



**FINNING<sup>®</sup>**

2019

**FINNING INTERNATIONAL INC.**

Financial report

## MANAGEMENT'S DISCUSSION AND ANALYSIS

February 11, 2020

This **MD&A** of **Finning** should be read in conjunction with the **Annual Financial Statements** and the accompanying notes thereto for the year ended December 31, 2019, which have been prepared in accordance with **IFRS**. All dollar amounts presented in this MD&A are expressed in **CAD**, unless otherwise stated. Additional information relating to the **Company**, including its current **AIF**, can be found under the Company's profile on the **SEDAR** website at [www.sedar.com](http://www.sedar.com) and in the investors section of the Company's website at [www.finning.com](http://www.finning.com).

Finning (**TSX:FTT**) is the world's largest **Caterpillar** equipment dealer delivering service to customers for over 85 years. The Company sells, rents, and provides parts and service for equipment and engines to customers in various industries, including mining, construction, petroleum, forestry, and a wide range of power systems applications. Finning aims to consistently deliver solutions that enable customers to achieve the lowest equipment owning and operating costs while maximizing uptime.

Effective January 1, 2019, the Company adopted IFRS 16, **Leases**. Details of the impact of IFRS 16 for the date of initial application at January 1, 2019 can be found in Note 2 of the Company's Annual Financial Statements. The 2018 comparative results described in this MD&A have not been restated for the adoption of this standard.

Effective February 1, 2019, the Company acquired **4Refuel** and includes 4Refuel's results in the Company's Canadian reportable segment. For additional information regarding the acquisition, see the heading "Acquisition" on page 11 of this MD&A. The results described in this MD&A include the results of 4Refuel from the acquisition date.

Following the acquisition of 4Refuel, management views total revenue less cost of fuel (net revenue <sup>(2)</sup>) as more representative in assessing the performance of the business as the cost of fuel is fully passed through to the customer and is not in the Company's control. The Company's results and non-**GAAP** financial measures, including **KPIs** and ratios, previously reported or calculated using total revenue now use net revenue in this MD&A. For 2019 results of the Company's South American and **UK & Ireland** operations, net revenue is the same as total revenue. For 2018 results of all operations in this MD&A, net revenue is the same as total revenue.

**A glossary of defined terms is included on page 54. The first time a defined term is used, it is shown in bold italics.**

### 2019 Annual Highlights

- Basic **EPS** in 2019 was \$1.48 per share and in 2018 was \$1.38 per share. Results in both years include items which management does not consider indicative of operational and financial trends. In 2019, these items included severance and restructuring costs, tax impact of the significant devaluation of the **ARS**, and acquisition costs related to 4Refuel. In 2018, these items included the write-off of the Company's investment in **Energyst**, tax impact of the significant devaluation of the **ARS**, and insurance proceeds related to the 2016 Alberta wildfires. Excluding these items, which are described on pages 5 and 6, Adjusted basic EPS <sup>(1)(2)</sup> of \$1.65 per share in 2019 was the same as in 2018.
- Revenue was \$7.8 billion in 2019 and \$7.0 billion in 2018. Net revenue of \$7.3 billion was up 4% from 2018, primarily due to higher product support revenue in all of the Company's operations and higher new equipment sales in the Company's Canadian operations.
- 2019 **EBIT** was \$425 million and in 2018 was \$423 million. Adjusted EBIT <sup>(1)(2)</sup> of \$457 million in 2019 was 2% higher than Adjusted EBIT of \$446 million in 2018. The improvement in Adjusted EBIT was primarily due to the Company's Canadian operations.
- Adjusted **EBITDA** <sup>(1)(2)</sup> of \$750 million was 19% higher than 2018 Adjusted EBITDA of \$633 million. The increase in Adjusted EBITDA was largely due to the Company's adoption of IFRS 16. Adjusted EBITDA as a percentage of net revenue <sup>(1)(2)</sup> in 2019 of 10.3% was higher than the 2018 Adjusted EBITDA as a percentage of net revenue of 9.0%.
- 2019 Adjusted **ROIC** <sup>(1)(2)</sup> of 12.0% was lower than 2018 Adjusted ROIC of 13.5% primarily due to lower invested capital turnover in all of the Company's operations.

(1) Certain 2019 and 2018 financial metrics were impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 5 and 6 of this MD&A and the financial metrics which have been adjusted to take into account these items are referred to as "Adjusted" metrics.

(2) These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 38 - 49 of this MD&A.

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## Strategic Framework

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

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

### STRATEGIC PILLARS



### OUR PURPOSE

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

### OUR VISION

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

### OUR VALUES

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

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

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

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

### Strategic Focus Areas

In 2019, Finning identified certain focus areas to support our strategy: to capture growth in mining and construction industries through market leadership and to improve performance through transforming service, accelerating supply chain capabilities and lowering the cost to serve. Our decisions about capital investments and allocation of resources are focused on initiatives that we believe best align with our Global Strategic Priorities and our strategic areas of focus.

### Sustainability

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

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

In 2018, we conducted a gap analysis of our sustainability practices to make sure they align with our peers, and with internationally recognized guidelines and best practices. Based on the gap analysis, we defined metrics and focus areas for the next five years.

The full 2018 Sustainability Report, including the five-year roadmap and performance summary, can be found in the sustainability section of the Company's website at [www.finning.com](http://www.finning.com).

## 2019 Annual Overview

(\$ millions, except per share amounts)	2019	2018 <sup>(1)</sup>	% change <i>fav (unfav)</i>
Revenue	\$ 7,817	\$ 6,996	12%
Net revenue	\$ 7,290	\$ 6,996	4%
Gross profit	\$ 1,799	\$ 1,768	2%
<b>SG&amp;A</b>	<b>(1,360)</b>	<b>(1,327)</b>	<b>(2)%</b>
Equity earnings of joint ventures and associate	15	12	21%
Other expenses	(29)	(30)	<i>n/m</i>
EBIT	\$ 425	\$ 423	0%
Net income	\$ 242	\$ 232	4%
Basic EPS	\$ 1.48	\$ 1.38	7%
EBITDA <sup>(2)</sup>	\$ 718	\$ 610	18%
Free cash flow <sup>(2)</sup>	\$ 42	\$ 78	(46)%
Adjusted EBIT	\$ 457	\$ 446	2%
Adjusted net income <sup>(2)(3)</sup>	\$ 269	\$ 277	(3)%
Adjusted basic EPS	\$ 1.65	\$ 1.65	0%
Adjusted EBITDA	\$ 750	\$ 633	19%
<i>Gross profit as a % of net revenue <sup>(2)</sup></i>	<b>24.7%</b>	<b>25.3%</b>	
<i>SG&amp;A as a % of net revenue <sup>(2)</sup></i>	<b>18.7%</b>	<b>19.0%</b>	
<i>EBIT as a % of net revenue <sup>(2)</sup></i>	<b>5.8%</b>	<b>6.0%</b>	
<i>EBITDA as a % of net revenue <sup>(2)</sup></i>	<b>9.9%</b>	<b>8.7%</b>	
<i>Adjusted EBIT as a % of net revenue <sup>(2)</sup></i>	<b>6.3%</b>	<b>6.4%</b>	
<i>Adjusted EBITDA as a % of net revenue</i>	<b>10.3%</b>	<b>9.0%</b>	
<i>Adjusted ROIC</i>	<b>12.0%</b>	<b>13.5%</b>	

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

<sup>(2)</sup> These are "non-GAAP financial measures" that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 38 - 49 of this MD&A.

<sup>(3)</sup> Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 5 and 6 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics.

## Adjusted Metrics

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Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these are referred to as “Adjusted metrics”. Adjusted metrics are considered non-GAAP financial measures and do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these Adjusted metrics to their most directly comparable measure under GAAP, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” on pages 38 - 49 of this MD&A.

Significant items that affected reported annual 2019 and 2018 results, which are not considered by management to be indicative of operational and financial trends, either by nature or amount, were:

### 2019 significant items:

- Severance costs related to workforce reductions and restructuring costs related to facility closures in the Company’s Canadian and South American operations as the Company aligned its cost structure to market activity to drive improved operating efficiencies.
- The ARS experienced a significant devaluation in the third quarter of 2019 reaching a new historic low of \$1 **USD** to 60.1 ARS and losing approximately 35% of its value (annual devaluation of approximately 60%) due to the economic and business uncertainty following the primary elections in Argentina and the imposition of restrictive monetary policies by the Argentina government. This devaluation resulted in higher tax expense due to the revaluation of deferred taxes in September 2019.
- Acquisition costs related to the purchase of 4Refuel.

### 2018 significant items:

- Following the Company’s review of its investment in Energyst, it was determined that Energyst was no longer a strategic fit and it was held-for-sale at September 30, 2018. As a result, the Company wrote off its investment and also released cumulative foreign translation losses to the income statement upon Energyst’s sale of its wholly-owned subsidiary in Argentina in 2018.
- The ARS experienced a rapid devaluation in 2018, losing approximately 45% of its value in the third quarter of 2018 (annual devaluation of approximately 100%) and reaching a historic low (at that time) of \$1 USD to 41.25 ARS in September 2018. This devaluation resulted in higher tax expense primarily relating to the revaluation of deferred tax balances.
- Insurance proceeds received in 2018 related to the final settlement of the Company’s business interruption insurance claim resulting from the Alberta wildfires in 2016.

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

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

For year ended December 31, 2018 <sup>(1)</sup> (\$ millions, except per share amounts)	EBIT				Net Income	EPS
	Canada	South America	UK & Ireland	Consol	Consol	Consol
EBIT, net income, and basic EPS	\$ 297	\$ 142	\$ 51	\$ 423	\$ 232	\$ 1.38
Significant items:						
Write-off and loss related to Energyst	—	—	—	30	30	0.18
Tax impact of devaluation of ARS	—	—	—	—	20	0.12
Insurance proceeds from Alberta wildfires	(7)	—	—	(7)	(5)	(0.03)
Adjusted EBIT, Adjusted net income, and Adjusted basic EPS	\$ 290	\$ 142	\$ 51	\$ 446	\$ 277	\$ 1.65

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

## Annual Key Performance Measures

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

For years ended December 31	2019	2018 <sup>(1)</sup>	2017 (Restated) <sup>(1)(2)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
ROIC <sup>(3)</sup> (%)					
Consolidated	11.2%	12.8%	13.1%	5.6%	(3.0)%
Canada	13.7%	16.6%	13.3%	5.3%	5.5%
South America	9.6%	12.2%	17.8%	13.3%	(12.8)%
UK & Ireland	12.1%	14.2%	12.8%	(4.5)%	(1.4)%
EBIT <sup>(3)</sup> (\$ millions)					
Consolidated	425	423	392	165	(105)
Canada	296	297	225	87	98
South America	120	142	184	137	(174)
UK & Ireland	46	51	37	(12)	(5)
EBIT as a % of net revenue <sup>(3)</sup>					
Consolidated	5.8%	6.0%	6.3%	2.9%	(1.7)%
Canada	7.5%	8.1%	7.3%	3.1%	3.1%
South America	5.4%	6.6%	8.5%	7.4%	(8.4)%
UK & Ireland	4.1%	4.4%	3.6%	(1.1)%	(0.5)%
EBITDA <sup>(3)</sup> (\$ millions)					
Consolidated	718	610	576	357	126
Canada	470	393	324	187	219
South America	201	204	242	199	(92)
UK & Ireland	82	79	63	18	23
EBITDA as a % of net revenue <sup>(3)</sup>					
Consolidated	9.9%	8.7%	9.2%	6.3%	2.0%
Canada	12.0%	10.7%	10.6%	6.6%	7.0%
South America	9.0%	9.4%	11.2%	10.7%	(3.3)%
UK & Ireland	7.2%	6.9%	6.1%	2.0%	2.3%
Invested Capital <sup>(4)</sup> (\$ millions)					
Consolidated	3,591	3,163	2,830	2,797	3,240
Canada	2,026	1,675	1,621	1,595	1,760
South America	1,192	1,190	983	996	1,122
UK & Ireland	361	336	250	216	321
Invested Capital Turnover <sup>(4)</sup> (times)					
Consolidated	1.92x	2.12x	2.09x	1.90x	1.78x
Canada	1.81x	2.05x	1.82x	1.70x	1.74x
South America	1.78x	1.86x	2.09x	1.80x	1.52x
UK & Ireland	2.98x	3.22x	3.56x	3.54x	2.93x
Inventory (\$ millions)					
	1,990	2,061	1,708	1,601	1,800
Inventory Turns (Dealership) <sup>(4)</sup> (times)					
	2.53x	2.68x	2.82x	2.49x	2.38x
Working Capital <sup>(4)</sup> to Net Revenue <sup>(4)</sup>					
	27.8%	26.6%	27.4%	30.4%	32.2%
Free Cash Flow (\$ millions)					
	42	78	165	370	325
Net Debt <sup>(4)</sup> to EBITDA Ratio <sup>(3)(4)</sup>					
	2.1	1.7	1.5	2.5	9.5

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

(2) The 2017 comparative results in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

(3) Certain of these reported financial metrics have been impacted in some years in this table by significant items management does not consider indicative of operational and financial trends either by nature or amount. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics and are summarized on page 8 of this MD&A.

(4) These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 38 - 49 of this MD&A.



## Annual Adjusted KPIs

KPIs may be impacted by significant items described on pages 5 and 6 and 39 - 42 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as “Adjusted” KPIs and were as follows:

For years ended December 31	2019	2018 <sup>(1)</sup>	2017 (Restated) <sup>(1)(2)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
Adjusted ROIC (%)					
Consolidated	12.0 %	13.5 %	13.1 %	9.3 %	10.9 %
Canada	14.4 %	16.2 %	13.2 %	9.3 %	10.6 %
South America	10.5 %	12.2 %	18.1 %	15.0 %	14.0 %
UK & Ireland	12.1 %	14.2 %	12.8 %	5.9 %	9.0 %
Adjusted EBIT (\$ millions)					
Consolidated	457	446	393	273	383
Canada	313	290	224	154	189
South America	131	142	186	155	190
UK & Ireland	46	51	37	16	33
Adjusted EBIT as a % of net revenue					
Consolidated	6.3 %	6.4 %	6.3 %	4.9 %	6.1 %
Canada	8.0 %	7.9 %	7.3 %	5.5 %	6.1 %
South America	5.9 %	6.6 %	8.7 %	8.4 %	9.2 %
UK & Ireland	4.1 %	4.4 %	3.6 %	1.8 %	3.1 %
Adjusted EBITDA (\$ millions)					
Consolidated	750	633	577	465	604
Canada	487	386	323	254	305
South America	212	204	244	217	267
UK & Ireland	82	79	63	46	61
Adjusted EBITDA as a % of net revenue					
Consolidated	10.3 %	9.0 %	9.2 %	8.3 %	9.6 %
Canada	12.4 %	10.5 %	10.5 %	9.0 %	9.8 %
South America	9.5 %	9.4 %	11.3 %	11.7 %	12.9 %
UK & Ireland	7.2 %	6.9 %	6.1 %	4.8 %	5.7 %
Net Debt to Adjusted EBITDA Ratio <sup>(3)(4)(5)</sup>	2.0	1.7	1.5	1.9	2.0

- (1) Comparative results prior to Q1 2019 have not been restated for the Company's adoption of IFRS 16, *Leases* effective for the financial year beginning January 1, 2019.
- (2) The 2017 comparative results in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.
- (3) Reported financial metrics may be impacted by significant items management does not consider indicative of operational and financial trends either by nature or amount; these significant items are described on pages 39 - 42 of this MD&A. Financial metrics that have been adjusted to take into account these items are referred to as “Adjusted” metrics.
- (4) Of the significant items described on pages 39 - 42 of this MD&A, \$10 million was recorded in depreciation and amortization expense in 2015.
- (5) These financial metrics, referred to as “non-GAAP financial measures” do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading “Description of Non-GAAP Financial Measures and Reconciliations” on pages 38 - 49 of this MD&A.

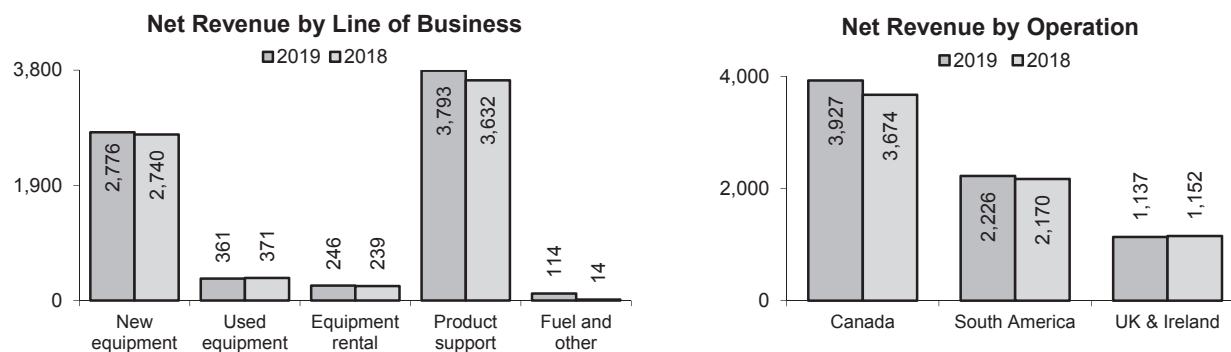
## Annual Results

### Revenue

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

For years ended December 31

(\$ millions)



The Company generated revenue of \$7.8 billion and net revenue of \$7.3 billion during 2019. Net revenue increased 4% from the prior year primarily due to higher revenues in the Company's Canadian operations, contributing over 85% of the overall revenue growth.

Product support revenue was 4% higher compared to 2018, up in all operations, driven primarily by the Company's South American and Canadian operations, with strong activity in the mining sector partially offset by lower demand in the construction sector.

New equipment revenue also increased from 2018, mostly due to higher revenue in the Company's Canadian operations, partially offset by lower new equipment sales in the Company's South American and UK & Ireland operations. Higher new equipment revenue in 2019 reflected increased volumes in the mining sectors across all of the Company's operations partially offset by lower demand in the power systems sectors of the Company's South American and UK & Ireland operations.

Equipment backlog <sup>(1)</sup> was approximately \$700 million at December 31, 2019, down from \$1.3 billion at December 31, 2018 reflecting strong equipment deliveries that exceeded order intake, particularly in the Company's Canadian operations.

#### EBIT and EBITDA

2019 gross profit of \$1.8 billion was up 2% compared to 2018, in line with higher volumes from improved market activity. Gross profit as a percentage of net revenue of 24.7% was slightly lower than the 25.3% earned in 2018, due to lower margins in most lines of business.

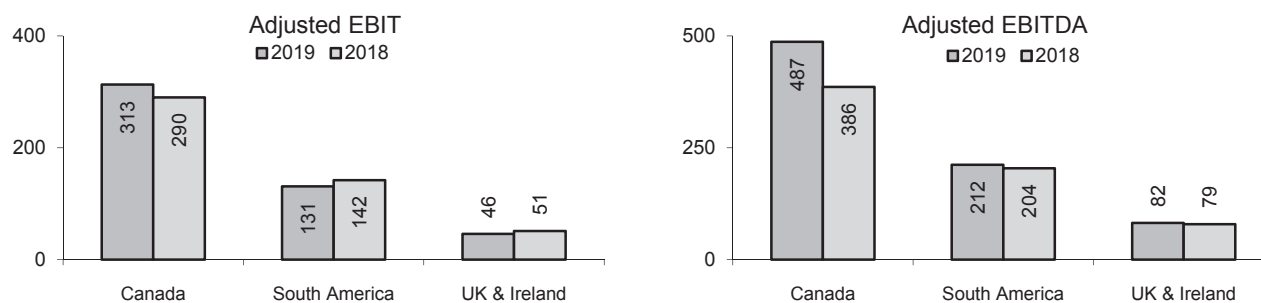
SG&A of \$1.4 billion in 2019 included \$3 million of severance and restructuring costs recorded in the Company's South American operations. 2018 SG&A of \$1.3 billion included \$7 million of insurance proceeds received by the Company's Canadian operations in relation to the business interruption insurance claim resulting from the Alberta wildfires. Excluding the severance and restructuring costs and the insurance proceeds, 2019 SG&A was up 2% from 2018 on 4% higher net revenues, largely due to additional SG&A from 4Refuel partially offset by lower SG&A from the Company's South American operations.

<sup>(1)</sup> These are non-GAAP financial measures that do not have a standardized meaning under IFRS, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definition, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 38 - 49 of this MD&A.

## Adjusted EBIT and Adjusted EBITDA by Operation <sup>(1)(2)</sup>

For years ended December 31

(\$ millions)



(1) Excluding Other Operations

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

The Company reported EBIT of \$425 million in 2019 compared to \$423 million earned in 2018. EBIT as a percentage of net revenue was 5.8% in 2019 compared to 6.0% in 2018. Results were affected by significant items management does not consider indicative of operational and financial trends as described on pages 5 and 6 of this MD&A. Excluding these significant items, 2019 Adjusted EBIT was \$457 million and Adjusted EBIT as a percentage of net revenue was 6.3%, higher than Adjusted EBIT of \$446 million and slightly lower than Adjusted EBIT as a percentage of net revenue of 6.4% in the prior year.

2019 Adjusted EBITDA was \$750 million and Adjusted EBITDA as a percentage of net revenue was 10.3%, higher than Adjusted EBITDA of \$633 million and Adjusted EBITDA as a percentage of net revenue of 9.0% for the prior year. Adjusted EBITDA was higher by approximately \$85 million due to the Company's adoption of IFRS 16 because lease costs previously recognized as operating expense are now recorded as depreciation and interest expense, as well as from the contribution from 4Refuel.

The net debt to Adjusted EBITDA ratio at December 31, 2019 was 2.0x, higher compared to net debt to Adjusted EBITDA ratio of 1.7x at December 31, 2018 due to higher average net debt levels.

### Finance Costs

Finance costs in 2019 were \$107 million, higher than the \$76 million reported in 2018 due to higher average short-term debt levels in part to fund the acquisition of 4Refuel as well as approximately \$10 million higher interest on lease liabilities from the Company's adoption of IFRS 16 in 2019.

### Provision for Income Taxes

Income tax expense for the year ended December 31, 2019 was \$76 million compared to \$115 million in 2018. The effective income tax rate for 2019 was 24.0%, compared to 33.1% in the prior year. The higher tax rate in 2018 was primarily due to the non-deductibility, for tax purposes, of the write-off and foreign translation losses related to the Company's investment in Energyst. In addition, tax expense was higher in both years due to the impact of the significant devaluation of the ARS relative to the USD, primarily relating to the revaluation of deferred tax balances. Excluding these items, the effective income tax rate would have been 23.0% and 25.0% for 2019 and 2018, respectively. This lower effective income tax rate in 2019 was primarily due to tax rate changes announced in Alberta in May 2019 resulting in a one-time positive revaluation of the Company's deferred tax balances.

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

### Net Income and Basic EPS

Net income was \$242 million and basic EPS was \$1.48 per share in 2019 compared to \$232 million and \$1.38 per share, respectively, in 2018. Excluding the significant items noted on pages 5 and 6, Adjusted basic EPS in 2019 of \$1.65 per share was the same as in 2018.

## Acquisition

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On February 1, 2019, the Company acquired the Canadian and **US** operations of 4Refuel. 4Refuel is a mobile on-site refueling service provider with operations in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, as well as in Texas, US. This acquisition is aligned with the Company's strategic objective of growth and diversification and is expected to generate synergies by providing the Company's Canadian dealership operations with opportunities to sell, rent, and service a new customer base and 4Refuel with opportunities to sell to an expanded customer base and improve customer service.

Cash consideration of \$241 million was paid for the acquisition. The Company funded the transaction with cash on hand and from existing credit facilities. Effective February 1, 2019, the Company acquired \$44 million of net working capital <sup>(1)</sup>, \$42 million of property, plant, and equipment, and \$215 million of intangible assets and goodwill and assumed \$60 million of lease liabilities and deferred tax liabilities.

Acquisition costs of approximately \$4 million are included in the annual 2019 results.

The results of the acquired business since the date of acquisition have been included in the Company's Canadian operations reportable segment. 4Refuel contributed approximately \$635 million of revenue (\$108 million of net revenue) in the year ended December 31, 2019.

<sup>(1)</sup> Net working capital acquired from the acquisition of 4Refuel comprises cash, receivables, other assets, and payables

## Invested Capital

(\$ millions, unless otherwise stated)	December 31, 2019	September 30, 2019	Decrease from September 30, 2019	December 31, 2018	Increase from December 31, 2018
Consolidated	\$ 3,591	\$ 3,907	\$ (316)	\$ 3,163	\$ 428
Canada	\$ 2,026	\$ 2,209	\$ (183)	\$ 1,675	\$ 351
South America	\$ 1,192	\$ 1,276	\$ (84)	\$ 1,190	\$ 2
UK & Ireland	\$ 361	\$ 416	\$ (55)	\$ 336	\$ 25
<i>South America (USD)</i>	\$ 918	\$ 964	\$ (46)	\$ 872	\$ 46
<i>UK &amp; Ireland (GBP)</i>	£ 210	£ 256	£ (46)	£ 193	£ 17

### Compared to September 30, 2019:

The \$316 million decrease in consolidated invested capital from September 30, 2019 to December 31, 2019 includes a foreign exchange impact of approximately \$5 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 2% stronger CAD relative to the USD partially offset by the 5% weaker CAD relative to the GBP at December 31, 2019 compared to the rates at September 30, 2019.

Excluding the impact of foreign exchange, consolidated invested capital decreased by \$310 million from September 30, 2019 to December 31, 2019 reflecting:

- a decrease in inventory in all operations, particularly new equipment inventory in the Company's Canadian and UK & Ireland operations and parts inventory in the Company's South American operations; and,
- lower accounts receivables, particularly in the Company's South American operations.

### Compared to December 31, 2018:

The increase of \$428 million in consolidated invested capital from December 31, 2018 to December 31, 2019 includes a foreign exchange impact of approximately \$65 million in translating the invested capital balances of the Company's South American and UK & Ireland operations. The foreign exchange impact was primarily the result of the 5% stronger CAD relative to the USD at December 31, 2019 compared to the rates at December 31, 2018.

Excluding the impact of foreign exchange, consolidated invested capital increased by \$495 million from December 31, 2018 to December 31, 2019 reflecting:

- an increase in net assets from the 2019 acquisition of 4Refuel;
- higher unbilled receivables, primarily in the Company's South American operations; and,
- a decline in deferred revenues, primarily in the Company's Canadian and UK & Ireland operations;
- partially offset by higher accounts payable, particularly in the Company's Canadian and UK & Ireland operations.

## Adjusted ROIC and Invested Capital Turnover

	December 31, 2019	September 30, 2019	December 31, 2018 <sup>(1)</sup>
<b>Adjusted ROIC</b>			
Consolidated	12.0 %	12.2 %	13.5 %
Canada	14.4 %	15.0 %	16.2 %
South America	10.5 %	9.0 %	12.2 %
UK & Ireland	12.1 %	14.1 %	14.2 %
<b>Invested Capital Turnover (times)</b>			
Consolidated	1.92x	1.99x	2.12x
Canada	1.81x	1.91x	2.05x
South America	1.78x	1.77x	1.86x
UK & Ireland	2.98x	3.18x	3.22x

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

### Adjusted ROIC

On a consolidated basis, Adjusted ROIC at December 31, 2019 of 12.0% was lower than Adjusted ROIC at December 31, 2018 of 13.5% and was down across all operations.

#### Canadian Operations

- Adjusted ROIC at December 31, 2019 in the Company's Canadian operations was lower than December 31, 2018 levels as growth in Adjusted EBIT in 2019 was outpaced by the growth in average invested capital levels in the twelve-month period.

#### South American Operations

- Lower Adjusted ROIC at December 31, 2019 compared to December 31, 2018 levels reflects lower earnings primarily in the first half of 2019 with slightly higher average invested capital levels.

#### UK & Ireland Operations

- Adjusted ROIC at December 31, 2019 in the Company's UK & Ireland operations was lower than December 31, 2018 levels due to slightly lower Adjusted EBIT from operating results as well as higher average invested capital levels.

### Invested capital turnover

Consolidated invested capital turnover at December 31, 2019 was 1.92 times, down from 2.12 times at December 31, 2018, driven by an increase in average invested capital levels, which outpaced net revenue growth in the Company's Canadian and South American operations. Average invested capital levels increased with relatively flat net revenues in 2019 compared to 2018 in the Company's UK & Ireland operations.

## Annual Results by Reportable Segment

The Company and its subsidiaries operate primarily in one principal business: the sale, service, and rental of heavy equipment, engines, and related products in various markets worldwide as described on pages 15 - 18. Finning's reportable segments are Canada, South America, UK & Ireland, and Other operations.

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

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

For year ended December 31, 2018		South	UK		Net Revenue
(\$ millions)	Canada	America	& Ireland	Consol	%
New equipment	\$ 1,288	\$ 714	\$ 738	\$ 2,740	39%
Used equipment	233	54	84	371	5%
Equipment rental	154	50	35	239	4%
Product support	1,997	1,348	287	3,632	52%
Other	2	4	8	14	—
Net revenue	\$ 3,674	\$ 2,170	\$ 1,152	\$ 6,996	100%
Net revenue % by operation	53%	31%	16%	100%	

## Canada Operations

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

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

For years ended December 31 (\$ millions)	2019	2018 <sup>(1)</sup>
Net revenue	\$ 3,927	\$ 3,674
Operating costs	(3,455)	(3,297)
Equity earnings of joint ventures	15	16
Other expenses	(17)	—
EBITDA	\$ 470	\$ 393
Depreciation and amortization	(174)	(96)
EBIT	\$ 296	\$ 297
EBITDA as a % of net revenue	12.0%	10.7%
EBIT as a % of net revenue	7.5%	8.1%
Adjusted EBITDA	\$ 487	\$ 386
Adjusted EBITDA as a % of net revenue	12.4%	10.5%
Adjusted EBIT	\$ 313	\$ 290
Adjusted EBIT as a % of net revenue	8.0%	7.9%

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

Net revenue of \$3.9 billion in 2019 increased 7% from last year, primarily driven by higher new equipment and product support revenues, as well as the \$108 million contribution from 4Refuel. The net revenue increase was primarily driven by higher activity in the mining sector partially offset by lower demand for product support in the construction sector.

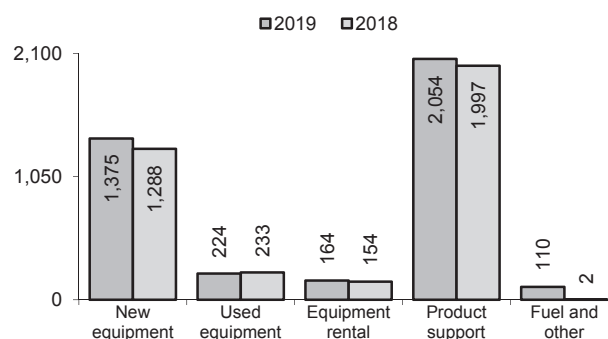
New equipment revenue in 2019 was up 7% from 2018, due to increased demand from mining and construction customers. Significant equipment deliveries in 2019 exceeded order intake<sup>(1)</sup> in the year resulting in lower equipment backlog levels at December 31, 2019 than December 31, 2018.

Product support revenue was 3% higher than last year, driven by increased activity in the mining sector in the first half of 2019, partially offset by lower demand in the construction sector due to fewer major projects commencing in 2019.

Gross profit in 2019 was higher than the prior year, reflecting strong product support and new equipment volumes. Overall gross profit as a percentage of net revenue in 2019 was comparable to the same prior year period on a similar revenue mix.

### Canada – Net Revenue by Line of Business

For years ended December 31  
(\$ millions)



<sup>(1)</sup> These financial metrics, referred to as "non-GAAP financial measures" do not have a standardized meaning under IFRS, which are also referred to herein as GAAP, and therefore may not be comparable to similar measures presented by other issuers. For additional information regarding these financial metrics, including definitions and reconciliations from each of these non-GAAP financial measures to their most directly comparable measure under GAAP, where available, see the heading "Description of Non-GAAP Financial Measures and Reconciliations" on pages 38 - 49 of this MD&A.



SG&A in 2018 included the favourable impact of \$7 million of insurance proceeds received in relation to the Company's business interruption insurance claim resulting from the Alberta wildfires in 2016. Excluding this significant item, SG&A in 2019 was 7% higher compared to the same period in 2018 due to additional SG&A from 4Refuel. SG&A relative to net revenue in the Company's Canadian operations was comparable to 2018. In Finning (Canada), SG&A was slightly lower on 4% higher net revenues through effective cost management and disciplined spending, as well as lower people-related costs from restructuring initiatives commencing in Q1 2019.

Adjusted EBITDA of \$487 million in 2019 increased from \$386 million earned in the prior year. 2019 Adjusted EBITDA included approximately \$60 million from the Company's adoption of IFRS 16, a positive contribution from 4Refuel, and higher operating results from Finning (Canada). Adjusted EBITDA as a percentage of net revenue was 12.4% in 2019, an improvement of 190 basis points from 10.5% in 2018.

## South America Operations

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

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

For years ended December 31 (\$ millions)	2019	2018 <sup>(1)</sup>
Net revenue	\$ 2,226	\$ 2,170
Operating costs	(2,017)	(1,966)
Other expenses	(8)	—
EBITDA	\$ 201	\$ 204
Depreciation and amortization	(81)	(62)
EBIT	\$ 120	\$ 142
EBITDA as a % of net revenue	9.0%	9.4%
EBIT as a % of net revenue	5.4%	6.6%
Adjusted EBITDA	\$ 212	\$ 204
Adjusted EBITDA as a % of net revenue	9.5%	9.4%
Adjusted EBIT	\$ 131	\$ 142
Adjusted EBIT as a % of net revenue	5.9%	6.6%

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

Net revenue of \$2.2 billion for the year ended December 31, 2019 was up 3% from the prior year (comparable year over year in functional currency). Higher product support revenue was partially offset by lower new equipment revenue.

The weaker CAD relative to the USD on average in 2019 compared to 2018 had a favourable foreign currency translation impact on net revenue of approximately \$50 million and was not significant at the EBITDA level.

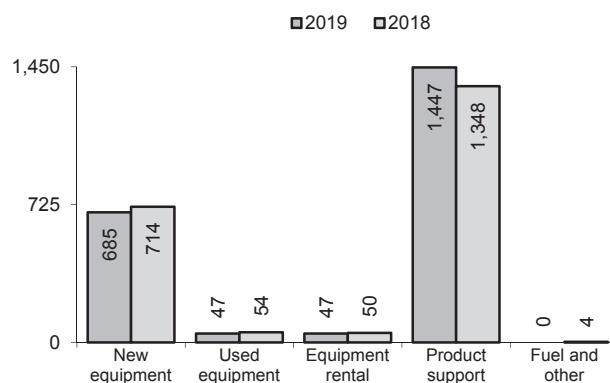
Product support revenue was up 7% compared to last year (up 5% in functional currency) primarily due to increased demand in the Chile mining sector as well as in Argentina despite its challenging economic environment.

2019 new equipment revenue was 4% lower than 2018 (down 6% in functional currency), predominantly driven by lower new equipment sales in Argentina partially offset by higher activity in the mining and construction sectors in Chile. Equipment backlog at December 31, 2019 was up from December 31, 2018 primarily in the construction and mining sectors, with order intake outpacing deliveries in 2019.

Gross profit and gross profit as a percentage of net revenue were lower than 2018, largely driven by higher costs to meet customer requirements during the post-**ERP** implementation period.

### South America – Net Revenue by Line of Business

For years ended December 31  
(\$ millions)



In functional currency, SG&A for 2019 was 7% lower compared to 2018. Excluding severance and restructuring costs described on pages 5 and 6, SG&A in 2019 was 8% lower and SG&A relative to net revenue was down 160 basis points compared to the same period in 2018. The decrease was due in large part to effective cost management, the realization of benefits from restructuring activities undertaken in the year, and the benefit of a weaker **CLP** and **ARS** relative to the USD when translating local currency costs to USD in 2019.

For 2019, the Company's South American operations contributed Adjusted EBITDA of \$212 million and Adjusted EBITDA as a percentage of net revenue of 9.5% compared to \$204 million and 9.4% respectively in 2018. In functional currency, Adjusted EBITDA for 2019 was 1% higher than the same period in the prior year in spite of challenges faced by the Company in the first half of 2019 from the ERP implementation and the impact of social unrest in Chile in the fourth quarter. 2019 EBITDA includes a \$10 million benefit from the Company's adoption of IFRS 16.

## UK & Ireland Operations

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

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

<b>For years ended December 31</b> <b>(\$ millions)</b>	<b>2019</b>	<b>2018<sup>(1)</sup></b>
Net revenue	\$ 1,137	\$ 1,152
Operating costs	<b>(1,055)</b>	(1,073)
EBITDA	\$ 82	\$ 79
Depreciation and amortization	<b>(36)</b>	(28)
EBIT	\$ 46	\$ 51
EBITDA as a % of net revenue	<b>7.2%</b>	6.9%
EBIT as a % of net revenue	<b>4.1%</b>	4.4%

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

Net revenue in 2019 of \$1.1 billion was down 1% from 2018 (slightly up in functional currency). In functional currency, higher product support and used equipment revenue were partially offset by lower new equipment revenue.

The stronger CAD relative to the GBP on average in 2019 compared to last year when translating results to CAD had an unfavourable foreign currency translation impact on net revenue of approximately \$25 million and was not significant at the EBITDA level.

Product support revenue was 2% higher than last year (4% higher in functional currency), driven by higher demand in the power systems and construction sectors.

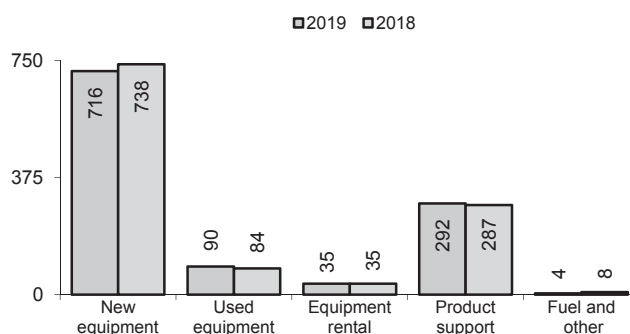
Used equipment revenue increased 8% compared to 2018 (10% in functional currency) reflecting management's focus on selling used equipment inventory to the construction sector.

2019 new equipment revenue decreased 3% (1% decrease in functional currency) from 2018 largely due to lower power systems sales. Equipment backlog at December 31, 2019 was lower than December 31, 2018, particularly in the construction sector, as deliveries outpaced order intake particularly in the second half of 2019.

Gross profit and gross profit as a percentage of net revenue in 2019 were comparable to 2018 in functional currency. Gross profit as a percentage of net revenue was positively impacted by a mix shift to higher product support revenue partially offset by lower profitability on used equipment revenue.

### UK & Ireland – Net Revenue by Line of Business

For years ended December 31  
(\$ millions)



SG&A for 2019 was up 2% in functional currency, primarily due to higher operating costs including salary inflation increases. SG&A relative to net revenue was up slightly from 2018.

The UK & Ireland operations contributed EBITDA of \$82 million, an increase from EBITDA of \$79 million in 2018 (6% higher in functional currency). EBITDA was higher by approximately \$15 million from the Company's adoption of IFRS 16 partially offset by lower operating earnings. EBITDA as a percentage of net revenue was 7.2%, up from 6.9% in 2018 reflecting the Company's ability to manage uncertainty related to **Brexit**.

### **Other Operations**

The Company's Other operations includes corporate operating costs.

2019 EBITDA of this segment was a loss of \$35 million compared to a loss of \$66 million in 2018. In 2018, the Company conducted a review of its investment in Energyst and determined that it was no longer a strategic fit. As a result, the Company decided that Energyst was held-for-sale and adjusted the value of this investment to its estimated fair value (\$nil) and recorded a \$30 million loss. In 2019, EBITDA included \$4 million of acquisition costs related to 4Refuel. Excluding the 2018 loss related to Energyst and the 2019 acquisition costs, the 2019 EBITDA loss of \$31 million for this segment was lower than the prior year primarily due to lower operating costs partially offset by higher long-term incentive plan costs due to the increase in the Company's share price.

## 2019 Fourth Quarter Highlights

- Revenue was \$1.9 billion in Q4 2019. Net revenue of \$1.8 billion in Q4 2019 was 5% lower than Q4 2018 reflecting a decrease in new equipment sales partially offset by an increase in product support revenue. New equipment revenue was 21% lower, down across all of the Company's operations, particularly in all market segments of the Company's South American operations which was impacted by social unrest in Chile in Q4 2019. The 11% increase in product support revenue in Q4 2019 was due to the Company's South American operations, particularly in Chile, driven by the recovery of product support activity since the launch of the ERP system in Q4 2018.
- EBIT of \$97 million and EBIT as a percentage of net revenue of 5.5% in Q4 2019 were higher than the \$91 million and 4.9% earned in Q4 2018 despite lower consolidated net revenue and the impact of social unrest in Chile.
- EBITDA of \$170 million and EBITDA as a percentage of net revenue of 9.7% in Q4 2019 were higher than the \$140 million and 7.6% earned in Q4 2018. EBITDA was higher due to the recovery of product support activity in Chile in 2019 partially offset by social unrest, in Q4 2019, as well as higher by approximately \$20 million from the Company's adoption of IFRS 16. EBITDA as a percentage of net revenue was higher mainly due to higher gross profit as a percentage of net revenue from a revenue mix shift to product support revenue partially offset by higher SG&A relative to net revenue.
- Basic EPS earned in the fourth quarter of 2019 was \$0.31 per share. The Company estimates that the social unrest in Chile and subsequent devaluation of the CLP reduced Q4 2019 basic EPS by approximately \$0.05 per share. Q4 2019 product support revenue in the Company's South American operations was up 36% over Q4 2018.
- Free cash flow was strong at \$386 million in Q4 2019 with a \$225 million reduction in inventory.

## 2019 Fourth Quarter Overview

(\$ millions, except per share amounts)	Q4 2019	Q4 2018 <sup>(1)</sup>	% change fav (unfav)
Revenue	\$ 1,911	\$ 1,842	4%
Net revenue	\$ 1,757	\$ 1,842	(5)%
Gross profit	\$ 428	\$ 413	4%
SG&A	(334)	(324)	(3)%
Equity earnings of joint ventures and associate	3	2	n/m
EBIT	\$ 97	\$ 91	6%
Net income	\$ 50	\$ 55	(10)%
Basic EPS	\$ 0.31	\$ 0.33	(8)%
EBITDA	\$ 170	\$ 140	21%
Free cash flow	\$ 386	\$ 418	(7)%
<i>Gross profit as a % of net revenue</i>	<b>24.3%</b>	22.4%	
<i>SG&amp;A as a % of net revenue</i>	<b>19.0%</b>	17.6%	
<i>EBIT as a % of net revenue</i>	<b>5.5%</b>	4.9%	
<i>EBITDA as a % of net revenue</i>	<b>9.7%</b>	7.6%	

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

There were no significant items identified by management that affected the results of the Company for the three months ended December 31, 2019 or December 31, 2018.

## Quarterly Key Performance Measures

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

	2019				2018 <sup>(1)</sup>				2017 <sup>(1)(2)</sup>
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
ROIC <sup>(3)</sup>									
Consolidated	<b>11.2 %</b>	11.3 %	10.7 %	10.8 %	12.8 %	13.7 %	14.3 %	13.7 %	13.1 %
Canada	<b>13.7 %</b>	14.2 %	14.5 %	14.6 %	16.6 %	16.4 %	15.5 %	14.5 %	13.3 %
South America	<b>9.6 %</b>	8.1 %	7.9 %	8.6 %	12.2 %	16.2 %	17.5 %	17.6 %	17.8 %
UK & Ireland	<b>12.1 %</b>	14.1 %	14.5 %	14.8 %	14.2 %	14.0 %	13.2 %	13.4 %	12.8 %
EBIT <sup>(3)</sup> (\$ millions)									
Consolidated	<b>97</b>	129	137	62	91	93	126	113	109
Canada	<b>72</b>	82	92	50	71	78	77	71	67
South America	<b>31</b>	42	41	6	12	37	47	46	50
UK & Ireland	<b>5</b>	14	14	13	12	15	14	10	8
EBIT as a % of net revenue <sup>(3)</sup>									
Consolidated	<b>5.5 %</b>	7.1 %	6.9 %	3.6 %	4.9 %	5.3 %	7.3 %	6.8 %	6.3 %
Canada	<b>7.4 %</b>	8.5 %	8.5 %	5.5 %	7.1 %	8.6 %	8.5 %	8.4 %	7.8 %
South America	<b>6.0 %</b>	7.3 %	6.5 %	1.2 %	2.5 %	6.7 %	8.5 %	8.4 %	8.6 %
UK & Ireland	<b>1.9 %</b>	5.1 %	4.8 %	4.4 %	3.7 %	5.1 %	5.3 %	3.7 %	3.0 %
EBITDA <sup>(3)</sup> (\$ millions)									
Consolidated	<b>170</b>	201	213	134	140	142	171	157	154
Canada	<b>114</b>	125	138	93	97	104	99	93	91
South America	<b>51</b>	62	62	26	29	52	62	61	65
UK & Ireland	<b>15</b>	22	23	22	18	23	21	17	14
EBITDA as a % of net revenue <sup>(3)</sup>									
Consolidated	<b>9.7 %</b>	11.1 %	10.7 %	7.8 %	7.6 %	8.1 %	9.9 %	9.4 %	8.9 %
Canada	<b>11.8 %</b>	12.8 %	12.9 %	10.2 %	9.7 %	11.4 %	11.0 %	10.9 %	10.6 %
South America	<b>10.0 %</b>	10.8 %	9.8 %	5.2 %	5.8 %	9.3 %	11.2 %	11.1 %	11.0 %
UK & Ireland	<b>5.4 %</b>	8.3 %	7.7 %	7.3 %	5.7 %	7.7 %	7.9 %	6.3 %	5.2 %
Invested Capital (\$ millions)									
Consolidated	<b>3,591</b>	3,907	3,964	3,753	3,163	3,431	3,362	3,226	2,830
Canada	<b>2,026</b>	2,209	2,285	2,148	1,675	1,889	1,840	1,778	1,621
South America	<b>1,192</b>	1,276	1,287	1,243	1,190	1,173	1,172	1,140	983
UK & Ireland	<b>361</b>	416	390	361	336	404	372	322	250
Invested Capital Turnover (times)									
Consolidated	<b>1.92x</b>	1.99x	2.04x	2.06x	2.12x	2.14x	2.13x	2.13x	2.09x
Canada	<b>1.81x</b>	1.91x	1.95x	1.98x	2.05x	1.98x	1.92x	1.87x	1.82x
South America	<b>1.78x</b>	1.77x	1.80x	1.78x	1.86x	2.01x	2.05x	2.08x	2.09x
UK & Ireland	<b>2.98x</b>	3.18x	3.27x	3.25x	3.22x	3.30x	3.44x	3.65x	3.56x
Inventory (\$ millions)									
Consolidated	<b>1,990</b>	2,215	2,366	2,356	2,061	2,017	1,968	1,906	1,708
Inventory Turns (Dealership) (times)									
Consolidated	<b>2.53x</b>	2.49x	2.36x	2.46x	2.68x	2.58x	2.57x	2.80x	2.82x
Working Capital to Net Revenue									
Consolidated	<b>27.8 %</b>	26.9 %	26.7 %	26.7 %	26.6 %	26.7 %	26.9 %	27.1 %	27.4 %
Free Cash Flow (\$ millions)									
Consolidated	<b>386</b>	165	(162)	(347)	418	(49)	(28)	(263)	350
Net Debt to EBITDA Ratio <sup>(3)</sup>									
Consolidated	<b>2.1</b>	2.6	3.0	2.9	1.7	2.1	2.0	1.9	1.5

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

<sup>(2)</sup> The 2017 comparative results in this MD&A have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

<sup>(3)</sup> Certain of these reported financial metrics have been impacted in some quarters in this table by significant items management does not consider indicative of operational and financial trends either by nature or amount. Financial metrics that have been adjusted to take into account these items are referred to as "Adjusted" metrics and are summarized on page 21 of this MD&A.

## Quarterly Adjusted KPIs

KPIs may be impacted by significant items described on pages 39 - 42 of this MD&A. KPIs that have been adjusted to take these items into account are referred to as Adjusted KPIs and were as follows:

	2019				2018 <sup>(1)</sup>				2017 <sup>(1)(2)</sup>
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Adjusted ROIC									
Consolidated	<b>12.0 %</b>	12.2 %	12.3 %	12.5 %	13.5 %	14.5 %	14.2 %	13.5 %	13.1 %
Canada	<b>14.4 %</b>	15.0 %	15.4 %	15.5 %	16.2 %	16.0 %	15.1 %	14.0 %	13.2 %
South America	<b>10.5 %</b>	9.0 %	8.5 %	9.2 %	12.2 %	16.4 %	17.7 %	17.8 %	18.1 %
UK & Ireland	<b>12.1 %</b>	14.1 %	14.5 %	14.8 %	14.2 %	14.0 %	13.2 %	13.4 %	12.8 %
Adjusted EBIT (\$ millions)									
Consolidated	<b>97</b>	132	137	91	91	123	126	106	110
Canada	<b>72</b>	82	92	67	71	78	77	64	66
South America	<b>31</b>	45	41	14	12	37	47	46	52
UK & Ireland	<b>5</b>	14	14	13	12	15	14	10	8
Adjusted EBIT as a % of net revenue									
Consolidated	<b>5.5 %</b>	7.3 %	6.9 %	5.3 %	4.9 %	7.0 %	7.3 %	6.4 %	6.4 %
Canada	<b>7.4 %</b>	8.5 %	8.5 %	7.4 %	7.1 %	8.6 %	8.5 %	7.5 %	7.6 %
South America	<b>6.0 %</b>	7.8 %	6.5 %	2.7 %	2.5 %	6.7 %	8.5 %	8.4 %	9.1 %
UK & Ireland	<b>1.9 %</b>	5.1 %	4.8 %	4.4 %	3.7 %	5.1 %	5.3 %	3.7 %	3.0 %
Adjusted EBITDA (\$ millions)									
Consolidated	<b>170</b>	204	213	163	140	172	171	150	155
Canada	<b>114</b>	125	138	110	97	104	99	86	90
South America	<b>51</b>	65	62	34	29	52	62	61	67
UK & Ireland	<b>15</b>	22	23	22	18	23	21	17	14
Adjusted EBITDA as a % of net revenue									
Consolidated	<b>9.7 %</b>	11.2 %	10.7 %	9.4 %	7.6 %	9.7 %	9.9 %	9.0 %	9.0 %
Canada	<b>11.8 %</b>	12.8 %	12.9 %	12.1 %	9.7 %	11.4 %	11.0 %	10.1 %	10.5 %
South America	<b>10.0 %</b>	11.2 %	9.8 %	6.7 %	5.8 %	9.3 %	11.2 %	11.1 %	11.4 %
UK & Ireland	<b>5.4 %</b>	8.3 %	7.7 %	7.3 %	5.7 %	7.7 %	7.9 %	6.3 %	5.2 %
Net Debt to Adjusted EBITDA Ratio	<b>2.0</b>	2.5	2.8	2.6	1.7	2.0	2.0	2.0	1.5

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018.

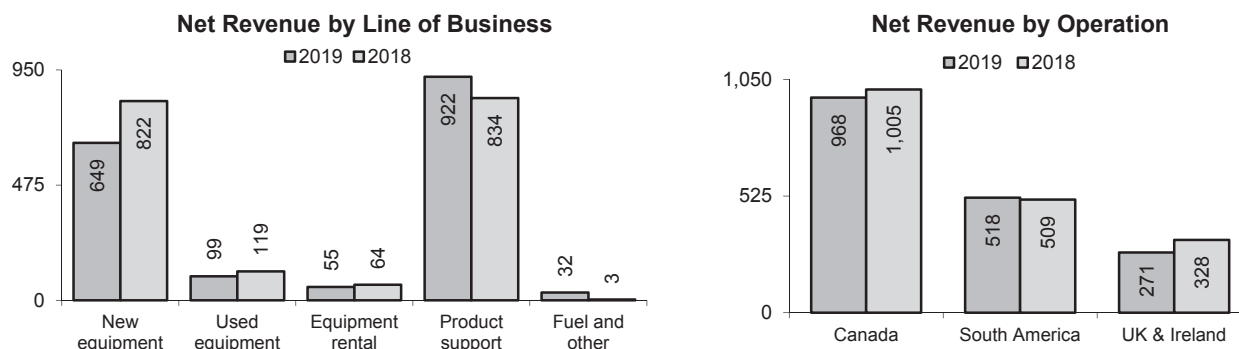
## 2019 Fourth Quarter Results

### Revenue

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

3 months ended December 31

(\$ millions)



The Company generated revenue of over \$1.9 billion and net revenue of \$1.8 billion during the three months ended December 31, 2019. Net revenue decreased 5% over the same period last year, primarily due to lower net revenues in the Company's UK & Ireland and Canadian operations.

New equipment revenue decreased 21% compared to the same period in 2018, down in all of the Company's operations with lower sales in all of the market sectors in the Company's South American and UK & Ireland operations. Q4 2019 new equipment revenue in the Company's Canadian operations decreased from the prior year period primarily due to lower activity in the construction sector.

Product support revenue increased by 11% as higher revenues in the Company's South American operations were driven by the recovery in parts velocity since the launch of the ERP system in Q4 2018. Partially offsetting this increase was lower product support revenues in the Company's Canadian and UK & Ireland operations.

Used equipment revenue and rental revenue in the Company's Canadian operations were each down from Q4 2018, largely driven by lower activity in the construction sector.

### EBIT and EBITDA

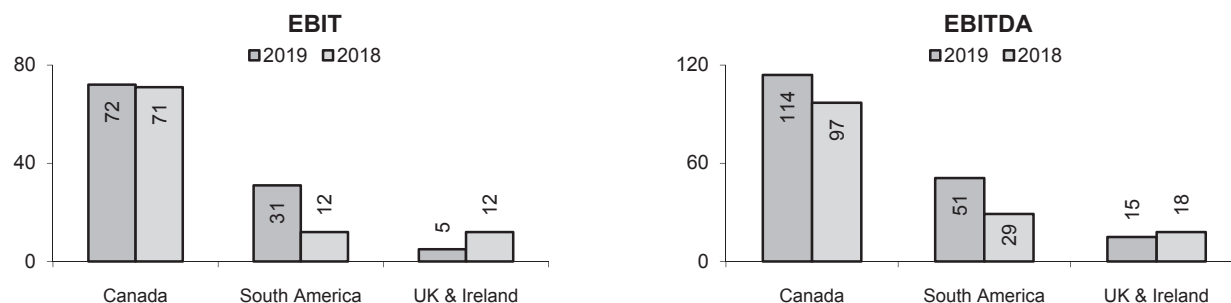
Gross profit of \$428 million in the last three months of 2019 was up 4% compared to the same prior year period in spite of lower net revenues. Q4 2019 gross profit as a percentage of net revenue improved by 190 basis points from the fourth quarter of 2018 largely due to a shift in revenue mix to product support and improved gross margins. Q4 2019 product support revenue as a percentage of overall net revenue was 52% compared to 45% in the prior year period.

SG&A in the fourth quarter of 2019 was 3% higher than the prior year comparative period due to additional SG&A from 4Refuel partially offset by lower SG&A in the Company's South American operations. In addition, Q4 2019 long-term incentive plan costs were higher reflecting an increase in the Company's share price. As a percentage of net revenue, SG&A was up by 140 basis points over the same period of the prior year. SG&A relative to net revenue was higher in the Company's Canadian and UK & Ireland operations but lower in the Company's South American operations.

## EBIT and EBITDA by Operation <sup>(1)(2)</sup>

3 months ended December 31

(\$ millions)



(1) Excluding Other Operations

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

The Company reported EBIT of \$97 million in the fourth quarter of 2019 compared to \$91 million in the fourth quarter of 2018, primarily due to higher EBIT from the Company's South American operations partially offset by lower EBIT in the Company's UK & Ireland operations.

EBITDA for the fourth quarter of 2019 was \$170 million and EBITDA as a percentage of net revenue was 9.7%, higher than Q4 2018 EBITDA of \$140 million and EBITDA as a percentage of net revenue of 7.6%. EBITDA was higher due to the recovery in the Company's South American operations following the ERP implementation partially offset by the impact of social unrest in Chile. Q4 2019 EBITDA included approximately \$20 million from the Company's adoption of IFRS 16 as well as the contribution from 4Refuel. The increase in EBITDA as a percentage of net revenue in Q4 2019 was primarily due to improved profitability in the Company's South American operations.

### Finance Costs

Finance costs in the three months ended December 31, 2019 were \$30 million, higher than the \$20 million reported in the same period in 2018 mostly due to higher average short-term debt levels.

### Provision for Income Taxes

Income tax expense for Q4 2019 was \$17 million (Q4 2018: \$16 million) and the effective income tax rate was 25.2%. The effective income tax rate in Q4 2019 was higher than the 22.2% in Q4 2018 primarily due to a lower proportion of earnings in lower tax jurisdictions.

### Net Income and Basic EPS

Net income was \$50 million and basic EPS was \$0.31 per share in the fourth quarter of 2019 compared to \$55 million net income and \$0.33 basic EPS earned in the same period last year. Q4 2019 basic EPS was positively impacted by improved profitability in the Company's South American operations driven by product support growth offset by approximately \$0.05 per share estimated negative impact from social unrest in Chile as well as higher long-term incentive plan and finance costs.



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

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

For 3 months ended December 31, 2018 <sup>(1)</sup> (\$ millions)	Canada	South America	UK & Ireland	Other	Consol	Net Revenue %
New equipment	\$ 390	\$ 218	\$ 214	\$ —	\$ 822	45%
Used equipment	73	11	35	—	119	7%
Equipment rental	45	11	8	—	64	3%
Product support	496	269	69	—	834	45%
Other	1	—	2	—	3	—
Net revenue	\$ 1,005	\$ 509	\$ 328	\$ —	\$ 1,842	100%
Operating costs	(910)	(480)	(310)	(4)	(1,704)	
Equity earnings	2	—	—	—	2	
EBITDA	\$ 97	\$ 29	\$ 18	\$ (4)	\$ 140	
Depreciation and amortization	(26)	(17)	(6)	—	(49)	
EBIT	\$ 71	\$ 12	\$ 12	\$ (4)	\$ 91	
Net revenue percentage by operation	54%	28%	18%	—	100%	
EBITDA as a % of net revenue	9.7%	5.8%	5.7%		7.6%	
EBIT as a % of net revenue	7.1%	2.5%	3.7%		4.9%	

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

## Canada Operations

Q4 2019 net revenue of \$968 million was 4% lower than Q4 2018, down in most lines of business. The decrease in net revenue was due to softening market conditions in Q4 2019 compared to the same prior year period. New equipment revenue was down 8% in Q4 2019 mainly in the construction sector due to significant deliveries in Q4 2018 as well as a softer construction market in 2019, particularly in Alberta. Used equipment revenue and rental revenue were each down slightly more than 20% from Q4 2018, largely driven by lower activity in the construction sector. Product support revenue was 2% below Q4 2018 which benefited from higher service revenue related to a large scale dragline maintenance project during that period.

Gross profit in Q4 2019 and gross profit as a percentage of net revenue increased in Q4 2019 from the comparable period in 2018, due to higher gross margins in most lines of business as well as the contribution from 4Refuel.

SG&A was 8% higher in Q4 2019 compared to the same period in the prior year, primarily due to additional SG&A from 4Refuel partially offset by lower people-related costs in Finning (Canada) from restructuring initiatives. SG&A relative to net revenue for Finning (Canada) was up 130 basis points primarily due to lower fixed cost absorption with net revenues down 7%.

Q4 2019 EBITDA was \$114 million compared to \$97 million in Q4 2018. Q4 2019 EBITDA included approximately \$15 million from the Company's adoption of IFRS 16. EBITDA as a percentage of net revenue was 11.8%, up from 9.7% earned in the same period in 2018.

## South America Operations

Q4 2019 net revenue of \$518 million was 2% higher than Q4 2018, reflecting higher product support revenues largely offset by lower new equipment revenue. Q4 2019 product support revenue increased 36% in functional currency from Q4 2018 reflecting the return to normal parts flow with the prior year impacted by business process velocity issues following the launch of the new ERP system. New equipment sales in the Company's South American operations were down 40% in functional currency across all market sectors, particularly in the mining sector in Chile due to significant equipment deliveries in Q4 2018 as well as disruptions in Q4 2019 related to social unrest in Chile.

Gross profit and gross profit as a percentage of net revenue in Q4 2019 were higher than Q4 2018 primarily due to a revenue mix shift to a higher proportion of product support. Product support revenue comprised 71% of total net revenue in Q4 2019, compared to 53% in Q4 2018 when the Company was dealing with parts velocity issues following the implementation of the new ERP system.

SG&A in Q4 2019 decreased by 8% in functional currency compared to the same period in the prior year. Lower SG&A in Q4 2019 was primarily due to effective cost management, lower people-related costs from the benefit of previous cost reduction measures taken, as well as the devaluation of the CLP and ARS relative to the USD. SG&A relative to net revenue was down compared to the same prior year period.

Q4 2019 EBITDA was \$51 million compared to \$29 million in Q4 2018. EBITDA as a percentage of revenue was 10.0%, up from 5.8% earned in the same period of 2018 due to higher gross profit as a percentage of net revenue, higher product support activity, as well as lower SG&A relative to net revenue achieved in the current year period.

## UK & Ireland Operations

Fourth quarter 2019 net revenue of \$271 million was down 17% compared to the fourth quarter of 2018, driven primarily by lower new equipment sales in Q4 2019 related to project deliveries to the electricity capacity market which were particularly strong in the second half of 2018. Q4 2019 net revenue to the construction sector was slightly below the prior year period as equipment markets softened reflecting continued uncertainty related to Brexit and slower economic growth in the UK in Q4 2019.

Q4 2019 gross profit was lower than the prior year period in line with the decrease in net revenue. Gross profit as a percentage of net revenue was up slightly from the same period in the prior year due to a higher proportion of product support in the revenue mix.

SG&A in Q4 2019 decreased by 3% in functional currency compared to the same period in the prior year primarily reflecting robust cost management and lower people-related costs despite salary inflation. SG&A relative to net revenue in the fourth quarter of 2019 increased over the comparable period in 2018 due to lower fixed cost absorption with net revenues down 17%.

Q4 2019 EBITDA was lower than in Q4 2018 due to lower net revenues. EBITDA as a percentage of revenue was 5.4% in Q4 2019, down slightly from the 5.7% earned in Q4 2018, primarily due to higher SG&A relative to net revenue.

## Outlook

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### Canadian Operations

In the oil sands, government-imposed production curtailments have been extended into 2020 due to a continued shortage of pipeline capacity. However, steady oil production levels and an aging equipment population are expected to support strong demand for parts and service, including component and machine rebuilds.

Outlook for other mining segments in Western Canada is mixed. Coal mining activity has declined significantly in the second half of 2019 and is projected to remain weak as customers are reducing costs and capital spending in response to a lower coal price. Copper and metals mining activity is expected to remain robust and provide opportunities for equipment and product support.

Construction markets in Alberta are expected to remain soft mostly due to uncertainty around timing of some infrastructure projects. In British Columbia, construction activity is projected to be healthy, with large infrastructure projects, including Trans Mountain Pipeline and LNG Canada, creating additional demand for equipment and product support in the near future. The Company is gaining share in competitive construction markets and is well positioned to leverage its digital capabilities to capture product support opportunities.

Forestry activity in Western Canada has been reduced substantially with the decline in lumber prices, and is expected to remain slow in 2020.

In power systems segments, the Company expects to benefit from continued strong demand for prime and standby electric power for large infrastructure and gas projects.

### South American Operations

Activity in construction and power systems markets in Chile has been negatively impacted by the social unrest and subsequent devaluation of the Chilean peso. While the social situation has stabilized, the Company expects a higher level of political uncertainty in the country to continue to impact customer confidence and lead to slower economic growth in the near term. The potential impact of the government's social reform agenda on the Chilean economy and the cost structure of the Company and its customers is unknown. The Company is focused on growing its product support business in the construction and power systems markets.

Global miners are intending to make investments in Chile as evidenced by an increase in requests for quotations for large mining equipment. While social and political stability in the country continues to pose a risk, international trade tensions are softening and the Company is constructive on the outlook for copper. Increased copper production is expected to have a positive impact on demand for mining equipment and product support.

In Argentina, the new government assumed office in December 2019 and implemented new measures related to capital and import controls, incentives to switch financial investments to local currency, as well as tax increases to control currency devaluation and inflation. Continued restrictive monetary policies and capital controls are expected to limit the Company's growth opportunities for the near future. The Company is focused on delivering product support to customers, while managing its exposure to the ARS.

### UK and Ireland Operations

The UK left the European Union on January 31, 2020 with a withdrawal agreement and is currently in a transition period until December 30, 2020. The Company has developed an action plan with Caterpillar to manage the impact on the supply chain during this transition. Construction equipment markets have slowed in the second half of 2019 and demand is expected to remain soft following a prolonged period of uncertainty. To help offset reduced business confidence, the U.K. government has committed to accelerating infrastructure investment. Recent announcements with respect to the impending governmental budget and infrastructure spend, including HS2, should have a positive impact on customer activity in the construction and plant hire sectors. In power systems, the Company continues to see significant opportunities in the electric power capacity, combined heat & power, and data centre markets.

### Cost and Capital Focus

In 2019, the Company recovered from parts velocity issues following the ERP implementation which reduced 2019 basic EPS by an estimated \$0.20 per share. In 2020, the Company expects to benefit from several profitability drivers including improved execution in South America, a lower cost base in Canada, and reduced finance costs. The Company expects to generate strong annual free cash flow in 2020 and prioritize maintaining a strong balance sheet and returning capital to shareholders through dividends and share repurchases.

### Foreign Exchange Exposure

The Company expects ongoing volatility in foreign exchange markets to continue to impact its results. Any devaluation of the CAD increases earnings translated from the Company's foreign subsidiaries. The opposite is true for any appreciation of the CAD. Transactional gains or losses are dependent on the Company's hedging activities and general market conditions.

## Liquidity and Capital Resources

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

The magnitude of cash flows provided by (used in) each of these items is shown in the following table:

(\$ millions)	3 months ended December 31			Years ended December 31		
	2019	2018 <sup>(1)</sup>	(Decrease)	2019	2018 <sup>(1)</sup>	(Decrease)
			Increase			Increase
Operating activities	\$ 438	\$ 490	\$ (52)	\$ 191	\$ 260	\$ (69)
Investing activities	\$ (52)	\$ (73)	\$ 21	\$ (378)	\$ (184)	\$ (194)
Financing activities	\$ (361)	\$ (199)	\$ (162)	\$ 23	\$ (107)	\$ 130
Free Cash Flow	\$ 386	\$ 418	\$ (32)	\$ 42	\$ 78	\$ (36)

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

The most significant contributors to the changes in cash flows for 2019 over 2018 were as follows (all events described were in the current quarter or annual period, unless otherwise stated):

	Quarter over Quarter	Year over Year
Cash provided by operating activities	<ul style="list-style-type: none"> <li>lower customer deposits received in the Company's Canadian and UK &amp; Ireland operations</li> <li>higher payments to suppliers in the Company's South American operations</li> <li>partially offset by lower spend on equipment inventory in the Company's Canadian operations and parts inventory in the Company's South American operations</li> </ul>	<ul style="list-style-type: none"> <li>lower customer deposits received in the Company's Canadian and UK &amp; Ireland operations</li> <li>partially offset by the monetization and management to lower equipment inventory levels in all of the Company's operations, particularly in Canada</li> </ul>
Cash used in investing activities	<ul style="list-style-type: none"> <li>lower capital expenditures in 2019 as 2018 included the investment in the ERP system in the Company's South American operations</li> </ul>	<ul style="list-style-type: none"> <li>\$229 million net cash consideration to acquire 4Refuel</li> <li>lower capital expenditures in 2019 as 2018 included the investment in the ERP system in the Company's South American operations</li> </ul>
Cash used in financing activities	<ul style="list-style-type: none"> <li>approximately \$300 million cash used to repay short-term debt in 2019 compared with approximately \$70 million in 2018</li> <li>approximately \$20 million higher use of cash related to lease payments presented as financing cash outflows following the adoption of IFRS 16 (presented as operating cash outflows in Q4 2018)</li> <li>\$95 million use of cash in 2018 to repurchase common shares</li> </ul>	<ul style="list-style-type: none"> <li>approximately \$200 million additional cash provided by issuance of unsecured senior notes</li> <li>approximately \$60 million lower cash provided by short-term debt in 2019</li> <li>approximately \$85 million higher use of cash related to lease payments presented as financing cash outflows following the adoption of IFRS 16</li> <li>approximately \$75 million less cash used to repurchase common shares</li> </ul>
Free cash flow generation	<ul style="list-style-type: none"> <li>lower cash generated from operating activities for the reasons outlined above</li> </ul>	<ul style="list-style-type: none"> <li>lower cash generated from operating activities for the reasons outlined above</li> </ul>

## Capital resources and management

The Company's cash and cash equivalents balance at December 31, 2019 was \$268 million (December 31, 2018: \$454 million). To complement internally generated funds from operating and investing activities, the Company has \$2.0 billion in unsecured credit facilities. Included in this amount is a syndicated committed credit facility totaling \$1.3 billion with various Canadian and other global financial institutions, of which \$1.1 billion was available at December 31, 2019.

In December 2019, the Company amended the syndicated committed credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024. This facility is available in multiple borrowing jurisdictions and may be drawn by a number of the Company's principal operating subsidiaries. Borrowings under this facility are available in multiple currencies and at various floating rates of interest.

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

Based on the availability of these facilities, the Company's business operating plans, and the discretionary nature of certain cash outflows, such as rental and capital expenditures, the Company believes it continues to have sufficient liquidity to meet operational needs and planned growth and development.

The Company is subject to certain covenants within its syndicated committed credit facility. As at December 31, 2019 and 2018, the Company was in compliance with these covenants.

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

December 31	Long-term debt		Short-term debt	
	2019	2018	2019	2018
DBRS	BBB (high)	BBB (high)	R-2 (high)	R-2 (high)
S&P	BBB+	BBB+	<i>n/a</i>	n/a

In September 2019, DBRS reconfirmed the Company's BBB (high) long-term rating as well as its short-term debt rating at R-2 (high), reflecting the Company's strong business profile, supportive market conditions, and diversified operations.

In August 2019, S&P reconfirmed the Company's BBB+ rating, noting the Company's strong market position as the largest Caterpillar equipment dealer, its diversification by geography, and its earnings stability driven by the after-sales parts and services business.

In May 2019, the Company renewed its **NCIB** <sup>(2)</sup> to enable the purchase of its common shares for cancellation. During 2019, the Company repurchased 1,073,354 common shares for cancellation at an average cost of \$24.75 per share (total cost: \$27 million). During 2018, the Company repurchased 4,128,053 common shares for cancellation at an average cost of \$26.41 per share (totalling \$109 million).

The NCIB is in place to take advantage of Finning's strong balance sheet and cash balances in periods of broader market volatility and the resulting negative impact on the Company's share price. Execution of the NCIB is governed by rules established by the Toronto Stock Exchange.

(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 from the Company. Direct your request to the Corporate Secretary, 300 – 565 Great Northern Way, Vancouver, BC V5T 0H8.

## Net Debt to Adjusted EBITDA

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

December 31	Company long-term target	2019	2018 <sup>(1)</sup>
Net debt to Adjusted EBITDA Ratio	< 3.0	2.0	1.7

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

## Contractual Obligations

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

(\$ millions)	2020	2021	2022	2023	2024	Thereafter	Total
Short-term debt							
- principal repayment	\$ 226	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 226
Long-term debt							
- principal repayment	200	200	196	121	195	610	1,522
- interest	57	51	41	34	29	173	385
Leases	95	82	66	44	30	71	388
<b>Total contractual obligations</b>	<b>\$ 578</b>	<b>\$ 333</b>	<b>\$ 303</b>	<b>\$ 199</b>	<b>\$ 254</b>	<b>\$ 854</b>	<b>\$ 2,521</b>

The above table does not include obligations to fund pension benefits. The Company is making regular contributions to its registered defined benefit pension plans in Canada and the UK in order to fund the pension plans as required. Funding levels are monitored regularly and reset with new actuarial funding valuations performed by the Company's (or plan Trustees') actuaries that occur at least every three years. In 2019, the Company contributed \$14 million towards the defined benefit pension plans. Based on the most recent valuations completed, the Company expects to contribute approximately \$16 million to the defined benefit pension plans during the year ended December 31, 2020.

## Capital and Rental Expenditures

The Company's net spend on capital expenditures and rental fleet additions during the year ended December 31, 2020 is expected to be in the range of \$200 million to \$250 million depending on market conditions. These are planned, but not legally committed expenditures and include investments in a long-term network strategy, branch improvement initiatives, Digital initiatives, and electric drive mining vehicles.

## Employee Share Purchase Plans

The Company has employee share purchase plans for its Canadian and South American employees. Under the terms of these plans, eligible employees may purchase common shares of the Company in the open market at the then current market price. The Company pays a portion of the purchase price to a maximum of 2% of employee earnings. At December 31, 2019, approximately 65%, 75% and 3% of eligible employees in the Company's Corporate, Canadian and South American operations, respectively, were contributing to these plans.

The Company also has an All Employee Share Purchase Ownership Plan for its employees in Finning UK & Ireland. Under the terms of this plan, the Company will 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, 2019, approximately 30% of eligible employees in Finning (UK) were contributing to this plan. Finning (Ireland) employees may contribute from €10 to €70 of their salary per month. At December 31, 2019, approximately 15% of eligible employees in Finning (Ireland) were contributing to this plan.

The Company may cancel these plans at any time.

## Accounting and Estimates

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The Company employs professionally qualified accountants throughout its finance group globally and all of the operating unit financial officers report directly to the Company's **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 the Company's financial condition and results of operations is based on the Company's Annual Financial Statements, which have been prepared in accordance with IFRS. The Company's significant accounting policies are contained in the notes to the Annual Financial Statements for the year ended December 31, 2019. Certain policies require management to make judgments, estimates, and assumptions in respect of the application of accounting policies and the reported amounts of assets, liabilities, revenues, expenses, and disclosure of contingent assets and liabilities. These policies may require particularly subjective and complex judgments to be made as they relate to matters that are inherently uncertain and because there is a likelihood that materially different amounts could be reported under different conditions or using different assumptions. The Company has discussed the development, selection, and application of its key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee.

The critical estimates and judgments were:

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

For additional information on the above judgments, estimates, and assumptions made, please refer to the Annual Financial Statements for the year ended December 31, 2019.

## **Goodwill and intangible assets with indefinite lives**

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

The Company determines the recoverable amount of a CGU using a discounted cash flow model. The process of determining these recoverable amounts requires management to make 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 the weighted average cost of capital rates. Cash flow projections are based on financial budgets presented to the Company's **Board**. Projected cash flows are discounted using a weighted average cost of capital. These estimates are subject to change due to uncertain competitive and economic market conditions or changes in business strategies.

The Company performed its assessment of goodwill and intangible assets with indefinite lives and determined that there was no impairment at December 31, 2019 and 2018. Also, the Company reviewed if there was any indication that the circumstances leading to the previously recognized impairment loss on its indefinite-lived intangible asset no longer existed or may have decreased. No reversal of impairment losses was considered appropriate at December 31, 2019 and 2018. Refer to note 21 in the Annual Financial Statements for further details.

## **Income tax asset or liability**

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

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

## **Financial Instruments**

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

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

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



## Related Party Transactions

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

## New Accounting Pronouncements

Changes in the rules or standards governing accounting can impact Finning's results or financial reporting. The impact of adopting new accounting standards is described in note 2 of the Company's Annual Financial Statements. The effect of future accounting pronouncements and effective dates are also discussed in note 2 of the Annual Financial Statements.

The Company has adopted the following new accounting standard and interpretation:

- IFRS 16, *Leases* (effective for the financial year beginning January 1, 2019) introduced new requirements for the classification and measurement of leases. Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases on the condensed consolidated statement of financial position. The Company applied this standard retrospectively and recognized the cumulative effect of initial application on January 1, 2019, on the consolidated statement of financial position.
- *IFRIC 23, Uncertainty over Income Tax Treatments* (effective for the financial year beginning January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. This interpretation did not have an impact on the Company's consolidated financial statements.

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

- Amendments to IFRS 3, *Business Combinations* (effective for the financial year beginning January 1, 2020) assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. The Company has not elected to apply this amendment early.
- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* (effective for the financial year beginning January 1, 2020) will affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended Standards, then discontinuation of hedge accounting is still required. This amendment is not expected to have any impact on the Company's consolidated financial statements.

## Risk Factors and Management

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

The Company maintains a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, Board level committees review the Company's processes for business risk assessment and the management of key business risks, any changes to key risks and exposures, and the steps taken to monitor and control such exposures. These reviews are reported to the Board quarterly. The Board reviews, in detail, all material risks on an annual basis. The Board also reviews the adequacy of disclosures of key risks in the Company's AIF, MD&A, and financial statements on a quarterly and annual basis. All key financial risks are disclosed in the MD&A and other key business risks are disclosed in the Company's AIF. For more information on the Company's financial instruments, including accounting policies, description of financial risks, and relevant financial risk sensitivities, please refer to note 8 of the Company's Annual Financial Statements.

### Market Risk and Hedging

Market risk is the risk that changes in the market, such as foreign exchange rates, interest rates, and commodity prices, 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.

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. All such transactions are carried out within the guidelines set by the Company and approved by the Company's Audit Committee.

### 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. The functional currency of the Company's South American operations is USD and the functional currency of the Company's UK & Ireland operations is primarily GBP (Finning Ireland's functional currency is the Euro). As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The main types of foreign exchange risk of the Company can be categorized as follows:

#### *Translation Exposure*

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

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the 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 foreign currency denominated loans. The currency translation loss of \$83 million recorded in 2019 resulted primarily from the 5% stronger CAD relative to the USD as well as the 2% stronger CAD relative to the GBP at December 31, 2019 compared to December 31, 2018. This was partially offset by a \$35 million unrealized foreign exchange gain on net investment hedges.

#### *Transaction Exposure*

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect 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 new equipment sales in its Canadian and UK operations, respectively.

The results of the Company's operations are impacted by the translation of its 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 statement of financial position. The Company enters into forward exchange contracts to manage some mismatches in foreign currency cash flows but does not fully hedge balance sheet exposure so this may result in unrealized foreign exchange gains or losses until the financial assets and financial liabilities are settled.

The CAD has historically been positively correlated to certain commodity prices. In a scenario of declining commodity prices, the Company's 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 the Company's financial results when USD based revenues and earnings are translated into CAD reported revenues and earnings, although lags may occur.

The results of the Company's 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, the Company's revenue may be impacted as mining customers curtail their equipment and product support spend. The Company's 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 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 the Company's hedging programs.

The Company's competitive position may also be impacted as relative currency movements affect the business practices and/or pricing strategies of the Company's competitors.

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

Exchange rate	December 31			3 months ended December 31 – average			12 months ended December 31 – average		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
	USD/CAD	<b>1.2988</b>	1.3642	5 %	<b>1.3200</b>	1.3204	0 %	<b>1.3269</b>	1.2957
GBP/CAD	<b>1.7174</b>	1.7439	2 %	<b>1.6994</b>	1.6989	(0)%	<b>1.6945</b>	1.7299	2 %
USD/CLP	<b>744.62</b>	695.69	(7)%	<b>753.41</b>	679.28	(11)%	<b>700.61</b>	639.90	(9)%
USD/ARS	<b>59.89</b>	37.70	(59)%	<b>59.34</b>	37.07	(60)%	<b>46.77</b>	26.23	(78)%

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

#### Interest Rate Risk

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

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

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

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

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

## Commodity Prices

The Company provides equipment and parts and service to customers in resource and construction industries. In the resource sector, fluctuations in commodity prices and changes in long-term outlook for commodities impact customer decisions regarding capital expenditures and production levels, which determine demand for equipment, parts and service. In the construction sector, publicly funded infrastructure spending is indirectly impacted by fluctuations in commodity prices, particularly in regions with resource-based economies (such as the prices of copper, gold, and other metals; thermal and metallurgical coal; natural gas, oil, and lumber). In Canada, the Company's customers are exposed to the price of oil, mostly in the oil sands in Northern Alberta. In South America, the Company's customers are primarily exposed to the price of copper and, to a much lesser extent, the prices of gold, other metals, and natural gas. In the UK & Ireland, the Company's resource sector customers operate in thermal coal and off-shore oil & gas. Significant fluctuations in these commodity prices could have a material impact on the Company's 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 Finning's products and services could increase and apply pressure on the Company's 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 its products, Finning management works closely with Caterpillar to achieve an adequate and timely supply of product and has implemented human resources recruiting strategies to achieve adequate staffing levels.

## **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.

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.

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 receivables, 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 is exposed to risk on supplier claims receivable, primarily from Caterpillar, with whom Finning has had an ongoing relationship since 1933.

The Company has credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from S&P and/or A2 by **Moody's** and/or A by **Fitch**.

## **Liquidity Risk**

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

## Financing Arrangements

The Company will require capital to finance its future growth and to refinance its outstanding debt obligations as they come due for repayment. If the cash generated from the Company's operations is not sufficient to fund future capital and debt repayment requirements, the Company will require additional debt or equity financing in the capital markets. The Company's ability to access capital markets on terms that are acceptable will be dependent upon prevailing market conditions, as well as the Company's financial condition. Further, the Company's ability to increase the level of debt financing may be limited by its financial covenants or its credit rating objectives. Although the Company does not anticipate any difficulties in raising necessary funds in the future, there can be no assurance that capital will be available on suitable terms and conditions, or that borrowing costs and credit ratings will not be adversely affected. In addition, the Company's current financing arrangements contain certain restrictive covenants that may impact the Company's future operating and financial flexibility.

## Share-Based Payment Risk

Share-based payment plans are an integral part of the Company's employee compensation program and can be in the form of the Company's common shares or cash payments that reflect the value of the shares and the extent the Company is 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 the Company's share price, share price volatility, performance of the Company, and employee exercise behaviour change. For further details on the Company's share-based payment plans, please refer to note 11 of the Company's Annual Financial Statements.

## Contingencies and Guarantees

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, incomplete factual records and uncertainty concerning procedures and their resolution by the courts, customs, or tax authorities. However, subject to these limitations, management is of the opinion, based on legal assessments and information presently available, that, except as stated below, it is not likely that any liability would have a material effect on the Company's financial position or results of operations.

Finning's South American operations 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 Finning to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. Finning's South American operations have not exported agricultural animal feed product since the third quarter of 2013. The Argentina Customs Authority has made a number of claims against Finning associated with the export of this agricultural product over this period and has also issued an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. 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. 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.

The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2019, the total estimated value of these contracts outstanding is \$148 million (2018: \$130 million) coming due at periods ranging from 2020 to 2025. The Company's experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price, 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, 2019 and December 31, 2018 is \$1 million.

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

## Outstanding Share Data

### As at February 7, 2020

Common shares outstanding	163,319,120
Options outstanding	3,395,440

## Controls and Procedures Certification

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### Disclosure Controls and Procedures

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

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

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

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

### Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. There has been no change in the design of the Company's internal control over financial reporting during the year ended December 31, 2019, that would materially affect, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management employed additional procedures to ensure key financial internal controls remained in place during and after the conversion to a new ERP system in the Company's South American operations in the second half of 2018. Management also performed additional account reconciliations and other analytical substantive procedures to mitigate any financial risks from the introduction of the new system.

On February 1, 2019, the Company acquired 4Refuel. As part of the post-closing integration, the Company is engaged in harmonizing the internal controls and processes of the acquired business with those of the Company. In keeping with scope limitation provisions of applicable securities laws, management intends to exclude the design and operating effectiveness assessment of internal control over financial reporting of 4Refuel from its annual assessment of the effectiveness of the Company's internal control over financial reporting for 2019. Additional information regarding the acquisition can be found on page 11 of this MD&A.

Regular involvement of the Company's internal audit function and quarterly reporting to the Audit Committee assist in providing reasonable assurance that the objectives of the control system are met. While the officers of the Company have designed the Company's disclosure controls and procedures and internal control over financial reporting to provide reasonable assurance that the objectives of the control systems are met, they are aware that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

### 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, 2019, 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, management 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 management to be appropriate in the circumstances.

Based on that evaluation, excluding the disclosure controls and procedures and internal control over financial reporting of 4Refuel, 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, 2019.

## Description of Non-GAAP Financial Measures and Reconciliations

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

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

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

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

A description of the non-GAAP financial measures used by the Company in this MD&A is set out below. A quantitative reconciliation from each non-GAAP financial measure to their most directly comparable measure, where available, specified, defined, or determined under GAAP and used in the Company's consolidated financial statements (GAAP measures) can be found on pages 39 - 49 of this MD&A.

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

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

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

A reconciliation between net income and basic EPS (the most directly comparable GAAP measure) and Adjusted net income and Adjusted basic EPS can be found on page 6 of this MD&A.

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

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

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

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

The most directly comparable GAAP measure to EBITDA is EBIT.

A reconciliation from EBIT to EBITDA, Adjusted EBIT, and Adjusted EBITDA for the consolidated operations for the last nine quarters and years ended December 31, 2017, 2016, and 2015 is as follows:

3 months ended (\$ millions)	2019			2018			2017			Years ended Dec 31		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2017	2016	2015
EBIT <sup>(1)(2)</sup>	97	129	137	62	91	93	126	113	109	392	165	(105)
Depreciation and amortization <sup>(1)(3)</sup>	73	72	76	72	49	49	45	44	45	184	192	231
EBITDA <sup>(1)(2)</sup>	170	201	213	134	140	142	171	157	154	576	357	126
EBITDA – last 12 months <sup>(1)(2)</sup>	718	688	629	587	610	624	628	602	576	576	357	126
EBIT <sup>(1)(2)</sup>	97	129	137	62	91	93	126	113	109	392	165	(105)
Significant items:												
Severance costs	—	2	—	18	—	—	—	—	5	5	41	48
Facility closures, restructuring costs, and impairment losses	—	1	—	7	—	—	—	—	—	—	36	53
Acquisition costs related to 4Refuel	—	—	—	4	—	—	—	—	—	—	—	—
Write-off and loss related to Energyst	—	—	—	—	—	30	—	—	—	—	—	—
Impact from Alberta wildfires	—	—	—	—	—	—	—	(7)	(4)	(4)	—	—
– insurance proceeds	—	—	—	—	—	—	—	—	—	—	11	—
– unavoidable costs	—	—	—	—	—	—	—	—	—	—	—	—
Power systems project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	—	—	—	—	—	—	—	—	20	—
Gain on investment	—	—	—	—	—	—	—	—	—	—	(5)	—
Loss on sale of non-core business	—	—	—	—	—	—	—	—	—	—	5	—
Impairment loss on distribution network and goodwill	—	—	—	—	—	—	—	—	—	—	—	338
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	42
Acquisition and disposal of business, net	—	—	—	—	—	—	—	—	—	—	—	(5)
Foreign exchange impact on ARS devaluation	—	—	—	—	—	—	—	—	—	—	—	12
Adjusted EBIT <sup>(1)(2)</sup>	97	132	137	91	91	123	126	106	110	393	273	383
Depreciation and amortization <sup>(1)(3)</sup>	73	72	76	72	49	49	45	44	45	184	192	221
Adjusted EBITDA <sup>(1)(2)</sup>	170	204	213	163	140	172	171	150	155	577	465	604
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	457	451	442	431	446	465	442	413	393	393	273	383
Adjusted EBITDA – last 12 months <sup>(1)(2)</sup>	750	720	688	646	633	648	622	596	577	577	465	604

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

<sup>(3)</sup> Of the significant items described above, \$10 million was recorded in depreciation and amortization expense in Q4 2015.



A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the Canadian operations for the last nine quarters and years ended December 31, 2017, 2016, and 2015 is as follows:

3 months ended (\$ millions)	2019			2018			2017					
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2017	2016	2015
EBIT <sup>(1)(2)</sup>	72	82	92	50	71	78	77	71	67	225	87	98
Significant items:												
Severance costs	—	—	—	10	—	—	—	—	3	3	24	27
Facility closures, restructuring costs, and impairment losses	—	—	—	7	—	—	—	—	—	—	32	48
Impact from Alberta wildfires	—	—	—	—	—	—	—	(7)	(4)	(4)	—	—
– insurance proceeds	—	—	—	—	—	—	—	—	—	—	—	—
– unavoidable costs	—	—	—	—	—	—	—	—	—	—	11	—
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	16
Adjusted EBIT <sup>(1)(2)</sup>	72	82	92	67	71	78	77	64	66	224	154	189
Depreciation and amortization <sup>(1)(3)</sup>	42	43	46	43	26	26	22	22	24	99	100	116
Adjusted EBITDA <sup>(1)(2)</sup>	114	125	138	110	97	104	99	86	90	323	254	305
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	313	312	308	293	290	285	264	242	224	224	154	189

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

(2) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(3) Of the significant items described above, \$5 million was recorded in depreciation and amortization expense in Q4 2015.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the South American operations for the last nine quarters and years ended December 31, 2017, 2016, and 2015 is as follows:

3 months ended (\$ millions)	2019			2018			2017			Years ended Dec 31		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2017	2016	2015
EBIT <sup>(1)(2)</sup>	31	42	41	6	12	37	47	46	50	184	137	(174)
Significant items:												
Severance costs	—	2	—	8	—	—	—	—	2	2	8	15
Facility closures and restructuring costs	—	1	—	—	—	—	—	—	—	—	—	3
Impairment loss on distribution network and goodwill	—	—	—	—	—	—	—	—	—	—	—	324
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	10
Estimated loss on alleged fraudulent activity by a customer	—	—	—	—	—	—	—	—	—	—	10	—
Foreign exchange impact on ARS devaluation	—	—	—	—	—	—	—	—	—	—	—	12
Adjusted EBIT <sup>(1)(2)</sup>	31	45	41	14	12	37	47	46	52	186	155	190
Depreciation and amortization <sup>(1)(3)</sup>	20	20	21	20	17	15	15	15	15	58	62	77
Adjusted EBITDA <sup>(1)(2)</sup>	51	65	62	34	29	52	62	61	67	244	217	267
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	131	112	104	110	142	182	193	188	186	186	155	190

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

(2) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(3) Of the significant items described above, \$5 million was recorded in depreciation and amortization expense in Q4 2015.

A reconciliation from EBIT to Adjusted EBIT and Adjusted EBITDA for the UK & Ireland operations for the last nine quarters and years ended December 31, 2017, 2016, and 2015 is as follows:

3 months ended (\$ millions)	2019			2018			2017			Year ended Dec 31		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	2017	2016	2015
EBIT <sup>(1)(2)</sup>	5	14	14	13	12	15	14	10	8	37	(12)	(5)
Significant items:												
Severance costs	—	—	—	—	—	—	—	—	—	—	9	6
Facility closures and restructuring costs	—	—	—	—	—	—	—	—	—	—	4	2
Impairment loss on distribution network and goodwill	—	—	—	—	—	—	—	—	—	—	—	14
Inventory and other asset impairments	—	—	—	—	—	—	—	—	—	—	—	16
Power systems project provisions and estimated loss on disputes	—	—	—	—	—	—	—	—	—	—	10	—
Disposal of business	—	—	—	—	—	—	—	—	—	—	5	—
Adjusted EBIT <sup>(1)(2)</sup>	5	14	14	13	12	15	14	10	8	37	16	33
Depreciation and amortization <sup>(1)</sup>	10	8	9	9	6	8	7	7	6	26	30	28
Adjusted EBITDA <sup>(1)(2)</sup>	15	22	23	22	18	23	21	17	14	63	46	61
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	46	53	54	54	51	47	41	40	37	37	16	33

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15. Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

### Equipment Backlog and Order Intake

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

### Free Cash Flow

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

(\$ millions)	2019				2018				2017			Annual		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q4	2017	2016	2015
Cash flow provided by (used in) operating activities <sup>(1)</sup>	438	204	(127)	(324)	490	(6)	18	(242)	398	283	440	379		
Additions to property, plant, and equipment and intangible assets <sup>(1)</sup>	(54)	(40)	(37)	(23)	(77)	(46)	(46)	(32)	(49)	(121)	(92)	(76)		
Proceeds on disposal of property, plant, and equipment <sup>(1)</sup>	2	1	2	—	5	3	—	11	1	3	22	22		
Free cash flow <sup>(1)</sup>	386	165	(162)	(347)	418	(49)	(28)	(263)	350	165	370	325		
Free cash flow – last 12 months <sup>(1)</sup>	42				78				165	165	370	325		

### Inventory Turns (Dealership)

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

(\$ millions, except as noted)	2019						2018									
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Mar 31	Dec 31	Mar 31	Dec 31	Mar 31
Cost of sales (3 months ended) <sup>(1)(2)</sup>	1,483	1,500	1,655	1,380	1,429	1,380	1,429	1,306	1,263	1,230	1,299	1,111	1,167			
Cost of sales related to mobile refueling operations (3 months ended)	(168)	(156)	(156)	(99)	—	—	—	—	—	—	—	—	—			
Cost of sales related to the dealership (3 months ended) <sup>(1)(2)</sup>	1,315	1,344	1,499	1,281	1,429	1,281	1,429	1,306	1,263	1,230	1,299	1,111	1,167			
Inventory <sup>(2)</sup>	1,990	2,215	2,366	2,356	2,061	2,356	2,061	2,017	1,968	1,906	1,708	1,601	1,800			
Fuel inventory	(3)	(3)	(3)	(3)	—	—	—	—	—	—	—	—	—			
Inventory related to the dealership <sup>(2)</sup>	1,987	2,212	2,363	2,353	2,061	2,353	2,061	2,017	1,968	1,906	1,708	1,601	1,800			
Cost of sales related to the dealership – annualized <sup>(1)(2)</sup>	5,317	5,686	5,559	5,420	5,470	5,139	4,987	5,056	4,862	4,150	4,524					
Inventory related to the dealership – 2 quarter average <sup>(2)</sup>	2,099	2,287	2,359	2,208	2,039	1,992	1,937	1,807	1,726	1,663	1,897					
Inventory turns (dealership) (number of times) <sup>(1)(2)</sup>	2.53	2.49	2.36	2.46	2.68	2.58	2.57	2.80	2.82	2.49	2.82	2.49	2.38			

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15. Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

### Invested Capital

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

(\$ millions, except as noted)	2019			2018			2017			2015												
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31		
Cash and cash equivalents	(268)	(252)	(160)	(290)	(454)	(221)	(300)	(325)	(458)	(593)	(475)	(475)	(475)	(475)	(475)	(475)	(475)	(475)	(475)	(475)	(475)	(475)
Short-term debt	226	532	751	658	154	223	213	169	18	2	117	117	117	117	117	117	117	117	117	117	117	117
Current portion of long-term debt	200	200	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term debt	1,318	1,325	1,321	1,341	1,354	1,315	1,330	1,322	1,296	1,487	1,548	1,548	1,548	1,548	1,548	1,548	1,548	1,548	1,548	1,548	1,548	1,548
Net debt	1,476	1,805	1,912	1,709	1,054	1,317	1,243	1,166	856	896	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190	1,190
Shareholders' equity <sup>(1)(2)</sup>	2,115	2,102	2,052	2,044	2,109	2,114	2,119	2,060	1,974	1,901	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050
Invested capital <sup>(1)(2)</sup>	3,591	3,907	3,964	3,753	3,163	3,431	3,362	3,226	2,830	2,797	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240	3,240

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

(2) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15. Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

### Invested Capital Turnover

Invested capital turnover is used by management as a measure of efficiency in the use of the Company's invested capital and is calculated as net revenue (defined and calculated on page 47) for the last twelve months divided by invested capital (defined and calculated on page 44) based on an average of the last four quarters, as follows:

(\$ millions, except as noted)	2019				2018				2017		2016	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Mar 31	Dec 31	Dec 31
Consolidated												
Net revenue – last 12 months <sup>(1)(2)</sup>	7,290	7,375	7,311	7,045	6,996	6,887	6,670	6,525	6,256	5,628	6,275	6,275
Invested capital – 4 quarter average <sup>(1)(2)</sup>	3,804	3,697	3,578	3,427	3,295	3,212	3,128	3,065	2,993	2,960	3,530	3,530
Invested capital turnover (number of times) <sup>(1)(2)</sup>	1.92	1.99	2.04	2.06	2.12	2.14	2.13	2.13	2.09	1.90	1.78	1.78
Canada												
Net revenue – last 12 months <sup>(1)(2)</sup>	3,927	3,964	3,896	3,729	3,674	3,525	3,351	3,234	3,072	2,821	3,126	3,126
Invested capital – 4 quarter average <sup>(1)(2)</sup>	2,167	2,079	1,999	1,888	1,795	1,782	1,746	1,727	1,690	1,656	1,792	1,792
Invested capital turnover (number of times) <sup>(1)(2)</sup>	1.81	1.91	1.95	1.98	2.05	1.98	1.92	1.87	1.82	1.70	1.74	1.74
South America												
Net revenue – last 12 months <sup>(1)(2)</sup>	2,226	2,217	2,198	2,123	2,170	2,250	2,241	2,206	2,157	1,857	2,067	2,067
Invested capital – 4 quarter average <sup>(1)(2)</sup>	1,250	1,249	1,223	1,195	1,169	1,117	1,091	1,060	1,032	1,030	1,357	1,357
Invested capital turnover (number of times) <sup>(1)(2)</sup>	1.78	1.77	1.80	1.78	1.86	2.01	2.05	2.08	2.09	1.80	1.52	1.52
UK & Ireland												
Net revenue – last 12 months <sup>(1)(2)</sup>	1,137	1,194	1,217	1,193	1,152	1,112	1,078	1,085	1,027	950	1,082	1,082
Invested capital – 4 quarter average <sup>(1)(2)</sup>	382	376	373	368	358	337	314	298	288	268	369	369
Invested capital turnover (number of times) <sup>(1)(2)</sup>	2.98	3.18	3.27	3.25	3.22	3.30	3.44	3.65	3.56	3.54	2.93	2.93

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

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

These ratios are calculated, respectively, as net debt, defined and calculated on page 44, divided by EBITDA, and net debt divided by Adjusted EBITDA, for the last twelve months. Management uses these ratios to assess the Company's operating leverage and ability to repay its debt. These ratios approximate the length of time, in years, that it would take the Company to repay its debt, with net debt and EBITDA or Adjusted EBITDA held constant. These ratios are calculated as follows:

(\$ millions, except as noted)	2019						2018					
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Net debt	1,476	1,805	1,912	1,709	1,054	1,317	1,243	1,166	856	896	896	1,190
EBITDA – last 12 months <sup>(1)(2)</sup>	718	688	629	587	610	624	628	602	576	357	357	126
Adjusted EBITDA – last 12 months <sup>(1)(2)</sup>	750	720	688	646	633	648	622	596	577	465	465	604
Net Debt to EBITDA Ratio <sup>(1)(2)</sup>	2.1	2.6	3.0	2.9	1.7	2.1	2.0	1.9	1.5	2.5	2.5	9.5
Net Debt to Adjusted EBITDA Ratio <sup>(1)(2)</sup>	2.0	2.5	2.8	2.6	1.7	2.0	2.0	2.0	1.5	1.9	1.9	2.0

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

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

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

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

Management uses these measures, including KPIs and ratios, to assess and evaluate the financial performance or profitability of its reportable segments.

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

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

(\$ millions, except as noted)	2019				2018				2017				Annual					
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	2017	2016	2015			
Total revenue <sup>(1)(2)</sup>	1,911	1,959	2,137	1,810	1,842	1,755	1,729	1,670	1,733	1,733	1,733	1,670	1,733	6,256	5,628	6,275		
Cost of fuel	(154)	(140)	(142)	(91)	—	—	—	—	—	—	—	—	—	—	—	(527)		
Net revenue <sup>(1)(2)</sup>	1,757	1,819	1,995	1,719	1,842	1,755	1,729	1,670	1,733	1,733	1,733	1,670	1,733	6,256	5,628	6,275		
Gross profit <sup>(1)(2)</sup>	428	459	482	430	413	449	466	440	434	440	440	440	434	1,799	1,654	1,641		
Gross profit as a % of net revenue <sup>(1)(2)</sup>	24.3%	25.3%	24.1%	25.0%	22.4%	25.6%	26.9%	26.3%	25.1%	25.1%	25.1%	26.3%	25.1%	24.7%	25.3%	26.4%	26.1%	
SG&A <sup>(1)(2)</sup>	334	333	350	343	324	330	345	328	326	326	326	328	326	1,360	1,327	1,280	1,369	
SG&A as a % of net revenue <sup>(1)(2)</sup>	19.0%	18.3%	17.5%	20.0%	17.6%	18.9%	19.9%	19.6%	18.8%	18.8%	18.8%	19.6%	18.8%	18.7%	19.0%	20.3%	21.8%	
EBITDA <sup>(1)(2)</sup>	170	201	213	134	140	142	171	157	154	154	154	157	154	718	610	576	357	126
EBITDA as a % of net revenue <sup>(1)(2)</sup>	9.7%	11.1%	10.7%	7.8%	7.6%	8.1%	9.9%	9.4%	8.9%	8.9%	8.9%	9.4%	8.9%	9.9%	8.7%	9.2%	6.3%	2.0%
Adjusted EBITDA <sup>(1)(2)</sup>	170	204	213	163	140	172	171	150	155	155	155	150	155	750	633	577	465	604
Adjusted EBITDA as a % of net revenue <sup>(1)(2)</sup>	9.7%	11.2%	10.7%	9.4%	7.6%	9.7%	9.9%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	10.3%	9.0%	9.2%	8.3%	9.6%
EBIT <sup>(1)(2)</sup>	97	129	137	62	91	93	126	113	109	109	109	113	109	425	423	392	165	(105)
EBIT as a % of net revenue <sup>(1)(2)</sup>	5.5%	7.1%	6.9%	3.6%	4.9%	5.3%	7.3%	6.8%	6.3%	6.3%	6.3%	6.8%	6.3%	5.8%	6.0%	6.3%	2.9%	(1.7)%
Adjusted EBIT <sup>(1)(2)</sup>	97	132	137	91	91	123	126	106	110	110	110	106	110	457	446	393	273	383
Adjusted EBIT as a % of net revenue <sup>(1)(2)</sup>	5.5%	7.3%	6.9%	5.3%	4.9%	7.0%	7.3%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.3%	6.4%	6.3%	4.9%	6.1%

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.



## ROIC and Adjusted ROIC

Return on Invested Capital, or ROIC, is defined as EBIT for the last twelve months divided by invested capital and calculated on page 44, based on an average of the last four quarters, expressed as a percentage.

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

ROIC and Adjusted ROIC is calculated as follows:

(\$ millions, except as noted)	2019				2018				2017		2016	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31
Consolidated												
EBIT – last 12 months <sup>(1)(2)</sup>	425	419	383	372	423	441	448	419	392	165	165	(105)
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	457	451	442	431	446	465	442	413	393	273	273	383
Invested capital – 4 quarter average <sup>(1)(2)</sup>	3,804	3,697	3,578	3,427	3,295	3,212	3,128	3,065	2,993	2,960	2,960	3,530
ROIC <sup>(1)(2)</sup>	11.2%	11.3%	10.7%	10.8%	12.8%	13.7%	14.3%	13.7%	13.1%	5.6%	5.6%	(3.0)%
Adjusted ROIC <sup>(1)(2)</sup>	12.0%	12.2%	12.3%	12.5%	13.5%	14.5%	14.2%	13.5%	13.1%	9.3%	9.3%	10.9%
Canada												
EBIT – last 12 months <sup>(1)(2)</sup>	296	295	291	276	297	293	272	250	225	87	87	98
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	313	312	308	293	290	285	264	242	224	154	154	189
Invested capital – 4 quarter average <sup>(1)(2)</sup>	2,167	2,079	1,999	1,888	1,795	1,782	1,746	1,727	1,690	1,656	1,656	1,792
ROIC <sup>(1)(2)</sup>	13.7%	14.2%	14.5%	14.6%	16.6%	16.4%	15.5%	14.5%	13.3%	5.3%	5.3%	5.5%
Adjusted ROIC <sup>(1)(2)</sup>	14.4%	15.0%	15.4%	15.5%	16.2%	16.0%	15.1%	14.0%	13.2%	9.3%	9.3%	10.6%
South America												
EBIT – last 12 months <sup>(1)(2)</sup>	120	101	96	102	142	180	191	186	184	137	137	(174)
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	131	112	104	110	142	182	193	188	186	155	155	190
Invested capital – 4 quarter average <sup>(1)(2)</sup>	1,250	1,249	1,223	1,195	1,169	1,117	1,091	1,060	1,032	1,030	1,030	1,357
ROIC <sup>(1)(2)</sup>	9.6%	8.1%	7.9%	8.6%	12.2%	16.2%	17.5%	17.6%	17.8%	13.3%	13.3%	(12.8)%
Adjusted ROIC <sup>(1)(2)</sup>	10.5%	9.0%	8.5%	9.2%	12.2%	16.4%	17.7%	17.8%	18.1%	15.0%	15.0%	14.0%
UK & Ireland												
EBIT – last 12 months <sup>(1)(2)</sup>	46	53	54	54	51	47	41	40	37	(12)	(12)	(5)
Adjusted EBIT – last 12 months <sup>(1)(2)</sup>	46	53	54	54	51	47	41	40	37	16	16	33
Invested capital – 4 quarter average <sup>(1)(2)</sup>	382	376	373	368	358	337	314	298	288	268	268	369
ROIC <sup>(1)(2)</sup>	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%	13.4%	12.8%	(4.5)%	(4.5)%	(1.4)%
Adjusted ROIC <sup>(1)(2)</sup>	12.1%	14.1%	14.5%	14.8%	14.2%	14.0%	13.2%	13.4%	12.8%	5.9%	5.9%	9.0%

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

<sup>(2)</sup> The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

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

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

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

The working capital to sales ratio is calculated as follows:

(\$ millions, except as noted)	2019				2018				2017		2015	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Dec 31	Dec 31	Dec 31
Total current assets <sup>(1)(2)</sup>	3,659	3,959	4,217	4,187	3,924	3,696	3,763	3,687	3,531	3,378	3,460	3,460
Cash and cash equivalents	(268)	(252)	(160)	(290)	(454)	(221)	(300)	(325)	(458)	(593)	(475)	(475)
Total current assets <sup>(1)(2)(3)</sup>	3,391	3,707	4,057	3,897	3,470	3,475	3,463	3,362	3,073	2,785	2,985	2,985
Total current liabilities <sup>(1)(2)</sup>	2,026	2,331	2,584	2,574	1,992	1,734	1,742	1,626	1,545	1,233	1,243	1,243
Short-term debt	(226)	(532)	(751)	(658)	(154)	(223)	(213)	(169)	(18)	(2)	(117)	(117)
Current portion of long-term debt	(200)	(200)	—	—	—	—	—	—	—	—	—	—
Total current liabilities <sup>(1)(2)(4)</sup>	1,600	1,599	1,833	1,916	1,838	1,511	1,529	1,457	1,527	1,231	1,126	1,126
Working capital	1,791	2,108	2,224	1,981	1,632	1,964	1,934	1,905	1,546	1,554	1,859	1,859
Working capital – 4 quarter average <sup>(1)(2)</sup>	2,026	1,986	1,950	1,878	1,859	1,837	1,793	1,767	1,712	1,709	2,023	2,023
Net revenue – last 12 months <sup>(1)(2)</sup>	7,290	7,375	7,311	7,045	6,996	6,887	6,670	6,525	6,256	5,628	6,275	6,275
Working capital to net revenue <sup>(1)(2)</sup>	27.8%	26.9%	26.7%	26.7%	26.6%	26.7%	26.9%	27.1%	27.4%	30.4%	32.2%	32.2%

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

(2) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(3) Excluding cash and cash equivalents.

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

## Selected Annual Information

(\$ millions, except for share and option data)	2019	2018 <sup>(1)</sup>	2017 <sup>(1)(2)</sup>
Revenue from operations			
Canada <sup>(3)</sup>	\$ 4,454	\$ 3,674	\$ 3,072
South America	2,226	2,170	2,157
UK & Ireland	1,137	1,152	1,027
<b>Total revenue</b>	<b>\$ 7,817</b>	<b>\$ 6,996</b>	<b>\$ 6,256</b>
Net income <sup>(3)(4)</sup>	\$ 242	\$ 232	\$ 216
Earnings Per Share <sup>(3)(4)</sup>			
Basic EPS	\$ 1.48	\$ 1.38	\$ 1.28
Diluted EPS	\$ 1.48	\$ 1.38	\$ 1.28
Total assets <sup>(3)</sup>	\$ 5,990	\$ 5,696	\$ 5,069
Long-term debt			
Current	\$ 200	\$ —	\$ —
Non-current	1,318	1,354	1,296
<b>Total long-term debt <sup>(5)</sup></b>	<b>\$ 1,518</b>	<b>\$ 1,354</b>	<b>\$ 1,296</b>
Cash dividends declared per common share	\$ 0.815	\$ 0.79	\$ 0.745

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

(2) The 2017 comparative results have been restated to reflect the Company's adoption of IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. More information on the impact of this adoption can be found in note 2 of the Company's 2018 Annual Financial Statements.

(3) In February 2019, the Company acquired 4Refuel in its Canadian reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.

(4) Results in 2019, 2018, and 2017 were impacted by the following significant items:

(\$ millions except per share amounts)	2019	2018	2017
Severance costs	\$ 20	\$ —	\$ 5
Facility closures, restructuring costs, and impairment losses	8	—	—
Acquisition costs related to 4Refuel	4	—	—
Write-off and loss related to Energyst	—	30	—
Insurance proceeds from Alberta wildfires	—	(7)	(4)
<b>Impact of significant items on EBIT</b>	<b>\$ 32</b>	<b>\$ 23</b>	<b>\$ 1</b>
Significant items impacting EBIT - impact on basic EPS	\$ 0.15	\$ 0.15	\$ 0.01
Significant items impacting net income only - impact on basic EPS:			
Tax impact of devaluation of ARS <sup>(a)</sup>	\$ 0.02	\$ 0.12	\$ —
Redemption costs on early repayment of long-term debt (\$7 million after tax)	—	—	0.04
<b>Impact of significant items on basic EPS:</b>	<b>\$ 0.17</b>	<b>\$ 0.27</b>	<b>\$ 0.05</b>

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

(5) In August 2019, the Company issued \$200 million of 2.626% senior unsecured notes due August 14, 2026. Proceeds of the issuance were used to reduce outstanding short-term debt under the Company's syndicated committed credit facility.

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

## Selected Quarterly Information

(\$ millions, except for share, per share, and option amounts)	2019				2018 <sup>(1)</sup>			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue from operations								
Canada <sup>(2)</sup>	\$ 1,122	\$ 1,118	\$ 1,216	\$ 998	\$ 1,005	\$ 910	\$ 907	\$ 852
South America	518	577	626	505	509	558	551	552
UK & Ireland	271	264	295	307	328	287	271	266
<b>Total revenue</b>	<b>\$ 1,911</b>	<b>\$ 1,959</b>	<b>\$ 2,137</b>	<b>\$ 1,810</b>	<b>\$ 1,842</b>	<b>\$ 1,755</b>	<b>\$ 1,729</b>	<b>\$ 1,670</b>
Net income <sup>(2)(3)</sup>	\$ 50	\$ 76	\$ 88	\$ 28	\$ 55	\$ 25	\$ 81	\$ 71
Earnings Per Share <sup>(2)(3)</sup>								
Basic EPS	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15	\$ 0.48	\$ 0.42
Diluted EPS	\$ 0.31	\$ 0.46	\$ 0.54	\$ 0.17	\$ 0.33	\$ 0.15	\$ 0.48	\$ 0.42
Total assets <sup>(2)</sup>	\$ 5,990	\$ 6,253	\$ 6,473	\$ 6,459	\$ 5,696	\$ 5,413	\$ 5,457	\$ 5,254
Long-term debt								
Current	\$ 200	\$ 200	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Non-current	1,318	1,325	1,321	1,341	1,354	1,315	1,330	1,322
<b>Total long-term debt<sup>(4)</sup></b>	<b>\$ 1,518</b>	<b>\$ 1,525</b>	<b>\$ 1,321</b>	<b>\$ 1,341</b>	<b>\$ 1,354</b>	<b>\$ 1,315</b>	<b>\$ 1,330</b>	<b>\$ 1,322</b>
Cash dividends paid per common share	20.5¢	20.5¢	20.5¢	20.0¢	20.0¢	20.0¢	20.0¢	19.0¢
Common shares outstanding (000's)	163,319	163,310	163,310	163,310	164,382	168,191	168,184	168,401
Options outstanding (000's)	3,416	3,547	3,550	3,055	3,164	3,226	3,241	3,301

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

(2) In February 2019, the Company acquired 4Refuel in its Canadian reportable segment. The results of operations and financial position of this acquired business have been included in the figures since the date of acquisition.

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

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

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

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

(c) Tax impact of devaluation of ARS in Q3 2019 (\$4 million) and Q3 2018 (\$20 million)

(4) In August 2019, the Company issued \$200 million of 2.626% senior unsecured notes due August 14, 2026. Proceeds of the issuance were used to reduce outstanding short-term debt under the Company's syndicated committed credit facility.

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

## Forward-Looking Disclaimer

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This report contains statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Finning makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company's financial results; expected results from execution of the Company's strategic framework, including the Company's Global Strategic Priorities, strategic pillars, and strategic focus areas; that the Company's effective tax rate will generally be within the 25-30% range on an annual basis; expected synergies from the acquisition of 4Refuel, including sales, rental and service opportunities for the Canadian operations and sales and customer service opportunities for 4Refuel; the Company's outlook for Canada, including that steady oil production levels and an aging equipment population are expected to support strong demand for parts and service, including component and machine rebuilds, weak coal mining activity and a lower coal price, robust copper and metals mining activity which should provide opportunities for equipment and product support, continued soft Alberta construction markets due to uncertainty around timing of infrastructure projects, projected healthy construction activity in British Columbia with large infrastructure projects, including Trans Mountain Pipeline and LNG Canada, creating additional demand for equipment and product support, that the Company will continue to gain share in construction markets, that the Company will leverage its digital capabilities to capture product support opportunities, that forestry activity will remain slow in Western Canada in 2020, and that strong demand for prime and standby electric power from large infrastructure and gas projects will continue and that the Company will benefit from such demand; the Company's outlook for South America, including that there will be a higher level of political uncertainty in Chile that will impact customer confidence and lead to slower economic growth in the near term; that the Company is constructive on the outlook for copper and expects increased copper production to have a positive impact on demand for mining equipment and product support; that restrictive monetary policies and capital controls will limit the Company's growth opportunities for the near future; the Company's outlook for the UK & Ireland, including that demand is expected to remain soft in the construction equipment markets, the expected positive impact on future customer activity in the construction and plant hire sectors due to recent announcements about the impending government budget and infrastructure spend and significant opportunities in the electric power capacity, combined heat and power and data centre markets; the Company's outlook for revenue and earnings, including the expectation that in 2020 the Company expects to benefit from several profitability drivers, including improved execution in South America, a lower cost base in Canada, and reduced finance costs and expects to generate strong annual free cash flow and prioritize maintaining a strong balance sheet and returning capital to shareholders through dividends and share repurchases; the impact on results of expected ongoing volatility in foreign exchange markets; Finning's belief that it continues to have sufficient liquidity to meet operational needs and planned growth and development; the Company's expectation to contribute approximately \$16 million to its defined benefit pension plans in 2020; the Company's expectation of a net spend on capital expenditures and rental fleet additions during 2020 to be in the range of \$200 million to \$250 million, depending on market conditions; the expected impact of recently adopted accounting standards and interpretation or future expected changes; and Finning's plans to manage its financial risks and uncertainties. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws. Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at the date in this MD&A. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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

Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the actual impact of Brexit and changes in the trade relationship with the European Union; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term

product support contracts with its customers; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to maintain a safe and healthy work environment across all regions, Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws, regulations, or policies; stock market volatility; changes in political and economic environments in the regions where Finning carries on business; Finning's ability to respond to climate change-related risks; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates; the adequacy of insurance to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that the Company believed were reasonable on the day the Company made the forward-looking statements including but not limited to (i) that general economic and market conditions will be maintained; (ii) that the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iii) Finning's ability to successfully execute its plans and intentions; (iv) Finning's ability to successfully attract and retain skilled staff; (v) market competition will remain at similar levels; (vi) the products and technology offered by the Company's competitors will be as expected; and (vii) that our current good relationships with Caterpillar and with our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of this MD&A for forward-looking statements. Some of the assumptions, risks, and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 of the Company's current AIF and in the annual MD&A for the financial risks.

Finning cautions readers that the risks described in the MD&A and the AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operation.

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

## Glossary of Defined Terms

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<b>4Refuel</b>	4Refuel Canada and 4Refuel US
<b>AIF</b>	Annual Information Form
<b>Annual Financial Statements</b>	Audited annual consolidated financial statements
<b>ARS</b>	Argentine peso
<b>Audit Committee</b>	Audit Committee of the Board of Directors
<b>Board</b>	Board of Directors of Finning
<b>Brexit</b>	Withdrawal of the UK from the European Union
<b>CAD</b>	Canadian dollar
<b>Caterpillar</b>	Caterpillar Inc.
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CGU</b>	Cash-generating unit
<b>CLP</b>	Chilean peso
<b>Company</b>	Finning International Inc.
<b>Consol</b>	Consolidated (comprises Canada, South America, UK & Ireland, and Other operations)
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>DBRS</b>	Dominion Bond Rating Service
<b>EBIT</b>	Earnings (loss) before finance costs and income tax
<b>EBITDA</b>	Earnings (loss) before finance costs, income tax, depreciation, and amortization
<b>Energyst</b>	Energyst B.V.
<b>EPS</b>	Earnings per share
<b>ERM</b>	Enterprise risk management
<b>ERP</b>	Enterprise resource planning
<b>fav</b>	Favourable
<b>Finning</b>	Finning International Inc.
<b>Finning (Canada)</b>	A division of Finning, servicing Western Canada
<b>Fitch</b>	Fitch Rating Inc.
<b>GAAP</b>	Generally accepted accounting principles
<b>GBP</b>	UK pound sterling
<b>IFRIC</b>	International Financial Reporting Standards Interpretations Committee
<b>IFRS</b>	International Financial Reporting Standards
<b>KPI</b>	Key performance indicator
<b>MD&amp;A</b>	Management Discussion and Analysis
<b>Moody's</b>	Moody's Corporation
<b>n/a</b>	not applicable
<b>n/m</b>	% change not meaningful
<b>NCIB</b>	Normal course issuer bid
<b>OEM</b>	OEM Remanufacturing Company Inc.
<b>PLM</b>	PipeLine Machinery International
<b>ROIC</b>	Return on invested capital
<b>S&amp;P</b>	Standard and Poor's
<b>SEDAR</b>	System for electronic document analysis
<b>SG&amp;A</b>	Selling, general, and administrative costs
<b>SVP</b>	Senior Vice President
<b>TSX</b>	Toronto Stock Exchange
<b>UK</b>	United Kingdom
<b>unfav</b>	Unfavourable
<b>US</b>	United States
<b>USD</b>	US dollar

## 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 2019.

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*

*/s/ Steven M. Nielsen*

**L. Scott Thomson**  
President and Chief Executive Officer

**Steven M. Nielsen**  
Executive Vice President and Chief Financial Officer

February 11, 2020  
300-565 Great Northern Way, Vancouver, BC, V5T 0H8, Canada



## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the consolidated financial statements of Finning International Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of net income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, 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.

### Other Information

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

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

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

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

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

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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 11, 2020

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31 (Canadian \$ millions)	2019	2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 25)	\$ 268	\$ 454
Accounts receivable (Note 8)	919	969
Unbilled receivables (Note 4)	246	152
Inventories (Note 12)	1,990	2,061
Other assets (Note 14)	236	288
<b>Total current assets</b>	<b>3,659</b>	<b>3,924</b>
Property, plant, and equipment (Note 16)	971	645
Rental equipment (Note 16)	457	441
Goodwill (Note 18)	204	120
Intangible assets (Note 20)	321	176
Distribution network (Note 19)	100	100
Investment in joint ventures and associate (Note 15)	94	87
Other assets (Note 14)	184	203
<b>Total assets</b>	<b>\$ 5,990</b>	<b>\$ 5,696</b>
<b>LIABILITIES</b>		
Current liabilities		
Short-term debt (Note 7)	\$ 226	\$ 154
Accounts payable and accruals	1,169	1,220
Deferred revenue (Note 4)	360	517
Provisions (Note 23)	57	46
Current portion of long-term debt (Note 7)	200	—
Other liabilities (Note 22)	14	55
<b>Total current liabilities</b>	<b>2,026</b>	<b>1,992</b>
Long-term debt (Note 7)	1,318	1,354
Long-term lease liabilities (Note 17)	273	25
Net post-employment obligation (Note 24)	76	72
Other liabilities (Note 22)	182	144
<b>Total liabilities</b>	<b>3,875</b>	<b>3,587</b>
Commitments and contingencies (Note 29)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	570	573
Contributed surplus	2	—
Accumulated other comprehensive income	228	282
Retained earnings	1,315	1,254
<b>Total shareholders' equity</b>	<b>2,115</b>	<b>2,109</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 5,990</b>	<b>\$ 5,696</b>

Approved by the Directors February 11, 2020

/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

<b>For years ended December 31</b> <b>(Canadian \$ millions, except share and per share amounts)</b>	<b>2019</b>	<b>2018</b>
Revenue		
New equipment	\$ 2,776	\$ 2,740
Used equipment	361	371
Equipment rental	246	239
Product support	3,793	3,632
Fuel and other	641	14
Total revenue (Note 4)	7,817	6,996
Cost of sales	(6,018)	(5,228)
Gross profit	1,799	1,768
Selling, general, and administrative expenses	(1,360)	(1,327)
Equity earnings of joint ventures and associate (Note 15)	15	12
Other expenses (Note 6)	(29)	(30)
Earnings before finance costs and income taxes	425	423
Finance costs (Note 7)	(107)	(76)
Income before provision for income taxes	318	347
Provision for income taxes (Note 13)	(76)	(115)
Net income	\$ 242	\$ 232
Earnings per share (Note 5)		
Basic	\$ 1.48	\$ 1.38
Diluted	\$ 1.48	\$ 1.38
Weighted average number of shares outstanding (Note 5)		
Basic	163,427,006	167,997,608
Diluted	163,499,026	168,544,313

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)	2019	2018
Net income	\$ 242	\$ 232
Other comprehensive income, net of income tax		
Items that may be subsequently reclassified to net income:		
Foreign currency translation adjustments	(83)	133
Share of foreign currency translation adjustments of joint ventures and associate (Note 15)	(1)	(2)
Foreign currency translation losses reclassified to net income (Note 6b)	—	11
Gain (loss) on net investment hedges	35	(58)
Impact of foreign currency translation and net investment hedges, net of income tax	(49)	84
(Loss) gain on cash flow hedges	(3)	7
Gain on cash flow hedges, reclassified to statement of net income	(1)	—
Recovery of (provision for) income taxes on cash flow hedges	1	(4)
Impact of cash flow hedges, net of income tax	(3)	3
Items that will not be subsequently reclassified to net income:		
Actuarial (loss) gain (Note 24)	(29)	66
Recovery of (provision for) income taxes on actuarial (loss) gain	4	(11)
Actuarial (loss) gain, net of income tax	(25)	55
Total comprehensive income	\$ 165	\$ 374

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Canadian \$ millions, except number of shares)	Share Capital			Accumulated Other Comprehensive Income (Loss)			Total Shareholders' Equity
	Number of Shares	Amount	Contributed Surplus	Impact of Foreign Currency Translation and Net Investment Hedges	Impact of Cash Flow Hedges	Retained Earnings	
Balance, January 1, 2018	168,266,582	\$ 580	\$ —	\$ 195	\$ —	\$ 1,199	\$ 1,974
Net income	—	—	—	—	—	232	232
Other comprehensive income	—	—	—	84	3	55	142
Total comprehensive income	—	—	—	84	3	287	374
Exercise of share options	243,438	7	(3)	—	—	(4)	—
Share option expense	—	—	3	—	—	—	3
Repurchase of common shares (Note 9)	(4,128,053)	(14)	—	—	—	(95)	(109)
Dividends on common shares	—	—	—	—	—	(133)	(133)
Balance, December 31, 2018	164,381,967	\$ 573	\$ —	\$ 279	\$ 3	\$ 1,254	\$ 2,109
Net income	—	—	—	—	—	242	242
Other comprehensive loss	—	—	—	(49)	(3)	(25)	(77)
Total comprehensive (loss) income	—	—	—	(49)	(3)	217	165
Exercise of share options	10,507	1	(1)	—	—	—	—
Share option expense	—	—	3	—	—	—	3
Hedging gain transferred to statement of financial position	—	—	—	—	(2)	—	(2)
Repurchase of common shares (Note 9)	(1,073,354)	(4)	—	—	—	(23)	(27)
Dividends on common shares	—	—	—	—	—	(133)	(133)
Balance, December 31, 2019	163,319,120	\$ 570	\$ 2	\$ 230	\$ (2)	\$ 1,315	\$ 2,115

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)	2019	2018
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 242	\$ 232
Adjusting for:		
Depreciation and amortization	293	187
Gain on disposal of rental equipment and property, plant, and equipment	—	(6)
Write-off and loss related to investment (Note 6b)	—	30
Impairment of long-lived assets (Note 16)	5	—
Equity earnings of joint ventures and associate (Note 15)	(15)	(12)
Share-based payment expense (Note 11)	13	7
Provision for income taxes (Note 13)	76	115
Finance costs (Note 7)	107	76
Net benefit cost of post-employment benefit plans in selling, general, and administrative expenses (Note 24)	16	19
Changes in operating assets and liabilities (Note 25)	(219)	(103)
Additions to rental equipment	(215)	(306)
Proceeds on disposal of rental equipment	126	162
Interest paid	(105)	(73)
Income tax paid	(133)	(68)
Cash flow provided by operating activities	191	260
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant, and equipment and intangible assets	(154)	(201)
Proceeds on disposal of property, plant, and equipment	5	19
Consideration paid for business acquisition, net of cash acquired (Note 26)	(229)	—
Advances to joint venture (Note 15)	—	(2)
Cash flow used in investing activities	(378)	(184)
<b>FINANCING ACTIVITIES</b>		
Increase in short-term debt (Note 7 and Note 25)	77	136
Issue of \$200 million unsecured senior notes, net of issue costs (Note 7 and 25)	199	—
Decrease in lease liabilities (Note 25)	(88)	(4)
Credit facility fee	(1)	(1)
Repurchase of common shares	(31)	(105)
Dividends paid	(133)	(133)
Cash flow provided by (used in) financing activities	23	(107)
Effect of currency translation on cash balances	(22)	27
Decrease in cash and cash equivalents	(186)	(4)
Cash and cash equivalents, beginning of year	454	458
Cash and cash equivalents, end of year (Note 25)	\$ 268	\$ 454

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

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## 1. GENERAL INFORMATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES, KEY ASSUMPTIONS, AND SIGNIFICANT JUDGMENTS

These consolidated financial statements of Finning and its subsidiaries (together, the “Company”) have been prepared in accordance with International Financial Reporting Standards (IFRS) issued and effective for the current year. The consolidated financial statements were authorized for issuance by the Company’s Board of Directors on February 11, 2020. The Company has applied the same accounting policies consistently to all periods presented unless otherwise noted.

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

Certain of the Company’s accounting policies that relate to the financial statements as a whole, as well as estimates and judgments it 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 2019 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 for derivative financial instruments, certain assets held for sale, plan assets related to defined benefit pension plans, and liabilities for share-based payment arrangements, which have been measured at fair value.

### (a) Principles of Consolidation

#### Accounting Policy

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

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

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

<sup>(1)</sup> Canadian dollar (CAD), US dollar (USD), UK pound sterling (GBP), Euro (EUR)

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



## (b) Foreign Currency Translation

### Accounting Policy

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

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

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

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

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

### Areas of Significant Judgment

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

### (c) New Accounting Standard and Interpretation

The Company has adopted the following new accounting standard and interpretation:

- IFRS 16, Leases (effective January 1, 2019) introduced new requirements for the classification and measurement of leases. Under IFRS 16, a lessee no longer classifies leases as operating or financing and records all leases on the consolidated statement of financial position. The adoption of IFRS 16 has resulted in higher non-current assets and current and non-current liabilities in the consolidated statement of financial position in all reporting segments, primarily in the Canadian segment. The categories of assets most impacted were buildings and vehicles. Implementation of IFRS 16 results in lower selling, general and administrative expenses due to lower operating lease expense partially offset by higher depreciation expense and higher interest expense. Although total cash movement is unchanged, the presentation in the consolidated statement of cash flows has been revised under the new standard. Cash flows used in operating activities are lower, offset by an increase in cash flows used in financing activities, as the principal component of lease payments previously accounted for as operating activities is now presented as financing activities.

The Company has applied IFRS 16 retrospectively and recognized the cumulative effect of initial application on January 1, 2019, on the consolidated statement of financial position, subject to permitted and elected practical expedients. This method of application has not resulted in a restatement of amounts reported in periods prior to January 1, 2019. The Company measured the right-of-use asset at an amount equal to the lease liability on January 1, 2019 and applied a single discount rate to leases with a similar remaining lease term for similar classes of underlying assets. The weighted average borrowing rate applied to lease liabilities recognized in the statement of financial position is approximately 4%. The Company did not apply this standard to short-term leases and leases for which the underlying asset is of low value. The Company elected to rely on assessments of whether leases were onerous by applying IAS 37, Provisions, Contingent Liabilities, and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.

The difference between operating lease commitments disclosed in the 2018 annual financial statements and lease liabilities recorded at January 1, 2019 is due to discounting gross lease commitments, changes in determining lease terms (estimating extension options reasonably expected to be exercised), and applying this standard to embedded leases previously considered service arrangements.

Accounting for leases by lessors remains relatively unchanged under IFRS 16.

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

(\$ millions)	Increase
Property, plant, and equipment	\$ 253
Rental equipment	25
<b>Total assets</b>	<b>\$ 278</b>
Accounts payable and accruals	\$ 72
<b>Total current liabilities</b>	<b>\$ 72</b>
Long-term lease liabilities	206
<b>Total liabilities</b>	<b>\$ 278</b>

The Company's accounting policy for leases is disclosed in Note 17.

- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective January 1, 2019) provides guidance when there is uncertainty over income tax treatments including, but not limited to, whether uncertain tax treatments should be considered separately; assumptions made about the examination of tax treatments by tax authorities; the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates; and, the impact of changes in facts and circumstances. This interpretation did not have an impact on the Company's consolidated financial statements.

**(e) Future Accounting Pronouncements**

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

- Amendments to IFRS 3, *Business Combinations* (effective January 1, 2020) assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. The Company has not elected to apply this amendment early.
- Amendments to IFRS 9, *Financial Instruments* and IFRS 7, *Financial Instruments: Disclosures* (effective January 1, 2020) will affect entities that apply the hedge accounting requirements to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended Standards, then discontinuation of hedge accounting is still required. This amendment is not expected to have any impact on the Company's consolidated financial statements.

### 3. SEGMENTED INFORMATION

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

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

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

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

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

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

For year ended December 31, 2019 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 1,375	\$ 685	\$ 716	\$ —	\$ 2,776
Used equipment	224	47	90	—	361
Equipment rental	164	47	35	—	246
Product support	2,054	1,447	292	—	3,793
Fuel and other	637	—	4	—	641
Total revenue	\$ 4,454	\$ 2,226	\$ 1,137	\$ —	\$ 7,817
Cost of fuel	(527)	—	—	—	(527)
Net revenue	\$ 3,927	\$ 2,226	\$ 1,137	\$ —	\$ 7,290
Operating costs <sup>(1)</sup>	(3,455)	(2,017)	(1,055)	(31)	(6,558)
Equity earnings of joint ventures	15	—	—	—	15
Other expenses (Note 6)	(17)	(8)	—	(4)	(29)
EBITDA	\$ 470	\$ 201	\$ 82	\$ (35)	\$ 718
Depreciation and amortization	(174)	(81)	(36)	(2)	(293)
Earnings (loss) before finance costs and income taxes	\$ 296	\$ 120	\$ 46	\$ (37)	\$ 425
Finance costs					(107)
Provision for income taxes					(76)
Net income					\$ 242
Invested capital <sup>(2)</sup>	\$ 2,026	\$ 1,192	\$ 361	\$ 12	\$ 3,591
Capital and rental equipment <sup>(3)</sup>	\$ 1,045	\$ 452	\$ 176	\$ 76	\$ 1,749
Gross capital expenditures <sup>(3)(4)</sup>	\$ 134	\$ 49	\$ 11	\$ 35	\$ 229
Gross rental fleet expenditures <sup>(4)</sup>	\$ 115	\$ 28	\$ 40	\$ —	\$ 183
Gross spend on rental equipment with purchase options <sup>(4)</sup>	\$ 44	\$ —	\$ —	\$ —	\$ 44

(1) Operating costs are calculated as cost of sales less cost of fuel plus selling, general, and administration expenses less depreciation and amortization.

(2) Invested capital is calculated as total assets less total liabilities, excluding net debt. Net debt is calculated as short-term debt and long-term debt, net of cash.

(3) Capital includes property, plant, and equipment and intangible assets.

(4) Includes leases and borrowing costs capitalized and excludes additions through business acquisitions.

For year ended December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Other	Total
Revenue					
New equipment	\$ 1,288	\$ 714	\$ 738	\$ —	\$ 2,740
Used equipment	233	54	84	—	371
Equipment rental	154	50	35	—	239
Product support	1,997	1,348	287	—	3,632
Other	2	4	8	—	14
<b>Total revenue <sup>(1)</sup></b>	<b>\$ 3,674</b>	<b>\$ 2,170</b>	<b>\$ 1,152</b>	<b>\$ —</b>	<b>\$ 6,996</b>
Operating costs <sup>(2)</sup>	(3,297)	(1,966)	(1,073)	(32)	(6,368)
Equity earnings (loss) of joint ventures and associate	16	—	—	(4)	12
Other expenses (Note 6b)	—	—	—	(30)	(30)
<b>EBITDA</b>	<b>\$ 393</b>	<b>\$ 204</b>	<b>\$ 79</b>	<b>\$ (66)</b>	<b>\$ 610</b>
Depreciation and amortization	(96)	(62)	(28)	(1)	(187)
<b>Earnings (loss) before finance costs and income taxes</b>	<b>\$ 297</b>	<b>\$ 142</b>	<b>\$ 51</b>	<b>\$ (67)</b>	<b>\$ 423</b>
Finance costs					(76)
Provision for income taxes					(115)
<b>Net income</b>					<b>\$ 232</b>
Invested capital <sup>(3)</sup>	\$ 1,675	\$ 1,190	\$ 336	\$ (38)	\$ 3,163
Capital and rental equipment <sup>(4)</sup>	\$ 627	\$ 476	\$ 125	\$ 34	\$ 1,262
Gross capital expenditures <sup>(4)(5)</sup>	\$ 61	\$ 109	\$ 9	\$ 25	\$ 204
Gross rental fleet expenditures <sup>(5)</sup>	\$ 167	\$ 54	\$ 39	\$ —	\$ 260
Gross spend on rental equipment with purchase options <sup>(5)</sup>	\$ 46	\$ —	\$ —	\$ —	\$ 46

(1) Total revenue is the same as net revenue.

(2) Operating costs are calculated as cost of sales and selling, general, and administration expenses less depreciation and amortization.

(3) 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.

(4) Capital includes property, plant, and equipment and intangible assets.

(5) Includes finance leases and borrowing costs capitalized and excludes additions through business acquisitions.

#### Revenue and non-current assets <sup>(6)</sup> by location of operations

(\$ millions)	Revenues		Non-current assets <sup>(6)</sup>	
	Year ended December 31		As at December 31	
	2019	2018	2019	2018
Canada	\$ 4,346	\$ 3,674	\$ 1,507	\$ 966
Chile	\$ 1,842	\$ 1,730	\$ 350	\$ 359
United Kingdom	\$ 1,001	\$ 1,015	\$ 290	\$ 255
Argentina	\$ 302	\$ 362	\$ 94	\$ 109
Other countries	\$ 326	\$ 215	\$ 33	\$ 24

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

#### 4. REVENUE

##### Revenue Recognition

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

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

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

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

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

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

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

## **Areas of Estimation Uncertainty**

### Long-Term Contracts

Where the outcome of performance obligations for long-term contracts (primarily sales of complex power and energy systems and sales of parts and labour when servicing equipment) 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 for long-term contracts cannot be reliably measured, contract revenue is recognized in the current period to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant assumptions are required to estimate total contract costs, which are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized in the consolidated statement of net income immediately.

## **Areas of Significant Judgment**

### Repurchase Commitments

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

### Rental Equipment with Purchase Options

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

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

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

<b>For year ended December 31, 2018</b>			
<b>(\$ millions)</b>	<b>Point-in-time</b>	<b>Over-time</b>	<b>Total</b>
New equipment	\$ 2,459	\$ 281	\$ 2,740
Used equipment	371	—	371
Equipment rental	—	239	239
Product support	1,486	2,146	3,632
Other	—	14	14
<b>Total revenue</b>	<b>\$ 4,316</b>	<b>\$ 2,680</b>	<b>\$ 6,996</b>

The Company recorded the following unbilled receivables from customers:

<b>For years ended December 31</b>		
<b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
Product support	\$ 198	\$ 129
New equipment	48	23
<b>Total unbilled receivables</b>	<b>\$ 246</b>	<b>\$ 152</b>

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



The Company recorded the following contract liabilities:

<b>December 31, 2019</b> (\$ millions)	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Product support	\$ 196	\$ 13	\$ 209
Deposits from customers for new equipment	88	—	88
Complex power and energy systems	46	—	46
Extended warranty	27	35	62
New equipment sales under repurchase commitments	2	2	4
Other	1	—	1
<b>Total deferred revenue</b>	<b>\$ 360</b>	<b>\$ 50</b>	<b>\$ 410</b>

<b>December 31, 2018</b> (\$ millions)	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Product support	\$ 208	\$ 6	\$ 214
Deposits from customers for new equipment	233	—	233
Complex power and energy systems	46	—	46
Extended warranty	25	40	65
New equipment sales under repurchase commitments	3	3	6
Other	2	—	2
<b>Total deferred revenue</b>	<b>\$ 517</b>	<b>\$ 49</b>	<b>\$ 566</b>

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

## 5. EARNINGS PER SHARE

### Accounting Policy

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

<b>For year ended December 31, 2019</b>			
(\$ millions, except share and per share amounts)	Income	Shares	EPS
<b>Basic EPS:</b>			
Net income, weighted average shares outstanding, EPS	\$ 242	163,427,006	\$ 1.48
Effect of dilutive securities: share options	—	72,020	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 242	163,499,026	\$ 1.48
<b>For year ended December 31, 2018</b>			
<b>Basic EPS:</b>			
Net income, weighted average shares outstanding, EPS	\$ 232	167,997,608	\$ 1.38
Effect of dilutive securities: share options	—	546,705	—
<b>Diluted EPS:</b>			
Net income and assumed conversions	\$ 232	168,544,313	\$ 1.38

Share options granted to employees that were anti-dilutive were excluded from the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share. Anti-dilutive share options related to the year ended December 31, 2019 were 2 million (2018: 0 million).

## 6. OTHER EXPENSES

<b>For years ended December 31</b>		
(\$ millions)	2019	2018
Severance costs (a)	\$ 18	\$ —
Impairment of long-lived assets (a)	5	—
Provision on onerous contracts (a)	2	—
Acquisition costs (Note 26)	4	—
Write-off and loss related to investment (b)	—	30
<b>Total other expenses</b>	<b>\$ 29</b>	<b>\$ 30</b>

- (a) As part of actions taken to adjust to market conditions, the Company implemented plans to reduce its workforce in its Canadian and South American operations and therefore recorded provisions related to the restructuring plans in 2019. The Company also implemented plans to consolidate certain branches and exit some facilities in its Canadian operations and therefore has recorded an impairment loss in 2019 on leased properties and any related equipment and leasehold improvements, as well as provisions for the unavoidable non-lease costs for these properties.
- (b) In 2018, the Company recorded a charge of \$30 million comprising the investment write-off of \$19 million relating to Energyst B.V. (Energyst) and a reclassification of cumulative foreign translation losses of \$11 million from accumulated other comprehensive income to the statement of net income upon Energyst's sale of its wholly-owned subsidiary in Argentina.

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

December 31 (\$ millions)	2019	2018
<b>Short-term debt</b>	<b>\$ 226</b>	<b>\$ 154</b>
<b>Long-term debt</b>		
3.232%, \$200 million, due July 3, 2020	200	200
2.84%, \$200 million, due September 29, 2021	200	200
2.626%, \$200 million, due August 14, 2026	199	—
5.077% \$150 million, due June 13, 2042	149	149
3.98% USD \$100 million, due January 19, 2022, Series A	130	136
4.08% USD \$100 million, due January 19, 2024, Series B	129	136
4.18% USD \$50 million, due April 3, 2022, Series C	65	68
4.28% USD \$50 million, due April 3, 2024, Series D	65	68
4.53% USD \$200 million, due April 3, 2027, Series E	259	273
3.40% £70 million, due May 22, 2023, Series F	120	122
Other term loans	2	2
<b>Total long-term debt</b>	<b>1,518</b>	<b>1,354</b>
Current portion of long-term debt	\$ 200	\$ —
Non-current portion of long-term debt	\$ 1,318	\$ 1,354

The Company has an unsecured syndicated committed credit facility of \$1.3 billion. In December 2019, the Company amended the credit facility which was set to fully mature in December 2023 by, among other things, extending the maturity date to December 2024. 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.

### Covenant

The Company is subject to certain covenants within its syndicated committed credit facility. As at December 31, 2019 and 2018, the Company was in compliance with these covenants.

### Short-Term Debt

At December 31, 2019, short-term debt includes \$208 million (USD \$160 million) drawn on the Company's syndicated committed credit facility and local bank borrowings in the Company's South American operations of \$18 million (2018: short-term debt included \$150 million drawn on the Company's syndicated committed credit facility and local bank borrowings in the Company's South American operations of \$4 million).

The Company's principal source of short-term funding is its access to the syndicated committed credit facility. The Company also maintains a maximum authorized commercial paper program of \$600 million, backstopped by credit available under the \$1.3 billion syndicated committed credit facility. There was no commercial paper outstanding at December 31, 2019 or December 31, 2018. In addition, the Company maintains other bank credit facilities, including overdrafts and letters of credit, to support its subsidiary operations.

The average interest rate applicable to the consolidated short-term debt for 2019 was 4.5% (2018: 5.8%).

### Long-Term Debt

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

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

The average interest rate applicable to the consolidated long-term debt for 2019 was 3.5% (2018: 3.9%).

### Long-Term Debt Repayments

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

<b>December 31</b>	
<b>(\$ millions)</b>	
2020	\$ 200
2021	201
2022	195
2023	120
2024	195
Thereafter	607
<b>Total</b>	<b>\$ 1,518</b>

### Finance Costs

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

<b>For years ended December 31</b>		
<b>(\$ millions)</b>		
	<b>2019</b>	<b>2018</b>
Interest on short-term debt	\$ 33	\$ 15
Interest on long-term debt	54	52
Interest on debt securities	87	67
Net interest (recovery) cost on post-employment benefit plans (Note 24)	(1)	1
Interest on lease liabilities	11	2
Other finance related expenses	10	6
<b>Finance costs</b>	<b>\$ 107</b>	<b>\$ 76</b>

## 8. FINANCIAL INSTRUMENTS

Finning and its subsidiaries are exposed to market, credit, liquidity, and other risks in the normal course of their 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 them, across the organization in order to achieve the Company's strategic objectives.

The Company maintains a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, Board of Directors (Board) level committees review the Company's processes for business risk assessment and the management of key business risks, any changes to key risks and exposures and the steps taken to monitor and control such exposures. These reviews are reported to the Board quarterly. The Board reviews, in detail, all material risks on an annual basis. The Board also reviews the adequacy of disclosures of key risks in the Company's Annual Information Form, Management's Discussion and Analysis, and Consolidated Financial Statements on a quarterly and annual basis.

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

### (a) Financial Assets and Credit Risk

#### Accounting Policy

##### Classification and measurement

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

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

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

#### Areas of Estimation Uncertainty

##### Allowance for Doubtful Accounts

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

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

Exposure to Credit Risk

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

<b>December 31</b> <b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 268	\$ 454
Accounts receivable – trade	895	908
Accounts receivable – other	24	61
Unbilled receivables	246	152
Supplier claims receivable	95	83
Instalment notes receivable	35	32
Derivative assets	—	7
<b>Total exposure to credit risk</b>	<b>\$ 1,563</b>	<b>\$ 1,697</b>

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 receivables, 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.

Receivables from Suppliers

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

Derivative Assets

The Company has credit exposure arising from its derivative instruments relating to counterparties defaulting on their obligations. However, the Company minimizes this risk by ensuring there is no excessive concentration of credit risk with any single counterparty, by active credit monitoring, and by dealing primarily with major financial institutions that have a credit rating of at least A from Standard & Poor's and/or A2 by Moody's Corporation and/or A by Fitch Ratings Inc.

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

<b>December 31</b> <b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
Canada	\$ 459	\$ 409
Chile	265	259
UK	87	109
Argentina	45	75
Other	39	56
<b>Total</b>	<b>\$ 895</b>	<b>\$ 908</b>

#### Impairment Losses

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

<b>December 31</b> <b>(\$ millions)</b>	<b>2019</b>		<b>2018</b>	
	<b>Gross</b>	<b>Allowance</b>	<b>Gross</b>	<b>Allowance</b>
Not past due	\$ 620	\$ —	\$ 556	\$ —
Past due 1 – 30 days	160	—	204	—
Past due 31 – 90 days	66	1	97	1
Past due 91 – 120 days	19	2	26	5
Past due greater than 120 days	72	39	67	36
<b>Total</b>	<b>\$ 937</b>	<b>\$ 42</b>	<b>\$ 950</b>	<b>\$ 42</b>

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

<b>For years ended December 31</b> <b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
Balance, beginning of year	\$ 42	\$ 35
Additional allowance	8	16
Receivables written off	(6)	(13)
Foreign exchange rate changes	(2)	4
<b>Balance, end of year</b>	<b>\$ 42</b>	<b>\$ 42</b>

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

## (b) Financial Liabilities and Liquidity Risk

### Accounting Policy

#### Classification and measurement

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

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

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquid financial resources to fund its operations and meet its commitments and obligations. The Company maintains bilateral and syndicated credit facilities, continuously monitors actual and forecast cash flows, and manages maturity profiles of financial liabilities. At December 31, 2019, the Company had approximately \$2.0 billion (2018: \$2.2 billion) of unsecured credit facilities. Included in this amount is a syndicated committed credit facility totalling \$1.3 billion with various Canadian and global financial institutions. At December 31, 2019, \$1.1 billion (2018: \$1.2 billion) was available under this syndicated committed credit facility. For more information on this \$1.3 billion credit facility, please see Note 7.

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

(\$ millions)	Carrying amount December 31, 2019	Contractual cash flows			
		2020	2021-2022	2023-2024	Thereafter
<b>Non-derivative financial liabilities</b>					
Short-term debt	\$ (226)	\$ (226)	\$ —	\$ —	\$ —
Unsecured \$750 million MTN	(748)	(225)	(232)	(25)	(494)
USD \$500 million Notes	(648)	(28)	(247)	(230)	(289)
£70 million Notes	(120)	(4)	(8)	(123)	—
Other term loans	(2)	—	(1)	(1)	—
Lease liabilities	(357)	(95)	(148)	(74)	(71)
Accounts payable and accruals (excluding current portion of lease liabilities)	(1,085)	(1,085)	—	—	—
<b>Total non-derivative financial liabilities</b>	<b>\$ (3,186)</b>	<b>\$ (1,663)</b>	<b>\$ (636)</b>	<b>\$ (453)</b>	<b>\$ (854)</b>
<b>Derivative financial liabilities</b>					
Forward foreign currency contracts and swaps					
Sell CAD	\$ (3)	\$ (435)	\$ —	\$ —	\$ —
Buy USD	—	432	—	—	—
Sell CLP <sup>(1)</sup>	(1)	(1)	—	—	—
Buy USD	—	—	—	—	—
<b>Total derivative liabilities</b>	<b>\$ (4)</b>	<b>\$ (4)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

<sup>(1)</sup> Chilean Peso (CLP)



## (c) Hedging and Market Risk

### Accounting Policy

#### Hedges

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

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

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

#### Cash Flow Hedges

The Company uses foreign exchange forward contracts and, at times, may use options to hedge the currency risk associated with certain foreign currency purchase commitments, payroll, and associated accounts payable and accounts receivable. The Company may also use other derivative instruments such as swaps, rate locks, and options to hedge its interest rate exposure.

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

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

#### Net Investment Hedges

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

### Areas of Estimation Uncertainty

#### Fair Value

The fair value of derivative financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Company uses its judgement to select a valuation method and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

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

### Foreign Exchange Risk

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

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

#### *Translation Exposure*

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

Assets and liabilities of the Company's South American and UK & Ireland operations are translated into CAD using the exchange rates in effect at the 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 \$768 million (2018: \$803 million).

#### *Transaction Exposure*

Many of the Company's operations purchase, sell, rent, and lease products as well as incur costs in currencies other than their functional currency. This mismatch of currencies creates transactional exposure, which may affect 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 in its Canadian and UK operations. For the year ended December 31, 2019 the Company entered into forward exchange contracts for inventory purchases of USD \$170 million. During the year, there were no cancellations of forward contracts where the transaction was no longer expected to occur. In 2018, the Company entered into forward exchange contracts for inventory purchases of USD \$286 million of which approximately USD \$36 million related to forecast transactions that were no longer expected to occur. These hedges were discontinued and the ineffective portion of \$1 million was recognized in the consolidated statement of net income in 2018.

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

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

The fair value of derivative liabilities designated as cash flow hedging instruments is \$1 million (2018: \$5 million asset).

### Exposure to Foreign Exchange Risk

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

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

<b>December 31, 2018</b> (millions)	<b>CAD</b>	<b>USD</b>	<b>GBP</b>	<b>CLP</b>	<b>ARS</b>
Cash and cash equivalents	—	284	50	11,577	63
Accounts receivable – trade	322	219	67	142,603	—
Short-term and long-term debt	(699)	(499)	(71)	—	(353)
Accounts payable and accruals	(399)	(368)	(90)	(84,311)	(4,570)
Lease liabilities	(2)	—	(13)	—	—
<b>Net statement of financial position exposure</b>	<b>(776)</b>	<b>(364)</b>	<b>(44)</b>	<b>69,869</b>	<b>(4,860)</b>

### Sensitivity Analysis to Foreign Exchange Risk

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

<b>December 31, 2019</b> (\$ millions)	<b>Weakening of CAD</b>	<b>Pre-tax Income (Loss)</b>	<b>Other Comprehensive Loss</b>
USD/CAD	10%	\$ 16	\$ (63)
GBP/CAD	20%	\$ 1	\$ (24)
CLP/CAD	10%	\$ 5	\$ —
ARS/CAD	30%	\$ (10)	\$ —

A strengthening of the CAD against the above currencies relative to the December 31, 2019 month end rates would have an equivalent but opposite effect on the above accounts in the amounts shown on the basis that all other variables are unchanged.

### Interest Rate Risk

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

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

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

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

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

#### *Profile*

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

<b>December 31</b> <b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
<b>Fixed rate instruments</b>		
Financial assets	\$ 35	\$ 32
Financial liabilities	\$ (1,875)	\$ (1,384)
<b>Variable rate instruments</b>		
Financial assets	\$ 268	\$ 454
Financial liabilities	\$ (226)	\$ (154)

#### *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 less than \$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 instruments. All of the derivative instruments are measured at fair value using Level 2 inputs. Certain assets held-for-sale are measured at fair value using level 3 inputs. The Company did not move any instruments between levels of the fair value hierarchy during the years ended December 31, 2019 and 2018.

##### Derivative Instruments (Level 2)

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

Where appropriate, 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 is estimated as follows:

December 31 (\$ millions)	2019		2018	
	Carrying	Fair Value	Carrying	Fair Value
Long-term debt	\$ 1,518	\$ 1,635	\$ 1,354	\$ 1,569

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 actual interest accrued to date. 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.

##### Asset Held-For-Sale (Level 3)

The Company's 28.8% investment in Energyst was considered held-for-sale at December 31, 2019 and 2018. The fair value was estimated by applying a multiple of Energyst's book value (Enterprise Value to EBITDA ratio), was estimated to be trivial and therefore recorded at \$nil.

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

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

## 9. MANAGEMENT OF CAPITAL

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

The Company manages its capital structure and makes adjustments to it in light of actual and forecast cash flows, actual and anticipated capital expenditures and investments, changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, repay debt, issue new debt to replace existing debt with different characteristics, or adjust the amount of dividends paid to shareholders. In May 2019, the Company renewed its normal course issuer bid which enables the Company to purchase its common shares for cancellation. During 2019, the Company repurchased 1,073,354 Finning common shares for cancellation at an average cost of \$24.75 per share (2018: 4,128,053 Finning common shares were repurchased for cancellation at an average cost of \$26.41 per share).

The Company monitors net debt to 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 EBITDA held constant.

<b>December 31</b>	<b>Company long-term target</b>	<b>2019</b>	<b>2018</b>
Net debt to EBITDA Ratio	<b>&lt; 3.0</b>	<b>2.1</b>	<b>1.7</b>

Net debt to EBITDA is calculated as net debt divided by EBITDA for the last twelve months. Net debt is calculated as short-term and long-term debt, net of cash. EBITDA is calculated by adding depreciation and amortization to earnings before finance costs and income taxes, as shown in Note 3.

Net Debt is calculated as follows:

<b>December 31 (\$ millions)</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ (268)	\$ (454)
Short-term debt	<b>226</b>	154
Current portion of long-term debt	<b>200</b>	—
Long-term debt	<b>1,318</b>	1,354
Net debt	<b>\$ 1,476</b>	<b>\$ 1,054</b>

## 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 flows. Details of the transaction (number of shares repurchased and amount deducted from equity) are disclosed in the statement of shareholder's 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, 2019 and 2018.

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

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

In addition, a shareholder rights plan is in place, which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares if a third party attempts to acquire a significant interest in the Company. The rights plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a "permitted bidder", bids to acquire or acquires 20% or more of the Company's common shares, at which time the share purchase rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or similar transaction. In May 2017, the rights plan was extended for three years such that it will automatically terminate at the end of the Company's Annual Meeting of shareholders in 2020 unless further extended by the shareholders prior to that time. The rights plan was also amended to reflect recent amendments made to Canada's take-over bid regime.

The rights will not be triggered if a bid meets certain criteria (a permitted bid). These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the bid and not withdrawn (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid must expire not less than 105 days after the date of the bid circular, or such shorter period that a take-over bid (that is not exempt from the general take-over bid requirements under applicable securities law) must remain open for deposits of securities thereunder, in the applicable circumstances at such time.

## 11. SHARE-BASED PAYMENTS

### Accounting Policy

The Company has share option plans and other share-based compensation plans for directors and certain eligible employees.

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 TSX:FTT share prices. 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 portion) and long-term other liabilities (non-current portion) 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 volatility, interest rates, dividend yields and expected life of the units issued. Inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimates of inputs to the model at the date of grant. Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of equity-settled share-based payments in estimating how many units will vest.

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

In 2019 and 2018, long-term incentives for executives and senior management were a combination of share options, deferred share units, performance share units, and restricted share units.

### Share Options

The Company has one share option plan (Stock Option Plan) for certain employees. Options granted under the Stock Option Plan vest over a three-year period and are exercisable over a seven-year period. The exercise price of each option is based on the weighted average trading price of the common shares of the Company on the date prior to the grant. Under the Stock Option Plan, the Company may issue up to 7.5 million common shares pursuant to the exercise of share options. At December 31, 2019 and 2018, approximately 2 million common shares remained eligible to be issued in connection with future grants.

In 2019, the Company granted 608,821 common share options to senior executives and management of the Company (2018: 358,755 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 shares issued on exercise is based on the premium between the fair value of shares at the time of exercise and the grant value, and the equivalent value of the number of options up to the grant value is withheld. Share options exercised in 2019 comprised cashless exercises. 133,384 options were exercised in 2019 resulting in 10,507 common shares being issued; 122,877 options were withheld and returned to the option pool for future issues/grants (2018: 1,032,718 options were exercised resulting in 243,438 common shares being issued; 789,280 options were withheld and returned).



Details of the share option plans were as follows:

For years ended December 31	2019		2018	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	3,164,352	\$ 26.22	3,864,338	\$ 25.45
Granted	608,821	\$ 22.31	358,755	\$ 33.62
Exercised	(133,384)	\$ 22.25	(1,032,718)	\$ 25.85
Forfeited	(165,021)	\$ 26.91	(23,673)	\$ 28.25
Expired	(58,600)	\$ 25.48	(2,350)	\$ 28.29
Options outstanding, end of year	3,416,168	\$ 25.66	3,164,352	\$ 26.22
Exercisable, end of year	2,449,590	\$ 25.67	2,363,029	\$ 25.33

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

	2019 Grant	2018 Grant
Dividend yield	2.9%	2.8%
Expected volatility <sup>(1)</sup>	27.6%	27.1%
Risk-free interest rate	1.5%	2.3%
Expected life (years)	5.38	5.38
Share price	\$ 22.31	\$ 33.62

<sup>(1)</sup> Expected volatility is based on historical share price volatility of TSX:FTT shares

The weighted average grant date fair value of options granted during the year was \$4.28 (2018: \$6.85).

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

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

The following table summarizes information about share options outstanding at December 31, 2018:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number outstanding	Weighted Average Exercise Price
\$19.53 - \$22.15	653,209	3.39 years	\$ 21.78	498,607	\$ 21.77
\$22.16 - \$24.97	192,357	1.37 years	\$ 22.30	192,357	\$ 22.30
\$24.98 - \$25.47	939,940	3.36 years	\$ 25.44	939,940	\$ 25.44
\$25.48 - \$27.98	492,603	4.72 years	\$ 26.59	200,644	\$ 26.33
\$27.99 - \$33.68	886,243	3.99 years	\$ 30.96	531,481	\$ 29.20
Total	3,164,352	3.63 years	\$ 26.22	2,363,029	\$ 25.33

## 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*

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

Units are redeemable for cash or shares or a combination of cash and shares (as requested by the holder) only following cessation of service on the Board of Directors and must be redeemed by December 31<sup>st</sup> of the year following the year in which the cessation occurred. The value of the deferred share units when converted to cash will be equivalent to the market value of the Company's common shares at the time the conversion takes place.

Non-employee Directors of the Company were granted a total of 69,567 deferred share units in 2019 (2018: 49,265), which were expensed over the calendar year as the units were issued. An additional 28,370 deferred share units (2018: 21,780) were issued in lieu of cash compensation payable for service as a Director. A further 16,691 deferred share units (2018: 10,494) were granted to Directors during 2019 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 or be awarded deferred share units as approved by the Board of Directors. The Exec DSU Plan utilizes notional units that become fully vested at the time of issuance or in accordance with terms set at the time of grant. Vested deferred share units are redeemable for cash before December 15<sup>th</sup> of the year following the year employment with the Company ceases. 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 330,057 deferred share units in 2019 (2018: 20,357) as remuneration of their annual bonus payment and 1,940 deferred share units (2018: 1,097) were issued as notional dividends under the Exec DSU Plan.

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

Under the DSU-B Plan, executives of the Company may be awarded deferred share units as approved by the Board of Directors. The DSU-B Plan utilizes notional units that become vested in accordance with terms set at the time of grant, or in certain years, the vesting schedule set out in the plan. Vested deferred share units are redeemable for cash or for common shares of the Company for a period of 30 days after cessation of employment with the Company, or before December 31<sup>st</sup> of the year following the year of retirement, death, or disability. Deferred share units that have not vested within five years from the date that they were granted will expire. 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 2019, 4,600 deferred share units (2018: 3,229) were granted to executives as notional dividends under the DSU-B Plan.

### *PSU Plan*

Under the PSU Plan, executives of the Company may be awarded performance share units as approved by the Board of Directors. This plan utilizes notional units that vest upon achieving future specified performance levels. All units accumulate dividend equivalents in the form of additional performance share units based on the dividends paid on the Company's common shares, redeemed upon vesting. All PSUs granted in 2019 and 2018 were divided equally into two categories. Half of the awards are based on the extent to which the Company's average return on invested capital achieves or exceeds the specified performance levels over a three-year period (ROIC PSUs). The remaining 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 and the fair value payout per unit is based on the five-day volume-weighted average price of the Company's common shares at the end of the performance period. During the year ended December 31, 2019, a total of 551,604 performance share units were granted to Executives, based on 100% vesting (2018: 375,332), and 43,891 notional units (2018: 19,233) were issuable based on 100% vesting as payment for dividends upon vesting.

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

The specified levels and respective vesting percentages for the 2019 and 2018 grants were as follows:

TSR PSUs

Percentile Rank	< 25 <sup>th</sup> Percentile	25 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile	100 <sup>th</sup> Percentile
TSR PSUs Vested	0%	50%	100%	150%	200%

ROIC PSUs

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

Restricted Share Unit (RSU) Plan

Under the RSU Plan, executives of the Company may be awarded restricted share units as approved by the Board of Directors. This plan utilizes notional units that may become vested 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, redeemed upon vesting.

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, 2019, a total of 258,024 restricted share units were granted to Executives (2018: 167,052) and 21,572 notional units (2018: 14,892) are issuable as payment for dividends upon vesting.

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

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

For year ended December 31, 2018	Exec					
Units	DSU	DSU-B	DDSU	PSU	RSU	Total
Outstanding, beginning of year	35,356	122,543	418,284	1,304,458	448,080	2,328,721
Additions	21,454	3,229	81,539	257,551	181,944	545,717
Exercised	(6,646)	—	(80,058)	(182,629)	—	(269,333)
Forfeited	—	—	—	(40,166)	(24,670)	(64,836)
Outstanding, end of year	50,164	125,772	419,765	1,339,214	605,354	2,540,269
Vested, beginning of year	35,356	122,543	418,284	173,111	—	749,294
Vested	21,454	3,229	81,539	481,968	—	588,190
Exercised	(6,646)	—	(80,058)	(182,629)	—	(269,333)
Vested, end of year	50,164	125,772	419,765	472,450	—	1,068,151
<b>Liability</b>						
<b>(\$ millions)</b>						
Balance, beginning of year	\$ 1	\$ 4	\$ 13	\$ 25	\$ 7	\$ 50
(Recovery) expensed	—	(1)	(1)	5	3	6
Exercised	—	—	(2)	(6)	—	(8)
Forfeited	—	—	—	(1)	(1)	(2)
Balance, end of year	\$ 1	\$ 3	\$ 10	\$ 23	\$ 9	\$ 46

The fair value of the DSUs, ROIC PSUs, and RSUs outstanding as at December 31, 2019 has been estimated using the period-end closing share price of \$25.30 (December 31, 2018: \$23.80).

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

<b>For years ended December 31</b>		
<b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
<b>Consolidated Statements of Net Income</b>		
Compensation expense arising from equity-settled share option incentive plan	\$ 3	\$ 3
Compensation expense arising from cash-settled share based payments	10	4
<b>Total</b>	<b>\$ 13</b>	<b>\$ 7</b>
<b>Consolidated Statements of Financial Position</b>		
Current liability for cash-settled share-based payments	\$ 13	\$ 16
Non-current liability for cash-settled share-based payments (Note 22)	\$ 25	\$ 30

The total intrinsic value of vested but not settled share-based payments was \$23 million (2018: \$25 million).

## 12. INVENTORIES

### Accounting Policy

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

### Areas of Estimation Uncertainty

The Company makes estimates of the provision required to reflect 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.

<b>December 31</b>		
<b>(\$ millions)</b>	<b>2019</b>	<b>2018</b>
On-hand equipment	\$ 891	\$ 1,036
Parts and supplies	775	716
Internal service work in progress	324	309
<b>Total inventory</b>	<b>\$ 1,990</b>	<b>\$ 2,061</b>

For the year ended December 31, 2019, on-hand equipment, parts, supplies, and internal service work in progress recognized as an expense in cost of sales amounted to \$5.0 billion (2018: \$4.8 billion). For the year ended December 31, 2019, the write-down of inventories to net realizable value, included in cost of sales, was \$52 million (2018: \$43 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 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 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 change from period to period due to the uncertainties surrounding these assumptions and changes in tax rates or regimes which could have a material adverse 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.

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

<b>For year ended December 31, 2018</b>				
(\$ millions)	Canada	International	Total	
Current	\$ 47	\$ 74	\$ 121	
Adjustment for prior periods recognized in the current year	(3)	(17)	(20)	
<b>Total current tax expense</b>	<b>44</b>	<b>57</b>	<b>101</b>	
Deferred				
Origination and reversal of timing differences	5	(13)	(8)	
Increase due to tax rate changes	—	1	1	
Adjustment for prior periods recognized in the current year	4	17	21	
<b>Total deferred tax expense</b>	<b>9</b>	<b>5</b>	<b>14</b>	
<b>Provision for income taxes</b>	<b>\$ 53</b>	<b>\$ 62</b>	<b>\$ 115</b>	

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:

<b>For years ended December 31</b>				
(\$ millions)	2019		2018	
Combined Canadian federal and provincial income taxes at the statutory tax rate	\$ 85	26.7 %	\$ 94	27.0 %
(Decrease) increase resulting from:				
Lower statutory rates on the earnings of foreign subsidiaries	(9)	(2.8)%	(11)	(3.2)%
Income not subject to tax	(7)	(2.2)%	(6)	(1.7)%
Changes in statutory tax rates	(4)	(1.3)%	2	0.6 %
Non-deductible share-based payment expense	1	0.3 %	1	0.3 %
Non-taxable/non-deductible foreign exchange in Argentina	11	3.6 %	31	8.9 %
Inflationary adjustment	(5)	(1.6)%	(8)	(2.3)%
Non-deductible write-off and loss related to investment	—	—	9	2.6 %
Other	4	1.3 %	3	0.9 %
<b>Provision for income taxes</b>	<b>\$ 76</b>	<b>24.0 %</b>	<b>\$ 115</b>	<b>33.1 %</b>

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

- In Canada, the Alberta provincial government announced the reduction of the corporate income tax rate from 12% to 11% effective July 1, 2019. The rate will further decrease to 10% effective January 1, 2020, 9% effective January 1, 2021, and 8% effective January 1, 2022. These tax rate changes were substantively enacted in 2019.
- In 2017, the Argentine government announced the reduction of the corporate tax rate from 30% to 25% effective January 1, 2020. On December 23, 2019 the Argentine government approved the delay of the tax rate reduction until January 1, 2022.

### Deferred Tax Asset and Liability

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

December 31 (\$ millions)	2019	2018
Accounting provisions not currently deductible for tax purposes	\$ 66	\$ 82
Employee benefits	4	1
Share-based payments	8	9
Loss carry-forwards	11	3
<b>Deferred tax assets</b>	<b>89</b>	<b>95</b>
Property, plant and equipment, rental, leased, and other intangible assets	(103)	(62)
Distribution network	(13)	(12)
Other	(4)	(3)
<b>Deferred tax liabilities</b>	<b>(120)</b>	<b>(77)</b>
<b>Net deferred tax (liability) asset</b>	<b>\$ (31)</b>	<b>\$ 18</b>

Deferred taxes are not recognized on retained profits of approximately \$1.7 billion (2018: \$1.8 billion) of foreign subsidiaries, as it is 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 \$16 million do not expire and \$26 million expire between 2023 and 2024.

December 31 (\$ millions)	2019	2018
International	\$ 42	\$ 12

As at December 31, 2019, the Company had unrecognized capital loss carry-forwards of \$77 million to reduce future taxable income. These amounts do not expire.

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

For years ended December 31 (\$ millions)	2019	2018
Current tax expense	\$ —	\$ 1
Deferred tax (recovery) expense	(5)	14
<b>(Recovery of) provision for income taxes recognized in other comprehensive income</b>	<b>\$ (5)</b>	<b>\$ 15</b>



#### 14. OTHER ASSETS

December 31 (\$ millions)	2019	2018
Supplier claims receivable	\$ 95	\$ 83
Equipment deposits	11	78
Prepaid expenses	54	70
Finance assets (a)	26	29
Value Added Tax receivable	5	6
Income tax recoverable	35	7
Derivative assets	—	7
Indemnification asset (b)	4	4
Other	6	4
<b>Total other assets – current</b>	<b>\$ 236</b>	<b>\$ 288</b>

December 31 (\$ millions)	2019	2018
Deferred tax assets (Note 13)	\$ 57	\$ 59
Indemnification asset (b)	10	14
Prepaid expenses	26	28
Net post-employment asset (Note 24)	73	87
Finance assets (a)	12	8
Other	6	7
<b>Total other assets – non-current</b>	<b>\$ 184</b>	<b>\$ 203</b>

- (a) Finance assets include equipment leased to customers under long-term financing leases. Depreciation expense for equipment leased to customers of \$3 million was recorded in 2019 (2018: \$7 million). Depreciation expense is recognized in equal monthly amounts over the terms of the individual leases.
- (b) In 2012, the Company acquired from Caterpillar the distribution and support business formerly operated by Bucyrus International Inc. (Bucyrus) in the Company's dealership territories in South America, Canada, and the UK. As part of the acquisition, the Company assumed non-financial liabilities which were not previously recognized by Bucyrus relating to long-term contracts, commitments related to prime product sales, and employee related liabilities. Caterpillar agreed to indemnify the Company for any below market returns on certain long term contracts (covering various periods up to 2023), to an amount equal to the liabilities assumed. The liabilities were measured at fair value by using management's best estimate, at the acquisition date, of the difference between market-rate returns and the contracted returns expected under the long-term contracts. The related indemnification asset was measured on the same basis as the liability up to an amount collectible from Caterpillar. In 2018, the Company's South American operations received final payment of \$15 million (USD \$11 million) in settlement of Caterpillar's indemnification on these long-term contracts which was recorded in deferred revenue and will be released to net income over the remaining term of these long-term contracts. The indemnification asset and related liability for the South American long-term contracts of \$3 million (USD \$2 million) were derecognized in 2018 accordingly.

## 15. JOINT VENTURES AND ASSOCIATE

### Accounting Policy

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

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

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

### Nature of Relationships

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

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

Energyst is a pan-European company formed by Caterpillar and ten of its dealers to be the exclusive Caterpillar dealer in Europe for rental power and temperature control solutions. Energyst provides coverage worldwide by collaborating with local Caterpillar dealers. During 2018, the Company conducted a review of its 28.8% investment in Energyst and determined that Energyst was no longer a strategic fit. The Company decided that Energyst was held-for-sale resulting in a write-down of its investment to its estimated fair value (\$nil).

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

December 31 Name of Venture	Type of Venture	Principal place of business/country of incorporation	Proportion of Ownership Interest Held	
			2019	2018
PLM	Joint Venture	United States	25.0%	25.0%
Agriterra	Joint Venture	Canada	20.0%	20.0%
Energyst	Associate	Netherlands	28.8%	28.8%

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

For year ended December 31, 2019 (\$ millions)						
	PLM	Agriterra	Energyst <sup>(1)</sup>	Total		
Company's share of income	\$ 15	\$ —	\$ —	\$ 15		
Company's share of other comprehensive loss	\$ (1)	\$ —	\$ —	\$ (1)		
Carrying amount of the Company's interests in joint ventures and associate <sup>(2)</sup>	\$ 89	\$ 5	\$ —	\$ 94		
For year ended December 31, 2018 (\$ millions)						
	PLM	Agriterra	Energyst <sup>(1)</sup>	Total		
Company's share of income (loss)	\$ 16	\$ —	\$ (4)	\$ 12		
Company's share of other comprehensive loss	\$ —	\$ —	\$ (2)	\$ (2)		
Carrying amount of the Company's interests in joint ventures and associate <sup>(2)</sup>	\$ 82	\$ 5	\$ —	\$ 87		

(1) Effective September 30, 2018, Energyst was classified as held-for-sale and the Company did not record any further equity earnings or losses from Energyst since that date.

(2) Included in the investment in joint venture was an advance of \$2 million to Agriterra, bearing interest at prime rate + 2%.

## 16. PROPERTY, PLANT, AND EQUIPMENT AND RENTAL EQUIPMENT

### Accounting Policy

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

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

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

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

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

Property, plant, and equipment and rental equipment are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an item of property, plant, and equipment and rental equipment, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

### Areas of Significant Judgment

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

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

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

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

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Cost					
Balance, beginning of year	\$ 75	\$ 715	\$ 347	\$ 1,137	\$ 589
Additions	—	47	73	120	281
Transfers from inventory	—	—	4	4	25
Disposals	(1)	(21)	(36)	(58)	(261)
Foreign exchange rate changes	4	21	16	41	14
Balance, end of year	\$ 78	\$ 762	\$ 404	\$ 1,244	\$ 648

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Accumulated depreciation and impairment losses					
Balance, beginning of year	\$ (10)	\$ (283)	\$ (272)	\$ (565)	\$ (204)
Depreciation for the year	—	(28)	(25)	(53)	(97)
Disposals	—	15	24	39	99
Foreign exchange rate changes	—	(9)	(11)	(20)	(5)
Balance, end of year	\$ (10)	\$ (305)	\$ (284)	\$ (599)	\$ (207)

December 31, 2018 (\$ millions)	Land	Buildings	Vehicles and Equipment	Total	Rental Equipment
Net book value					
Balance, beginning of year	\$ 65	\$ 432	\$ 75	\$ 572	\$ 385
Balance, end of year	\$ 68	\$ 457	\$ 120	\$ 645	\$ 441

## 17. LEASES

The Company has applied IFRS 16 retrospectively and recognized the cumulative effect of initial application on January 1, 2019 and therefore comparative information has not been restated and is presented under IAS 17. The accounting policies under both IFRS 16 and IAS 17 are included below.

### **Accounting Policy under IFRS 16**

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

#### **The Company as Lessee**

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

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

Right-of-use assets are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for a right-of-use asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

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

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

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

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

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

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

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

### **Short-term leases and leases of low-value assets**

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

#### **Areas of Significant Judgment**

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

#### **The Company as Lessor**

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

#### **Accounting Policy under IAS 17**

Leases are classified as either finance or operating leases. Leases where substantially all of the benefits and risks of ownership of property rest with the lessee are accounted for as finance leases; all other leases are classified as operating leases.

#### **The Company as Lessee**

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Contingent rental payments are recognized as expenses in the periods in which they are triggered.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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

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

#### Lease Liabilities

Lease liabilities included in the consolidated statement of financial position:

December 31 (\$ millions)	2019	2018
Current portion of lease liability	\$ 84	\$ 5
Non-current portion of lease liability	\$ 273	\$ 25



## 18. GOODWILL

### Accounting Policy

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

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

December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Total
Balance, beginning of year	\$ 81	\$ 5	\$ 33	\$ 119
Foreign exchange rate changes	—	—	1	1
Balance, end of year	\$ 81	\$ 5	\$ 34	\$ 120

## 19. DISTRIBUTION NETWORK

### Accounting Policy

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

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

December 31, 2018 (\$ millions)	Canada	UK & Ireland	Total
Balance, beginning of year	\$ 98	\$ 2	\$ 100
Balance, end of year	\$ 98	\$ 2	\$ 100

## 20. INTANGIBLE ASSETS

### Accounting Policy

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

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

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

Intangible assets are reviewed for indicators of impairment at the end of each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. Where an impairment loss is recognized for an intangible asset, the asset is reviewed for possible reversal of the impairment at the end of each subsequent reporting period.

### Areas of Significant Judgment

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

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

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

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

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Cost			
Balance, beginning of year	\$ 155	\$ 166	\$ 321
Additions	6	75	81
Disposals	—	(4)	(4)
Foreign exchange rate changes	11	7	18
<b>Balance, end of year</b>	<b>\$ 172</b>	<b>\$ 244</b>	<b>\$ 416</b>

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Accumulated amortization			
Balance, beginning of year	\$ (118)	\$ (86)	\$ (204)
Amortization for the year	(13)	(17)	(30)
Disposals	—	4	4
Foreign exchange rate changes	(9)	(1)	(10)
<b>Balance, end of year</b>	<b>\$ (140)</b>	<b>\$ (100)</b>	<b>\$ (240)</b>

December 31, 2018 (\$ millions)	Contracts and Customer relationships	Software and Technology	Total
Net book value			
Balance, beginning of year	\$ 37	\$ 80	\$ 117
<b>Balance, end of year</b>	<b>\$ 32</b>	<b>\$ 144</b>	<b>\$ 176</b>

There were \$0 million borrowing costs capitalized to intangible assets for the year ended December 31, 2019 (2018: \$1 million). The average rate used for capitalization of borrowing costs was 3.4% (2018: 3.7%).

## 21. ASSET IMPAIRMENT

### Accounting Policy

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

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

### Areas of Significant Judgment

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

### Areas of Estimation Uncertainty

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

### Recoverable value

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

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

### Key assumptions

The significant assumptions used in the Company's value-in-use calculations for each CGU or group of CGUs were as follows:

For years ended December 31	2019		2018	
	Post-tax WACC rate	Growth rate	Post-tax WACC rate	Growth rate
Canada	8%	2%	8%	2%
Canada Mining	9%	2%	9%	1%
Chile	9%	3%	8%	3%
UK & Ireland	9%	2%	9%	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 cash generating unit or group of cash generating units to exceed its recoverable amount. Management believes its assumptions are reasonable. If future events were to differ from management's best estimate, key assumptions and associated cash flows could be materially adversely affected and the Company could potentially experience future material impairment charges in respect of the intangible assets with indefinite lives and goodwill.

### Overview of annual impairment tests

There were no impairment losses recognized in 2019 or 2018 related to CGUs, goodwill, or distribution networks. There were no impairment reversals in 2019 or 2018 related to the distribution network in the Company's South American operations.

## 22. OTHER LIABILITIES

December 31 (\$ millions)	2019	2018
Income tax payable	\$ 10	\$ 55
Derivative liabilities	4	—
Total other liabilities – current	\$ 14	\$ 55

December 31 (\$ millions)	2019	2018
Deferred revenue (Note 4)	\$ 50	\$ 49
Deferred tax liabilities (Note 13)	88	41
Liability for long-term contracts (Note 14b)	10	14
Onerous contracts	7	8
Share-based payments (Note 11)	25	30
Provisions (Note 23)	2	2
Total other liabilities – non-current	\$ 182	\$ 144

## 23. PROVISIONS

### Accounting Policy

#### Warranty claims

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

#### Other

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

### Areas of Estimation Uncertainty

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

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

For year ended December 31, 2018 (\$ millions)	Warranty Claims	Other	Total
Balance, beginning of year	\$ 28	\$ 11	\$ 39
New provisions	50	45	95
Charges against provisions	(42)	(46)	(88)
Foreign exchange rate changes	2	—	2
<b>Balance, end of year</b>	<b>\$ 38</b>	<b>\$ 10</b>	<b>\$ 48</b>
Current portion	\$ 38	\$ 8	\$ 46
Non-current portion	\$ —	\$ 2	\$ 2

## 24. POST-EMPLOYMENT BENEFITS

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

### Pension Plans

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

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

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

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

### Other Post-Employment Benefits

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

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

## **Accounting Policy**

### Pension Plans

#### Defined Benefit Plans:

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

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

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

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

#### Defined Contribution Plans:

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

### Other Post-Employment Benefits

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

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

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

### **Areas of Significant Judgment**

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



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

For years ended December 31 (\$ millions)	2019				2018			
	Canada	UK & Ireland	South America	Total	Canada	UK & Ireland	South America	Total
<b>Defined contribution pension plans</b>								
Net benefit cost	\$ 39	\$ 7	\$ —	\$ 46	\$ 35	\$ 9	\$ —	\$ 44
<b>Defined benefit and other post-employment benefit plans</b>								
Current service cost, net of employee contributions	6	—	8	14	6	—	8	14
Past service cost <sup>(1)</sup>	—	—	—	—	—	3	—	3
Administration costs	1	1	—	2	1	1	—	2
Net interest cost (recovery)	1	(3)	1	(1)	—	—	1	1
Net benefit cost	8	(2)	9	15	7	4	9	20
Total benefit cost recognized in net income	\$ 47	\$ 5	\$ 9	\$ 61	\$ 42	\$ 13	\$ 9	\$ 64
Actuarial (gain) loss on plan assets	\$ (28)	\$ (57)	\$ —	\$ (85)	\$ 19	\$ 23	\$ —	\$ 42
Actuarial loss (gain) on plan liabilities	25	77	12	114	(14)	(86)	(8)	(108)
Total actuarial (gain) loss recognized in other comprehensive income	\$ (3)	\$ 20	\$ 12	\$ 29	\$ 5	\$ (63)	\$ (8)	\$ (66)

<sup>(1)</sup> In October 2018, the High Court in the UK rendered a decision requiring equalization between males and females of Guaranteed Minimum Pension (GMP) benefits earned between 1990 and 1997. A one-time expense of \$3 million (£2 million) was recorded to reflect the estimated additional costs associated with GMP equalization for the Finning UK defined benefit pension plan.

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

For years ended December 31 (\$ millions)	2019				2018			
	Canada	UK	South America	Total	Canada	UK	South America	Total
<b>Accrued benefit obligation</b>								
Balance, beginning of year	\$ 516	\$ 608	\$ 48	\$ 1,172	\$ 531	\$ 701	\$ 57	\$ 1,289
Conversion of buy-in annuities to buy-out annuities	(280)	—	—	(280)	—	—	—	—
Current service cost	6	—	8	14	7	—	8	15
Past service cost	—	—	—	—	—	3	—	3
Interest cost	9	16	1	26	18	18	1	37
Benefits paid	(7)	(36)	(6)	(49)	(26)	(46)	(9)	(81)
Remeasurements:								
- Actuarial loss (gain) from change in demographic assumptions	—	—	11	11	—	(29)	(9)	(38)
- Actuarial loss (gain) from change in financial assumptions	25	80	7	112	(19)	(50)	1	(68)
Experience (gain) loss	—	(3)	(6)	(9)	5	(7)	—	(2)
Foreign exchange rate changes	—	(7)	(8)	(15)	—	18	(1)	17
Balance, end of year	\$ 269	\$ 658	\$ 55	\$ 982	\$ 516	\$ 608	\$ 48	\$ 1,172
<b>Plan assets</b>								
Balance, beginning of year	\$ 492	\$ 695	\$ —	\$ 1,187	\$ 510	\$ 722	\$ —	\$ 1,232
Conversion of buy-in annuities to buy-out annuities	(280)	—	—	(280)	—	—	—	—
Return on plan assets:								
- Return on plan assets included in net interest cost	8	19	—	27	18	18	—	36
- Actuarial gain (loss) on plan assets	28	57	—	85	(19)	(23)	—	(42)
Employer contributions	8	6	6	20	9	6	9	24
Employee contributions	—	—	—	—	1	—	—	1
Benefits paid	(7)	(36)	(6)	(49)	(26)	(46)	(9)	(81)
Administration costs	(1)	(1)	—	(2)	(1)	(1)	—	(2)
Foreign exchange rate changes	—	(9)	—	(9)	—	19	—	19
Balance, end of year	\$ 248	\$ 731	\$ —	\$ 979	\$ 492	\$ 695	\$ —	\$ 1,187
Net post-employment obligation (asset)	\$ 21	\$ (73)	\$ 55	\$ 3	\$ 24	\$ (87)	\$ 48	\$ (15)

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)	2019				2018			
	Canada	UK	South America	Total	Canada	UK	South America	Total
Accrued benefit obligation	\$ 65	\$ —	\$ 55	\$ 120	\$ 512	\$ —	\$ 48	\$ 560
Fair value of plan assets	40	—	—	40	485	—	—	485
Funded status - plan deficit	\$ 25	\$ —	\$ 55	\$ 80	\$ 27	\$ —	\$ 48	\$ 75

## Key Assumptions and Related Sensitivities

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

For years ended December 31	2019			2018		
	Canada	UK	South America	Canada	UK	South America
Discount rate – obligation	3.1%	2.0%	0.4%	3.7%	2.9%	1.5%
Discount rate – expense <sup>(1)</sup>	3.7%	2.9%	1.5%	3.4%	2.5%	1.8%
Retail price inflation – obligation	n/m <sup>(2)</sup>	3.0%	n/a <sup>(2)</sup>	n/m <sup>(2)</sup>	3.3%	n/a <sup>(2)</sup>
Retail price inflation – expense <sup>(1)</sup>	n/m <sup>(2)</sup>	3.3%	n/a <sup>(2)</sup>	n/m <sup>(2)</sup>	3.3%	n/a <sup>(2)</sup>
Average staff turnover – obligation	n/m <sup>(2)</sup>	n/m <sup>(2)</sup>	9.4%	n/m <sup>(2)</sup>	n/m <sup>(2)</sup>	13.6%
Rate of compensation increase – obligation	n/m <sup>(2)</sup>	n/a <sup>(2)</sup>	3.0%	n/m <sup>(2)</sup>	n/a <sup>(2)</sup>	3.0%

<sup>(1)</sup> Used to determine the net interest cost and expense for the years ended December 31, 2019 and 2018.

<sup>(2)</sup> n/m – not a material assumption used in the valuation.

n/a – not applicable.

Assumptions regarding future mortality are required for the defined benefit pension plans, and were set based on management's best estimate in accordance with published statistics and experience in each country. These assumptions for 2019 and 2018 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 <sup>(3)</sup>
Life expectancy for female currently aged 65	24	24	n/a <sup>(3)</sup>
Life expectancy at 65 for male currently aged 45	23	23	n/a <sup>(3)</sup>
Life expectancy at 65 for female currently aged 45	25	25	n/a <sup>(3)</sup>

<sup>(3)</sup> n/a – not applicable.

The post-employment benefit obligations and expense are sensitive to changes in the significant actuarial assumptions. At the end of the most recent calendar year, the weighted average duration of the obligation in Canada is 18 years, the UK is 20 years, and South America is 5 years. A 0.25% increase in the significant actuarial assumptions would impact the accrued benefit obligations by the amounts shown below.

(\$ millions)	Change in assumption	Increase (decrease) in accrued benefit obligation		
		Canada	UK	South America
Discount rate	+0.25%	\$ (11)	\$ (33)	\$ (1)
Retail price inflation	+0.25%	n/m <sup>(4)</sup>	\$ 24	\$ n/a <sup>(4)</sup>
Average staff turnover	+0.25%	n/m <sup>(4)</sup>	n/m <sup>(4)</sup>	\$ (1)
Rate of compensation increase	+0.25%	n/m <sup>(4)</sup>	n/a <sup>(4)</sup>	\$ 1

<sup>(4)</sup> n/m – not a material assumption used in the valuation.

n/a – not applicable.

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

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

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

## Funding and Valuations of Defined Benefit Plans

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

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

Based on the most recent formal valuations completed, the Company expects to contribute approximately \$16 million to the defined benefit pension plans during the year ended December 31, 2020. The actuarial valuation dates of the Company's material post-employment benefit plans were as follows:

Post-Employment Benefit Obligations	Last Actuarial Valuation Date
Canada – Regular & Executive DB Plan	December 31, 2017
Canada – Executive Supplemental Income Plan	December 31, 2017
Finning UK Defined Benefit Scheme	December 31, 2017
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 and annuity contracts. The fair values of real estate investment funds is based on the net asset value reported by the funds in their audited financial statements and are determined using inputs that are not based on observable market data (unobservable inputs). Investments in annuity contracts by the plan will have cashflows that exactly match the amount and timing of certain benefits payable under the plans. The value of these contracts is deemed to be the present value of the related obligations. Plan assets were principally invested in the following securities (segregated by geography):

	Canada		UK	
	Canada	Global <sup>(1)</sup>	UK	Global <sup>(1)</sup>
Fixed-income	57%	—	68%	11%
Equity <sup>(2)</sup>	12%	23%	1%	16%
Real estate investment funds	—	—	3%	—
Cash and cash equivalents	8%	—	1%	—

<sup>(1)</sup> Global investments exclude investments in Canadian and UK securities in Canada and UK, respectively.

<sup>(2)</sup> 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, 2019 and 2018.

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

## Key Risks

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

### Investment Risk (i.e. asset volatility)

The plan liabilities are calculated using a discount rate set with reference to high quality corporate bond yields; if plan assets underperform this yield, this will create a deficit. Both the Canadian and UK plans invest in various asset categories including primarily 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 shorter-term.

To help mitigate this risk, in selecting the portfolios and the weightings in each category, the Company considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the pension obligations. A framework has been developed and adopted for each of the Canadian and UK defined benefit pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Recent progress included investments in annuity contracts in Canada and liability matching funds in the UK

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

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

A decrease in corporate bond yields will increase the value placed on the plan liabilities. This risk is managed by selecting certain investments that aim to better match assets and liabilities. For example, a liability increase that results from a decrease in corporate bond yields will be partially offset by an increase in the 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 will result in higher liabilities. With a relatively small number of employees still earning benefits in the Canadian defined benefit plan, this risk is limited.

### Longevity Risk (i.e. increasing life expectancy)

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

The Company has mitigated much of this risk in the Canadian registered pension plan with the purchase of annuity contracts which provide cashflows that exactly match the amount and timing of the majority of the retiree benefit payments currently under the plans.

## Maturity Analysis

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

December 31, 2019 (\$ millions)	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Defined benefit pension plans	\$ 27	\$ 28	\$ 95	\$ 1,414	\$ 1,564
Other post-employment benefits	5	4	11	70	90
<b>Total</b>	<b>\$ 32</b>	<b>\$ 32</b>	<b>\$ 106</b>	<b>\$ 1,484</b>	<b>\$ 1,654</b>

## Accumulated Remeasurement Losses

The accumulated actuarial loss, net of tax, of the post-employment benefit obligations in the Company's operations in Canada, UK and Ireland, and South America recognized in retained earnings is \$182 million as at December 31, 2019 (December 31, 2018: \$158 million).

## 25. SUPPLEMENTAL CASH FLOW INFORMATION

### Accounting Policy

Cash and cash equivalents comprise cash on hand together with short-term investments, consisting of highly rated and liquid money market instruments with original maturities of three months or less, and are classified and measured as amortized cost.

The components of cash and cash equivalents were as follows:

December 31 (\$ millions)	2019	2018
Cash	\$ 158	\$ 274
Cash equivalents	110	180
<b>Cash and cash equivalents</b>	<b>\$ 268</b>	<b>\$ 454</b>

The changes in operating assets and liabilities were as follows:

For years ended December 31 (\$ millions)	2019	2018
Accounts receivable	\$ 89	\$ (39)
Unbilled receivables	(98)	14
Inventories	29	(291)
Other assets	68	3
Accounts payable and accruals	(127)	46
Other liabilities	(180)	164
<b>Changes in operating assets and liabilities</b>	<b>\$ (219)</b>	<b>\$ (103)</b>

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

For year ended December 31, 2019 (\$ millions)	Short-term debt	Long-term debt	Lease liability	Total
Balance, beginning of year	\$ 154	\$ 1,354	\$ 30	\$ 1,538
IFRS 16 adjustment (Note 2)	—	—	278	278
Balance, January 1, 2019	\$ 154	\$ 1,354	\$ 308	\$ 1,816
Cash flows provided by (used in)				
Financing activities	77	199	(88)	188
Operating activities	—	—	(11)	(11)
Total cash movements	\$ 77	\$ 199	\$ (99)	\$ 177
Non-cash changes				
Additions	—	—	80	80
Additions through business combination (Note 26)	—	—	30	30
Disposals and remeasurement of liability	—	—	31	31
Interest expense	—	—	11	11
Foreign exchange rate changes	(5)	(35)	(4)	(44)
Total non-cash movements	\$ (5)	\$ (35)	\$ 148	\$ 108
Balance, end of year	\$ 226	\$ 1,518	\$ 357	\$ 2,101
For year ended December 31, 2018 (\$ millions)	Short-term debt	Long-term debt	Finance lease liability	Total
Balance, beginning of year	\$ 18	\$ 1,296	\$ 34	\$ 1,348
Cash flows provided by (used in)				
Financing activities	136	—	(4)	132
Operating activities	—	—	(2)	(2)
Total cash movements	\$ 136	\$ —	\$ (6)	\$ 130
Non-cash changes				
Interest expense	—	—	2	2
Disposals	—	—	(1)	(1)
Foreign exchange rate changes	—	58	1	59
Total non-cash movements	\$ —	\$ 58	\$ 2	\$ 60
Balance, end of year	\$ 154	\$ 1,354	\$ 30	\$ 1,538

Dividends of \$0.815 (2018: \$0.79) per share were paid during the year. In February 2020, the Board of Directors approved a quarterly dividend of \$0.205 per share payable on March 12, 2020 to shareholders of record on February 27, 2020. This dividend will be considered an eligible dividend for Canadian income tax purposes. As at December 31, 2019, the Company has not recognized a liability for this dividend.

## 26. ACQUISITION

### Accounting Policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration for the acquisition of a subsidiary is:

- fair values of the assets transferred, and
- fair value of an asset or liability resulting from a contingent consideration arrangement

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the acquisition-date fair value.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. Acquisition-related costs are expensed as incurred.

On February 1, 2019, the Company acquired a 100% ownership interest in the Canadian and US operations of 4Refuel. 4Refuel is a mobile on-site refueling company operating in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia and in Texas, US. Acquiring 4Refuel provides a complementary service offering to the Company's existing customer base and provides opportunities for the Company to sell, rent, and service to a new customer base.

Cash consideration of \$241 million was paid based on the fair value of the business at the acquisition date, which included \$12 million cash acquired and was subject to customary closing adjustments. The Company funded the transaction with cash on hand and from existing credit facilities. This purchase has been accounted for as a business combination using the acquisition method of accounting.

Management finalized its purchase price allocation on December 31, 2019.

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

Final purchase price allocation (\$ millions)	December 31, 2019
Cash	\$ 12
Accounts receivable	60
Property, plant, and equipment	42
Intangible assets	130
Goodwill	85
Other assets	4
Accounts payable and accruals	(32)
Lease liabilities	(30)
Deferred tax liabilities	(30)
<b>Net assets acquired</b>	<b>\$ 241</b>

Goodwill relates to the expected synergies from combining complementary capabilities and existing customer bases across Finning's territory in British Columbia, Alberta, Yukon, Northwest Territories and part of Nunavut and new customers in Canada and in Texas. The goodwill is assigned to the Company's Canada reportable segment and is not deductible for tax purposes.

Acquisition costs of \$4 million were paid on the transaction and recorded as other expenses in the consolidated statement of income in the year ended December 31, 2019.

The results of the newly acquired business since the date of acquisition have been included in the Company's Canada reportable segment. From the acquisition date to December 31, 2019, 4Refuel contributed approximately \$635 million of revenue.



## 27. ECONOMIC RELATIONSHIPS

The Company distributes and services heavy equipment, engines, and related products. The Company has dealership agreements with numerous equipment manufacturers, of which the most significant are with subsidiaries of Caterpillar. Distribution and servicing of Caterpillar products account for the major portion of the Company's operations. Finning has had a relationship with Caterpillar that has been ongoing since 1933.

## 28. RELATED PARTY TRANSACTIONS AND TOTAL STAFF COSTS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the Board of Directors during the year was as follows:

For years ended December 31 (\$ millions)	2019	2018
Cash compensation	\$ —	\$ 1
Share-based payments	3	(1)
Total	\$ 3	\$ —

The remuneration of key management personnel (defined as officers of the Company and country presidents) during the year was as follows:

For years ended December 31 (\$ millions)	2019	2018
Salaries and benefits	\$ 11	\$ 10
Post-employment benefits	2	1
Share-based payments	5	2
Total	\$ 18	\$ 13

Total staff costs, including salaries, benefits, pension, share-based payments, termination payments, and commissions are \$1.0 billion (2018: \$1.1 billion). This amount includes staff costs associated with key management personnel noted above.

## 29. COMMITMENTS AND CONTINGENCIES

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

The Company has received a number of claims from the Argentina Customs Authority associated with the export of agricultural product and an order that could result in up to a one-year suspension of imports into Argentina by a portion of the business. The Company is appealing these claims and the order, believes they are without merit, and is confident in its position. Mitigation measures are also available to the Company. These pending matters may take a number of years to resolve. Should the ultimate resolution of these matters differ from management's assessment and the mitigation measures not be effective, this could result in a material negative impact on the Company's financial position.

### 30. GUARANTEES AND INDEMNIFICATIONS

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The Company enters into contracts with rights of return (at the customer's discretion), in certain circumstances, for the repurchase of equipment sold to customers for an amount which is generally based on a discount from the estimated future fair value of that equipment. As at December 31, 2019, the total estimated value of these contracts outstanding is \$148 million (2018: \$130 million) coming due at periods ranging from 2020 to 2025. The Company's experience to date has been that the estimated fair value of the equipment at the exercise date of the contract is generally greater than the repurchase price, 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, 2019 and 2018 is \$1 million.

The Company has issued certain guarantees to Caterpillar Finance to guarantee certain borrowers' obligations. The guarantees would be enforceable in the event that the borrowers defaulted on their obligations to Caterpillar Finance, to the extent that any net proceeds from the recovery and sale of collateral securing repayment of the borrowers' obligations is insufficient to meet those obligations. As at December 31, 2019, the maximum potential amount of future payments that the Company could be required to make under the guarantees, before any amounts that may possibly be recovered under recourse or collateralization provisions in the guarantees, is \$8 million, covering various periods up to 2022. As at December 31, 2019 and 2018, the Company has not recognized a liability for these guarantees.

The Company has also issued guarantees for certain equipment sold to third parties to guarantee their residual values. The guarantees would be enforceable in the event that the market value of equipment at the time of its ultimate disposal is below the residual value guarantee issued by the Company. As at December 31, 2019, the maximum potential amount of future payments that the Company could be required to make under the guarantees is \$15 million, covering various periods up to 2024. As at December 31, 2019, the Company has recognized a liability of \$4 million for these guarantees (2018: \$4 million).

In connection with the sale of the Materials Handling Division in the Company's UK & Ireland operations in 2006, the Company provided a guarantee to a third party with respect to a property lease. If the lessee were to default, the Company would be required to make the annual lease payments of approximately \$1 million to the end of the lease term in 2020. The Company has not recognized a liability for this guarantee in 2019 or 2018.

In the normal course of operations, the Company has several long-term maintenance and repair contracts with various customers which contain cost per hour guarantees.

During the year, the Company entered into various other commercial letters of credit in the normal course of operations. The total issued and outstanding letters of credit at December 31, 2019 was \$206 million (2018: \$291 million) principally related to performance and advance payment guarantees on delivery for prepaid equipment and other operational commitments in Chile.



**FINNING**<sup>®</sup>

Finning International Inc.  
Suite 300 – 565 Great Northern Way  
Vancouver, British Columbia V5T 0H8

[finning.com](http://finning.com)