FINNING

Q4 AND ANNUAL 2021 EARNINGS RELEASE **February 8, 2022**

Finning reports Q4 and annual 2021 results

Vancouver, B.C. – Finning International Inc. (TSX: FTT) ("Finning", "the Company", "we", "our" or "us") reported fourth quarter and annual 2021 results today. All monetary amounts are in Canadian dollars unless otherwise stated.

HIGHLIGHTS

All comparisons are to Q4 and annual 2020 results unless indicated otherwise.

- Q4 2021 EPS(1) was $0.66 per share. Annual 2021 basic EPS was $2.26 per share and Adjusted EPS(2)(4) was $2.18 per share.
- Q4 2021 revenue of $1.9 billion and net revenue(2) of $1.8 billion were up 17% and 14%, respectively, from Q4 2020, with higher revenues in all lines of business driven by strong market activity and solid execution.
- All regions demonstrated strong operating leverage, with consolidated EBIT(1) up 67% compared to Adjusted EBIT(3)(4) in Q4 2020. Q4 2021 EBIT as a percentage of net revenue(2) reached 10.1% in both Canada and South America.
- For the full year 2021, EBIT increased by 41% and Adjusted EBIT increased by 63% from 2020 on 15% higher gross profit. 2021 SG&A(1) as a percentage of net revenue(2) was down 270 basis points from 2020, driving improved earnings capacity.
- Adjusted ROIC(1)(2)(4) of 16.4% was up 680 basis points from Q4 2020, with significant increases in all regions. South America achieved a 20.3% ROIC(2).
- Annual 2021 free cash flow(3) was $300 million, with net debt to Adjusted EBITDA(1) ratio (2)(4) of 1.1 at December 31, 2021, an improvement from 1.4 at December 31, 2020.
- Consolidated equipment backlog(2) was $1.9 billion at December 31, 2021, up from $1.6 billion at September 30, 2021, higher in all regions, particularly in Canada, including a significant order from an oil sands operator.

"Our employees should be proud of the strong results we achieved in 2021, driven by successful execution to deliver on our strategic plan and improve our earnings capacity. We posted annual Adjusted EPS of $2.18 and exceeded our mid-cycle EPS and ROIC targets two quarters ahead of schedule, all while our revenue remained below pre-pandemic levels for the year. Across the business, we saw tremendous momentum in capturing product support opportunities and winning major equipment deals as market activity returned to pre-pandemic levels by the end of the year," said Scott Thomson, president and CEO of Finning International.

"We expect upcycle demand conditions from the start of 2022 to be supported by ongoing economic growth and strength in commodity prices. We expect supply constraints to persist, and our global teams have been proactively purchasing inventory, sourcing used equipment, and offering rebuilds and rental options to meet strong customer demand. Our 2021 performance sets a strong foundation to capture upcycle opportunities as we remain focused on executing on our strategic plan to grow product support, reduce costs, and reinvest free cash flow to compound our earnings. We continue to target mid-teens and above EPS growth during this sustained upcycle." concluded Mr. Thomson.

Q4 2021 FINANCIAL SUMMARY

Quarterly Overview *$ millions, except per share amounts*	**Q4 2021**	Q4 2020	% change
Revenue	**1,949**	1,666	17
Net revenue	**1,774**	1,551	14
EBIT	**157**	108	46
EBIT as a percentage of net revenue	***8.9%***	*6.9%*	
EBITDA(2)	**241**	185	31
EBITDA as a percentage of net revenue(2)	***13.6%***	*11.9%*	
Net income attributable to shareholders of Finning	**104**	72	44
EPS	**0.66**	0.45	47
Free cash flow	**148**	292	(50)

Q4 2021 EBIT and EBITDA by Operation *$ millions, except per share amounts*	Canada	South America	UK & Ireland	Corporate & Other	Finning Total	EPS
EBIT / EPS	92	59	12	(6)	157	0.66
EBIT as a percentage of net revenue	*10.1%*	*10.1%*	*4.3%*	*n/m(1)*	*8.9%*	
EBITDA	142	81	23	(5)	241	
EBITDA as a percentage of net revenue	*15.5%*	*14.0%*	*8.3%*	*n/m*	*13.6%*	

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 / Adjusted EPS	59	41	11	(17)	94	0.38
Adjusted EBIT as a percentage of net revenue(2)(4)	*7.7%*	*8.3%*	*3.7%*	*n/m*	*6.1%*	
Adjusted EBITDA(3)(4)	106	61	20	(16)	171	
Adjusted EBITDA as a percentage of net revenue(2)(4)	*13.7%*	*12.2%*	*7.0%*	*n/m*	*11.0%*	

Q4 2021 INVESTED CAPITAL AND ROIC SUMMARY

All comparisons are to Q4 2020 results unless indicated otherwise.

- Excluding the impact of foreign exchange, invested capital(2) increased by $269 million from December 31, 2020 driven primarily by higher inventory to meet strong customer demand. An increase in accounts receivables due to an increase in sales activity in all operations was offset by higher accounts payable, mainly in Canada and South America, related to higher inventory purchases.

- Inventory increased by about $200 million from Q4 2020 reflecting recovery in market activity and growing backlog. Inventory turns (dealership)(2) improved to 3.09 in Q4 2021 from 2.79 in Q4 2020 and working capital to net revenue ratio(2) of 22.9% was down by 540 basis points from Q4 2020, reflecting higher sales and improved supply chain efficiencies.

- Adjusted ROIC of 16.4% was up 680 basis points from Q4 2020 with a significant increase in all regions driven by improved profitability and higher invested capital turnover.

Invested Capital and ROIC	Q4 2021	Q4 2020
Invested capital *($ millions)*		
Consolidated	**3,326**	3,067
Canada	**1,876**	1,819
South America (US dollars)	**809**	731
UK & Ireland (UK pound sterling)	**222**	188
Invested capital turnover[2] *(times)*	**2.04**	1.68
Working capital to net revenue ratio	**22.9%**	28.3%
Inventory *($ millions)*	**1,687**	1,477
Inventory turns (dealership) *(times)*	**3.09**	2.79
Adjusted ROIC *(%)*		
Consolidated	**16.4**	9.6
Canada	**16.9**	10.5
South America	**20.3**	12.9
UK & Ireland	**14.8**	5.5

Q4 2021 HIGHLIGHTS BY OPERATION

All comparisons are to Q4 2020 results unless indicated otherwise. All numbers, except ROIC, are in functional currency: Canada – Canadian dollar; South America – USD; UK & Ireland – UK pound sterling (GBP). These variances and ratios for South America and UK & Ireland exclude the foreign currency translation impact from the CAD relative to the USD and GBP, respectively, and are therefore, considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

Canada

- Net revenue increased by 19% from Q4 2020, driven primarily by significantly higher product support revenue and strong used equipment sales.

- Product support revenue was up 17% from Q4 2020 reflecting strong rebuild activity in construction and increased spend in the mining sector.

- Q4 2021 used equipment sales were up 84% from Q4 2020, with higher used equipment sales to mining and construction customers, reflecting our strategic focus on rebuilds and resale in response to strong customer demand and constrained supply of new equipment.

- Rental revenue was up 22% from Q4 2020, fulfilling customer equipment needs in a tight supply environment. In addition, our heavy rental fleet was highly utilized in British Columbia to support flood mitigation and infrastructure repair work.

- EBIT as a percentage of net revenue was 10.1%, up 240 basis points from Adjusted EBIT as a percentage of net revenue in Q4 2020, reflecting improved equipment margins, higher rental utilization, and lower SG&A as a percentage of net revenue compared to Q4 2020.

- Q4 2021 Adjusted ROIC was 16.9%, up 640 basis points from Q4 2020, driven by significant improvement in profitability coupled with 20% increase in invested capital turnover.

- During Q4 2021, we received an order from an oil sands operator to supply 20 Caterpillar 797F off-highway trucks. This purchase is part of a multi-year agreement focused on enhancing operational efficiency through equipment refresh, maintenance, repair and rebuild practices. Delivered through 2022, these trucks will replace aged competitive equipment and are expected to enhance fuel efficiency, reduce carbon footprint and improve emissions.

South America

- Net revenue increased by 21% from Q4 2020. New equipment sales were up 68%, driven by deliveries to Chilean mining customers and improved demand for construction equipment to support mining infrastructure and general construction projects. Product support revenue increased by 10%, with higher activity across all sectors.

- EBIT as a percentage of net revenue was 10.1%, up 180 basis points year over year, benefitting from improved operating leverage. SG&A costs were comparable to Q4 2020 on 21% higher revenues reflecting a streamlined cost structure and continued focus on driving efficiencies.

- Q4 2021 ROIC of 20.3% was the highest since 2012, driven by significant improvements in both profitability and invested capital turnover in 2021.

United Kingdom & Ireland

- Net revenue was 1% below Q4 2020 reflecting timing of power systems project deliveries. Revenue from the construction sector was up 26% compared to Q4 2020, driven by equipment deliveries to HS2 customers and higher product support activity.

- EBIT was up 16% from Q4 2020, driven primarily by an increase in gross profit with a higher proportion of product support in the revenue mix and improved rental utilization compared to Q4 2020. EBIT as a percentage of net revenue was 4.3%.

- Q4 2021 ROIC was 14.8%, reflecting strong revenue recovery, increased EBIT, and significant improvements in capital efficiency.

Q4 2021 MARKET UPDATE AND BUSINESS OUTLOOK

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading "Forward-Looking Information Caution" at the end of this news release. Actual outcomes and results may vary significantly.

Canada

Strong commodity prices and broad-based economic growth in Western Canada in 2022 are expected to create robust demand for equipment and product support across all sectors.

The federal and provincial governments' infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and various power projects are expected to drive demand for construction equipment and product support, heavy equipment rentals, and prime and standby electric power generation. Our focus remains on executing our strategy to capture product support market share in construction. We are leveraging our digital platform, CUBIQ™, and further building on our success with construction rebuilds and customer value agreements (CVAs).

Healthy commodity markets, including base and precious metals, oil, natural gas, metallurgical coal, lumber, uranium, and potash provide a positive backdrop for activity in Western Canada. In the oil sands, capital expenditures have begun to increase in response to recovering demand. We expect the large and aging mining equipment population in Western Canada to continue driving demand for product support, including rebuilds, and opportunities for fleet renewals.

South America

We expect a strong copper price to continue driving improved mining activity in Chile in 2022. The projected increase in copper production[(5)], large and mature equipment population, and declining ore grades are expected to support growing demand for mining parts and service, and fleet replacement.

We are closely monitoring the economic and constitutional reform process in Chile, and our current outlook assumes a moderate increase in mining royalties. While the timing of investment decisions related to greenfield and new expansion projects remains uncertain, we are constructive about long-term copper mining growth in Chile. We are in a great position to capture opportunities for new mining equipment and autonomous solutions for brownfield expansions and greenfield projects in the next mining upcycle.

Our positive outlook for the Chilean construction sector is predicated on strong demand for mining infrastructure and the government's infrastructure investment program.

In Argentina, while we expect to benefit from improved activity in construction, oil and gas, and mining, the overall business environment in the country continues to be challenging. We remain focused on managing fiscal, regulatory, and currency risks, including high inflation and ARS devaluation expected in 2022.

UK & Ireland

Continued HS2 construction activity coupled with government investments in other infrastructure projects are expected to drive strong demand for construction equipment in the UK in 2022.

HS2 Phase 1, from London to Birmingham, is projected to require approximately 1,500 units of heavy construction equipment, representing a total industry opportunity of nearly £500 million from 2021 to 2024. By the end of 2021, we had captured more than £200 million of equipment orders for this project. Most Caterpillar machines working on the HS2 project are supported by a range of Finning customer value agreements, and our construction customers have the option to benefit from our CUBIQ™ platform and our construction apps. We are well-positioned to continue capturing a large share of opportunities for the remainder of HS2 Phase 1.

Strong demand for our power systems solutions, including in the data centre market, is expected to continue. We have a solid backlog of power systems projects for deliveries in 2022. Cloud data centre capacity is projected to continue to grow over the next few years[(6)], and with our successful track record of project execution, we are well positioned to capture opportunities related to this trend.

Upcycle and Shift to Growth

Our market outlook is positive in all our regions. We expect upcycle demand conditions from the start of 2022 to be supported by ongoing economic growth and strength in commodity prices. We expect challenges in the global supply chain to persist, resulting in longer lead times for equipment and parts in all regions and driving strong demand for used equipment, rentals, and rebuilds.

We have exceeded our mid-cycle EPS and ROIC targets two quarters ahead of schedule, and we continue to proactively manage our business with the objective of improving our earnings capacity and compounding our earnings at each successive mid-cycle point. We continue to target mid-teens and above EPS growth during this sustained upcycle.

We continue to drive fixed cost reduction initiatives globally, targeting further improvements across people, facilities, and supply chain productivity, and we expect to make further progress towards reducing our SG&A as a percentage of net revenue. However, it will take us longer than the previously communicated time frame of Q3 2021 to Q2 2022 to average 17% SG&A as a percentage of net revenue over the four-quarter period. This is primarily due to lower than projected new equipment deliveries in the second half of 2021 as a result of constrained supply, and higher than projected product support growth rates in Q4 2021, as well as inflationary headwinds. We remain committed to delivering fixed cost reduction initiatives, productivity gains, and strong operating leverage going forward.

As we continue to make strategic investments in our facilities network, digital platform, and rental fleet, our 2022 net capital expenditures and net rental fleet additions are expected to be in the range of $240 million to $280 million. We continue to advance our M&A strategy and expect to deploy capital with an initial focus on complementary businesses in the small to medium size range that are aligned with our product support growth strategy, drive improved outcomes for our customers, and deliver attractive rates of return.

We are monitoring the spread of the Omicron variant in our regions, particularly as it affects the staffing levels of our and our customers' operations. We are leveraging the COVID-19 mitigation protocols we developed at the beginning of the pandemic and expect to successfully manage our day-to-day operations through the Omicron wave.

CORPORATE AND BUSINESS DEVELOPMENTS

Dividend

The Board of Directors has approved a quarterly dividend of $0.225 per share, payable on March 10, 2022 to shareholders of record on February 24, 2022. This dividend will be considered an eligible dividend for Canadian income tax purposes.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

$ millions, except per share amounts	**Three months ended December 31**			**Twelve months ended December 31**		
	2021	2020	% change fav (unfav)	**2021**	2020	% change fav (unfav)
New equipment	**562**	500	13	**2,189**	1,671	31
Used equipment	**124**	93	33	**409**	308	33
Equipment rental	**68**	49	39	**235**	196	20
Product support	**982**	877	12	**3,728**	3,473	7
Net fuel and other	**38**	32	20	**135**	120	12
Net revenue	**1,774**	1,551	14	**6,696**	5,768	16
Gross profit	**484**	418	16	**1,801**	1,570	15
Gross profit as a percentage of net revenue(2)	***27.3%***	*26.9%*		***26.9%***	*27.2%*	
SG&A	**(328)**	(324)	(1)	**(1,266)**	(1,245)	(2)
SG&A as a percentage of net revenue	***(18.5)%***	*(20.9)%*		***(18.9)%***	*(21.6)%*	
Equity earnings of joint ventures	**1**	-		**2**	3	
Other income	**-**	14		**15**	115	
Other expenses	**-**	-		**-**	(51)	
EBIT	**157**	108	46	**552**	392	41
EBIT as a percentage of net revenue	***8.9%***	*6.9%*		***8.2%***	*6.8%*	
Adjusted EBIT	**157**	94	67	**537**	328	63
Adjusted EBIT as a percentage of net revenue	***8.9%***	*6.1%*		***8.0%***	*5.7%*	
Net income attributable to shareholders of Finning	**104**	72	44	**364**	232	57
Basic EPS	**0.66**	0.45	47	**2.26**	1.43	58
Adjusted EPS	**0.66**	0.38	71	**2.18**	1.14	90
EBITDA	**241**	185	31	**871**	700	24
EBITDA as a percentage of net revenue	***13.6%***	*11.9%*		***13.0%***	*12.1%*	
Adjusted EBITDA	**241**	171	41	**856**	636	34
Adjusted EBITDA as a percentage of net revenue	***13.6%***	*11.0%*		***12.8%***	*11.0%*	
Free cash flow	**148**	292	(50)	**300**	870	(66)

	Dec 31, 2021	Dec 31, 2020
Invested capital	**3,326**	3,067
Invested capital turnover (times)	**2.04**	1.68
Net debt to Adjusted EBITDA ratio	**1.1**	1.4
Adjusted ROIC	**16.4%**	9.6%

To access Finning's complete Q4 and annual 2021 results, please visit our website at https://www.finning.com/en_CA/company/investors.html

Q4 2021 INVESTOR CALL

The Company will hold an investor call on February 9, 2022 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 dealer delivering unrivalled service to customers for nearly 90 years. Headquartered in Surrey, British Columbia, we provide Caterpillar equipment, parts, services, and performance solutions in Western Canada, Chile, Argentina, Bolivia, the United Kingdom, and Ireland.

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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); not meaningful (n/m).

(2) See "Description of Specified Financial Measures and Reconciliations" later in this Earnings Release.

(3) These are non-GAAP financial measures. See "Description of Specified Financial Measures and Reconciliations" later in this Earnings Release.

(4) Certain financial measures 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 starting on page 8 of this Earnings Release. The financial measures that have been adjusted to take into account these items are referred to as "Adjusted measures".

(5) The Chilean Copper Commission (Cochilco) - Proyección de la producción de cobre en Chile 2020 – 2031; DEPP 29/2020; Registro Propiedad Intelectual © N° 2020-A-10631

(6) UK Data Center Market – Investment Analysis and Growth Opportunities Publication (2020-2025); Ireland Data Center Market – Growth, Trends and Forecasts Publication (2020-2025)

Description of Specified Financial Measures and Reconciliations

<u>Specified Financial Measures</u>

We believe that certain specified financial measures, including non-GAAP financial measures, provide users of our Earnings Release with important information regarding the operational performance and related trends of our business. The specified financial measures we use do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. Accordingly, specified financial measures should not be considered as a substitute or alternative for financial measures determined in accordance with GAAP (GAAP financial measures). By considering these specified financial measures in combination with the comparable GAAP 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 GAAP financial measures alone.

We use KPIs to consistently measure performance against our priorities across the organization. Some of our KPIs are specified 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 financial measures provides a better understanding of our financial performance when considered in conjunction with the GAAP financial measures. Financial measures that have been adjusted to take into account these significant items are referred to as “Adjusted measures”. Adjusted measures are specified financial measures and are intended to provide additional information to readers of the Earnings Release.

Descriptions and components of the specified financial measures we use in this Earnings Release are set out below. Where applicable, quantitative reconciliations from certain specified financial measures to their most directly comparable GAAP financial measures (specified, defined, or determined under GAAP and used in our consolidated financial statements) are also set out below.

Adjusted basic EPS

Adjusted basic EPS excludes the after-tax per share impact of significant items that we do not consider 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. The after-tax per share impact of significant items is calculated by dividing the after-tax amount of significant items by the weighted average number of common shares outstanding during the period.

A reconciliation between basic EPS (the most directly comparable GAAP financial measure) and Adjusted basic EPS can be found on page 9 of this Earnings Release.

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 we do not consider 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 financial measure to EBITDA, Adjusted EBITDA, and Adjusted EBIT is EBIT.

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for our consolidated operations is as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**157**	150	137	108	108	138	52	94
Depreciation and amortization	**84**	80	78	77	77	77	78	76
EBITDA	**241**	230	215	185	185	215	130	170
EBIT	**157**	150	137	108	108	138	52	94
Significant items:								
CEWS support	**—**	—	—	(10)	(14)	(37)	(64)	—
Return on our investment in Energyst	**—**	—	—	(5)	—	—	—	—
Severance costs	**—**	—	—	—	—	—	42	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	9	—
Adjusted EBIT	**157**	150	137	93	94	101	39	94
Depreciation and amortization	**84**	80	78	77	77	77	78	76
Adjusted EBITDA	**241**	230	215	170	171	178	117	170

The impact on provision for income taxes of significant items was as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Significant items:								
CEWS support	**—**	—	—	2	4	10	16	—
Severance costs	**—**	—	—	—	—	—	(10)	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	(2)	—
Provision for income taxes on significant items	**—**	—	—	2	4	10	4	—

A reconciliation from basic EPS to Adjusted basic EPS for our consolidated operations is as follows:

3 months ended	**2021**				2020			
($)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Basic EPS	**0.66**	0.61	0.56	0.43	0.45	0.54	0.12	0.33
Significant items:								
CEWS support	**—**	—	—	(0.05)	(0.07)	(0.17)	(0.30)	—
Return on our investment in Energyst	**—**	—	—	(0.03)	—	—	—	—
Severance costs	**—**	—	—	—	—	—	0.20	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	0.04	—
Adjusted basic EPS (1)	**0.66**	0.61	0.56	0.35	0.38	0.37	0.06	0.33

(1) The per share impact for each quarter has been calculated using the weighted average number of common shares outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year-to-date total.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Canadian operations is as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**92**	84	82	69	72	93	63	60
Significant items:								
CEWS support	**—**	—	—	(10)	(13)	(35)	(60)	—
Severance costs	**—**	—	—	—	—	—	20	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	5	—
Adjusted EBIT	**92**	84	82	59	59	58	28	60
Depreciation and amortization	**50**	48	47	46	47	48	47	43
Adjusted EBITDA	**142**	132	129	105	106	106	75	103

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our South American operations is as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**59**	58	51	41	41	40	2	38
Significant items:								
Severance costs	**—**	—	—	—	—	—	17	—
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	4	—
Adjusted EBIT	**59**	58	51	41	41	40	23	38
Depreciation and amortization	**22**	22	20	20	20	19	22	22
Adjusted EBITDA	**81**	80	71	61	61	59	45	60

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our UK & Ireland operations is as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**12**	17	17	7	11	9	(5)	1
Significant item:								
Severance costs	**—**	—	—	—	—	—	4	—
Adjusted EBIT	**12**	17	17	7	11	9	(1)	1
Depreciation and amortization	**11**	10	10	10	9	9	9	10
Adjusted EBITDA	**23**	27	27	17	20	18	8	11

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Other operations is as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
EBIT	**(6)**	(9)	(13)	(9)	(16)	(4)	(8)	(5)
Significant items:								
CEWS support	**—**	—	—	—	(1)	(2)	(4)	—
Return on our investment in Energyst	**—**	—	—	(5)	—	—	—	—
Severance costs	**—**	—	—	—	—	—	1	—
Adjusted EBIT	**(6)**	(9)	(13)	(14)	(17)	(6)	(11)	(5)
Depreciation and amortization	**1**	—	1	1	1	1	—	1
Adjusted EBITDA	**(5)**	(9)	(12)	(13)	(16)	(5)	(11)	(4)

EBITDA to Free Cash Flow Conversion

EBITDA to free cash flow conversion is calculated as free cash flow divided by EBITDA. We use EBITDA to free cash flow conversion to assess our efficiency in turning EBITDA into cash.

Equipment Backlog

Equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. We use equipment backlog as a measure of projecting future new equipment deliveries. There is no directly comparable GAAP financial measure for equipment backlog.

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 financial statements. We use free cash flow to assess cash operating performance, including working capital efficiency. Consistent positive free cash flow generation enables us to re-invest capital to grow our business and return capital to shareholders. A reconciliation of free cash flow is as follows:

3 months ended	2021				2020			
($ millions)	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash flow provided by (used in) operating activities	**193**	212	8	12	317	340	319	(14)
Additions to property, plant, and equipment and intangible assets	**(45)**	(38)	(17)	(33)	(34)	(26)	(17)	(38)
Proceeds on disposal of property, plant, and equipment	**—**	2	5	1	9	2	10	2
Free cash flow	**148**	176	(4)	(20)	292	316	312	(50)

Inventory Turns (Dealership)

Inventory turns (dealership) is the number of times our dealership inventory is sold and replaced over a period. We use inventory turns (dealership) to measure asset utilization. Inventory turns (dealership) is calculated as annualized cost of sales (excluding cost of sales related to the mobile refuelling operations) for the last six months divided by average inventory (excluding fuel inventory), based on an average of the last two quarters. Cost of sales related to the dealership and inventory related to the dealership are calculated as follows:

3 months ended	2021		2020	
($ millions)	Dec 31	Sep 30	Dec 31	Sep 30
Cost of sales	**1,465**	1,443	1,248	1,163
Cost of sales related to mobile refuelling operations	**(190)**	(170)	(129)	(124)
Cost of sales related to the dealership	**1,275**	1,273	1,119	1,039

	2021		2020	
($ millions)	Dec 31	Sep 30	Dec 31	Sep 30
Inventory	**1,687**	1,627	1,477	1,626
Fuel inventory	**(9)**	(6)	(3)	(2)
Inventory related to the dealership	**1,678**	1,621	1,474	1,624

Invested Capital

Invested capital is calculated as net debt plus total 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 each reportable segment. Invested capital is used in a number of different measurements (ROIC, Adjusted ROIC, invested capital turnover) to assess financial performance against other companies and between reportable segments. Invested capital is calculated as follows:

	2021				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Cash and cash equivalents	**(502)**	(518)	(378)	(469)	(539)	(453)	(338)	(260)
Short-term debt	**374**	419	114	103	92	217	158	329
Current portion of long-term debt	**190**	191	386	326	201	200	200	200
Non-current portion of long-term debt	**921**	923	903	973	1,107	1,136	1,348	1,381
Net debt	**983**	1,015	1,025	933	861	1,100	1,368	1,650
Total equity	**2,343**	2,320	2,252	2,244	2,206	2,184	2,127	2,233
Invested capital	**3,326**	3,335	3,277	3,177	3,067	3,284	3,495	3,883

Invested Capital Turnover

We use invested capital turnover to measure capital efficiency. Invested capital turnover is calculated as net revenue for the last twelve months divided by average invested capital of the last four quarters.

Net Debt to Adjusted EBITDA Ratio

This ratio is calculated as net debt divided by Adjusted EBITDA for the last twelve months. We use this ratio to assess operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take us to repay debt, with net debt and Adjusted EBITDA held constant.

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 refuelling operations in our Canadian operations. As these fuel costs are pass-through in nature for this business, we view net revenue as more representative than revenue 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. For our South American and UK & Ireland operations, net revenue is the same as total revenue.

We use these specified financial measures to assess and evaluate the financial performance or profitability of our reportable segments. We may also calculate these financial measures using Adjusted EBITDA and Adjusted EBIT to exclude significant items we do not consider 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 financial 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 is calculated as follows:

3 months ended	**2021**				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total revenue	**1,949**	1,904	1,845	1,596	1,666	1,553	1,419	1,558
Cost of fuel	**(175)**	(156)	(140)	(127)	(115)	(110)	(84)	(119)
Net revenue	**1,774**	1,748	1,705	1,469	1,551	1,443	1,335	1,439

ROIC and Adjusted ROIC

ROIC is defined as EBIT for the last twelve months divided by average invested capital of the last four quarters, expressed as a percentage.

We view ROIC as a useful measure for capital allocation decisions that drive profitable growth and attractive returns to shareholders. We also calculate Adjusted ROIC using Adjusted EBIT to exclude significant items that we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

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 average working capital 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.

Working capital is calculated as follows:

	2021				2020			
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Total current assets	**3,619**	3,620	3,416	3,319	3,214	3,261	3,416	3,828
Cash and cash equivalents	**(502)**	(518)	(378)	(469)	(539)	(453)	(338)	(260)
Total current assets in working capital	**3,117**	3,102	3,038	2,850	2,675	2,808	3,078	3,568
Total current liabilities	**2,155**	2,156	1,942	1,817	1,623	1,717	1,735	2,112
Short-term debt	**(374)**	(419)	(114)	(103)	(92)	(217)	(158)	(329)
Current portion of long-term debt	**(190)**	(191)	(386)	(326)	(201)	(200)	(200)	(200)
Total current liabilities in working capital	**1,591**	1,546	1,442	1,388	1,330	1,300	1,377	1,583
Working capital	**1,526**	1,556	1,596	1,462	1,345	1,508	1,701	1,985

FORWARD-LOOKING INFORMATION CAUTION

This news release contains information that is forward-looking. Information is forward-looking when we use what we know and expect today to give information about the future. All forward-looking information in this news release is subject to this disclaimer including the assumptions and material risk factors referred to below. Forward-looking information in this news release includes, but is not limited to, the following: our expectation of upcycle demand conditions from the start of 2022 (assumes ongoing economic growth and strength in commodity prices), that supply constraints will persist; our strong foundation to capture upcycle opportunities; our strategic plan to grow product support, reduce costs, and reinvest free cash flow to compound our earnings; our target mid-teens and above EPS growth during this sustained upcycle; delivery during 2022 on an oil sands operator's order for 20 Caterpillar 797F off-highway trucks; our expectation that these trucks will enhance fuel efficiency, reduce carbon footprint per tonne and improve emissions; all information in the "Q4 2021 Market Update and Business Outlook" section of this news release regarding our expectations for Canada (based on assumptions of strong commodity prices and broad-based economic growth in Western Canada, federal and provincial government infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage and power projects, and our ability to leverage CUBIQ™ and drive continued success with construction rebuilds and CVAs, and continued capital expenditures in the oil sands), South America (based on assumptions related to Chile of a continued strong copper price, a projected increase in copper production, a moderate increase in mining royalties, a strong demand for mining infrastructure and the government's infrastructure investment program), the UK & Ireland (based on assumptions of continued government investments in infrastructure projects and projections of continued growth in cloud data centre capacity) and the upcycle and shift to growth (based on assumptions of ongoing economic growth and strength in commodity prices and that we will successfully mitigate the effects of persistent challenges in the global supply chain, drive improved earnings capacity and fixed cost reduction initiatives and manage our day-to-day operations through the Omicron wave); and the Canadian income tax treatment of the quarterly dividend. All such forward-looking information is provided 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 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 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; the actual impact of the COVID-19 pandemic; and, with respect to our normal course issuer bid, our share price from time to time and our decisions about use of capital. Forward-looking information is provided in this news release for the purpose of giving information about our 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 provided 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, stretched supply chains, competitive talent markets, and changing commodity prices, and successfully implement our COVID-19 risk management plans; an undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that increased maintenance work by mining customers following the lessening of COVID-19 restrictions and protocols will continue; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; 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; that present supply chain challenges will not materially impact large project deliveries in our backlog; 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; that we have sufficient liquidity to meet operational needs; 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; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; that there will be a moderate increase in mining royalties in Chile; and strong recoveries in our regions, particularly in Chile and the UK. 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 news release are discussed in our current AIF and in our annual and most recent quarterly MD&A for the financial risks, including for updated risks related to the COVID-19 pandemic.

We caution readers that the risks described in our AIF and in our annual and most recent quarterly MD&A 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 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 8, 2022

This ***MD&A*** should be read in conjunction with our ***Annual Financial Statements*** and the accompanying notes thereto for the year ended December 31, 2021, 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 54. 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)	**2021**	2020	% change ***fav (unfav)***
Revenue	**$ 7,294**	$ 6,196	18%
Net revenue [(1)]	**$ 6,696**	$ 5,768	16%
Gross profit	**$ 1,801**	$ 1,570	15%
SG&A	**(1,266)**	(1,245)	(2)%
Equity earnings of joint ventures	**2**	3	(45)%
Other income	**15**	115	***n/m***
Other expenses	**—**	(51)	n/m
EBIT	**$ 552**	$ 392	41%
Net income attributable to shareholders of Finning	**$ 364**	$ 232	57%
Basic ***EPS***	**$ 2.26**	$ 1.43	58%
EBITDA [(1)]	**$ 871**	$ 700	24%
Free cash flow [(2)]	**$ 300**	$ 870	(66)%
Adjusted EBIT [(2)(3)]	**$ 537**	$ 328	63%
Adjusted basic EPS [(1)(3)]	**$ 2.18**	$ 1.14	90%
Adjusted EBITDA [(2)(3)]	**$ 856**	$ 636	34%
Gross profit as a % of net revenue [(1)]	***26.9%***	*27.2%*	
SG&A as a % of net revenue [(1)]	***18.9%***	*21.6%*	
EBIT as a % of net revenue [(1)]	***8.2%***	*6.8%*	
EBITDA as a % of net revenue [(1)]	***13.0%***	*12.1%*	
Adjusted EBIT as a % of net revenue [(1)(3)]	***8.0%***	*5.7%*	
Adjusted EBITDA as a % of net revenue [(1)(3)]	***12.8%***	*11.0%*	
*Adjusted **ROIC*** [(1)(3)]	***16.4%***	*9.6%*	

(1) See "Description of ***Specified Financial Measures*** and Reconciliations" later in this MD&A.

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

(3) Reported financial measures may be impacted by significant items described on pages 6 and 42 - 45 of this MD&A. Financial measures that have been adjusted to take into account these items are referred to as "Adjusted measures". See "Description of Specified Financial Measures and Reconciliations" later in this MD&A.

Annual Highlights

- 2021 revenue was $7.3 billion. Net revenue of $6.7 billion was up 16% from 2020, reflecting higher volumes in all lines of business, primarily new equipment in South America and ***UK*** & Ireland and product support and used equipment in Canada.
- 2021 EBIT was $552 million and EBIT as a percentage of net revenue was 8.2%. Excluding significant items not considered indicative of operational and financial trends, Adjusted EBIT was $537 million and Adjusted EBIT as a percentage of net revenue was 8.0%, compared to $328 million and 5.7%, respectively, in 2020. 2021 Adjusted EBIT increased by 63% from 2020 driven by a recovery in market activity and strong execution.
- Adjusted EBITDA was $856 million, 34% higher than 2020, driven by revenue growth and improved execution. 2021 Adjusted EBITDA as a percentage of net revenue was 12.8%, improving from 11.0% in 2020. This increase was primarily due to the reduction in SG&A relative to net revenue as a result of productivity improvements. 2021 SG&A as a percentage of net revenue was 18.9%, down 270 basis points from 2020, which contributed to improved operating leverage in all of our operations.
- Basic EPS was $2.26 per share in 2021 compared to $1.43 per share in 2020. Excluding significant items not considered indicative of operational and financial trends, Adjusted basic EPS was $2.18 per share in 2021, 90% higher than $1.14 per share in 2020 reflecting strong earnings across all operations.
- 2021 free cash flow was $300 million. We used this strong free cash flow generation to raise our dividend by 10% and repurchase 4.8 million shares in 2021. Our balance sheet is strong, with a net debt to Adjusted EBITDA [(1)(2)] ratio at December 31, 2021 of 1.1 times, an improvement from 1.4 times at December 31, 2020.
- Adjusted ROIC at December 31, 2021 was 16.4%, an improvement of 680 basis points from December 31, 2020, with significant increases in all of our operations, with South America achieving a 20.3% Adjusted ROIC at December 31, 2021.

(1) See "Description of Specified Financial Measures and Reconciliations" later in this MD&A.

(2) Reported financial measures may be impacted by significant items described on pages 6 and 42 - 45 of this MD&A. Financial measures that have been adjusted to take into account these items are referred to as "Adjusted measures". See "Description of Specified 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 – leverage our global supply chain to enhance the omni-channel customer experience while maximizing 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 plan is based on our Purpose, Vision, and Values, which have been articulated with the input of our employees and comprise our strategic framework:

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.

Simple Execution Plan

At our 2021 Investor Day, we introduced our Simple Execution Plan designed to improve our return on invested capital performance and ultimately increase our earnings capacity.

- First, we are accelerating product support growth. Our strategy is well aligned with Caterpillar in driving product support growth through strengthening our value proposition to meet the rapidly evolving needs of our customers. We are leveraging our unified digital platform, CUBIQ™, to help our customers improve their productivity, costs, safety, and environmental performance.
- Second, we are reducing our cost base by becoming more efficient and agile in serving our customers and driving supply chain improvement across our global organization.
- And third, we are reinvesting our free cash flow to compound our earnings. Our strong balance sheet provides optionality to drive earnings potentially through organic growth, acquisitions, and return of capital to shareholders.

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. We have made significant progress in building a sustainable business and positioning for growth as the world transitions to cleaner energy sources. Our approach to sustainability is closely aligned with our purpose and covers the material sustainability topics discussed in our Sustainability Report. 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. In the second year of the pandemic, we continue to advance 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, strong execution, financial flexibility, and cost and capital discipline will serve us well as markets recover and position us for opportunities that lie ahead.

Impact of COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. COVID-19 had an impact on our business beginning in Q1 2020. In 2020, the most significant impacts on our operations from disruptions related to COVID-19 included delayed equipment deliveries, lower parts sales in the construction sector, lower rental utilization, reduced productivity at our component repair facilities and lower labour recovery at our branches due to shift separation and distancing measures, temporary closure of certain facilities in South America, and additional allowances for doubtful accounts related to an increase in customer credit risk. 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 subsidized a portion of employee wages (up to a specified maximum) for Canadian employers whose businesses met eligibility criteria. The program was intended to help employers rehire previously laid off workers, prevent 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). We utilized the CEWS program in 2020 and in early 2021. In 2020 we also utilized CJRS and tax deferral programs that governments in most regions where we operate made available. These government programs supported us in retaining key technical talent and positioned us well for an economic recovery.

We are monitoring the spread of the Omicron variant in our regions, particularly as it affects the staffing levels of our and our customers' operations. We are leveraging the COVID-19 mitigation protocols we developed at the beginning of the pandemic and expect to successfully manage our day-to-day operations through the Omicron wave.

Adjusted Measures

Reported financial measures 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 measures”. Adjusted measures 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 measures, including definitions and reconciliations from each of these Adjusted measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Specified Financial Measures and Reconciliations” on pages 41 - 49 of this MD&A.

2021 significant items:

- Finning qualified for and recorded a benefit related to the CEWS program.
- Return on our investment in ***Energyst*** (described on page 18).

2020 significant items:

- Finning qualified for and recorded a benefit related to the CEWS program.
- 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.

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

For year ended December 31, 2021 ($ millions, except for per share amounts)	**EBIT Canada**	**EBIT South America**	**EBIT UK & Ireland**	**EBIT Other**	**EBIT *Consol***	**EPS Consol**
EBIT and basic EPS	**$ 327**	**$ 209**	**$ 53**	**$ (37)**	**$ 552**	**$ 2.26**
Significant items:						
CEWS support	**(10)**	**—**	**—**	**—**	**(10)**	**(0.05)**
Return on our investment in Energyst	**—**	**—**	**—**	**(5)**	**(5)**	**(0.03)**
Adjusted EBIT and Adjusted basic EPS	**$ 317**	**$ 209**	**$ 53**	**$ (42)**	**$ 537**	**$ 2.18**

For year ended December 31, 2020 ($ millions, except for per share amounts)	EBIT Canada	EBIT South America	EBIT UK & Ireland	EBIT Other	EBIT Consol	EPS Consol
EBIT and basic EPS	$ 288	$ 121	$ 16	$ (33)	$ 392	$ 1.43
Significant items:						
CEWS support	(108)	—	—	(7)	(115)	(0.53)
Severance costs	20	17	4	1	42	0.20
Facility closure related restructuring costs and impairment losses	5	4	—	—	9	0.04
Adjusted EBIT and Adjusted basic EPS	$ 205	$ 142	$ 20	$ (39)	$ 328	$ 1.14

Annual Key Performance Measures

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

For years ended December 31	**2021**	2020	2019	2018 [1]	2017 (Restated) [1][2]
ROIC [3][4] (%)					
Consolidated	**16.8%**	11.4%	11.2%	12.8%	13.1%
Canada	**17.5%**	14.6%	13.7%	16.6%	13.3%
South America	**20.3%**	11.0%	9.6%	12.2%	17.8%
UK & Ireland	**14.8%**	4.5%	12.1%	14.2%	12.8%
EBIT [3] ($ millions)					
Consolidated	**552**	392	425	423	392
Canada	**327**	288	296	297	225
South America	**209**	121	120	142	184
UK & Ireland	**53**	16	46	51	37
EBIT as a % of net revenue [3]					
Consolidated	**8.2%**	6.8%	5.8%	6.0%	6.3%
Canada	**9.7%**	9.7%	7.5%	8.1%	7.3%
South America	**9.4%**	6.3%	5.4%	6.6%	8.5%
UK & Ireland	**4.7%**	1.8%	4.1%	4.4%	3.6%
EBITDA [3] ($ millions)					
Consolidated	**871**	700	718	610	576
Canada	**518**	473	470	393	324
South America	**293**	204	201	204	242
UK & Ireland	**94**	53	82	79	63
EBITDA as a % of net revenue [3]					
Consolidated	**13.0%**	12.1%	9.9%	8.7%	9.2%
Canada	**15.3%**	16.0%	12.0%	10.7%	10.6%
South America	**13.2%**	10.6%	9.0%	9.4%	11.2%
UK & Ireland	**8.5%**	6.0%	7.2%	6.9%	6.1%
Basic EPS [3]	**2.26**	1.43	1.48	1.38	1.28
Invested capital [4] ($ millions)					
Consolidated	**3,326**	3,067	3,591	3,163	2,830
Canada	**1,876**	1,819	2,026	1,675	1,621
South America	**1,026**	931	1,192	1,190	983
UK & Ireland	**381**	327	361	336	250
Invested capital turnover [4] (times)					
Consolidated	**2.04**	1.68	1.92	2.12	2.09
Canada	**1.80**	1.50	1.81	2.05	1.82
South America	**2.15**	1.75	1.78	1.86	2.09
UK & Ireland	**3.11**	2.49	2.98	3.22	3.56
Inventory ($ millions)	**1,687**	1,477	1,990	2,061	1,708
Inventory turns (dealership) [4] (times)	**3.09**	2.79	2.53	2.68	2.82
Working capital to net revenue [4]	**22.9%**	28.3%	27.8%	26.6%	27.4%
Free cash flow ($ millions)	**300**	870	42	78	165

(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 for 2017 have 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 measures 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 measures that have been adjusted to take into account these items are referred to as "Adjusted measures" and are summarized on page 8 of this MD&A.

(4) See "Description of Specified Financial Measures and Reconciliations" later in this MD&A.

Adjusted KPIs

KPIs may be impacted by significant items described on pages 6 and 42 - 45 of this MD&A. KPIs that have been adjusted to take these items into account, referred to as Adjusted KPIs, were as follows:

For years ended December 31	**2021**	2020	2019	2018 [(1)]	2017 (Restated) [(1)(2)]
Adjusted ROIC (%)					
Consolidated	**16.4%**	9.6%	12.0%	13.5%	13.1%
Canada	**16.9%**	10.5%	14.4%	16.2%	13.2%
South America	**20.3%**	12.9%	10.5%	12.2%	18.1%
UK & Ireland	**14.8%**	5.5%	12.1%	14.2%	12.8%
Adjusted EBIT ($ millions)					
Consolidated	**537**	328	457	446	393
Canada	**317**	205	313	290	224
South America	**209**	142	131	142	186
UK & Ireland	**53**	20	46	51	37
Adjusted EBIT as a % of net revenue					
Consolidated	**8.0%**	5.7%	6.3%	6.4%	6.3%
Canada	**9.4%**	7.0%	8.0%	7.9%	7.3%
South America	**9.4%**	7.4%	5.9%	6.6%	8.7%
UK & Ireland	**4.7%**	2.2%	4.1%	4.4%	3.6%
Adjusted EBITDA ($ millions)					
Consolidated	**856**	636	750	633	577
Canada	**508**	390	487	386	323
South America	**293**	225	212	204	244
UK & Ireland	**94**	57	82	79	63
Adjusted EBITDA as a % of net revenue					
Consolidated	**12.8%**	11.0%	10.3%	9.0%	9.2%
Canada	**15.1%**	13.2%	12.4%	10.5%	10.5%
South America	**13.2%**	11.7%	9.5%	9.4%	11.3%
UK & Ireland	**8.5%**	6.5%	7.2%	6.9%	6.1%
Adjusted basic EPS	**2.18**	1.14	1.65	1.65	1.33
Net debt to Adjusted EBITDA ratio (times)	**1.1**	1.4	2.0	1.7	1.5

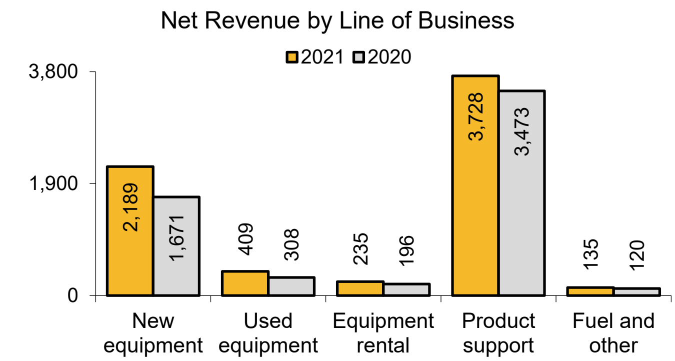
(1) Comparative results prior to 2019 have not been restated for our adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.

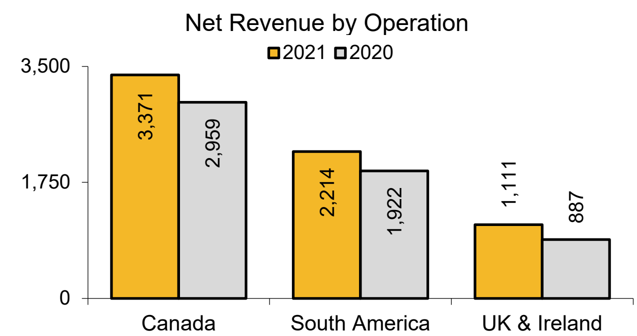
(2) Comparative results for 2017 have been restated for our adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

Annual Results

Revenue

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





Revenue was $7.3 billion in 2021 compared to $6.2 billion during 2020. Net revenue of $6.7 billion increased 16% from the prior year, largely driven by strong market activity in the construction sector particularly in new equipment sales and product support revenue. 2020 was impacted by lower customer demand as a result of volatility in commodity prices and weaker market conditions globally due to COVID-19.

New equipment revenue in 2021 was 31% higher than the prior year, mainly driven by the construction sector in all operations and the mining sector in South America. 2020 volumes were negatively affected by lower capital spending by our customers. Equipment backlog [(1)] of $1.9 billion at December 31, 2021 was up over 140% from December 31, 2020 due to extremely strong order intake in 2021 that outpaced equipment deliveries in all of our operations.

Product support revenue in 2021 was 7% higher than 2020, up in all operations with higher demand in all market sectors, primarily in the construction and mining sectors in our Canadian operations.

Used equipment revenue was up 33% and rental revenue was up 20% in 2021 compared to 2020, fulfilling customer equipment needs in a tight supply environment.

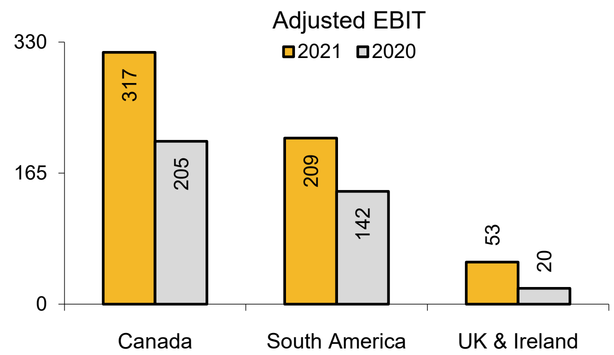
EBIT and EBITDA

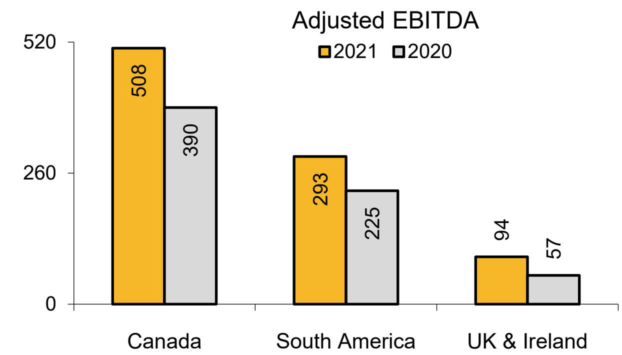
Gross profit in 2021 of $1.8 billion was 15% higher than the comparative prior year, in line with net revenue growth. Overall gross profit as a percentage of net revenue of 26.9% was comparable to 2020 due to a higher proportion of equipment revenue in all of our operations which typically generates lower gross margins, partially offset by an improvement in gross margins in most lines of business.

SG&A in 2021 of $1.3 billion was 2% higher than the prior year primarily due to higher people-related costs, including ***LTIP*** expense, and variable costs to support volumes. This increase was partially offset by cost savings related to productivity improvements as well as a favourable foreign currency translation impact on SG&A related to our South American operations, due to the stronger CAD relative to the ***USD*** on average in 2021 compared to 2020. In addition, 2020 included higher provisions to reflect the increased collection risk related to customer trade receivables due to market conditions at that time. Although SG&A costs were higher in the current year, SG&A as a percentage of net revenue improved 270 basis points as all of our operations benefited from productivity improvements.

(1) See “Description of Specified Financial Measures and Reconciliations” later in this MD&A.

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

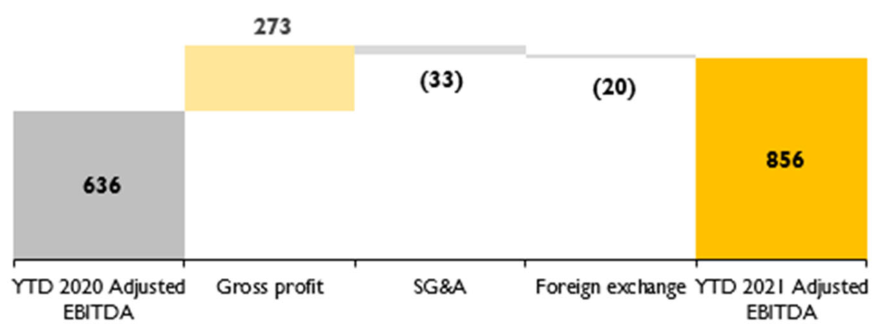




(1) Excluding Other operations

EBIT was $552 million and EBIT as a percentage of net revenue was 8.2% in 2021, compared to $392 million and 6.8%, respectively, in 2020. Excluding significant items not indicative of financial and operational trends described on page 6, Adjusted EBIT in 2021 was $537 million and Adjusted EBIT as a percentage of net revenue was 8.0%, higher than $328 million and 5.7%, respectively, in 2020. All of our operations contributed significantly higher earnings and Adjusted EBIT as a percentage of net revenue.

2021 Adjusted EBITDA was $856 million, a significant increase from $636 million in 2020. This 34% increase was primarily due to a 16% increase in net revenue combined with productivity improvements that resulted in SG&A being only slightly higher year over year. Adjusted EBITDA as a percentage of net revenue of 12.8% improved 180 basis points from the prior year. This was driven primarily from an improvement in SG&A relative to net revenue.



The net debt to Adjusted EBITDA ratio at December 31, 2021 was 1.1 times, an improvement from 1.4 times at December 31, 2020, primarily due to an increase in Adjusted EBITDA in 2021 compared with 2020. This ratio remains below our long-term target of less than three.

Finance Costs

Finance costs for 2021 of $75 million were lower than $85 million in 2020 due to lower average debt levels.

Provision for Income Taxes

The effective income tax rate for 2021 of 23.9% was comparable to 24.4% for 2020.

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 Attributable to Shareholders of Finning and Basic EPS

Net income attributable to shareholders of Finning was $364 million and basic EPS was $2.26 per share in 2021, compared to $232 million and $1.43 per share, respectively, in 2020. Excluding the significant items not indicative of financial and operational trends described on page 6, Adjusted basic EPS of $2.18 per share was 90% higher than 2020 with strong earnings reported in all of our operations in 2021.

Invested Capital

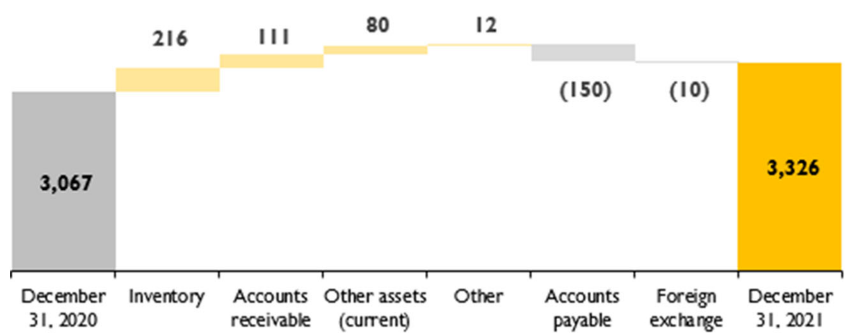
($ millions, unless otherwise stated)	December 31, 2021	December 31, 2020	Increase from December 31, 2020
Consolidated	**$ 3,326**	$ 3,067	$ 259
Canada	**$ 1,876**	$ 1,819	$ 57
South America	**$ 1,026**	$ 931	$ 95
UK & Ireland	**$ 381**	$ 327	$ 54
South America (USD)	***$ 809***	*$ 731*	*$ 78*
*UK & Ireland (**GBP**)*	***£ 222***	*£ 188*	*£ 34*

Compared to December 31, 2020:

The $259 million increase in consolidated invested capital from December 31, 2020 to December 31, 2021 includes a foreign exchange impact of $10 million in translating the invested capital balances of our South American and UK & Ireland operations. The foreign exchange impact was the result of the 1% stronger CAD relative to the GBP and 0.4% stronger CAD relative to the USD at December 31, 2021 compared to December 31, 2020.

Excluding the impact of foreign exchange, consolidated invested capital increased by $269 million from December 31, 2020 to December 31, 2021 reflecting:

- higher inventory in all operations, mainly in Canada and South America, and equipment deposits paid to suppliers by our South American operations (included in other assets), proactively ordered and sourced to meet growing customer demand;
- an increase in accounts receivables due to an increase in sales activity in all operations, primarily in Canada;
- partially offset by higher accounts payable, mainly in Canada and South America related to higher inventory purchases.



Adjusted ROIC and Invested Capital Turnover

	December 31, 2021	December 31, 2020
Adjusted ROIC		
Consolidated	**16.4%**	9.6%
Canada	**16.9%**	10.5%
South America	**20.3%**	12.9%
UK & Ireland	**14.8%**	5.5%
Invested Capital Turnover (times)		
Consolidated	**2.04**	1.68
Canada	**1.80**	1.50
South America	**2.15**	1.75
UK & Ireland	**3.11**	2.49

Adjusted ROIC

On a consolidated basis, Adjusted ROIC at December 31, 2021 improved 680 basis points from December 31, 2020 driven by strong Adjusted EBIT for the last twelve-month period combined with a reduction in average invested capital levels. There was a significant increase in Adjusted ROIC in all of our operations reflecting improved profitability in a recovering market combined with a strong focus to reduce invested capital levels and improve invested capital turnover.

Invested Capital Turnover

Consolidated invested capital turnover at December 31, 2021 of 2.04 improved from December 31, 2020. All regions reported higher net revenue over the last twelve-month period and lower or comparable average invested capital levels. Higher invested capital turnover in all of our operations at December 31, 2021 reflects our focus on reducing invested capital levels and improving efficiencies and productivity which is evident in our improving metrics as markets recover.

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 14 - 18. Our reportable segments are Canada, South America, UK & Ireland, and Other.

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, 2021 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Consol**	**Net Revenue %**
New equipment	**$ 774**	**$ 711**	**$ 704**	**$ 2,189**	**33%**
Used equipment	**310**	**48**	**51**	**409**	**6%**
Equipment rental	**153**	**40**	**42**	**235**	**3%**
Product support	**1,999**	**1,415**	**314**	**3,728**	**56%**
Fuel and other	**135**	**—**	**—**	**135**	**2%**
Net revenue	**$ 3,371**	**$ 2,214**	**$ 1,111**	**$ 6,696**	**100%**
Net revenue % by operation	**50%**	**33%**	**17%**	**100%**	

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%	

Canada Operations

Our Canadian reporting segment includes ***Finning (Canada)***, ***OEM***, ***4Refuel***, and a 25% interest in ***PLM***. 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 on-site refuelling services in most of the provinces of Canada, as well as in Texas, ***US***. Our Canadian operations' markets include mining (including the oil sands), construction, conventional oil and gas, forestry, and power systems.

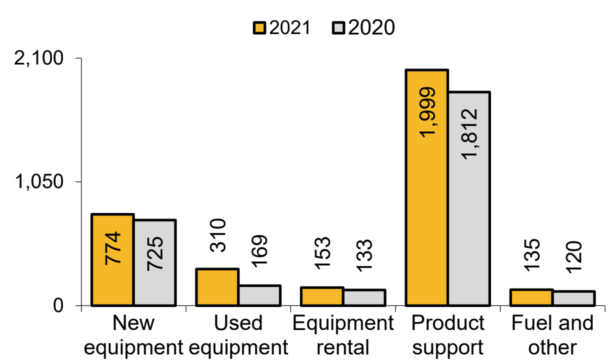
The table below provides details of the results from our Canadian operations:

For years ended December 31 ($ millions)	**2021**	2020
Net revenue	**$ 3,371**	$ 2,959
Operating costs	**(2,865)**	(2,572)
Equity earnings of joint ventures	**2**	3
Other income	**10**	108
Other expenses	**—**	(25)
EBITDA	**518**	473
Depreciation and amortization	**(191)**	(185)
EBIT	**$ 327**	$ 288
Adjusted EBITDA	**$ 508**	$ 390
Adjusted EBIT	**$ 317**	$ 205
EBITDA as a % of net revenue	***15.3%***	*16.0%*
EBIT as a % of net revenue	***9.7%***	*9.7%*
Adjusted EBITDA as a % of net revenue	***15.1%***	*13.2%*
Adjusted EBIT as a % of net revenue	***9.4%***	*7.0%*

2021 Annual Overview

2021 net revenue of $3.4 billion was 14% higher than 2020, up in all lines of business, primarily driven by an increase in product support and strong used equipment sales. 2020 was impacted by COVID-19 and low oil prices, which resulted in customers' reduced activity, restricted capital spending, and implementation of cost containment measures.

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



Product support revenue in 2021 was up 10% from 2020 driven by a market recovery in all sectors, led by growth in the construction sector with a significant increase in construction rebuilds and customer value agreements.

2021 used equipment revenue of $310 million increased 84% from 2020 driven by higher demand by customers in the mining and construction sectors, supported by favourable construction conditions. We are proactively sourcing used equipment to meet customer needs in a constrained supply environment.

2021 new equipment revenue was 7% higher than 2020 primarily due to a market recovery in the construction sector partially offset by lower deliveries in the mining and power systems sectors. Equipment backlog at December 31, 2021 was significantly higher than December 31, 2020 as very strong order intake outpaced deliveries, primarily in the mining and construction sectors.

Overall gross profit as a percentage of net revenue in 2021 was slightly up from 2020, with improved gross margins in most lines of business, partially offset by the impact of a higher proportion of equipment revenue in the revenue mix.

2021 SG&A was up 3% compared to the prior year, on 14% net revenue growth. 2021 SG&A increased mainly due to higher costs to support volumes. This was partially offset by higher provisions in 2020 to reflect the increased collection risk related to customer trade receivables. SG&A as a percentage of net revenue improved over the prior year, benefiting from an improvement in labour and facility productivity.

Excluding significant items not indicative of financial and operational trends described on page 6, our Canadian operations contributed Adjusted EBITDA of $508 million in 2021, up 30% from the same period in the prior year on 14% higher net revenues. Adjusted EBITDA as a percentage of net revenue in 2021 was 15.1%, an improvement of 190 basis points from 2020. This increase was driven by an improvement in SG&A as a percentage of net revenue and higher gross profit 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:

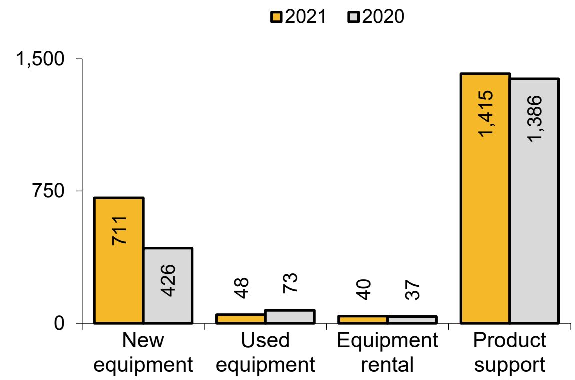
For years ended December 31 ($ millions)	**2021**	2020
Net revenue	**$ 2,214**	$ 1,922
Operating costs	**(1,921)**	(1,697)
Other expenses	**—**	(21)
EBITDA	**$ 293**	$ 204
Depreciation and amortization	**(84)**	(83)
EBIT	**$ 209**	$ 121
Adjusted EBITDA	**$ 293**	$ 225
Adjusted EBIT	**$ 209**	$ 142
EBITDA as a % of net revenue	***13.2%***	*10.6%*
EBIT as a % of net revenue	***9.4%***	*6.3%*
Adjusted EBITDA as a % of net revenue	***13.2%***	*11.7%*
Adjusted EBIT as a % of net revenue	***9.4%***	*7.4%*

The stronger CAD relative to the USD on average in 2021 compared to 2020 had an unfavourable foreign currency translation impact on 2021 net revenue of approximately $150 million and approximately $20 million 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. These variances and ratios exclude the foreign currency translation impact from the CAD relative to the USD and are therefore, considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

2021 Annual Overview

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



2021 net revenue was 23% higher than 2020, largely driven by stronger market activity in the construction and mining sectors.

New equipment revenue in 2021 was 78% higher than the same prior year period, driven by market recovery in 2021 with stronger deliveries to customers in the mining and construction sectors. Equipment backlog at December 31, 2021 was up from December 31, 2020, primarily due to demand in the construction and mining sectors, as order intake outpaced deliveries.

Product support revenue in 2021 increased 9% from 2020, primarily in Chile as mining customers resumed major maintenance work and construction markets recovered.

Gross profit in 2021 increased from 2020 mainly due to increased volumes. Gross profit as a percentage of net revenue in 2021 was lower compared to 2020 mainly due to the significant shift to higher new equipment sales in the revenue mix (2021: 32% compared with 2020: 22%), which typically generates lower margins.

2021 SG&A costs were comparable to 2020 on 23% higher net revenue. 2021 SG&A increased mainly due to higher costs to support volumes as well as inflationary increases in Chile. This was offset by higher provisions in 2020 reflecting increased collection risk related to customer trade receivables. 2021 SG&A as a percentage of net revenue decreased 370 basis points from 2020 driven by the leverage of fixed costs on higher revenues and productivity improvements.

2021 EBITDA of $293 million was higher than 2020 Adjusted EBITDA of $225 million. 2021 EBITDA as a percentage of net revenue of 13.2% improved by 150 basis points from 2020 Adjusted EBITDA due to the improvement in SG&A relative to net revenue more than offsetting the impact of a higher proportion of new equipment revenue in the revenue mix.

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 systems, and quarrying.

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

For years ended December 31 ($ millions)	**2021**	2020
Net revenue	**$ 1,111**	$ 887
Operating costs	**(1,017)**	(830)
Other expenses	**—**	(4)
EBITDA	**$ 94**	$ 53
Depreciation and amortization	**(41)**	(37)
EBIT	**$ 53**	$ 16
Adjusted EBITDA	**$ 94**	$ 57
Adjusted EBIT	**$ 53**	$ 20
EBITDA as a % of net revenue	***8.5%***	*6.0%*
EBIT as a % of net revenue	***4.7%***	*1.8%*
Adjusted EBITDA as a % of net revenue	***8.5%***	*6.5%*
Adjusted EBIT as a % of net revenue	***4.7%***	*2.2%*

The CAD relative to the GBP on average in 2021 compared to 2020 did not have a significant impact on 2021 net revenue or EBITDA.

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. These variances and ratios exclude the foreign currency translation impact from the CAD relative to the GBP and are therefore, considered to be specified financial measures. We believe the variances and ratios in functional currency provide meaningful information about operational performance of the reporting segment.

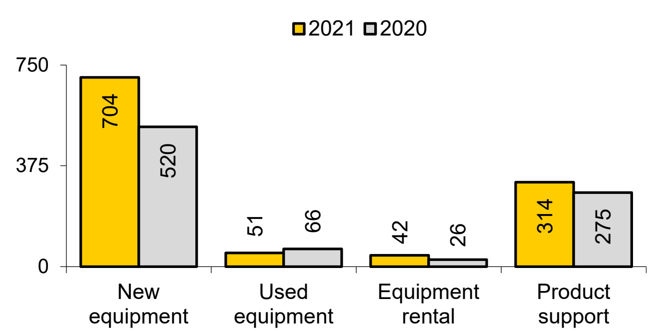
2021 Annual Overview

2021 net revenue was up 25% from 2020, mainly due to higher new equipment revenue. 2020 was impacted by COVID-19 restrictions and uncertainty impacting customer buying behaviours.

New equipment revenue was 35% higher than 2020, primarily in the construction sector which included deliveries to the ***HS2*** project. Revenue in the power systems sector was down slightly from the prior year due to the timing of project deliveries. Equipment backlog at December 31, 2021 was significantly higher than December 31, 2020 as very strong order intake outpaced deliveries. Order intake reflects the increased equipment demand for the HS2 project.

2021 product support revenue increased 14% from the same prior year period, mainly in the construction sector.

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



Gross profit in 2021 was up from the prior year, largely driven by revenue growth. Overall gross profit as a percentage of net revenue increased from the prior year, largely due to improved gross margins across all lines of business partially offset by the impact of a higher proportion of new equipment sales in the revenue mix (2021: 63% compared with 2020: 59%).

SG&A was up 14% in 2021 compared to 2020 on 25% net revenue growth. The increase in SG&A reflected higher costs to support volumes including higher people-related costs from additional headcount, while 2020 included government support for furloughed employees. SG&A as a percentage of net revenue was lower in 2021 compared to 2020 primarily due to the leverage of fixed costs on significant revenue growth.

2021 EBITDA of $94 million was higher than 2020 Adjusted EBITDA of $57 million. EBITDA as a percentage of net revenue of 8.5% in 2021 was 200 basis points higher than Adjusted EBITDA as a percentage of net revenue in the prior year period primarily due to the improvement in SG&A as a percentage of net revenue combined with the improvement in gross margins.

Other Operations

Our Other operations includes corporate operating costs.

Excluding significant items not considered by management to be indicative of operational and financial trends as described on page 6, 2021 Adjusted EBITDA was a loss of $39 million compared to a loss of $36 million in the prior year. 2021 Adjusted EBITDA included higher LTIP expense partially offset by lower operating costs compared to the prior year.

Other Developments

ComTech

On September 3, 2021, our Canadian operations acquired a 54.5% controlling ownership interest in ***ComTech*** through our subsidiary, 4Refuel. ComTech is an early-stage developer of alternative energy infrastructure and provider of proprietary mobile fuelling solutions for low-carbon fuels in North America, including ***CNG***, ***RNG***, and hydrogen. ComTech provides 4Refuel with the capability to be a leading provider of turn-key, low-carbon energy solutions. This acquisition expands our fuelling capabilities beyond diesel and allows us to support customers' energy transition journey, starting with solutions for CNG and RNG. Our investment in ComTech leverages 4Refuel's leading mobile on-site refuelling platform to enable customers to reduce their emissions and improve productivity. Cash consideration for this acquisition was $25 million, of which $20 million is to support future growth. The acquisition was funded with cash on hand. Net assets acquired consist primarily of cash, property, plant, and equipment, intangible assets, goodwill, and debt. As part of this acquisition, we also recorded a non-controlling interest in ComTech (45.5% ownership interest) of $21 million. We expect to finalize the purchase price allocation no later than June 30, 2022.

Energyst

Energyst was the Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, which included Finning, decided to restructure the company and convert its rental activities into four separate regional organizations which were sold in January 2021. A plan is in place to sell any remaining assets and wind-up Energyst, with the net proceeds from the sale to be distributed to Energyst's shareholders. During the year ended December 31, 2021, we received a return on our investment in Energyst.

On January 7, 2021, our UK & Ireland operations acquired the Energyst rental business operations in the UK and Ireland, one of the four regional organizations, 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. We paid cash consideration of $14 million (€9 million) at the date of acquisition, funded with cash on hand. Net assets acquired consist of $3 million of net working capital [(1)], $9 million of rental equipment, $1 million of property, plant, and equipment, and $1 million of deferred tax assets.

(1) Net working capital comprises cash and cash equivalents, accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

Fourth Quarter Overview

($ millions, except for per share amounts)	Q4 2021	Q4 2020	% change fav (unfav)
Revenue	**$ 1,949**	$ 1,666	17%
Net revenue	**$ 1,774**	$ 1,551	14%
Gross profit	**$ 484**	$ 418	16%
SG&A	**(328)**	(324)	(1)%
Equity earnings of joint ventures	**1**	—	n/m
Other income	**—**	14	n/m
EBIT	**$ 157**	$ 108	46%
Net income attributable to shareholders of Finning	**$ 104**	$ 72	44%
Basic EPS	**$ 0.66**	$ 0.45	47%
EBITDA	**$ 241**	$ 185	31%
Free cash flow	**$ 148**	$ 292	(50)%
Adjusted EBIT	**$ 157**	$ 94	67%
Adjusted basic EPS	**$ 0.66**	$ 0.38	71%
Adjusted EBITDA	**$ 241**	$ 171	41%
Gross profit as a % of net revenue	***27.3%***	*26.9%*	
SG&A as a % of net revenue	***18.5%***	*20.9%*	
EBIT as a % of net revenue	***8.9%***	*6.9%*	
EBITDA as a % of net revenue	***13.6%***	*11.9%*	
Adjusted EBIT as a % of net revenue	***8.9%***	*6.1%*	
Adjusted EBITDA as a % of net revenue	***13.6%***	*11.0%*	
Adjusted ROIC	***16.4%***	*9.6%*	

Fourth Quarter Highlights

- Q4 2021 revenue was $1.9 billion. Q4 2021 net revenue of $1.8 billion was 14% higher than Q4 2020 with higher revenue in all lines of business driven by strong market activity and solid execution, particularly product support and used equipment sales in Canada and new equipment volumes in South America.
- Q4 2021 EBIT was $157 million and EBIT as a percentage of net revenue was 8.9%. Excluding significant items not considered indicative of operational and financial trends, Q4 2020 Adjusted EBIT and Adjusted EBIT as a percentage of net revenue was $94 million and 6.1%, respectively. All regions delivered strong operating leverage with EBIT as a percentage of net revenue of 10.1% in both Canada and South America.
- EBITDA was $241 million and EBITDA as a percentage of net revenue was 13.6% in Q4 2021, compared to Adjusted EBITDA of $171 million and Adjusted EBITDA as a percentage of net revenue of 11.0% in Q4 2020. Q4 2021 EBITDA as a percentage of net revenue improved 260 basis points from Q4 2020 demonstrating progress and benefits from our productivity improvements and fixed cost reduction initiatives globally.
- Q4 2021 basic EPS was $0.66 per share. Q4 2020 Adjusted basic EPS of $0.38 per share excluded significant items not considered indicative of operational and financial trends. This 71% increase reflects the successful execution by each of our operations to deliver on our strategic plan and improve our earnings capacity.

Fourth Quarter Adjusted Measures

There were no significant items identified by management that affected our results for the three months ended December 31, 2021. One 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 Other	EBIT Consol	Basic EPS Consol
EBIT and basic EPS	$ 72	$ 41	$ 11	$ (16)	$ 108	$ 0.45
Significant item:						
CEWS support	(13)	—	—	(1)	(14)	(0.07)
Adjusted EBIT and Adjusted basic EPS	$ 59	$ 41	$ 11	$ (17)	$ 94	$ 0.38

Quarterly Key Performance Measures

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

	2021				2020				2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC [1] (%)									
Consolidated	**16.8%**	15.6%	15.3%	12.5%	11.4%	10.7%	10.0%	11.9%	11.2%
Canada	**17.5%**	16.5%	17.0%	15.6%	14.6%	14.3%	13.3%	14.2%	13.7%
South America	**20.3%**	19.0%	17.2%	12.3%	11.0%	9.5%	9.3%	11.9%	9.6%
UK & Ireland	**14.8%**	14.9%	12.9%	6.5%	4.5%	2.9%	3.7%	8.4%	12.1%
EBIT [1] ($ millions)									
Consolidated	**157**	150	137	108	108	138	52	94	97
Canada	**92**	84	82	69	72	93	63	60	72
South America	**59**	58	51	41	41	40	2	38	31
UK & Ireland	**12**	17	17	7	11	9	(5)	1	5
EBIT as a % of net revenue [1]									
Consolidated	**8.9%**	8.6%	8.0%	7.4%	6.9%	9.6%	3.9%	6.6%	5.5%
Canada	**10.1%**	10.4%	9.3%	8.9%	9.3%	12.8%	8.9%	7.9%	7.4%
South America	**10.1%**	9.2%	9.8%	8.6%	8.3%	8.2%	0.5%	7.8%	6.0%
UK & Ireland	**4.3%**	5.6%	5.3%	3.2%	3.7%	4.1%	(3.2)%	0.5%	1.9%
EBITDA [1] ($ millions)									
Consolidated	**241**	230	215	185	185	215	130	170	170
Canada	**142**	132	129	115	119	141	110	103	114
South America	**81**	80	71	61	61	59	24	60	51
UK & Ireland	**23**	27	27	17	20	18	4	11	15
EBITDA as a % of net revenue [1]									
Consolidated	**13.6%**	13.2%	12.6%	12.6%	11.9%	14.9%	9.7%	11.8%	9.7%
Canada	**15.5%**	16.5%	14.7%	14.9%	15.4%	19.3%	15.6%	13.7%	11.8%
South America	**14.0%**	12.5%	13.7%	12.8%	12.2%	12.2%	5.2%	12.4%	10.0%
UK & Ireland	**8.3%**	9.0%	8.5%	7.9%	7.0%	7.9%	2.7%	5.2%	5.4%
Basic EPS [1]	**0.66**	0.61	0.56	0.43	0.45	0.54	0.12	0.33	0.31
Invested capital ($ millions)									
Consolidated	**3,326**	3,335	3,277	3,177	3,067	3,284	3,495	3,883	3,591
Canada	**1,876**	1,922	1,861	1,832	1,819	1,921	2,037	2,093	2,026
South America	**1,026**	1,057	1,058	982	931	1,035	1,106	1,330	1,192
UK & Ireland	**381**	339	358	350	327	323	349	428	361
Invested capital turnover (times)									
Consolidated	**2.04**	2.01	1.93	1.78	1.68	1.68	1.71	1.83	1.92
Canada	**1.80**	1.74	1.70	1.56	1.50	1.56	1.63	1.75	1.81
South America	**2.15**	2.11	1.97	1.90	1.75	1.67	1.67	1.73	1.78
UK & Ireland	**3.11**	3.25	3.09	2.66	2.49	2.39	2.32	2.60	2.98
Inventory ($ millions)	**1,687**	1,627	1,643	1,593	1,477	1,626	1,893	2,152	1,990
Inventory turns (dealership) (times)	**3.09**	3.09	2.84	2.83	2.79	2.30	1.97	2.25	2.53
Working capital to net revenue	**22.9%**	23.0%	24.0%	25.9%	28.3%	29.2%	29.9%	28.9%	27.8%
Free cash flow ($ millions)	**148**	176	(4)	(20)	292	316	312	(50)	386

(1) Certain of these reported financial measures 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 measures that have been adjusted to take into account these items are referred to as "Adjusted measures" and are summarized on page 22 of this MD&A.

Adjusted KPIs

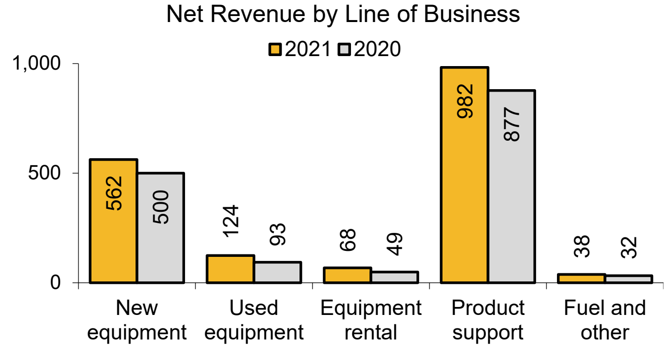
KPIs may be impacted by significant items described on pages 6, 20, and 42 - 45 of this MD&A. KPIs that have been adjusted to take these items into account, referred to as Adjusted KPIs, were as follows:

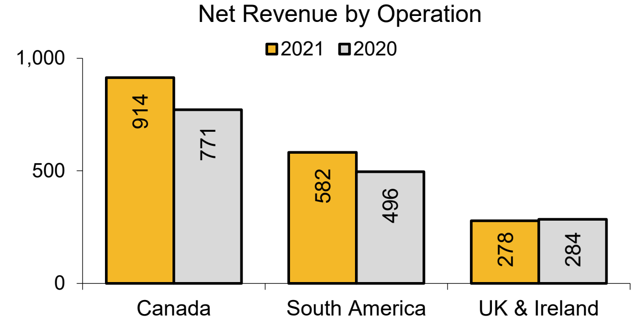
	2021				2020				2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted ROIC									
Consolidated	**16.4%**	14.7%	13.3%	10.0%	9.6%	9.3%	9.7%	12.0%	12.0%
Canada	**16.9%**	15.3%	14.0%	10.8%	10.5%	10.8%	11.6%	14.2%	14.4%
South America	**20.3%**	19.0%	17.2%	14.4%	12.9%	11.3%	11.2%	12.2%	10.5%
UK & Ireland	**14.8%**	14.9%	12.9%	7.6%	5.5%	3.9%	4.6%	8.4%	12.1%
Adjusted EBIT ($ millions)									
Consolidated	**157**	150	137	93	94	101	39	94	97
Canada	**92**	84	82	59	59	58	28	60	72
South America	**59**	58	51	41	41	40	23	38	31
UK & Ireland	**12**	17	17	7	11	9	(1)	1	5
Adjusted EBIT as a % of net revenue									
Consolidated	**8.9%**	8.6%	8.0%	6.3%	6.1%	7.0%	2.9%	6.6%	5.5%
Canada	**10.1%**	10.4%	9.3%	7.7%	7.7%	8.1%	4.0%	7.9%	7.4%
South America	**10.1%**	9.2%	9.8%	8.6%	8.3%	8.2%	5.1%	7.8%	6.0%
UK & Ireland	**4.3%**	5.6%	5.3%	3.2%	3.7%	4.1%	(1.0)%	0.5%	1.9%
Adjusted EBITDA ($ millions)									
Consolidated	**241**	230	215	170	171	178	117	170	170
Canada	**142**	132	129	105	106	106	75	103	114
South America	**81**	80	71	61	61	59	45	60	51
UK & Ireland	**23**	27	27	17	20	18	8	11	15
Adjusted EBITDA as a % of net revenue									
Consolidated	**13.6%**	13.2%	12.6%	11.6%	11.0%	12.3%	8.8%	11.8%	9.7%
Canada	**15.5%**	16.5%	14.7%	13.6%	13.7%	14.6%	10.6%	13.7%	11.8%
South America	**14.0%**	12.5%	13.7%	12.8%	12.2%	12.2%	9.8%	12.4%	10.0%
UK & Ireland	**8.3%**	9.0%	8.5%	7.9%	7.0%	7.9%	4.9%	5.2%	5.4%
Adjusted basic EPS	**0.66**	0.61	0.56	0.35	0.38	0.37	0.06	0.33	0.31
Net debt to Adjusted EBITDA ratio (times)	**1.1**	1.3	1.4	1.5	1.4	1.7	2.1	2.2	2.0

Fourth Quarter Results

Revenue

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





Q4 2021 revenue was $1.9 billion. Net revenue of $1.8 billion in the fourth quarter of 2021 was up 14% from Q4 2020, with higher revenues in all lines of business driven by strong market activity and solid execution.

Product support revenue was up 12% in Q4 2021 from the same prior year period, up in all market sectors and also up in all our operations, particularly in Canada. Product support revenue in the construction sector in Q4 2021 increased 31% over the comparable period in the prior year as a result of our strategic focus to capture market share in this sector.

Q4 2021 new equipment revenue was 13% higher than the same prior year period mainly due to increased volumes in all market sectors in South America. Equipment backlog of approximately $1.9 billion at December 31, 2021 was up 17% from September 30, 2021, higher in all regions, particularly in Canada, which included a significant order from an oil sands operator in Q4 2021.

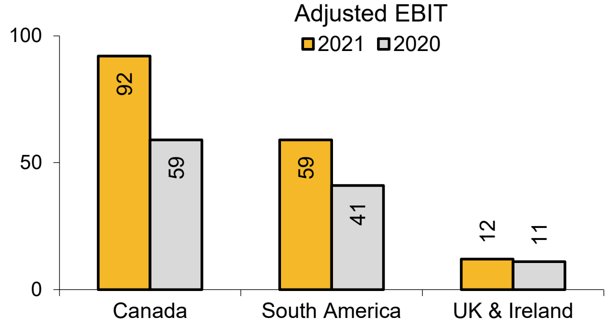
Q4 2021 used equipment revenue was up 33% from Q4 2020, primarily in the mining sector in Canada. Rental revenue was up 39% in Q4 2021 compared to Q4 2020, an increase in all regions.

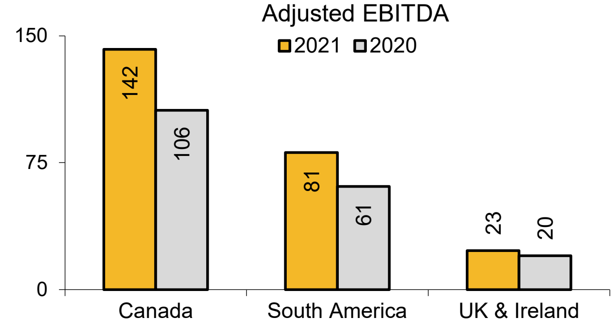
EBIT and EBITDA

Q4 2021 gross profit of $484 million was 16% higher than the same period in the prior year. Overall gross profit as a percentage of net revenue was 27.3% in Q4 2021, up from 26.9% in Q4 2020, largely due to higher rental utilization partially offset by the impact of a lower proportion of product support in the revenue mix.

SG&A in Q4 2021 of $328 million was 1% higher than Q4 2020 on 14% net revenue growth. The increase in SG&A was driven primarily by higher people-related costs and variable costs to support revenue growth. This was partially offset by lower LTIP expense and the favourable foreign currency translation impact on SG&A from the devaluation of the ***CLP*** relative to the USD in Q4 2021 compared to the prior year period. In addition, Q4 2020 SG&A included higher provisions reflecting increased collection risk related to customer trade receivables. SG&A as a percentage of net revenue was 18.5%, a 240 basis point improvement over the same prior year period, demonstrating improved execution to capture growth opportunities and continued productivity improvements.

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

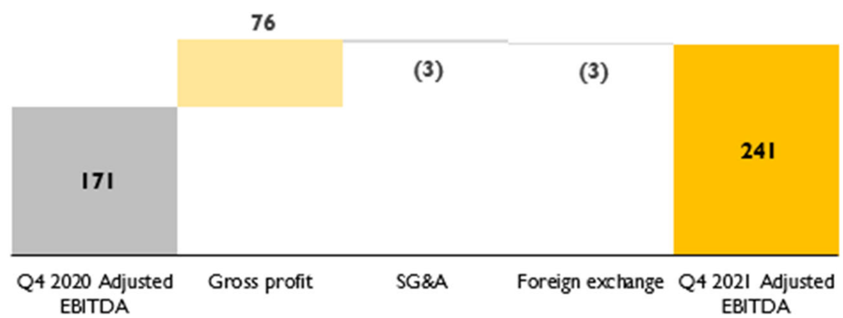




(1) Excluding Other operations

EBIT and EBIT as a percentage of net revenue in Q4 2021 were $157 million and 8.9%, respectively. Excluding the significant items not indicative of operational and financial trends described on page 20, Q4 2020 Adjusted EBIT was $94 million and Adjusted EBIT as a percentage of net revenue was 6.1%.

EBITDA in Q4 2021 was $241 million, up 41% from Adjusted EBITDA of $171 million in Q4 2020. EBITDA was up in all our operations compared to Adjusted EBITDA in Q4 2020, primarily from increased gross profit from a strong market recovery as well as productivity improvements that maintained SG&A levels. EBITDA as a percentage of net revenue of 13.6% in Q4 2021 was 260 basis points higher than Adjusted EBITDA as a percentage of net revenue in the same prior year period, largely driven by the improvement in SG&A as a percentage of net revenue.



Finance Costs

Finance costs in Q4 2021 were $19 million, slightly up from $18 million in Q4 2020.

Provision for Income Taxes

The effective income tax rate in Q4 2021 was 25.0%, higher than 19.8% in Q4 2020. The lower effective income tax rate in Q4 2020 was due to a lower proportion of earnings from higher 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 Q4 2020.

Net Income Attributable to Shareholders of Finning and Basic EPS

Q4 2021 net income attributable to shareholders of Finning was $104 million. Q4 2021 basic EPS was $0.66 per share, a significant increase from Adjusted basic EPS of $0.38 per share in Q4 2020, driven by successful execution to deliver on our strategic plan and improve our earnings capacity.

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

For 3 months ended December 31, 2021 ($ millions)	**Canada**	**South America**	**UK & Ireland**	**Other**	**Consol**	**Net Revenue %**
New equipment	**$ 197**	**$ 188**	**$ 177**	**$ —**	**$ 562**	**32%**
Used equipment	**98**	**11**	**15**	**—**	**124**	**7%**
Equipment rental	**45**	**12**	**11**	**—**	**68**	**4%**
Product support	**536**	**371**	**75**	**—**	**982**	**55%**
Fuel and other	**38**	**—**	**—**	**—**	**38**	**2%**
Net revenue	**$ 914**	**$ 582**	**$ 278**	**$ —**	**$ 1,774**	**100%**
Operating costs	**(773)**	**(501)**	**(255)**	**(5)**	**(1,534)**	
Equity earnings	**1**	**—**	**—**	**—**	**1**	
EBITDA	**$ 142**	**$ 81**	**$ 23**	**$ (5)**	**$ 241**	
Depreciation and amortization	**(50)**	**(22)**	**(11)**	**(1)**	**(84)**	
EBIT	**$ 92**	**$ 59**	**$ 12**	**$ (6)**	**$ 157**	
Net revenue percentage by operation	**51%**	**33%**	**16%**	**—**	**100%**	
EBITDA as a % of net revenue	***15.5%***	***14.0%***	***8.3%***		***13.6%***	
EBIT as a % of net revenue	***10.1%***	***10.1%***	***4.3%***		***8.9%***	

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%*	

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 2021 net revenue of $914 million was 19% higher than Q4 2020, driven primarily by higher product support revenue and used equipment sales. Product support revenue in Q4 2021 was up 17% compared to the same prior year period, largely due to higher customer demand in the construction and mining sectors. The 84% increase in used equipment sales reflects our strategic focus on rebuilds and resale in response to strong customer demand and constrained supply of new equipment. Equipment backlog at December 31, 2021 was up significantly from September 30, 2021 with strong order intake, mainly in the mining sector, which included a significant order from an oil sands operator. Rental revenue was up 22% from Q4 2020, fulfilling customer equipment needs in a tight supply environment. In addition, our heavy rental fleet was highly utilized in British Columbia to support flood mitigation and infrastructure repair work.

Gross profit in Q4 2021 was higher than Q4 2020, mostly driven by higher volumes across all lines of business. Overall gross profit as a percentage of net revenue increased in Q4 2021 compared to Q4 2020 due to improved gross margins in most lines of business, primarily as a result of improved rental utilization and equipment margins.

Q4 2021 SG&A was 10% higher than Q4 2020 on 19% net revenue growth. Higher SG&A reflected higher variable costs to support volumes. SG&A as a percentage of net revenue declined compared to the prior year period driven by effective cost control measures on higher revenues.

Q4 2021 EBITDA was $142 million. Excluding significant items not indicative of financial and operational trends described on page 20, Q4 2020 Adjusted EBITDA was $106 million. This 33% improvement was primarily due to net revenue growth as well as productivity improvements. EBITDA as a percentage of net revenue in Q4 2021 was 15.5%, higher than the Adjusted EBITDA as a percentage of net revenue of 13.7% in Q4 2020. This increase was driven by lower SG&A as a percentage of net revenue compared to Q4 2020 as well as higher rental utilization and improved equipment margins.

South America Operations

Q4 2021 net revenue was up 21% from Q4 2020. New equipment revenue in Q4 2021 was 68% higher than the prior year quarter, driven by deliveries to Chilean mining customers and improved demand for construction equipment to support mining infrastructure and general construction projects. Product support revenue in Q4 2021 was up 10% from Q4 2020, higher in all market sectors.

Gross profit in Q4 2021 increased from Q4 2020 primarily due to increased volumes. Gross profit as a percentage of net revenue decreased in the current period reflecting the higher proportion of new equipment sales in the revenue mix.

Q4 2021 SG&A costs were comparable to Q4 2020 on 21% net revenue growth, reflecting a streamlined cost structure and continued focus on driving efficiencies. As a result, Q4 2021 SG&A as a percentage of net revenue was down significantly from Q4 2020.

Q4 2021 EBITDA was $81 million, up from $61 million in Q4 2020 primarily due to revenue growth and productivity improvements to maintain SG&A levels. Q4 2021 EBITDA as a percentage of net revenue of 14.0% was 180 basis points higher than Q4 2020, benefiting from improved operating leverage.

UK & Ireland Operations

Fourth quarter 2021 net revenue was 1% lower than the same period in 2020, driven by timing of power system project deliveries. Revenue from the construction sector was up 26% compared to Q4 2020, driven by equipment deliveries to HS2 customers and higher product support activity. Equipment backlog at December 31, 2021 was comparable to record backlog levels at September 30, 2021.

Q4 2021 gross profit was up compared to the same prior year period despite the decline in net revenue driven by a higher proportion of product support in the revenue mix as well as improved gross margins in the used equipment and rental lines of business.

SG&A was up 5% in Q4 2021 compared to the prior year period, mainly due to an increase in people-related costs driven by headcount to support backlog delivery and CUBIQ™ service delivery. SG&A as a percentage of net revenue in Q4 2021 was up from Q4 2020 primarily due to the fixed nature of certain SG&A costs on lower revenues.

Q4 2021 EBITDA was $23 million and EBITDA as a percentage of net revenue was 8.3%, higher than Q4 2020 primarily driven by higher sales volumes and improved gross profit as a percentage of net revenue.

Market Update and Business Outlook

The discussion of our expectations relating to the market and business outlook in this section is forward-looking information that is based upon the assumptions and subject to the material risks discussed under the heading "Forward-Looking Information Disclaimer" beginning on page 52 of this MD&A. Actual outcomes and results may vary significantly.

Canada Operations

Strong commodity prices and broad-based economic growth in Western Canada in 2022 are expected to create robust demand for equipment and product support across all sectors.

The federal and provincial governments' infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage, and various power projects are expected to drive demand for construction equipment and product support, heavy equipment rentals, and prime and standby electric power generation. Our focus remains on executing our strategy to capture product support market share in construction. We are leveraging our digital platform, CUBIQ™, and further building on our success with construction rebuilds and customer value agreements.

Healthy commodity markets, including base and precious metals, oil, natural gas, metallurgical coal, lumber, uranium, and potash provide a positive backdrop for activity in Western Canada. In the oil sands, capital expenditures have begun to increase in response to recovering demand. We expect the large and aging mining equipment population in Western Canada to continue driving demand for product support, including rebuilds, and opportunities for fleet renewals.

South America Operations

We expect a strong copper price to continue driving improved mining activity in Chile in 2022. The projected increase in copper production [(1)], large and mature equipment population, and declining ore grades are expected to support growing demand for mining parts and service, and fleet replacement.

We are closely monitoring the economic and constitutional reform process in Chile, and our current outlook assumes a moderate increase in mining royalties. While the timing of investment decisions related to greenfield and new expansion projects remains uncertain, we are constructive about long-term copper mining growth in Chile. We are in a great position to capture opportunities for new mining equipment and autonomous solutions for brownfield expansions and greenfield projects in the next mining upcycle.

Our positive outlook for the Chilean construction sector is predicated on strong demand for mining infrastructure and the government's infrastructure investment program.

In Argentina, while we expect to benefit from improved activity in construction, oil and gas, and mining, the overall business environment in the country continues to be challenging. We remain focused on managing fiscal, regulatory, and currency risks, including high inflation and ***ARS*** devaluation expected in 2022.

UK & Ireland Operations

Continued HS2 construction activity coupled with government investments in other infrastructure projects are expected to drive strong demand for construction equipment in the UK in 2022.

HS2 Phase 1, from London to Birmingham, is projected to require approximately 1,500 units of heavy construction equipment, representing a total industry opportunity of nearly £500 million from 2021 to 2024. By the end of 2021, we had captured more than £200 million of equipment orders for this project. Most Caterpillar machines working on the HS2 project are supported by a range of Finning customer value agreements, and our construction customers have the option to benefit from our CUBIQ™ platform and our construction apps. We are well-positioned to continue capturing a large share of opportunities for the remainder of HS2 Phase 1.

Strong demand for our power systems solutions, including in the data centre market, is expected to continue. We have a solid backlog of power systems projects for deliveries in 2022. Cloud data centre capacity is projected to continue to grow over the next few years [(2)], and with our successful track record of project execution, we are well positioned to capture opportunities related to this trend.

(1) The Chilean Copper Commission (Cochilco) - Proyección de la producción de cobre en Chile 2020 – 2031; DEPP 29/2020; Registro Propiedad Intelectual © N° 2020-A-10631

(2) UK Data Center Market – Investment Analysis and Growth Opportunities Publication (2020-2025); Ireland Data Center Market – Growth, Trends and Forecasts Publication (2020-2025)

Upcycle and Shift to Growth

Our market outlook is positive in all our regions. We expect upcycle demand conditions from the start of 2022 to be supported by ongoing economic growth and strength in commodity prices. We expect challenges in the global supply chain to persist, resulting in longer lead times for equipment and parts in all regions and driving strong demand for used equipment, rentals, and rebuilds.

We have exceeded our mid-cycle EPS and ROIC targets two quarters ahead of schedule, and we continue to proactively manage our business with the objective of improving our earnings capacity and compounding our earnings at each successive mid-cycle point. We continue to target mid-teens and above EPS growth during this sustained upcycle.

We continue to drive fixed cost reduction initiatives globally, targeting further improvements across people, facilities, and supply chain productivity, and we expect to make further progress towards reducing our SG&A as a percentage of net revenue. However, it will take us longer than the previously communicated time frame of Q3 2021 to Q2 2022 to average 17% SG&A as a percentage of net revenue over the four-quarter period. This is primarily due to lower than projected new equipment deliveries in the second half of 2021 as a result of constrained supply, and higher than projected product support growth rates in Q4 2021, as well as inflationary headwinds. We remain committed to delivering fixed cost reduction initiatives, productivity gains, and strong operating leverage going forward.

As we continue to make strategic investments in our facilities network, digital platform, and rental fleet, our 2022 net capital expenditures and net rental fleet additions are expected to be in the range of $240 million to $280 million. We continue to advance our ***M&A*** strategy and expect to deploy capital with an initial focus on complementary businesses in the small to medium size range that are aligned with our product support growth strategy, drive improved outcomes for our customers, and deliver attractive rates of return.

We are monitoring the spread of the Omicron variant in our regions, particularly as it affects the staffing levels of our and our customers' operations. We are leveraging the COVID-19 mitigation protocols we developed at the beginning of the pandemic and expect to successfully manage our day-to-day operations through the Omicron wave.

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:

	3 months ended December 31			Years ended December 31		
($ millions)	**2021**	2020	(Decrease) Increase	**2021**	2020	(Decrease) Increase
Operating activities	**$ 193**	$ 317	$ (124)	**$ 425**	$ 962	$ (537)
Investing activities	**$ (39)**	$ (32)	$ (7)	**$ (151)**	$ (99)	$ (52)
Financing activities	**$ (167)**	$ (173)	$ 6	**$ (300)**	$ (573)	$ 273
Free cash flow	**$ 148**	$ 292	$ (144)	**$ 300**	$ 870	$ (570)

The most significant contributors to the changes in cash flows for 2021 over 2020 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	• higher inventory purchases to support increased demand driven primarily by Canada and South America; • partially offset by higher collections driven by increased earnings, mainly in Canada and South America	• higher inventory purchases to support increased demand in all of our operations; • partially offset by higher collections driven by increased earnings in all of our operations
Investing activities	• $21 million higher net spend on capital expenditures • $17 million net cash consideration paid for acquisitions in our Canadian operations • partially offset by $30 million proceeds from long-term and short-term investments	• $33 million higher net spend on capital expenditures • $27 million net cash consideration paid for acquisitions in our UK & Ireland and Canadian operations
Financing activities	• $75 million lower repayment of short-term borrowings; • partially offset by $67 million use of cash to repurchase common shares in Q4 2021 compared to no common shares repurchased in Q4 2020	• $280 million cash provided by short-term borrowings in 2021 compared to $129 million repayment of short-term borrowings in 2020; • $155 million use of cash to repurchase common shares in 2021 compared to $23 million used to purchase common shares in 2020
Free cash flow	• free cash flow in Q4 2021 was $148 million, lower than Q4 2020 due to lower cash generated from operating activities for the reasons outlined above	• free cash flow in 2021 was $300 million, lower than the prior year due to lower cash generated from operating activities for the reasons outlined above

Capital resources and management

Our cash and cash equivalents balance at December 31, 2021 was $502 million (December 31, 2020: $539 million). At December 31, 2021 we had approximately $2.1 billion in unsecured committed and uncommitted credit facilities. Included in this amount was a committed revolving credit facility totaling $1.3 billion with various Canadian and global financial institutions, of which approximately $0.9 billion was available at December 31, 2021. We are subject to certain covenants under our committed revolving credit facilities and were in compliance with these covenants as at December 31, 2021.

We continuously monitor actual and forecasted cash flows, manage the maturity profiles of our financial liabilities, and maintain committed and uncommitted credit facilities. In March 2021, we cancelled the $500 million committed revolving credit facility that we secured in April 2020 because we were comfortable with our liquidity position utilizing our existing committed credit facility. 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.

In September 2021, we secured sustainability-linked terms for our $1.3 billion committed revolving credit facility. The amended credit facility aligns cost of borrowing to our progress towards achieving our absolute greenhouse gas emissions reduction target set in our Sustainability Report. We also extended the term of the credit facility from a maturity date of December 2024 to September 2026.

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

	Long-term debt		**Short-term debt**	
	Dec 31, 2021	Dec 31, 2020	**Dec 31, 2021**	Dec 31, 2020
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	***n/a***	n/a

In April 2021, S&P affirmed our BBB+ rating, and revised our outlook from negative to stable, citing strong free cash flow generation and the resiliency of our business model.

In August 2021, DBRS reconfirmed our BBB (high) long-term rating and R-2 (high) commercial paper rating, both with stable trends.

During Q2 2021, we resumed our share repurchase program and in 2021 repurchased 4,779,340 common shares for cancellation for $157 million, at an average cost of $32.81 per share, through an ***NCIB*** [2]. In 2020, we repurchased 1,215,617 common shares for cancellation for $23 million, at an average cost of $19.25 per share.

Effective January 2022, the Company implemented an automatic share purchase plan with a designated broker to enable share repurchases for cancellation during the Company's regular blackout period.

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 us to repay our debt, with net debt and Adjusted EBITDA held constant.

Net debt to Adjusted EBITDA at December 31, 2021 of 1.1 times was an all-time low.

	Finning long-term target	**2021**	2020
Net debt to Adjusted EBITDA ratio (times)	**< 3.0**	**1.1**	1.4

[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] A copy of the NCIB notice is available on request directed to the Corporate Secretary, 19100 94 Avenue, Surrey, BC V4N 5C3.

Contractual Obligations

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

($ millions)	2022	2023	2024	2025	2026	Thereafter	Total
Short-term debt	$ 374	$ —	$ —	$ —	$ —	$ —	$ 374
Long-term debt	232	155	220	25	225	533	1,390
Lease liabilities	88	63	47	33	23	265	519
Total contractual obligations	$ 694	$ 218	$ 267	$ 58	$ 248	$ 798	$ 2,283

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 2021, we contributed $12 million towards the defined benefit pension plans. Based on the most recently completed valuations, we expect to contribute approximately $8 million to the defined benefit pension plans during the year ended December 31, 2022.

Capital and Rental Expenditures

Our net spend on capital expenditures and rental fleet additions during the year ended December 31, 2022 is expected to be in the range of $240 million to $280 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, 2021, approximately 70%, 77% 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, 2021, approximately 32% 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, 2021, approximately 18% 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 included in the notes to the Annual Financial Statements for the year ended December 31, 2021. 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, 2021 were:

- determination of the functional currency of each Finning entity;
- 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;
- 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 terms;
- 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, 2021.

Revenues and Costs Associated with 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 immediately recognized in the consolidated statement of net income.

Revenues and Costs Associated with the Sale of Assets with Repurchase Commitments

In certain circumstances, the Company enters into contracts with rights of return (at the customer's discretion) 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.

Allowance for Doubtful Accounts

The Company records allowance for doubtful accounts that represents management's best estimate of potential losses in respect of accounts 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 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.

Provisions for slow-moving and obsolete inventory

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.

Provisions for Income Tax

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.

Goodwill and intangible assets with indefinite lives

The recoverable value of each CGU or group of CGUSs is estimated using a discounted cash flow model. The process of determining these recoverable values 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.

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, and the CGU or group of CGUs at which goodwill is monitored for management purposes.

The recoverable value of CGUs or group of CGUs requires the use of estimates related to the future operating results and cash-generating ability of the assets.

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 25 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. Future accounting pronouncements and effective dates are included 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 in order to mitigate these risks across the organization and achieve our strategic objectives.

We maintain a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, Board level committees review 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, and report their review to the Board. The Board reviews all material risks in detail 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

We continue to adapt to the impacts of COVID-19 on our 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 and its evolution, including new variants, has caused and continues to cause considerable disruption to the world economy, including financial markets and commodity prices. Although we saw a recovery in our markets in 2021, global supply chain disruptions and supply constraints extended lead times and constrained the availability of certain parts and equipment. We continue to work closely with Caterpillar to mitigate the impact of global supply chain disruptions on our supply of Caterpillar products 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.

Similarly, and despite our efforts to minimize impacts, 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. Further, as a result of COVID-19, many governments have made wage subsidy programs available for eligible entities that 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 have continued operating with restrictions on non-critical travel during the pandemic in 2020 and 2021 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 include, at a minimum, communication on the COVID-19 response protocol, awareness training, personal and facility specific hygiene practices, physical distancing, preventive testing and work-from home arrangements where possible. We have also promoted vaccination of our employees and implemented a vaccination disclosure policy with regular COVID-19 testing as an alternative. Rules in all jurisdictions continue to evolve 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, new variants, vaccine evolution, actions taken by governmental authorities in response to the pandemic, including the imposition of new or reintroduction of emergency measures, 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 our MD&A and in the Key Business Risks section of 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, we work closely with Caterpillar to achieve an adequate and timely supply of product and have 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.

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

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 bilateral and syndicated 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 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 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 our objective to manage this exposure. We hedged a portion of our foreign investments with foreign currency denominated loans. The currency translation loss of $14 million recorded in 2021 resulted primarily from the 0.4% stronger CAD relative to the USD and the 1% stronger CAD relative to the GBP at December 31, 2021 compared to December 31, 2020. This was partially offset by a $4 million unrealized foreign exchange gain on net investment hedges.

Transaction Exposure

Many of our 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 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 sales of complex power and energy systems in our Canadian and UK & Ireland 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 on our foreign-denominated financial assets and financial liabilities and foreign-denominated net asset or net liability positions on our consolidated 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		
	2021	2020	Change	**2021**	2020	Change	**2021**	2020	Change
USD/CAD	**1.2678**	1.2732	0.4%	**1.2603**	1.3030	3%	**1.2535**	1.3415	7%
GBP/CAD	**1.7132**	1.7381	1%	**1.6990**	1.7206	1%	**1.7246**	1.7199	(0)%
USD/CLP	**850.25**	711.24	(20)%	**824.93**	761.70	(8)%	**756.68**	791.84	4%
USD/ARS	**102.72**	84.15	(22)%	**100.49**	79.96	(26)%	**94.89**	69.82	(36)%

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 and lease liabilities. 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 to predict the outcome of such matters due to various factors, including: the preliminary nature of some claims, an incomplete factual record, and uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, we are 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 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 animal feed 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. The essence of these claims is related to the tariff classification of this product and therefore the export duty payable. 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 in the unlikely event our appeal of the order suspending imports into Argentina by a portion of the business is not successful. These pending matters may take a number of years to resolve. No progress was made on the appeals in 2021, largely due to the shut down of the Argentina Tax Courts during the pandemic. However, in April 2021, in response to an application by the Canadian government, the World Customs Organization voted by a significant margin in favour of the tariff classification used by our South American operations and this result has been filed in the appeals. Argentina has filed an appeal with the World Customs Organization, however, we are confident the decision will be upheld. Should the ultimate resolution of these matters differ from our assessment and, in the case of the potential suspension of imports into Argentina by a portion of the business the mitigation measures not be effective, this could have a material negative impact on our financial position.

In certain circumstances, we enter into contracts with rights of return (at the customer's discretion) 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. At December 31, 2021, the total estimated value of these contracts outstanding was $146 million (2020: $139 million) coming due at periods ranging from 2022 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, 2021 was $2 million (2020: $1 million).

For further information on our contingencies, commitments, guarantees, and indemnifications, refer to notes 26 and 27 of the notes to the Annual Financial Statements.

Outstanding Share Data

As at February 4, 2022	
Common shares outstanding	157,727,172
Options outstanding	1,769,207

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 or approval of the Audit Committee 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. There has been no change in the design of our internal controls over financial reporting during the year ended December 31, 2021 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, 2021, 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, 2021.

Description of Specified Financial Measures and Reconciliations

Specified Financial Measures

We believe that certain specified financial measures, including 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 specified financial measures we use do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers. Accordingly, specified financial measures should not be considered as a substitute or alternative for financial measures determined in accordance with GAAP (GAAP financial measures). By considering these specified financial measures in combination with the comparable GAAP 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 GAAP financial measures alone.

We use KPIs to consistently measure performance against our priorities across the organization. Some of our KPIs are specified 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 financial measures provides a better understanding of our financial performance when considered in conjunction with the GAAP financial measures. Financial measures that have been adjusted to take into account these significant items are referred to as “Adjusted measures”. Adjusted measures are specified financial measures and are intended to provide additional information to readers of the MD&A.

Descriptions and components of the specified financial measures we use in this MD&A are set out below. Where applicable, quantitative reconciliations from certain specified financial measures to their most directly comparable GAAP financial measures (specified, defined, or determined under GAAP and used in our consolidated financial statements) are also set out below.

Adjusted basic EPS

Adjusted basic EPS excludes the after-tax per share impact of significant items that we do not consider 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. The after-tax per share impact of significant items is calculated by dividing the after-tax amount of significant items by the weighted average number of common shares outstanding during the period.

A reconciliation between basic EPS (the most directly comparable GAAP financial measure) and Adjusted basic EPS can be found on page 43 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 we do not consider 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 financial measure to EBITDA, Adjusted EBITDA, and Adjusted EBIT 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, 2019, 2018, and 2017 is as follows:

	2021				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
EBIT [1][2]	**157**	150	137	108	108	138	52	94	97	425	423	392
Depreciation and amortization [1]	**84**	80	78	77	77	77	78	76	73	293	187	184
EBITDA [1][2]	**241**	230	215	185	185	215	130	170	170	718	610	576
EBIT	**157**	150	137	108	108	138	52	94	97	425	423	392
Significant items:												
CEWS support	**—**	—	—	(10)	(14)	(37)	(64)	—	—	—	—	—
Return on our investment in Energyst	**—**	—	—	(5)	—	—	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	42	—	—	20	—	5
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)	(4)
Adjusted EBIT [1][2]	**157**	150	137	93	94	101	39	94	97	457	446	393
Depreciation and amortization [1]	**84**	80	78	77	77	77	78	76	73	293	187	184
Adjusted EBITDA [1][2]	**241**	230	215	170	171	178	117	170	170	750	633	577

The impact on provision for (recovery of) income taxes of significant items for the last nine quarters and years ended December 31, 2019, 2018, and 2017 was as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
Significant items:												
CEWS support	**—**	—	—	2	4	10	16	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	(10)	—	—	(6)	—	(1)
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	(2)	—	—	(3)	—	—
Tax impact of devaluation of ARS	**—**	—	—	—	—	—	—	—	—	4	20	—
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	2	1
Tax impact of redemption costs on early repayment of long-term debt	**—**	—	—	—	—	—	—	—	—	—	—	(2)
Provision for (recovery of) income taxes on significant items	—	—	—	2	4	10	4	—	—	(5)	22	(2)

(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 for 2017 have 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 basic EPS to Adjusted basic EPS for our consolidated operations for the last nine quarters and years ended December 31, 2019, 2018, and 2017 is as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
Basic EPS [1][2]	**0.66**	0.61	0.56	0.43	0.45	0.54	0.12	0.33	0.31	1.48	1.38	1.28
Significant items:												
CEWS support	**—**	—	—	(0.05)	(0.07)	(0.17)	(0.30)	—	—	—	—	—
Return on our investment in Energyst	**—**	—	—	(0.03)	—	—	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	0.20	—	—	0.09	—	0.03
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	0.04	—	—	0.03	—	—
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	—	—	0.03	—	—
Tax impact of devaluation of ARS	**—**	—	—	—	—	—	—	—	—	0.02	0.12	—
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	—	0.18	—
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	(0.03)	(0.02)
Redemption cost on the early payment of long-term debt	**—**	—	—	—	—	—	—	—	—	—	—	0.04
Adjusted basic EPS [1][2][3]	**0.66**	0.61	0.56	0.35	0.38	0.37	0.06	0.33	0.31	1.65	1.65	1.33

(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 for 2017 have 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) The per share impact for each quarter has been calculated using the weighted average number of common shares outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year-to-date total.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Canadian operations for the last nine quarters and years ended December 31, 2019, 2018, and 2017 is as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
EBIT [1][2]	**92**	84	82	69	72	93	63	60	72	296	297	225
Significant items:												
CEWS support	**—**	—	—	(10)	(13)	(35)	(60)	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	20	—	—	10	—	3
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	5	—	—	7	—	—
Insurance proceeds from Alberta wildfires	**—**	—	—	—	—	—	—	—	—	—	(7)	(4)
Adjusted EBIT [1][2]	**92**	84	82	59	59	58	28	60	72	313	290	224
Depreciation and amortization [1]	**50**	48	47	46	47	48	47	43	42	174	96	99
Adjusted EBITDA [1][2]	**142**	132	129	105	106	106	75	103	114	487	386	323

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, 2019, 2018, and 2017 is as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
EBIT [1][2]	**59**	58	51	41	41	40	2	38	31	120	142	184
Significant items:												
Severance costs	**—**	—	—	—	—	—	17	—	—	10	—	2
Facility closures, restructuring costs, and impairment losses	**—**	—	—	—	—	—	4	—	—	1	—	—
Adjusted EBIT [1][2]	**59**	58	51	41	41	40	23	38	31	131	142	186
Depreciation and amortization [1]	**22**	22	20	20	20	19	22	22	20	81	62	58
Adjusted EBITDA [1][2]	**81**	80	71	61	61	59	45	60	51	212	204	244

(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 for 2017 have 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, 2019, 2018, and 2017 is as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
EBIT [1][2]	**12**	17	17	7	11	9	(5)	1	5	46	51	37
Significant item:												
Severance costs	**—**	—	—	—	—	—	4	—	—	—	—	—
Adjusted EBIT [1][2]	**12**	17	17	7	11	9	(1)	1	5	46	51	37
Depreciation and amortization [1]	**11**	10	10	10	9	9	9	10	10	36	28	26
Adjusted EBITDA [1][2]	**23**	27	27	17	20	18	8	11	15	82	79	63

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for our Other operations for the last nine quarters and years ended December 31, 2019, 2018, and 2017 is as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
EBIT [1][2]	**(6)**	(9)	(13)	(9)	(16)	(4)	(8)	(5)	(11)	(37)	(67)	(54)
Significant items:												
CEWS support	**—**	—	—	—	(1)	(2)	(4)	—	—	—	—	—
Return on our investment in Energyst	**—**	—	—	(5)	—	—	—	—	—	—	—	—
Severance costs	**—**	—	—	—	—	—	1	—	—	—	—	—
Acquisition costs related to 4Refuel	**—**	—	—	—	—	—	—	—	—	4	—	—
Write-off and loss related to Energyst	**—**	—	—	—	—	—	—	—	—	—	30	—
Adjusted EBIT [1][2]	**(6)**	(9)	(13)	(14)	(17)	(6)	(11)	(5)	(11)	(33)	(37)	(54)
Depreciation and amortization [1]	**1**	—	1	1	1	1	—	1	1	2	1	1
Adjusted EBITDA [1][2]	**(5)**	(9)	(12)	(13)	(16)	(5)	(11)	(4)	(10)	(31)	(36)	(53)

(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 for 2017 have 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 divided by EBITDA. We use EBITDA to free cash flow conversion to assess our efficiency in turning EBITDA into cash.

Equipment Backlog

Equipment backlog is defined as the retail value of new equipment units ordered by customers for future deliveries. We use equipment backlog as a measure of projecting future new equipment deliveries. There is no directly comparable GAAP financial measure for equipment backlog.

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 financial statements. We use free cash flow to assess cash operating performance, including working capital efficiency. Consistent positive free cash flow generation enables us to re-invest capital to grow our business and return capital to shareholders. A reconciliation of free cash flow is as follows:

3 months ended	**2021**				2020				Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	2019	2018	2017
Cash flow provided by (used in) operating activities [1]	**193**	212	8	12	317	340	319	(14)	191	260	283
Additions to property, plant, and equipment and intangible assets	**(45)**	(38)	(17)	(33)	(34)	(26)	(17)	(38)	(154)	(201)	(121)
Proceeds on disposal of property, plant, and equipment	**—**	2	5	1	9	2	10	2	5	19	3
Free cash flow [1]	**148**	176	(4)	(20)	292	316	312	(50)	42	78	165

Inventory Turns (Dealership)

Inventory turns (dealership) is the number of times our dealership inventory is sold and replaced over a period. We use inventory turns (dealership) to measure asset utilization. Inventory turns (dealership) is calculated as annualized cost of sales (excluding cost of sales related to the mobile refuelling operations) for the last six months divided by average inventory (excluding fuel inventory), based on an average of the last two quarters. Cost of sales related to the dealership and inventory related to the dealership are calculated as follows:

3 months ended	**2021**				2020				2019	2018	2017
($ millions)	**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 [1][2]	**1,465**	1,443	1,396	1,189	1,248	1,163	1,075	1,140	1,483	1,429	1,299
Cost of sales related to mobile refuelling operations	**(190)**	(170)	(153)	(140)	(129)	(124)	(95)	(133)	(168)	—	—
Cost of sales related to the dealership [1][2]	**1,275**	1,273	1,243	1,049	1,119	1,039	980	1,007	1,315	1,429	1,299

	2021				2020				2019	2018	2017
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31
Inventory [2]	**1,687**	1,627	1,643	1,593	1,477	1,626	1,893	2,152	1,990	2,061	1,708
Fuel inventory	**(9)**	(6)	(3)	(3)	(3)	(2)	(2)	(3)	(3)	—	—
Inventory related to the dealership [2]	**1,678**	1,621	1,640	1,590	1,474	1,624	1,891	2,149	1,987	2,061	1,708

(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 for 2017 have 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

Invested capital is calculated as net debt plus total 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 each reportable segment. Invested capital is used in a number of different measurements (ROIC, Adjusted ROIC, invested capital turnover) to assess financial performance against other companies and between reportable segments. Invested capital is calculated as follows:

	2021				2020				2019	2018	2017
($ millions)	**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	**(502)**	(518)	(378)	(469)	(539)	(453)	(338)	(260)	(268)	(454)	(458)
Short-term debt	**374**	419	114	103	92	217	158	329	226	154	18
Current portion of long-term debt	**190**	191	386	326	201	200	200	200	200	—	—
Non-current portion of long-term debt	**921**	923	903	973	1,107	1,136	1,348	1,381	1,318	1,354	1,296
Net debt	**983**	1,015	1,025	933	861	1,100	1,368	1,650	1,476	1,054	856
Total equity (1)(2)	**2,343**	2,320	2,252	2,244	2,206	2,184	2,127	2,233	2,115	2,109	1,974
Invested capital (1)(2)	**3,326**	3,335	3,277	3,177	3,067	3,284	3,495	3,883	3,591	3,163	2,830

(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 for 2017 have 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 capital efficiency. Invested capital turnover is calculated as net revenue for the last twelve months divided by average invested capital of the last four quarters.

Net Debt to Adjusted EBITDA Ratio

This ratio is calculated as net debt divided by Adjusted EBITDA for the last twelve months. We use this ratio to assess operating leverage and ability to repay debt. This ratio approximates the length of time, in years, that it would take us to repay debt, with net debt and Adjusted EBITDA held constant.

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 refuelling operations in our Canadian operations. As these fuel costs are pass-through in nature for this business, we view net revenue as more representative than revenue 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 KPIs were calculated using total revenue. Starting in Q1 2019, these KPIs have been calculated using net revenue. For our South American and UK & Ireland operations, net revenue is the same as total revenue.

We use these specified financial measures to assess and evaluate the financial performance or profitability of our reportable segments. We may also calculate these financial measures using Adjusted EBITDA and Adjusted EBIT to exclude significant items we do not consider 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 financial 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 is calculated as follows:

3 months ended	**2021**				2020				2019	Years ended Dec 31		
($ millions)	**Dec 31**	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2019	2018	2017
Total revenue [(1)]	**1,949**	1,904	1,845	1,596	1,666	1,553	1,419	1,558	1,911	7,817	6,996	6,256
Cost of fuel	**(175)**	(156)	(140)	(127)	(115)	(110)	(84)	(119)	(154)	(527)	—	—
Net revenue [(1)]	**1,774**	1,748	1,705	1,469	1,551	1,443	1,335	1,439	1,757	7,290	6,996	6,256

(1) Comparative results for 2017 have 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 average invested capital of the last four quarters, expressed as a percentage.

We view ROIC as a useful measure for capital allocation decisions that drive profitable growth and attractive returns to shareholders. We also calculate Adjusted ROIC using Adjusted EBIT to exclude significant items that we do not consider to be indicative of operational and financial trends either by nature or amount to provide a better overall understanding of our underlying business performance.

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 average working capital 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.

Working capital is calculated as follows:

	2021				2020				2019	2018	2017
($ millions)	**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]	**3,619**	3,620	3,416	3,319	3,214	3,261	3,416	3,828	3,659	3,924	3,531
Cash and cash equivalents	**(502)**	(518)	(378)	(469)	(539)	(453)	(338)	(260)	(268)	(454)	(458)
Total current assets in working capital [1][2]	**3,117**	3,102	3,038	2,850	2,675	2,808	3,078	3,568	3,391	3,470	3,073
Total current liabilities [1][2]	**2,155**	2,156	1,942	1,817	1,623	1,717	1,735	2,112	2,026	1,992	1,545
Short-term debt	**(374)**	(419)	(114)	(103)	(92)	(217)	(158)	(329)	(226)	(154)	(18)
Current portion of long-term debt	**(190)**	(191)	(386)	(326)	(201)	(200)	(200)	(200)	(200)	—	—
Total current liabilities in working capital [1][2]	**1,591**	1,546	1,442	1,388	1,330	1,300	1,377	1,583	1,600	1,838	1,527
Working capital	**1,526**	1,556	1,596	1,462	1,345	1,508	1,701	1,985	1,791	1,632	1,546

(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 for 2017 have 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.

Selected Annual Information

($ millions, except for share and option data)	2021	2020	2019
Revenue from operations			
Canada [1]	**$ 3,969**	$ 3,387	$ 4,454
South America	**2,214**	1,922	2,226
UK & Ireland	**1,111**	887	1,137
Total revenue	**$ 7,294**	$ 6,196	$ 7,817
Net income attributable to shareholders of Finning [2]	**$ 364**	$ 232	$ 242
EPS [2]			
Basic EPS	**$ 2.26**	$ 1.43	$ 1.48
Diluted EPS	**$ 2.25**	$ 1.43	$ 1.48
Total assets	**$ 5,971**	$ 5,458	$ 5,990
Long-term debt			
Current	**$ 190**	$ 201	$ 200
Non-current	**921**	1,107	1,318
Total long-term debt [3]	**$ 1,111**	$ 1,308	$ 1,518
Cash dividends declared per common share	**$ 0.86**	$ 0.82	$ 0.815

(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 in 2021, 2020, and 2019 were impacted by the following significant items:

($ millions except per share amounts)	2021	2020	2019
CEWS support	**$ (10)**	$ (115)	$ —
Return on our investment in Energyst	**(5)**	—	—
Severance costs	**—**	42	20
Facility closures, restructuring costs, and impairment losses	**—**	9	8
Acquisition costs related to 4Refuel	**—**	—	4
Impact of significant items on EBIT	**$ (15)**	$ (64)	$ 32
Significant items impacting EBIT - impact on basic EPS	**$ (0.08)**	$ (0.29)	$ 0.15
Significant items impacting net income only - impact on basic EPS:			
Tax impact of devaluation of ARS [a]	**$ —**	$ —	$ 0.02
Impact of significant items on basic EPS:	**$ (0.08)**	$ (0.29)	$ 0.17

(a) Tax impact of devaluation of ARS in 2019 ($4 million).

(3) In September 2021, we secured sustainability-linked terms for our $1.3 billion committed revolving credit facility. We also extended the term of the credit facility from a maturity date of December 2024 to September 2026.

In September 2021, we settled our 2.84%, $200 million note which was due on September 29, 2021.

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 provided further financial flexibility and liquidity. This facility had a term of two years, could be used for general corporate purposes, and had substantially the same terms and conditions of the existing $1.3 billion committed revolving credit facility. In March 2021, we cancelled this facility.

In August 2019, we issued $200 million of 2.626% senior unsecured notes due August 14, 2026.

Selected Quarterly Information

($ millions, except for share, per share, and option amounts)	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Revenue								
Canada	**$ 1,089**	$ 961	$ 1,019	$ 900	$ 886	$ 838	$ 789	$ 874
South America	**582**	638	512	482	496	479	469	478
UK & Ireland	**278**	305	314	214	284	236	161	206
Total revenue	**$ 1,949**	$ 1,904	$ 1,845	$ 1,596	$ 1,666	$ 1,553	$ 1,419	$ 1,558
Net income attributable to shareholders of Finning [(1)]	**$ 104**	$ 99	$ 91	$ 70	$ 72	$ 88	$ 18	$ 54
EPS [(1)]								
Basic EPS	**$ 0.66**	$ 0.61	$ 0.56	$ 0.43	$ 0.45	$ 0.54	$ 0.12	$ 0.33
Diluted EPS	**$ 0.65**	$ 0.61	$ 0.56	$ 0.43	$ 0.44	$ 0.54	$ 0.12	$ 0.33
Total assets	**$ 5,971**	$ 5,936	$ 5,615	$ 5,524	$ 5,458	$ 5,535	$ 5,716	$ 6,255
Long-term debt								
Current	**$ 190**	$ 191	$ 386	$ 326	$ 201	$ 200	$ 200	$ 200
Non-current	**921**	923	903	973	1,107	1,136	1,348	1,381
Total long-term debt [(2)]	**$ 1,111**	$ 1,114	$ 1,289	$ 1,299	$ 1,308	$ 1,336	$ 1,548	$ 1,581
Cash dividends paid per common share	**22.5¢**	22.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢	20.5¢
Common shares outstanding (000's)	**157,808**	159,659	161,419	162,391	162,107	162,104	162,104	162,104
Options outstanding (000's)	**1,773**	1,926	2,105	2,116	3,683	3,760	3,758	3,353

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

($ millions except per share amounts)	2021 [(a)] Q1	2020 [(a)] Q4	2020 [(a)] Q3	2020 [(a)] Q2
CEWS support	$ (10)	$ (14)	$ (37)	$ (64)
Return on our investment in Energyst	(5)	—	—	—
Severance costs	—	—	—	42
Facility closures, restructuring costs, and impairment losses	—	—	—	9
Impact of significant items on EBIT	$ (15)	$ (14)	$ (37)	$ (13)
Impact of significant items on basic EPS [(b)]	$ (0.08)	$ (0.07)	$ (0.17)	$ (0.06)

(a) There were no significant items impacting EBIT or basic EPS in Q4 2021, Q3 2021, Q2 2021, and Q1 2020.

(b) The per share impact for each quarter has been calculated using the weighted average number of common shares outstanding during the respective quarters; therefore, quarterly amounts may not add to the annual or year-to-date total.

(2) In September 2021, we secured sustainability-linked terms for our $1.3 billion committed revolving credit facility. We also extended the term of the credit facility from a maturity date of December 2024 to September 2026.

In September 2021, we settled our 2.84%, $200 million note which was due on September 29, 2021.

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 provided further financial flexibility and liquidity. This facility had a term of two years, could be used for general corporate purposes, and had substantially the same terms and conditions of the existing $1.3 billion committed revolving credit facility. In March 2021, we cancelled this facility.

Forward-Looking Information Disclaimer

This report contains information about our business outlook, objectives, plans, strategic priorities and other information 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. All forward-looking information in this MD&A is subject to this disclaimer including the assumptions and material risk factors discussed and referred to below. Forward-looking information in this report also includes, but is not limited to, the following: expected results from the execution of our strategic framework, including our global strategic priorities, strategic pillars, and simple execution plan described on page 4 of this MD&A; our expectation that our resilient business model, strong execution, financial flexibility, and cost and capital discipline will serve us well as markets recover and position us for opportunities that lie ahead; our belief that we are positioned well for an economic recovery; our expectation that we will successfully manage our day-to-day operations through the Omicron wave; our expectation that our effective tax rate will generally be within the 25-30% range on an annual basis; our expectation of future growth for ComTech and timing to finalize the ComTech purchase price allocation; the plan to sell remaining assets of Energyst and wind-up Energyst and the expectation that the sale of remaining assets will result in net proceeds to be distributed to Energyst's shareholders; all information in the section entitled "Market Update and Business Outlook" on pages 27-28 of this MD&A regarding our expectations for our Canada operations (based on assumptions of strong commodity prices and broad-based economic growth in Western Canada, federal and provincial government infrastructure programs and private sector investments in natural gas, carbon capture, utilization and storage and power projects, and our ability to leverage CUBIQ™ and drive continued success with construction rebuilds and CVAs, and continued capital expenditures in the oil sands), our expectations for our South America operations (based on assumptions related to Chile of a continued strong copper price, a projected increase in copper production, a moderate increase in mining royalties, a strong demand for mining infrastructure and the government's infrastructure investment program), our expectations for our UK & Ireland operations (based on assumptions of continued HS2 construction activity, continued government investments in infrastructure projects, and projections of continued growth in cloud data centre capacity) and our expectations for the upcycle and shift to growth (based on assumptions of ongoing economic growth and strength in commodity prices and that we will successfully mitigate the effects of persistent challenges in the global supply chain, drive improved earnings capacity and fixed cost reduction initiatives and manage our day-to-day operations through the Omicron wave); our belief 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; our expectation to contribute approximately $8 million to the defined benefit pension plans during the year ended December 31, 2022; our expectation that foreign exchange fluctuations will continue to affect our results; our belief that we will prevail in the claims against us associated with our export of agricultural animal feed products from Argentina and our ability to implement mitigation measures in the case of the potential suspension of imports into Argentina by a portion of our business.

All such forward-looking information is provided pursuant to the 'safe harbour' provisions of applicable Canadian securities laws. Unless we indicate otherwise, 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. 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, 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 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 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 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; our ability to protect our business from cybersecurity threats or incidents; the actual impact of the COVID-19 pandemic; and, with respect to our normal course issuer bid, our share price from time to time and our decisions about use of capital. Forward-looking information is provided in this report to give information about our 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 information for any other purpose.

Forward-looking information provided in this report 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, stretched supply chains, competitive talent markets, and changing commodity prices, and successfully implement our COVID-19 risk management plans; an undisrupted market recovery, for example, undisrupted by COVID-19 impacts, commodity price volatility or social unrest; the successful execution of our profitability drivers; that increased maintenance work by mining customers following the lessening of COVID-19 restrictions and protocols will continue; that our cost actions to drive earnings capacity in a recovery can be sustained; that commodity prices will remain at constructive levels; that our customers will not curtail their activities; 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; that present supply chain challenges will not materially impact large project deliveries in our backlog; 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; that we have sufficient liquidity to meet operational needs; 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; sustainment of strengthened oil prices and the Alberta government will not re-impose production curtailments; quoting activity for requests for proposals for equipment and product support is reflective of opportunities; that there will be a moderate increase in mining royalties in Chile; and strong recoveries in our regions, particularly in Chile and the UK. 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 our current AIF and in our annual and most recent quarterly 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 annual and most recent quarterly MD&A and in 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 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
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
CNG	Compressed natural gas
ComTech	Compression Technology Corporation
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
GAAP financial measure	A financial measure determined in accordance with GAAP
GBP	UK pound sterling
HS2	High Speed 2, a planned high speed railway in the UK the first phase of which is planned to connect London to Birmingham
IFRS	International Financial Reporting Standards
KPI	Key performance indicator
LTIP	Long-term incentive plan
M&A	Mergers and acquisitions
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
RNG	Renewable natural gas
ROIC	Return on invested capital
S&P	Standard and Poor's
SEDAR	System for Electronic Document Analysis
SG&A	Selling, general, and administrative costs
Specified Financial Measures	As defined in National Instruments 52-112
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 2021.

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 8, 2022
19100 94 Avenue, Surrey, BC, V4N 5C3, 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, 2021 and 2020, and the consolidated statements of net income, comprehensive income, changes in equity and cash flow 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, 2021 and 2020, 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 Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. This matter was addressed in the context of our audit of the consolidated 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
- 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 consolidated 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
Vancouver, British Columbia
February 8, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian $ millions)	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents (Note 22)	**$ 502**	$ 539
Accounts receivable (Note 8)	**839**	730
Unbilled receivables (Note 4)	**270**	231
Inventory (Note 12)	**1,687**	1,477
Other assets (Note 14)	**321**	237
Total current assets	**$ 3,619**	$ 3,214
Property, plant, and equipment (Note 15)	**914**	867
Rental equipment (Note 15)	**434**	430
Intangible assets (Note 17)	**306**	322
Goodwill (Note 18)	**237**	205
Net post-employment assets (Note 21)	**189**	132
Distribution network (Note 18)	**100**	100
Investment in joint ventures and associate	**84**	85
Other assets (Note 14)	**88**	103
Total assets	**$ 5,971**	$ 5,458
LIABILITIES		
Current liabilities		
Short-term debt (Note 7)	**$ 374**	$ 92
Accounts payable and accruals (Note 8)	**908**	761
Deferred revenue (Note 4)	**428**	374
Current portion of long-term debt (Note 7)	**190**	201
Other liabilities (Note 19)	**255**	195
Total current liabilities	**$ 2,155**	$ 1,623
Long-term debt (Note 7)	**921**	1,107
Long-term lease liabilities	**241**	216
Other liabilities (Note 19)	**311**	306
Total liabilities	**$ 3,628**	$ 3,252
Commitments and contingencies (Note 26)		
EQUITY		
Share capital	**$ 561**	$ 566
Contributed surplus	**—**	1
Accumulated other comprehensive income	**212**	218
Retained earnings	**1,550**	1,421
Equity attributable to shareholders of Finning International Inc.	**$ 2,323**	$ 2,206
Non-controlling interests	**20**	—
Total equity	**$ 2,343**	$ 2,206
Total liabilities and equity	**$ 5,971**	$ 5,458

Approved by the Directors February 8, 2022

/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)		2021		2020
Revenue				
New equipment	$	2,189	$	1,671
Used equipment		409		308
Equipment rental		235		196
Product support		3,728		3,473
Fuel and other		733		548
Total revenue (Note 4)	$	7,294	$	6,196
Cost of sales		(5,493)		(4,626)
Gross profit	$	1,801	$	1,570
Selling, general, and administrative expenses		(1,266)		(1,245)
Equity earnings of joint ventures		2		3
Other income (Note 6)		15		115
Other expenses (Note 6)		—		(51)
Earnings before finance costs and income taxes	$	552	$	392
Finance costs (Note 7)		(75)		(85)
Income before provision for income taxes	$	477	$	307
Provision for income taxes (Note 13)		(114)		(75)
Net income	$	363	$	232
Net income (loss) attributable to:				
Shareholders of Finning International Inc.	$	364	$	232
Non-controlling interests	$	(1)	$	—
Earnings per share (Note 5)				
Basic	$	2.26	$	1.43
Diluted	$	2.25	$	1.43

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)	2021	2020
Net income	**$ 363**	$ 232
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	**(14)**	(20)
Share of foreign currency translation adjustments of joint ventures	**—**	1
Gain on net investment hedges	**4**	10
Impact of foreign currency translation and net investment hedges, net of income tax	**$ (10)**	$ (9)
Gain on cash flow hedges	**2**	1
Loss on cash flow hedges, reclassified to statement of net income	**—**	1
Provision for income taxes on cash flow hedges	**—**	(1)
Impact of cash flow hedges, net of income tax	**$ 2**	$ 1
Items that will not be subsequently reclassified to net income:		
Actuarial gain (Note 21)	**82**	29
Provision for income taxes on actuarial gain	**(29)**	(6)
Actuarial gain, net of income tax	**$ 53**	$ 23
Total comprehensive income	**$ 408**	$ 247
Total comprehensive income (loss) attributable to:		
Shareholders of Finning International Inc.	**$ 409**	$ 247
Non-controlling interests	**$ (1)**	$ —

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to Shareholders of Finning International Inc.						
(Canadian $ millions, except number of shares)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total	Non-controlling Interests	Total
Balance, January 1, 2020	$ 570	$ 2	$ 228	$ 1,315	$ 2,115	$ —	$ 2,115
Net income	$ —	$ —	$ —	$ 232	$ 232	$ —	$ 232
Other comprehensive (loss) income	—	—	(8)	23	15	—	15
Total comprehensive (loss) income	$ —	$ —	$ (8)	$ 255	$ 247	$ —	$ 247
Exercise of share options	1	(1)	—	—	—	—	—
Share option expense	—	2	—	—	2	—	2
Hedging gain transferred to							—
statement of financial position	—	—	(2)	—	(2)	—	(2)
Repurchase of common shares (Note 9)	(5)	(2)	—	(16)	(23)	—	(23)
Dividends on common shares	—	—	—	(133)	(133)	—	(133)
Balance, December 31, 2020	$ 566	$ 1	$ 218	$ 1,421	$ 2,206	$ —	$ 2,206
Net income	**$ —**	**$ —**	**$ —**	**$ 364**	**$ 364**	**$ (1)**	**$ 363**
Other comprehensive (loss) income	**—**	**—**	**(8)**	**53**	**45**	**—**	**45**
Total comprehensive (loss) income	**$ —**	**$ —**	**$ (8)**	**$ 417**	**$ 409**	**$ (1)**	**$ 408**
Exercise of share options	**12**	**(3)**	**—**	**(9)**	**—**	**—**	**—**
Share option expense	**—**	**2**	**—**	**—**	**2**	**—**	**2**
Hedging loss transferred to statement of financial position	**—**	**—**	**2**	**—**	**2**	**—**	**2**
Non-controlling interests on acquisition of subsidiary (Note 23)	**—**	**—**	**—**	**—**	**—**	**21**	**21**
Repurchase of common shares (Note 9)	**(17)**	**—**	**—**	**(140)**	**(157)**	**—**	**(157)**
Dividends on common shares	**—**	**—**	**—**	**(139)**	**(139)**	**—**	**(139)**
Balance, December 31, 2021	**$ 561**	**$ —**	**$ 212**	**$ 1,550**	**$ 2,323**	**$ 20**	**$ 2,343**

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)		2021		2020
OPERATING ACTIVITIES				
Net income	**$**	**363**	$	232
Adjusting for:				
Depreciation and amortization		**319**		308
Loss on disposal of property, plant, and equipment		**3**		4
Impairment of long-lived assets (Note 15)		**—**		9
Return on investment in Energyst B.V. (Note 23)		**(5)**		—
Equity earnings of joint ventures		**(2)**		(3)
Share-based payment expense (Note 11)		**36**		21
Provision for income taxes (Note 13)		**114**		75
Finance costs (Note 7)		**75**		85
Net benefit cost of defined benefit pension plans and other post-employment benefit plans in selling, general, and administrative expenses (Note 21)		**14**		12
Changes in operating assets and liabilities (Note 22)		**(277)**		422
Additions to rental fleet		**(137)**		(96)
Additions to rental equipment with purchase options		**(91)**		(93)
Proceeds on disposal of rental fleet		**62**		85
Proceeds on disposal of rental equipment with purchase options		**66**		30
Interest paid		**(74)**		(92)
Income tax paid		**(41)**		(37)
Cash flow provided by operating activities	**$**	**425**	$	962
INVESTING ACTIVITIES				
Additions to property, plant, and equipment and intangible assets	**$**	**(133)**	$	(115)
Proceeds on disposal of property, plant, and equipment		**8**		23
Consideration paid for business acquisitions, net of cash acquired (Note 23)		**(27)**		—
Increase in short-term and long-term investments		**(7)**		(7)
Return on investment in Energyst B.V.		**8**		—
Cash flow used in investing activities	**$**	**(151)**	$	(99)
FINANCING ACTIVITIES				
Increase (decrease) in short-term debt (Note 22)		**280**		(129)
Decrease in long-term debt (Note 22)		**(201)**		(200)
Decrease in lease liabilities (Note 22)		**(84)**		(87)
Credit facility fee		**(1)**		(1)
Repurchase of common shares		**(155)**		(23)
Dividends paid		**(139)**		(133)
Cash flow used in financing activities	**$**	**(300)**	$	(573)
Effect of currency translation on cash balances	**$**	**(11)**	$	(19)
(Decrease) increase in cash and cash equivalents	**$**	**(37)**	$	271
Cash and cash equivalents, beginning of year	**$**	**539**	$	268
Cash and cash equivalents, end of year (Note 22)	**$**	**502**	$	539

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 19100 94 Avenue, Surrey, 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 (the Board) on February 8, 2022. 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 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 2021 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.

These consolidated financial statements were prepared under the historical cost basis except as otherwise described in the notes to these consolidated financial statements.

(a) Principles of Consolidation

Accounting Policy

The consolidated financial statements include the results of the Company, which includes the Finning (Canada) division, and Finning's 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.

For subsidiaries that the Company controls, but does not own 100%, the portion of net assets and income attributable to third parties is reported as non-controlling interests and net income attributable to non-controlling interests in the consolidated statement of financial position and consolidated statement of net income, respectively.

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

Name	Principal place of business	% ownership 2021	% ownership 2020	Functional currency [1]
OEM Remanufacturing Company Inc.	Canada	100%	100%	CAD
4Refuel Canada LP	Canada	100%	100%	CAD
Finning Argentina S.A.	Argentina	100%	100%	USD
Finning Soluciones Mineras S.A.	Argentina	100%	100%	USD
Finning Bolivia S.A.	Bolivia	100%	100%	USD
Finning Chile S.A.	Chile	100%	100%	USD
Moncouver S.A.	Uruguay	100%	100%	USD
Finning (UK) Ltd.	United Kingdom	100%	100%	GBP
Finning (Ireland) Limited	Republic of Ireland	100%	100%	EUR

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

The Company also has a 54.5% ownership interest in Compression Technology Corporation with 45.5% ownership interest held by non-controlling interests. All shareholdings are of ordinary shares or other equity capital. Other subsidiaries, while included in the consolidated financial statements, are not considered material.

(b) Joint Ventures and Associate

Accounting Policy

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.

Description of Business and 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.

Enerygst B.V. (Energyst) was the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions (refer to Note 23 for further details).

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

December 31	Nature of	Principal place of	% ownership		Functional
Name	Relationship	Business	2021	2020	currency
PLM	Joint Venture	United States	25.0%	25.0%	USD
Agriterra	Joint Venture	Canada	20.0%	20.0%	CAD
Energyst	Associate	Netherlands	31.4%	31.4%	EUR

The Company's joint ventures and associate are not considered individually material.

(c) 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 recorded in the consolidated statement of net income except where the exchange gain or loss arises from the translation of monetary items designated as hedges. Refer to Note 8c for the Company's accounting policy for hedging.

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 reporting 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. Refer to Note 8c for the Company's accounting policy for hedging.

Areas of Significant Judgment

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

(d) Amendments to Standards and New Accounting Standard

The Company has adopted the following amendments to IFRS:

- 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 did not impact the Company's consolidated financial statements.

(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 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. On adoption of this amendment, there will be no impact to the Company's consolidated financial statements.
- 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.
  - Require entities to disclose their material accounting policy information rather than significant accounting policy information. The amendments provide guidance on how an entity can identify material accounting policy information and clarify that information may be material because of its nature, even if the related amounts are immaterial. Management will review and update the Company's financial statements to disclose material accounting policy information as appropriate when the amendments become effective.
- Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (effective January 1, 2023) introduce a definition of 'accounting estimates' and clarify the difference between changes in accounting policies and changes in accounting estimates. These amendments will impact changes in accounting policies and changes in accounting estimates made after these amendments are adopted by the Company.
- Amendments to IAS 12, *Income Taxes* (effective January 1, 2023) clarify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of the related asset and liability. 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.

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 on-site refuelling services in most of the provinces of Canada, as well as 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. The Company considers net revenue (calculated as total revenue less cost of fuel) as more representative than revenue in assessing business performance 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, 2021 ($ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	$ 774	$ 711	$ 704	$ —	$ 2,189
Used equipment	310	48	51	—	409
Equipment rental	153	40	42	—	235
Product support	1,999	1,415	314	—	3,728
Fuel and other	733	—	—	—	733
Total revenue	$ 3,969	$ 2,214	$ 1,111	$ —	$ 7,294
Cost of fuel	(598)	—	—	—	(598)
Net revenue	$ 3,371	$ 2,214	$ 1,111	$ —	$ 6,696
Operating costs (1)	(2,865)	(1,921)	(1,017)	(39)	(5,842)
Equity earnings of joint ventures	2	—	—	—	2
Other income	10	—	—	5	15
EBITDA	$ 518	$ 293	$ 94	$ (34)	$ 871
Depreciation and amortization	(191)	(84)	(41)	(3)	(319)
Earnings (loss) before finance costs and income taxes	$ 327	$ 209	$ 53	$ (37)	$ 552
Finance costs					(75)
Provision for income taxes					(114)
Net income					$ 363
Invested capital (2)	$ 1,876	$ 1,026	$ 381	$ 43	$ 3,326
Gross capital expenditures (3)(4)	$ 106	$ 62	$ 9	$ 25	$ 202
Gross rental equipment spend (4)	$ 171	$ 39	$ 19	$ —	$ 229

(1) Operating costs are calculated as cost of sales less cost of fuel plus selling, general, and administrative 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 and cash equivalents.

(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, 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	108	—	—	7	115
Other expenses	(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
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 administrative 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 and cash equivalents.
(3) Capital includes property, plant, and equipment and intangible assets.
(4) Includes leases and borrowing costs capitalized and excludes additions through business acquisitions.

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

($ millions)	Total Revenue Year ended December 31		Non-current Assets [(5)] at December 31	
	2021	2020	**2021**	2020
Canada	**$ 3,860**	$ 3,301	**$ 1,438**	$ 1,430
Chile	**$ 1,873**	$ 1,642	**$ 328**	$ 328
United Kingdom	**$ 996**	$ 777	**$ 183**	$ 193
Argentina	**$ 282**	$ 228	**$ 72**	$ 72
Other countries	**$ 283**	$ 248	**$ 104**	$ 33

(5) Non-current assets shown above exclude deferred tax assets and net post-employment 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 refuelling 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. Equipment rental includes revenue from rental agreements with customers which contain an option to purchase the equipment at the end of the rental term (referred to as 'Rental Equipment with Purchase Options'). When the customer exercises its option to purchase the equipment, the sale is presented as new equipment revenue or used equipment revenue, as appropriate.

Revenue from customers may be recognized in advance of billing 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 both under and not under long-term contracts) when revenue recognition criteria are met, and the Company has the right to receive amounts from customers but invoices have not yet been issued. Similarly, the Company recognizes deferred revenue when cash has been collected from customers but control of the goods or services has not yet been transferred. Deferred revenue is recorded when cash is received prior to the transfer of control related to servicing equipment, complex power and energy systems, and extended warranty. Deferred revenue is recorded when deposits are received from customers and 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.

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 immediately recognized in the consolidated statement of net income.

Areas of Significant Judgment

Repurchase Commitments

In certain circumstances, the Company enters into contracts with rights of return (at the customer's discretion) 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.

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 ($ millions)	**2021**			2020		
	Point-in-time	**Over-time**	**Total**	Point-in-time	Over-time	Total
New equipment	**$ 2,004**	**$ 185**	**$ 2,189**	$ 1,459	$ 212	$ 1,671
Used equipment	**409**	**—**	**409**	308	—	308
Equipment rental	**—**	**235**	**235**	—	196	196
Product support	**1,669**	**2,059**	**3,728**	1,546	1,927	3,473
Fuel and other	**731**	**2**	**733**	547	1	548
Total revenue	**$ 4,813**	**$ 2,481**	**$ 7,294**	$ 3,860	$ 2,336	$ 6,196

The Company recorded the following unbilled receivables from customers:

December 31 ($ millions)	**2021**	2020
Product support	**$ 241**	$ 194
New equipment	**27**	36
Other	**2**	1
Total unbilled receivables	**$ 270**	$ 231

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 recorded the following contract liabilities:

December 31, 2021 ($ millions)	**2021**			2020		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Product support	**$ 238**	**$ —**	**$ 238**	$ 199	$ —	$ 199
Deposits from customers for new equipment	**148**	**—**	**148**	114	—	114
Complex power and energy systems	**14**	**—**	**14**	30	—	30
Extended warranty	**22**	**30**	**52**	28	31	59
Other	**6**	**1**	**7**	3	1	4
Total deferred revenue	**$ 428**	**$ 31**	**$ 459**	$ 374	$ 32	$ 406

The majority of the Company's contract liabilities relate to cash collected for goods or services over which control will be transferred to the customer within one year. Cash is typically collected up front for sales of extended warranties and new equipment under repurchase guarantees; the transfer of control over these services and goods can extend beyond one year.

5. Earnings Per Share

For year ended December 31, ($ millions, except share and per share amounts)	2021 Basic	2021 Diluted	2020 Basic	2020 Diluted
Net income attributable to shareholders of Finning	**$ 364**	**$ 364**	$ 232	$ 232
Weighted average shares outstanding (WASO)	**161,088,129**	**161,088,129**	162,289,564	162,289,564
Effect of dilutive share options		**554,676**		46,872
WASO with assumed conversions		**161,642,805**		162,336,436
Earnings per share	**$ 2.26**	**$ 2.25**	$ 1.43	$ 1.43

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, 2021 were 1 million (2020: 2 million).

6. Other Income and Other Expenses

For years ended December 31 ($ millions)	2021	2020
Canada Emergency Wage Subsidy (a)	**$ 10**	$ 115
Return on investment in Energyst B.V. (Note 23)	**5**	—
Total other income	**$ 15**	$ 115

For years ended December 31 ($ millions)	2021	2020
Severance costs (b)	**$ —**	$ (42)
Impairment of long-lived assets (b)	**—**	(7)
Facility closures and restructuring costs (b)	**—**	(2)
Total other expenses	**$ —**	$ (51)

(a) In response to the negative economic impact of the novel coronavirus (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.

(b) In 2020, 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)	2021	2020
Short-term debt	**$ 374**	$ 92
Long-term debt		
2.84%, $200 million, due September 29, 2021	**$ —**	$ 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**	127
4.08% USD $100 million, due January 19, 2024, Series B	**127**	127
4.18% USD $50 million, due April 3, 2022, Series C	**63**	64
4.28% USD $50 million, due April 3, 2024, Series D	**63**	64
4.53% USD $200 million, due April 3, 2027, Series E	**253**	254
3.40% £70 million, due May 22, 2023, Series F	**120**	122
Other term loans	**10**	2
Total long-term debt	**$ 1,111**	$ 1,308
Current portion of long-term debt	**$ 190**	$ 201
Non-current portion of long-term debt	**$ 921**	$ 1,107

Short-Term Debt

At December 31, 2021, short-term debt included $370 million drawn on the Company's committed revolving credit facility (2020: short-term debt included $92 million drawn on the Company's committed revolving credit facility). Refer to Note 8b for more information on the Company's committed revolving credit facility.

The effective interest rate on the consolidated short-term debt for 2021 was 1.6% (2020: 3.1%).

Long-Term Debt

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

The effective interest rate on the consolidated long-term debt for 2021 was 3.8% (2020: 3.8%).

Finance Costs

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

For years ended December 31 ($ millions)	2021	2020
Interest on short-term debt	**$ 3**	$ 12
Interest on long-term debt	**48**	55
Interest on debt	**$ 51**	$ 67
Interest on lease liabilities	**10**	11
Other finance related expenses	**14**	7
Finance costs	**$ 75**	$ 85

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, the 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, and report their review to the Board. The Board reviews all material risks in detail 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, and instalment and other notes 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 accounts receivable, 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 accounts receivable 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.

Areas of Estimation Uncertainty

Allowance for Doubtful Accounts

The Company records allowance for doubtful accounts that represents management's best estimate of potential losses in respect of accounts receivable 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 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

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.

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

December 31 ($ millions)	**2021**	2020
Cash and cash equivalents	**$ 502**	$ 539
Accounts receivable	**839**	730
Unbilled receivables	**270**	231
Supplier claims receivable	**103**	104
Exposure to credit risk	**$ 1,714**	$ 1,604

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 Company limits its exposure to credit risk from accounts receivable by establishing a maximum payment period for customers. The Company also has policies in place to manage credit risk, including maintaining credit limits for customers taking into account factors such as projected purchase values, credit worthiness of the customer, and payment performance.

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.

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

December 31 ($ millions)	**2021**	2020
Canada	**$ 445**	$ 381
Chile	**212**	207
UK	**97**	79
Argentina	**41**	27
Other	**44**	36
Total	**$ 839**	$ 730

Impairment Losses

The aging of accounts receivable at the reporting date was as follows:

December 31	**2021**		2020	
($ millions)	**Gross**	**Allowance**	Gross	Allowance
Not past due	**$ 626**	**$ —**	$ 521	$ 1
Past due 1 – 30 days	**132**	**—**	115	—
Past due 31 – 90 days	**59**	**1**	46	—
Past due 91 – 120 days	**7**	**—**	17	1
Past due greater than 120 days	**50**	**34**	76	43
Total	**$ 874**	**$ 35**	$ 775	$ 45

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

For years ended December 31 ($ millions)	**2021**	2020
Balance, beginning of year	**$ 45**	$ 42
Additional allowance and unused amounts reversed	**(9)**	13
Receivables written off	**(1)**	(10)
Balance, end of year	**$ 35**	$ 45

The carrying amount of cash and cash equivalents, 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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains 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.

At December 31, 2021, the Company had approximately $2.1 billion (2020: $2.6 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. In September 2021, the Company secured sustainability-linked terms for its $1.3 billion committed revolving credit facility. The amended credit facility aligns cost of borrowing to progress towards achieving the Company's absolute greenhouse gas emissions reduction target. In addition, the term of the credit facility, which was set to fully mature in December 2024, was extended to September 2026. 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 a $500 million committed revolving credit facility for general corporate purposes, which had a term of two years. In March 2021, the Company cancelled this facility and expensed $1 million of capitalized debt issue costs related to this facility in finance costs during the year ended December 31, 2021.

At December 31, 2021, $0.9 billion was available under the $1.3 billion committed revolving credit facility. At December 31, 2020, $1.7 billion was available collectively under the $1.3 billion and $500 million committed revolving credit facilities.

The Company's principal source of short-term funding is the committed revolving 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, 2021 or December 31, 2020. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

Covenants

The Company is subject to certain covenants within its syndicated committed credit facility. At December 31, 2021 and 2020, the Company was in compliance with these covenants.

The following are the contractual maturities of non-derivative and derivative financial liabilities. 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, 2021	Contractual cash flows 2022	2023	2024	2025	2026	Thereafter
Non-derivative financial liabilities							
Accounts payable and accruals	$ (908)	$ (908)	$ —	$ —	$ —	$ —	$ —
Short-term debt	(374)	(374)	—	—	—	—	—
Long-term debt	(1,111)	(232)	(155)	(220)	(25)	(225)	(533)
Lease liabilities	(328)	(88)	(63)	(47)	(33)	(23)	(265)
Total non-derivative financial liabilities	$ (2,721)	$ (1,602)	$ (218)	$ (267)	$ (58)	$ (248)	$ (798)
Derivative financial							
Forward foreign currency contracts and swaps							
Sell CAD	$ 1	$ (116)	$ —	$ —	$ —	$ —	$ —
Buy USD	—	117	—	—	—	—	—
Sell CAD	(3)	(266)	—	—	—	—	—
Buy USD	—	263	—	—	—	—	—
Sell ARS [1]	(2)	(21)	—	—	—	—	—
Buy USD	—	19	—	—	—	—	—
Total derivative financial instruments	$ (4)	$ (4)	$ —	$ —	$ —	$ —	$ —

(1) Argentine Peso (ARS)

(c) Derivative Financial Instruments, Hedging, and Market Risk

Accounting Policy

Derivative Financial Instruments

Derivative financial instruments are classified as fair value through profit or loss and are recorded on the consolidated statement of financial position at fair value. Refer to Cash Flow Hedges and Net Investment Hedges sections below for the accounting treatment for derivative financial instruments which are designated as hedging instruments. Fair value changes of derivative financial instruments not designated as hedging instruments are recorded in the consolidated statement of net income as selling, general, and administrative expenses or finance costs, as appropriate.

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 these hedges is reported in the consolidated statement of net income.

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 judgment 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 net 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 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 $753 million (2020: $757 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 & Ireland operations, respectively. For the year ended December 31, 2021 the Company entered into forward exchange contracts for inventory purchases of USD $417 million (2020: USD $104 million).

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, and the results of the South American operations are impacted by CLP and ARS based revenues 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.

Exposure to Foreign Exchange Risk

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

December 31, 2021 (millions)	**CAD**	**USD**	**GBP**	**CLP**	**ARS**
Cash and cash equivalents	**1**	**318**	**11**	**24,976**	**1,651**
Accounts receivable	**423**	**75**	**58**	**136,094**	**35**
Short-term and long-term debt	**(655)**	**(560)**	**(71)**	**—**	**—**
Accounts payable and accruals	**(330)**	**(242)**	**(62)**	**(82,256)**	**(780)**
Lease liabilities	**(254)**	**(4)**	**(25)**	**(19)**	**(8)**
Net statement of financial position exposure	**(815)**	**(413)**	**(89)**	**78,795**	**898**

December 31, 2020 (millions)	CAD	USD	GBP	CLP	ARS
Cash and cash equivalents	7	198	48	85,066	2,061
Accounts receivable	336	77	46	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	(743)	(443)	(67)	120,460	1,675

Sensitivity Analysis to Foreign Exchange Risk

The translation of financial instruments denominated in foreign currencies are impacted by changes in foreign exchange rates. 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, 2021 ($ millions)	**Weakening of CAD**	**Pre-tax Income**	**Other Comprehensive Loss**
USD/CAD	**10%**	**$ 3**	**$ (49)**
GBP/CAD	**10%**	**$ —**	**$ (12)**
CLP/CAD	**25%**	**$ 24**	**$ —**
ARS/CAD	**30%**	**$ 3**	**$ —**

A strengthening of the CAD against the above currencies relative to the December 31, 2021 month end rates would have an equivalent but opposite effect 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 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.

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 fluctuates 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 with 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)	**2021**	2020
Fixed rate instruments		
Financial assets	**$ 45**	$ 27
Financial liabilities	**$ (1,439)**	$ (1,606)
Variable rate instruments		
Financial assets	**$ 502**	$ 539
Financial liabilities	**$ (374)**	$ (92)

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 $1 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 financial instruments. All of the derivative financial 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, 2021 and 2020.

Derivative Financial 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	**2021**		2020	
($ millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Long-term debt	**$ 1,111**	**$ 1,202**	$ 1,308	$ 1,443

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.

Cash and Cash Equivalents, Accounts Receivable, Unbilled Receivables, Supplier Claims Receivable, Instalment Notes Receivable, Short-Term Investments, Short-Term Debt, and Accounts Payable

The recorded values of cash and cash equivalents, accounts receivable, unbilled receivables, supplier claims receivable, instalment notes receivable, short-term investments, 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 forecasted 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 2021, the Company renewed its normal course issuer bid which enables the Company to purchase its common shares for cancellation. In 2021, the Company repurchased 4,779,340 Finning common shares for cancellation for $157 million, at an average cost of $32.81 per share. In 2020, 1,215,617 Finning common shares were repurchased for cancellation for $23 million, at an average cost of $19.25 per share.

In January 2022, the Company implemented an automatic share purchase plan with a designated broker to enable share repurchases for cancellation during the Company's regular blackout period.

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	**Company long-term target**	**2021**	2020
Net debt to Adjusted EBITDA Ratio (times)	**< 3.0**	**1.1**	1.4

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)	**2021**	2020
Cash and cash equivalents	**$ (502)**	$ (539)
Short-term debt	**374**	92
Current portion of long-term debt	**190**	201
Long-term debt	**921**	1,107
Net debt	**$ 983**	$ 861

Adjusted EBITDA reconciles to EBIT as follows:

For years ended December 31 ($ millions)	**2021**	2020
EBIT	**$ 552**	$ 392
Depreciation and amortization	**319**	308
EBITDA	**$ 871**	$ 700
Significant items:		
Canadian emergency wage subsidy (Note 6a)	**(10)**	(115)
Return on investment in Energyst B.V. (Note 6)	**(5)**	—
Severance costs (Note 6b)	**—**	42
Facility closures, restructuring costs, and impairment of long-lived assets (Note 6b)	**—**	9
Adjusted EBITDA	**$ 856**	$ 636

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. The number of repurchased shares is disclosed below and the amount deducted from equity is disclosed in the statement of changes in 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, 2021 and 2020.

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

Finning has no shareholder rights plan currently in place. 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 change in the number of shares in share capital were as follows:

For years ended December 31 (number of shares)	**2021**	2020
Balance, beginning of year	**162,107,484**	163,319,120
Exercise of share options	**479,958**	3,981
Repurchase of common shares (Note 9)	**(4,779,340)**	(1,215,617)
Balance, end of year	**157,808,102**	162,107,484

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.

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.

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, 2021, approximately 3 million (2020: approximately 2 million) common shares remained eligible to be issued in connection with future grants.

In 2021, the Company granted 370,776 common share options to senior executives and management of the Company (2020: 724,739 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 2021 comprised both cash and cashless exercises. 2,201,407 share options were exercised in 2021 resulting in 479,958 common shares being issued; 1,721,449 share options were withheld and returned to the option pool for future issues/grants (2020: 35,053 share options were exercised resulting in 3,981 common shares being issued; 31,072 share options were withheld and returned).

Details of the share option plans were as follows:

For years ended December 31	2021 Share Options	2021 Weighted Average Exercise Price	2020 Share Options	2020 Weighted Average Exercise Price
Share options outstanding, beginning of year	**3,683,449**	**$ 24.40**	3,416,168	$ 25.66
Granted	**370,776**	**$ 33.11**	724,739	$ 17.75
Exercised	**(2,201,407)**	**$ 25.18**	(35,053)	$ 23.53
Forfeited	**(72,111)**	**$ 26.74**	(146,468)	$ 25.51
Expired	**(8,160)**	**$ 30.83**	(275,937)	$ 22.06
Share options outstanding, end of year	**1,772,547**	**$ 25.12**	3,683,449	$ 24.40
Exercisable, end of year	**794,589**	**$ 26.41**	2,490,563	$ 26.21

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

	2021	2020
Dividend yield	**3.2%**	3.2%
Expected volatility [1]	**31.4%**	32.2%
Risk-free interest rate	**1.0%**	0.4%
Expected life (years)	**5.18**	5.34
Share price	**$ 33.11**	$ 17.75

[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 $6.70 (2020: $3.59).

The following table summarizes information about share options outstanding at December 31, 2021:

	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 - $20.68	**565,892**	**5.13 years**	**$ 17.84**	**115,502**	**$ 18.20**
$20.69 - $22.38	**371,898**	**3.80 years**	**$ 22.22**	**199,924**	**$ 22.14**
$22.39 - $25.47	**123,386**	**0.62 years**	**$ 25.26**	**117,433**	**$ 25.40**
$25.48 - $27.98	**98,595**	**2.33 years**	**$ 26.76**	**98,595**	**$ 26.76**
$27.99 - $33.68	**612,776**	**5.09 years**	**$ 33.31**	**263,135**	**$ 33.58**
Total	**1,772,547**	**4.37 years**	**$ 25.12**	**794,589**	**$ 26.41**

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

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 have 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 common shares of the Company or a combination of cash and shares (as requested by the holder) only following cessation of service on the Board and must be redeemed by December 31st of the year following the year in which the cessation occurred. Each deferred share unit is redeemable for one common share or if redeemed for cash, the value 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 50,815 deferred share units in 2021 (2020: 91,136), which were expensed over the calendar year as the units were issued. An additional 24,418 deferred share units (2020: 38,365) were issued in lieu of cash compensation payable for service as a Director. A further 15,244 deferred share units (2020: 22,220) were granted to Directors during 2021 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 may be awarded deferred share units as approved by the Board. 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 3,585 deferred share units in 2021 (2020: 22,284) as remuneration of their annual bonus payment and 1,427 deferred share units (2020: 2,674) 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. 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 before December 31st of the year following the year in which cessation of employment with the Company occurred. 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 2021, 1,017 deferred share units (2020: 3,882) 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. 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 2021 and 2020 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, 2021, a total of 320,416 performance share units were granted to Executives, based on 100% vesting (2020: 578,238), and 87,619 notional units (2020: 88,942) 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.

2021 Grant

The specified levels and respective vesting percentages for the 2021 grant were as follows:

TSR PSUs

- 1/3 of the grant is based on the Company's total shareholder return for year 1 of the grant (2021);
- 1/3 of the grant is based on the Company's total shareholder return for year 2 of the grant (2022); and
- 1/3 of the grant is based on the Company's total shareholder return for year 3 of the grant (2023).

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 grant is based on the Company's ROIC performance for year 1 of the grant (2021);
- 1/3 of the grant is based on the Company's ROIC performance for year 2 of the grant (2022) (1); and
- 1/3 of the grant is based on the Company's ROIC performance for year 3 of the grant (2023) (1).

Performance Level	2021 ROIC	Proportion of PSUs Vesting
Below Threshold	< 10.1%	Nil
Threshold	10.1%	50%
Target	14.4%	100%
Maximum	18.7% or more	200%

(1) The return on invested capital performance level targets for 2022 and 2023 will be determined at the beginning of each of these years.

2020 Grant

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

TSR PSUs

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

Performance Level	2020 ROIC	2021 ROIC	Proportion of PSUs Vesting
Below Threshold	< 5.0%	< 10.1%	Nil
Threshold	5.0%	10.1%	50%
Target	7.1%	14.4%	100%
Maximum	9.2% or more	18.7% or more	200%

(2) The return on invested capital performance level targets for 2022 will be determined at the beginning of 2022.

Restricted Share Unit (RSU) Plan

Under the RSU Plan, executives of the Company may be awarded restricted share units as approved by the Board. 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, 2021, a total of 209,599 restricted share units were granted to Executives (2020: 371,619) and 21,642 notional units (2020: 29,326) are issuable as payment for dividends upon vesting.

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

For year ended December 31, 2021 Units	**Exec DSU**	**DSU-B**	**DDSU**	**PSU**	**RSU**	**Total**
Outstanding, beginning of year	**398,071**	**38,326**	**589,571**	**1,086,100**	**756,041**	**2,868,109**
Additions	**5,012**	**1,017**	**90,477**	**590,840**	**231,241**	**918,587**
Exercised	**(26,798)**	**—**	**(56,671)**	**(171,277)**	**(136,304)**	**(391,050)**
Forfeited	**—**	**—**	**—**	**(105,241)**	**(65,109)**	**(170,350)**
Outstanding, end of year	**376,285**	**39,343**	**623,377**	**1,400,422**	**785,869**	**3,225,296**
Vested, beginning of year	**71,806**	**38,326**	**589,571**	**181,590**	**—**	**881,293**
Vested	**5,012**	**1,017**	**90,477**	**353,358**	**136,304**	**586,168**
Exercised	**(26,798)**	**—**	**(56,671)**	**(171,277)**	**(136,304)**	**(391,050)**
Forfeited	**—**	**—**	**—**	**(10,313)**	**—**	**(10,313)**
Vested, end of year	**50,020**	**39,343**	**623,377**	**353,358**	**—**	**1,066,098**
Liability ($ millions)						
Balance, beginning of year	**$ 2**	**$ 1**	**$ 16**	**$ 16**	**$ 9**	**$ 44**
Expensed	**1**	**—**	**6**	**20**	**9**	**36**
Exercised	**(1)**	**—**	**(2)**	**(5)**	**(4)**	**(12)**
Forfeited	**—**	**—**	**—**	**(2)**	**(1)**	**(3)**
Balance, end of year	**$ 2**	**$ 1**	**$ 20**	**$ 29**	**$ 13**	**$ 65**

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

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding at December 31, 2021 has been estimated using the period-end closing TSX: FTT share price of $31.88 (December 31, 2020: $27.03).

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

For years ended December 31 ($ millions)		2021		2020
Consolidated Statements of Net Income				
Compensation expense arising from equity-settled share option incentive plan	**$**	**3**	$	2
Compensation expense arising from cash-settled share-based payments		**33**		19
Total	**$**	**36**	$	21
Consolidated Statements of Financial Position				
Liability for cash-settled share-based payments (current)	**$**	**17**	$	9
Liability for cash-settled share-based payments (non-current) (Note 19)	**$**	**48**	$	35

The total intrinsic value of vested but not settled share-based payments was $34 million (2020: $24 million).

12. INVENTORY

Accounting Policy

Inventory is made up of 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. Inventory is 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 inventory includes all costs of purchase, conversion costs, other costs incurred in bringing inventory 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.

December 31 ($ millions)		2021		2020
On-hand equipment	**$**	**540**	$	540
Parts and supplies		**790**		634
Internal service work in progress		**357**		303
Total inventory	**$**	**1,687**	$	1,477

For the year ended December 31, 2021, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to $4.9 billion (2020: $4.2 billion). For the year ended December 31, 2021, the write-down of inventory to net realizable value, included in cost of sales, was $28 million (2020: $99 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, 2021 ($ millions)	**Canada**	**International**	**Total**
Current	**$ 58**	**$ 48**	**$ 106**
Adjustment for prior periods recognized in the current year	**(2)**	**2**	**—**
Total current tax expense	**56**	**50**	**106**
Deferred			
Origination and reversal of timing differences	**1**	**4**	**5**
Decrease due to tax rate changes	**—**	**(3)**	**(3)**
Write-down of deferred tax asset	**—**	**7**	**7**
Adjustment for prior periods recognized in the current year	**2**	**(3)**	**(1)**
Total deferred tax expense	**3**	**5**	**8**
Provision for income taxes	**$ 59**	**$ 55**	**$ 114**

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

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)	**2021**		2020	
Combined Canadian federal and provincial income taxes at the statutory tax rate	**$ 117**	**24.4 %**	$ 77	25.1 %
(Decrease) increase resulting from:				
Differences in tax rates in foreign jurisdictions	**(16)**	**(3.3)%**	(11)	(3.6)%
Changes in statutory tax rates	**(3)**	**(0.6)%**	(2)	(0.7)%
Non-deductible share-based payment expense	**1**	**0.2 %**	1	0.3 %
Non-taxable/non-deductible foreign exchange in Argentina	**7**	**1.5 %**	6	2.0 %
Inflationary adjustment	**(3)**	**(0.6)%**	(1)	(0.3)%
Write-down of deferred tax asset	**7**	**1.5 %**	—	—
Taxable capital gain	**10**	**2.1 %**	—	—
Utilization of previously unrecognized tax loss	**(9)**	**(1.9)%**	—	—
Other	**3**	**0.6 %**	5	1.6 %
Provision for income taxes	**$ 114**	**23.9 %**	$ 75	24.4 %

The Company recognized the impact of the following substantively enacted corporate income tax rate changes in June 2021:

- The Argentine government increased its corporate income tax rate from 25% to 35%, effective January 1, 2021.
- The UK government will increase its corporate income tax rate from 19% to 25% effective April 1, 2023.

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)**	**2021**	2020
Accounting provisions not currently deductible for tax purposes	**$ 51**	$ 45
Share-based payments	**12**	9
Loss carry-forwards	**14**	16
Deferred tax assets	**77**	70
Property, plant and equipment, rental equipment, right-of-use assets, and intangible assets	**(130)**	(115)
Distribution network	**(14)**	(14)
Employee benefits	**(33)**	(2)
Other	**(11)**	(9)
Deferred tax liabilities	**(188)**	(140)
Net deferred tax liability	**$ (111)**	$ (70)

Deferred taxes were not recognized on retained profits of approximately $1.5 billion (2020: $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 $18 million does not expire and $26 million expires between 2024 and 2026.

December 31 **($ millions)**	**2021**	2020
International	**$ 44**	$ 62

At December 31, 2021, the Company had unrecognized capital and non-capital loss carry-forwards of $20 million (2020: $91 million) to reduce future taxable income, of which $13 million does not expire and $7 million expires between 2024 and 2026.

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

For years ended December 31 **($ millions)**	**2021**	2020
Deferred tax expense	**$ 29**	$ 7
Provision for income taxes recognized in other comprehensive income	**$ 29**	$ 7

14. OTHER ASSETS

December 31 ($ millions)	**2021**	2020
Supplier claims receivable	**$ 103**	$ 104
Equipment deposits	**82**	14
Finance assets	**36**	24
Prepaid expenses	**30**	26
Income tax recoverable	**15**	24
Canada Emergency Wage Subsidy receivable	**—**	13
Other	**55**	32
Total other assets – current	**$ 321**	$ 237

December 31 ($ millions)	**2021**	2020
Deferred tax assets	**$ 38**	$ 56
Prepaid expenses	**16**	17
Finance assets (a)	**12**	5
Other	**22**	25
Total other assets – non-current	**$ 88**	$ 103

(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 2021 (2020: $2 million). Depreciation expense is recognized in equal monthly amounts over the term of the individual leases.

15. 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.

Rental equipment comprises rental fleet as well as rental equipment with purchase options (equipment under rental agreements with customers which include an option to purchase the equipment at the end of the rental term). Rental equipment includes units transferred from inventory and excludes units transferred to inventory when the rental equipment becomes available for sale.

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.

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 - 8 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, 2021 ($ millions)	**Land**	**Buildings**	**Vehicles and Equipment**	**Total**	**Rental Equipment**
Cost					
Balance, beginning of year	$ 78	$ 990	$ 617	$ 1,685	$ 684
Additions of owned assets	—	37	50	87	147
Additions of right-of-use assets	8	25	44	77	1
Remeasurement of right-of-use assets	—	39	—	39	—
Additions through business combinations (Note 23)	—	3	15	18	9
Transfers from inventory	—	—	2	2	81
Transfers to inventory	—	—	(3)	(3)	—
Reclassification to other assets (Note 16)	—	(10)	—	(10)	—
Disposals	(2)	(22)	(23)	(47)	(200)
Foreign exchange rate changes	—	(2)	(2)	(4)	(2)
Balance, end of year	$ 84	$ 1,060	$ 700	$ 1,844	$ 720
Accumulated depreciation and impairment losses					
Balance, beginning of year	$ (10)	$ (427)	$ (381)	$ (818)	$ (254)
Depreciation of owned assets	—	(33)	(38)	(71)	(95)
Depreciation of right-of-use assets	—	(31)	(47)	(78)	(11)
Reclassification to other assets (Note 16)	—	2	—	2	—
Disposals	—	13	21	34	72
Foreign exchange rate changes	—	—	1	1	2
Balance, end of year	$ (10)	$ (476)	$ (444)	$ (930)	$ (286)
Net book value					
Balance, beginning of year	$ 68	$ 563	$ 236	$ 867	$ 430
Balance, end of year	$ 74	$ 584	$ 256	$ 914	$ 434

December 31, 2020 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	$ 76	$ 973	$ 633	$ 1,682	$ 691
Additions of owned assets	2	17	40	59	110
Additions of right-of-use assets	—	6	22	28	1
Remeasurement of right-of-use assets	—	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
Accumulated depreciation and impairment losses					
Balance, beginning of year	$ (10)	$ (362)	$ (339)	$ (711)	$ (234)
Depreciation of owned assets	—	(33)	(39)	(72)	(91)
Depreciation of right-of-use assets	—	(33)	(46)	(79)	(11)
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)
Net book value					
Balance, beginning of year	$ 66	$ 611	$ 294	$ 971	$ 457
Balance, end of year	$ 68	$ 563	$ 236	$ 867	$ 430

16. 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.

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,
- The 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.

Interest expense on lease liabilities is recognized in finance costs in the consolidated statement of net income.

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 leases 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 asset additions and depreciation have been included in property, plant, and equipment and rental equipment (Note 15). The net book value of right-of-use assets was as follows:

December 31 ($ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
2021	**$ 8**	**$ 160**	**$ 124**	**$ 292**	**$ 28**
2020	$ —	$ 137	$ 118	$ 255	$ 37

Amounts under sublease

In 2021, the Company entered into a sublease of one of its leased office spaces, resulting in the right-of-use asset being derecognized and reclassified to Other Assets.

17. 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

Intangible assets with indefinite lives are not amortized. The distribution network, presented separately on the statement of financial position, is estimated to have an indefinite life because it is expected to generate cash flows indefinitely. Refer to Note 18 for the Company's policy on impairment reviews.

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, 2021 ($ millions)	**Contracts and Customer relationships**	**Software and Technology**	**Tradename**	**Total**
Cost				
Balance, beginning of year	**$ 302**	**$ 330**	**$ 19**	**$ 651**
Additions	**3**	**33**	**—**	**36**
Additions through business combinations	**5**	**1**	**6**	**12**
Disposals	**—**	**(1)**	**—**	**(1)**
Foreign exchange rate changes	**(1)**	**(1)**	**—**	**(2)**
Balance, end of year	**$ 309**	**$ 362**	**$ 25**	**$ 696**
Accumulated amortization				
Balance, beginning of year	**$ (176)**	**$ (151)**	**$ (2)**	**$ (329)**
Amortization for the year	**(23)**	**(38)**	**(1)**	**(62)**
Disposals	**—**	**1**	**—**	**1**
Foreign exchange rate changes	**—**	**—**	**—**	**—**
Balance, end of year	**$ (199)**	**$ (188)**	**$ (3)**	**$ (390)**
Net book value				
Balance, beginning of year	**$ 126**	**$ 179**	**$ 17**	**$ 322**
Balance, end of year	**$ 110**	**$ 174**	**$ 22**	**$ 306**

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
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)
Net book value				
Balance, beginning of year	$ 128	$ 175	$ 18	$ 321
Balance, end of year	$ 126	$ 179	$ 17	$ 322

18. 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 indicator that they may be impaired. At least quarterly, CGUs are reviewed for indicators of impairment. For the purposes 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 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 intangible assets with indefinite lives may be reversed. If there is any indication that the circumstances leading to the impairment loss of an intangible asset with an indefinite life 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 management purposes.

Areas of Estimation Uncertainty

The recoverable value of CGUs or group of CGUs requires 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, 2021 net asset values. Management's methodology for impairment testing utilizes a single set of cash flows from the financial budgets to estimate recoverable value.

Recoverable value

The recoverable value of each CGU or group of CGUs is estimated based on a value-in-use calculation. The value-in-use calculation uses cash flow projections based on financial budgets approved by the Board which include 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 which are 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 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:

	2021				2020			
($ millions, except rate)	**Goodwill**	**Distribution Network**	**After-tax WACC rate**	**Growth rate**	Goodwill	Distribution Network	After-tax WACC rate	Growth rate
Canada	**$ 199**	**$ —**	**8%**	**2%**	$ 166	$ —	9%	2%
Canada Mining	**$ —**	**$ 98**	**9%**	**2%**	$ —	$ 98	9%	2%
Chile	**$ 5**	**$ —**	**9%**	**3%**	$ 5	$ —	10%	3%
UK & Ireland	**$ 33**	**$ 2**	**9%**	**2%**	$ 34	$ 2	10%	2%

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 CGU or group of CGUs to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ significantly 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

The Company's CGUs, as of December 31, 2021, were reviewed for indicators of impairment. Management reviewed recent cash flow projections 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 2021 or 2020 related to goodwill or distribution network. There were no impairment reversals in 2021 or 2020 related to the distribution network in the Company's South American operations.

19. Other Liabilities

December 31 ($ millions)	**2021**	2020
Lease liabilities	**$ 87**	$ 82
Provisions (Note 20)	**60**	49
Income tax payable	**64**	9
Commodity taxes payable	**36**	46
Other	**8**	9
Total other liabilities – current	**$ 255**	$ 195

December 31 ($ millions)	**2021**	2020
Deferred tax liabilities	**$ 149**	$ 126
Net post-employment obligation (Note 21)	**61**	97
Share-based payments (Note 11)	**48**	35
Deferred revenue (Note 4)	**31**	32
Other	**22**	16
Total other liabilities – non-current	**$ 311**	$ 306

20. 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, 2021 ($ millions)	**Warranty Claims**	**Other**	**Total**
Balance, beginning of year	**$ 35**	**$ 18**	**$ 53**
New provisions	**26**	**27**	**53**
Charges against provisions	**(24)**	**(16)**	**(40)**
Foreign exchange rate changes	**—**	**(1)**	**(1)**
Balance, end of year	**$ 37**	**$ 28**	**$ 65**
Current portion	**$ 37**	**$ 23**	**$ 60**
Non-current portion	**$ —**	**$ 5**	**$ 5**

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

21. Post-Employment Benefits

The Company offers 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 (DB) and defined contribution (DC) pension plans in Canada, UK and Ireland, and include other post-employment benefits (Other PEB) in South America.

Pension Plans

The DB 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, DB 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. Pension benefits under the registered DB 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.
- In the Company's UK operations, a DB plan exists for eligible employees, but is closed to new members and was amended to cease future accruals. Final average earnings are based on the highest 3-year period and benefits are indexed annually with inflation subject to limits.

The DC 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 DC 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 DC 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 DC plans offer a match of employee contributions, within a required range, plus 1%. The Company's Irish subsidiary has a DC plan, which offers a match of employee contributions at a level set by the Company.

Other PEB

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

<u>Pension Plans</u>

DB 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 DB 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 DB obligation reduced by the fair value of plan assets. The present value of the DB 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.

DC 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.

<u>Other PEB</u>

The Company's PEB in South America is accounted for as an unfunded DB 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 DB plans and Other PEB are based on assumptions requiring significant judgment, such as mortality rates, inflation (which is particularly relevant in the UK), estimates of future salary increases, employee turnover, and the high-quality corporate bond yield (which is used to discount the estimated future cash flows). These assumptions impact the measurement of the net DB obligation, net benefit cost, actuarial gains and losses, and funding levels in Canada and the UK.

The total benefit cost and actuarial gain for the Company's post-employment benefit plans were as follows:

	2021			2020		
For years ended December 31 ($ millions)	**DB and Other PEB Plans**	**DC Plans**	**Total**	DB and Other PEB Plans	DC Plans	Total
Selling, general, and administrative expenses	**$ 14**	**$ 42**	**$ 56**	$ 12	$ 41	$ 53
Net interest recovery	**(2)**	**—**	**(2)**	(1)	—	(1)
Total benefit cost recognized in net income	**$ 12**	**$ 42**	**$ 54**	$ 11	$ 41	$ 52
Total actuarial gain recognized in other comprehensive income	**$ (82)**	**$ —**	**$ (82)**	$ (29)	$ —	$ (29)

Other financial information about the Company's DB plans in Canada and UK and Other PEB plans in South America was as follows:

For years ended December 31 ($ millions)	2021 Canada	2021 UK	2021 South America	2021 Total	2020 Canada	2020 UK	2020 South America	2020 Total
Accrued benefit obligation								
Balance, beginning of year	**$ 205**	**$ 677**	**$ 79**	**$ 961**	$ 269	$ 658	$ 55	$ 982
Settlement due to buy-out annuity transactions	**—**	**—**	**—**	**—**	(87)	—	—	(87)
Current service cost	**6**	**—**	**7**	**13**	6	—	8	14
Interest cost	**5**	**9**	**—**	**14**	7	13	—	20
Benefits paid	**(5)**	**(31)**	**(4)**	**(40)**	(10)	(33)	(7)	(50)
Remeasurements:								
- Actuarial loss (gain) from change in demographic assumptions	**1**	**(6)**	**—**	**(5)**	—	—	11	11
- Actuarial (gain) loss from change in financial assumptions	**(11)**	**(31)**	**(16)**	**(58)**	17	39	4	60
Experience loss (gain)	**—**	**3**	**(2)**	**1**	3	(8)	5	—
Foreign exchange rate changes	**—**	**(8)**	**(9)**	**(17)**	—	8	3	11
Balance, end of year	**$ 201**	**$ 613**	**$ 55**	**$ 869**	$ 205	$ 677	$ 79	$ 961
Plan assets								
Balance, beginning of year	**$ 187**	**$ 809**	**$ —**	**$ 996**	$ 248	$ 731	$ —	$ 979
Purchase of buy-out annuities	**—**	**—**	**—**	**—**	(84)	—	—	(84)
Return on plan assets:								
- Return on plan assets included in net interest cost	**5**	**11**	**—**	**16**	7	14	—	21
- Actuarial gain on plan assets	**5**	**15**	**—**	**20**	21	79	—	100
Employer contributions	**3**	**9**	**4**	**16**	5	9	7	21
Benefits paid	**(5)**	**(31)**	**(4)**	**(40)**	(10)	(33)	(7)	(50)
Administration costs	**—**	**(1)**	**—**	**(1)**	—	(1)	—	(1)
Foreign exchange rate changes	**—**	**(10)**	**—**	**(10)**	—	10	—	10
Balance, end of year	**$ 195**	**$ 802**	**$ —**	**$ 997**	$ 187	$ 809	$ —	$ 996
Net post-employment obligation (asset)	**$ 6**	**$ (189)**	**$ 55**	**$ (128)**	$ 18	$ (132)	$ 79	$ (35)

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)	2021 Canada	2021 UK	2021 South America	2021 Total	2020 Canada	2020 UK	2020 South America	2020 Total
Accrued benefit obligation	**$ 60**	**$ —**	**$ 55**	**$ 115**	$ 64	$ —	$ 79	$ 143
Plan assets	**38**	**—**	**—**	**38**	37	—	—	37
Funded status - plan deficit	**$ 22**	**$ —**	**$ 55**	**$ 77**	$ 27	$ —	$ 79	$ 106

Key Assumptions and Related Sensitivities

The significant actuarial assumptions used in the valuations of the Company's DB plans in Canada and UK and Other PEB plans in South America included:

	2021			2020		
For years ended December 31	**Canada**	**UK**	**South America**	Canada	UK	South America
Discount rate – obligation	**3.0%**	**2.0%**	**2.2%**	2.7%	1.4%	(0.2)%
Discount rate – expense [1]	**2.7%**	**1.4%**	**(0.2)%**	3.1%	2.0%	0.4%
Retail price inflation – obligation	**n/m [2]**	**3.0%**	**n/a [2]**	n/m [2]	2.6%	n/a [2]
Retail price inflation – expense [1]	**n/m [2]**	**2.6%**	**n/a [2]**	n/m [2]	3.0%	n/a [2]
Average staff turnover – obligation	**n/m [2]**	**n/m [2]**	**7.8%**	n/m [2]	n/m [2]	7.8%
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, 2021 and 2020.
(2) n/m – not a material assumption used in the valuation.
n/a – not applicable.

Assumptions regarding future mortality are required for the DB plans and were set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions for 2021 and 2020 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 obligation 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 16 years, UK is 19 years, and South America is 7 years. A 0.25% increase in the significant actuarial assumptions would impact the accrued benefit obligations by the amounts shown below.

	Change in	**(Decrease) increase in accrued benefit obligation**					
($ millions)	**assumption**	**Canada**		**UK**		**South America**	
Discount rate	+0.25%	**$**	**(8)**	**$**	**(29)**	**$**	**(1)**
Retail price inflation	+0.25%		**n/m [4]**	**$**	**20**	**$**	**n/a [4]**
Average staff turnover	+0.25%		**n/m [4]**		**n/m [4]**	**$**	**(1)**
Rate of compensation increase	+0.25%		**n/m [4]**		**n/a [4]**	**$**	**1**

(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 accrued benefit obligation in the amounts shown above.

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 DB Plans

In Canada, the Company governs and administers the DB plans. An actuarial valuation of the Canadian registered DB 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 DB plans. A surplus is recognized on the consolidated statement of financial position to the extent that an economic benefit can be gained by the Company.

In the UK, a board of trustees governs and administers the DB plans. An actuarial valuation of the UK DB plan is required every three years. In 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 $8 million to the DB plans during the year ended December 31, 2022. 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, 2020
Canada – Regular & Executive Supplemental Income Plan	December 31, 2020
Finning UK DB Scheme	December 31, 2020
Finning South America Pension Arrangements	December 31, 2019

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 investment funds in their audited financial statements and are determined using inputs that are not based on observable market data (unobservable inputs). Plan assets at December 31, 2021 were principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global [(2)]	UK	Global [(2)]
Fixed-income	51%	—	74%	16%
Equity [(3)]	15%	25%	—	8%
Cash and cash equivalents	9%	—	2%	—

(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, 2021 and 2020.

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 DB in the Canadian registered DB plan by $84 million and a gain of $3 million was recorded in selling, general, and administrative expenses in 2020.

Key Risks

Through its DB 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 is 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 DB 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.

The plans continue to invest in equity investments 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 DB 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 PEB obligations of the Company's operations in Canada, UK [(1)], and South America were as follows:

December 31, 2021 ($ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
DB plans	$ 27	$ 28	$ 95	$ 1,265	$ 1,415
Other PEB benefits	5	3	11	109	128
Total	$ 32	$ 31	$ 106	$ 1,374	$ 1,543

(1) The December 31, 2020 funding valuation of the Finning UK DB Scheme is in progress as at February 8, 2022. In the table above, cash flows for this plan have been taken from the December 31, 2017 funding valuation (the date of the last completed valuation). The Company expects the December 31, 2020 funding valuation will be finalized during 2022.

Accumulated Actuarial Gains and 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 $107 million at December 31, 2021 (December 31, 2020: $159 million).

22. 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 as and measured at amortized cost.

The components of cash and cash equivalents were as follows:

December 31 ($ millions)	2021	2020
Cash	$ 140	$ 222
Cash equivalents	362	317
Cash and cash equivalents	$ 502	$ 539

The changes in operating assets and liabilities were as follows:

For years ended December 31 ($ millions)	2021	2020
Accounts receivable	$ (105)	$ 188
Unbilled receivables	(41)	15
Inventory	(210)	508
Other assets	(70)	3
Accounts payable and accruals	145	(276)
Other liabilities	4	(16)
Changes in operating assets and liabilities	$ (277)	$ 422

The changes in liabilities arising from financing and operating activities were as follows:

For year ended December 31, 2021 ($ millions)	**Short-term debt**	**Long-term debt**	**Lease liabilities**	**Total**
Balance, beginning of year	**$ 92**	**$ 1,308**	**$ 298**	**$ 1,698**
Cash flow used in				
Financing activities	**$ 280**	**$ (201)**	**$ (84)**	**$ (5)**
Operating activities	**—**	**—**	**(10)**	**(10)**
Total cash movements	**$ 280**	**$ (201)**	**$ (94)**	**$ (15)**
Non-cash changes				
Additions	**$ —**	**$ —**	**$ 70**	**$ 70**
Additions through business combination	**3**	**8**	**15**	**26**
Remeasurement of liability and disposals	**—**	**—**	**31**	**31**
Interest expense	**—**	**—**	**10**	**10**
Foreign exchange rate changes	**(1)**	**(4)**	**(2)**	**(7)**
Total non-cash movements	**$ 2**	**$ 4**	**$ 124**	**$ 130**
Balance, end of year	**$ 374**	**$ 1,111**	**$ 328**	**$ 1,813**

For year ended December 31, 2020 ($ millions)	Short-term debt	Long-term debt	Lease liabilities	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
Remeasurement of liability and disposals	—	—	(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

Dividends of $0.86 (2020: $0.82) per share were paid during the year. In February 2022, the Board approved a quarterly dividend of $0.225 per share payable on March 10, 2022 to shareholders of record on February 24, 2022. This dividend will be considered an eligible dividend for Canadian income tax purposes. At December 31, 2021, the Company had not recognized a liability for this dividend.

23. ACQUISITIONS AND INVESTMENT

Accounting Policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or 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 identifiable net assets acquired is recorded as goodwill. Acquisition-related costs are expensed as incurred.

Compression Technology Corporation

On September 3, 2021, the Company's Canadian operations acquired a 54.5% controlling ownership interest in Compression Technology Corporation (ComTech) through Finning's subsidiary, 4Refuel Holdings Limited (4Refuel). ComTech is an early-stage developer of alternative energy infrastructure and provider of proprietary mobile fuelling solutions for low-carbon fuels in North America, including compressed natural gas (CNG), renewable natural gas (RNG), and hydrogen. ComTech provides 4Refuel with the capability to be a leading provider of turn-key, low-carbon energy solutions. This acquisition expands the Company's fuelling capabilities beyond diesel and allows the Company to support customers' energy transition journey, starting with solutions for CNG and RNG. This investment in ComTech leverages 4Refuel's leading mobile on-site refuelling platform to enable customers to reduce their emissions and improve productivity.

Cash consideration for this acquisition was $25 million, which included $20 million cash acquired. The acquisition was funded with cash on hand. Net assets acquired consist primarily of cash, property, plant, and equipment, intangible assets, goodwill, and debt. As part of this acquisition, Finning also recorded a non-controlling interest in ComTech (45.5% ownership interest) of $21 million.

The acquisition-date fair values of acquired tangible and intangible assets, and assumed liabilities are estimated to be:

Preliminary purchase price allocation ($ millions)	December 31, 2021
Net working capital [(1)]	$ 21
Property, plant & equipment	17
Intangible assets	9
Goodwill	25
Debt	(11)
Lease liabilities	(15)
Net identifiable assets	$ 46
Non-controlling interests	(21)
Net assets acquired	$ 25

(1) Net working capital comprises cash and cash equivalents, accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

The Company expects to finalize the purchase price allocation no later than June 30, 2022.

Goodwill relates to the expected synergies from combining complementary capabilities and the expected growth potential for natural gas in Canada and the US. The goodwill is assigned to the Company's Canada reportable segment and is not deductible for tax purposes.

Energyst B.V.

Energyst B.V. (Energyst) was the Caterpillar dealer in Europe for rental power and temperature control solutions. In December 2020, the shareholders of Energyst, which included Finning, decided to restructure the company and convert its rental activities into four separate regional organizations which were sold in January 2021. A plan is in place to sell any remaining assets and wind-up Energyst, with the net proceeds from the sale to be distributed to Energyst's shareholders. During the year ended December 31, 2021, the Company received a return on its investment in Energyst.

On January 7, 2021, the Company's UK & Ireland operations acquired a 100% ownership interest in the Energyst rental business operations in the UK and Ireland, one of the four regional organizations, and is now the authorized supplier of rental services for Caterpillar power generation in these territories. This purchase has been accounted for as a business combination using the acquisition method of accounting.

Cash consideration of $14 million (€9 million) was paid at the date of acquisition, which included $1 million cash acquired. The Company funded the transaction with cash on hand.

The acquisition-date fair values of acquired tangible and intangible assets, and assumed liabilities are estimated to be:

Final purchase price allocation ($ millions)	December 31, 2021
Net working capital [1]	$ 3
Rental equipment	9
Property, plant & equipment	1
Deferred tax asset	1
Net assets acquired	$ 14

[1] Net working capital comprises cash and cash equivalents, accounts receivable, inventory, other assets, accounts payable and accruals, and provisions.

24. 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.

25. 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)	**2021**	2020
Share-based payments	**$ 6**	5
Total	**$ 6**	$ 5

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)	**2021**	2020
Salaries and benefits	**$ 10**	$ 10
Post-employment benefits	**1**	1
Share-based payments	**13**	6
Total	**$ 24**	$ 17

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are $1.0 billion (2020: $0.9 billion). This amount includes staff costs associated with key management personnel noted above.

26. 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, 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 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 animal feed product for five quarters in 2012 and 2013 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, believes they are without merit, and is confident in its position. Mitigation measures are also available to the Company in the case of the potential imports suspension order in the unlikely event Finning's appeal is not successful. 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.

27. GUARANTEES AND INDEMNIFICATIONS

In certain circumstances, the Company enters into contracts with rights of return (at the customer's discretion) 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. At December 31, 2021, the total estimated value of these contracts outstanding was $146 million (2020: $139 million) coming due at periods ranging from 2022 to 2026. The Company's experience to date has been that the equipment at the exercise date of the contract is generally worth more 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, 2021 was $2 million (2020: $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. At December 31, 2021, the maximum potential amount of future payments that the Company could be required to make under the guarantees was $12 million (2020:12 million), covering various periods up to 2025. At December 31, 2021, the Company has recognized a liability of $4 million for these guarantees (2020: $5 million).

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, 2021 was $193 million (2020: $134 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.