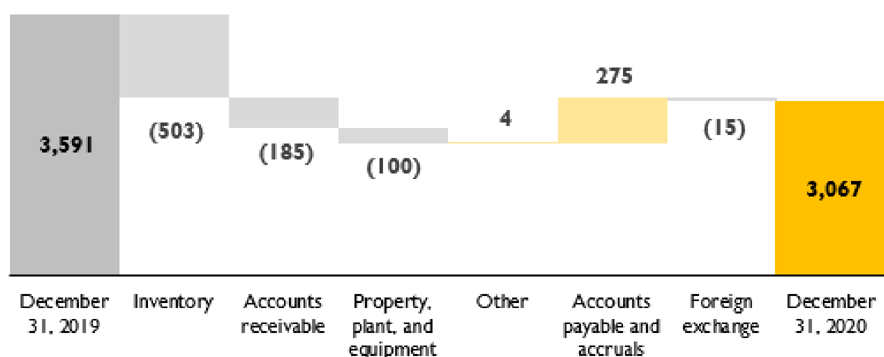


Compared to December 31, 2019:

The $524 million decrease in consolidated invested capital from December 31, 2019 to December 31, 2020 includes a foreign exchange impact of $15 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 2% stronger CAD relative to the USD at December 31, 2020 compared to December 31, 2019.

Excluding the impact of foreign exchange, consolidated invested capital decreased by $509 million from December 31, 2019 to December 31, 2020 reflecting:

- a decrease in inventory levels in all operations, primarily new equipment and parts inventory driven by strong inventory management;
- lower accounts receivable in all regions, primarily due to a decrease in sales activity and strong collections;
- lower capital expenditures on property, plant, and equipment in all regions; partially offset by,
- lower accounts payable, mainly in South America and Canada, from reduced inventory purchases.



Adjusted ROIC and Invested Capital Turnover

	December 31, 2020	September 30, 2020	December 31, 2019
Adjusted ROIC			
Consolidated	**9.6%**	9.3%	12.0%
Canada	**10.5%**	10.8%	14.4%
South America	**12.9%**	11.3%	10.5%
UK & Ireland	**5.5%**	3.9%	12.1%
Invested Capital Turnover (times)			
Consolidated	**1.68**	1.68	1.92
Canada	**1.50**	1.56	1.81
South America	**1.75**	1.67	1.78
UK & Ireland	**2.49**	2.39	2.98

Adjusted ROIC

On a consolidated basis, Adjusted ROIC at December 31, 2020 was lower than December 31, 2019 primarily due to the reduction in Adjusted EBIT for the last twelve-month period outpacing a reduction in average invested capital levels, primarily in our Canadian and UK & Ireland operations. Adjusted ROIC at December 31, 2020 in South America was up 240 basis points from December 31, 2019 due to the generation of higher Adjusted EBIT in the last twelve-month period combined with lower average invested capital levels.

On a consolidated basis, Adjusted ROIC at December 31, 2020 was higher than September 30, 2020, driven by the improvement in Adjusted ROIC in South America and UK & Ireland as Adjusted EBIT for the last twelve-month period increased, combined with the benefit of a reduction in average invested capital levels. In Canada, Adjusted ROIC declined slightly from September 30, 2020 as the reduction in Adjusted EBIT for the last twelve-month period outpaced the reduction in average invested capital levels.

Invested Capital Turnover

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

Consolidated invested capital turnover at December 31, 2020 was comparable with September 30, 2020 with the improvement in South America and UK & Ireland offset by lower invested capital turnover in Canada.

Annual Results by Reportable Segment

We operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets on three continents as described on pages 13 - 17. Our reportable segments are Canada, South America, UK & Ireland, and Other segment.

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

For year ended December 31, 2020 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Net Revenue %**
New equipment	**$ 725**	**$ 426**	**$ 520**	**$ 1,671**	**29%**
Used equipment	**169**	**73**	**66**	**308**	**5%**
Equipment rental	**133**	**37**	**26**	**196**	**4%**
Product support	**1,812**	**1,386**	**275**	**3,473**	**60%**
Fuel and other	**120**	**—**	**—**	**120**	**2%**
Net revenue	**$ 2,959**	**$ 1,922**	**$ 887**	**$ 5,768**	**100%**
Net revenue % by operation	**51%**	**33%**	**16%**	**100%**	

For year ended December 31, 2019 ($ millions)	Canada	South America	UK & Ireland	Consol	Net Revenue %
New equipment	$ 1,375	$ 685	$ 716	$ 2,776	38%
Used equipment	224	47	90	361	5%
Equipment rental	164	47	35	246	3%
Product support	2,054	1,447	292	3,793	52%
Fuel and other	110	—	4	114	2%
Net revenue	$ 3,927	$ 2,226	$ 1,137	$ 7,290	100%
Net revenue % by operation	54%	30%	16%	100%	

Canada Operations

Our Canadian reporting segment includes ***Finning (Canada)***, ***OEM***, a 25% interest in ***PLM***, and 4Refuel since its acquisition on February 1, 2019. Our Canadian operations sell, service, and rent mainly Caterpillar equipment and engines in British Columbia, Alberta, Saskatchewan, the Yukon Territory, 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***. Our Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

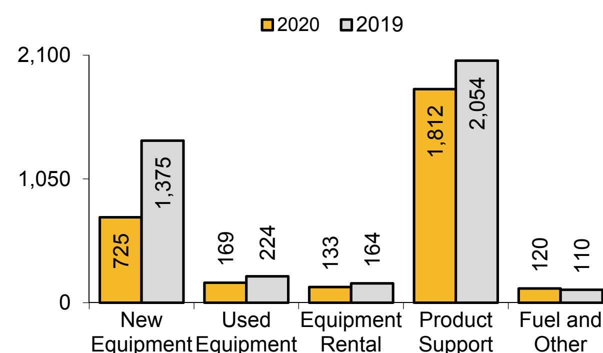
The table below provides details of the results from our Canadian operations:

For years ended December 31 ($ millions)	**2020**	2019
Net revenue	**$ 2,959**	$ 3,927
Operating costs	**(2,572)**	(3,455)
Equity earnings of joint ventures	**3**	15
Other income	**108**	—
Other expenses	**(25)**	(17)
EBITDA	**473**	470
Depreciation and amortization	**(185)**	(174)
EBIT	**$ 288**	$ 296
Adjusted EBITDA	**$ 390**	$ 487
Adjusted EBIT	**$ 205**	$ 313
EBITDA as a % of net revenue	***16.0%***	*12.0%*
EBIT as a % of net revenue	***9.7%***	*7.5%*
Adjusted EBITDA as a % of net revenue	***13.2%***	*12.4%*
Adjusted EBIT as a % of net revenue	***7.0%***	*8.0%*

2020 Annual Overview

2020 net revenue of $3.0 billion was 25% lower than 2019, with challenging market conditions affecting all lines of business as customers were impacted by COVID-19 and low oil prices.

Net Revenue by Line of Business Canadian Operations
For years ended December 31
($ millions)



New equipment revenue was down 47% in 2020 compared to 2019. This decline reflected the impact of COVID-19 and low oil prices on customer purchasing decisions with customers taking cost containment measures, as well as lower demand in gas compression combined with project delays. By contrast, 2019 benefited from deliveries of large, lower margin mining equipment packages to oil sands customers. Equipment backlog at December 31, 2020 was down from December 31, 2019 as deliveries outpaced order intake during the year.

Product support revenue in 2020 was down 12% compared to the same prior year period, as reduced equipment utilization across the mining and construction sectors led to reduced customer spend on parts and service. During the second quarter of the year, some customers temporarily shut down or reduced operations, parked equipment, lowered equipment utilization, and/or deferred major component rebuilds and non-essential maintenance. Product support revenue steadily improved in the second half of 2020 as oil sands producers gradually put their truck fleets back to work and oil sands contractors started to increase activity.

Gross profit in 2020 was lower than 2019, primarily driven by lower revenue across all of our lines of business. Overall gross profit as a percentage of net revenue increased in 2020 compared to 2019 due to a revenue mix shift to product support and improved operating efficiencies.

2020 SG&A was down 8% compared to the prior year, reflecting the benefit of strategies taken to improve employee and facility productivity, as well as strong management of costs. In 2020, we recorded $108 million in wage subsidies under the CEWS program, which allowed us to preserve jobs and technical capabilities in Canada through a unique period of uncertainty. The costs related to retained employees were included in SG&A and offset some of the reductions noted above, and the CEWS benefit was included in other income. SG&A as a percentage of net revenue was up compared to the prior year period driven by certain costs that are fixed or semi-variable in nature combined with higher costs related to retained employees on significantly lower revenues.

Excluding significant items not indicative of financial and operational trends described on page 5, our Canadian operations contributed Adjusted EBITDA of $390 million in 2020, down 20% from the same period in the prior year on 25% lower net revenues. Adjusted EBITDA as a percentage of net revenue in 2020 was 13.2%, higher than the 12.4% in 2019. This increase was driven by higher gross profit as a percentage of net revenue, which was partially offset by higher SG&A as a percentage of net revenue.

South America Operations

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

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

For years ended December 31 ($ millions)	**2020**	2019
Net revenue	**$ 1,922**	$ 2,226
Operating costs	**(1,697)**	(2,017)
Other expenses	**(21)**	(8)
EBITDA	**$ 204**	$ 201
Depreciation and amortization	**(83)**	(81)
EBIT	**$ 121**	$ 120
Adjusted EBITDA	**$ 225**	$ 212
Adjusted EBIT	**$ 142**	$ 131
EBITDA as a % of net revenue	***10.6%***	*9.0%*
EBIT as a % of net revenue	***6.3%***	*5.4%*
Adjusted EBITDA as a % of net revenue	***11.7%***	*9.5%*
Adjusted EBIT as a % of net revenue	***7.4%***	*5.9%*

The weaker CAD relative to the USD on average in 2020 compared to 2019 had a favourable foreign currency translation impact on 2020 net revenue of approximately $20 million and was not significant at the EBITDA level.

All $ figures in this section are in CAD as this is our reporting currency. All variances and ratios in this section are based on the functional currency of our South American operations, which is the USD.

2020 Annual Overview

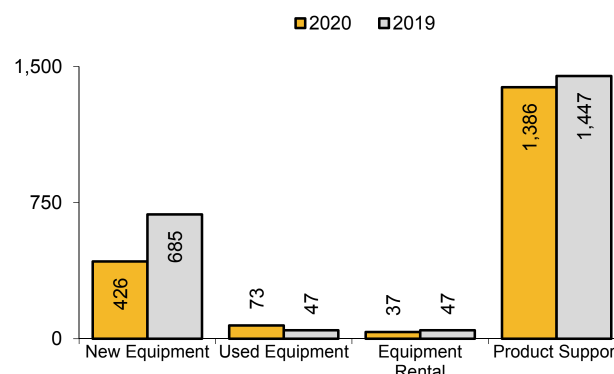
2020 net revenue was 15% lower than 2019. Net revenue declined across most lines of business due to significant COVID-19 related business interruptions.

New equipment revenue in 2020 was 38% lower than 2019, down in all countries. 2019 benefited from deliveries of large equipment packages to construction and mining customers in Chile. Equipment backlog at December 31, 2020 was up 37% from December 31, 2019 as order intake exceeded deliveries through the year. Order intake in 2020 was driven by demand from mining and construction sectors.

Product support revenue in 2020 was down 5% from 2019, primarily in the mining sector in Chile, which was negatively impacted by a slowdown primarily due to COVID-19.

2020 used equipment revenue increased 53% from the prior year driven by sales of surplus used equipment.

Net Revenue by Line of Business
South America Operations
For years ended December 31
($ millions)



Gross profit in 2020 was lower than the same period in the prior year primarily due to lower volumes. Gross profit as a percentage of net revenue in 2020 was higher than 2019 benefitting from a higher proportion of product support revenue.

2020 SG&A was down 13% from 2019 driven by the benefit from the devaluation of the CLP and ARS relative to the USD, lower people-related costs from actions taken to improve employee and facility productivity, strong management of costs, and lower variable costs. 2020 SG&A as a percentage of net revenue increased slightly from 2019.

Excluding significant items not indicative of financial and operational trends described on page 5, 2020 Adjusted EBITDA of $225 million improved from Adjusted EBITDA in 2019 of $212 million. A reduction in gross profit due to lower volumes was more than offset by lower SG&A. 2020 Adjusted EBITDA as a percentage of net revenue of 11.7% improved by 220 basis points from 2019 driven by a higher gross profit as a percentage of net revenue due to a higher proportion of product support revenue as well as the benefit of a lower cost base from leveraging one common technology system.

UK & Ireland Operations

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

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

For years ended December 31 ($ millions)	**2020**	2019
Net revenue	**$ 887**	$ 1,137
Operating costs	**(830)**	(1,055)
Other expenses	**(4)**	—
EBITDA	**$ 53**	$ 82
Depreciation and amortization	**(37)**	(36)
EBIT	**$ 16**	$ 46
Adjusted EBITDA	**$ 57**	$ 82
Adjusted EBIT	**$ 20**	$ 46
EBITDA as a % of net revenue	***6.0%***	*7.2%*
EBIT as a % of net revenue	***1.8%***	*4.1%*
Adjusted EBITDA as a % of net revenue	***6.5%***	*7.2%*
Adjusted EBIT as a % of net revenue	***2.2%***	*4.1%*

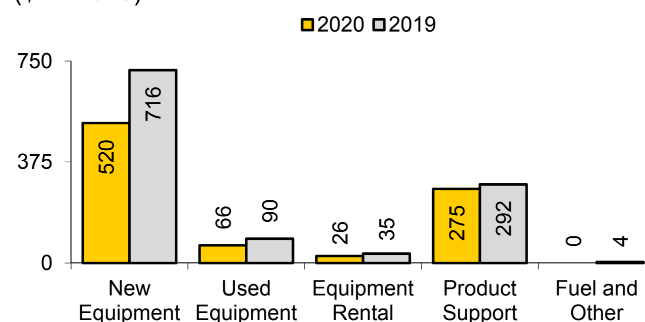
The weaker CAD relative to the GBP on average in 2020 compared to 2019 had a favourable foreign currency translation impact on 2020 net revenue of approximately $15 million and was not significant at the EBITDA level.

All $ figures in this section are in CAD as this is our reporting currency. All variances and ratios in this section are based on the functional currency of our UK & Ireland operations, which is the GBP.

2020 Annual Overview

2020 net revenue was 23% lower than the same period in 2019 as COVID-19 affected market demand. This reduction was across all lines of business.

Net Revenue by Line of Business
UK & Ireland Operations
For years ended December 31
($ millions)



New equipment revenue was 28% lower than 2019, driven primarily by significantly lower deliveries to the construction and power system sectors. Equipment backlog at December 31, 2020 was 30% higher than December 31, 2019 and includes orders from construction customers preparing for ***HS2*** and orders for electric power projects in the power systems sector.

Used equipment revenue in 2020 was 28% lower than 2019, primarily due to lower activity in the construction sector.

2020 gross profit was down compared to 2019 driven by lower sales volumes. Overall gross profit as a percentage of net revenue increased from the prior year reflecting a higher proportion of product support revenue partially offset by lower gross profit margins.

SG&A was down 8% in 2020 compared to 2019 reflecting the benefit of strategies to improve employee productivity, strong cost management, and government support for furloughed employees. SG&A as a percentage of net revenue was higher in 2020 compared to 2019 primarily due to the fixed nature of certain SG&A costs on lower revenues.

2020 Adjusted EBITDA of $57 million and Adjusted EBITDA as a percentage of net revenue of 6.5% were lower than 2019 EBITDA of $82 million and EBITDA as a percentage of net revenue of 7.2%. EBITDA as a percentage of net revenue was lower in 2020 compared to the prior year period primarily due to higher SG&A relative to net revenue.

Other Segment

Our Other segment includes corporate operating costs.

2020 EBITDA of this segment was a loss of $30 million, an improvement from a loss of $35 million in 2019. Excluding $7 million of the CEWS benefit in 2020 and $4 million of costs relating to the acquisition of 4Refuel in 2019, 2020 EBITDA loss was $37 million in 2020 and $31 million in 2019. This increase was primarily due to higher long-term incentive plan expense mainly due to a higher vesting of performance share units in 2020.

Other Developments

Energyst was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, including Finning, decided to restructure the company and convert its rental activities into four separate regional organizations. As part of this restructuring, our interest in Energyst changed from 28.8% to 31.4% and on January 7, 2021, Finning UK & Ireland acquired the Energyst businesses in the UK and Ireland for gross consideration of $15 million (€9 million) and is now the authorized supplier of rental services for Caterpillar power generation in these territories. Other Caterpillar dealers acquired the other three regional organizations. At December 31, 2020, the fair value of Energyst was estimated to be $3 million (€2 million) (2019: $nil) representing the repayment of the outstanding subordinated shareholder loan which was settled on January 7, 2021.

Fourth Quarter Overview

($ millions, except for per share amounts)		Q4 2020		Q4 2019	% change fav (unfav)
Revenue	$	**1,666**	$	1,911	(13)%
Net revenue	$	**1,551**	$	1,757	(12)%
Gross profit	$	**418**	$	428	(2)%
SG&A		**(324)**		(334)	3%
Equity earnings of joint ventures		**—**		3	n/m
Other income		**14**		—	n/m
EBIT	$	**108**	$	97	11%
Net income	$	**72**	$	50	44%
Basic EPS	$	**0.45**	$	0.31	45%
EBITDA	$	**185**	$	170	9%
Free Cash Flow	$	**292**	$	386	(24)%
Adjusted EBIT	$	**94**	$	97	(3)%
Adjusted net income	$	**62**	$	50	24%
Adjusted basic EPS	$	**0.38**	$	0.31	25%
Adjusted EBITDA	$	**171**	$	170	1%
Gross profit as a % of net revenue		***26.9%***		*24.3%*	
SG&A as a % of net revenue		***20.9%***		*19.0%*	
EBIT as a % of net revenue		***6.9%***		*5.5%*	
EBITDA as a % of net revenue		***11.9%***		*9.7%*	
Adjusted EBIT as a % of net revenue		***6.1%***		*5.5%*	
Adjusted EBITDA as a % of net revenue		***11.0%***		*9.7%*	
Adjusted ROIC		***9.6%***		*12.0%*	

Fourth Quarter Highlights

- Q4 2020 revenue was $1.7 billion and Q4 2020 net revenue of $1.6 billion was 12% lower than Q4 2019. This reduction reflected reduced market activity in Canada and South America partially offset by a revenue increase in the UK & Ireland from higher project deliveries to power system customers. Compared to Q3 2020, net revenue increased 7%, with growth in all regions.
- Q4 2020 EBIT was $108 million and EBIT as a percentage of net revenue was 6.9%. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT was $94 million and Adjusted EBIT as a percentage of net revenue was 6.1%, compared to $97 million and 5.5%, respectively in Q4 2019. Q4 2020 Adjusted EBIT was affected by lower market activity resulting in a reduction in gross profit partially offset by lower SG&A, reflecting the successful execution of productivity initiatives and strong management of costs.
- Adjusted EBITDA was $171 million and Adjusted EBITDA as a percentage of net revenue was 11.0% in Q4 2020, compared to $170 million and 9.7%, respectively, in Q4 2019. Q4 2020 Adjusted EBITDA as a percentage of net revenue improved from Q4 2019, as a result of higher profitability in all operations driven by a lower cost base, stable gross profit margins, and the resiliency of our product support business.
- Q4 2020 basic EPS of $0.45 represented a 45% increase from Q4 2019. Excluding significant items not considered indicative of operational and financial trends, Q4 2020 Adjusted basic EPS increased 25% from Q4 2019 on 12% lower net revenue as a result of improved profitability in all of our operations as well as a 40% reduction in our Q4 2020 finance costs due to very strong free cash flow and lower net debt levels. Q4 2020 Adjusted basic EPS was $0.38, representing a 3% increase from Q3 2020.

Fourth Quarter Adjusted Metrics

The significant item that affected our reported results for the three months ended December 31, 2020 which we do not consider to be indicative of operational and financial trends, either by nature or amount, is detailed below.

Q4 2020 significant item:

- CEWS from the Canadian government for eligible entities

3 months ended December 31, 2020 ($ millions, except per share amounts)	EBIT Canada	EBIT South America	EBIT UK & Ireland	EBIT Consol (1)	Net Income Consol (1)	Basic EPS Consol (1)
EBIT, net income, and basic EPS	$ 72	$ 41	$ 11	$ 108	$ 72	$ 0.45
Significant item:						
CEWS support	(13)	—	—	(14)	(10)	(0.07)
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	$ 59	$ 41	$ 11	$ 94	$ 62	$ 0.38

(1) Includes Other segment

There were no significant items identified by management that affected our results for the three months ended December 31, 2019.

Quarterly Key Performance Measures

We utilize the following KPIs to enable consistent measurement of performance across the organization.

	2020				2019				2018 [1]
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC [2] (%)									
Consolidated	**11.4%**	10.7%	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%
Canada	**14.6%**	14.3%	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%
South America	**11.0%**	9.5%	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%
UK & Ireland	**4.5%**	2.9%	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%
EBIT [2] ($ millions)									
Consolidated	**108**	138	52	94	97	129	137	62	91
Canada	**72**	93	63	60	72	82	92	50	71
South America	**41**	40	2	38	31	42	41	6	12
UK & Ireland	**11**	9	(5)	1	5	14	14	13	12
EBIT as a % of net revenue [2]									
Consolidated	**6.9%**	9.6%	3.9%	6.6%	5.5%	7.1%	6.9%	3.6%	4.9%
Canada	**9.3%**	12.8%	8.9%	7.9%	7.4%	8.5%	8.5%	5.5%	7.1%
South America	**8.3%**	8.2%	0.5%	7.8%	6.0%	7.3%	6.5%	1.2%	2.5%
UK & Ireland	**3.7%**	4.1%	(3.2)%	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%
EBITDA [2] ($ millions)									
Consolidated	**185**	215	130	170	170	201	213	134	140
Canada	**119**	141	110	103	114	125	138	93	97
South America	**61**	59	24	60	51	62	62	26	29
UK & Ireland	**20**	18	4	11	15	22	23	22	18
EBITDA as a % of net revenue [2]									
Consolidated	**11.9%**	14.9%	9.7%	11.8%	9.7%	11.1%	10.7%	7.8%	7.6%
Canada	**15.4%**	19.3%	15.6%	13.7%	11.8%	12.8%	12.9%	10.2%	9.7%
South America	**12.2%**	12.2%	5.2%	12.4%	10.0%	10.8%	9.8%	5.2%	5.8%
UK & Ireland	**7.0%**	7.9%	2.7%	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%
Invested Capital ($ millions)									
Consolidated	**3,067**	3,284	3,495	3,883	3,591	3,907	3,964	3,753	3,163
Canada	**1,819**	1,921	2,037	2,093	2,026	2,209	2,285	2,148	1,675
South America	**931**	1,035	1,106	1,330	1,192	1,276	1,287	1,243	1,190
UK & Ireland	**327**	323	349	428	361	416	390	361	336
Invested Capital Turnover (times)									
Consolidated	**1.68**	1.68	1.71	1.83	1.92	1.99	2.04	2.06	2.12
Canada	**1.50**	1.56	1.63	1.75	1.81	1.91	1.95	1.98	2.05
South America	**1.75**	1.67	1.67	1.73	1.78	1.77	1.80	1.78	1.86
UK & Ireland	**2.49**	2.39	2.32	2.60	2.98	3.18	3.27	3.25	3.22
Inventory ($ millions)	**1,477**	1,626	1,893	2,152	1,990	2,215	2,366	2,356	2,061
Inventory Turns (Dealership) (times)	**2.79**	2.30	1.97	2.25	2.53	2.49	2.36	2.46	2.68
Working Capital to Net Revenue	**28.3%**	29.2%	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%
Free Cash Flow ($ millions)	**292**	316	312	(50)	386	165	(162)	(347)	418
Net Debt to EBITDA Ratio [2] (times)	**1.2**	1.6	2.0	2.2	2.1	2.6	3.0	2.9	1.7

[1] Comparative results prior to Q1 2019 have not been restated for our 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 21 of this MD&A.

Adjusted KPIs

KPIs may be impacted by significant items described on pages 5, 19, and 42 - 44 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:

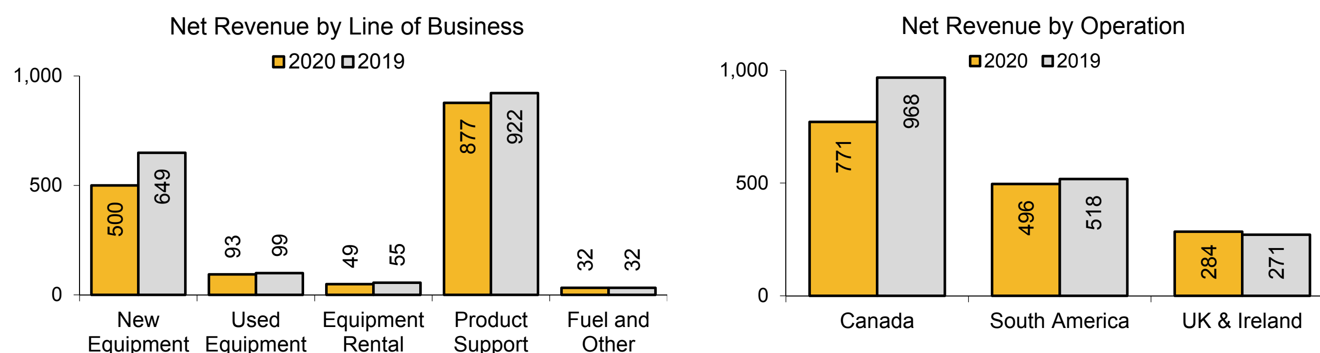
	2020				2019				2018 [(1)]
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted ROIC									
Consolidated	**9.6%**	9.3%	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%
Canada	**10.5%**	10.8%	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%
South America	**12.9%**	11.3%	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%
UK & Ireland	**5.5%**	3.9%	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%
Adjusted EBIT ($ millions)									
Consolidated	**94**	101	39	94	97	132	137	91	91
Canada	**59**	58	28	60	72	82	92	67	71
South America	**41**	40	23	38	31	45	41	14	12
UK & Ireland	**11**	9	(1)	1	5	14	14	13	12
Adjusted EBIT as a % of net revenue									
Consolidated	**6.1%**	7.0%	2.9%	6.6%	5.5%	7.3%	6.9%	5.3%	4.9%
Canada	**7.7%**	8.1%	4.0%	7.9%	7.4%	8.5%	8.5%	7.4%	7.1%
South America	**8.3%**	8.2%	5.1%	7.8%	6.0%	7.8%	6.5%	2.7%	2.5%
UK & Ireland	**3.7%**	4.1%	(1.0)%	0.5%	1.9%	5.1%	4.8%	4.4%	3.7%
Adjusted EBITDA ($ millions)									
Consolidated	**171**	178	117	170	170	204	213	163	140
Canada	**106**	106	75	103	114	125	138	110	97
South America	**61**	59	45	60	51	65	62	34	29
UK & Ireland	**20**	18	8	11	15	22	23	22	18
Adjusted EBITDA as a % of net revenue									
Consolidated	**11.0%**	12.3%	8.8%	11.8%	9.7%	11.2%	10.7%	9.4%	7.6%
Canada	**13.7%**	14.6%	10.6%	13.7%	11.8%	12.8%	12.9%	12.1%	9.7%
South America	**12.2%**	12.2%	9.8%	12.4%	10.0%	11.2%	9.8%	6.7%	5.8%
UK & Ireland	**7.0%**	7.9%	4.9%	5.2%	5.4%	8.3%	7.7%	7.3%	5.7%
Net Debt to Adjusted EBITDA Ratio (times)	**1.4**	1.7	2.1	2.2	2.0	2.5	2.8	2.6	1.7

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

Fourth Quarter Results

Revenue

Net Revenue by Line of Business and by Operation
3 months ended December 31
($ millions)



Revenue was $1.7 billion in the fourth quarter of 2020 and $1.9 billion in Q4 2019. Q4 2020 net revenue of $1.6 billion was 12% lower than Q4 2019, primarily due to a decline in new equipment sales in our Canadian operations. Net revenue was down in Q4 2020 primarily due to lower market activity, which has been recovering since the onset of COVID-19 in March 2020. Compared to Q3 2020, net revenue increased 7%, up in all operations.

Fourth quarter 2020 new equipment revenue was 23% lower than the same prior year period driven by lower demand for new equipment in Canada reflecting challenging market conditions and reduced customer spending across all market sectors. This was partially offset by higher sales to power systems customers in the UK & Ireland. Compared to Q3 2020, new equipment revenue increased 15%, up in our operations in the UK & Ireland and Canada.

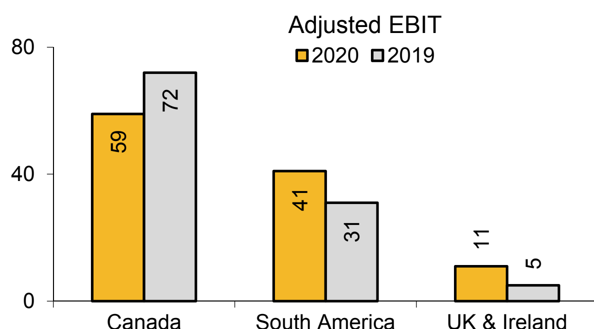
Product support revenue was down 5% in Q4 2020 from the same prior year period, lower in the mining sectors of Canada and South America. We continue to see resiliency of our product support business and have seen a gradual ramp up of customer demand since the outbreak of COVID-19, although industry activity has not yet returned to pre-COVID-19 levels. Q4 2020 product support revenue was up 4% from Q3 2020, higher in our operations in Canada and South America.

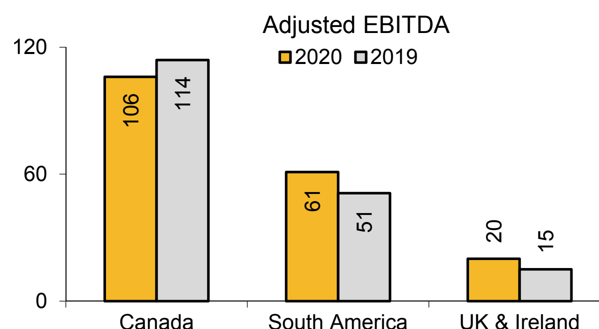
EBIT and EBITDA

Q4 2020 gross profit of $418 million was 2% lower than the same period in the prior year. Overall gross profit as a percentage of net revenue of 26.9% in Q4 2020 was 260 basis points higher than Q4 2019, due to operational improvements in most lines of business and a revenue mix shift to product support revenue (Q4 2020: 57% compared to Q4 2019: 52%).

SG&A in Q4 2020 of $324 million was 3% lower than Q4 2019, driven by the benefit of measures taken to reduce cost to serve and lower discretionary spend, partially offset by higher long-term incentive plan expense. Although SG&A was down compared to Q4 2019, the fixed and semi-variable nature of certain SG&A costs on a much lower revenue base resulted in a 190 basis points increase in SG&A as a percentage of net revenue.

Adjusted EBIT and Adjusted EBITDA by Operation [(1)]
3 months ended December 31
($ millions)

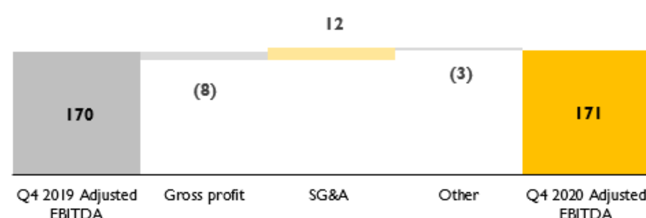




(1) Excluding Other operations

Q4 2020 EBIT was $108 million and EBIT as a percentage of net revenue was 6.9%. Excluding the significant item described on page 19, Q4 2020 Adjusted EBIT was $94 million and Adjusted EBIT as a percentage of net revenue was 6.1%, compared to EBIT and EBIT as a percentage of net revenue of $97 million and 5.5%, respectively, in Q4 2019. Q4 2020 Adjusted EBIT was only slightly below Q4 2019 EBIT on 12% lower net revenue. Adjusted EBIT as a percentage of net revenue increased from the same prior year period, driven by improved profitability in all operations as we benefited from our productivity and efficiency initiatives and strong cost control.

Adjusted EBITDA in Q4 2020 was $171 million, comparable to Q4 2019, with higher earnings in South America and UK & Ireland, partially offset by lower earnings in Canada. Adjusted EBITDA as a percentage of net revenue in Q4 2020 was 11.0%, up 130 basis points from Q4 2019. Adjusted EBITDA as a percentage of net revenue improved in all of our operations.



Finance Costs

Finance costs in Q4 2020 were $18 million, down $12 million from Q4 2019 on lower average debt levels.

Provision for Income Taxes

The effective income tax rate in Q4 2020 was 19.8%, lower than 25.2% in Q4 2019. The lower effective income tax rate in Q4 2020 was due to a higher proportion of earnings from lower tax jurisdictions and a positive revaluation of current and deferred tax balances resulting from the acceleration of a tax rate reduction in Alberta, which was substantively enacted in the quarter.

Net Income and Basic EPS

Net income was $72 million and basic EPS was $0.45 in Q4 2020. Q4 2020 Adjusted net income was $62 million and Adjusted basic EPS was $0.38, higher than $50 million and $0.31, respectively, in Q4 2019. Q4 2020 results were up from Q4 2019 driven by lower finance and tax costs.

The table below provides details of net revenue by operation and lines of business and results by operations.

For 3 months ended December 31, 2020 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consol**	**Net Revenue %**
New equipment	**$ 191**	**$ 115**	**$ 194**	**$ —**	**$ 500**	**32%**
Used equipment	**54**	**23**	**16**	**—**	**93**	**6%**
Equipment rental	**36**	**9**	**4**	**—**	**49**	**3%**
Product support	**458**	**349**	**70**	**—**	**877**	**57%**
Fuel and other	**32**	**—**	**—**	**—**	**32**	**2%**
Net revenue	**$ 771**	**$ 496**	**$ 284**	**$ —**	**$ 1,551**	**100%**
Operating costs	**(665)**	**(435)**	**(264)**	**(16)**	**(1,380)**	
Other income	**13**	**—**	**—**	**1**	**14**	
EBITDA	**$ 119**	**$ 61**	**$ 20**	**$ (15)**	**$ 185**	
Depreciation and amortization	**(47)**	**(20)**	**(9)**	**(1)**	**(77)**	
EBIT	**$ 72**	**$ 41**	**$ 11**	**$ (16)**	**$ 108**	
Net revenue percentage by operation	**50%**	**32%**	**18%**	**—**	**100%**	
Adjusted EBITDA	**$ 106**	**$ 61**	**$ 20**	**$ (16)**	**$ 171**	
Adjusted EBIT	**$ 59**	**$ 41**	**$ 11**	**$ (17)**	**$ 94**	
EBITDA as a % of net revenue	***15.4%***	***12.2%***	***7.0%***		***11.9%***	
EBIT as a % of net revenue	***9.3%***	***8.3%***	***3.7%***		***6.9%***	
Adjusted EBITDA as a % of net revenue	***13.7%***	***12.2%***	***7.0%***		***11.0%***	
Adjusted EBIT as a % of net revenue	***7.7%***	***8.3%***	***3.7%***		***6.1%***	

For 3 months ended December 31, 2019 ($ millions)	Canada	South America	UK & Ireland	Other	Consol	Net Revenue %
New equipment	$ 357	$ 130	$ 162	$ —	$ 649	37%
Used equipment	58	10	31	—	99	6%
Equipment rental	35	11	9	—	55	3%
Product support	487	367	68	—	922	52%
Fuel and other	31	—	1	—	32	2%
Net revenue	$ 968	$ 518	$ 271	$ —	$ 1,757	100%
Operating costs	(857)	(467)	(256)	(10)	(1,590)	
Equity earnings	3	—	—	—	3	
EBITDA	$ 114	$ 51	$ 15	$ (10)	$ 170	
Depreciation and amortization	(42)	(20)	(10)	(1)	(73)	
EBIT	$ 72	$ 31	$ 5	$ (11)	$ 97	
Net revenue percentage by operation	55%	30%	15%	—	100%	
EBITDA as a % of net revenue	*11.8%*	*10.0%*	*5.4%*		*9.7%*	
EBIT as a % of net revenue	*7.4%*	*6.0%*	*1.9%*		*5.5%*	

All variances and ratios in this section are based on the functional currency of each operation (Canada: CAD, South America: USD, UK & Ireland: GBP).

Canada Operations

Q4 2020 net revenue of $771 million was 20% lower than Q4 2019, with challenging market conditions and reduced customer spending across all lines of business. New equipment revenue was down 47% in Q4 2020 compared to Q4 2019, down in all market sectors. By contrast, Q4 2019 revenue included deliveries of large mining equipment packages and power system projects. Product support revenue in Q4 2020 was down 6% compared to the same prior year period, largely driven by lower customer demand in the mining sector. Compared to Q3 2020, net revenue grew 6% driven by improving market activity in the mining sector and power systems deliveries.

Gross profit in Q4 2020 was lower than Q4 2019, mostly driven by lower volumes across all lines of business. Overall gross profit as a percentage of net revenue increased in Q4 2020 compared to Q4 2019 due to a revenue mix shift to product support, less large mining equipment in the sales mix, and improved operating efficiencies.

Q4 2020 SG&A was 7% lower than Q4 2019, reflecting cost savings from improved processes and efficiencies. However, these savings were partially offset by higher service and overhead costs, as new equipment preparation work was down significantly from Q4 2019. We continued to qualify for CEWS, which allowed us to preserve jobs and technical capabilities in Canada. The costs related to retained employees were included in SG&A and the wage subsidy was recorded in other income in Q4 2020. SG&A as a percentage of net revenue was up compared to the prior year period driven by certain costs that are fixed or semi-variable in nature, on significantly lower revenues.

Excluding the $13 million benefit of CEWS, our Canadian operations contributed Adjusted EBITDA of $106 million in Q4 2020, down 7% from the same period in the prior year on 20% lower net revenues. Adjusted EBITDA as a percentage of net revenue in Q4 2020 was 13.7%, higher than the 11.8% in Q4 2019. This increase was driven by higher gross profit as a percentage of net revenue, which was partially offset by higher SG&A as a percentage of net revenue.

South America Operations

Q4 2020 net revenue was down 3% from Q4 2019. Product support revenue in Q4 2020 was down 4% from Q4 2019, primarily in the mining sector in Chile, which was impacted by COVID-19 restrictions on mining operations. New equipment revenue in Q4 2020 was 10% lower than the prior year quarter, reflecting reduced market activity in the construction and power systems sectors in Chile as a result of the pandemic. Equipment backlog at December 31, 2020 was up 41% from September 30, 2020 as order intake, driven by demand in mining and construction sectors, exceeded deliveries. Used equipment revenue more than doubled from the prior year comparable period driven by sales of surplus equipment. Compared to Q3 2020, net revenue is up 6%, primarily product support revenue reflecting a recovery of repair and maintenance work for Chilean mining customers.

Gross profit in Q4 2020 increased from Q4 2019 despite lower volumes. Gross profit as a percentage of net revenue improved in the current period reflecting improved productivity and efficiencies in most lines of business.

Q4 2020 SG&A was down 3% from Q4 2019 driven by the benefit of lower people-related costs from measures taken earlier in 2020 to improve employee productivity, strong cost control, and lower variable costs. Q4 2020 SG&A as a percentage of net revenue was comparable to Q4 2019.

Q4 2020 EBITDA was $61 million, up from Q4 2019 primarily due to the benefit of a lower cost base from leveraging one common technology system and restructuring measures. Q4 2020 EBITDA as a percentage of net revenue of 12.2% was 220 basis points higher than Q4 2019 due to the improvement in gross profit as a percentage of net revenue.

UK & Ireland Operations

Fourth quarter 2020 net revenue was 4% higher than the same period in 2019, largely driven by an 18% increase in new equipment sales, attributable to higher deliveries of power systems projects to the data centre and electricity capacity markets partially offset by lower used equipment sales. Equipment backlog at December 31, 2020 was up 20% from September 30, 2020.

Q4 2020 gross profit was up compared to the same prior year period driven by a shift in equipment product mix to higher margin power system projects and an improvement in the quality of equipment inventory.

SG&A was up 5% in Q4 2020 compared to the prior year period in line with higher volumes, and SG&A as a percentage of net revenue in Q4 2020 was comparable to Q4 2019.

Q4 2020 EBITDA was higher than Q4 2019 primarily driven by higher sales volumes as well as improved profitability and effective cost control. EBITDA as a percentage of net revenue was 7.0%, up from 5.4% in Q4 2019 primarily due to improved gross profit as a percentage of net revenue.

Market Update and Business Outlook

Canada Operations

Oil sands production and capital expenditures are expected to increase in 2021 compared to 2020 in response to strengthened oil prices and the Alberta government's removal of production curtailments. We expect product support activity in the oil sands to continue to improve, with higher fleet utilization driving increased demand for maintenance and rebuilds.

The outlook for copper, precious metals and other metals has improved, supporting increased activity in this mining sector. Diamond mining activity is expected to return to full capacity in the first quarter after selected shut-downs in 2020. We are actively quoting on multiple ***RFP***s for equipment and product support, including projects in the Golden Triangle of British Columbia, which represent significant green-field opportunities. Higher demand for metallurgical coal is expected to be partly offset by lower thermal coal production.

We are well positioned to help our mining customers reduce cost per ton and improve operating efficiencies through initiatives such as autonomy and leveraging our technology solutions. The large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds, autonomy conversions, and continued demand for product support.

We are encouraged by significant infrastructure investments being made in both the public and private sectors. Large fiscal stimulus programs in each province are expected to provide a near-term positive impact on construction activity, including investments in Alberta's light rail projects and British Columbia Highway works. Other planned investments, such as the orphaned well abandonment program in Alberta and irrigation expansion in Alberta and Saskatchewan are expected to support a medium-term growth outlook for the construction sector. The significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021. Cancellation of the Keystone XL pipeline is not expected to have a material impact on our business. We are seeing an increase in order intake for construction equipment. However, in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels. Our focus remains on capturing product support market share in construction sectors by leveraging our technology solutions to strengthen relationships with our customers.

South America Operations

We are optimistic about mining recovery in Chile. A positive long-term outlook for copper, increasing copper production forecasts, and an aging equipment population are expected to drive improved demand for product support and higher RFP activity in Chilean mining. We are actively quoting on multiple opportunities for new mining equipment and autonomy solutions for both brownfield expansions and greenfield projects. We are seeing an increasing commercial momentum for copper and gold mines in Chile and Argentina with significant projects advancing though feasibility studies. According to Cochilco, the Chilean Copper Commission, copper production in Chile is expected to increase to 7.1 million tons by 2029 from 5.8 million tons in 2020. Chile's portfolio of mining projects includes a total investment of USD $74 billion in 49 projects, mainly in copper, gold, iron, lithium, and industrial minerals. Opportunities in the Lithium Triangle region, covering Chile, Argentina, and Bolivia, represent significant growth potential as lithium production is expected to continue increasing rapidly with the transition to electric vehicles.

We expect mining product support revenue to recover in 2021 as customers are ramping up major maintenance work and preparing their equipment fleets to meet increasing production targets. However, COVID-19 related restrictions are expected to continue to limit the capacity of mining operations in the near term. While we have reached agreements with our own unions, we are monitoring the upcoming customer union negotiations closely.

The outlook for a recovery in the Chilean construction industry is positive. The Chilean government announced USD $34 billion of public investment in infrastructure over 2020-2022 to jumpstart the economy. As a result, we expect to see improved activity and strong order intake in the construction and power systems markets in Chile in 2021. Although currently muted, we continue to monitor the potential for social unrest heading into the elections in November 2021.

In Argentina, we expect stability in gold mining and oil and gas, and some recovery in construction activity in 2021. We expect the overall business environment in Argentina to remain challenging, and are actively managing key risks, including ARS devaluation. We are maintaining a minimal level of investment in this region to manage risks and support our customers.

UK & Ireland Operations

A new trade deal between the UK and the European Union reached in December 2020 is expected to remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European market. We have completed significant planning ahead of the ***Brexit*** leave date in conjunction with Caterpillar to mitigate potential supply chain risks, and we are well positioned to meet our customer needs. Economic activity in the UK & Ireland continues to be affected by COVID-19 mitigation measures. However, since we provide services to industries that are deemed essential, we do not anticipate the latest lockdowns to impact the sectors we serve in a material way.

The outlook for general construction equipment markets in the UK is positive, driven by the HS2 project and the government's investment in other infrastructure initiatives to support the economy. After some delays, we expect a strong ramp-up in HS2 construction activity in 2021. Our backlog at December 31, 2020 includes some initial equipment orders related to HS2, and we expect to start delivering equipment to this project in Q2 2021.

We expect continued strong demand for our power systems solutions, particularly in the data centre market, with the timing of project deliveries expected to be phased towards the second half of 2021.

Improved Earnings Capacity in a Recovery

Our overall outlook for 2021 remains positive. Led by strong recoveries in Chile and the UK, we expect revenue growth in 2021, however remaining below 2019 levels. COVID-19 mitigation measures are expected to continue impacting our business in the first quarter of 2021. We are seeing some restrictions at construction sites in Canada and our mining customers in Chile are currently operating at reduced capacity.

The execution of our global cost initiatives is on track to deliver more than $100 million of annualized cost savings. Our goal is to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle.

In 2021, we expect to benefit from several profitability drivers, including operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle SG&A target, and effective allocation of capital. Assuming an undisrupted market recovery and the successful execution of our profitability drivers, we expect 2021 earnings to exceed 2019.

We will be making strategic capital investments in our Canadian facility network and our digital capabilities in 2021, and expect our net capital expenditures and net rental fleet additions to be in the $170 million to $210 million range this year, dependent on the pace of market recovery.

We expect to deliver strong annual free cash flow in 2021. However, with increased inventory purchases, our EBITDA to free cash flow conversion is projected to be modestly below 50% for the year.

Liquidity and Capital Resources

We assess liquidity in terms of our ability to generate sufficient cash flow, along with other sources of liquidity including cash and borrowings, to fund operations and growth. Liquidity is affected by operating, investing, and financing activities.

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

($ millions)	3 months ended December 31			Years ended December 31		
	2020	2019	(Decrease) Increase	**2020**	2019	Increase (Decrease)
Operating activities	**$ 317**	$ 438	$ (121)	**$ 962**	$ 191	$ 771
Investing activities	**$ (32)**	$ (52)	$ 20	**$ (99)**	$ (378)	$ 279
Financing activities	**$ (173)**	$ (361)	$ 188	**$ (573)**	$ 23	$ (596)
Free cash flow	**$ 292**	$ 386	$ (94)	**$ 870**	$ 42	$ 828

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

	Quarter over Quarter	Year over Year
Operating activities	• lower collections due to reduced sales volumes, across all of our operations • partially offset by lower spend, mainly in Canada and South America, due to lower demand as well as strong inventory and cost management	• lower inventory spend, primarily equipment and parts, across all of our operations mainly driven by strong inventory management • the receipt of government wage subsidies primarily in Canada • partially offset by lower collections due to reduced sales volumes in all our operations
Investing activities	• lower net spend on capital expenditures	• $229 million net cash consideration paid to acquire 4Refuel in 2019 • lower net spend on capital expenditures
Financing activities	• approximately $120 million repayment of short-term debt in Q4 2020 compared to approximately $300 million in 2019	• approximately $130 million repayment of short-term debt in 2020 compared with approximately $75 million increase in short-term borrowings in 2019 • repayment of $200 million long-term debt in 2020 compared with approximately $200 million increase in long-term borrowings in 2019
Free cash flow	• lower cash generated from operating activities for the reasons outlined above	• higher cash generated from operating activities for the reasons outlined above

Capital resources and management

Our cash and cash equivalents balance at December 31, 2020 was $539 million (December 31, 2019: $268 million). At December 31, 2020, to complement internally generated funds from operating and investing activities, we had approximately $2.6 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 as well as an additional $500 million committed revolving credit facility for general corporate purposes, of which approximately $1.7 billion was available at December 31, 2020. We are subject to certain covenants as it relates to our committed revolving credit facilities and were in compliance with these covenants as at December 31, 2020.

We are closely evaluating the impact of COVID-19 on our business and are adapting and adjusting daily to changes. We continuously monitor actual and forecasted cash flows, manage the maturity profiles of our financial liabilities and maintain committed and uncommitted credit facilities. We believe that based on cash on hand, available credit facilities and the discretionary nature of certain cash flows, such as rental and capital expenditures, we have sufficient liquidity to meet operational needs.

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

Finning is rated [(1)] by both ***DBRS*** and ***S&P***:

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

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

In August 2020, DBRS reconfirmed Finning's BBB (high) long-term rating and R-2 (high) commercial paper rating both with stable trends.

During the first quarter of 2020, we repurchased 1,215,617 common shares for $23 million (at costs ranging from $12.15 to $22.22 per share and an average cost of $19.25 per share) through an ***NCIB*** [(2)]. During 2019, we repurchased 1,073,354 common shares for $27 million (at costs ranging from $23.17 to $26.37 per share and an average cost of $24.75 per share). We ceased repurchases under our NCIB upon the onset of the COVID-19 pandemic.

Net Debt to Adjusted EBITDA

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

December 31	**Finning long-term target**	**2020**	2019
Net debt to Adjusted EBITDA ratio (times)	**< 3.0**	**1.4**	2.0

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

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

Contractual Obligations

Payments on contractual obligations in each of the next five years and thereafter are as follows:

($ millions)	2021	2022	2023	2024	2025	Thereafter	Total
Short-term debt	$ 92	$ —	$ —	$ —	$ —	$ —	$ 92
Long-term debt	250	232	157	220	24	753	1,636
Leases	92	73	51	37	26	55	334
Total contractual obligations	$ 434	$ 305	$ 208	$ 257	$ 50	$ 808	$ 2,062

The above table does not include obligations to fund pension benefits. We make regular contributions to our registered defined benefit pension plans in Canada and the UK in order to fund the pension obligations as required. Funding levels are monitored regularly and reset with new actuarial funding valuations at least every three years. In 2020, we contributed $14 million towards the defined benefit pension plans. Based on the most recent valuations completed, we expect to contribute approximately $11 million to the defined benefit pension plans during the year ended December 31, 2021.

Capital and Rental Expenditures

Our net spend on capital expenditures and rental fleet additions during the year ended December 31, 2021 is expected to be in the range of $170 million to $210 million depending on the pace of market recovery. These are planned, but not legally committed expenditures and include strategic capital investments in our Canadian facility network, our digital capabilities, and rental fleet additions.

Employee Share Purchase Plans

We have employee share purchase plans for our Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of Finning in the open market at the then current market price. We pay a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2020, approximately 73%, 78% and 3% of eligible employees in our Corporate, Canadian and South American operations, respectively, were contributing to these plans.

We also have an All Employee Share Purchase Ownership Plan for our employees in Finning UK & Ireland. Under the terms of this plan, we provide one common share, purchased in the open market, for every three shares purchased by Finning (UK) employees and for every one share purchased by Finning (Ireland) employees. Finning (UK) employees may contribute from £10 to £150 of their salary per month. At December 31, 2020, approximately 30% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 to €70 of their salary per month. At December 31, 2020, approximately 14% of eligible employees in Finning (Ireland) were contributing to this plan.

We may cancel these plans at any time.

Accounting and Estimates

We employ professionally qualified accountants throughout our finance group globally and all of our operating unit financial officers report directly to our ***CFO***. Senior financial representatives are assigned to all significant projects that impact financial accounting and reporting. Policies are in place to ensure completeness and accuracy of reported transactions. Key transaction controls are in place, and there is a segregation of duties between transaction initiation, processing, and cash receipt or disbursement. Accounting, measurement, valuation, and reporting of accounts, which involve estimates and/or valuations, are reviewed quarterly by the CFO, the ***SVP***, Corporate Controller, and the ***Audit Committee***. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee.

Management's discussion and analysis of our financial condition and results of operations is based on our Annual Financial Statements, which have been prepared in accordance with IFRS. Our significant accounting policies are contained in the notes to the Annual Financial Statements for the year ended December 31, 2020. 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. We have discussed the development, selection, and application of our key accounting policies, and the critical accounting estimates and assumptions involved, with the Audit Committee.

The critical estimates and judgments involved in preparing our Annual Financial Statements for the year ended December 31, 2020 were:

- determination of the functional currency of each entity of Finning;
- revenues and costs associated with long-term product support contracts and complex power and energy systems;
- revenues and costs associated with the sale of assets with repurchase commitments or rental equipment with purchase options;
- allowance for doubtful accounts;
- the fair value of derivative financial instruments;
- inputs to the models to determine the fair value of certain share-based payments;
- provisions for slow-moving and obsolete inventory;
- provisions for income tax;
- the useful lives and residual values of property, plant, and equipment, rental equipment, and intangible assets;
- the determination of lease term;
- identifying the ***CGU*** to which assets should be allocated for impairment testing;
- recoverable values for goodwill and other indefinite-lived intangible assets;
- provisions for warranty; and,
- the determination of post-employment benefits.

For additional information on the above judgments, estimates, and assumptions made, please refer to the notes to the Annual Financial Statements for the year ended December 31, 2020.

Goodwill and intangible assets with indefinite lives

We perform impairment tests on goodwill and intangible assets with indefinite lives at the appropriate level (CGU or group of CGUs). These impairment tests are performed at least annually or more frequently when events or changes in circumstances indicate that their value may not be fully recoverable. Any potential goodwill or intangible asset impairment is identified by comparing the recoverable amount of the CGU to its carrying value. If the recoverable amount of the CGU exceeds its carrying value, goodwill and/or the intangible asset are considered not to be impaired. If the recoverable amount of the CGU is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in the consolidated statement of income. Impairment losses recognized for goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exists or may have decreased, the recoverable value of the CGU is estimated. Indicators of a recovery may include sustainable improvement of the economic performance of the CGU and positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of an impairment loss is recognized immediately in the consolidated statement of net income.

The recoverable amount of each CGU was estimated using a discounted cash flow model. The process of determining these recoverable amounts requires estimates and assumptions including, but not limited to, future cash flows, growth projections, associated economic risk assumptions and estimates of key operating metrics and drivers, and ***WACC*** rates. Cash flow projections are based on financial budgets approved by our ***Board***. Projected cash flows are discounted using WACC rates. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The annual impairment tests were completed to support April 1, 2020 net asset values. In addition to testing CGUs or groups of CGUs with goodwill or distribution network, recent economic uncertainty and financial performance triggered an impairment review of our Argentina CGU. No impairment losses were identified in these annual impairment tests. At December 31, 2020, we reviewed recent cash flow projections (which incorporate the potential impact of COVID-19) and macro-economic conditions (including key assumptions used in WACC rates) and did not identify any indicators of impairment. Based on this review, we concluded there were no impairments of our CGUs at December 31, 2020. Also, we reviewed if there was any indication that the circumstances leading to the previously recognized impairment loss on our indefinite-lived intangible asset no longer existed or may have decreased. No reversal of impairment losses was considered appropriate at December 31, 2020 and 2019. Refer to note 21 in the Annual Financial Statements for further details.

Income tax asset or liability

Estimations of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities changes from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes which could have a material effect on expected results.

Judgment is required as income tax laws and regulations can be complex and are potentially subject to a different interpretation between us and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which we operate, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return or from any subsequent re-assessment.

Financial Instruments

Cash and cash equivalents, accounts receivable, unbilled receivables, supplier claims receivable, and instalment and other notes receivable are classified and measured at amortized cost using the effective interest method.

Derivative financial instruments are classified and measured at fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for the effective changes in fair value related to derivative financial instruments which are designated as hedging instruments, which are recognized in other comprehensive income.

Short-term and long-term debt, accounts payable and accruals, and lease liabilities are classified and measured at amortized cost using the effective interest method.

Related Party Transactions

Related party transactions incurred in the normal course of business between us and our subsidiaries have been eliminated on consolidation and are not considered material for disclosure. Information on our wholly owned subsidiaries and the main countries in which they operate is contained in note 2 of the Annual Financial Statements. Compensation of key management personnel is disclosed in note 28 of the Annual Financial Statements.

New Accounting Pronouncements

The adoption of recent amendments to accounting standards and new IFRS had no impact on our financial position. For more details on recent changes in accounting policy, please refer to note 2 of our Annual Financial Statements. Future accounting pronouncements and effective dates are also contained in note 2 of our Annual Financial Statements.

Risk Factors and Management

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

We maintain a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, a Board level committee reviews our 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. This review is 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 our AIF, MD&A, and financial statements on a quarterly and annual basis. All key financial risks are disclosed in our MD&A and other key business risks are disclosed in our AIF. For more information on our financial instruments, including accounting policies, description of financial risks, and relevant financial risk sensitivities, please refer to note 8 of the Annual Financial Statements.

Pandemic Outbreak and Impact on Financial Results

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

The outbreak of COVID-19 has caused and continues to cause 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 we supply. In 2020, some of our customers requested to delay equipment deliveries as a result of their halted operations, parked equipment fleets, or delayed projects, and some equipment orders were also cancelled. These effects had a significant negative effect on our 2020 financial results.

Similarly, our financial results could continue to be negatively impacted by the actions taken by governments, customers, and/or suppliers, including business disruptions, customer credit risk, force majeure, and/or supply chain constraints in response to the ongoing pandemic, and uncertainty remains as to the severity and duration of any resulting adverse impact on our business, results of operations, and financial condition. For instance, 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 our customers. To date we have not experienced any material negative impacts on our supply of Caterpillar products due to the pandemic. Further, as a result of COVID-19, many governments made wage subsidy programs available for eligible entities who meet qualifying criteria and provided other relief programs, such as rent subsidy or tax deferral programs. There can be no assurance that these programs will be effective in adequately supporting us or our customers in the intended manner. In particular, to the extent that any of our customers are dependent upon these programs, the modification or cessation of these programs could increase our risk of customer credit default, with a resulting negative impact on our results. The extent, duration and availability of government support programs is highly uncertain and cannot be predicted with confidence at this time.

Our operations and the operations of many of our customers have been deemed essential services during the pandemic and have remained open. 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 our major facilities or the facilities of our customers. We are following the requirements and advice of government and health authorities in each jurisdiction where we operate. We eliminated non-critical travel during the peak of the pandemic in 2020 and are taking a cautious approach to relaxing travel restrictions, in line with these requirements and advice. We have applied a risk-based approach to assessing each facility in our global operations. A series of preventative measures have been developed and executed at each facility that at a 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 continue to change and further government intervention or quarantine restrictions could impede our ability to continue to manage the business.

In light of these ongoing uncertainties, we continue to evaluate and adapt our business plans as the situation evolves. This has included implementing numerous new tools, technologies, training and security monitoring and detection services to mitigate the heightened risk of experiencing a cybersecurity incident due to the increase in employees working remotely. We are also continuing to manage costs in line with expected changes in business activity levels in each region.

The extent to which COVID-19 continues to affect our business will depend on future events which are highly uncertain and cannot be predicted, including the geographic spread and duration of the pandemic, actions taken by governmental authorities in response to the pandemic, and the impacts on global and regional markets, our customers, suppliers and contracts. As a result, no assurance can be given as of the date of this MD&A as to the potential impact that COVID-19 may have on our business, results of operations, cash flows and financial condition. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in the Risk Factors and Management section of this MD&A and in our AIF, which may also have an adverse material impact on our future operating and financial results.

Commodity Prices

We are affected by fluctuations in the prices of commodities, such as copper, gold, and other metals, metallurgical coal, natural gas, oil, and lumber. We provide 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, particularly in regions with resource-based economies. In Canada, our customers, mostly in the oil sands in Northern Alberta, are exposed to the price of oil. In South America, our 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, our resource sector customers operate in off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on our financial results.

In periods of significantly lower commodity prices, demand is reduced as development of new projects is slowed or stopped and production from existing projects can be curtailed, leading to less demand for equipment. However, product support growth has been, and is expected to continue to be, important in mitigating the effects of downturns in the business cycle. Alternatively, if commodity prices rapidly increase, customer demand for our products and services could increase and apply pressure on our ability to supply the products or skilled technicians on a timely and cost-efficient basis. To assist in mitigating the impacts of fluctuations in demand for our products and services, management works closely with Caterpillar to achieve an adequate and timely supply of product and has implemented human resources recruiting strategies to achieve adequate staffing levels.

Financial Instruments Risk

We are exposed to risks through our operations that arise from the use of financial instruments, which include credit risk and liquidity risk. Under the normal course of operations, we have mitigation strategies to minimize these risks. In the current economic climate, we have heightened exposure to these risks.

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of our cash and cash equivalents, receivables from customers, receivables from suppliers, and derivative assets.

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

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

The COVID-19 pandemic has resulted in significant disruptions in financial markets, regional economies, and the world economy. It is likely that the pandemic will continue to adversely affect the economies, financial markets, and social stability of many regions and countries in which our customers operate. There can be no assurance that these disruptions will not negatively affect the financial performance of our customers and our ability to collect customer receivables. The extent and duration of the impact of the COVID-19 pandemic on our customers is unknown at this time. This will depend on future developments and the availability of government support programs, all of which are highly uncertain and cannot be predicted with confidence. As a result, credit risk exposure related to our accounts receivable has increased in 2020 but to mitigate this risk, management worked closely with customers with liquidity constraints throughout 2020. No assurance can be given that our provision for potential losses on customer receivables will be sufficient or that we will not suffer material credit losses that will adversely affect our results. This remains an area that we will continue to monitor closely.

We are exposed to risk on supplier claims receivable, primarily from Caterpillar, with whom we have had an ongoing relationship since 1933.

We have credit exposure arising from our derivative instruments relating to counterparties defaulting on their obligations. However, we minimize this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A- from S&P and/or A3 by Moody's and/or A- by Fitch and/or A (low) by DBRS.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our approach to managing liquidity is to ensure, as far as possible, that we will have sufficient liquid financial resources to fund operations and meet commitments and obligations. We maintain uncommitted bilateral and committed revolving credit facilities, continuously monitor actual and forecast cash flows, and manage maturity profiles of financial liabilities. Based on the availability of credit facilities, our business operating plans, and the discretionary nature of some cash outflows, such as rental and capital expenditures, we believe we continue to have sufficient liquidity to meet operational needs.

We will require capital to finance future growth and to refinance outstanding debt obligations as they come due for repayment. If the cash generated from our operations is not sufficient to fund future capital and debt repayment requirements, we will require additional debt or equity financing in the capital markets. Our ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as our financial condition. Further, our ability to increase the level of debt financing may be limited by financial covenants or credit rating objectives. The outbreak of COVID-19 globally has caused and continues to cause considerable disruptions in the world economy, including financial markets and commodity prices and could adversely impact our ability to carry out our 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 our control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

Market Risk and Hedging

Market risk is the risk that changes in the market, such as foreign exchange rates and interest rates, will affect our net income or the fair value of our financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

We utilize derivative financial instruments and foreign currency debt in order to manage our foreign currency and interest rate exposures. We use derivative financial instruments only in connection with managing related risk positions and do not use them for trading or speculative purposes. All such transactions are carried out within the guidelines set by us and approved by the Audit Committee. For more information on our accounting policy on financial instruments, please refer to note 8 of the Annual Financial Statements.

Foreign Exchange Risk

We are geographically diversified, with significant investments in several different countries. We transact business in multiple currencies, the most significant of which are the CAD, USD, GBP, CLP, and ARS. The functional currency of our South American operations is USD and the functional currency of our UK & Ireland operations is primarily GBP (Finning Ireland's functional currency is the Euro). As a result, we have foreign currency exposure with respect to items denominated in foreign currencies. Our main types of foreign exchange risk can be categorized as follows:

Translation Exposure

The most significant foreign exchange impact on our net income and other comprehensive income is the translation of foreign currency based earnings and net assets or liabilities into CAD, which is our presentation currency. Our South American and UK & Ireland operations have functional currencies other than the CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. We do not hedge our exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of our South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is our objective to manage this exposure. We hedged a portion of our foreign investments with foreign currency denominated loans. The currency translation loss of $20 million recorded in 2020 resulted primarily from the 2% stronger CAD relative to the USD partially offset by the 1% weaker CAD relative to the GBP at December 31, 2020 compared to December 31, 2019. This was partially offset by a $10 million unrealized foreign exchange gain on net investment hedges.

Transaction Exposure

Many of our operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect our profitability as exchange rates fluctuate. For example, our Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases that are made in USD and the ultimate sale to customers made in CAD. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. We apply hedge accounting to hedges of certain inventory purchases and new equipment sales in our Canadian and UK operations, respectively.

The results of our operations are impacted by the translation of foreign-denominated transactions; the results of our Canadian operations are impacted by USD based revenue and costs and the results of our South American operations are impacted by CLP and ARS based revenues and costs.

We are also exposed to foreign currency risks related to the future cash flows of our foreign-denominated financial assets and financial liabilities and foreign-denominated net asset or net liability positions on our statement of financial position. We enter into forward exchange contracts to manage some mismatches in foreign currency cash flows but do not fully hedge balance sheet exposure, so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The CAD has historically been positively correlated to certain commodity prices. In a scenario of declining commodity prices, our resource industry customers may curtail capital expenditures and decrease production which can result in reduced demand for equipment, parts, and services. At the same time, the weaker CAD to USD positively impacts our financial results when USD based revenues and earnings are translated into CAD reported revenues and earnings, although lags may occur.

The results of our South American operations are affected by changes in the USD/CLP and USD/ARS relationships. Historically, the CLP has been positively correlated to the price of copper. As the price of copper declines, the value of the CLP versus the USD declines as well. In such an environment, our revenue may be impacted as mining customers curtail their equipment and product support spend. Our SG&A in South America, which is largely denominated in local currency, is reduced when translated into USD, partly offsetting the impact on revenue. The reverse holds true in an environment where the copper price strengthens, although generally there is a lag between the increase in SG&A and the improvement in revenue. These impacts are partially offset by our hedging programs.

Our competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of our competitors.

Key exchange rates that impacted our results were as follows:

Exchange rate	December 31			3 months ended December 31 – average			12 months ended December 31 – average		
	2020	2019	Change	**2020**	2019	Change	**2020**	2019	Change
USD/CAD	**1.2732**	1.2988	2 %	**1.3030**	1.3200	1 %	**1.3415**	1.3269	(1)%
GBP/CAD	**1.7381**	1.7174	(1)%	**1.7206**	1.6994	(1)%	**1.7199**	1.6945	(2)%
USD/CLP	**711.24**	744.62	4 %	**761.70**	753.41	(1)%	**791.84**	700.61	(13)%
USD/ARS	**84.15**	59.89	(41)%	**79.96**	59.34	(35)%	**69.82**	46.77	(49)%

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

Interest Rate Risk

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

We are exposed to changes in interest rates on our interest-bearing financial assets. Our floating-rate financial assets comprise cash and cash equivalents. Due to the short-term nature of cash and cash equivalents, the impact of fluctuations in fair value is limited but interest income earned can be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

We are exposed to changes in interest rates on our interest-bearing financial liabilities, primarily from short-term and long-term debt. Our debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to 2042. Our floating rate debt is short term in nature and, as a result, we are exposed to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of our fixed rate debt obligations fluctuates with changes in interest rates, but absent early settlement, related cash flows do not change. We are exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

We manage our interest rate risk by balancing our portfolio of fixed and floating rate debt, as well as managing the term to maturity of our debt portfolio.

Share-Based Payment Risk

Share-based payment plans are an integral part of our employee compensation program and can be in the form of our common shares or cash payments that reflect the value of our shares and the extent we are able to achieve or exceed specified performance levels. Share-based payment plans are accounted for at fair value, and the expense associated with these plans can therefore vary as our share price, share price volatility, performance, and employee exercise behaviour change. For further details on our share-based payment plans, please refer to note 11 of the Annual Financial Statements.

Contingencies and Guarantees

Due to the size, complexity, and nature of our operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, incomplete factual records and uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on our financial position or results of operations.

We began to export an agricultural animal feed product from Argentina in the third quarter of 2012 in response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency. These exports enabled us to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. We have not exported agricultural animal feed product from Argentina since the third quarter of 2013.The Argentina Customs Authority has made a number of claims against us associated with the export of this agricultural product over this period and has also issued an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. We are appealing these claims and the order, believe they are without merit, and are confident in our position. Mitigation measures are also available to us. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from our assessment and the mitigation measures not be effective, this could result in a material negative impact on our financial position.

We enter into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase or trade-in of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2020, the total estimated value of these contracts outstanding was $139 million (2019: $148 million) coming due at periods ranging from 2021 to 2026. Our experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price or trade-in amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2020 and 2019 was $1 million.

For further information on our contingencies, commitments, guarantees, and indemnifications, refer to notes 29 and 30 of the notes to the Annual Financial Statements.

Outstanding Share Data

As at February 5, 2021	
Common shares outstanding	162,108,691
Options outstanding	3,675,318

Controls and Procedures Certification

Disclosure Controls and Procedures

We are responsible for establishing and maintaining a system of controls and procedures over the public disclosure of our financial and non-financial information. 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 our disclosure controls and procedures in order to provide reasonable assurance that material information relating to Finning and its consolidated subsidiaries is made known to them in a timely manner.

We have 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 our 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

We are responsible for establishing and maintaining adequate internal control over financial reporting. We have designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. In March 2020, we instituted remote work arrangements for the majority of our finance workforce due to the COVID-19 pandemic. Although this has continued through subsequent financial close periods, there has been no change in the design of our internal control over financial reporting during the year ended December 31, 2020 that would materially affect, or is reasonably likely to materially affect, our internal control over financial reporting. We have taken additional steps to ensure key financial internal controls remained in place during the financial reporting period and these controls were completed electronically.

Regular involvement of our 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 our officers have designed our 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.

Evaluation of Effectiveness

As required by National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* issued by the Canadian securities regulatory authorities, an evaluation of the design and testing of the effectiveness of the operation of the Company's disclosure controls and procedures and internal control over financial reporting was conducted as of December 31, 2020, by and under the supervision of management. In making the assessment of the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, we used the criteria set forth by the ***COSO*** in *Internal Control – Integrated Framework (2013 edition)*. The evaluation included documentation review, enquiries, testing, and other procedures considered by us to be appropriate in the circumstances.

Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures and internal control over financial reporting were effective as of December 31, 2020.

Description of Non-GAAP Financial Measures and Reconciliations

Non-GAAP Financial Measures

We believe that providing certain non-GAAP financial measures provide users of our MD&A and consolidated financial statements with important information regarding the operational performance and related trends of our 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) we believe that users are provided a better overall understanding of our business and financial performance during the relevant period than if they simply considered the IFRS financial measures alone.

We use KPIs to consistently measure performance against our priorities across the organization. KPIs, including those that are expressed as ratios, are non-GAAP financial measures.

There may be significant items that we do not consider indicative of our operational and financial trends, either by nature or amount. We exclude these items when evaluating our operating financial performance. These items may not be non-recurring, but we believe that excluding these significant items from GAAP results provides a better understanding of our 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 us 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 our consolidated financial statements (GAAP measures) can be found on pages 42 - 50 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 our underlying business performance. The tax impact of each significant item is calculated by applying the relevant applicable tax rate for the jurisdiction in which the significant item occurred.

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

A reconciliation between net income and basic EPS (the most directly comparable GAAP measure) and Adjusted net income and Adjusted basic EPS can be found on pages 5 and 19 of this MD&A.

EBITDA, Adjusted EBITDA, and Adjusted EBIT

EBITDA is defined as earnings before finance costs, income taxes, depreciation, and amortization. We use EBITDA to assess and evaluate the financial performance of our reportable segments. We believe 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 our 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 our consolidated operations for the last nine quarters and years ended December 31, 2018, 2017, and 2016 is as follows:

3 months ended	**2020**				2019				2018	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2018	2017	2016
EBIT [(1)(2)]	**108**	138	52	94	97	129	137	62	91	423	392	165
Depreciation and amortization [(1)]	**77**	77	78	76	73	72	76	72	49	187	184	192
EBITDA [(1)(2)]	**185**	215	130	170	170	201	213	134	140	610	576	357
EBITDA – last 12 months [(1)(2)]	**700**	685	671	754	718	688	629	587	610	610	576	357
EBIT	**108**	138	52	94	97	129	137	62	91	423	392	165
Significant items:												
CEWS support	**(14)**	(37)	(64)	—	—	—	—	—	—	—	—	—
Severance costs	**—**	—	42	—	—	2	—	18	—	—	5	41
Facility closures, restructuring costs, and impairment losses	**—**	—	9	—	—	1	—	7	—	—	—	36
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	4	—	—	—	—
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	30	—	—
Impact from Alberta wildfires												
– insurance proceeds	**—**	—	—	—	—	—	—	—	—	(7)	(4)	—
– unavoidable costs	**—**	—	—	—	—	—	—	—	—	—	—	11
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	**—**	—	—	—	—	—	—	—	—	—	—	20
Gain on investment	**—**	—	—	—	—	—	—	—	—	—	—	(5)
Loss on sale of non-core business	**—**	—	—	—	—	—	—	—	—	—	—	5
Adjusted EBIT [(1)(2)]	**94**	101	39	94	97	132	137	91	91	446	393	273
Depreciation and amortization [(1)]	**77**	77	78	76	73	72	76	72	49	187	184	192
Adjusted EBITDA [(1)(2)]	**171**	178	117	170	170	204	213	163	140	633	577	465
Adjusted EBIT – last 12 months [(1)(2)]	**328**	331	362	460	457	451	442	431	446	446	393	273
Adjusted EBITDA – last 12 months [(1)(2)]	**636**	635	661	757	750	720	688	646	633	633	577	465

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Canadian operations for the last nine quarters and years ended December 31, 2018, 2017, and 2016 is as follows:

3 months ended	**2020**				2019				2018 [1]	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2018	2017	2016
EBIT [1][2]	**72**	93	63	60	72	82	92	50	71	297	225	87
Significant items:												
CEWS support	**(13)**	(35)	(60)	—	—	—	—	—	—	—	—	—
Severance costs	**—**	—	20	—	—	—	—	10	—	—	3	24
Facility closures, restructuring costs, and impairment losses	**—**	—	5	—	—	—	—	7	—	—	—	32
Impact from Alberta wildfires												
– insurance proceeds	**—**	—	—	—	—	—	—	—	—	(7)	(4)	—
– unavoidable costs	**—**	—	—	—	—	—	—	—	—	—	—	11
Adjusted EBIT [1][2]	**59**	58	28	60	72	82	92	67	71	290	224	154
Depreciation and amortization [1]	**47**	48	47	43	42	43	46	43	26	96	99	100
Adjusted EBITDA [1][2]	**106**	106	75	103	114	125	138	110	97	386	323	254
Adjusted EBIT – last 12 months [1][2]	**205**	218	242	306	313	312	308	293	290	290	224	154

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our South American operations for the last nine quarters and years ended December 31, 2018, 2017, and 2016 is as follows:

3 months ended	**2020**				2019				2018	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2018	2017	2016
EBIT [1][2]	**41**	40	2	38	31	42	41	6	12	142	184	137
Significant items:												
Severance costs	**—**	—	17	—	—	2	—	8	—	—	2	8
Facility closures, restructuring costs, and impairment losses	**—**	—	4	—	—	1	—	—	—	—	—	—
Estimated loss on alleged fraudulent activity by a customer	**—**	—	—	—	—	—	—	—	—	—	—	10
Adjusted EBIT [1][2]	**41**	40	23	38	31	45	41	14	12	142	186	155
Depreciation and amortization [1]	**20**	19	22	22	20	20	21	20	17	62	58	62
Adjusted EBITDA [1][2]	**61**	59	45	60	51	65	62	34	29	204	244	217
Adjusted EBIT – last 12 months [1][2]	**142**	132	137	155	131	112	104	110	142	142	186	155

[1] Comparative results prior to Q1 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

[2] Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our UK & Ireland operations for the last nine quarters and years ended December 31, 2018, 2017, and 2016 is as follows:

3 months ended	**2020**				2019				2018	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2018	2017	2016
EBIT [1][2]	**11**	9	(5)	1	5	14	14	13	12	51	37	(12)
Significant items:												
Severance costs	**—**	—	4	—	—	—	—	—	—	—	—	9
Facility closures and restructuring costs	**—**	—	—	—	—	—	—	—	—	—	—	4
Power systems project provisions and estimated loss on disputes	**—**	—	—	—	—	—	—	—	—	—	—	10
Disposal of business	**—**	—	—	—	—	—	—	—	—	—	—	5
Adjusted EBIT [1][2]	**11**	9	(1)	1	5	14	14	13	12	51	37	16
Depreciation and amortization [1]	**9**	9	9	10	10	8	9	9	6	28	26	30
Adjusted EBITDA [1][2]	**20**	18	8	11	15	22	23	22	18	79	63	46
Adjusted EBIT – last 12 months [1][2]	**20**	14	19	34	46	53	54	54	51	51	37	16

[1] Comparative results prior to Q1 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

[2] Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

EBITDA to Free Cash Flow Conversion

EBITDA to free cash flow conversion is calculated as free cash flow (defined and calculated on page 45) divided by EBITDA (defined and calculated on pages 41 - 42). We use EBITDA to free cash flow conversion to assess our efficiency in turning EBITDA into cash.

Equipment Backlog and Order Intake

Our 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. We use 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 our Annual Financial Statements. We use 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	**2020**				2019				2018	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2018	2017	2016
Cash flow provided by (used in) operating activities [(1)]	**317**	340	319	(14)	438	204	(127)	(324)	490	260	283	440
Additions to property, plant, and equipment and intangible assets [(1)]	**(34)**	(26)	(17)	(38)	(54)	(40)	(37)	(23)	(77)	(201)	(121)	(92)
Proceeds on disposal of property, plant, and equipment [(1)]	**9**	2	10	2	2	1	2	—	5	19	3	22
Free cash flow [(1)]	**292**	316	312	(50)	386	165	(162)	(347)	418	78	165	370
Free cash flow – last 12 months [(1)]	**870**				42				78	78	165	370

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

Inventory Turns (Dealership)

Inventory turns (dealership) is the number of times our dealership inventory is sold and replaced over a period. We use this metric to measure 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:

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Cost of sales (3 months ended) [(1)(2)]	**1,248**	1,163	1,075	1,140	1,483	1,500	1,655	1,380	1,429	1,299	1,111
Cost of sales related to mobile refueling operations (3 months ended)	**(129)**	(124)	(95)	(133)	(168)	(156)	(156)	(99)	—	—	—
Cost of sales related to the dealership (3 months ended) [(1)(2)]	**1,119**	1,039	980	1,007	1,315	1,344	1,499	1,281	1,429	1,299	1,111
Inventory [(2)]	**1,477**	1,626	1,893	2,152	1,990	2,215	2,366	2,356	2,061	1,708	1,601
Fuel inventory	**(3)**	(2)	(2)	(3)	(3)	(3)	(3)	(3)	—	—	—
Inventory related to the dealership [(2)]	**1,474**	1,624	1,891	2,149	1,987	2,212	2,363	2,353	2,061	1,708	1,601
Cost of sales related to the dealership – annualized [(1)(2)]	**4,319**	4,039	3,973	4,644	5,317	5,686	5,559	5,420	5,470	4,862	4,150
Inventory related to the dealership – 2 quarter average [(2)]	**1,549**	1,757	2,020	2,068	2,099	2,287	2,359	2,208	2,039	1,726	1,663
Inventory turns (dealership) (number of times) [(1)(2)]	**2.79**	2.30	1.97	2.25	2.53	2.49	2.36	2.46	2.68	2.82	2.49

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. We use invested capital as a measure of the total cash investment made in Finning and in each reportable segment. We use 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:

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Cash and cash equivalents	**(539)**	(453)	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(458)	(593)
Short-term debt	**92**	217	158	329	226	532	751	658	154	18	2
Current portion of long-term debt	**201**	200	200	200	200	200	—	—	—	—	—
Long-term debt	**1,107**	1,136	1,348	1,381	1,318	1,325	1,321	1,341	1,354	1,296	1,487
Net debt	**861**	1,100	1,368	1,650	1,476	1,805	1,912	1,709	1,054	856	896
Shareholders' equity [(1)(2)]	**2,206**	2,184	2,127	2,233	2,115	2,102	2,052	2,044	2,109	1,974	1,901
Invested capital [(1)(2)]	**3,067**	3,284	3,495	3,883	3,591	3,907	3,964	3,753	3,163	2,830	2,797

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

Invested Capital Turnover

We use invested capital turnover to measure the efficiency of our invested capital and is calculated as net revenue (defined and calculated on page 48) for the last twelve months divided by invested capital (defined and calculated on page 46) based on an average of the last four quarters, as follows:

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Consolidated											
Net revenue – last 12 months [1][2]	**5,768**	5,974	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,256	5,628
Invested capital – 4 quarter average [1][2]	**3,432**	3,563	3,719	3,836	3,804	3,697	3,578	3,427	3,295	2,993	2,960
Invested capital turnover (number of times) [1][2]	**1.68**	1.68	1.71	1.83	1.92	1.99	2.04	2.06	2.12	2.09	1.90
Canada											
Net revenue – last 12 months [1][2]	**2,959**	3,156	3,406	3,775	3,927	3,964	3,896	3,729	3,674	3,072	2,821
Invested capital – 4 quarter average [1][2]	**1,967**	2,019	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,690	1,656
Invested capital turnover (number of times) [1][2]	**1.50**	1.56	1.63	1.75	1.81	1.91	1.95	1.98	2.05	1.82	1.70
South America											
Net revenue – last 12 months [1][2]	**1,922**	1,944	2,042	2,199	2,226	2,217	2,198	2,123	2,170	2,157	1,857
Invested capital – 4 quarter average [1][2]	**1,100**	1,166	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,032	1,030
Invested capital turnover (number of times) [1][2]	**1.75**	1.67	1.67	1.73	1.78	1.77	1.80	1.78	1.86	2.09	1.80
UK & Ireland											
Net revenue – last 12 months [1][2]	**887**	874	902	1,036	1,137	1,194	1,217	1,193	1,152	1,027	950
Invested capital – 4 quarter average [1][2]	**357**	365	389	399	382	376	373	368	358	288	268
Invested capital turnover (number of times) [1][2]	**2.49**	2.39	2.32	2.60	2.98	3.18	3.27	3.25	3.22	3.56	3.54

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 46) divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. We use these ratios to assess operating leverage and ability to repay debt. These ratios approximate the length of time, in years, that it would take us to repay debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Net debt	**861**	1,100	1,368	1,650	1,476	1,805	1,912	1,709	1,054	856	896
EBITDA – last 12 months [1][2]	**700**	685	671	754	718	688	629	587	610	576	357
Adjusted EBITDA – last 12 months [1][2]	**636**	635	661	757	750	720	688	646	633	577	465
Net debt to EBITDA ratio [1][2]	**1.2**	1.6	2.0	2.2	2.1	2.6	3.0	2.9	1.7	1.5	2.5
Net debt to Adjusted EBITDA ratio [1][2]	**1.4**	1.7	2.1	2.2	2.0	2.5	2.8	2.6	1.7	1.5	1.9

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

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 our Canadian operations. As these fuel costs are pass-through in nature for this business, we view 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 our control.

Prior to 2019, net revenue from all operations was the same as total revenue and our 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 our South American and UK & Ireland operations, net revenue is the same as total revenue.

We use these measures, including KPIs and ratios, to assess and evaluate the financial performance or profitability of our reportable segments. We 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 our underlying business performance.

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

3 months ended	**2020**				2019				2018	Annual				
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	**2020**	2019	2018	2017	2016
Total revenue [1][2]	**1,666**	1,553	1,419	1,558	1,911	1,959	2,137	1,810	1,842	**6,196**	7,817	6,996	6,256	5,628
Cost of fuel	**(115)**	(110)	(84)	(119)	(154)	(140)	(142)	(91)	—	**(428)**	(527)	—	—	—
Net revenue [1][2]	**1,551**	1,443	1,335	1,439	1,757	1,819	1,995	1,719	1,842	**5,768**	7,290	6,996	6,256	5,628
Gross profit [1][2]	**418**	390	344	418	428	459	482	430	413	**1,570**	1,799	1,768	1,654	1,473
Gross profit as a % of net revenue [1][2]	***26.9%***	*27.0%*	*25.7%*	*29.1%*	*24.3%*	*25.3%*	*24.1%*	*25.0%*	*22.4%*	***27.2%***	*24.7%*	*25.3%*	*26.4%*	*26.2%*
SG&A [1][2]	**324**	290	306	325	334	333	350	343	324	**1,245**	1,360	1,327	1,271	1,280
SG&A as a % of net revenue [1][2]	***20.9%***	*20.1%*	*22.9%*	*22.6%*	*19.0%*	*18.3%*	*17.5%*	*20.0%*	*17.6%*	***21.6%***	*18.7%*	*19.0%*	*20.3%*	*22.7%*
EBITDA [1][2]	**185**	215	130	170	170	201	213	134	140	**700**	718	610	576	357
EBITDA as a % of net revenue [1][2]	***11.9%***	*14.9%*	*9.7%*	*11.8%*	*9.7%*	*11.1%*	*10.7%*	*7.8%*	*7.6%*	***12.1%***	*9.9%*	*8.7%*	*9.2%*	*6.3%*
Adjusted EBITDA [1][2]	**171**	178	117	170	170	204	213	163	140	**636**	750	633	577	465
Adjusted EBITDA as a % of net revenue [1][2]	***11.0%***	*12.3%*	*8.8%*	*11.8%*	*9.7%*	*11.2%*	*10.7%*	*9.4%*	*7.6%*	***11.0%***	*10.3%*	*9.0%*	*9.2%*	*8.3%*
EBIT [1][2]	**108**	138	52	94	97	129	137	62	91	**392**	425	423	392	165
EBIT as a % of net revenue [1][2]	***6.9%***	*9.6%*	*3.9%*	*6.6%*	*5.5%*	*7.1%*	*6.9%*	*3.6%*	*4.9%*	***6.8%***	*5.8%*	*6.0%*	*6.3%*	*2.9%*
Adjusted EBIT [1][2]	**94**	101	39	94	97	132	137	91	91	**328**	457	446	393	273
Adjusted EBIT as a % of net revenue [1][2]	***6.1%***	*7.0%*	*2.9%*	*6.6%*	*5.5%*	*7.3%*	*6.9%*	*5.3%*	*4.9%*	***5.7%***	*6.3%*	*6.4%*	*6.3%*	*4.9%*

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

ROIC and Adjusted ROIC

ROIC is defined as EBIT for the last twelve months divided by invested capital (calculated on page 46) based on an average of the last four quarters, expressed as a percentage.

We view 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. We 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 our underlying business performance.

ROIC and Adjusted ROIC are calculated as follows:

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Consolidated											
EBIT – last 12 months [(1)(2)]	**392**	381	372	457	425	419	383	372	423	392	165
Adjusted EBIT – last 12 months [(1)(2)]	**328**	331	362	460	457	451	442	431	446	393	273
Invested capital – 4 quarter average [(1)(2)]	**3,432**	3,563	3,719	3,836	3,804	3,697	3,578	3,427	3,295	2,993	2,960
ROIC [(1)(2)]	**11.4%**	10.7%	10.0%	11.9%	11.2%	11.3%	10.7%	10.8%	12.8%	13.1%	5.6%
Adjusted ROIC [(1)(2)]	**9.6%**	9.3%	9.7%	12.0%	12.0%	12.2%	12.3%	12.5%	13.5%	13.1%	9.3%
Canada											
EBIT – last 12 months [(1)(2)]	**288**	288	277	306	296	295	291	276	297	225	87
Adjusted EBIT – last 12 months [(1)(2)]	**205**	218	242	306	313	312	308	293	290	224	154
Invested capital – 4 quarter average [(1)(2)]	**1,967**	2,019	2,091	2,153	2,167	2,079	1,999	1,888	1,795	1,690	1,656
ROIC [(1)(2)]	**14.6%**	14.3%	13.3%	14.2%	13.7%	14.2%	14.5%	14.6%	16.6%	13.3%	5.3%
Adjusted ROIC [(1)(2)]	**10.5%**	10.8%	11.6%	14.2%	14.4%	15.0%	15.4%	15.5%	16.2%	13.2%	9.3%
South America											
EBIT – last 12 months [(1)(2)]	**121**	111	113	152	120	101	96	102	142	184	137
Adjusted EBIT – last 12 months [(1)(2)]	**142**	132	137	155	131	112	104	110	142	186	155
Invested capital – 4 quarter average [(1)(2)]	**1,100**	1,166	1,226	1,271	1,250	1,249	1,223	1,195	1,169	1,032	1,030
ROIC [(1)(2)]	**11.0%**	9.5%	9.3%	11.9%	9.6%	8.1%	7.9%	8.6%	12.2%	17.8%	13.3%
Adjusted ROIC [(1)(2)]	**12.9%**	11.3%	11.2%	12.2%	10.5%	9.0%	8.5%	9.2%	12.2%	18.1%	15.0%
UK & Ireland											
EBIT – last 12 months [(1)(2)]	**16**	10	15	34	46	53	54	54	51	37	(12)
Adjusted EBIT – last 12 months [(1)(2)]	**20**	14	19	34	46	53	54	54	51	37	16
Invested capital – 4 quarter average [(1)(2)]	**357**	365	389	399	382	376	373	368	358	288	268
ROIC [(1)(2)]	**4.5%**	2.9%	3.7%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	12.8%	(4.5)%
Adjusted ROIC [(1)(2)]	**5.5%**	3.9%	4.6%	8.4%	12.1%	14.1%	14.5%	14.8%	14.2%	12.8%	5.9%

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

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). We view 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. We use this KPI to assess the efficiency in our use of working capital to generate net revenue.

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

	2020				2019				2018	2017	2016
($ millions, except as noted)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Total current assets [1][2]	**3,214**	3,261	3,416	3,828	3,659	3,959	4,217	4,187	3,924	3,531	3,378
Cash and cash equivalents	**(539)**	(453)	(338)	(260)	(268)	(252)	(160)	(290)	(454)	(458)	(593)
Total current assets in working capital [1][2][3]	**2,675**	2,808	3,078	3,568	3,391	3,707	4,057	3,897	3,470	3,073	2,785
Total current liabilities [1][2]	**1,623**	1,717	1,735	2,112	2,026	2,331	2,584	2,574	1,992	1,545	1,233
Short-term debt	**(92)**	(217)	(158)	(329)	(226)	(532)	(751)	(658)	(154)	(18)	(2)
Current portion of long-term debt	**(201)**	(200)	(200)	(200)	(200)	(200)	—	—	—	—	—
Total current liabilities in working capital [1][2][4]	**1,330**	1,300	1,377	1,583	1,600	1,599	1,833	1,916	1,838	1,527	1,231
Working capital	**1,345**	1,508	1,701	1,985	1,791	2,108	2,224	1,981	1,632	1,546	1,554
Working capital – 4 quarter average [1][2]	**1,635**	1,746	1,896	2,026	2,026	1,986	1,950	1,878	1,859	1,712	1,709
Net revenue – last 12 months [1][2]	**5,768**	5,974	6,350	7,010	7,290	7,375	7,311	7,045	6,996	6,256	5,628
Working capital to net revenue [1][2]	**28.3%**	29.2%	29.9%	28.9%	27.8%	26.9%	26.7%	26.7%	26.6%	27.4%	30.4%

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

(2) Comparative results prior to Q1 2017 have not been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

(3) Excluding cash and cash equivalents.

(4) Excluding short-term debt and current portion of long-term debt.

Selected Annual Information

($ millions, except for share and option data)	2020	2019	2018 [1]
Revenue from operations			
Canada [2]	**$ 3,387**	$ 4,454	$ 3,674
South America	**1,922**	2,226	2,170
UK & Ireland	**887**	1,137	1,152
Total revenue	**$ 6,196**	$ 7,817	$ 6,996
Net income [2][3]	**$ 232**	$ 242	$ 232
Earnings Per Share [2][3]			
Basic EPS	**$ 1.43**	$ 1.48	$ 1.38
Diluted EPS	**$ 1.43**	$ 1.48	$ 1.38
Total assets [2]	**$ 5,458**	$ 5,990	$ 5,696
Long-term debt			
Current	**$ 201**	$ 200	$ —
Non-current	**1,107**	1,318	1,354
Total long-term debt [4]	**$ 1,308**	$ 1,518	$ 1,354
Cash dividends declared per common share	**$ 0.82**	$ 0.815	$ 0.79

[1] Comparative results prior to 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

[2] In February 2019, Finning 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 in 2020, 2019, and 2018 were impacted by the following significant items:

($ millions except per share amounts)	2020	2019	2018
CEWS support	**$ (115)**	$ —	$ —
Severance costs	**42**	20	—
Facility closures, restructuring costs, and impairment losses	**9**	8	—
Acquisition costs related to 4Refuel	**—**	4	—
Write-off and loss related to Energyst	**—**	—	30
Insurance proceeds from Alberta wildfires	**—**	—	(7)
Impact of significant items on EBIT	**$ (64)**	$ 32	$ 23
Significant items impacting EBIT - impact on basic EPS	**$ (0.29)**	$ 0.15	$ 0.15
Significant items impacting net income only - impact on basic EPS:			
Tax impact of devaluation of ARS [a]	**$ —**	$ 0.02	$ 0.12
Impact of significant items on basic EPS:	**$ (0.29)**	$ 0.17	$ 0.27

[a] Tax impact of devaluation of ARS in 2019 ($4 million) and 2018 ($20 million).

[4] In July 2020, we settled our 3.232%, $200 million note which was due July 3, 2020.

In April 2020, we secured an additional $500 million committed revolving credit facility, which provides further financial flexibility and liquidity. This facility has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions of the existing $1.3 billion committed revolving credit facility.

In December 2019, we amended the credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024.

In August 2019, we 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 our syndicated committed credit facility.

Selected Quarterly Information

($ millions, except for share, per share, and option amounts)	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Revenue from operations								
Canada [1]	**$ 886**	$ 838	$ 789	$ 874	$ 1,122	$ 1,118	$ 1,216	$ 998
South America	**496**	479	469	478	518	577	626	505
UK & Ireland	**284**	236	161	206	271	264	295	307
Total revenue	**$ 1,666**	$ 1,553	$ 1,419	$ 1,558	$ 1,911	$ 1,959	$ 2,137	$ 1,810
Net income [1][2]	**$ 72**	$ 88	$ 18	$ 54	$ 50	$ 76	$ 88	$ 28
Earnings Per Share [1][2]								
Basic EPS	**$ 0.45**	$ 0.54	$ 0.12	$ 0.33	$ 0.31	$ 0.46	$ 0.54	$ 0.17
Diluted EPS	**$ 0.44**	$ 0.54	$ 0.12	$ 0.33	$ 0.31	$ 0.46	$ 0.54	$ 0.17
Total assets [1]	**$ 5,458**	$ 5,535	$ 5,716	$ 6,255	$ 5,990	$ 6,253	$ 6,473	$ 6,459
Long-term debt								
Current	**$ 201**	$ 200	$ 200	$ 200	$ 200	$ 200	$ —	$ —
Non-current	**1,107**	1,136	1,348	1,381	1,318	1,325	1,321	1,341
Total long-term debt [3]	**$ 1,308**	$ 1,336	$ 1,548	$ 1,581	$ 1,518	$ 1,525	$ 1,321	$ 1,341
Cash dividends paid per common share	**20.5¢**	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.0¢
Common shares outstanding (000's)	**162,107**	162,104	162,104	162,104	163,319	163,310	163,310	163,310
Options outstanding (000's)	**3,683**	3,760	3,758	3,353	3,416	3,547	3,550	3,055

(1) In February 2019, Finning 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.

(2) Results were impacted by the following significant items:

($ millions except per share amounts)	2020 Q4	2020 Q3	2020 Q2	2019 Q3	2019 Q1
CEWS support	**$ (14)**	$ (37)	$ (64)	$ —	$ —
Severance costs	**—**	—	42	2	18
Facility closures, restructuring costs, and impairment losses	**—**	—	9	1	7
Acquisition costs related to 4Refuel	**—**	—	—	—	4
Impact of significant items on EBIT [a]	**$ (14)**	$ (37)	$ (13)	$ 3	$ 29
Significant items impacting EBIT - impact on basic EPS [b]	**$ (0.07)**	$ (0.17)	$ (0.06)	$ 0.01	$ 0.13
Significant items impacting net income only - impact on basic EPS [b]:					
Tax impact of devaluation of ARS [c]	**—**	—	—	0.02	—
Impact of significant items on basic EPS [b]:	**$ (0.07)**	$ (0.17)	$ (0.06)	$ 0.03	$ 0.13

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

(3) In July 2020, we settled our 3.232%, $200 million note which was due July 3, 2020.

In April 2020, we secured an additional $500 million committed revolving credit facility, which provides further financial flexibility and liquidity. This facility has a term of two years, can be used for general corporate purposes, and has substantially the same terms and conditions of the existing $1.3 billion committed revolving credit facility.

In December 2019, we amended the credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024.

In August 2019, we 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 our committed revolving credit facility.

Forward-Looking Information Disclaimer

This report contains information about our business outlook, objectives, plans, strategic priorities and other statements that is not historical fact. Information is forward-looking when we use what we know and expect today to give information about the future. Forward-looking information 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 information in this report includes, but is not limited to, the following: we are positioned well for an economic recovery; expected results from execution of our strategic framework, including our global strategic priorities, strategic pillars, and strategic focus areas; our resilient business model, improving execution, financial flexibility, and cost and capital discipline will serve us well as markets recover and position us for opportunities that lie ahead; our effective tax rate will generally be within the 25-30% range on an annual basis; our outlook for our Canadian operations, including: oil sands production and capital expenditures are expected to increase in 2021 compared to 2020, expected continued improvement in product support activity in the oil sands, with higher fleet utilization driving increased demand for maintenance and rebuilds (all assuming sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments); expected return of diamond mining to full capacity in the first quarter after selected shut-downs in 2020 (assumed based on the improved outlook for copper and precious and other metals); that the Golden Triangle of British Columbia represents significant greenfield opportunities (assumed based on quoting activity for RFPs for equipment and product support); higher demand for metallurgical coal is expected to be offset by lower thermal coal production; the large and aging mining equipment population in Western Canada is expected to drive opportunities for future fleet renewals, rebuilds and autonomy conversions, and continued demand for product support; large fiscal stimulus and public and private infrastructure programs in Alberta, British Columbia and Saskatchewan are expected to provide near-term and medium-term positive impact and growth in the construction sector; significant private sector investment in LNG and power sectors will continue to provide opportunities for equipment, product support, heavy rentals, and prime and standby electric power generation in 2021; and in the near term, COVID-19 mitigation measures are expected to continue impacting activity levels; our outlook for our South America operations, including we are optimistic about mining recovery in Chile; our expectation that the positive long-term outlook for copper, increasing copper production forecasts, and aging equipment population will drive improved demand for product support and higher RFP activity in Chilean mining; increasing commercial momentum for copper and gold mines in Chile and Argentina (assuming positive outcomes of feasibility studies for significant projects in progress); significant growth potential from opportunities in the Lithium Triangle as lithium production is expected to continue increasing rapidly with the transition to electronic vehicles; our expectation that mining product support revenue will to recover in 2021 as customers resume major maintenance work and prepare their equipment fleets to meet increasing production targets; that COVID-19 related restrictions will continue to limit the capacity of mining operations; our positive outlook for recovery in the Chilean construction industry, including our expectation for improved activity and stronger order intake in the construction and power systems markets in Chile in 2021; and, in Argentina, our expectation for stability in gold mining and oil and gas, and some recovery in construction activity in 2021, and that Argentina will remain challenging; our outlook for our UK and Ireland operations, including: our expectation that the trade deal between the UK and the European Union reached in December 2020 will remove uncertainty in our end markets, with no additional tariffs imposed and continued access to the single European market and that we are well positioned to meet our customer needs given the significant planning ahead of the Brexit leave date in conjunction with Caterpillar to mitigate potential supply chain risks; our expectation that the latest lockdowns will not materially impact the sectors we served (assumed the industries we serve will continue to be deemed essential and not covered by the lockdown orders); our positive outlook for general construction equipment markets in the UK; our expectation of a strong ramp-up in HS2 construction activity in 2021 and that we will start delivering equipment to the HS2 project in Q2 2021; and our expectation for continued strong demand for our power systems solutions, particularly in the data centre market, with project deliveries expected to be phased towards the second half of 2021; statements regarding our improved earnings capacity in a recovery, including: our overall positive outlook for 2021 and expected revenue growth in 2021 (assuming strong recoveries particularly in Chile and the UK), however remaining below 2019 levels; our expectation that COVID-19 mitigation measures will continue impacting our business in the first quarter of 2021; that our global cost initiatives are on track to deliver more than $100 million of annualized cost savings; our goal to reduce SG&A as a percentage of net revenue to about 17% in mid-cycle; our expectation to benefit in 2021 from profitability drivers, including: operating leverage in a recovering market, product support growth in all regions, significant progress towards our mid-cycle goal of 17% SG&A as a percentage of net revenue, and effective allocation of capital and that our 2021 earnings will exceed 2019 (we are assuming an undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest, and successful execution of our profitability drivers); our plans to make strategic capital investments in our Canadian facility network and digital capabilities in 2021 and our expectation that our 2021 net capital expenditures and net

rental fleet additions will be in the $170 million to $210 million range this year, dependent on the pace of market recovery; and our expectation that we will deliver strong free cash flow in 2021, but that with increased inventory purchases, our EBITDA to free cash flow conversion will be modestly below 50% in 2021; that we continue to have sufficient liquidity to meet operational needs; that we expect to contribute approximately $11 million to our registered defined benefit pension plans in Canada and the UK during the year ended December 31, 2021; our confidence in our position that the claims made by the Argentina Customs Authority, and the order issued by it, are without merit and that we have mitigation measures also available to us; about the expected impact of the COVID-19 pandemic on our operations; and about our plans to manage the risks and uncertainties associated with the spread of COVID-19.

All such forward-looking information is provided pursuant to the 'safe harbour' provisions of applicable Canadian securities laws. Unless otherwise indicated by us, forward-looking information in this report reflects our expectations at the date in this MD&A. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise.

Forward-looking information, by its very nature, is subject to numerous risks and uncertainties and is based on a number of assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking information and that our business outlook, objectives, plans, strategic priorities and other information that is not historical fact may not be achieved. As a result, we cannot guarantee that any forward-looking information will materialize.

Factors that could cause actual results or events to differ materially from those expressed in or implied by this forward-looking information 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 and economic and market conditions in the regions where we operate; foreign exchange rates; commodity prices; the impact of changes in the UK's trade relationship with the European Union as a result of Brexit; the level of customer confidence and spending, and the demand for, and prices of, our products and services; our ability to maintain our relationship with Caterpillar; our dependence on the continued market acceptance of our products, including Caterpillar products, and the timely supply of parts and equipment; our ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; our ability to manage cost pressures as growth in revenue occurs; our ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; our ability to manage growth strategy effectively; our ability to effectively price and manage long-term product support contracts with customers; our ability to reduce costs in response to slowing activity levels; our ability to drive continuous cost efficiency in a recovering market; our ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; our ability to negotiate and renew collective bargaining agreements with satisfactory terms for both Finning and our employees; the intensity of competitive activity; our ability to maintain a safe and healthy work environment across all regions, our ability to raise the capital needed to implement our 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 we carry on business; our ability to respond to climate change-related risks; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism, social unrest 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 that we incur; the potential of warranty claims being greater than we anticipate; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; our ability to protect our business from cybersecurity threats or incidents; and the actual impact of the COVID-19 pandemic and our ability to respond to and manage the evolving risks. Forward-looking statements are provided in this report to give information about management's current expectations and plans and allow investors and others to get a better understanding of our 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 we believed were reasonable on the day we made the forward-looking statements including but not limited to: the specific assumptions stated above; that we will be able to successfully manage our business through the current challenging times involving the effects of the COVID-19 response and low and/or volatile commodity prices and successfully implement our COVID-19 risk management plans; that our cost actions to drive earnings capacity in a recovery can be sustained; that our action plan to minimize the impact of Brexit will be successful; that general economic and market conditions will improve; that the level of customer confidence and spending, and the demand for, and prices of, our products and services will be maintained; our ability to successfully execute our plans and intentions; our ability to successfully attract and retain skilled staff; market competition will remain at similar levels; the products and technology offered by our competitors will be as expected; that identified opportunities for growth will result in revenue; consistent and stable legislation in the various countries in which we operate; no disruptive

changes in the technology environment and that our current good relationships with Caterpillar, our customers and our suppliers, service providers and other third parties will be maintained. Refer in particular to the Market Update and Business 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 information contained in this report, are discussed in Section 4 of the current AIF and in the annual MD&A for the financial risks.

We caution readers that the risks described in the MD&A and the AIF are not the only ones that could impact us. We cannot accurately predict the full impact that COVID-19 will have on our business, results of operations, financial condition or the demand for our 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 our 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 us or that are currently deemed to be immaterial may also have a material adverse effect on our business, financial condition, or results of operation.

Except as otherwise indicated, forward-looking information does 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. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business.

Glossary of Defined Terms

4Refuel	4Refuel Canada and 4Refuel US
AIF	Annual Information Form
Annual Financial Statements	Audited annual consolidated financial statements
ARS	Argentine Peso
Audit Committee	Audit Committee of the Board of Directors of Finning
Board	Board of Directors of Finning
Brexit	Withdrawal of the UK from the European Union
CAD	Canadian dollar
Caterpillar	Caterpillar Inc.
CEO	Chief Executive Officer
CEWS	Canadian Emergency Wage Subsidy
CFO	Chief Financial Officer
CGU	Cash-generating unit
CJRS	Coronavirus Job Retention Scheme
CLP	Chilean Peso
Consol	Consolidated
COSO	Commission of Sponsoring Organizations of the Treadway Commission
COVID-19	Novel Coronavirus
DBRS	Dominion Bond Rating Service
EBIT	Earnings (loss) before finance costs and income tax
EBITDA	Earnings (loss) before finance costs, income tax, depreciation, and amortization
Energyst	Energyst B.V.
EPS	Earnings per share
ERM	Enterprise risk management
fav	Favourable
Finning	Finning International Inc.
Finning (Canada)	A division of Finning, with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories, and a portion of Nunavut
GAAP	Generally accepted accounting principles
GBP	UK pound sterling
HS2	High Speed 2, a partly planned high speed railway in the UK
IFRS	International Financial Reporting Standards
KPI	Key performance indicator
MD&A	Management's Discussion and Analysis
n/a	not applicable
n/m	% change not meaningful
NCIB	Normal course issuer bid
OEM	OEM Remanufacturing Company Inc.
PLM	PipeLine Machinery International ULC
RFP	Request for proposal
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
SVP	Senior Vice-President
TSX	Toronto Stock Exchange
UK	United Kingdom
unfav	Unfavourable
US	United States of America
USD	US dollar
WACC	Weighted average cost of capital

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying Consolidated Financial Statements and Management’s Discussion and Analysis (MD&A) are the responsibility of the management of Finning International Inc. (the Company). The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards which recognize the necessity of relying on management's best estimates and informed judgments. The financial information presented in the Company’s MD&A is consistent with that in the Consolidated Financial Statements. The Consolidated Financial Statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality.

The Company maintains an accounting system and related controls to provide management with reasonable assurance that transactions are executed and recorded in accordance with its authorizations, that assets are properly safeguarded and accounted for, and that financial records are reliable for preparation of financial statements.

The Company's independent auditors, Deloitte LLP, have audited the Consolidated Financial Statements, as reflected in their report for 2020.

The Board of Directors oversees management’s responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee. The Audit Committee of the Board of Directors is composed solely of directors who are neither officers nor employees of the Company. The Audit Committee meets regularly during the year with management of the Company and the Company’s independent auditors to review the Company’s interim and annual consolidated financial statements and MD&A. The Audit Committee also reviews internal accounting controls, risk management, internal and external audit results and accounting principles and practices. The Audit Committee is responsible for approving the remuneration and terms of engagement of the Company’s independent auditors. The Audit Committee also meets with the independent auditors, without management present, to discuss the results of their audit and the quality of financial reporting. On a quarterly basis, the Audit Committee reports its findings to the Board of Directors, and recommends approval of the interim and annual Consolidated Financial Statements.

/s/ L. Scott Thomson

L. Scott Thomson
President and Chief Executive Officer

/s/ Greg Palaschuk

Greg Palaschuk
Executive Vice President and Chief Financial Officer

February 9, 2021
300-565 Great Northern Way, Vancouver, BC, V5T 0H8, Canada

Independent Auditor's Report

To the Shareholders and the Board of Directors of
Finning International Inc.

Opinion

We have audited the consolidated financial statements of Finning International Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue from sales of parts and labour when servicing equipment under long-term contracts and revenue from sales of complex power and energy systems - Refer to Note 4 to the financial statements

Key Audit Matter Description

The Company recognizes long-term contracts revenue in a manner that best reflects the Company's performance over-time for revenue from sales of parts and labour when servicing equipment under long-term contracts and revenue from sales of complex power and energy systems, which are presented as product support and new equipment revenue, respectively, in the financial statements.

Revenue is recorded primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. The accounting for servicing equipment under long-term contracts and for complex power and energy system contracts that are not complete at the reporting date (collectively the "uncompleted contracts") involves significant judgments to estimate total contract costs. This required extensive audit effort and a high degree of auditor attention in applying the audit procedures to audit management's estimates and evaluating the results of those procedures.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimated total contract costs for uncompleted contracts included the following, among others:

- For a selection of uncompleted contracts, we:
  - Obtained and inspected the executed contract agreements, amendments and confirmed key terms with management and contract personnel.
  - Conducted inquiries with management and operational personnel to gain an understanding of the status of contract activities.
  - Evaluated costs to complete by testing key components of the estimated total contract costs, including parts and labour.
  - Compared management's estimated total contract costs to those of similar contracts, when applicable.
  - Evaluated management's ability to achieve the estimated total contract costs by performing corroborative inquiry with the Company's operational personnel and by comparing the estimates to management's work plans and costs incurred to date.
- Evaluated management's ability to estimate total contract costs accurately by comparing actual costs to management's historical estimates for completed contracts.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Financial Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Financial Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Raj S. Bhogal.

/s/ Deloitte LLP

Chartered Professional Accountants

February 9, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian $ millions)	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents (Note 25)	**$ 539**	$ 268
Accounts receivable (Note 8)	**730**	919
Unbilled receivables (Note 4)	**231**	246
Inventories (Note 12)	**1,477**	1,990
Other assets (Note 14)	**237**	236
Total current assets	**3,214**	3,659
Property, plant, and equipment (Note 16)	**867**	971
Rental equipment (Note 16)	**430**	457
Goodwill (Note 18)	**205**	204
Intangible assets (Note 20)	**322**	321
Distribution network (Note 19)	**100**	100
Investment in joint ventures and associate (Note 15)	**85**	94
Other assets (Note 14)	**235**	184
Total assets	**$ 5,458**	$ 5,990
LIABILITIES		
Current liabilities		
Short-term debt (Note 7)	**$ 92**	$ 226
Accounts payable and accruals (Note 8)	**761**	1,040
Deferred revenue (Note 4)	**374**	360
Current portion of long-term debt (Note 7)	**201**	200
Other liabilities (Note 22)	**195**	200
Total current liabilities	**1,623**	2,026
Long-term debt (Note 7)	**1,107**	1,318
Long-term lease liabilities	**216**	273
Net post-employment obligation (Note 24)	**97**	76
Other liabilities (Note 22)	**209**	182
Total liabilities	**3,252**	3,875
Commitments and contingencies (Note 29)		
SHAREHOLDERS' EQUITY		
Share capital	**566**	570
Contributed surplus	**1**	2
Accumulated other comprehensive income	**218**	228
Retained earnings	**1,421**	1,315
Total shareholders' equity	**2,206**	2,115
Total liabilities and shareholders' equity	**$ 5,458**	$ 5,990

Approved by the Directors February 9, 2021

/s/ S.L. Levenick

S.L. Levenick, Director

/s/ H.N. Kvisle,

H.N. Kvisle, Director

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

CONSOLIDATED STATEMENTS OF NET INCOME

For years ended December 31 (Canadian $ millions, except share and per share amounts)	**2020**	2019
Revenue		
New equipment	**$ 1,671**	$ 2,776
Used equipment	**308**	361
Equipment rental	**196**	246
Product support	**3,473**	3,793
Fuel and other	**548**	641
Total revenue (Note 4)	**6,196**	7,817
Cost of sales	**(4,626)**	(6,018)
Gross profit	**1,570**	1,799
Selling, general, and administrative expenses	**(1,245)**	(1,360)
Equity earnings of joint ventures and associate (Note 15)	**3**	15
Other income (Note 6)	**115**	—
Other expenses (Note 6)	**(51)**	(29)
Earnings before finance costs and income taxes	**392**	425
Finance costs (Note 7)	**(85)**	(107)
Income before provision for income taxes	**307**	318
Provision for income taxes (Note 13)	**(75)**	(76)
Net income	**$ 232**	$ 242

	2020	2019
Earnings per share (Note 5)		
Basic	**$ 1.43**	$ 1.48
Diluted	**$ 1.43**	$ 1.48
Weighted average number of shares outstanding (Note 5)		
Basic	**162,289,564**	163,427,006
Diluted	**162,336,436**	163,499,026

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For years ended December 31 (Canadian $ millions)	2020	2019
Net income	$ 232	$ 242
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	(20)	(83)
Share of foreign currency translation adjustments of joint ventures and associate (Note 15)	1	(1)
Gain on net investment hedges	10	35
Impact of foreign currency translation and net investment hedges, net of income tax	(9)	(49)
Gain (loss) on cash flow hedges	1	(3)
Loss (gain) on cash flow hedges, reclassified to statement of net income	1	(1)
(Provision for) recovery of income taxes on cash flow hedges	(1)	1
Impact of cash flow hedges, net of income tax	1	(3)
Items that will not be subsequently reclassified to net income:		
Actuarial gain (loss) (Note 24)	29	(29)
(Provision for) recovery of income taxes on actuarial gain (loss)	(6)	4
Actuarial gain (loss), net of income tax	23	(25)
Total comprehensive income	$ 247	$ 165

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Capital			Accumulated Other Comprehensive Income (loss)			
(Canadian $ millions, except number of shares)	Number of Shares	Amount	Contributed Surplus	Impact of Foreign Currency Translation and Net Investment Hedges	Impact of Cash Flow Hedges	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2019	164,381,967	$ 573	$ —	$ 279	$ 3	$ 1,254	$ 2,109
Net income	—	—	—	—	—	242	242
Other comprehensive loss	—	—	—	(49)	(3)	(25)	(77)
Total comprehensive (loss) income	—	—	—	(49)	(3)	217	165
Exercise of share options	10,507	1	(1)	—	—	—	—
Share option expense	—	—	3	—	—	—	3
Hedging gain transferred to statement of financial position	—	—	—	—	(2)	—	(2)
Repurchase of common shares (Note 9)	(1,073,354)	(4)	—	—	—	(23)	(27)
Dividends on common shares	—	—	—	—	—	(133)	(133)
Balance, December 31, 2019	163,319,120	$ 570	$ 2	$ 230	$ (2)	$ 1,315	$ 2,115
Net income	—	—	—	—	—	232	232
Other comprehensive (loss) income	—	—	—	(9)	1	23	15
Total comprehensive (loss) income	—	—	—	(9)	1	255	247
Exercise of share options	3,981	1	(1)	—	—	—	—
Share option expense	—	—	2	—	—	—	2
Hedging gain transferred to statement of financial position	—	—	—	—	(2)	—	(2)
Repurchase of common shares (Note 9)	(1,215,617)	(5)	(2)	—	—	(16)	(23)
Dividends on common shares	—	—	—	—	—	(133)	(133)
Balance, December 31, 2020	162,107,484	$ 566	$ 1	$ 221	$ (3)	$ 1,421	$ 2,206

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

CONSOLIDATED STATEMENTS OF CASH FLOW

For years ended December 31 (Canadian $ millions)	2020	2019
OPERATING ACTIVITIES		
Net income	**$ 232**	$ 242
Adjusting for:		
Depreciation and amortization	**308**	293
Loss on disposal of property, plant, and equipment	**4**	—
Impairment of long-lived assets (Note 16)	**9**	5
Equity earnings of joint ventures and associate (Note 15)	**(3)**	(15)
Share-based payment expense (Note 11)	**21**	13
Provision for income taxes (Note 13)	**75**	76
Finance costs (Note 7)	**85**	107
Net benefit cost of post-employment benefit plans and settlement gain in selling, general, and administrative expenses (Note 24)	**12**	16
Changes in operating assets and liabilities (Note 25)	**422**	(219)
Additions to rental fleet	**(96)**	(171)
Additions to rental equipment with purchase options	**(93)**	(44)
Proceeds on disposal of rental fleet	**85**	80
Proceeds on disposal of rental equipment with purchase options	**30**	46
Interest paid	**(92)**	(105)
Income tax paid	**(37)**	(133)
Cash flow provided by operating activities	**962**	191
INVESTING ACTIVITIES		
Additions to property, plant, and equipment and intangible assets	**(115)**	(154)
Proceeds on disposal of property, plant, and equipment	**23**	5
Consideration paid for business acquisition, net of cash acquired (Note 26)	**—**	(229)
Increase in long-term investments	**(7)**	—
Cash flow used in investing activities	**(99)**	(378)
FINANCING ACTIVITIES		
(Decrease) increase in short-term debt (Note 25)	**(129)**	77
(Decrease) increase in long-term debt (Note 25)	**(200)**	199
Decrease in lease liabilities (Note 25)	**(87)**	(88)
Credit facility fee	**(1)**	(1)
Repurchase of common shares	**(23)**	(31)
Dividends paid	**(133)**	(133)
Cash flow (used in) provided by financing activities	**(573)**	23
Effect of currency translation on cash balances	**(19)**	(22)
Increase (decrease) in cash and cash equivalents	**271**	(186)
Cash and cash equivalents, beginning of year	**268**	454
Cash and cash equivalents, end of year (Note 25)	**$ 539**	$ 268

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements

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1. General Information

Finning International Inc. ("Finning") is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (TSX: FTT). The registered and head office of the Company is located at Suite 300, 565 Great Northern Way, Vancouver, British Columbia, Canada. The Company's principal business is the sale of heavy equipment and power and energy systems, rental of equipment, and providing product support including sales of parts and servicing of equipment.

2. Significant Accounting Policies, Key Assumptions, and Significant Judgments

These consolidated financial statements of Finning and its subsidiaries (together, the "Company") have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective for the current year. The consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 9, 2021. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from those judgments, estimates, and assumptions.

Certain of the Company's accounting policies that relate to the financial statements as a whole, as well as estimates and judgments the Company has made and how they affect the amounts reported in the consolidated financial statements, are incorporated in this section. This note also describes new standards, amendments, or interpretations that are effective and applied by the Company during 2020 or are not yet effective. Where an accounting policy, estimate, or judgment is applicable to a specific note to the consolidated financial statements, it is described within that note.

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The COVID-19 outbreak and related mitigation measures have had an adverse impact on global economic conditions resulting in government response actions, social distancing, business closures and disruptions. Epidemic diseases, such as COVID-19, may have a significant impact on the Company. The duration of the pandemic and its impact on the Company's financial performance and position is an area of estimation uncertainty and judgment, which is continuously monitored and reflected in management's estimates.

These consolidated financial statements were prepared under the historical cost basis except for derivative financial instruments, certain assets held for sale, plan assets related to defined benefit pension plans, and liabilities for share-based payment arrangements, which have been measured at fair value.

(a) Principles of Consolidation

Accounting Policy

The consolidated financial statements include the accounts of the Company, which includes the Finning (Canada) division and Finning's wholly owned subsidiaries. Subsidiaries are those entities over which Finning has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect returns of the investee, generally accompanying a shareholding that confers more than half of the voting rights. The consolidated financial statements include the operating results of acquired or disposed subsidiaries from the date the Company obtains control or the date control is lost.

The Company's principal wholly owned subsidiaries, and the main countries in which they operate, are as follows:

Name	Principal place of business	% ownership	Functional currency [1]
OEM Remanufacturing Company Inc.	Canada	100%	CAD
4Refuel Canada LP	Canada	100%	CAD
Finning Argentina S.A.	Argentina	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	USD
Finning Bolivia S.A.	Bolivia	100%	USD
Finning Chile S.A.	Chile	100%	USD
Moncouver S.A.	Uruguay	100%	USD
Finning (UK) Ltd.	United Kingdom	100%	GBP
Finning (Ireland) Limited	Republic of Ireland	100%	EUR

(1) Canadian dollar (CAD), US dollar (USD), UK pound sterling (GBP), Euro (EUR)

All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not considered material.

(b) Foreign Currency Translation

Accounting Policy

These consolidated financial statements are presented in CAD, which is the functional currency of the parent company. Transactions undertaken in foreign currencies are translated into the entity's functional currency at exchange rates prevailing at the time the transactions occurred.

Account balances denominated in foreign currencies are translated into the entity's functional currency as follows:

- Monetary items are translated at exchange rates in effect at the consolidated statement of financial position dates and non-monetary items are translated at historical exchange rates; and
- Foreign exchange gains and losses are included in income except where the exchange gain or loss arises from the translation of monetary items designated as cash flow hedges. The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income until it is reclassified to be included in the carrying cost of the hedged asset or hedged liability and recognized in earnings on the same basis as the hedged item.

Financial statements of foreign operations are translated from the functional currency of the foreign operation into CAD as follows:

- Assets and liabilities are translated using the exchange rates in effect at the consolidated statement of financial position dates;
- Revenue and expense items are translated at average exchange rates prevailing during the period that the transactions occurred; and,
- Foreign currency translation adjustments are recorded in other comprehensive income. Cumulative foreign currency translation adjustments are recognized in net income upon the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation).

The Company uses foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in foreign operations. Foreign exchange gains or losses arising from the translation of these hedging instruments are recorded in other comprehensive income. Foreign exchange gains or losses arising from net investment hedging instruments are recognized in net income upon the disposal of a foreign operation. See Note 8 for further details on the Company's hedge accounting policy.

Areas of Significant Judgment

Management has made judgments with regard to the determination of the functional currency of each entity of the Company.

(c) Changes to the presentation in the consolidated statement of financial position

During 2020, the Company changed the presentation of certain current liabilities on the consolidated statement of financial position as management believes it provides users of the financial statements with more relevant information. Previously, the Company presented the current portion of lease liabilities and commodity taxes payable within accounts payable and accruals. Effective June 30, 2020, management presented these items within other liabilities (current). To retain consistency in presentation, management reclassified $129 million from accounts payable and accrued liabilities to other liabilities (current) as at December 31, 2019. In addition, provisions at December 31, 2019 were not significant and have been grouped with other liabilities (current).

The impact of these reclassifications on the December 31, 2019 balances was as follows:

December 31, 2019 ($ millions)	As reported	Lease liability (current portion)	Commodity taxes payable	Provisions (current)	Revised
Accounts payable and accruals	$ 1,169	$ (84)	$ (45)	$ —	$ 1,040
Provisions (current)	$ 57	$ —	$ —	$ (57)	$ —
Other liabilities (current)	$ 14	$ 84	$ 45	$ 57	$ 200

(d) Amendments to Standards and New Accounting Standard

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

- Amendments to IFRS 3, *Business Combinations* assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. The definition of a business has been amended to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and to exclude returns in the form of lower costs and other economic benefits. These amendments did not impact the Company's consolidated financial statements.

- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended standards, then discontinuation of hedge accounting is still required. The Company did not have any hedging relationships directly affected by the interest rate benchmark reform and as a result, these amendments did not impact the Company's consolidated financial statements.

- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* were made to refine the definition of material in IAS 1 and align the definitions used across IFRS Standards and other publications. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition and the threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. These amendments did not impact the Company's consolidated financial statements.

- Amendment to IFRS 16, *Leases* (effective for annual reporting periods beginning on or after June 1, 2020) allows lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19. The Company has elected to early adopt this amendment with retrospective application to April 1, 2020. Upon applying this amendment, eligible rent concessions in the Company's UK & Ireland operations were not accounted for as rent modifications and as a result, there was no impact to the Company's financial statements.

The Company adopted the following accounting standard effective January 1, 2019:

- The Company applied IFRS 16, *Leases* retrospectively and recognized the cumulative effect of initial application on January 1, 2019, on the consolidated statement of financial position, subject to permitted and elected practical expedients. This method of application did not result in a restatement of amounts reported in periods prior to January 1, 2019.

  The impact of IFRS 16 on the consolidated statement of financial position for January 1, 2019 was as follows:

($ millions)	**Increase**
Property, plant, and equipment	$ 253
Rental equipment	25
Total assets	$ 278
Lease liabilities (current)	$ 72
Total current liabilities	$ 72
Lease liabilities (non-current)	206
Total liabilities	$ 278

(e) Future Accounting Pronouncements

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

- Amendments to IFRS 9, *Financial Instruments*, IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments; Disclosures*, IFRS 4, *Insurance Contracts*, and IFRS 16, *Leases*, collectively named 'Interest Rate Benchmark Reform – Phase 2' (effective January 1, 2021). The amendments provide relief for modifications of financial contracts and leases and the discontinuation of hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities. In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. These amendments are not expected to impact the Company's financial statements.
- Amendments to IAS 37, *Provisions*, *Contingent Liabilities and Contingent Assets* (effective January 1, 2022) clarify that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling the contract. The amendments apply to contracts existing at the date when the amendments are first applied. Management is currently assessing the impact of these amendments.
- Amendments to IAS 1, *Presentation of Financial Statements* (effective January 1, 2023) clarify the presentation of liabilities in the consolidated 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 or accelerate settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. Management is currently assessing the impact of these amendments.

3. Segmented Information

The Company has operated primarily in one principal business during the year, that being the selling, servicing, and renting of heavy equipment, engines, and related products.

On February 1, 2019, the Company acquired 4Refuel Canada and 4Refuel US (4Refuel) (Note 26). 4Refuel is a mobile on-site refuelling company operating in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia as well as in Texas, US. The results of 4Refuel are included in the Canada reportable segment.

The reportable segments, which are the same as the Company's operating segments, are as follows:

- Canadian operations: dealership territories in British Columbia, Alberta, Saskatchewan, the Yukon territory, the Northwest Territories, and a portion of Nunavut and mobile refuelling services in the above-listed provinces in Canada and in Texas, US.
- South American operations: Chile, Argentina, and Bolivia.
- UK & Ireland operations: England, Scotland, Wales, Northern Ireland, and the Republic of Ireland.
- Other: corporate head office.

Information reported to the chief operating decision maker (CODM) for the purposes of resource allocation and assessment of segment performance primarily focuses on the territories in which the Company operates. The CODM considers earnings before finance costs, income taxes, depreciation and amortization (EBITDA) as the primary measure of segment profit and loss. With the acquisition of 4Refuel, the Company considers net revenue (calculated as total revenue less cost of fuel) as more representative in assessing the performance of this business as the cost of fuel is not in the Company's control and is fully passed through to the customer.

The Company's revenue, results, and other information by reportable segment were as follows:

For year ended December 31, 2020 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Total**
Revenue					
New equipment	$ 725	$ 426	$ 520	$ —	$ 1,671
Used equipment	169	73	66	—	308
Equipment rental	133	37	26	—	196
Product support	1,812	1,386	275	—	3,473
Fuel and other	548	—	—	—	548
Total revenue	$ 3,387	$ 1,922	$ 887	$ —	$ 6,196
Cost of fuel	(428)	—	—	—	(428)
Net revenue	$ 2,959	$ 1,922	$ 887	$ —	$ 5,768
Operating costs [(1)]	(2,572)	(1,697)	(830)	(36)	(5,135)
Equity earnings of joint ventures	3	—	—	—	3
Other income (Note 6)	108	—	—	7	115
Other expenses (Note 6)	(25)	(21)	(4)	(1)	(51)
EBITDA	$ 473	$ 204	$ 53	$ (30)	$ 700
Depreciation and amortization	(185)	(83)	(37)	(3)	(308)
Earnings (loss) before finance costs and income taxes	$ 288	$ 121	$ 16	$ (33)	$ 392
Finance costs					(85)
Provision for income taxes					(75)
Net income					$ 232
Invested capital [(2)]	$ 1,819	$ 931	$ 327	$ (10)	$ 3,067
Capital and rental equipment [(3)]	$ 967	$ 407	$ 155	$ 90	$ 1,619
Gross capital expenditures [(3)(4)]	$ 41	$ 67	$ 14	$ 21	$ 143
Gross rental equipment spend [(4)]	$ 157	$ 21	$ 12	$ —	$ 190

(1) Operating costs are calculated as cost of sales less cost of fuel plus selling, general, and administration expenses less depreciation and amortization.
(2) Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.
(3) Capital includes property, plant, and equipment and intangible assets.
(4) Includes leases and borrowing costs capitalized and excludes additions through business acquisitions.

For year ended December 31, 2019 ($ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	$ 1,375	$ 685	$ 716	$ —	$ 2,776
Used equipment	224	47	90	—	361
Equipment rental	164	47	35	—	246
Product support	2,054	1,447	292	—	3,793
Fuel and other	637	—	4	—	641
Total revenue	$ 4,454	$ 2,226	$ 1,137	$ —	$ 7,817
Cost of fuel	(527)	—	—	—	(527)
Net revenue	$ 3,927	$ 2,226	$ 1,137	$ —	$ 7,290
Operating costs [(1)]	(3,455)	(2,017)	(1,055)	(31)	(6,558)
Equity earnings of joint ventures	15	—	—	—	15
Other expenses (Note 6b)	(17)	(8)	—	(4)	(29)
EBITDA	$ 470	$ 201	$ 82	$ (35)	$ 718
Depreciation and amortization	(174)	(81)	(36)	(2)	(293)
Earnings (loss) before finance costs and income taxes	$ 296	$ 120	$ 46	$ (37)	$ 425
Finance costs					(107)
Provision for income taxes					(76)
Net income					$ 242
Invested capital [(2)]	$ 2,026	$ 1,192	$ 361	$ 12	$ 3,591
Capital and rental equipment [(3)]	$ 1,045	$ 452	$ 176	$ 76	$ 1,749
Gross capital expenditures [(3)(4)]	$ 134	$ 49	$ 11	$ 35	$ 229
Gross rental equipment spend [(4)]	$ 159	$ 28	$ 40	$ —	$ 227

(1) Operating costs are calculated as cost of sales less cost of fuel plus selling, general, and administration expenses less depreciation and amortization.
(2) Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.
(3) Capital includes property, plant, and equipment and intangible assets.
(4) Includes leases and borrowing costs capitalized and excludes additions through business acquisitions.

Revenue and non-current assets [(5)] by location of operations

	Revenue Year ended December 31		**Non-current assets [(5)] As at December 31**	
($ millions)	**2020**	2019	**2020**	2019
Canada	**$ 3,301**	$ 4,346	**$ 1,430**	$ 1,507
Chile	**$ 1,642**	$ 1,842	**$ 328**	$ 350
United Kingdom	**$ 777**	$ 1,001	**$ 325**	$ 290
Argentina	**$ 228**	$ 302	**$ 72**	$ 94
Other countries	**$ 248**	$ 326	**$ 33**	$ 33

(5) Non-current assets exclude deferred tax assets.

4. REVENUE

Revenue Recognition

Revenue is recognized when or as the Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled.

Revenue is recognized when control of the goods is transferred to the customer at a point-in-time for the following revenue streams:

- Revenue from sales of new and used equipment (except for complex power and energy systems) is presented as new equipment revenue and used equipment revenue, respectively. Revenue is recognized when control passes to the customer, which is generally at the time of shipment of the equipment to the customer or when commissioning of equipment is complete. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled, including any non-cash consideration when used equipment is accepted for trade-in value.
- Revenue from sales of parts inventory is presented as product support revenue and recognized when control of the part is transferred to the customer, which is generally upon shipment to the customer or when the customer collects their purchase from one of the Company's locations. Revenue from the sales of parts inventory is initially recorded at the estimated amount of consideration to which the Company expects to be entitled. If applicable, management recognizes an obligation for items such as refunds, incentives, and discounts with a corresponding reduction in product support revenue. The value of the obligation is estimated based on the terms of the contract, customary business practices, and historical experience.
- Revenue from sales of mobile refueling services is presented as fuel and other revenue and recognized upon delivery to the customer. Revenue is recorded at the estimated amount of consideration to which the Company expects to be entitled.

Revenue is recognized in a manner that best reflects the Company's performance over-time for the following revenue streams:

- Revenue from sales of complex power and energy systems involving the design, installation, and assembly of power and energy systems is presented as new equipment revenue and estimated as the amount of consideration to which the Company expects to be entitled. Revenue is recognized on a percentage of completion basis proportionate to the work that has been completed and is based on associated costs incurred.
- Revenue from sales of parts and labour when servicing equipment both under and not under a long-term contract is presented as product support revenue. For servicing of equipment, revenue is recognized as the service work is performed based on parts list price and standard billing labour rates. Product support is also offered to customers in the form of long-term contracts. For these contracts, revenue is recognized on a basis proportionate to the service work that has been performed based on associated costs incurred. For certain long-term product support contracts where flat-rate labour or a monthly subscription service is provided, the Company recognizes revenue for labour on a straight-line basis. Revenue from product support under long-term contracts is estimated based on the number and types of services expected to be performed using the pricing terms set out in the contract.
- Revenue from equipment rentals and operating leases where the Company acts as lessor is presented as equipment rental revenue and in accordance with the terms of the relevant agreement with the customer, either recognized evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

Revenue from customers under long-term contracts may be recognized in advance of billing the customer. To the extent the Company has a right to receive consideration for the good or service transferred to the customer but has not yet invoiced the customer, the Company recognizes unbilled receivables. Similarly, consideration may be received from customers in advance of the work being performed and the Company recognizes deferred revenue. These amounts are recorded on the consolidated statement of financial position as Unbilled Receivables and Deferred Revenue, respectively.

If it is expected that the unavoidable costs required to satisfy the remaining performance obligations of a revenue contract will exceed its expected economic benefits, the Company recognizes an onerous provision with a corresponding loss in the consolidated statement of net income.

Areas of Estimation Uncertainty

Long-Term Product Support Contracts and Sales of Complex Power and Energy Systems

Where the outcome of performance obligations for long-term product support contracts and sales of complex power and energy systems can be estimated reliably, revenue is recognized. Revenue is measured primarily based on the proportion of contract costs incurred for work performed to-date relative to the estimated total contract costs. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of performance obligations cannot be reliably measured, contract revenue is recognized in the current period to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant assumptions are required to estimate total contract costs, which are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized in the consolidated statement of net income immediately.

Areas of Significant Judgment

Repurchase Commitments

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. At the inception of the contract, the Company is required to make judgments as to whether the customer has a significant economic incentive to exercise its right of return. When no such incentive is expected, revenue is recognized upon the sale of equipment but when a significant incentive is expected, revenue is recognized over the term of the repurchase commitment. Significant assumptions are made in estimating residual values and are assessed based on past experience and taking into account expected future market conditions and projected disposal values.

Rental Equipment with Purchase Options

The Company has rental agreements with customers which include an option to purchase the equipment at the end of the rental term. The Company periodically sells portfolios of these agreements to financial institutions, and makes judgments as to whether the control related to the underlying assets have been transferred in such circumstances. The level of residual value risk retained by the Company, the continuing managerial ability to direct the use of, and obtain substantially all of the remaining benefits from the assets are all considered when assessing whether control has been transferred to third parties and hence whether revenue should be recognized on the sale of the assets and associated rental contracts.

The Company earned revenue from the transfer of goods and services over time and at a point-in-time in the following lines of business:

For year ended December 31, 2020 ($ millions)	**Point-in-time**	**Over-time**	**Total**
New equipment	**$ 1,459**	**$ 212**	**$ 1,671**
Used equipment	**308**	**—**	**308**
Equipment rental	**—**	**196**	**196**
Product support	**1,546**	**1,927**	**3,473**
Fuel and other	**547**	**1**	**548**
Total revenue	**$ 3,860**	**$ 2,336**	**$ 6,196**

For year ended December 31, 2019 ($ millions)	Point-in-time	Over-time	Total
New equipment	$ 2,484	$ 292	$ 2,776
Used equipment	361	—	361
Equipment rental	—	246	246
Product support	1,744	2,049	3,793
Fuel and other	635	6	641
Total revenue	$ 5,224	$ 2,593	$ 7,817

The Company recorded the following unbilled receivables from customers:

December 31 ($ millions)	**2020**	2019
Product support	**$ 194**	$ 198
New equipment	**36**	48
Other	**1**	—
Total unbilled receivables	**$ 231**	$ 246

Invoices for sales of parts and labour when servicing equipment under long-term contracts are issued in accordance with the billing arrangement over the contract term. Invoices for sales of parts and labour when servicing equipment not under long-term contracts are issued when the work is complete. Invoices for sales of complex power and energy systems are issued in accordance with milestone payments agreed within each sales contract with the customer. The Company recognizes unbilled receivables for sales of new equipment (including complex power and energy systems) and product support revenue (including sales of parts and labour when servicing equipment) when revenue recognition criteria are met, and the Company has the right to receive amounts from customers but invoices have not yet been issued.

The Company recorded the following contract liabilities:

December 31, 2020 **($ millions)**	**Current**	**Non-current**	**Total**
Product support	**$ 199**	**$ —**	**$ 199**
Deposits from customers for new equipment	**114**	**—**	**114**
Complex power and energy systems	**30**	**—**	**30**
Extended warranty	**28**	**31**	**59**
Other	**3**	**1**	**4**
Total deferred revenue	**$ 374**	**$ 32**	**$ 406**

December 31, 2019 ($ millions)	Current	Non-current	Total
Product support	$ 196	$ 13	$ 209
Deposits from customers for new equipment	88	—	88
Complex power and energy systems	46	—	46
Extended warranty	27	35	62
Other	3	2	5
Total deferred revenue	$ 360	$ 50	$ 410

The Company recognizes deferred revenue when cash has been collected from the customer but control of the goods or services has not yet been transferred to the customer. Deferred revenue is recorded when consideration is received prior to the transfer of control related to servicing equipment, complex power and energy systems, and extended warranty. Deferred revenue is also recorded in respect of sales of new equipment where the Company has issued a repurchase guarantee and management has determined that it has not transferred control of the equipment, and deposits from customers for new equipment sales. Cash is typically collected up front for sales of new equipment under repurchase guarantees where control has not transferred and extended warranty, while revenue is deferred and recognized evenly over the term of the contract, which can extend beyond one year. The majority of revenue related to long-term product support contracts is recognized within one year of collecting cash from the customer. All other streams of revenue are recognized within one year of recording deferred revenue.

5. Earnings Per Share

Accounting Policy

Basic earnings per share (EPS) is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees.

For year ended December 31, 2020 ($ millions, except share and per share amounts)	**Net Income**	**Shares**	**EPS**
Basic EPS:			
Net income, weighted average shares outstanding, EPS	**$ 232**	**162,289,564**	**$ 1.43**
Effect of dilutive share options	**—**	**46,872**	**—**
Diluted EPS:			
Net income and assumed conversions	**$ 232**	**162,336,436**	**$ 1.43**
For year ended December 31, 2019			
Basic EPS:			
Net income, weighted average shares outstanding, EPS	$ 242	163,427,006	$ 1.48
Effect of dilutive share options	—	72,020	—
Diluted EPS:			
Net income and assumed conversions	$ 242	163,499,026	$ 1.48

Share options granted to employees that were anti-dilutive were excluded from the weighted average number of shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the year ended December 31, 2020 were 2 million (2019: 2 million).

6. Other Income and Other Expenses

For years ended December 31 ($ millions)	**2020**	2019
Canada Emergency Wage Subsidy (a)	**$ 115**	$ —
Total other income	**$ 115**	$ —

For years ended December 31 ($ millions)	**2020**	2019
Severance costs (b)	**$ (42)**	$ (18)
Impairment of long-lived assets (b)	**(7)**	(5)
Facility closures and restructuring costs (b)	**(2)**	(2)
Acquisition costs (Note 26)	**—**	(4)
Total other expenses	**$ (51)**	$ (29)

(a) In response to the negative economic impact of COVID-19, various government programs were introduced to provide financial relief to affected businesses, including wage-subsidy programs for eligible entities that meet certain criteria. The Company records government grants and subsidies when it is reasonably assured that the Company will comply with the relevant conditions and that the amount will be received. In 2020 the Company qualified for and recorded a $115 million benefit from the Canada Emergency Wage Subsidy for its Canadian entities for the March 15, 2020 to December 19, 2020 period.

(b) In 2020 and 2019, as part of actions taken to focus on operational efficiencies and to adjust to market conditions, the Company implemented plans to restructure its global workforce and facility footprint. As a result, the Company recorded provisions related to the reduction of its workforce. The Company also implemented plans to consolidate certain branches and exit some facilities and therefore recorded impairment losses on leased properties and any related equipment and leasehold improvements, as well as provisions for the unavoidable non-lease costs for these properties.

7. SHORT-TERM AND LONG-TERM DEBT AND FINANCE COSTS

December 31 ($ millions)	2020	2019
Short-term debt	**$ 92**	$ 226
Long-term debt		
3.232%, $200 million, due July 3, 2020	**—**	200
2.84%, $200 million, due September 29, 2021	**200**	200
2.626%, $200 million, due August 14, 2026	**199**	199
5.077% $150 million, due June 13, 2042	**149**	149
3.98% USD $100 million, due January 19, 2022, Series A	**127**	130
4.08% USD $100 million, due January 19, 2024, Series B	**127**	129
4.18% USD $50 million, due April 3, 2022, Series C	**64**	65
4.28% USD $50 million, due April 3, 2024, Series D	**64**	65
4.53% USD $200 million, due April 3, 2027, Series E	**254**	259
3.40% £70 million, due May 22, 2023, Series F	**122**	120
Other term loans	**2**	2
Total long-term debt	**$ 1,308**	$ 1,518
Current portion of long-term debt	**$ 201**	$ 200
Non-current portion of long-term debt	**$ 1,107**	$ 1,318

The Company has an unsecured syndicated committed credit facility of $1.3 billion. In December 2019, the Company amended its $1.3 billion credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024. The facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal wholly owned subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest. 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 as the existing $1.3 billion committed revolving credit facility.

Covenants

The Company is subject to certain covenants within its syndicated committed credit facility. As at December 31, 2020 and 2019, the Company was in compliance with these covenants.

Short-Term Debt

At December 31, 2020, short-term debt includes $92 million drawn on the Company's syndicated committed credit facility (2019: short-term debt included $208 million drawn on the Company's syndicated committed credit facility and local bank borrowings in the Company's South American operations of $18 million).

The Company's principal source of short-term funding is the syndicated committed credit facility. The Company also maintains a maximum authorized commercial paper program of $600 million, backstopped by credit available under the $1.3 billion syndicated committed credit facility. There was no commercial paper outstanding at December 31, 2020 or December 31, 2019. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2020 was 3.1% (2019: 4.5%).

Long-Term Debt

The Company's CAD denominated Medium Term Notes (MTN), USD denominated Senior Notes, and GBP denominated Senior Notes are unsecured, and interest is payable semi-annually with the principal due on maturity.

In July 2020, the Company repaid its $200 million, 3.232% senior unsecured notes. In August 2019, the Company issued $200 million, 2.626% senior unsecured notes due August 14, 2026, which rank pari passu with existing senior unsecured obligations. Proceeds of the issuance were used to reduce the outstanding short-term debt under the Company's syndicated committed credit facility.

The average interest rate applicable to the consolidated long-term debt for 2020 was 3.8% (2019: 3.5%).

Long-Term Debt Repayments

The carrying amount of principal repayments of long-term debt in each of the next five years and thereafter are as follows:

December 31 ($ millions)	
2021	**$ 201**
2022	**191**
2023	**122**
2024	**191**
2025	**—**
Thereafter	**603**
Total	**$ 1,308**

Finance Costs

Finance costs as shown on the consolidated statements of net income comprised the following:

For years ended December 31 ($ millions)	**2020**	2019
Interest on short-term debt	**$ 12**	$ 33
Interest on long-term debt	**55**	54
Interest on debt	**67**	87
Net interest recovery on post-employment benefit plans (Note 24)	**(1)**	(1)
Interest on lease liabilities	**11**	11
Other finance related expenses	**8**	10
Finance costs	**$ 85**	$ 107

8. FINANCIAL INSTRUMENTS

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of business activities. The Company's Enterprise Risk Management (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 of Directors (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 Annual Information Form, Management's Discussion and Analysis, and consolidated financial statements on a quarterly and annual basis.

This note presents information about the Company's exposure to credit, liquidity, and market risks and the Company's objectives, policies, and processes for managing these risks.

(a) Financial Assets and Credit Risk

Accounting Policy

Classification and measurement

Cash and cash equivalents, accounts receivable, unbilled receivables, supplier claims receivable, instalment and other notes receivable, and value added tax receivable are classified as amortized cost and measured using the effective interest method. Accounts receivable comprises amounts due from customers for goods or services transferred in the ordinary course of business and non-trade accounts. Unbilled receivables relate to the Company's right to consideration for goods or services transferred to a customer but not yet billed as at the reporting date. Instalment notes receivable represents amounts due from customers relating to the financing of equipment and parts and services sold.

Financial assets classified as amortized cost are assessed for impairment at the end of each reporting period and a loss allowance is measured by estimating the lifetime expected credit losses. Certain categories of financial assets, such as trade receivables, that are considered not to be impaired individually are also assessed for impairment on a collective basis. Estimates of expected credit losses take into account the Company's past experience of collecting payments, the amount of delayed payments in the portfolio past the average credit period, as well as observable changes in and forecasts of future economic conditions that correlate with default on receivables. The carrying amount of trade receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of net income. At the point when the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is impaired.

Derivative assets are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative assets which are effectively designated as hedging instruments which are recognized in other comprehensive income.

Areas of Estimation Uncertainty

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 will be sufficient or that the Company will not suffer material credit losses that will adversely affect its results. The Company allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external credit ratings, management accounts, and publicly available information about customers) and applying experienced credit judgment. Exposures within each credit risk grade are segmented by geographic region, industry classification, and risk categorization. An expected credit loss rate is calculated for each segment.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally in respect of the Company's cash and cash equivalents, receivables from customers, receivables from suppliers, and derivative assets.

Exposure to Credit Risk

The Company's exposure to credit risk at the reporting date was:

December 31 **($ millions)**	**2020**	2019
Cash and cash equivalents	**$ 539**	$ 268
Accounts receivable – trade	**724**	895
Accounts receivable – other	**6**	24
Unbilled receivables	**231**	246
Supplier claims receivable	**104**	95
Instalment notes receivable	**27**	35
Total exposure to credit risk	**$ 1,631**	$ 1,563

Cash and Cash Equivalents

Credit risk associated with cash and cash equivalents is managed by ensuring that these financial assets are held with major financial institutions with strong investment grade ratings and by monitoring the exposures with any single institution. An ongoing review is performed to evaluate the changes in the credit rating of counterparties.

Receivables from Customers

The Company has a large, diversified customer base, and is not dependent on any single customer or group of customers. Credit risk associated with accounts receivable, unbilled receivables, and instalment notes receivable from customers is minimized because of the diversification of the Company's operations as well as its large customer base and its geographical dispersion.

The COVID-19 pandemic has resulted in significant disruptions in financial markets, regional economies, and the world economy. It is likely that the pandemic will continue to adversely affect the economies, financial markets, and social stability of many regions and countries in which the Company's customers operate. There can be no assurance that these disruptions will not negatively affect the financial performance of Finning's customers and the Company's ability to collect customer receivables. The extent and duration of the impact of the COVID-19 pandemic on the Company's 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 has increased in 2020 but to mitigate this risk, management worked closely with customers with liquidity constraints throughout the year ended December 31, 2020.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period for customers.

Receivables from Suppliers

The Company is exposed to risk on supplier claims receivable, primarily from Caterpillar Inc. (Caterpillar), with whom Finning has an ongoing relationship since 1933.

Derivative Assets

The Company has credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A- from Standard & Poor's and/or A3 by Moody's Corporation and/or A- by Fitch Ratings Inc. and/or A (low) by DBRS Morningstar.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic location of customer was as follows:

December 31 ($ millions)	**2020**	2019
Canada	**$ 377**	$ 459
Chile	**207**	265
UK	**77**	87
Argentina	**27**	45
Other	**36**	39
Total	**$ 724**	$ 895

Impairment Losses

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

December 31	**2020**		2019	
($ millions)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**$ 519**	**$ 1**	$ 620	$ —
Past due 1 – 30 days	**115**	**—**	160	—
Past due 31 – 90 days	**46**	**—**	66	1
Past due 91 – 120 days	**16**	**1**	19	2
Past due greater than 120 days	**73**	**43**	72	39
Total	**$ 769**	**$ 45**	$ 937	$ 42

The movement in the allowance for doubtful accounts in respect of trade receivables during the year was as follows:

For years ended December 31 ($ millions)	**2020**	2019
Balance, beginning of year	**$ 42**	$ 42
Additional allowance	**16**	8
Receivables written off or unused amounts reversed	**(13)**	(6)
Foreign exchange rate changes	**—**	(2)
Balance, end of year	**$ 45**	$ 42

The carrying amount of unbilled receivables, supplier claims receivable, and instalment notes receivable represents the Company's maximum exposure to credit risk for these balances.

(b) Financial Liabilities and Liquidity Risk

Accounting Policy

Classification and measurement

Accounts payable and accruals, short-term and long-term debt are classified as amortized cost and are measured using the effective interest method.

Derivative liabilities are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Changes in fair value are recognized in the consolidated statement of net income except for changes in fair value related to derivative liabilities which are effectively designated as hedging instruments which are recognized in other comprehensive income.

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 bilateral and syndicated credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities.

The Company will require capital to finance future growth and to refinance 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, Finning's ability to increase the level of debt financing may be limited by financial covenants or credit rating objectives. The outbreak of COVID-19 globally has caused and continues to cause considerable disruptions in the world economy, including financial markets and commodity prices and could adversely impact the Company's ability to carry out 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 Company's control, such as uncertainty in the capital markets, depressed commodity prices or country risk factors.

At December 31, 2020, the Company had approximately $2.6 billion (2019: $2.0 billion) of 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, as well as an additional $500 million committed revolving credit facility for general purposes. At December 31, 2020, $1.7 billion (2019: $1.1 billion) was available under these credit facilities. For more information on this $1.3 billion credit facility, and the new $500 million committed credit facility, please see Note 7.

The following are the contractual maturities of non-derivative financial liabilities and derivative financial instruments. The amounts presented represent the future undiscounted principal and interest cash flows, and therefore, do not equate to the carrying amount on the consolidated statement of financial position.

($ millions)	Carrying amount December 31, 2020	Contractual cash flows 2021	2022	2023	2024	2025	Thereafter
Non-derivative financial liabilities							
Accounts payable and accruals	$ (761)	$ (761)	$ —	$ —	$ —	$ —	$ —
Short-term debt	(92)	(92)	—	—	—	—	—
Long-term debt	(1,308)	(250)	(232)	(157)	(220)	(24)	(753)
Lease liabilities	(298)	(92)	(73)	(51)	(37)	(26)	(55)
Total non-derivative financial liabilities	$ (2,459)	$ (1,195)	$ (305)	$ (208)	$ (257)	$ (50)	$ (808)
Derivative financial liabilities							
Forward foreign currency contracts and swaps							
Sell CAD	$ (2)	$ (178)	$ —	$ —	$ —	$ —	$ —
Buy USD	—	176	—	—	—	—	—
Sell CLP [1]	(5)	(126)	—	—	—	—	—
Buy USD	—	121	—	—	—	—	—
Sell ARS [1]	(1)	(38)	—	—	—	—	—
Buy USD	—	33	—	—	—	—	—
Sell SEK [1]	—	(2)	—	—	—	—	—
Buy EUR	—	2	—	—	—	—	—
Total derivative liabilities	$ (8)	$ (12)	$ —	$ —	$ —	$ —	$ —

[1] Chilean Peso (CLP), Argentine Peso (ARS), Swedish Krona (SEK)

(c) Market Risk and Hedging

Accounting Policy

Hedges

The Company utilizes derivative financial instruments and foreign currency debt in order to manage its foreign currency and interest rate exposures. The Company uses derivative financial instruments only in connection with managing related risk positions and does not use them for trading or speculative purposes.

The Company determines whether or not to formally designate, for accounting purposes, eligible hedging relationships between hedging instruments and hedged items. This process includes linking derivatives to specific risks from assets or liabilities on the statement of financial position, specific firm commitments, or forecasted transactions. For hedges designated as such for accounting purposes, at inception, the Company documents the hedging relationship, its risk management objective and strategy for undertaking the hedge, and how the Company will assess whether the Company meets the hedge effectiveness requirements. When derivative instruments have been designated as a hedge and are highly effective in offsetting the identified hedged risk, hedge accounting is applied to the derivative instruments. The ineffective portion of hedging gains and losses of highly effective hedges is reported in the consolidated statement of net income.

Gains and losses relating to derivative financial instruments that are not designated as hedges for accounting purposes are recorded in the consolidated statement of income as selling, general, and administrative expenses or finance costs, as appropriate.

Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, may use options to hedge the currency risk associated with certain foreign denominated sales, purchase commitments, cash balances, payables, and receivables. The Company may also use other derivative instruments such as swaps, rate locks, and options to hedge its interest rate exposure.

The effective portion of hedging gains and losses associated with these cash flow hedges is recorded, net of tax, in other comprehensive income and recognized in earnings in the same period as the hedged item. For cash flow hedges of non-financial items, these gains and losses are included in the initial carrying cost of the hedged asset or hedged liability. The gain or loss relating to any ineffective portion is recognized immediately in the consolidated statement of net income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss recorded in other comprehensive income at that time remains in accumulated other comprehensive income until the originally hedged transaction affects net income. When a forecasted transaction is no longer expected to occur, the accumulated gain or loss that was reported in other comprehensive income is immediately recorded in the consolidated statement of net income.

Net Investment Hedges

The Company uses foreign currency debt to hedge foreign currency gains and losses on its long-term net investments in foreign operations. The effective portion of the gain or loss of such instruments associated with the hedged risk is recorded in other comprehensive income. These gains or losses are recognized in the consolidated statement of net income upon the disposal of a foreign operation, a disposal that involves loss of control of a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation.

Areas of Estimation Uncertainty

Fair Value

The fair value of derivative financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a valuation method and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company did not have any hedging relationships directly affected by the interest rate benchmark reform (Note 2d).

Market risk is the risk that changes in the market, such as foreign exchange rates and interest rates, will affect the Company's income or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Foreign Exchange Risk

The Company is geographically diversified, with significant investments in several different countries. The Company transacts business in multiple currencies, the most significant of which are the CAD, USD, GBP, CLP, and ARS.

As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

Translation Exposure

The most significant foreign exchange impact on the Company's net income and other comprehensive income is the translation of foreign currency-based earnings and net assets or liabilities into CAD, which is the Company's presentation currency. The Company's South American and UK & Ireland operations have functional currencies other than the CAD and, as a result, exchange rate movements between the USD/CAD and GBP/CAD will impact the consolidated results of the South American and UK & Ireland operations in CAD terms. The Company does not hedge its exposure to foreign exchange risk with regard to foreign currency earnings.

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the consolidated statement of financial position dates. Any translation gains and losses are recorded as foreign currency translation adjustments in other comprehensive income. To the extent practical, it is the Company's objective to manage this exposure. The Company hedged a portion of its foreign investments with loans denominated in foreign currencies.

The carrying value of the Company's long-term debt that was designated as net investment hedging instruments was $757 million (2019: $768 million).

Transaction Exposure

Many of the Company's operations purchase, sell, rent, and lease assets as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect the Company's profitability as exchange rates fluctuate. For example, the Company's Canadian operating results are exposed to volatility in USD/CAD rates between the timing of equipment and parts purchases that are made in USD and the ultimate sale to customers made in CAD. A portion of this exposure is hedged through the use of forward exchange contracts as well as managed through pricing practices. The Company applies hedge accounting to hedges of certain inventory purchases and sales of complex power and energy systems in its Canadian and UK operations, respectively. For the year ended December 31, 2020 the Company entered into forward exchange contracts for inventory purchases of USD $104 million. In 2019, the Company entered into forward exchange contracts for inventory purchases of USD $170 million, of which there were no cancellations of forward exchange contracts where the transaction was no longer expected to occur.

The results of the Company's operations are impacted by the translation of foreign-denominated transactions; the results of the Canadian operations are impacted by USD based revenue and costs, the results of the South American operations are impacted by CLP and ARS based revenues and costs, and the results of the UK & Ireland operations are primarily impacted by EUR based revenue and costs.

The Company is also exposed to foreign currency risks related to the future cash flows on its foreign-denominated financial assets and financial liabilities and foreign-denominated net asset or net liability positions on its consolidated statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The fair value of derivative liabilities designated as cash flow hedging instruments is $1 million (2019: $1 million).

Exposure to Foreign Exchange Risk

The currencies of the Company's significant financial instruments were as follows:

December 31, 2020 **(millions)**	**CAD**	**USD**	**GBP**	**CLP**	**ARS**
Cash and cash equivalents	**7**	**198**	**48**	**85,066**	**2,061**
Accounts receivable – trade	**332**	**77**	**45**	**105,102**	**248**
Short-term and long-term debt	**(602)**	**(529)**	**(70)**	**—**	**—**
Accounts payable and accruals	**(260)**	**(184)**	**(57)**	**(69,708)**	**(625)**
Lease liabilities	**(224)**	**(5)**	**(34)**	**—**	**(9)**
Net statement of financial position exposure	**(747)**	**(443)**	**(68)**	**120,460**	**1,675**

December 31, 2019 (millions)	CAD	USD	GBP	CLP	ARS
Cash and cash equivalents	—	184	—	8,301	236
Accounts receivable – trade	375	128	54	141,169	336
Short-term and long-term debt	(748)	(659)	(71)	—	(851)
Accounts payable and accruals	(393)	(310)	(77)	(121,391)	(1,188)
Lease liabilities	(267)	(9)	(38)	—	(2)
Net statement of financial position exposure	(1,033)	(666)	(132)	28,079	(1,469)

Sensitivity Analysis to Foreign Exchange Risk

As a result of foreign exchange gains or losses on the translation of financial instruments denominated in foreign currencies, a weakening of the CAD against the following currencies would increase (decrease) pre-tax income and other comprehensive income by the amounts shown below. This analysis uses estimated forecast foreign exchange rates for the upcoming year and assumes that all other variables, in particular volumes, relative pricing, interest rates, and hedging activities are unchanged.

December 31, 2020 **($ millions)**	**Weakening of CAD**	**Pre-tax Income (Loss)**	**Other Comprehensive Loss**
USD/CAD	**10%**	**$ —**	**$ (58)**
GBP/CAD	**20%**	**$ —**	**$ (24)**
CLP/CAD	**15%**	**$ 14**	**$ —**
ARS/CAD	**40%**	**$ (3)**	**$ —**

A strengthening of the CAD against the above currencies relative to the December 31, 2020 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

Interest Rate Risk

Changes in market interest rates can cause fluctuations in the fair value or future cash flows of financial instruments.

The Company is exposed to changes in interest rates on its interest-bearing financial assets. The Company's floating-rate financial assets comprise cash and cash equivalents. Due to the short-term nature of cash and cash equivalents, the impact of fluctuations in fair value are limited but interest income earned can be impacted. Instalment and other notes receivable bear interest at a fixed rate thus their fair value will fluctuate prior to maturity but, absent monetization, future cash flows do not change.

The Company is exposed to changes in interest rates on its interest-bearing financial liabilities, primarily from short-term and long-term debt and lease liabilities. The Company's debt portfolio comprises both fixed and floating rate debt instruments, with terms to maturity ranging up to 2042. The Company's floating rate debt is short-term in nature and as a result, the Company is exposed to limited fluctuations in changes to fair value, but finance expense and cash flows will increase or decrease as interest rates change.

The fair value of the Company's fixed rate debt obligations fluctuate with changes in interest rates, but absent early settlement, related cash flows do not change. The Company is exposed to changes in future interest rates upon refinancing of any debt prior to or at maturity.

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

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was as follows:

December 31 ($ millions)	**2020**	2019
Fixed rate instruments		
Financial assets	**$ 27**	$ 35
Financial liabilities	**$ (1,606)**	$ (1,875)
Variable rate instruments		
Financial assets	**$ 539**	$ 268
Financial liabilities	**$ (92)**	$ (226)

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Company does not account for any fixed rate financial assets or financial liabilities at fair value through the consolidated statement of net income, and the Company does not currently have any derivatives designated as hedging instruments under a fair value hedge accounting model, or any derivative interest rate instruments for which fair value changes are recognized in other comprehensive income. Therefore a change in interest rates at the reporting date would not affect net income or other comprehensive income.

Pre-tax Income Sensitivity Analysis for Variable Rate Instruments

The Company's variable rate instruments are in a net asset position; therefore, an increase of 1.0% in interest rates for a full year relative to the interest rates at the reporting date would have increased income by $4 million with a 1.0% decrease having the opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

(d) Fair Values

Financial instruments measured at fair value are grouped into three levels based on the degree to which fair value is observable:

Level 1 – quoted prices in active markets for identical securities
Level 2 – significant observable inputs other than quoted prices included in Level 1
Level 3 – significant unobservable inputs

The Company's only financial instruments measured at fair value are derivative instruments. All of the derivative instruments are measured at fair value using Level 2 inputs. Certain assets held-for-sale are measured at fair value using level 3 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2020 and 2019.

Derivative Instruments (Level 2)

The fair value of foreign currency forward contracts is determined by discounting contracted future cash flows using a discount rate derived from interest rate curves and observed forward prices for comparable assets and liabilities.

Where material, fair values are adjusted for credit risk based on observed credit default spreads or market yield spreads for counterparties for financial assets and based on the Company's credit risk for financial liabilities. The Company's credit risk is derived from yield spreads on the Company's market quoted debt.

Long-Term Debt (Level 2)

The carrying value and fair value of the Company's long-term debt was estimated as follows:

December 31	**2020**		2019	
($ millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt	**$ 1,308**	**$ 1,443**	$ 1,518	$ 1,635

The fair value of the Company's long-term debt is based on the present value of future cash flows required to settle the debt which is derived from the remaining interest payments. The present value of future cash flows is discounted using the yield to maturity rate as at the measurement date. This technique utilizes a combination of quoted prices and market observable inputs.

Investment in Energyst (Level 3)

The fair value of the Company's 31.4% investment in Energyst was estimated to be $3 million (2019: $0 million), the amount the Company expected to recover from its investment (Note 15). This amount was received on January 7, 2021.

Cash and Cash Equivalents, Accounts Receivable, Instalment Notes Receivable, Short-Term Debt, and Accounts Payable

The recorded values of cash and cash equivalents, accounts receivable, instalment notes receivable, short-term debt, and accounts payable approximate their fair values due to the short-term maturities of these instruments.

9. Management of Capital

The Company's objective when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company includes cash and cash equivalents, short-term debt and long-term debt, and shareholders' equity in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. In May 2020, the Company renewed its normal course issuer bid which enables the Company to purchase its common shares for cancellation. In the first quarter of 2020, the Company repurchased 1,215,617 Finning common shares for cancellation at an average cost of $19.25 per share (2019: 1,073,354 Finning common shares were repurchased for cancellation at an average cost of $24.75 per share).

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.

December 31	**2020**	2019
Net debt to Adjusted EBITDA Ratio (times)	**1.4**	2.0

The Company's long-term target of net debt to Adjusted EBITDA is less than 3.0.

Net debt to Adjusted EBITDA is calculated as net debt divided by Adjusted EBITDA for the last twelve months. Net debt is calculated as short-term and long-term debt, net of cash. Adjusted EBITDA is calculated by adding depreciation and amortization to earnings before finance costs and income taxes, excluding 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.

Net Debt was calculated as follows:

December 31 ($ millions)	**2020**	2019
Cash and cash equivalents	**$ (539)**	$ (268)
Short-term debt	**92**	226
Current portion of long-term debt	**201**	200
Long-term debt	**1,107**	1,318
Net debt	**$ 861**	$ 1,476

Adjusted EBITDA reconciles to EBITDA as follows:

For years ended December 31 ($ millions)	**2020**	2019
EBITDA (Note 3)	**$ 700**	$ 718
Significant items:		
Canadian emergency wage subsidy (Note 6)	**(115)**	—
Severance costs (a)	**42**	20
Facility closures, restructuring costs, and impairment losses (b)	**9**	8
Acquisition costs related to 4Refuel (Note 6)	**—**	4
Adjusted EBITDA	**$ 636**	$ 750

(a) Severance costs of $42 million in 2020 and $18 million in 2019 were recorded in other expenses (Note 6). In 2019, $2 million of severance costs were recorded in selling, general, and administrative expenses.

(b) Facility closure costs, restructuring costs, and impairment losses of $9 million in 2020 and $7 million in 2019 were recorded in other expenses (Note 6). In 2019, $1 million of facility closure costs, restructuring costs, and impairment losses were recorded in selling, general, and administrative expenses.

10. SHARE CAPITAL

Accounting Policy

Common shares repurchased by the Company are recognized as a reduction in share capital and contributed surplus (and retained earnings once contributed surplus is fully drawn down) on the date of repurchase. A liability is recognized for any committed repurchases that have not yet settled at a reporting period end. The cash consideration paid to repurchase shares is presented as a financing activity in the statement of cash flow. Details of the transaction (number of shares repurchased and amount deducted from equity) are disclosed in the statement of shareholders' equity.

The Company is authorized to issue an unlimited number of preferred shares without par value, of which 4.4 million are designated as cumulative redeemable convertible preferred shares. The Company had no preferred shares outstanding for the years ended December 31, 2020 and 2019.

The Company is authorized to issue an unlimited number of common shares. All issued common shares have no par value and are fully paid.

The Company's dealership agreements with subsidiaries of Caterpillar are fundamental to its business and a change in control of Finning may result in Caterpillar exercising its right to terminate those dealership agreements.

The Company had previously adopted a shareholder rights plan, which was extended in May 2017 for a three-year term. The rights plan provided, among other things, for the issuance of one share purchase right for each common share, which right traded with the common share until such time as any person or group, other than a "permitted bidder" (as defined in the rights plan), bids to acquire or acquires 20% or more of our common shares, at which time the share purchase right becomes exercisable. The Company did not seek shareholder approval to extend the rights plan and it automatically terminated at the end of the annual meeting of shareholders on May 5, 2020.

11. SHARE-BASED PAYMENTS

Accounting Policy

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees and members of the Board of Directors.

Equity settled share-based payments are measured at fair value using the Black-Scholes option pricing model. The fair value is determined on the grant date of the share option and recorded over the vesting period in selling, general, and administrative expense, based on the Company's estimate of options that will vest, with a corresponding increase to contributed surplus. When share options are exercised, the proceeds received by the Company, together with any related amount recorded in contributed surplus, are credited to share capital.

Total Shareholder Return Performance Share Units are measured at fair value using the Monte Carlo model and all other cash-settled share-based awards are measured at fair value using the Company's share price on the Toronto Stock Exchange (TSX:FTT). Cash settled share-based compensation plans are recognized as a liability. Compensation expense which arises from vesting and fluctuations in the fair value of the Company's cash settled share-based compensation plans is recognized in selling, general, and administrative expense in the consolidated statement of income with the corresponding liabilities recorded within accounts payable and accruals (current) and long-term other liabilities (non-current) on the consolidated statement of financial position.

Areas of Estimation Uncertainty

The Company uses the Black-Scholes option pricing model to determine the fair value of share options. Inputs to the model are subject to various estimates relating to share price volatility, interest rates, dividend yields and expected life of the units issued. Inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimates of inputs to the model at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments in estimating how many units will vest.

The Company also estimates the projected outcome of performance conditions for Performance Share Units (PSUs), including the relative ranking of the Company's total shareholder return compared with a specified peer group using a Monte Carlo simulation option-pricing model and forecasting the Company's return on invested capital.

In 2020 and 2019, long-term incentives for executives and senior management were a combination of share options, deferred share units, performance share units, and restricted share units.

Share Options

The Company has one share option plan (Stock Option Plan) for certain employees. Options granted under the Stock Option Plan vest over a three-year period and are exercisable over a seven-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2020 and 2019, approximately 2 million common shares remained eligible to be issued in connection with future grants.

In 2020, the Company granted 724,739 common share options to senior executives and management of the Company (2019: 608,821 common share options). The Company only grants and prices share options when all material information has been disclosed to the market.

Under the Stock Option Plan, exercises generally utilize the cashless method, whereby the actual number of common shares issued on exercise is based on the premium between the fair value of common shares at the time of exercise and the grant value, and the equivalent value of the number of share options up to the grant value is withheld. Share options exercised in 2020 comprised cashless exercises. 35,053 share options were exercised in 2020 resulting in 3,981 common shares being issued; 31,072 share options were withheld and returned to the option pool for future issues/grants (2019: 133,384 options were exercised resulting in 10,507 common shares being issued; 122,877 share options were withheld and returned).

Details of the share option plans were as follows:

For years ended December 31	2020 Share Options	2020 Weighted Average Exercise Price	2019 Share Options	2019 Weighted Average Exercise Price
Share options outstanding, beginning of year	**3,416,168**	**$ 25.66**	3,164,352	$ 26.22
Granted	**724,739**	**$ 17.75**	608,821	$ 22.31
Exercised	**(35,053)**	**$ 23.53**	(133,384)	$ 22.25
Forfeited	**(146,468)**	**$ 25.51**	(165,021)	$ 26.91
Expired	**(275,937)**	**$ 22.06**	(58,600)	$ 25.48
Share options outstanding, end of year	**3,683,449**	**$ 24.40**	3,416,168	$ 25.66
Exercisable, end of year	**2,490,563**	**$ 26.21**	2,449,590	$ 25.67

The fair value of the share options granted during the year was estimated on the date of grant using the following weighted-average assumptions:

	2020 Grant	2019 Grant
Dividend yield	**3.2%**	2.9%
Expected volatility [1]	**32.2%**	27.6%
Risk-free interest rate	**0.4%**	1.5%
Expected life (years)	**5.34**	5.38
Share price	**$ 17.75**	$ 22.31

[1] Expected volatility is based on historical share price volatility of TSX:FTT shares

The weighted average grant date fair value of share options granted during the year was $3.59 (2019: $4.28).

The following table summarizes information about share options outstanding at December 31, 2020:

	Share options Outstanding			Share options Exercisable	
Range of exercise prices	Number outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number outstanding	Weighted Average Exercise Price
$17.75 - $20.68	**739,459**	**6.19 years**	**$ 17.82**	**29,270**	**$ 19.53**
$20.69 - $22.38	**916,588**	**4.13 years**	**$ 22.11**	**553,023**	**$ 21.98**
$22.39 - $25.47	**854,934**	**1.45 years**	**$ 25.38**	**843,027**	**$ 25.42**
$25.48 - $27.98	**387,084**	**3.33 years**	**$ 26.77**	**387,084**	**$ 26.77**
$27.99 - $33.68	**785,384**	**2.05 years**	**$ 31.02**	**678,159**	**$ 30.61**
Total	**3,683,449**	**3.39 years**	**$ 24.40**	**2,490,563**	**$ 26.21**

The following table summarizes information about share options outstanding at December 31, 2019:

	Share options Outstanding			Share options Exercisable	
Range of exercise prices	Number outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number outstanding	Weighted Average Exercise Price
$19.53 - $22.29	702,452	2.20 years	$ 21.83	702,452	$ 21.83
$22.30 - $23.95	599,407	6.38 years	$ 22.31	—	$ —
$23.96 - $25.47	871,727	2.36 years	$ 25.44	871,727	$ 25.44
$25.48 - $27.98	421,235	4.32 years	$ 26.75	283,490	$ 26.73
$27.99 - $33.68	821,347	3.07 years	$ 31.05	591,921	$ 30.06
Total	3,416,168	3.45 years	$ 25.66	2,449,590	$ 25.67

Other Share-Based Payment Plans

The Company has other share-based payment plans in the form of deferred share units, performance share units, and restricted share units that use notional common share units.

Details of the plans are as follows:

Directors

Directors' Deferred Share Unit (DDSU) Plan A

Under the DDSU Plan A, non-employee Directors of the Company may be awarded deferred share units and may also elect to allocate all or a portion of their annual compensation issued in the form of deferred share units. These units are fully vested upon issuance. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Units are redeemable for cash or shares or a combination of cash and shares (as requested by the holder) only following cessation of service on the Board of Directors and must be redeemed by December 31st of the year following the year in which the cessation occurred. The payout for deferred share units redeemed for cash is determined using the redemption-date market value of the Company's common shares.

Non-employee Directors of the Company were granted a total of 91,136 deferred share units in 2020 (2019: 69,567), which were expensed over the calendar year as the units were issued. An additional 38,365 deferred share units (2019: 28,370) were issued in lieu of cash compensation payable for service as a Director. A further 22,220 deferred share units (2019: 16,691) were granted to Directors during 2020 as notional dividends.

Executive

Executive Deferred Share Unit (Exec DSU) Plan

Under the Exec DSU Plan, executives of the Company may elect to have all or a portion of their annual bonus issued in the form of deferred share units and be awarded deferred share units as approved by the Board of Directors. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance or in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash before December 15th of the year following the year in which cessation of employment with the Company occurred. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares.

Executives were granted a total of 22,284 deferred share units in 2020 (2019: 330,057) as remuneration of their annual bonus payment and 2,674 deferred share units (2019: 1,940) were issued as notional dividends under the Exec DSU Plan.

Deferred Share Unit (DSU-B) Plan B for Executives

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board of Directors. The DSU-B Plan utilizes notional units that become vested in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash or for common shares of the Company for a period of 30 days following cessation of employment with the Company, or before December 31st of the year following the year of retirement, death, or disability. Deferred share units expire if they have not vested within five years from the grant-date. Only vested units accumulate dividend equivalents in the form of additional deferred share units based on the dividends paid on the Company's common shares.

During 2020, 3,882 deferred share units (2019: 4,600) were granted to executives as notional dividends under the DSU-B Plan.

PSU Plan

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that vest upon achieving future specified performance levels. All units accumulate dividend equivalents in the form of additional performance share units based on the dividends paid on the Company's common shares. All units, including accumulated dividend equivalents, are redeemed upon vesting. All PSUs granted in 2020 and 2019 were divided equally into two categories. Half of the awards are based on the extent to which the Company's return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The other half of the awards is based on the performance of the Company's total shareholder return over the three-year period relative to the performance of the total shareholder return of all companies in the S&P/TSX Capped Industrials Index (TSR PSUs).

Vested performance share units are redeemable in cash. The per unit payout is based on the volume-weighted average trading price of the Company's common shares on the five days prior to the end of the performance period. During the year ended December 31, 2020, a total of 578,238 performance share units were granted to Executives, based on 100% vesting (2019: 551,604), and 88,942 notional units (2019: 43,891) were issuable based on 100% vesting as payment for dividends upon vesting.

Compensation expense for the PSU Plan is recorded over the three-year performance period. The amount of compensation expense is adjusted over the three-year performance period to reflect the fair value of the PSUs and the number of PSUs anticipated to vest.

The specified levels and respective vesting percentages for the 2020 grants were as follows:

TSR PSUs

- 1/3 of the grants is based on the Company's total share return for year 1 of the grant (2020);
- 1/3 of the grants is based on the Company's total share return for year 2 of the grant (2021); and
- 1/3 of the grants is based on the Company's total share return for year 3 of the grant (2022).

Percentile Rank	**< 25th Percentile**	**25th Percentile**	**50th Percentile**	**75th Percentile**	**100th Percentile**
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

- 1/3 of the grants is based on the Company's ROIC performance for year 1 of the grant (2020);
- 1/3 of the grants is based on the Company's ROIC performance for year 2 of the grant (2021); and
- 1/3 of the grants is based on the Company's ROIC performance for year 3 of the grant (2022).

Performance Level	**Return on Invested Capital for 2020**	**Proportion of PSUs Vesting**
Below Threshold	< 5.0%	Nil
Threshold	5.0%	50%
Target	7.1%	100%
Maximum	9.2% or more	200%

(1) The return on invested capital performance level targets for 2021 and 2022 will be determined at the beginning of each of these years.

The specified levels and respective vesting percentages for the 2019 grants over the three-year period were as follows:

TSR PSUs

Percentile Rank	**< 25th Percentile**	**25th Percentile**	**50th Percentile**	**75th Percentile**	**100th Percentile**
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

Performance Level	Average Return on Invested Capital (over three-year period)	Proportion of PSUs Vesting
Below Threshold	< 11.5%	Nil
Threshold	11.5%	50%
Target	15.5%	100%
Maximum	19.5% or more	200%

Restricted Share Unit (RSU) Plan

Under the RSU Plan, executives of the Company may be awarded restricted share units as approved by the Board of Directors. This plan utilizes notional units that vest three-years from the grant-date in accordance with terms set at the time of grant. All units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Company's common shares.

Restricted share units that have vested are redeemable in cash and the fair value payout per unit is based on the five-day volume-weighted average trading price of the Company's common shares at the end of the three-year period. During the year ended December 31, 2020, a total of 371,619 restricted share units were granted to Executives (2019: 258,024) and 29,326 notional units (2019: 21,572) are issuable as payment for dividends upon vesting.

Details of the DSU, PSU, and RSU plans were as follows:

For year ended December 31, 2020 Units	**Exec DSU**	**DSU-B**	**DDSU**	**PSU**	**RSU**	**Total**
Outstanding, beginning of year	**380,853**	**130,372**	**494,393**	**803,123**	**592,939**	**2,401,680**
Additions	**24,958**	**3,882**	**151,721**	**657,018**	**400,945**	**1,238,524**
Exercised	**(7,740)**	**(95,928)**	**(56,543)**	**(294,170)**	**(177,100)**	**(631,481)**
Forfeited	**—**	**—**	**—**	**(79,871)**	**(60,743)**	**(140,614)**
Outstanding, end of year	**398,071**	**38,326**	**589,571**	**1,086,100**	**756,041**	**2,868,109**
Vested, beginning of year	**54,588**	**130,372**	**494,393**	**226,422**	**—**	**905,775**
Vested	**24,958**	**3,882**	**151,721**	**249,338**	**177,100**	**606,999**
Exercised	**(7,740)**	**(95,928)**	**(56,543)**	**(294,170)**	**(177,100)**	**(631,481)**
Vested, end of year	**71,806**	**38,326**	**589,571**	**181,590**	**—**	**881,293**
Liability ($ millions)						
Balance, beginning of year	**$ 1**	**$ 3**	**$ 13**	**$ 13**	**$ 8**	**$ 38**
Expensed	**1**	**—**	**4**	**11**	**5**	**21**
Exercised	**—**	**(2)**	**(1)**	**(7)**	**(3)**	**(13)**
Forfeited	**—**	**—**	**—**	**(1)**	**(1)**	**(2)**
Balance, end of year	**$ 2**	**$ 1**	**$ 16**	**$ 16**	**$ 9**	**$ 44**

For year ended December 31, 2019 Units	Exec DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	50,164	125,772	419,765	1,339,214	605,354	2,540,269
Additions (decreases)	331,997	4,600	114,628	(9,516)	279,596	721,305
Exercised	(1,308)	—	(40,000)	(495,411)	(244,466)	(781,185)
Forfeited	—	—	—	(31,164)	(47,545)	(78,709)
Outstanding, end of year	380,853	130,372	494,393	803,123	592,939	2,401,680
Vested, beginning of year	50,164	125,772	419,765	472,450	—	1,068,151
Vested	5,732	4,600	114,628	249,383	244,466	618,809
Exercised	(1,308)	—	(40,000)	(495,411)	(244,466)	(781,185)
Vested, end of year	54,588	130,372	494,393	226,422	—	905,775
Liability ($ millions)						
Balance, beginning of year	$ 1	$ 3	$ 10	$ 23	$ 9	$ 46
Expensed	—	—	4	2	6	12
Exercised	—	—	(1)	(11)	(6)	(18)
Forfeited	—	—	—	(1)	(1)	(2)
Balance, end of year	$ 1	$ 3	$ 13	$ 13	$ 8	$ 38

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding as at December 31, 2020 has been estimated using the period-end closing TSX: FTT share price of $27.03 (December 31, 2019: $25.30).

The impact of the share-based payment plans on the Company's financial statements was as follows:

For years ended December 31 ($ millions)		**2020**		2019
Consolidated Statements of Net Income				
Compensation expense arising from equity-settled share option incentive plan	**$**	**2**	$	3
Compensation expense arising from cash-settled share-based payments		**19**		10
Total	**$**	**21**	$	13
Consolidated Statements of Financial Position				
Liability for cash-settled share-based payments (current)	**$**	**9**	$	13
Liability for cash-settled share-based payments (non-current) (Note 22)	**$**	**35**	$	25

The total intrinsic value of vested but not settled share-based payments was $24 million (2019: $23 million).

12. INVENTORIES

Accounting Policy

Inventories are assets held for sale in the ordinary course of business, in the process of production for sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services. Inventories are stated at the lower of cost and net realizable value. Cost is determined on a specific item basis for on-hand equipment and internal service work in progress, and on a weighted average cost basis for parts and supplies. The cost of inventories includes all costs of purchase, conversion costs, other costs incurred in bringing inventories to their existing location and condition, and an appropriate share of overhead costs based on normal operating capacity.

Areas of Estimation Uncertainty

The Company makes estimates of the provision required to reflect net realizable value of slow-moving and obsolete inventory. These estimates are determined on the basis of age, redundancy, and stock levels. For equipment inventory, estimates are determined on a specific item basis. Management reviewed equipment values with equipment specialists taking into account industry group, current market demand, market supply of equipment, and the age and condition of equipment. Management reviewed parts inventory estimates based on market demand, parts turns, discontinued items, ability to return to the vendor, and surplus/excess items. The impact of the COVID-19 pandemic was considered and incorporated in its provision for slow-moving and obsolete inventory where appropriate.

December 31 ($ millions)		**2020**		2019
On-hand equipment	**$**	**540**	$	891
Parts and supplies		**634**		775
Internal service work in progress		**303**		324
Total inventory	**$**	**1,477**	$	1,990

For the year ended December 31, 2020, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4.2 billion (2019: $5.5 billion). For the year ended December 31, 2020, the write-down of inventories to net realizable value, included in cost of sales, was $99 million (2019: $52 million).

13. INCOME TAXES

Accounting Policy

The balance sheet liability method of tax allocation is used in accounting for income taxes. Under this method, the carry forward of unused tax losses and unused tax credits and the temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the consolidated statement of financial position are used to calculate deferred tax assets or liabilities. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the carry forward of unused tax losses, unused tax credits, and the deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the asset is expected to be realized or the liability is expected to be settled based on the laws that have been enacted or substantively enacted by the reporting date. The effect of a change in income tax rates on deferred tax assets and liabilities is recognized in income and/or equity in the period that the change becomes enacted or substantively enacted.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed using tax rates enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Current and deferred tax are recognized in net income, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination. The Company records the deferred tax impact of foreign exchange gains or losses arising on the translation of foreign-denominated non-monetary assets and non-monetary liabilities in provision for income tax in the consolidated statement of net income.

Areas of Estimation Uncertainty

Estimations of tax assets or liabilities require assessments to be made based on the potential tax treatment of certain items that will only be resolved once finally agreed with the relevant tax authorities.

Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws in each jurisdiction at the time of the expected reversal. The composition of deferred tax assets and liabilities changes from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes which could have a material effect on expected results.

Areas of Significant Judgment

Judgment is required as income tax laws and regulations can be complex and are potentially subject to a different interpretation between the Company and the respective tax authority. Due to the number of variables associated with the differing tax laws and regulations across the multiple jurisdictions in which the Company operates, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Net income in subsequent periods may be impacted by the amount that estimates differ from the final tax return or from any subsequent re-assessment.

For year ended December 31, 2020 ($ millions)	**Canada**	**International**	**Total**
Current	**$ 24**	**$ 27**	**$ 51**
Adjustment for prior periods recognized in the current year	**(7)**	**(3)**	**(10)**
Total current tax expense	**17**	**24**	**41**
Deferred			
Origination and reversal of timing differences	**19**	**9**	**28**
Decrease due to tax rate changes	**(1)**	**(1)**	**(2)**
Adjustment for prior periods recognized in the current year	**7**	**1**	**8**
Total deferred tax expense	**25**	**9**	**34**
Provision for income taxes	**$ 42**	**$ 33**	**$ 75**

For year ended December 31, 2019 ($ millions)	Canada	International	Total
Current	$ 32	$ 39	$ 71
Adjustment for prior periods recognized in the current year	(4)	(12)	(16)
Total current tax expense	28	27	55
Deferred			
Origination and reversal of timing differences	11	(2)	9
Decrease due to tax rate changes	(3)	(1)	(4)
Adjustment for prior periods recognized in the current year	4	12	16
Total deferred tax expense	12	9	21
Provision for income taxes	$ 40	$ 36	$ 76

The provision for income taxes differs from the amount that would have resulted from applying the Canadian statutory income tax rates to income before income taxes as follows:

For years ended December 31 ($ millions)	**2020**		2019	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 77**	**25.1%**	$ 85	26.7%
(Decrease) increase resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	**(5)**	**(1.6)%**	(9)	(2.8)%
Income not subject to tax	**(6)**	**(2.0)%**	(7)	(2.2)%
Changes in statutory tax rates	**(2)**	**(0.7)%**	(4)	(1.3)%
Non-deductible share-based payment expense	**1**	**0.3%**	1	0.3%
Non-taxable/non-deductible foreign exchange in Argentina	**6**	**2.0%**	11	3.6%
Inflationary adjustment	**(1)**	**(0.3)%**	(5)	(1.6)%
Other	**5**	**1.6%**	4	1.3%
Provision for income taxes	**$ 75**	**24.4%**	$ 76	24.0%

The Company recognized the impact of the following enacted corporate income tax rate changes:

- In Canada, the Alberta provincial government announced in 2019 to gradually reduce the corporate income tax rate from 12% to 8% over the period of July 1, 2019 to January 1, 2022. On December 9, 2020 the Alberta provincial government approved the acceleration of the tax rate reduction to 8% effective July 1, 2020.
- In 2017, the Argentine government announced the reduction of the corporate tax rate from 30% to 25% effective January 1, 2020. On December 23, 2019 the Argentine government approved the delay of the tax rate reduction until January 1, 2021.

Deferred Tax Asset and Liability

Temporary differences and tax loss carry-forwards that gave rise to deferred tax assets and liabilities were as follows:

December 31 ($ millions)	**2020**	2019
Accounting provisions not currently deductible for tax purposes	**$ 45**	$ 66
Employee benefits	**—**	4
Share-based payments	**9**	8
Loss carry-forwards	**16**	11
Deferred tax assets	**70**	89
Property, plant and equipment, rental equipment, right-of-use assets, and intangible assets	**(115)**	(103)
Distribution network	**(14)**	(13)
Employee benefits	**(2)**	—
Other	**(9)**	(4)
Deferred tax liabilities	**(140)**	(120)
Net deferred tax liability	**$ (70)**	$ (31)

Deferred taxes were not recognized on retained profits of approximately $1.7 billion (2019: $1.7 billion) of foreign subsidiaries, as it was the Company's intention to invest these profits to maintain and expand the business of the relevant companies.

The Company recognized the benefit of the following tax loss carry-forwards available to reduce future taxable income, of which $20 million do not expire and $42 million expire between 2023 and 2025.

December 31 ($ millions)	**2020**	2019
International	**$ 62**	$ 42

As at December 31, 2020, the Company had unrecognized capital and non-capital loss carry-forwards of $91 million (2019: $77 million) to reduce future taxable income. These amounts do not expire.

The income tax expense (recovery) relating to components of other comprehensive income was as follows:

For years ended December 31 ($ millions)	**2020**	2019
Deferred tax expense (recovery)	**$ 7**	$ (5)
Provision for (recovery of) income taxes recognized in other comprehensive income	**$ 7**	$ (5)

14. Other Assets

December 31 ($ millions)		2020		2019
Supplier claims receivable	**$**	**104**	$	95
Prepaid expenses		**26**		54
Finance assets		**24**		26
Income tax recoverable		**24**		35
Equipment deposits		**14**		11
Canada Emergency Wage Subsidy receivable (Note 6a)		**13**		—
Value Added Tax receivable		**5**		5
Other		**27**		10
Total other assets – current	**$**	**237**	$	236

December 31 ($ millions)		2020		2019
Net post-employment asset (Note 24)	**$**	**132**	$	73
Deferred tax assets (Note 13)		**56**		57
Prepaid expenses		**17**		26
Finance assets (a)		**5**		12
Other		**25**		16
Total other assets – non-current	**$**	**235**	$	184

(a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of $2 million was recorded in 2020 (2019: $3 million). Depreciation expense is recognized in equal monthly amounts over the term of the individual leases.

15. JOINT VENTURES AND ASSOCIATE

Accounting Policy

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company accounts for its joint ventures and associate in which the Company has an interest using the equity method. The joint ventures and associate follow accounting policies that are materially consistent with the Company's accounting policies. Where the Company transacts with its joint ventures or associate, unrealized profits or losses are eliminated to the extent of the Company's interest in the joint venture or associate.

Nature of Relationships

PipeLine Machinery International (PLM) is a strategic partnership that sells and rents both purpose-built pipeline and traditional Caterpillar products to mainline pipeline construction customers worldwide.

Agriterra, an Alberta based company, is a consolidation of equipment dealers providing customers with agriculture and consumer products.

Energyst was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, including Finning, decided to restructure the company and convert its rental activities into four separate regional organizations. As part of this restructuring, the Company's interest in Energyst changed from 28.8% to 31.4% and on January 7, 2021, Finning UK & Ireland acquired the Energyst businesses in the UK and Ireland for gross consideration of $15 million (€9 million) and is now the authorized supplier of rental services for Caterpillar power generation in these territories. At December 31, 2020, the fair value of Energyst was estimated to be $3 million (€2 million) (2019: $nil) representing the repayment of the outstanding subordinated shareholder loan settled on January 7, 2021.

The Company's proportion of ownership interest in its joint ventures and associate was as follows:

December 31 Name of Venture	Type of Venture	Principal place of business/country of incorporation	Proportion of Ownership Interest Held 2020	 2019
PLM	Joint Venture	United States	25.0%	25.0%
Agriterra	Joint Venture	Canada	20.0%	20.0%
Energyst	Associate	Netherlands	31.4%	28.8%

Information about the Company's joint ventures and associate that are not considered individually material to the Company:

For year ended December 31, 2020 ($ millions)	**PLM**	**Agriterra [1]**	**Energyst [2]**	**Total**
Company's share of income	**$ 3**	**$ —**	**$ —**	**$ 3**
Company's share of other comprehensive income	**$ 1**	**$ —**	**$ —**	**$ 1**
Carrying amount of the Company's interests in joint ventures and associate	**$ 77**	**$ 5**	**$ 3**	**$ 85**

For year ended December 31, 2019 ($ millions)	PLM	Agriterra [1]	Energyst [2]	Total
Company's share of income	$ 15	$ —	$ —	$ 15
Company's share of other comprehensive loss	$ (1)	$ —	$ —	$ (1)
Carrying amount of the Company's interests in joint ventures and associate	$ 89	$ 5	$ —	$ 94

[1] Included in the investment in joint venture at December 31, 2019 was an advance of $2 million to Agriterra, bearing interest at prime rate + 2%. In 2020, this advance was converted to preferred shares with no change in the Company's investment in Agriterra.

[2] Effective September 30, 2018, Energyst was classified as held-for-sale and the Company did not record any further equity earnings or losses from Energyst since that date. Following the restructuring in December 2020, Energyst was no longer considered held-for-sale at December 31, 2020.

16. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT

Accounting Policy

Property, plant, and equipment and rental equipment are recorded at cost, net of accumulated depreciation and any impairment losses. Depreciation of property, plant and equipment is recorded in selling, general, and administrative expenses for all assets except standby equipment, which is recorded in cost of sales in the consolidated statement of net income. Depreciation of rental equipment is recorded in cost of sales in the consolidated statement of net income.

Depreciation commences when the asset becomes available for use, and ceases when the asset is derecognized or classified as held for sale. Where significant components of an asset have different useful lives, depreciation is calculated on each separate component.

Rental equipment includes units transferred from inventory and excludes units transferred to inventory when the rental equipment becomes available for sale.

All classes of property, plant, and equipment and rental equipment are depreciated over their estimated useful lives to their estimated residual value on a straight-line basis using the following:

Buildings	10 - 50 years
Equipment and vehicles	3 - 20 years
Rental equipment	2 - 5 years

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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an item of property, plant, and equipment and rental equipment, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

Areas of Significant Judgment

Depreciation expense is sensitive to the estimated useful life determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, product life cycles, physical condition, prospective use, and maintenance programs.

December 31, 2020 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 76	$ 973	$ 633	$ 1,682	$ 691
Additions	2	17	40	59	110
Additions through leases (Note 17)	—	6	22	28	1
Remeasurement of right-of-use assets (Note 17)	—	9	—	9	1
Transfers from inventory	—	—	—	—	79
Disposals	—	(10)	(75)	(85)	(199)
Foreign exchange rate changes	—	(5)	(3)	(8)	1
Balance, end of year	$ 78	$ 990	$ 617	$ 1,685	$ 684

December 31, 2020 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	$ (10)	$ (362)	$ (339)	$ (711)	$ (234)
Depreciation for the year	—	(66)	(85)	(151)	(102)
Disposals	—	7	41	48	83
Impairment loss	—	(9)	—	(9)	—
Foreign exchange rate changes	—	3	2	5	(1)
Balance, end of year	$ (10)	$ (427)	$ (381)	$ (818)	$ (254)

December 31, 2020 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	$ 66	$ 611	$ 294	$ 971	$ 457
Balance, end of year	$ 68	$ 563	$ 236	$ 867	$ 430

December 31, 2019 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 78	$ 762	$ 404	$ 1,244	$ 648
IFRS 16 adjustment (Note 2)	—	143	110	253	25
Additions	—	35	55	90	183
Additions through leases (Note 17)	—	11	57	68	12
Remeasurement of right-of-use assets (Note 17)	—	37	—	37	(2)
Additions through business combinations (Note 26)	—	4	38	42	—
Transfers from inventory	—	—	1	1	32
Disposals	—	(6)	(20)	(26)	(199)
Foreign exchange rate changes	(2)	(13)	(12)	(27)	(8)
Balance, end of year	$ 76	$ 973	$ 633	$ 1,682	$ 691

December 31, 2019 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	$ (10)	$ (305)	$ (284)	$ (599)	$ (207)
Depreciation for the year	—	(64)	(77)	(141)	(102)
Disposals	—	5	16	21	73
Impairment loss	—	(5)	—	(5)	—
Foreign exchange rate changes	—	7	6	13	2
Balance, end of year	$ (10)	$ (362)	$ (339)	$ (711)	$ (234)

December 31, 2019 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	$ 68	$ 457	$ 120	$ 645	$ 441
Balance, end of year	$ 66	$ 611	$ 294	$ 971	$ 457

17. LEASES

At the inception of a contract, the Company assesses whether the contract is or contains a lease.

The Company as Lessee

At the commencement of the lease, the Company recognizes a right-of-use asset and a corresponding lease liability, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The right-of-use asset at inception includes the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is recorded in selling, general, and administrative expenses for all assets except leases of rental equipment, where depreciation is recorded in cost of sales in the consolidated statement of net income. Depreciation is recorded on a straight-line basis over the shorter of the term of the lease or the estimated useful life of the underlying asset, commencing when the asset becomes available for use.

Right-of-use assets 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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for a right-of-use asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

The lease liability is initially measured at the present value of the remaining lease payments that have not been paid at the commencement date, discounted by using the Company's incremental borrowing rate unless the rate implicit in the lease is readily determinable.

Lease payments over the estimated lease term included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and,
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term changes or there is a change in the assessment of the likelihood of the purchase option being exercised, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate,
- The lease payments change due to a change in an index, rate, or expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; or,
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use asset is presented within property, plant, and equipment and rental equipment and the lease liability is presented within other liabilities (current) and long-term lease liabilities (non-current) on the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases that have a term of 12 months or less and leases of low-value assets. The Company recognizes these lease payments as an expense on a straight-line basis over the lease term.

Areas of Significant Judgment

The Company is required to make judgments in determining the lease term. Management considers all facts and circumstances, including economic incentives to exercise an extension option and its asset management strategy. Extension options are only included in the lease term if the lease is reasonably certain to be extended. Most of the Company's extension options relate to lease of properties in the Company's Canadian operations and are evaluated based on management's long-term facility strategy.

The Company as Lessor

Revenue from equipment rentals and operating leases is presented as equipment rental revenue and in accordance with the terms of the relevant agreement with the customer, either recognized evenly over the term of that agreement or on a usage basis such as the number of hours that the equipment is used.

Right-of-use assets, included in property, plant, and equipment and rental equipment (Note 16) were as follows:

December 31, 2020 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost				
Balance, beginning of year	$ 207	$ 192	$ 399	$ 69
Additions	6	22	28	1
Remeasurement of right-of-use assets	9	—	9	1
Disposals	(6)	(15)	(21)	(3)
Balance, end of year	$ 216	$ 199	$ 415	$ 68

December 31, 2020 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses				
Balance, beginning of year	$ (48)	$ (42)	$ (90)	$ (22)
Depreciation for the year	(33)	(46)	(79)	(11)
Disposals	3	7	10	2
Impairment loss	(1)	—	(1)	—
Balance, end of year	$ (79)	$ (81)	$ (160)	$ (31)

December 31, 2020 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value				
Balance, beginning of year	$ 159	$ 150	$ 309	$ 47
Balance, end of year	$ 137	$ 118	$ 255	$ 37

December 31, 2019 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost				
Balance, beginning of year	$ 14	$ —	$ 14	$ 36
IFRS 16 adjustment (Note 2)	143	110	253	25
Additions	11	57	68	12
Additions through business combinations (Note 26)	3	27	30	—
Remeasurement of right-of-use assets	37	—	37	(2)
Disposals	(1)	(1)	(2)	(1)
Foreign exchange rate changes	—	(1)	(1)	(1)
Balance, end of year	$ 207	$ 192	$ 399	$ 69

December 31, 2019 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses				
Balance, beginning of year	$ (11)	$ —	$ (11)	$ (13)
Depreciation for the year	(33)	(43)	(76)	(10)
Disposals	—	1	1	1
Impairment loss	(4)	—	(4)	—
Balance, end of year	$ (48)	$ (42)	$ (90)	$ (22)

December 31, 2019 ($ millions)	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value				
Balance, beginning of year	$ 3	$ —	$ 3	$ 23
Balance, end of year	$ 159	$ 150	$ 309	$ 47

18. Goodwill

Accounting Policy

Goodwill represents the excess of the acquisition-date fair value of consideration transferred over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized. Refer to Note 21 for the Company's policy on impairment reviews.

December 31, 2020 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Total**
Balance, beginning of year	**$ 166**	**$ 5**	**$ 33**	**$ 204**
Foreign exchange rate changes	**—**	**—**	**1**	**1**
Balance, end of year	**$ 166**	**$ 5**	**$ 34**	**$ 205**

December 31, 2019 ($ millions)	Canada	South America	UK & Ireland	Total
Balance, beginning of year	$ 81	$ 5	$ 34	$ 120
Additions through business combination (Note 26)	85	—	—	85
Foreign exchange rate changes	—	—	(1)	(1)
Balance, end of year	$ 166	$ 5	$ 33	$ 204

19. Distribution Network

Accounting Policy

The distribution network is recorded at the acquisition date fair value, net of any impairment losses. The distribution network is an intangible asset with an indefinite life and therefore not amortized. The distribution network is estimated to have an indefinite life because it is expected to generate cash flows indefinitely. Refer to Note 21 for the Company's policy on impairment reviews.

December 31, 2020 ($ millions)	**Canada**	**UK & Ireland**	**Total**
Balance, beginning of year	**$ 98**	**$ 2**	**$ 100**
Balance, end of year	**$ 98**	**$ 2**	**$ 100**

December 31, 2019 ($ millions)	Canada	UK & Ireland	Total
Balance, beginning of year	$ 98	$ 2	$ 100
Balance, end of year	$ 98	$ 2	$ 100

20. Intangible Assets

Accounting Policy

Intangible assets are recorded at cost or acquisition-date fair value (if acquired through a business acquisition), net of any accumulated amortization and any impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the period during which they are expected to generate benefits. Amortization is recorded in selling, general, and administrative expenses in the consolidated statement of net income using the following estimated useful lives:

Contracts and Customer relationships	2 – 10 years
Software and Technology	2 – 7 years
Tradename	20 years

Borrowing costs are capitalized during the development of qualifying intangible assets. As the Company manages the financing of all operations centrally, the development of qualifying assets is financed through general borrowings and therefore, a weighted average borrowing rate is used in calculating interest to be capitalized.

Intangible assets 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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an intangible asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

Areas of Significant Judgment

Amortization expense is sensitive to the estimated useful life determined for each type of asset. Actual lives and residual values may vary depending on a number of factors including technological innovation, prospective use, and maintenance programs.

December 31, 2020 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Cost				
Balance, beginning of year	$ 284	$ 298	$ 19	$ 601
Additions	22	35	—	57
Disposals	—	(1)	—	(1)
Foreign exchange rate changes	(4)	(2)	—	(6)
Balance, end of year	$ 302	$ 330	$ 19	$ 651

December 31, 2020 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Accumulated amortization				
Balance, beginning of year	$ (156)	$ (123)	$ (1)	$ (280)
Amortization for the year	(23)	(29)	(1)	(53)
Foreign exchange rate changes	3	1	—	4
Balance, end of year	$ (176)	$ (151)	$ (2)	$ (329)

December 31, 2020 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Net book value				
Balance, beginning of year	$ 128	$ 175	$ 18	$ 321
Balance, end of year	$ 126	$ 179	$ 17	$ 322

December 31, 2019 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Cost				
Balance, beginning of year	$ 172	$ 244	$ —	$ 416
Additions	11	58	—	69
Additions through business combination (Note 26)	108	3	19	130
Disposals	—	(1)	—	(1)
Foreign exchange rate changes	(7)	(6)	—	(13)
Balance, end of year	$ 284	$ 298	$ 19	$ 601

December 31, 2019 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Accumulated amortization				
Balance, beginning of year	$ (140)	$ (100)	$ —	$ (240)
Amortization for the year	(22)	(24)	(1)	(47)
Foreign exchange rate changes	6	1	—	7
Balance, end of year	$ (156)	$ (123)	$ (1)	$ (280)

December 31, 2019 ($ millions)	Contracts and Customer relationships	Software and Technology	Tradename	Total
Net book value				
Balance, beginning of year	$ 32	$ 144	$ —	$ 176
Balance, end of year	$ 128	$ 175	$ 18	$ 321

At December 31, 2020, there were $1 million of borrowing costs capitalized to intangible assets (2019: $0 million). The average rate used for capitalization of borrowing costs was 3.6% (2019: 3.4%).

21. IMPAIRMENT

Accounting Policy

Goodwill and intangible assets with indefinite lives (e.g. distribution network) are subject to an assessment for impairment at least annually and when events or changes in circumstances indicate that their value may not be fully recoverable, in which case the assessment is done at that time. Assets which do not have separate identifiable cash inflows are allocated to cash generating units (CGUs). CGUs are subject to impairment reviews whenever there is an indication they may be impaired. At least quarterly, CGUs are reviewed for indicators of impairment. For the purpose of impairment testing, goodwill is allocated to each of the Company's CGUs or group of CGUs expected to benefit from the acquisition. The level at which goodwill is allocated represents the lowest level at which goodwill is monitored for internal management purposes and is not higher than an operating segment. If the recoverable amount of the CGU is less than the carrying amount, then the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit, unless the impairment loss would reduce the carrying amount of an individual asset below the highest of its fair value less costs of disposal; its value-in-use; or, zero. Any impairment is recognized immediately in the consolidated statement of net income.

Impairment losses on goodwill are never reversed but impairment losses on indefinite-lived intangible assets may be reversed. If there is any indication that the circumstances leading to the impairment loss of an indefinite-lived intangible asset no longer exist or may have decreased, management estimates the recoverable value of the CGU. Indicators of a recovery may include sustainable improvement of the economic performance of the CGU and a positive trend in the forecast or budgeted results of the CGU. If the recoverable amount exceeds the carrying amount, then a previously recognized impairment loss is considered to have been reversed (either fully or in part). Any reversal of an impairment loss is recognized immediately in the consolidated statement of net income.

Areas of Significant Judgment

Judgment is used to identify an appropriate discount rate and growth rate used to estimate the recoverable value, identifying the CGUs to which intangible assets should be allocated to, and the CGU or group of CGUs at which goodwill is monitored for internal management purposes.

Areas of Estimation Uncertainty

The recoverable value of CGUs require the use of estimates related to the future operating results and cash generating ability of the assets.

Overview of annual impairment tests

The annual impairment tests were completed to support April 1, 2020 net asset values. The cash flows of the Company's CGUs have been impacted by the COVID-19 pandemic. Management's methodology for impairment testing utilizes a single set of cash flows from the financial budgets to estimate its recoverable value. At the time the annual impairment test was performed, management considered various scenarios, such as updated cash flow projections from operations for 2020 and 2021 to reflect the uncertainty of timing and pace of market recovery from the effects of both COVID-19 and volatility in commodity prices, within the risk adjusted discount rate.

In addition to testing CGUs or groups of CGUs with goodwill or distribution network, recent economic uncertainty and financial performance triggered an impairment review of the Company's Argentina CGU. Market activity was expected to remain slow in a challenging economic environment. Also, the government's restrictive monetary policies combined with capital and imports controls were expected to limit the Company's growth opportunities in Argentina for the foreseeable future.

Recoverable value

The recoverable amount of all CGUs and groups of CGUs are determined based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets approved by the Board of Directors which employ the following key assumptions: future cash flows and growth projections, associated economic risk assumptions, and estimates of achieving key operating metrics and drivers.

The cash flow projection key assumptions are based upon the Company's financial budgets, covering a three-year period which is discounted using after-tax weighted average cost of capital (WACC) rates. For the purposes of the annual impairment test, the cash flows subsequent to the three-year projection period are extrapolated using growth rates based on estimated long-term real gross domestic product and inflation (where appropriate) in the markets in which the Company operates.

Carrying amount, CGU allocation and key assumptions

Goodwill, distribution network, and the significant assumptions used in the Company's value-in-use calculations for each CGU or group of CGUs were as follows:

	2020				2019			
($ millions, except rate)	**Goodwill**	**Distribution Network**	**After-tax WACC rate**	**Growth rate**	Goodwill	Distribution Network	After-tax WACC rate	Growth rate
Canada	**$ 166**	**$ —**	**9%**	**2%**	$ 166	$ —	8%	2%
Canada Mining	**$ —**	**$ 98**	**9%**	**2%**	$ —	$ 98	9%	2%
Argentina	**$ —**	**$ —**	**17%**	**3%**	$ —	$ —	n/a [1]	n/a [1]
Chile	**$ 5**	**$ —**	**10%**	**3%**	$ 5	$ —	9%	3%
UK & Ireland	**$ 34**	**$ 2**	**10%**	**2%**	$ 33	$ 2	9%	2%

[1] n/a – not applicable.

Sensitivities to key assumptions

Sensitivity testing is conducted as part of the annual impairment tests, including stress testing the WACC rate with all other assumptions being held constant. Management believes that any reasonable change in the key assumptions used to determine the recoverable amount would not cause the carrying amount of any cash generating unit or group of cash generating units to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangible assets with indefinite lives and goodwill.

Review for indicators of impairment

At December 31, 2020, the Company's CGUs were reviewed for indicators of impairment. Management reviewed recent cash flow projections (which incorporate the potential impact of COVID-19) and macro-economic conditions (including key assumptions used in WACC rates). Based on this review, management concluded there were no indicators of impairment of the Company's CGUs.

Conclusion

There were no impairment losses recognized in 2020 or 2019 related to goodwill, or distribution network, or Argentina. There were no impairment reversals in 2020 or 2019 related to the distribution network in Chile or Argentina.

22. Other Liabilities

December 31 ($ millions)	**2020**	2019 (Restated - Note 2)
Lease liabilities	**$ 82**	$ 84
Provisions (Note 23)	**49**	57
Commodity taxes payable	**46**	45
Income tax payable	**9**	10
Derivative liabilities	**8**	4
Other	**1**	—
Total other liabilities – current	**$ 195**	$ 200

December 31 ($ millions)	**2020**	2019
Deferred tax liabilities (Note 13)	**$ 126**	$ 88
Share-based payments (Note 11)	**35**	25
Deferred revenue (Note 4)	**32**	50
Onerous contracts	**5**	7
Provisions (Note 23)	**4**	2
Other	**7**	10
Total other liabilities – non-current	**$ 209**	$ 182

23. PROVISIONS

Accounting Policy

Warranty claims

Provisions are made for estimated warranty claims in respect of certain equipment, spare parts, and service supplied to customers which are still under standard warranty at the end of the reporting period. These claims are expected to be settled in the next financial year.

Other

Other provisions are estimated for tax, legal, environmental or rehabilitation costs, expected repurchase guarantees, and anticipated losses related to long-term product support contracts or power system projects. Other provisions are recorded, when the likelihood of payment or loss is probable and can be reliably measured, with a corresponding expense in the consolidated statement of net income.

Areas of Estimation Uncertainty

Management estimates the warranty provision based on claims notified and past experience. Factors that could impact the estimated claim include the quality of the equipment, spare parts, and labour costs.

For year ended December 31, 2020 ($ millions)	**Warranty Claims**	**Other**	**Total**
Balance, beginning of year	**$ 44**	**$ 15**	**$ 59**
New provisions	**24**	**55**	**79**
Charges against provisions	**(33)**	**(51)**	**(84)**
Foreign exchange rate changes	**—**	**(1)**	**(1)**
Balance, end of year	**$ 35**	**$ 18**	**$ 53**
Current portion	**$ 35**	**$ 14**	**$ 49**
Non-current portion	**$ —**	**$ 4**	**$ 4**

For year ended December 31, 2019 ($ millions)	Warranty Claims	Other	Total
Balance, beginning of year	$ 38	$ 10	$ 48
New provisions	26	59	85
Charges against provisions	(19)	(54)	(73)
Foreign exchange rate changes	(1)	—	(1)
Balance, end of year	$ 44	$ 15	$ 59
Current portion	$ 44	$ 13	$ 57
Non-current portion	$ —	$ 2	$ 2

24. POST-EMPLOYMENT BENEFITS

The Company and its subsidiaries offer a number of benefit plans that provide pension and other benefits to many of its employees in Canada, the UK, the Republic of Ireland, and South America. These plans include defined benefit and defined contribution pension plans in Canada, UK and Ireland, and include other post-employment benefits in South America.

Pension Plans

The defined benefit pension plans include both registered and non-registered pension plans that provide a pension based on the members' final average earnings and years of service while participating in the pension plan.

- In the Company's Canadian operations, defined benefit pension plans exist for eligible employees but are closed to new members. Final average earnings are based on the highest 3 or 5 year average salary depending on employment category and there is no standard indexation feature. Effective July 1, 2004, non-executive members of the defined benefit pension plan were offered a voluntary opportunity to convert their benefits to a defined contribution pension plan. The registered defined benefit pension plan was subsequently closed to all new non-executive employees, who became eligible to enter one of the Company's defined contribution pension plans. Effective January 1, 2010, the defined benefit pension plan was closed to new executive employees as well, who became eligible to join a defined contribution pension plan. Pension benefits under the registered defined benefit pension plan's formula that exceed the maximum taxation limits are provided from a non-registered supplemental pension plan. Benefits under this plan are partially funded by a Retirement Compensation Arrangement.
- The Company's UK operations provided a defined benefit pension plan for eligible employees hired prior to January 2003. Under this plan, final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits. Effective January 2003, this plan was closed to new employees who became eligible to join a defined contribution pension plan. In December 2011, the UK defined benefit pension plan was further amended to cease future accruals for existing members from April 2012 at which time affected members began accruing benefits under a defined contribution pension plan.

The defined contribution pension plans are pension plans under which the Company pays fixed contributions, as a percentage of plan member earnings, into the plans, where an account exists for each plan member.

- In the Company's Canadian operations, the defined contribution pension plans are registered pension plans that offer a base Company contribution rate for all members. The Company will also partially match non-executive employee contributions to a maximum additional Company contribution of 1% of employee earnings. The registered defined contribution pension plan for executive employees is supplemented by an unfunded supplementary accumulation plan. Where contributions under the registered plan would otherwise exceed the maximum taxation limit, the excess contributions are provided through this supplemental plan.
- In the Company's UK operations, the defined contribution pension plans offer a match of employee contributions, within a required range, plus 1%. The Company's Irish subsidiary has a defined contribution pension plan, which offers a match of employee contributions at a level set by the Company.

Other Post-Employment Benefits

The Company's South American employees do not participate in employer pension plans but are covered by country specific government pension arrangements.

Employment terms at some of the Company's South American operations provide for a payment when an employment contract comes to an end under certain conditions, which can be considered a post-employment benefit. The benefit is typically at the rate of one month of final salary for each year of service (subject in most cases to a cap as to the number of qualifying years of service and a cap on the salary rate). The Company's South American post-employment benefits are not funded.

Accounting Policy

Pension Plans

Defined Benefit Plans:

The cost of pensions and other retirement benefits is determined by independent actuaries using the projected unit credit method.

Current service costs, past service costs, and administration costs (net of employee contributions) are recognized in selling, general, and administrative expenses and net interest costs are recognized in finance costs in the consolidated statement of net income. Net interest cost is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and contributions to and benefit payments from the plan during the year.

Actuarial gains and losses arising from experience and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using high-quality corporate bond yields, denominated in the same currency of the benefits to be paid, that approximate the timing of the related pension obligation.

Defined Contribution Plans:

The cost of pension benefits includes the current service cost, which comprise the actual contributions made and accrued by the Company during the year. These contributions are based on a fixed percentage of member earnings for the year and are expensed in the consolidated statement of net income as they become due.

Other Post-Employment Benefits

The Company's post-employment benefits in South America are accounted for as an unfunded defined benefit pension plan. Current service costs are recognized in selling, general, and administrative expenses and interest costs are recognized in finance costs in the consolidated statement of net income. Interest costs are calculated by applying the discount rate at the beginning of the period to the post-employment benefit liability and contributions to and benefit payments from the plan during the year.

Actuarial gains and losses arising from experience and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they occur.

The amount recognized in the consolidated statement of financial position represents the present value of the post-employment benefit obligation. The obligation recognized is based on valuations performed and regularly updated through independent actuarial calculations by using the projected unit credit method.

Areas of Significant Judgment

Actuarial valuations of the Company's defined benefit plans and other post-employment benefits are based on assumptions requiring significant judgment, such as mortality rates, inflation (which is particularly relevant in the UK), estimates of future salary increases, and employee turnover. These assumptions combined with the high quality corporate bond yield, used to discount the estimated future cash flows, impact the measurement of the net defined benefit obligation, the net benefit cost, the actuarial gains and losses recognized in other comprehensive income, and funding levels in Canada and the UK.

The net benefit cost (recovery) and actuarial (gain) loss for the Company's post-employment benefit plans were as follows:

For years ended December 31 ($ millions)	2020				2019			
	Canada	**UK & Ireland**	**South America**	**Total**	Canada	UK & Ireland	South America	Total
Defined contribution pension plans								
Net benefit cost	**$ 34**	**$ 7**	**$ —**	**$ 41**	$ 39	$ 7	$ —	$ 46
Defined benefit and other post-employment benefit plans								
Current service cost, net of employee contributions	**6**	**—**	**8**	**14**	6	—	8	14
Gain on settlement of accrued benefit obligation	**(3)**	**—**	**—**	**(3)**	—	—	—	—
Administration costs	**—**	**1**	**—**	**1**	1	1	—	2
Net interest (recovery) cost	**—**	**(1)**	**—**	**(1)**	1	(3)	1	(1)
Net benefit cost (recovery)	**3**	**—**	**8**	**11**	8	(2)	9	15
Total benefit cost recognized in net income	**$ 37**	**$ 7**	**$ 8**	**$ 52**	$ 47	$ 5	$ 9	$ 61
Actuarial gain on plan assets	**$ (21)**	**$ (79)**	**$ —**	**$ (100)**	$ (28)	$ (57)	$ —	$ (85)
Actuarial loss on accrued benefit obligation	**20**	**31**	**20**	**71**	25	77	12	114
Total actuarial (gain) loss recognized in other comprehensive income	**$ (1)**	**$ (48)**	**$ 20**	**$ (29)**	$ (3)	$ 20	$ 12	$ 29

Other financial information about the Company's defined benefit pension plans in Canada and UK and other post-employment benefit plans in South America was as follows:

For years ended December 31 ($ millions)	2020 Canada	2020 UK	2020 South America	2020 Total	2019 Canada	2019 UK	2019 South America	2019 Total
Accrued benefit obligation								
Balance, beginning of year	**$ 269**	**$ 658**	**$ 55**	**$ 982**	$ 516	$ 608	$ 48	$ 1,172
Settlement due to buy-out annuity transactions	**(87)**	**—**	**—**	**(87)**	(280)	—	—	(280)
Current service cost	**6**	**—**	**8**	**14**	6	—	8	14
Interest cost	**7**	**13**	**—**	**20**	9	16	1	26
Benefits paid	**(10)**	**(33)**	**(7)**	**(50)**	(7)	(36)	(6)	(49)
Remeasurements:								
- Actuarial loss from change in demographic assumptions	**—**	**—**	**11**	**11**	—	—	11	11
- Actuarial loss from change in financial assumptions	**17**	**39**	**4**	**60**	25	80	7	112
Experience loss (gain)	**3**	**(8)**	**5**	**—**	—	(3)	(6)	(9)
Foreign exchange rate changes	**—**	**8**	**3**	**11**	—	(7)	(8)	(15)
Balance, end of year	**$ 205**	**$ 677**	**$ 79**	**$ 961**	$ 269	$ 658	$ 55	$ 982
Plan assets								
Balance, beginning of year	**$ 248**	**$ 731**	**$ —**	**$ 979**	$ 492	$ 695	$ —	$ 1,187
Purchase of buy-out annuities	**(84)**	**—**	**—**	**(84)**	(280)	—	—	(280)
Return on plan assets:								
- Return on plan assets included in net interest cost	**7**	**14**	**—**	**21**	8	19	—	27
- Actuarial gain on plan assets	**21**	**79**	**—**	**100**	28	57	—	85
Employer contributions	**5**	**9**	**7**	**21**	8	6	6	20
Benefits paid	**(10)**	**(33)**	**(7)**	**(50)**	(7)	(36)	(6)	(49)
Administration costs	**—**	**(1)**	**—**	**(1)**	(1)	(1)	—	(2)
Foreign exchange rate changes	**—**	**10**	**—**	**10**	—	(9)	—	(9)
Balance, end of year	**$ 187**	**$ 809**	**$ —**	**$ 996**	$ 248	$ 731	$ —	$ 979
Net post-employment obligation (asset)	**$ 18**	**$ (132)**	**$ 79**	**$ (35)**	$ 21	$ (73)	$ 55	$ 3

Included in the accrued benefit obligation and plan assets were the following amounts in respect of plans that were not fully funded:

For years ended December 31 ($ millions)	2020 Canada	2020 UK	2020 South America	2020 Total	2019 Canada	2019 UK	2019 South America	2019 Total
Accrued benefit obligation	**$ 64**	**$ —**	**$ 79**	**$ 143**	$ 65	$ —	$ 55	$ 120
Plan assets	**37**	**—**	**—**	**37**	40	—	—	40
Funded status - plan deficit	**$ 27**	**$ —**	**$ 79**	**$ 106**	$ 25	$ —	$ 55	$ 80

Key Assumptions and Related Sensitivities

The significant actuarial assumptions used in the valuations of the Company's defined benefit pension plans in Canada and UK and other post-employment benefit plans in South America included:

	2020			2019		
For years ended December 31	**Canada**	**UK**	**South America**	Canada	UK	South America
Discount rate – obligation	**2.7%**	**1.4%**	**(0.2)%**	3.1%	2.0%	0.4%
Discount rate – expense [1]	**3.1%**	**2.0%**	**0.4%**	3.7%	2.9%	1.5%
Retail price inflation – obligation	**n/m [2]**	**2.6%**	**n/a [2]**	n/m [2]	3.0%	n/a [2]
Retail price inflation – expense [1]	**n/m [2]**	**3.0%**	**n/a [2]**	n/m [2]	3.3%	n/a [2]
Average staff turnover – obligation	**n/m [2]**	**n/m [2]**	**7.8%**	n/m [2]	n/m [2]	9.4%
Rate of compensation increase – obligation	**n/m [2]**	**n/a [2]**	**3.0%**	n/m [2]	n/a [2]	3.0%

[1] Used to determine the net interest cost and expense for the years ended December 31, 2020 and 2019.
[2] n/m – not a material assumption used in the valuation.
n/a – not applicable.

Assumptions regarding future mortality are required for the defined benefit pension plans, and were set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions for 2020 and 2019 translate into an average life expectancy (in years) as follows:

December 31	**Canada**	**UK**	**South America**
Life expectancy for male currently aged 65	**22**	**22**	**n/a [3]**
Life expectancy for female currently aged 65	**24**	**24**	**n/a [3]**
Life expectancy at 65 for male currently aged 45	**23**	**23**	**n/a [3]**
Life expectancy at 65 for female currently aged 45	**25**	**25**	**n/a [3]**

[3] n/a – not applicable.

The post-employment benefit obligations and expense are sensitive to changes in the significant actuarial assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 18 years, the UK is 20 years, and South America is 6 years. A 0.25% increase in the significant actuarial assumptions would impact the accrued benefit obligations by the amounts shown below.

	Change in assumption	**Increase (decrease) in accrued benefit obligation**		
($ millions)		**Canada**	**UK**	**South America**
Discount rate	+0.25%	**$ (9)**	**$ (33)**	**$ (2)**
Retail price inflation	+0.25%	**n/m [4]**	**$ 24**	**$ n/a [4]**
Average staff turnover	+0.25%	**n/m [4]**	**n/m [4]**	**$ (2)**
Rate of compensation increase	+0.25%	**n/m [4]**	**n/a [4]**	**$ 2**

[4] n/m – not a material assumption used in the valuation.
n/a – not applicable.

A 0.25% decrease in the discount rate, retail price inflation, rate of compensation increase, and average staff turnover would have an approximately equivalent but opposite effect on the above accounts in the amounts shown.

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. When calculating the sensitivity of the accrued benefit obligation to significant actuarial assumptions, the same method (i.e. present value of the accrued benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the accrued benefit obligation recognized within the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Funding and Valuations of Defined Benefit Plans

In Canada, the Company governs and administers the defined benefit plans. An actuarial valuation of the Canadian registered defined benefit plan is completed at least every three years to determine minimum annual contributions prescribed by applicable legislation. The Company may make voluntary contributions to a Retirement Compensation Arrangement to partially fund benefits for the Canadian non-registered supplemental defined benefit plans. A surplus is recognized on the consolidated statement of financial position to the extent that the economic benefit can be gained by the Company.

In the UK, a board of trustees governs and administers the defined benefit plans. An actuarial valuation of the UK defined benefit plan is required every three years. As at the last formal valuation, a schedule was set out by the board of trustees for contributions to be made until mid-2023.

Based on the most recent formal valuations completed, the Company expects to contribute approximately $11 million to the defined benefit pension plans during the year ended December 31, 2021. The actuarial valuation dates of the Company's material post-employment benefit plans were as follows:

Post-Employment Benefit Obligations	Last Actuarial Valuation Date
Canada – Regular & Executive DB Plan	December 31, 2017 [1]
Canada – Executive Supplemental Income Plan	December 31, 2017 [1]
Finning UK Defined Benefit Scheme	December 31, 2017 [1]
Finning South America Pension Arrangements	December 31, 2019

(1) The December 31, 2020 actuarial valuation is in progress as at February 9, 2021.

Plan Assets

The fair values of plan assets are determined using a combination of quoted prices and market observable inputs except for investments in real estate. The fair values of real estate investment funds are based on the net asset value reported by the funds in their audited financial statements and are determined using inputs that are not based on observable market data (unobservable inputs). Plan assets were principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global [2]	UK	Global [2]
Fixed-income	51%	—	68%	16%
Equity [3]	14%	25%	1%	13%
Real estate investment funds	—	—	1%	—
Cash and cash equivalents	10%	—	1%	—

(2) Global investments exclude investments in Canadian and UK securities in Canada and UK, respectively.
(3) Approximately half of the UK scheme's equity investments are hedged to the GBP to manage foreign currency risk.

Plan assets do not include any direct investment in common shares of the Company at December 31, 2020 and 2019.

As part of management's efforts to manage risks, in July 2020, the Company purchased buy-out annuities in Canada, which settled a portion of its accrued benefit obligation. This settlement resulted in a reduction of both the plan assets and the accrued benefit obligation in the Canadian registered defined benefit plan by $84 million and a gain of $3 million was recorded in selling, general, and administrative expenses in 2020.

In January 2019, the Company converted the buy-in annuity contracts to buy-out annuity contracts. This conversion settled a portion of the Company's liability and reduced both the plan assets and the accrued benefit obligation in the Canadian registered defined benefit plan by $280 million.

Key Risks

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

Investment Risk (i.e. asset volatility)

The accrued benefit obligation are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and UK plans invest in various asset categories including equities, fixed income, and real estate. These investments, in aggregate, are expected to outperform corporate bonds in the long-term but may result in volatility in the short-term.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and UK defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions change. The planned adjustments are intended to improve the asset-liability match over time.

Equity investments still remain in the plans, as the Company believes that equities offer higher returns over the long term with an acceptable level of risk considering the proportion of assets held in this category and the long-term nature of the liabilities. Investments remain well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

Discount Rate Risk (i.e. changes in bond yields)

A decrease in corporate bond yields will increase the value of the accrued benefit obligation. This risk is managed by selecting certain investments that aim to better match assets and liabilities. For example, an increase in the accrued benefit obligation resulting from a decrease in corporate bond yields will be partially offset by an increase in the fair value of the plans' bond holdings.

Inflation Risk

The majority of the pension obligations in the UK are linked to inflation. Higher inflation will lead to higher liabilities although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation. While some of the plan's assets are either unaffected by (i.e. fixed interest bonds) or loosely correlated with (i.e. equities) inflation, in recent years, the plan has increased its investments in assets that have a direct correlation with inflation (e.g. index-linked gilts and liability matching funds) in order to manage this risk.

In the Canadian plans, the pension payments are not linked to inflation, so this is not a direct risk. However, to the extent that future benefits are based on final average earnings and salaries are generally linked to inflation to some degree, an increase in inflation beyond expectations may result in higher liabilities. With a relatively small number of employees still earning benefits in the Canadian defined benefit plan, this risk is limited.

Longevity Risk (i.e. increasing life expectancy)

The plans provide benefits for the life of the member after retirement, so increases in life expectancy will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

Longevity risk in the UK plan is managed through asset management strategies. To mitigate this risk in the Canadian registered pension plan, the Company may purchase annuity contracts.

Maturity Analysis

Expected maturity analysis of undiscounted pension and other post-employment benefit obligations of the Company's operations in Canada, UK and Ireland, and South America were as follows:

December 31, 2020 ($ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Defined benefit pension plans	**$ 26**	**$ 27**	**$ 91**	**$ 1,286**	**$ 1,430**
Other post-employment benefits	**4**	**5**	**12**	**127**	**148**
Total	**$ 30**	**$ 32**	**$ 103**	**$ 1,413**	**$ 1,578**

Accumulated Remeasurement Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, UK and Ireland, and South America recognized in retained earnings is $159 million as at December 31, 2020 (December 31, 2019: $182 million).

25. Supplemental Cash Flow Information

Accounting Policy

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are classified and measured as amortized cost.

The components of cash and cash equivalents were as follows:

December 31 ($ millions)	2020	2019
Cash	**$ 222**	$ 158
Cash equivalents	**317**	110
Cash and cash equivalents	**$ 539**	$ 268

The changes in operating assets and liabilities were as follows:

For years ended December 31 ($ millions)	2020	2019
Accounts receivable	**$ 188**	$ 89
Unbilled receivables	**15**	(98)
Inventories	**508**	29
Other assets	**3**	68
Accounts payable and accruals	**(276)**	(127)
Other liabilities	**(16)**	(180)
Changes in operating assets and liabilities	**$ 422**	$ (219)

The changes in liabilities arising from financing and operating activities were as follows:

For year ended December 31, 2020 ($ millions)	**Short-term debt**	**Long-term debt**	**Lease liability**	**Total**
Balance, beginning of year	**$ 226**	**$ 1,518**	**$ 357**	**$ 2,101**
Cash flow used in				
Financing activities	**(129)**	**(200)**	**(87)**	**(416)**
Operating activities	**—**	**—**	**(11)**	**(11)**
Total cash movements	**$ (129)**	**$ (200)**	**$ (98)**	**$ (427)**
Non-cash changes				
Additions	**—**	**—**	**29**	**29**
Disposals and remeasurement of liability	**—**	**—**	**(2)**	**(2)**
Interest expense	**—**	**—**	**11**	**11**
Foreign exchange rate changes	**(5)**	**(10)**	**1**	**(14)**
Total non-cash movements	**$ (5)**	**$ (10)**	**$ 39**	**$ 24**
Balance, end of year	**$ 92**	**$ 1,308**	**$ 298**	**$ 1,698**

For year ended December 31, 2019 ($ millions)	Short-term debt	Long-term debt	Lease liability	Total
Balance, beginning of year	$ 154	$ 1,354	$ 30	$ 1,538
IFRS 16 adjustment (Note 2)	—	—	278	278
Balance, January 1, 2019	$ 154	$ 1,354	$ 308	$ 1,816
Cash flow provided by (used in)				
Financing activities	77	199	(88)	188
Operating activities	—	—	(11)	(11)
Total cash movements	$ 77	$ 199	$ (99)	$ 177
Non-cash changes				
Additions	—	—	80	80
Additions through business combination (Note 26)	—	—	30	30
Disposals and remeasurement of liability	—	—	31	31
Interest expense	—	—	11	11
Foreign exchange rate changes	(5)	(35)	(4)	(44)
Total non-cash movements	$ (5)	$ (35)	$ 148	$ 108
Balance, end of year	$ 226	$ 1,518	$ 357	$ 2,101

Dividends of $0.82 (2019: $0.815) per share were paid during the year. In February 2021, the Board of Directors approved a quarterly dividend of $0.205 per share payable on March 11, 2021 to shareholders of record on February 25, 2021. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2020, the Company has not recognized a liability for this dividend.

26. Acquisition

Accounting Policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration for the acquisition of a subsidiary is:

- fair values of the assets transferred, and
- fair value of an asset or liability resulting from a contingent consideration arrangement

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the acquisition-date fair value.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. Acquisition-related costs are expensed as incurred.

On February 1, 2019, the Company acquired a 100% ownership interest in the Canadian and US operations of 4Refuel. 4Refuel is a mobile on-site refueling company operating in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia and in Texas, US. Acquiring 4Refuel provides a complementary service offering to the Company's existing customer base and provides opportunities for the Company to sell, rent, and provide services to a new customer base.

Cash consideration of $241 million was paid based on the fair value of the business at the acquisition date, which included $12 million cash acquired and was subject to customary closing adjustments. The Company funded the transaction with cash on hand and from existing credit facilities. This purchase has been accounted for as a business combination using the acquisition method of accounting.

Management finalized its purchase price allocation on December 31, 2019.

The acquisition-date fair values of acquired tangible and intangible assets, assumed liabilities and deferred tax liabilities were as follows:

Final purchase price allocation ($ millions)	December 31, 2019
Cash	$ 12
Accounts receivable	60
Property, plant, and equipment	42
Intangible assets	130
Goodwill	85
Other assets	4
Accounts payable and accruals	(32)
Lease liabilities	(30)
Deferred tax liabilities	(30)
Net assets acquired	$ 241

Goodwill relates to the expected synergies from combining complementary capabilities and existing customer bases across Finning's territory in British Columbia, Alberta, the Yukon Territory, Northwest Territories and portion of Nunavut and new customers in Canada and in Texas. The goodwill is assigned to the Company's Canada reportable segment and is not deductible for tax purposes.

Acquisition costs of $4 million were paid on the transaction and recorded as other expenses in the consolidated statement of income in the year ended December 31, 2019.

The results of the newly acquired business since the date of acquisition have been included in the Company's Canada reportable segment. From the acquisition date to December 31, 2019, 4Refuel contributed approximately $635 million of revenue.

27. Economic Relationships

The Company distributes and services heavy equipment, engines, and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has had a relationship with Caterpillar that has been ongoing since 1933.

28. Related Party Transactions and Total Staff Costs

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors during the year was as follows:

For years ended December 31 ($ millions)	2020	2019
Share-based payments	5	3
Total	$ 5	$ 3

The remuneration of key management personnel (defined as officers of the Company and country presidents) during the year was as follows:

For years ended December 31 ($ millions)	2020	2019
Salaries and benefits	$ 10	$ 11
Post-employment benefits	1	2
Share-based payments	6	5
Total	$ 17	$ 18

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $0.9 billion (2019: $1.0 billion). This amount includes staff costs associated with key management personnel noted above.

29. Commitments and Contingencies

Due to the size, complexity, and nature of the Company's operations, various legal, customs, and tax matters are pending. It is not currently possible for management to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

The Company has received a number of claims from the Argentina Customs Authority associated with the export of agricultural product and an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. The Company is appealing these claims and the order, believe they are without merit, and are confident in its position. Mitigation measures are also available to the Company. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment and the mitigation measures not be effective, this could result in a material negative impact on the Company's financial position.

30. Guarantees and Indemnifications

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase or trade-in of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2020, the total estimated value of these contracts outstanding was $139 million (2019: $148 million) coming due at periods ranging from 2021 to 2026. The Company's experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price or trade-in amount, however, there can be no assurance that this experience will continue in the future. The total amount recognized as a provision against these contracts at December 31, 2020 and 2019 was $1 million.

The Company has issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. As at December 31, 2020, the maximum potential amount of future payments that the Company could be required to make under the guarantees was $12 million, covering various periods up to 2025. As at December 31, 2020, the Company has recognized a liability of $5 million for these guarantees (2019: $4 million).

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2020, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, was $1 million, covering various periods up to 2024. As at December 31, 2020 and 2019, the Company has not recognized a liability for these guarantees.

In connection with the sale of the Materials Handling Division in the Company's UK & Ireland operations in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately $1 million to the end of the lease term in 2022. The Company has not recognized a liability for this guarantee in 2020 or 2019.

In the normal course of operations, the Company has several long-term maintenance and repair contracts with various customers which contain cost per hour guarantees.

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2020 was $134 million (2019: $207 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.